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The Directors present their report, together with the consolidated financial statements of Watpac Limited ("Watpac" or "Company") and its controlled entities ("Group") for the financial year ended 30 June 2015 and the Auditor's report thereon.

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**Directors' Report** 

1. Directors

The Directors of the Company at any time during or since the end of the financial year are:

Current Directors - Non-executive

Mr R B McGruther, OBE

Chair, Non-executive Director

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

After a number of years as Deputy Chairman, Mr McGruther was appointed Chair of the Board on 29 September 2014.

Mr McGruther is the Chair of the Nomination Committee and was appointed a member of the Remuneration Committee on 25 August 2015.

Director since 17 December 1993.

Mr J C M C Beerlandt

Non-executive Director

Mr Beerlandt is Chief Executive Officer and Chairman of one of Belgium's largest construction companies, BESIX Group, and has extensive expertise in the international contracting sector. Mr Beerlandt joined BESIX Group in 1974 and has overseen the delivery of major projects in Europe, Africa and the Middle East. Under his leadership, BESIX has grown from a traditional civil and building construction company to a multidisciplinary organisation, achieving revenues of over \$3B in 2014 and operating in 22 countries over five continents.

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

Mr Beerlandt was a member of the Audit and Risk Committee until 22 October 2014, on which date he was appointed a member of the Remuneration Committee.

Director since 27 May 2013.

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## **Directors' Report**

## 1. Directors (continued)

#### Mr B C Bowton

Non-executive Director

Mr Bowton is one of the founding Directors of CACE Partners, a boutique management consulting firm based in Sydney which specialises in strategic problem-solving and operational performance improvement. Prior to joining CACE Partners, Mr Bowton worked as a management consultant at Bain International and McKinsey & Company. He also worked as an investment banker with Morgan Stanley International and Salomon Brothers. In his 20 year career as a management consultant, Mr Bowton has assisted Australian, New Zealand, United States and Asian CEOs, Boards and Senior Managers across a broad range of industries, focusing primarily on the financial services and property sectors for the past 16 years.

Mr Bowton has an MBA from the Wharton School of the University of Pennsylvania and a Bachelor of Science in Economics from the University of Pennsylvania. He is also a Director of QIC Limited.

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

Director since 28 August 2013.

#### Mr G J Dixon

Non-executive Director

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

Mr Dixon commenced his career as a civil engineer for the Federal Government in 1981, overseeing major civil infrastructure projects in South Australia and the Northern Territory. In 1988, he joined civil construction and contract mining group Henry Walker Eltin Ltd, where he worked for 18 years in various positions including Executive General Manager, HWE Mining prior to joining Mitchell Corporation as Managing Director in April 2006. Mr Dixon was appointed as Managing Director and CEO of Gindalbie Metals Ltd in December 2006, where he remained until 2011 when he joined Aurizon/QR National as Vice President of Iron Ore Business Development.

Mr Dixon currently holds the position of President Alcoa Mining where he is responsible for the global bauxite mining business for Alcoa Inc.

Mr Dixon is a member of the Remuneration Committee and was appointed as its Chair on 25 August 2015.

Director since 12 February 2014.

## **Directors' Report**

## 1. Directors (continued)

#### Ms B K Morris

Non-executive Director

Ms Morris's career in publicly-listed, government and not-for-profit sectors spans more than two decades, across a wide range of industries. She is currently Chair of LG Super and a director of Collins Foods Limited, RACQ, RACQ Insurance, and Fyfe Group Holdings. Ms Morris also has a number of charity and not-for-profit interests. Her previous directorships include QIC Limited, Spotless Group Limited and Chair of Queensland Rail.

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

Ms Morris was appointed Chair of the Audit and Risk Committee on 25 February 2015.

Director since 3 February 2015.

#### Mr C J Schreurs

Non-executive Director

Mr Carlo Schreurs, is Chief Development Officer of the BESIX Group. Mr Schreurs has a Masters of Engineering from the University of Leuven in Belgium and joined BESIX in 1982. Through his 33 year international career, he has acquired worldwide experience in the different disciplines of the contracting businesses. Mr Schreurs has been responsible for establishing BESIX in Australia in 2012.

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

Mr Schreurs was appointed as a member of the Audit & Risk and Nomination Committees on 22 October 2014 and until 1 July 2015 was the Alternate Director and Board Committee member for Mr Beerlandt.

Director since 10 October 2014

#### Mr G Aelbrecht

Alternate Non-executive Director (for Mr Beerlandt)

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

 $\label{lem:matter} \mbox{Mr Aelbrecht acts as Mr Beerlandt's Alternate member of the Remuneration Committee}.$ 

Alternate Director since 1 July 2015

## **Directors' Report**

## 1. Directors (continued)

Current Directors - Executive

#### Mr M G Monro

**Managing Director** 

Mr Monro was appointed Chief Executive Officer of Watpac in August 2012 and Managing Director in October 2014. He brings to the role more than 26 years' experience in the national construction sector and abroad, with a proven track record in prudent financial management, safety leadership and successful expansion into new markets.

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

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

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

Director since 10 October 2014.

#### Former Directors

## Mr C R Freeman, AM

Mr Freeman resigned as a Director on 29 September 2014. Mr Freeman served four years as a Non-executive Director, including three years as Chair.

#### Mr K M Mooney

Mr Mooney retired as a Director on 25 November 2014. Mr Mooney served four years as a Non-executive Director and was an active member of the Audit & Risk Committee during this time.

#### Mr D L Little

Mr Little retired as a Director on 31 December 2014. Mr Little served almost 30 years as a Director, having held the position of Managing Director from May 1985 until January 2004.

# **Directors' Report**

# 1. Directors (continued)

#### Mr R J Lette

Mr Lette retired as a Director on 31 July 2015. Mr Lette served 19 years as Non-executive Director. During this time, Mr Lette served on various Board committees and most recently held the position as Chair of the Remuneration Committee.

## 2. Company Secretary

#### Mr M A Baker

Company Secretary, Chief Financial Officer

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

Mr Baker holds a Bachelor of Commerce and a Bachelor of Arts and is a fellow of the Institute of Chartered Accountants in Australia and New Zealand. He is also a member of the Australian Institute of Company Directors, a fellow of the Financial Services Institute of Australasia, a fellow of the Governance Institute of Australia and is a certified member of the Finance and Treasury Association of Australia.

Appointed 26 August 2011.

## 3. Directors' meetings

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

	Board Meetings		Audit & Risk Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings **	
	Α	В	Α	В	Α	В	Α	В
Mr R B McGruther	10*	12	4	4	-	-	2	2
Mr J C M C Beerlandt / Alternate	12	12	3	3	0	1	-	-
Mr B C Bowton	11	12	6	6	-	-	2	2
Mr G J Dixon	11	12	-	-	2	2	-	-
Ms B K Morris	4	4	2	2	-	-	-	-
Mr C J Schreurs	7	7	3	3	-	-	2	2
Mr M G Monro	7	7	-	-	-	-	-	-
Mr R J Lette	11	12	-	-	4	4	-	-
Mr D M Little	7	7	-	-	3	3	-	-
Mr K A Mooney	7	7	3	3	-	-	-	-
Mr C R Freeman	2*	4	-	-	1	2	-	-

# **Directors' Report**

# 3. Directors' meetings (continued)

- **A** Number of meetings attended.
- **B** Reflects the number of meetings held during the time the Director held office during the year and was a member of the relevant committee.
- \* The full number of meetings has not been attended during the financial year due to a leave of absence being taken.
- \*\* While only two formal meetings were held during the financial year, a substantial number of informal meetings took place between all or some of the Nomination Committee members.

## **Directors' Report**

## 4. Message from the Remuneration Committee

Dear Shareholder

We are pleased to introduce Watpac's Remuneration Report (Remuneration Report) for the financial year ended 30 June 2015.

During the 2015 financial year, we have continued to execute the executive remuneration strategies put in place several years ago, and have again prepared a Remuneration Report that enables shareholders to assess the linkages between executive remuneration, execution of the Group's strategy and Group financial and operating performance.

Watpac's Remuneration strategy is focussed on linking performance and executive remuneration outcomes. Consistent with this strategy, the method and manner by which Senior Executives are remunerated consists of base remuneration, supplemented with at-risk short and long term incentives. The Group's current Long-Term Incentive Plan (LTIP) was implemented in July 2012 and the Short-Term Incentive Plan (STIP) in July 2013.

In September 2014, following finalisation of the Group's FY14 financial report, the Board determined that certain performance conditions applicable to the FY14 STIP had been satisfied. As these awards were not determined until October 2014, no allowances for these payments were made in the reported FY14 financial result, nor attributed to Senior Executives in the Company's 30 June 2014 Remuneration Report. Consequently, these amounts have been included in the FY15 financial result and Remuneration Report, additional details on which are included on page 19.

Prior to the finalisation of the Group's FY15 financial results, the Board also determined the outcome of the FY15 STI and the applicable awards to be made to Senior Executives. As such, these FY15 STI payments have also been accrued in the current year financial result and they too are included in the 30 June 2015 Remuneration Report. The awards made under these two plans have been separately disclosed in the 30 June 2015 Remuneration Report to ensure all relevant details pertaining to these payments can be appropriately identified by users of the Group's financial statements.

While certain specific matters restricted the Board's ability to determine the outcome of the FY14 STI, these are not anticipated to continue and as such, future Remuneration Reports should include only awards made under the STI applicable to that financial year.

The Remuneration Committee remains committed to ensuring Watpac's remuneration policies reinforce the Group's future strategies and reward Senior Executives' performance for achieving these strategies. An appropriate at-risk component must always be present, and in all respects there must be an alignment of Senior Executive remuneration outcomes and shareholder risks and rewards.

Watpac Remuneration Committee 25<sup>th</sup> August 2015

25 August 201

# **Directors' Report**

# 5. Remuneration Report – Audited

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## **Directors' Report**

## 5. Remuneration Report – Audited (continued)

#### 5.1 Introduction

The 2015 Watpac Remuneration Report has been prepared in accordance with the requirements of s300A of the *Corporations Act* 2001 and applies to Key Management Personnel (**KMP**) of the Group. KMP are defined as those persons who have authority and responsibility for planning, directing and controlling the activities of the Group.

KMP of the Group for the 2015 financial year are as follows:

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#### **Non-executive Directors**

Mr R B McGruther - Appointed as Chair on 29 September 2014

Mr J C M C Beerlandt

Mr B C Bowton

Mr G J Dixon

Mr C J Schreurs - Appointed on 10 October 2014

Ms B K Morris - Appointed on 3 February 2015

## **Executive Director**

Mr M G Monro (Managing Director) - Appointed as executive Director on 10 October 2014 (previously Chief Executive Officer)

## **Executives**

Mr M A Baker (Chief Financial Officer & Company Secretary)

Mr R J Hall (General Manager Mining & Civil)

Mr N A Saclley (General Manager Construction) - Appointed on 16 March 2015

#### Former

## **Non-executive Directors**

Mr R J Lette - Retired on 31 July 2015

Mr D M Little - Retired on 31 December 2014

Mr K A Mooney - Retired on 25 November 2014

Mr C R Freeman - Resigned as Chair and Non-executive Director on 29 September 2014

#### **Executives**

Mr E D Edwards - General Manager Construction - Retired on 23 December 2014

Other than the retirement of Mr R J Lette on 31 July 2015 and the appointment of Mr G Aelbrecht as alternate Non-executive Director for Mr Beerlandt on 1 July 2015, there were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

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

## **Directors' Report**

## 5. Remuneration Report – Audited (continued)

## 5.2 Remuneration governance

#### 5.2.1 Board oversight

The Watpac Board is ultimately responsible for ensuring that the Group's remuneration structure is equitable and aligned with the long-term interests of shareholders. The Board and its advisors are independent of Management when making decisions affecting employee remuneration.

Watpac's Remuneration Committee assists the Board in making determinations regarding remuneration of KMP and other Group executives and employees. Members of Remuneration Committee during the 2015 financial year and as at the date of this report were as follows:

Committee members	Committee members						
Current							
Mr G J Dixon - Appointed Chair 25 Augus	t 2015						
Mr J C M C Beerlandt							
Mr R B McGruther - Appointed 25 Augus	st 2015						
Former							
Mr R J Lette - Chair until retirement on 3	31 July 2015						
Mr D M Little - Retired on 31 December	2014						
Mr C R Freeman - Resigned on 29 Septer	mber 2014						
Meetings							
Number of meetings in FY15	4						
Other individuals who regularly attend meetings (attendance subject to conflicts of interest)							
Mr M G Monro (Managing Director)							
Mr M A Baker (Chief Financial Officer & Company Secretary and Committee Secretary)							
Ms A Liebke (Group Human Resources N	lanager)						

The Remuneration Committee meets as regularly as is required, in order to ensure that it is fully informed about the Group's remuneration strategies, structures and decision-making processes. Management are invited to attend as is deemed necessary by the Committee, however do not participate in discussion on matters in which they have a conflict of interest.

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

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

## **Directors' Report**

## 5. Remuneration Report – Audited (continued)

#### 5.2 Remuneration governance (continued)

#### 5.2.2 Use of remuneration consultants

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

Remuneration consultants are engaged by and report directly to the Remuneration Committee. Potential conflicts of interest are taken into account when remuneration consultants are selected and their terms of engagement regulate their level of access to, and require their independence from, Management.

Senior Executives are not involved in the selection and appointment of, or contract negotiation with remuneration advisors and all documentation and communication (including confirmation by advisors that the remuneration recommendations were free from undue influence from the Senior Executives to whom the advice relates) is provided directly to the Remuneration Committee and/or Board. Additionally, the Board has put in place policies managing Remuneration advisors' access to Senior Executives on remuneration-related matters, including parameters for communication and the types of communication that can take place, to further ensure the recommendations are free from undue influence.

The Remuneration recommendations provided to Watpac by advisors are inputs into decision making only. The Remuneration Committee consider these recommendations along with other factors when making its remuneration decisions.

Costs applicable to work completed in June 2014 by the Group's current remuneration advisors, Ernst & Young, of \$37,080 were paid in FY15. No fees were paid to Ernst & Young for remuneration services in FY14. Other services provided by Ernst & Young during the financial year related to taxation matters, and the fees and expenses for these other services were \$189,873 (2014: \$205,878).

## 5.2.3 Hedging of Company securities

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

#### 5.3 Senior Executive remuneration

Senior Executive remuneration strategies are designed to attract, motivate and retain high quality personnel. These arrangements are aligned with organisational practices and behaviours, driving improvement to shareholder value and taking into account the dynamic labour market and regulatory landscape.

The following diagram illustrates how the Company's remuneration strategy aligns with the strategic direction and links remuneration outcomes to performance.

# **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)

## 5.3.1 Remuneration strategy

## **Business objective**

To be a leading building contractor and mining services provider with a focus on enhancing short and long term shareholder value.



#### Remuneration strategy linkages to business objective

# Align the interests of Senior Executives with the Company and Shareholders

The remuneration framework incorporates a substantial proportion that is contingent on Company performance. Performance is assessed against financial and non-financial measures relevant to the success of the Company and generating returns for shareholders.

## Attract, motivate and retain high performing individuals

The remuneration offering is competitive for companies of a similar size and complexity.

There is the provision of a balanced fixed and variable remuneration structure to appropriately motivate individuals.

Remuneration component	Vehicle	Purpose	Link to performance
Fixed remuneration	Comprises base salary, superannuation contributions and other benefits.	To provide competitive fixed remuneration set with reference to role, market and experience.	<ul> <li>Company and individual performance are considered during an annual remuneration review process.</li> <li>Characteristics of individuals (including incumbent's experience, reputation and "value" to the Company) and complexity of the role being undertaken are also considered.</li> </ul>
STIP	Paid in cash and performance rights, with part deferred and subject to claw back.	Rewards Senior Executives for their contribution to achievement of Group and/or business unit outcomes, as well as business unit and personal key performance indicators (KPIs).	<ul> <li>Pre-tax profit targets are the key financial metric, and act as a payment funding gate.</li> <li>Linked to other non-financial measures, such as safety performance, forward work in hand and other qualitative measures specific to the individual's role and responsibilities.</li> </ul>
LTIP	Awards are made in the form of performance rights.	Rewards Senior Executives for their contribution to the creation of shareholder value over the longer term.	Vesting of awards is dependent on achievement of Earnings Per Share (EPS) and Total Shareholder Return (TSR) performance measures relative to internal targets and a chosen peer group respectively.
Other	Cash payments for achievement of specific targets that do not operate under the terms of the STIP or LTIP.	Rewards selected Senior Executives for their contribution in achieving specific targets and is also used as a retention scheme.	Payment is linked to the achievement of specific performance or service objectives not otherwise covered by the STIP or LTIP.

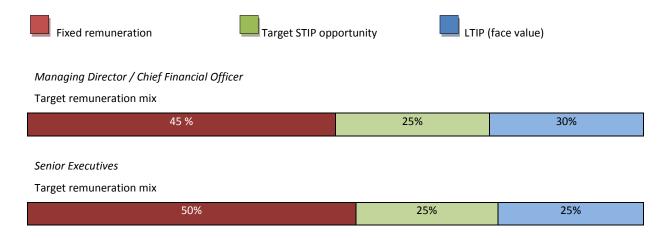
## **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.1 Remuneration strategy (continued)

The Group's aim is to reward Senior Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and aligned with market practice.

Remuneration levels are considered annually through a remuneration review that considers market data, insights into remuneration trends, the performance of the Company and individuals, and the broader economic environment. Remuneration reviews are conducted in consultation with external remuneration benchmark data and, when deemed appropriate, specific work undertaken by independent remuneration consultants engaged by the Remuneration Committee.

The following diagrams summarise the Remuneration Committee's Managing Director / Chief Financial Officer and other Senior Executives' current targeted remuneration mix, at total attainable and assessed potential fair value. The Remuneration Committee is aware this targeted remuneration mix is, in most cases, more heavily weighted to at-risk payments than the Group's competitors, however it has been deemed appropriate given the strong desire to link executive remuneration outcomes to shareholder value creation.



#### 5.3.2 Remuneration structure

For the 2015 financial year, Senior Executives' remuneration packages included a mix of fixed remuneration, long-term incentives (at-risk), short-term incentives (at-risk) and other at-risk remuneration incentives, as is illustrated in the table below.

Component	Composition	Assessment	At Risk?
Fixed remuneration	Base salary, allowances and other statutory benefits	Based on responsibilities and performance.	No
Short term incentive	Cash and Performance rights	Achievement of weighted individual, business unit and Group STI targets, and individual performance measures.	Yes
Long term incentive	Performance rights	Achievement of EPS and TSR performance measures relative to internal targets and a chosen peer group respectively.	Yes
Other	Cash	Achievement of specific performance or service objectives not otherwise covered by the STIP or LTIP.	Yes

## **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.2 Remuneration structure (continued)

#### 5.3.2.1 Fixed remuneration

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

Fixed remuneration is reviewed annually by the Remuneration Committee and in the context of independent remuneration data and data obtained from external remuneration consultants where required. The review process considers individual, business unit and overall Group performance, as well as changing market, industry and economic circumstances. Adjustments are made to reflect appropriate market levels, taking into account factors such as alignment with competitors, skill, experience, contribution, "value" to the Company and length of service.

#### 5.3.2.2 Performance linked remuneration

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

The Group's STIP is an at-risk component of Senior Executive's remuneration provided in the form of cash and performance rights, which are subject to specific claw back mechanisms.

The Group's LTIP is also an at-risk component of Senior Executive's remuneration and is provided in the form of performance rights.

Additional at-risk performance-linked incentives were in place for two Senior Executives in the 2014 and 2015 financial years.

#### STIP

Watpac's STIP has been designed to ensure the Group's remuneration framework is aligned with both the business strategy and the remuneration structures of other publicly listed companies in Australia.

The STIP is structured in a manner whereby cash and awards (performance rights, being a right to acquire fully paid ordinary shares in the Company for nil consideration) are payable / granted to Senior Executives subject to meeting certain pre-determined financial and operational performance targets and vesting conditions.

At or around the commencement of each financial year, with the endorsement of the Board, the Remuneration Committee will set Senior Executives specific Short-Term Incentive (STI) targets, being:

- their individual target STI amount, representing two thirds of the maximum amount payable as a STI for the new financial vear:
- a Group performance STI target, representing the underlying net profit before tax target of the Group for the financial year;

# **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.2 Remuneration structure (continued)
- 5.3.2.2 Performance linked remuneration (continued)
  - a business unit performance STI target, representing the underlying net profit before tax target of the applicable business unit(s) relevant to that Senior Executive for the financial year;
  - the percentage weighting that achieving the Group performance STI target and business unit performance STI targets will have towards their total maximum STI amounts; and
  - individual performance measures, representing Senior Executives' individual performance targets.

The generic suite of individual performance measures, which include non-financial criteria, are detailed in the table below.

Non-Financial Criteria	Details
Safety	<ul> <li>Achieve Group target safety benchmarks, which are set annually in advance. Proactively champion safety leadership and implement best practices.</li> </ul>
	<ul> <li>Provide timely and accurate advice on occupational health and safety incidents and/or breaches to the Group Senior Executive Team and Board.</li> </ul>
Forward work and future growth	<ul> <li>Deliver or assist and support divisions to deliver business unit or Group forward work targets, set annually in advance.</li> </ul>
People and leadership	<ul> <li>Contain controllable employment related costs through effective leadership practices, proactive people management, achievement of low voluntary attrition rates, and compliance with relevant legislation.</li> </ul>
One Team	<ul> <li>Demonstrate and promote interdivisional co-operation and collaboration including tender assistance, client introductions, information sharing, and resource sharing.</li> </ul>
Watpac Brand	<ul> <li>Contribute to the creation of positive branding to promote and enhance Watpac's reputation with clients, suppliers and employees/candidates.</li> </ul>
Business Development	<ul> <li>Proactively maintain and enhance all client relationships to deliver higher levels of profitable repeat work opportunities and to achieve positive references for any work undertaken.</li> </ul>
Values	<ul> <li>Demonstrate and champion actions and behaviours that are consistent with the Watpac Core Values.</li> </ul>
Diversity	<ul> <li>Demonstrate and champion appropriate actions and behaviours that support achievement of Group diversity and gender equity objectives.</li> </ul>

An invitation to participate in the Group's STIP is made annually to Senior Executives of the Company at the sole discretion of the Board. All KMP in office at that time (excluding Non-executive Directors and Mr E D Edwards) participated in the FY14 plan. All current KMP (excluding Non-executive Directors) participated in the FY15 STIP.

Additional details relating to the operation of the STIP and how awards are calculated are included in the table below.

# **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.2 Remuneration structure (continued)
- 5.3.2.2 Performance linked remuneration (continued)

Element	Reference	Details						
Target STI Amount	Α	66.67% of the ma	aximum amount	: payable as an S	STI for the upcoming financ	ial year.		
Group Performance Conditions	В		_	•	net profit before tax attrib or non-recurring or abnorn			
Group Performance Weighting	c	, -	The percentage weighting the Group performance STI target has towards the maximum amount payable as an STI.					
Business Unit Performance Conditions	D	The business unit(s) performance STI target(s), expressed as net profit before tax attributable to ordinary equity holders of the Group adjusted for non-recurring or abnormal items.						
Business Unit Performance Weighting	E	The percentage v			erformance STI target(s) ha	s (have) towards		
Individual Performance Conditions	F		•		g to the STI, the performan a rating of between 0.5 and	-		
Total STI Entitlement	G	Calculated as:						
		B and D met	B only met FxAxC	D only met FxAxE	Neither B nor D met Nil			
Payment Conditions	н	Payment to be made as:  • Cash – 75% x G; and  • Performance rights – 25% x G (Board discretion to pay as cash retained).  The number of performance rights issued will be calculated with reference to the relevant						

award amount and the volume weighted average price of Watpac shares sold on ASX on the five trading days prior to the grant date. Performance rights issued under the STIP are subject to an 18 month time-based vesting period and specific clawback conditions. The 18 month vesting period was deemed appropriate given it allows for a full financial year and further half years' financial results to be determined prior to Senior Executives benefitting from 25% of their total STI entitlement. In addition, the value of these deferred awards made to Senior Executives are subject to change over this vesting period, which directly aligns the final value of the award to share price changes.

# **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.2 Remuneration structure (continued)
- 5.3.2.2 Performance linked remuneration (continued)

## FY14 and FY15 STIP

The Target STI Amounts for each Senior Executive participating in the FY14 and FY15 STIPs were as follows:

Target STI amount

Name	FY14	FY15
Mr M G Monro	\$421,134	\$427,326
Mr M A Baker	\$212,988	\$214,659
Mr R J Hall	\$276,226	\$298,079
Mr N A Saclley	-	\$275,000

The business unit performance conditions applicable to Senior Executives in relation to the FY14 & FY15 STIPs are as follows:

Business unit weighting			
Name	towards overall Target STI		Business Unit
	FY14	FY15	
Mr M G Monro	30%	30%	Given the Managing Director's role encompasses all Group activities, the financial performance of each business unit represent sub-business unit performance measures
Mr M A Baker	30%	30%	Given the CFO's role encompasses all Group activities, the financial performance of each business unit represent sub-business unit performance measures
Mr R J Hall	50%	50%	The Mining and Civil business unit
Mr N A Saclley	N/A	50%	The aggregate of all Construction business units

For commercially sensitive reasons specific STIP financial performance measures are not published, however the Remuneration Committee believe that all targets are set at levels appropriate given market conditions, agreed strategic objectives and the market's general expectation of acceptable return levels.

## **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.2 Remuneration structure (continued)
- 5.3.2.2 Performance linked remuneration (continued)

FY15

275,000

#### FY14 and FY15 STIP Outcomes

Mr N A Saclley

The following table includes details of amounts paid/payable to Senior Executives under the FY14 and FY15 STIPs.

		Actual STI Payment (\$)						
			Maximum					
		Target STI	Potential STI	Cash	Deferred	Total STI	% of Target	% of
	STIP	(\$)	(\$)	Component	Component*	Payment	STI	Maximum STI
Senior Executives								
Mr M G Monro	FY14	421,134	631,701	252,680	84,227	336,907	80	53
	FY15	427,326	640,989	57,689	19,230	76,919	18	12
Mr M A Baker	FY14	212,988	319,482	127,793	42,598	170,390	80	53
	FY15	214,659	321,989	28,979	9,660	38,639	18	12
Mr R J Hall	FY14	276,226	414,339	51,792	17,264	69,056	25	17
	FY15	298,079	447,119	-	-	-	-	-

61,875

20,625

82,500

30

20

412,500

The cash component of the FY14 STI was paid in October 2014 following a determination by the Board that certain performance conditions had been met. Given some of the operational matters existing at the time, including the status of the Cockatoo Island contract with Pluton Resources Limited, a final determination on the FY14 STI could not be made prior to the finalisation of the 30 June 2014 financial report, and as such no allowance for these amounts were included in the Group's FY14 financial result or the 2014 Remuneration Report.

In August 2015 the Board determined that certain FY15 STIP performance conditions had been satisfied. While not yet paid in cash, all entitlements have been allowed for in the 30 June 2015 financial result, and consequently, these amounts disclosed as part of Senior Executives' remuneration in FY15.

Senior Executives' remuneration disclosures in the FY15 Remuneration Report therefore include amounts attributable to both the FY14 and FY15 STIPs, as specified in the table above.

<sup>\*</sup> The value attributed to the Deferred Component of the STI Payment in the table above represents 25% of the Total STI Payment. The fair value measurement for accounting purposes of performance rights issued under the STIP has been calculated and is presented elsewhere in the Remuneration Report and Financial Report in accordance with the measurement criteria of the accounting standards.

## **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.2 Remuneration structure (continued)
- 5.3.2.2 Performance linked remuneration (continued)

#### FY16 STIP

The Remuneration Committee and Board have determined that the STIP will also be offered to all Senior Executives in FY16. Subject to a new set of targets and performance measures, all conditions applicable to FY15 STIP will remain in place for the FY16 STIP.

#### LTIP

The LTIP is structured in a manner whereby awards (described as performance rights) granted to Senior Executives are a right to acquire fully paid ordinary shares in the Company for nil consideration, subject to meeting certain pre-determined vesting conditions. Performance rights awards will be made annually to Senior Executives of the Company at the sole discretion of the Board. All current Senior Executives now participate in the LTIP.

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

- EPS targets; and
- relative TSR targets.

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

## **EPS**

The proportion of the performance rights that vest subject to meeting EPS targets is determined based on Watpac's actual aggregate EPS over the three-year vesting period, compared to aggregate EPS that would need to be achieved to deliver Compound Annual Growth Rate (CAGR) targets, as set out below.

## Actual cumulative EPS relative to CAGR

targets	Proportion of EPS grant vesting		Proportion of EPS grant vesting	
	Grants: 21 August	2012	Grants:	8 August 2014
	27 August	2013		20 August 2015
Less than minimum CAGR Target	0%		0%	
Less than maximum CAGR Target but greater than minimum CAGR Target	Straight line vesting 0% and 100%	g between	Straight and 100	line vesting between 50%
Greater than maximum CAGR Target	100%		100%	

# **Directors' Report**

## 5. Remuneration Report – Audited (continued)

#### 5.3 Senior Executive remuneration (continued)

#### 5.3.2 Remuneration structure (continued)

## 5.3.2.2 Performance linked remuneration (continued)

The weighting of the EPS targets to the overall award and specific CAGR targets for each LTIP grant are as follow:

	27 August 2013 Grant	8 August 2014 Grant	20 August 2015 Grant
Weighting	60%	60%	50%
Minimum CAGR	61%	15%	7%
Maximum CAGR	73%	33%	23%
Calculated with reference			
to underlying EPS of:	4.32 cents per share delivered	9.93 cents per share delivered	9.48 cents per share delivered
	in FY13	in FY14	in FY15

## **TSR**

Relative TSR provides a strong link to shareholder returns and requires demonstrable value to have been created (relative to the selected comparator group) before awards vest. The use of TSR links a significant portion of Senior Executives' Long-Term Incentive (LTI) earnings capacity to a market-based measure.

The proportion of the performance rights that vest subject to meeting TSR targets will be determined based on Watpac's TSR relative to a comparator group determined by the Remuneration Committee, as set out below.

#### TSR of Watpac relative to TSR of

comparator group of companies	Proportion of TSR vesting		
Less than 50 <sup>th</sup> percentile	0%		
50 <sup>th</sup> – 75 <sup>th</sup> percentile	Straight line vesting between 50% and 100%		
Greater than 75 <sup>th</sup> percentile	100%		

Watpac's TSR performance will be assessed over three years commencing with the start of the financial year in which the grant of performance rights is made. Assessment of Watpac's performance against the performance measures will be conducted by a suitably qualified external consultant.

# **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.2 Remuneration structure (continued)
- 5.3.2.2 Performance linked remuneration (continued)

TSR Peer Group Selection Criteria

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

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

The mix of the companies in the peer group is broadly aligned to the Group's equity investment in the year of the grant.

Peer Group A	Peer Group B	Peer Group C
AJ Lucas Group Limited	AJ Lucas Group Limited	Ausenco Limited
Ausenco Limited	Ausenco Limited	AJ Lucas Group Limited
AVJennings Limited	Boart Longyear Limited	Boart Longyear Limited
Cedar Woods Properties Limited	Calibre Group	Brierty
Clough Limited	Decmil Group Limited	Calibre Group
Decmil Group Limited	Devine Limited	Decmil Group Limited
Finbar Group Limited	Folkestone Limited	Devine Limited
Forge Group Limited	Global Construction Services Limited	Global Construction Services Limited
Global Construction Services Limited	Gr Engineering Services Limited	Gr Engineering Services Limited
Gr Engineering Services Limited	Logicamms Limited	Logicamms Limited
Lycopodium Limited	Lycopodium Limited	Lycopodium Limited
MACA Limited	MACA Limited	Macmahon Holdings Limited
Macmahon Holdings Limited	Macmahon Holdings Limited	MACA Limited
RCR Tomlinson Limited	NRW Holdings Limited	NRW Holdings Limited
Sedgman Limited	PBD Developments Limited	Sedgman Limited
Seymour Whyte Limited	Sedgman Limited	Seymour Whyte Limited
Southern Cross Electrical Engineering Ltd	Seymour Whyte Limited	Southern Cross Electrical Engineering Ltd
Sunland Group Limited	Southern Cross Electrical Engineering Ltd	WDS Limited
WDS Limited	WDS Limited	S&P/ASX Small Ordinaries Index

The weighting of the TSR targets and relevant peer group for each LTIP grant are as follows:

	27 August 2013 Grant	8 August 2014 Grant	20 August 2015 Grant
Weighting	40%	40%	50%
Relevant Peer Group	Group A	Group B	Group C

# **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.2 Remuneration structure (continued)
- 5.3.2.2 Performance linked remuneration (continued)

#### Vesting Period

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

The Remuneration Committee will be giving consideration to longer-term testing periods over the coming year, in response to recent general market commentary in relation to the expected tenure of long-term incentive plans.

## Other Plan Details

Performance will not be re-tested where the award (or a proportion of the award) does not vest after the three-year performance period. Performance rights will not attract dividends or voting rights until they are exercised and shares acquired.

There are no disposal restrictions on the performance rights.

## 2012 LTIP Outcome

The following table includes details of the vesting outcomes of the performance rights issued under the 2012 LTIP.

		Minimum	Maximum	Result	% of grant
Hurdle	Weighting	vesting point	vesting point	achieved	vested
EPS	60%	20% CAGR	30% CAGR	5.1% CAGR	0%
Relative TSR	40%	50 <sup>th</sup> percentile	75 <sup>th</sup> percentile	73 <sup>rd</sup> percentile	97%

While the performance period for these rights ended on 30 June 2015, the vesting determination date was 25<sup>th</sup> August 2015. As such, relating performance rights are deemed to have vested in the 2016 financial year.

## **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.2 Remuneration structure (continued)

#### 5.3.2.3 Other incentives

Other performance-linked incentives were in place for two Senior Executives in the 2014 and 2015 financial years. These were considered appropriate by the Remuneration Committee and the Board given its specific objectives during this period. Details of these payments are as follows:

Payment			
Name	FY14	FY15	Details
Mr M A Baker	\$75,000	\$100,000	Retention bonus based on continuing employment with the Group. Amount paid was a pre-agreed, set amount.
Mr E D Edwards	\$50,000	\$75,000	Bonus linked to financial performance of the Construction business units.

There are no other incentives in operation for the 2016 financial year.

## 5.3.2.4 Company performance and consequences on shareholder wealth

The financial performance measure driving STIP payment outcomes is net profit before tax excluding non-recurring and abnormal items, compared against Board approved pre-tax profit targets.

Performance under the current LTIP is assessed with reference to cumulative EPS over a three-year period and Watpac's TSR performance relative to a selected list of comparator entities.

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

The following table outlines these financial metrics over the five-year period from 1 July 2010 to 30 June 2015.

	2015	2014	2013	2012	2011
Profit/(loss) attributable to the members of the					•
Company (\$000's)	11,523	17,854	(4,674)	(50,244)	16,825
Underlying net profit/(loss) attributable to the					
members of the Company (\$000's) *	17,879	18,369	7,972	15,300	16,825
Dividends paid/payable in relation to financial					
performance during year (cents)	2.0	6.0	Nil	1.5	6.0
Change in share price - 30 June less 1 July (\$)	(0.03)	0.26	(0.02)	(0.82)	0.18
Return on shareholders' funds (%)	4.50	7.03	(1.96)	(20.73)	5.60
Total shareholder return (%)	0.11	33.77	(15.08)	(44.37)	13.58

<sup>\*</sup> While the Group's statutory financial results have been audited in each of the financial year's listed above, the underlying net profit/(loss) has not been reviewed or audited by the Company's auditor. Refer to Section 9.1 for a reconciliation of the Group's statutory profit to underlying profit.

## **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)

#### 5.3.3 Summary of Senior Executives' contracts

It is the Group's policy that service contracts for Senior Executives, including the Managing Director and Chief Financial Officer / Company Secretary, are unlimited in term but capable of termination in accordance with their contracts. With reference to the Managing Director and Chief Financial Officer / Company Secretary, this is six months. Service contracts for other Senior Executives can be terminated with three months' notice.

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

Service contracts outline the components of remuneration paid to Senior Executives in accordance with the Group's remuneration policy.

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

## 5.3.4 Outcome of Senior Executive benchmarking process

In June 2014 the Remuneration Committee engaged Ernst & Young to assess Senior Executive remuneration (being fixed remuneration, awarded total remuneration and total target remuneration) against the following comparator groups:

- Market Capitalisation Comparator Group (Market Capitalisation) being ten companies ranked above and ten companies ranked below Watpac's 12-month average market capitalisation (calculated to 30 April 2014) in the S&P / ASX 300 (ASX 300).
- Industry Comparator Group (Industry) ASX 300 companies within the "Real Estate Management and Development" and "Construction and Engineering" Global Industry Classification Standard (GICS) industry and which had market capitalisations of 50% to 200% of Watpac's 12-month average market capitalisation (calculated to 30 April 2014).
- ASX 100 Industry Comparator Group (ASX Industry) S&P/ASX 100 (ASX 100) companies within the "Real Estate Management and Development" and "Construction and Engineering" GICS industry.

# **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.4 Outcome of Senior Executive benchmarking process (continued)

These comparator groups were used in the following manner for each Senior Executive:

	Managing	<b>Chief Financial Officer</b>	General Manager	General Manager
	Director	*	Mining & Civil	Construction **
Market Capitalisation	✓	✓	✓	✓
Industry	✓	✓	✓	✓
ASX 100 Industry	✓	х	×	×

<sup>\*</sup> Does not include dual roles of Chief Financial Officer and Company Secretary

Industry

**ASX 100 Industry** 

For context, below is a summary of the positioning of Watpac's market capitalisation and revenue relative to the comparator groups at the time of this assessment.

	Market capitalisation	Revenue
Market Capitalisation	At the median	Above the 75 <sup>th</sup> percentile
Industry	Below the 25 <sup>th</sup> percentile	Above the 75 <sup>th</sup> percentile
ASX 100 Industry	Below the 25 <sup>th</sup> percentile	Below the median

The key findings of Ernst & Young's review are summarised in the following tables:

Above the median

Insufficient data

Fixed remuneration positioning	Managing Director	Chief Financial Officer	General Manager Mining & Civil	General Manager Construction
Market Capitalisation	At the 75 <sup>th</sup> percentile	At the 75 <sup>th</sup> percentile	Above the 75 <sup>th</sup> percentile	Above the 75 <sup>th</sup> percentile
Industry	Above the median	At the median	Above the 75 <sup>th</sup> percentile	Above the 75 <sup>th</sup> percentile
ASX 100 Industry	Above the median	N/A	N/A	N/A
Awarded total remuneration	Managing		General Manager Mining	General Manager
positioning	Director	Chief Financial Officer	& Civil	Construction
Market Capitalisation	At the median	At the median	At the 75 <sup>th</sup> percentile	At the 75 <sup>th</sup> percentile
Industry	At the median	Below the median	Above the 75 <sup>th</sup> percentile	At the 75 <sup>th</sup> percentile
ASX 100 Industry	At the median	N/A	N/A	N/A
Target total remuneration	Managing		General Manager Mining	General Manager
positioning	Director	Chief Financial Officer	& Civil	Construction
Market Capitalisation	Above the median	Below the average	Insufficient data	Insufficient data

At the median

N/A

Insufficient data

N/A

Insufficient data

N/A

<sup>\*\*</sup> Related to Mr E D Edwards

## **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.3 Senior Executive remuneration (continued)
- 5.3.4 Outcome of Senior Executive benchmarking process (continued)

In undertaking its assessment of this benchmarking process, the Remuneration Committee noted there are a significant number of competitors to the Group (and with whom the Company competes for talent) that operate as unlisted private companies. These include, but are not limited to Brookfield Multiplex, Probuild, Hansen Yuncken, McConnell Dowell, Hutchinson, Built, Grocon, BMD, and subsidiaries of listed firms such as John Holland, Thiess and Leighton Contractors.

Remuneration of Senior Executives of private companies such as these are generally not made publicly available and as such did not form part of the Ernst & Young review.

Through network affiliations and a continual analysis of actual current market placements and rates, the Group is aware of the remuneration levels being offered to Senior Executives at these private companies. One of the key findings relating to private company competitor remuneration structures is that, given these organisations are unlisted, there is limited to no liquidity in shares and as such share based payments (being at-risk remuneration) are low in comparison to fixed remuneration levels. This matter was considered by the Remuneration Committee in assessing Senior Executive remuneration.

As a consequence of this review and in light of the individual and position-specific considerations, the Remuneration Committee concluded in FY15 that the current remuneration levels of Senior Executives are acceptable and appropriate. In making this determination the Remuneration Committee acknowledged that the performance conditions applicable to achieving historical awards under the STIP and LTIP have been difficult to achieve, and as such the total remuneration positioning of Senior Executives is lower than the Group's competitors. Consequently, Senior Executive remuneration levels will need to be appropriately reviewed again in FY16.

#### 5.4 Non-executive Directors' remuneration

At the 2011 Watpac Annual General Meeting (**AGM**) the Directors sought and received shareholder approval for an increase to the non-executive Directors' annual aggregate fee pool to \$1,100,000. As was stated in the Explanatory Memorandum accompanying the 2011 Notice of AGM, the increase was not sought to immediately increase Directors' fees, rather was to allow flexibility to appoint additional new Directors in the future. The majority of this enhanced fee pool has not been utilised however, as a consequence of there having been no change to Non-executive Directors' remuneration levels.

The level of Directors' fees is subject to rigorous market—based testing and advice from independent remuneration consultants. The Company's Directors currently do not receive additional remuneration for membership of, or attendance on, any Board committees.

In June 2014, data was obtained by the Remuneration Committee from Ernst & Young to market test the value of the Directors' fees. This information suggested that an overall rise in fees was warranted, particularly given no fees are payable for committee membership(s).

## **Directors' Report**

## 5. Remuneration Report – Audited (continued)

#### 5.4 Non-executive Directors' remuneration (continued)

As indicated above, total remuneration for all non-executive Directors of the Company is not to exceed \$1,100,000 per annum. The fixed fee remuneration structure currently applicable to non-executive Directors, irrespective of their additional roles in board committees is as follows:

- Chair of Board \$195,000 per annum
- All other non-executive Directors \$95,000 per annum

These fee levels include all statutory entitlements such as superannuation and cover preparation and attendance at all Board and Committee meetings, irrespective of the number of meetings held during a financial year. Additional fees may be payable to non-executive Directors or their related entities should they undertake specific consulting projects for the Company in the areas of their expertise. Except for consulting fees paid to a related party of Mr B C Bowton in FY15 (as set out in note 34), no other such payments have been made in FY14 or FY15.

Fees paid or payable to any non-executive Director of the Company in the past two financial years have been included in the table below:

Non-executive Director	FY15	FY14	Note
Mr R B McGruther	\$135,769	\$95,000	Α
Mr J C M C Beerlandt	\$95,000	\$95,000	
Mr B C Bowton	\$95,000	\$80,263	В
Mr G J Dixon	\$95,000	\$35,983	С
Mr C J Schreurs	\$68,952	-	D
Ms B K Morris	\$35,788	-	E
Mr R J Lette	\$95,000	\$95,000	
Mr D M Little	\$47,500	\$95,000	F
Mr K A Mooney	\$34,944	\$95,000	G
Mr C R Freeman	\$44,521	\$195,000	Н

A- Mr R B McGruther was appointed as Chair on 29 September 2014

B- Mr B C Bowton was appointed a Director on 28 August 2013

 $\mbox{C-}\mbox{ Mr}\mbox{ G J Dixon was appointed a Director on 12 February 2014}$ 

D- Mr C J Schreurs was appointed a Director on 10 October 2014

E- Ms B K Morris was appointed a Director on 3 February 2015

F- Mr D M Little retired as a Director on 31 December 2014

**G**- Mr K A Mooney retired as a Director on 25 November 2014

H- Mr C R Freeman resigned as a Director on 29 September 2014

There has been no increase in non-executive Directors' fees since the 30 June 2007 financial year.

There is no current retirement scheme applicable to Non-executive Directors, however benefits accumulated up until the termination of the old scheme in 2003 remain in place. This previous scheme, which is no longer in operation for Directors appointed after this time, was based on a pre-requisite of five years of service as a Director. The scheme provided for one off payments to retiring Non-executive Directors of \$60,000 (adjusted annually by CPI) and \$90,000 for the Chair (adjusted annually by CPI), from 1 July 2003. The current value of retirement benefits accrued as at 30 June 2015 is as follows:

# **Directors' Report**

## 5. Remuneration Report – Audited (continued)

#### 5.4 Non-executive Directors' remuneration (continued)

		Value of benefit	СРІ		Value of benefit		
	Original benefit at	(adjusted for CPI) at 1	adjustment	Benefits paid	(adjusted for CPI) at		
Non-executive Director	1 July 2003	July 2014	FY15	FY15	30 June 2015		
Mr R B McGruther	\$60,000	\$83,252	\$1,082	-	\$84,334		
Mr R J Lette *	\$60,000	\$83,252	\$1,082	-	\$84,334		
Mr D M Little **	\$60,000	\$83,252	\$541	(\$83,793)	-		

<sup>\*</sup> Mr R J Lette's accrued benefit was paid in August 2015 following his retirement as a Non-executive Director of the Company in July 2015.

The Remuneration Committee will continue to market test the quantum of fees paid to Non-executive Directors and the manner of payment. This includes an assessment as to whether a base Board fee plus Board committee membership fees is a more appropriate method of remunerating the Company's Non-executive Directors.

## 5.5 Directors' and Senior Executives' remuneration

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

Remuneration disclosures have been presented on a statutory basis.

Note, remuneration disclosures relate to earnings for the full financial year, notwithstanding some employees were not KMP for the full year.

<sup>\*\*</sup> Mr D M Little's accrued benefit was paid in January 2015 following his retirement as a Non-executive Director of the Company in December 2014.

# **Directors' Report**

# 5. Remuneration Report - Audited (continued)

5.5 Directors' and Senior Executives' remuneration – Audited (continued)

5.5 Directors' and Senior Executive	es rem	nuneration –	Audited (	continued)									_
		Short-term				Post-employment	Termination /	Termination /	Equity settled Performance		Proportion of	Value of performance	
		Salary & fees	FY14 STIP - Cash (i)	FY15 STIP - Cash	Other cash bonuses	Non-monetary benefits accounting accrual (ii)	Superannuation benefits	Retirement Retire	Retirement benefits paid	Rights (accounting accrual) (iii)	(statutory	remuneration performance related (at risk)	rights as proportion of remuneration
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Non-executive directors													
Mr R B McGruther (Chair)	2015		-	-	-	-	35,000	1,082	-	-	171,851	0.00%	0.00%
(Chair from 29 September 2014)	2014	95,000	-	-	-	-	-	2,346	-	-	97,346	0.00%	
Mr J C M C Beerlandt	2015	95,000	-	-	-	-	-	-	-	-	95,000	0.00%	0.00%
	2014	95,000	-	-	-	-	-	-	-	-	95,000	0.00%	0.00%
Mr B C Bow ton	2015		-	-	-	-	-	-	-		95,000	0.00%	0.00%
(from 28 August 2013)	2014	80,263	-	-	-	-	-	-	-	-	80,263	0.00%	
Mr G J Dixon	2015		-	-	-	-	-	-	-		95,000	0.00%	0.00%
(from 12 February 2014)	2014	35,983	-	-	-	-	<del>-</del>	-	-	-	35,983	0.00%	0.00%
Mr R J Lette	2015		-	-	-	-	8,242	1,082	-	-	96,082	0.00%	0.00%
	2014	95,000	-	-	-	-	-	2,346	-	-	97,346	0.00%	
Ms B K Morris	2015		-	-	-	-	3,400	-	-	-	39,187	0.00%	
(from 3 February 2015)	2014	-	-	-	-	-	-	-	-	-	-	0.00%	
Mr C J Schreurs	2015	68,952	-	-	-	-	-	-	-	-	68,952	0.00%	0.00%
(from 10 October 2014)	2014	-	-	-	-	-	-	-	-	=	-	0.00%	0.00%
Executive directors													
Mr M G Monro	2015		252,680	57,689	-	94,902	30,000	-	-	108,378	1,368,973	26.37%	7.92%
(Managing Director frrom 10 October 2014)	2014	827,845	-	-	-	18,123	25,000	-	-	150,216	1,021,184	14.71%	14.71%
Former directors													
Mr D M Little	2015	47,500	-	-	-	-	-	541	-	-	48,041	0.00%	0.00%
(Non-executive director to 31 December 2014)	2014	95,000	-	-	-	-	-	2,346	-	-	97,346	0.00%	0.00%
Mr K A Mooney	2015	34,944	-	-	-	-	3,320	-	-	-	38,264	0.00%	0.00%
(Non-executive director to 25 November 2014)	2014	95,000	-	-	-	-	=	-	-	-	95,000	0.00%	0.00%
Mr C R Freeman	2015		-	-	-	-	4,229	-	-	-	48,750	0.00%	0.00%
(Non-executive director to 29 September 2014)	2014	195,000	-	-	-	-	-	-	-	-	195,000	0.00%	0.00%
Executives													
Mr M A Baker	2015	400,165	127,793	28,979	100,000	18,399	30,000	-	-	51,176	756,512	36.88%	6.76%
	2014	404,112	-	-	75,000	12,074	25,000	-	-	68,280	584,466	24.51%	11.68%
Mr N A Saclley	2015	150,802	-	61,875	=	13,490	5,833	=	-	-	232,000	0.00%	
(from 16 March 2015)	2014	-	-	-	-	-	=	-	-	-	-	N/A	N/A
Mr R J Hall	2015	561,135	51,792	-	-	7,327	35,000	-	-	22,734	677,987	10.99%	3.35%
	2014	567,093	-	-	-	8,836	25,000	-	-	42,675	643,604	6.63%	6.63%
Former Executives													
Mr E D Edw ards	2015	311,353	-	-	75,000	(118,002)	11,772	-	63,643	-	343,766	21.82%	0.00%
(General Manager - Construction to 23 December 2014)	2014		-	-	50,000	(15,423)	24,306	-	-	-	550,765	9.08%	0.00%
Total compensation: key management personnel	2015		432,265	148,543	175,000	16,116	166,797	2,705	63,643	182,288	4,175,367		
(Consolidated)	2014	3,077,178	-	-	125,000	23,610	99,306	7,038	-	261,171	3,593,303		
Total compensation: key management personnel	2015	1,564,555	252,680	57,689	-	94,902	84,191	2,705	-	108,378	2,165,100		
(Parent)	2014	786,246	-	=	-	=	=	7,038	-	-	793,284		

## **Directors' Report**

## 5. Remuneration Report - Audited (continued)

#### 5.5 Directors' and Senior Executives' remuneration - Audited (continued)

Notes in relation to the table of Directors' and executive officers' remuneration

- (i) Entitlement to the FY14 STI was not determined by the Board until October 2014 and hence amounts paid relating to the prior year have been included in the 2015 Remuneration Report.
- (ii) Non-monetary benefits represent the value of reportable fringe benefits for the respective fringe benefits tax year ending 31 March and annual leave accrued and utilised during the financial year.
- (iii) Equity settled performance rights is net of adjustments for performance rights that are anticipated to fail to vest as a result of not achieving the relevant EPS performance measures.

## 5.6 Other statutory disclosures

## 5.6.1 Analysis of options over equity instruments granted as remuneration

Options over equity instruments in the Company were previously issued at the discretion of the Board under the Employee Share Option Plan (**ESOP**), in accordance with thresholds set in plans approved by shareholders at the 2006 Watpac Annual General Meeting. The ESOP provided for Watpac employees to receive, for no consideration, options over ordinary shares in the Company. The ability to exercise the options is conditional only upon achievement of service period based vesting conditions.

A number of these options were issued to certain Senior Executives who were employees of the Company at the time of issue. Under the terms of this plan eligible Senior Executives were issued options over ordinary shares of Watpac in 2006, for nil consideration, exercisable at \$2.45/share. None of these options remain exercisable, with all such options expiring on 25 October 2014.

The Remuneration Committee has previously determined that this scheme is no longer appropriate for Senior Executives, as there are no performance based criteria that affect employees' ability to realise share entitlements.

No options have been granted under the ESOP to Senior Executives since October 2006. The previously issued options were provided at no cost to the recipients. No options that have vested were exercised during the 30 June 2015 financial year. All remaining options expired in October 2014.

Further details of the Employee Share Option Plan are included in Note 23 to the financial statements.

# **Directors' Report**

## 5. Remuneration Report - Audited (continued)

## 5.6 Other statutory disclosures (continued)

#### 5.6.2 Analysis of movement in options

The movement during the reporting period by value and number of options over ordinary shares in Watpac Limited held by Directors and Senior Executives is detailed below.

As at 1 July 2014	Granted in year	Exercised in year	Forfeited in year	Expired in year	As at 30 June 2015	Vested and exercisable at 30 June 2015
\$81,125	_	-	-	(\$81,125)	-	-
\$81,125	-	-	-	(\$81,125)	-	-
137,500	-	-	-	(137,500)	-	-
137,500	-	-	-	(137,500)	-	-
	\$81,125 \$81,125 \$81,125	\$81,125 - \$81,125 - 137,500 -	\$81,125 \$81,125 \$137,500	\$81,125	2014         year         year         year         year           \$81,125         -         -         -         (\$81,125)           \$81,125         -         -         -         (\$81,125)           137,500         -         -         -         (137,500)	2014         year         year         year         year         June 2015           \$81,125         -         -         -         (\$81,125)         -           \$81,125         -         -         -         (\$81,125)         -           137,500         -         -         -         (137,500)         -

The value of options expired in the year represent the fair value of the options at the October 2006 grant date calculated using a Black-Scholes model.

## 5.6.3 Analysis of performance rights granted as remuneration

The Group's current STIP and LTIP is structured in a manner whereby awards (described as performance rights) granted to Senior Executives are a right to acquire fully paid ordinary shares in the Company for nil consideration, subject to meeting certain predetermined vesting conditions. On vesting each right automatically converts into one ordinary share. The executives do not receive any dividends and are not entitled to vote in relation to the rights during the vesting period.

Details and the vesting profiles of the performance rights granted as at 30 June 2015 as remuneration to Senior Executive of the Group are included below, along with other pertinent details relating to outstanding performance rights on issue:

						Fair value yet	to vest
	Grant	Incentive		Vested in	Forfeited in		
_	Date	Plan	Number	year	year	Min (\$)	Max (\$)
	44.6 49		440.000	0.4			250 720
Mr M G Monro	14-Sep-12	LTIP	440,000	-%	-%	-	258,720
	27-Aug-13	LTIP	440,000	-%	-%	-	191,928
	8-Aug-14	LTIP	440,000	-%	-%	-	269,280
	2-Oct-14	STIP	92,253	-%	-%	-	74,725
Mr M A Baker	13-Sep-12	LTIP	200,000	-%	-%	-	117,600
	27-Aug-13	LTIP	200,000	-%	-%	-	87,240
	8-Aug-14	LTIP	200,000	-%	-%	-	122,400
	2-Oct-14	STIP	46,657	-%	-%	-	37,792
Mr R J Hall	12-Sep-12	LTIP	125,000	-%	-%	-	73,500
	27-Aug-13	LTIP	125,000	-%	-%	-	54,525
	8-Aug-14	LTIP	100,000	-%	-%	-	61,200
	2-Oct-14	STIP	18,910	-%	-%	-	15,317

# **Directors' Report**

- 5. Remuneration Report Audited (continued)
- 5.6 Other statutory disclosures (continued)
- 5.6.3 Analysis of performance rights granted as remuneration (continued)

Grant Date	Incentive Plan	Fair value at grant date (\$)	Financial year in which performance period ends	Financial year in which grant vests (subject to performance conditions)
14 September 2012	LTIP	0.59	30 June 2015	30 June 2016
27 August 2013	LTIP	0.44	30 June 2016	30 June 2017
8 August 2014	LTIP	0.61	30 June 2017	30 June 2018
2 October 2014	STIP	0.81	30 June 2016	30 June 2016

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

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

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

Further details of the current LTIP and STIP are included in Note 23 to the financial statements.

# **Directors' Report**

## 5. Remuneration Report - Audited (continued)

## 5.6 Other statutory disclosures (continued)

## 5.6.4 Analysis of movement in performance rights

The movement during the reporting period by value and number of performance rights held by Directors and Senior Executives is detailed below.

	Plan	As at 1 July 2014	Granted in year	Exercised in year	Forfeited in year	As at 30 June 2015	Vested as at 30 June 2015
By value							
Mr M G Monro	LTIP	\$450,648	\$269,280	-	-	\$719,928	-
	STIP	-	\$74,725	-	-	\$74,725	-
Mr M A Baker	LTIP	\$204,840	\$122,400	-	-	\$327,240	-
	STIP	-	\$37,792	-	-	\$37,792	-
Mr R H Hall	LTIP	\$128,025	\$61,200	-	-	\$189,225	-
	STIP	-	\$15,317	-	-	\$15,317	-
By number							
Mr M G Monro	LTIP	880,000	440,000	-	-	1,320,000	-
	STIP	-	92,253			92,253	-
Mr M A Baker	LTIP	400,000	200,000	-	-	600,000	-
	STIP	-	46,657			46,657	-
Mr R J Hall	LTIP	250,000	100,000	-	-	350,000	-
	STIP	-	18,910	-	-	18,910	-

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

## 5.6.5 Analysis of movement in shares

The movement during the reporting period in the number of ordinary shares in Watpac Limited held directly, indirectly or beneficially by KMP at 30 June 2015, including their related parties, is as follows:

				Received	
	As at			on exercise	As at
	1 July 2014	Acquisitions	Sales	of options	30 June 2015
Non-executive Directors					
Mr R B McGruther	174,500	6,579	-	-	181,079
Mr B C Bowton	297,040	-	-	-	297,040
Mr R J Lette	880,289	21,315	-	-	901,604
Executive Director					
Mr M G Monro	100,000	-	-	-	100,000

No shares were granted to Directors or Senior Executives during the reporting period as compensation.

## **Directors' Report**

## 6. Audit and Risk Committee

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

- Ms B K Morris (Chair) Non-executive Director
- Mr B C Bowton Non-executive Director
- Mr C J Schreurs Non-executive Director

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

## 7. Nomination Committee

The three current members of the Nomination Committee are:

- Mr R B McGruther (Chair) Non-executive Director
- Mr C J Schreurs Non-executive Director
- Mr B C Bowton Non-executive Director

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

## 8. Principal activities

The principal activities of the Group during the course of the financial year were:

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

# **Directors' Report**

## 9. Operating and financial review

### 9.1 Financial review

The Group reported a consolidated statutory net profit after tax for the year ended 30 June 2015 (FY15 or Reporting Period) of \$11.5M compared to a profit after-tax of \$17.9M for year ended 30 June 2014 (FY14 or Comparative Period). The FY15 statutory profit result reflects a post-tax return on equity of 4.50% (FY14: 7.03%).

An overview of the financial performance of the Group and its reportable segments is detailed below:

		Revenue		Statutory Profit / (loss)					
In thousand of AUD	FY15	FY14	% Variance	FY15	FY14	% Variance			
Contracting	929,338	856,570	8.5%	33,679	25,831	30.4%			
Mining & Civil	284,004	287,790	-1.3%	9,418	15,197	-38.0%			
Property	5,134	55,621	-90.8%	(9,541)	(1,678)	-468.6%			
Unallocated	-	-	N/A	(18,154)	(15,180)	-19.6%			
Elimination		3,047	-100.0%	87	334	-74.0%			
Total	1,218,476	1,203,028	1.3%	15,489	24,504	-36.8%			
Tax Expense				(3,966)	(6,650)	40.4%			
GROUP NPAT				11,523	17,854	-35.5%			

Work volumes were higher in FY15 when compared to the Comparative Period, as was the aggregate profitability of the Group's operating businesses. The decrease in consolidated Group profit in FY15 from that recorded in FY14 is mainly due to pre-tax impairment charges totaling \$9.1M having been recognised on the Group's property development inventory assets during the Reporting Period.

The key themes associated with the Group's FY15 financial result are as follows:

- at an operating business level, the FY15 result reflects enhanced financial performance from the Group's Contracting businesses, net of a reduction in the financial contribution of the Mining & Civil business;
- the increase in turnover and profitability of the Contracting businesses aligns with an improvement in market conditions and the successful execution of a number of strategies that are aimed at improving financial returns through a targeted selection of projects and a more integrated national delivery method;
- the reduced Mining & Civil result substantially reflects the downturn of the resources sectors, however despite these
  adverse market conditions, it remained profitable in FY15 and was successful in converting several new project
  opportunities during the Reporting Period; and
- the property impairments recognised in FY15 were required to meet the assessed current market value for the Group's remaining property assets, and accords with the measurement criteria for these assets aligning to the continuing property asset disposal strategy.

Key financial metrics in respect of the current year statutory result against the prior year are summarised in the following table:

# **Directors' Report**

# 9. Operating and financial review

Return on shareholders' funds (percentage)

% In thousands of AUD 2015 2014 Change Change Total revenue 1,218,476 1,203,028 15,448 1.3% 15,489 24,504 (9,015) -36.8% Profit before tax (3,966)(6,650)2,684 40.4% Income tax expense 11,523 Profit after tax attributable to members 17,854 (6,331)-35.5% 6.11 9.65 (3.54)-36.7% Basic earnings per share attributable to members (cents) Final dividend per share (cents) -100.0% 3.5 (3.5)Total dividends per share (cents) 2.0 -66.7% 6.0 (4.0)Net Tangible Assets per share (cents) 121 121 - %

An overview of the Group's underlying financial result for FY15, which excludes the impact of the \$9.1M in pre-tax property asset impairments, is detailed below:

4.50

7.03

-2.53%

-36.0%

In the arrange of ALID				%
In thousands of AUD	2015	2014	Change	Change
Statutory net profit after tax attributable to members	11,523	17,854	(6,331)	-35.5%
Adjust for:				
Impairment of property development inventory	9,080	736	8,344	1,133.7%
Tax on impairment at 30%	(2,724)	(221)	(2,503)	-1,132.6%
Underlying profit after tax attributable to members	17,879	18,369	(490)	-2.7%
Underlying earnings per share attributable to members	9.48	9.93	(0.45)	-4.5%
(cents)				

<sup>\*</sup> The information presented in the table above has not been reviewed or audited by the Group's auditor.

# 9.2 Safety

The creation and maintenance of a safe work environment for the Group's staff, clients, sub-contractors and other stakeholders is a priority and critical to the long term sustainability of the Watpac business.

During the year, the Group's long term injury frequency rate was significantly below internal targets and industry averages. While a pleasing result, the Board and management remain focused on improving safety performance, and are continually reviewing proactive ways to manage the Group's safety outcomes.

As a demonstration of the Board's commitment to maintaining safe work practices at all times, a "Chair's Safety Award" will be implemented in FY16 in both the Construction and Mining & Civil divisions of the Group. This award will recognise superior safety performance and / or innovation by an individual or team in response to any occupational health & safety challenges faced by Watpac.

### **Directors' Report**

## 9. Operating and financial review

### 9.3 Operating overview

The Group's focus in FY15 was on its core and continuing businesses of Contracting and Mining & Civil. Throughout the Reporting Period Watpac also continued to execute its capital recycling strategy, through the sale of non-core property assets.

Additional details on the financial performance, strategies and potential risks to achieving the Group's strategic objectives in each of its current businesses are provided below.

### 9.4 Contracting Business

### **Review of operations**

The Contracting segment, which includes the Group's Queensland, New South Wales, Victoria, South Australia and Specialty Services Construction businesses provides building, refurbishment, project management, and construction management services across all Australian state and territories, currently with the exception of Tasmania and Western Australia.

The segment reported a pre-tax profit for FY15 of \$33.7M (FY14: \$25.8M). After adjusting for \$13.8M in unallocated Corporate overheads, this result reflects a pre-tax return on equity of 16.9%. The net profit before tax margin for the Contracting segment in FY15 was 3.6%, a substantial 20% margin improvement on the Comparative Period margin of 3.0%.

The increase in profitability in FY15 reflects the profitable execution of existing work through a national delivery focus, together with the adoption of more deliberate project selection criteria. The cross-utilisation of skills and resources across all of the Group's construction businesses provided for not only enhanced Group profitability, but more robust overall outcomes for clients. The composition of the work in hand at balance date is also more considered than it has been in recent times.

The Contracting segment ended FY15 with a work in hand position of approximately \$1.2B. The allocation of work in hand by business unit, and the revenue delivered by each business during the Reporting Period, is summarised in the table below:

In thousands of AUD	Work in hand at	FY15 Revenue
III tilousulius oj AOD	30 June 2015	F113 Revenue
Queensland	634,902	459,988
New South Wales	279,588	196,255
Victoria	165,915	200,251
South Australia	58,873	8,436
Specialty Services	19,426	64,408
Total	1,158,704	929,338

Approximately \$700M in new construction contracts and extensions were awarded to the Group's Contracting businesses in FY15. New projects awarded during the Reporting Period included the:

# **Directors' Report**

### 9. Operating and financial review (continued)

- \$126M York & George mixed-use development in the Sydney CBD (New South Wales)
- \$78M Pullman Hotel, Ibis Hotel and Brisbane Airport Conference Centre (Queensland)
- \$70M Central Adelaide residential development (South Australia)
- \$55M large scale, secure, facility for the Reserve Bank of Australia (Victoria)
- \$50M Queensland State Velodrome in Brisbane for the Gold Coast 2018 Commonwealth Games (Queensland)
- \$45M Knox Private Hospital Expansion for Healthscope (Victoria)
- \$30M Ronald McDonald House project in Southbank (Queensland)
- \$24M BaptCare Residential Aged Care Facility in McLeod (Victoria)
- \$23M Australian Institute of Tropical Health & Medicine facility at James Cook University (Queensland)
- \$19M Teys Freezer Construction in Beenleigh (Queensland)
- \$18M Ergon Energy Garbutt Depot Redevelopment (Queensland)
- \$14M Newington College Year 7 Centre and Drama Centre (New South Wales)

Substantial contract extensions awarded in FY15 include:

- tenant fitout works at the 180 Brisbane and Southpoint commercial office tower projects, which are currently under construction in Queensland;
- Base Security Improvement Projects, being delivered for the Department of Defence across Queensland, New South Wales, the ACT and Victoria; and
- the Gold Coast Private Hospital project being completed in Queensland.

The scope and breadth of these projects and the associated client base is representative of the Group's established credibility across all construction industry sectors and also demonstrates the Group's project conversion capability in each of these sectors.

Subsequent to year end the Group also announced the successful conversion of approximately \$200M in additional projects to be delivered in FY16 and beyond. The Group is also currently tendering on a significant number of projects in all regions, in a specifically targeted and considered manner, which will assist to underpin the FY17 workbook.

### Strategy and future performance

The continuing maintenance of forward volumes with appropriate embedded margins reflects a key priority in the ongoing improvement to the financial performance of the Group's Contracting businesses. While focus will also be placed on operational excellence, ensuring existing projects are delivered profitably and to client's needs, more refined work winning strategies and initiatives continue to be explored in order to maximize opportunities in targeted sectors and with key clients.

With strong national delivery credentials across all types of construction projects and with the backing of a strong balance sheet, Watpac's construction businesses are in a solid position to further enhance profitability and returns on equity. Larger and more complicated projects, where the Group can bring innovation and delivery excellence, will continue to be targeted, and with ability to cross utilise people, systems and work practices, Watpac is well positioned to deliver on this objective. This is a key priority of

# **Directors' Report**

### 9. Operating and financial review (continued)

management, and specifically that of the Group's new General Manger Construction, who joined Watpac in March 2015 and who brings to the Group the skills and experience necessary to achieve these strategic objectives.

With over 30 years of construction excellence, and a strong client focus, the Group has the financial and operational resources, relationships, capacity and credibility to undertake additional works in all regions throughout Australia. Revenue growth will continue to be sought in a sensible and strategic manner, with focus on returns on investment and following appropriate analysis of inherent project risks and possible return ranges. The primary focus will be on considered organic growth in each of the existing operating regions, however other opportunities for increasing shareholder returns will also be considered, particularly in light of the strong financial position of the Group.

A rise in general construction work volumes in Australia will provide substantial opportunities for the Group to grow its Contracting revenue base and improve profitability and the quality of work on hand. However amidst such market dynamics, resources may become less available and consequently external and internal input costs may come under pressure, and this must also be closely monitored.

Unfortunately, in a period where new work opportunities are abundant, subcontractor costs are prone to swift increases. Given the nature of certain fixed price construction contracts entered into by the Group, a rising subcontractor market presents Watpac with both an opportunity and a risk, and new project opportunities and pricing inputs must therefore be critically assessed as part of the Group's pre-contract risk and immediate post award processes. There is no doubt the current level of residential construction activity across a number of regions in Australia has already placed real pressure on certain resources required for the delivery of construction works, and requires constant attention and risk management by Watpac management.

Alternative building methodologies and suppliers, including a more thoughtful scoping of offshore procurement possibilities is therefore critically important, as the Group strives to achieve certainty of delivery for its clients while maintaining competitive advantages through cost leadership and differentiation over others in the sector. These types of initiatives may bring about new challenges, including project program and foreign currency input pricing risks, however the Group has in place the required systems and processes, banking relationships and facility security requirements to mitigate these potential new risks.

Watpac has a reputation for working collaboratively with its clients to achieve the best possible overall project outcomes through innovative and operationally superior work methods. With a flat management structure, the Group prides itself on its quick and agile decision-making processes, while at the same time ensuring all decisions are subject to robust risk management protocols.

The Group has capital allocated for the execution of targeted work winning strategies and the Board and management is therefore confident that Watpac's Contracting businesses can deliver improved shareholder returns in future reporting periods.

Watpac's strategy for the Group's Contracting businesses is simple - to grow thoughtfully. This may include new regions and in adjacent markets, however will always be with an absolute focus on improved profitability and shareholder value rather than simply revenue growth.

# **Directors' Report**

## 9. Operating and financial review (continued)

### 9.5 Mining & Civil Business

### **Review of operations**

Watpac's Mining & Civil business reported a pre-tax profit of \$9.4M in FY15 (FY14: \$15.2M). After adjusting for \$4.2M in unallocated corporate overheads, the FY15 result reflects a pre-tax return on equity of 3.7%.

The financial result for the Mining & Civil business was \$5.8M lower in FY15 when compared to FY14. However all current projects are performing well and the business continues to operate profitably, which amidst current market conditions is a testament to the business' credentials and quality of operations.

The Mining & Civil business concluded the Reporting Period with work in hand of \$219M, which includes the following mining services contracts:

- Capel mineral sands project (Iluka Resources);
- Cockatoo Island iron ore mine (managed by Pluton Resources);
- Kathleen Valley gold project (Ramelius Resources);
- Mt Magnet gold mine (Ramelius Resources);
- Southern Cross Cornishman and North Pits (Hanking Gold); and
- Tutunup South mineral sands project (Iluka Resources).

Importantly, the workbook now comprises desired work activities with key and highly respected clients, with those projects that do not meet the business' current criteria for preferred works having now been completed.

The downturn of the Australian resources industry has adversely impacted the profitability of all operators in the sector and Watpac is no exception. While the current sector challenges therefore present a risk to future work in hand levels and profitability, the Mining & Civil business has demonstrated success in new work opportunity conversion, with the following mining services contracts being secured during the Reporting Period:

- 19 month contract with Hanking Gold at the Cornishman Pit, Southern Cross;
- 12 month contract with Hanking Gold at the North Pit, Southern Cross;
- 18 month contract with Iluka Resources at the Capel mineral sands project; and
- 12 month contract with Ramelius Resources at the Kathleen Valley gold project.

These new contract wins with key long-term clients of the Group reflect the business' strong client focus and relationships, local networks and operational excellence.

### **Nullagine Project**

Within an environment of low iron ore prices and substantial pressure on marginal operations, the receipt of the notice of termination for convenience by a subsidiary of BC Iron Limited (BC Iron) in April 2015, relating to works at the Nullagine Iron Ore

### **Directors' Report**

## 9. Operating and financial review (continued)

project, was not unexpected. While slightly earlier than anticipated, the Group was well placed to react to this notice and comply with all contractual requirements in advance of the effective date of the termination in early July 2015.

The termination of the Nullagine contract gave rise to a one-off contract termination payment to Watpac in April 2015 of \$2M and a requirement for BC Iron to purchase \$6.4M in plant and equipment from the Group on 1 July 2015. All conditions of the contract have now been complied with and Watpac is in discussions with BC Iron in relation to the final value of all remaining progress claims and other rates adjustments and claims outstanding and unpaid at the date of this report.

All resources necessary will be deployed to ensure prompt finalisation of these negotiations and receipt of the outstanding amounts.

### Cockatoo Island Project

As has been previously reported, in October 2014 Watpac participated in an equity capital raising of the Group's counterparty on the Cockatoo Island iron ore project, Pluton Resources Limited (**Pluton**). \$3M of previously unrecognised contract entitlements were converted to equity in Pluton as part of this capital raising, giving rise to the Group becoming a substantial holder in Pluton with an interest in the company of just over 5%. While initially measured at the \$3M entitlements issue transaction price, no value has been ascribed to this equity instrument at 30 June 2015 in light of an absence of an appropriate market value being available for this investment at balance date, with Pluton currently in a trading suspension from ASX.

Pluton is currently in the process of seeking additional capital through a bond issuance in the UK. While Watpac remains supportive of this current capital raising process, a conservative accounting treatment has again been applied in respect of works completed at Cockatoo Island for Pluton in FY15. With the exception of \$3.7M in works completed under the direction (and indemnification) of the previous receivers and managers of Pluton, KordaMentha, no revenue not received in cash has been recognised in the Group's FY15 financial result. As such, there remains a substantial entitlement due from Pluton which is currently unrecognised at balance date.

### Plant & Equipment

There were only modest new plant & equipment purchases made by the Mining & Civil business during the Reporting Period. This is reflective of current market conditions and the Group's capital investment targets for this business. The Mining & Civil business has, nonetheless, continued to undertake capital purchases associated with major maintenance activities on its plant & equipment assets in FY15, in accordance with original equipment manufacturer guidelines. This was funded through operating cash flows from the Mining & Civil business and comprised the majority of the Group's total capital purchases in FY15.

At 30 June 2015 the level of investment in Mining & Civil plant assets totalled \$134M (\$128M excluding the part payment received to date from BC Iron for certain ex-Nullagine assets in July 2015), down from \$153M at 30 June 2014. While the level of idle fleet is currently higher than historical levels as a result of the completion of two large-scale projects during the Reporting Period, there nonetheless remains an expectation that all plant values can be recovered through use and that future work volumes will be available to support this. This view is reinforced by the new contract wins in FY15 and the Group's current forward work pipeline

## **Directors' Report**

### 9. Operating and financial review (continued)

and new work conversion expectations. Importantly, Watpac's fleet mix is very well suited to the current new work opportunities, and gives the Group a competitive advantage over its peers.

Civil

Watpac's civil operations also continued to contribute positively to the Mining & Civil segment's reported profitability in FY15. Civil infrastructure activities provide a complementary income stream to the Group's mining services business, with a number of shared personnel and back office systems and processes.

Civil projects awarded during the Reporting Period include:

- the \$18M Tailings Storage Facility for Sirius Resources at the Nova Nickel project; and
- the \$9M upgrade works at Logue Brook Dam's spillway and \$2M Decommissioning of the Port Hedland Waste Water
   Treatment Plant, for the Water Corporation of WA.

### Strategy and future performance

The state of the resources sectors in Australia presents a clear risk to the future work levels and profitability of Watpac's Mining & Civil business. With the substantial level of capital investment in the business unit and low gearing levels (which was a strategic objective executed in FY15 in order to minimise any future debt servicing issues), achieving the Group's return on equity targets will be a challenge for this business over the near term. In many respects, the prospects of the business depend on commodity and foreign currency pricing levels, investment capital availability for mine owners, contracting strategies of tenement holders, competitor pricing dynamics (and solvency), and general business confidence.

With a current forward work position of \$219M at 30 June 2015, approximately half of which is attributable to the Cockatoo Island contract for Pluton, the Mining & Civil business unit must continue to focus on and develop successful work winning initiatives and strategies, and further enhance client relationships. 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.

Despite the challenges facing the sector, the Mining & Civil business unit is in a unique position, being part of a diversified Group with a strong balance sheet. A number of other mining services companies without such diversification and financial capability face real challenges, and this represents a clear competitive advantage for Watpac. In an environment where contractor certainty must be paramount for mine owners, Watpac's strong credentials in mining various commodities, demonstrated delivery of complex projects and financial strength presents a clear platform from which future shareholder value may be realised.

# **Directors' Report**

## 9. Operating and financial review (continued)

### 9.6 Property business

### **Review of operations**

The property segment recorded a pre-tax loss of \$9.5M for the Reporting Period (FY14: \$1.7M pre-tax loss). The reduction in financial performance compared to the prior year mainly reflects pre-tax impairment charges totalling \$9.1M recorded on certain assets in FY15 (FY14: \$0.7M), partially offset by a decrease in holding costs on the remaining property development assets.

At 30 June 2015, the carrying value of the Group's property inventory assets totalled \$27.6M. Assets sold or subject to new sales agreements that were executed during the Reporting Period were:

- all remaining retail units at the Coolum Beach Retail development \$2.7M;
- the balance land at the Ocean Blue Estate \$1.5M; and
- three lots at the Coolum Industrial Estate \$0.9M.

A minimum of \$11M of the remaining \$27M property assets are expected to be sold and settled within the next 12 months. This will result in a further enhancement to the Group's financial strength and liquidity position.

The most significant sale targeted in FY15 is the remainder of the Rue De Chapel development in Melbourne which, following strong leasing interest during the Reporting Period, is currently subject to a refreshed sales campaign that is expected to close in the first half of the 30 June 2016 financial year.

In addition to the targeted property sales, \$12M in cash (net of deposits) is also expected to be received from the settlement of the final tranche of the Waterloo Junction property asset in FY16. This follows the first two tranches of the transaction settling during the Reporting Period, and which provided a cash inflow to the Group of approximately \$24M (net of deposits) in FY15.

While the \$9.1M in impairment charges recognised in FY15 was certainly not desired, the Board considers that they were appropriate and required given current market conditions and the Group's clear strategy to exit all property assets and realise capital in the near term.

### Strategy and future performance

With no associated property debt, all proceeds from future property settlements will be reinvested into existing operations. The Group remains committed to divesting all remaining property assets in a timely manner, to further strengthen the Group's financial position and support growth in the Contracting businesses, as is deemed appropriate and which aligns to the strategy for this operation.

While there remains a risk that current book values will not be achieved upon sale, the Board believes they are reflective of current market rates and will ultimately be realised.

# **Directors' Report**

## 9. Operating and financial review (continued)

### 9.7 Capital management and liquidity

The Group ended FY15 with gross cash and term deposits totalling \$183M. While \$7M lower than the 30 June 2014 balance, significant equipment finance repayments were made during the Reporting Period in order to de-leverage the Mining & Civil business and more appropriately align the future debt repayment profile of this business with market conditions.

The net cash balance at 30 June 2015, calculated as gross cash less gross debt, was \$151M, being \$36M higher than the 30 June 2014 net cash balance of \$115M.

Watpac's gross debt level, which solely relates to equipment finance facilities supporting plant & equipment assets in the Mining & Civil business, totalled \$32M at 30 June 2015 (30 June 2014: \$75M). Gross debt as a percentage of plant asset carrying values has reduced from almost 50% at 30 June 2014 to 24% at 30 June 2015.

The debt refinancing transaction completed in May 2015 provides for a lower, more consistent equipment finance repayment profile over the next four years, with required cash flows now more easily fundable by the Mining & Civil business unit. This was an important strategic objective in FY15, as the Group aimed to ensure that cash flows from Construction business earnings and property sales are not required to support the Mining & Civil business' debt servicing obligations. The refinance also provides a clear separation between the ancillary equipment finance facilities and the Group's core banking facilities.

As at 30 June 2015, the Group's core banking facilities comprised a \$125M syndicated banking facility with leading domestic and international financial institutions consisting of ANZ, Bank of Queensland, BNP Paribas and HSBC. This facility includes a \$100M bank guarantee facility and a \$25M revolving credit facility, the latter remaining undrawn at balance date and fully available for use.

The maintenance of a strong balance sheet and scope for further increases to this bank guarantee limit remains a key strategic priority as the Group continues to compete for more projects where financial strength is a barrier to entry.

On 25 August 2015 the Directors resolved that, given current facts and circumstances, no final FY15 dividend would be declared. Payment of a dividend was not considered an appropriate capital management strategy for Watpac principally due to a lack of franking credits and an inability to frank such a dividend distribution to Shareholders.

Alternative uses of identified surplus capital were considered with the Board ultimately resolving to implement an on market share buy-back within the 10/12 limit. The buy-back will commence with effect from 9 September 2015, following a mandatory 14-day notice period.

An on-market share buy-back is considered the most efficient mechanism for Watpac to complete a capital management transaction at this time, and retains flexibility for the Board to consider other strategic capital management options in the future. This will include reinstatement of dividend payments in future periods.

# **Directors' Report**

### 10. Dividends

Dividends paid or declared by the Company since the end of the previous financial year were:

Туре	Cents per share	Total amount \$'000	% Franked	Date of payments
Declared and paid during the year				
- Interim 2015 ordinary	2.0	3,785	0.0%	27 March 2015
- Final 2014 ordinary	3.5	6,527	12.5%	19 September 2014
		10,312		

No dividends were declared or paid by the Company subsequent to 30 June 2015.

## 11. Significant changes in the Group's state of affairs

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

### 12. Events subsequent to reporting date

Other than the announcement of the on-market share buy-back which occurred subsequent to 30 June 2015 and is disclosed in section 9.7 of the Directors' Report, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect the operations or state of affairs of the Group in future financial years.

## 13. Directors' interests

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

# **Directors' Report**

# 13. Directors' interests (continued)

	Ordinary shares	Performance Rights
Non-executive Directors		
Mr R B McGruther	181,079	-
Mr J C M C Beerlandt	-	-
Mr B C Bowton	297,040	-
Mr G J Dixon	-	-
Mr C J Schreurs	-	-
Ms B K Morris	-	-
<b>Executive Director</b>		
Mr M G Monro	100,000	1,412,253 *

<sup>\*</sup> This balance excludes 450,000 2015 LTIP performance rights and FY15 STIP performance rights to the value of \$19,230 which are subject to regulatory approvals.

# 14. Performance rights and share options

### **Performance rights**

At the date of this report unissued ordinary shares of the Company in respect of the current STIP & LTIP are:

Туре	Expiry date	Exercise price	Number of shares
2012 LTIP	No later than 4 weeks after the public release of the audited financial report for the 30 June 2015 financial year	\$Nil	1,315,000
2013 LTIP	No later than 4 weeks after the public release of the audited financial report for the 30 June 2016 financial year	\$Nil	1,375,000
2014 LTIP	No later than 4 weeks after the public release of the audited financial report for the 30 June 2017 financial year	\$Nil	1,480,000
FY14 STIP	No later than 4 weeks after the public release of the reviewed financial report for the 31 December 2015 half year	\$Nil	402,132
2015 LTIP	No later than 4 weeks after the public release of the audited financial report for the 30 June 2018 financial year	\$Nil	1,190,000 *
FY15 STIP	No later than 4 weeks after the public release of the reviewed financial report for the 31 December 2016 half year	\$Nil	135,398 *

<sup>\*</sup> This balance excludes 450,000 2015 LTIP performance rights and FY15 STIP performance rights to the value of \$19,230 which are subject to regulatory approvals.

### **Directors' Report**

### 15. Environmental regulations

The Group's operations are subject to environmental regulation under both Commonwealth and State Government legislation. Building and property development approvals, including specific environmental aspects, are required for the Group's construction and development operations under the *Sustainable Planning Act 2009* and *Environmental Protection Act 1994*.

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

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

### 16. Indemnification and insurance of officers and auditors

### Indemnification

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

### Insurance premiums

During the financial year the Group has paid premiums in respect of Directors' and Officers' liability insurance contracts for the insurance year ended 30 June 2015. Such insurance contracts insure against certain liability (subject to specific exclusions) of persons who are or have been directors or executive officers of the Group. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

### 17. Non-audit services

During the year KPMG, the Company's auditor, did not perform any assurance services other than their statutory duties. Previously, KPMG performed other assurance services in relation to the Queensland Building and Construction Commission's (QBCC) annual licensing of contractors in Queensland. Following a change in QBCC regulations, no additional assurance services are required in relation to the Company's QBCC annual license renewal.

Details of the amounts paid to KPMG and its related practices for audit and non-audit services provided are set out in Note 8.

# **Directors' Report**

## 18. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 50 and forms part of the Directors' Report for the financial year ended 30 June 2015

### 19. 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 financial report and Directors' report have been rounded to the nearest thousand dollars, unless otherwise stated.

Dated at Brisbane this 25<sup>th</sup> day of August 2015.

Signed in accordance with a resolution of the Directors.

Marganes

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 audit for the financial year ended 30 June 2015 there have been:

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

KPMG

**KPMG** 

Simon Crane

Partner

Brisbane

25 August 2015

### **Directors' Declaration**

- In the opinion of the directors of Watpac Limited (the Company):
  - the consolidated financial statements and notes set out on pages 52 to 106 and the Remuneration Report in section
     of the Directors' report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- There are reasonable grounds to believe that the Company and the group entities identified in Note 31 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
- The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2015.
- The directors draw attention to Note 2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Brisbane this 25<sup>th</sup> day of August 2015.

Signed in accordance with a resolution of the Directors

R B McGruther - Chair

# Consolidated income statement for the year ended 30 June 2015

In thousands of AUD	Note	2015	2014
Revenue	6	1,218,476	1,203,028
Cost of sales		(1,137,086)	(1,117,641)
Gross profit		81,390	85,387
Other income		(11)	1,037
Net property asset income/ expenses		71	986
Property development holding costs expensed	15	(579)	(1,630)
Impairment expense	9	(9,080)	(736)
Operating business unit and corporate administration expenses		(54,232)	(54,358)
Results from operating activities		17,559	30,686
Finance income	10	4,481	4,588
Finance costs	10	(6,551)	(10,770)
Net finance costs		(2,070)	(6,182)
Profit before tax		15,489	24,504
Income tax expense	11(a)	(3,966)	(6,650)
Net profit after tax		11,523	17,854
Profit for the control of the back to be be a control to be because of the control of		44 522	17.054
Profit for the period attributable to equity holders of the parent		11,523	17,854
Earnings per share			_
Basic earnings per share	12	6.11¢	9.65¢
Diluted earnings per share	12	6.05¢	9.60¢

# Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2015

In thousands of AUD	Note	2015	2014
Profit for the period attributable to equity holders of the parent		11,523	17,854
Other comprehensive income:			
Items that will never be reclassified subsequently to profit or loss:			
Change in fair value of equity instrument	26(d)	(3,000)	-
Related tax	11(b)	900	<u>-</u>
Other comprehensive income for the period, net of tax		(2,100)	17,854
Total comprehensive income for the period		9,423	17,854

# Consolidated balance sheet as at 30 June 2015

In thousands of AUD	Note	2015	2014
ACCETC			
ASSETS			
Current assets  Cash and cash equivalents		112,365	120,119
Term deposits		70,356	70,079
Trade and other receivables	13	178,694	124,461
Inventories – stock on hand	15	15,977	15,635
Inventories – property development assets	15	11,145	27,491
Total current assets	15	388,537	357,785
Total current assets		300,337	337,763
Non-current assets			
Trade and other receivables	13	-	25,343
Inventories – property development assets	15	16,430	13,840
Property, plant and equipment	18	144,181	161,787
Intangibles	19	27,698	27,698
Deferred tax assets	17	12,852	15,918
Total non-current assets		201,161	244,586
Total assets		589,698	602,371
LIABILITIES			
Current liabilities			
Trade and other payables	20	273,794	248,849
Interest-bearing loans and borrowings	21	12,872	39,153
Employee benefits	22	14,288	14,149
Provisions	24	384	413
Total current liabilities		301,338	302,564
Non-acceptable to the second s			
Non-current liabilities	20	0.711	F 462
Trade and other payables Interest-bearing loans and borrowings		8,711	5,463
Employee benefits	21 22	18,865 4,153	35,648 4,085
Provisions	24	795	4,083
Total non-current liabilities	24	32,524	46,015
Total liabilities		333,862	348,579
Net assets		255,836	253,792
EQUITY			
Issued capital	25	239,570	237,001
Reserves	25	7,361	9,097
Retained earnings		8,905	7,694
Total equity		255,836	253,792
• •			·

# Consolidated statement of changes in equity for the year ended 30 June 2015

In thousands of AUD

2015 2014

	Note	Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total	Share capital	Equity benefits reserve	Fair value 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		-	-	-	11,523	11,523	-	-	-	17,854	17,854
Other comprehensive income Change in fair value of equity	20			(2.400)		(2.400)					
instrument	26	-	-	(2,100)	-	(2,100)	-	-		-	
Total other comprehensive income		-	-	(2,100)	-	(2,100)	-	-	-	-	-
Total comprehensive income for the period		-	-	(2,100)	11,523	9,423	-	-	-	17,854	17,854
Transactions with owners recorded dir in equity Contribution by and distribution to owners	ectly										
Dividends to equity holders	25	-	-	-	(10,312)	(10,312)	-	-	-	(4,608)	(4,608)
Share settled performance rights Shares issued under dividend		-	364	-	-	364	-	429	-	-	429
reinvestment plan		2,569	-	-	-	2,569	1,927	-	-	-	1,927
Total contributions by and distributions to owners		2,569	364	-	(10,312)	(7,379)	1,927	429	-	(4,608)	(2,252)
Total transactions with owners		2,569	364	-	(10,312)	(7,379)	1,927	429	-	(4,608)	(2,252)
Balance at 30 June		239,570	9,461	(2,100)	8,905	255,836	237,001	9,097	-	7,694	253,792

# Consolidated statement of cash flows for the year ended 30 June 2015

In thousands of AUD	Note	2015	2014
Cash flows from operating activities			
Cash receipts from customers		1,313,417	1,347,773
Cash paid to suppliers and employees		(1,244,146)	(1,234,169)
Cash generated from operations		69,271	113,604
Interest received		3,815	4,224
Interest paid		(6,483)	(8,982)
Income taxes refunded/ (paid)		(284)	7,005
Net cash provided by operating activities	33	66,319	115,851
Cash flows from investing activities			
Investment in term deposits		(277)	(21,532)
Acquisition of property, plant and equipment		(5,328)	(5,148)
Major maintenance on plant and equipment		(16,775)	(16,556)
Proceeds from sale of property, plant and equipment		40	2,100
Net cash used in investing activities		(22,340)	(41,136)
Cash flows from financing activities			
Repayment of interest-bearing liabilities		(43,989)	(40,841)
Dividends paid		(7,744)	(2,682)
Net cash used in financing activities		(51,733)	(43,523)
Net increase/(decrease) in cash and cash equivalents		(7,754)	31,192
Cash and cash equivalents at 1 July		120,119	88,927
Cash and cash equivalents at 30 June		112,365	120,119

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 1. Reporting entity

Watpac Limited (**Watpac** or **Company**) is a company domiciled in Australia. The address of the Company's registered office is Level 1, 12 Commercial Road, Newstead, QLD 4006. The consolidated financial statements of the Company as at and for the financial year ended 30 June 2015 comprise the Company and its subsidiaries (together referred to as the **Group**) and the Group's interest in joint arrangements. The Company is a for profit entity and is primarily involved in the Contracting, Mining & Civil Infrastructure and Property Development industry sectors.

### 2. Basis of accounting

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act* 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Board of Directors on 25 August 2015.

Details of the Group's accounting policies, including changes during the year, are included in Notes 37 and 38.

## 3. Functional and presentation currency

The consolidated financial statements are presented in Australian dollars (AUD) which is the functional currency of the Company. 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 statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

### 4. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that certain financial assets are measured at fair value. The methods used to determine fair values are disclosed in Note 26.

The accounting policies set out in the consolidated financial statements have been applied consistently by all entities in the Group.

### 5. Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 5. Use of judgements and estimates (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Judgements made by management in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements, and assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in future consolidated financial statements, are as follows:

- Assessment of projects on a percentage of completion basis, in particular with regard to accounting for contract variations
  and claims, the timing of profit recognition and the amount of profit recognised.
- Assessment of the amount of revenue that can be estimated reliably, in particular in relation to accounting for mining and civil contracts.
- Assessment of the net realisable value of property development projects.
- Assessment of the useful lives and residual values of property, plant and equipment, including idle assets.
- Measurement of the recoverable amounts of cash-generating units containing goodwill.
- Measurement of the fair value of equity instruments.

### 6. Operating segments

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

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. 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; and
- unallocated/corporate expenses.

Discrete financial information relating to each of the Group's operating segments is 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, as these are the sources of the Group's major risks. The Group has three reportable segments, being:

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 6. Operating segments (continued)

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

Information regarding the results of each reportable segment is included in the following table. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Group's Managing Director. Segment profit is used to measure performance as management believes such information is the most relevant in evaluating the result of the segments. Pricing associated with inter-segment transactions is determined on an arm's length basis.

# Notes to the consolidated financial statements for the year ended 30 June 2015

## 6. Operating segments (continued)

### Information about reportable segments

	Contra	ecting	Mining & Civil Property		erty	Unallocated Elimi			limination Total			
In thousands of AUD	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
External revenues	929,338	856,570	284,004	287,790	5,134	55,621	-	-	-	3,047	1,218,476	1,203,028
Inter-segment revenue	-	(2,591)	-	-	-	-	-	(456)	-	-	-	(3,047)
Other material non-cash items: - Property development holding												
costs expensed	-	-	-	-	(579)	(1,630)	-	-	-	-	(579)	(1,630)
- Impairment expense	-	-	-	-	(9,080)	(736)	-	-	-	-	(9,080	(736)
- Depreciation	(687)	(669)	(38,342)	(37,366)	-	(10)	(1,459)	(1,975)	-	-	(40,488)	(40,020)
Finance income	-	-	-	-	723	6	3,758	4,582	-	-	4,481	4,588
Finance expense	(1,272)	-	(5,026)	(8,554)	-	(1,658)	(253)	(558)	-	-	(6,551)	(10,770)
Reportable segment profit/(loss)	22.670	25 024	0.440	45 407	(0.544)	(4.670)	(40.454)	(45.400)	07	224	45 400	24 504
before income tax	33,679	25,831	9,418	15,197	(9,541)	(1,678)	(18,154)	(15,180)	87	334	15,489	24,504
Reportable segment assets	103,655	74,566	202,129	218,570	46,288	79,081	253,537	246,609	(15,911)	(16,455)	589,698	602,371
New acquisitions	123	1,223	5,711	8,124	-	-	419	536	-	-	6,253	9,883
Spend on major maintenance	-	-	16,775	16,556	-	-	-	-	-	-	16,775	16,556
Total capital expenditure	123	1,223	22,486	24,680	-	-	419	536	-	-	23,028	26,439

### **Geographical segments**

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

### Major customer

Contracting segment revenues include revenue from one major customer comprising \$129,170,000. In the prior year there was one major customer contributing revenue of \$233,000,000 to the Contracting segment.

# Notes to the consolidated financial statements for the year ended 30 June 2015

In thousands of AUD		Note	2015	2014
7. Personnel e	xpenses			
Wages and salaries			163,503	160,320
Other personnel expen	ses		15,464	14,405
Superannuation expens	se		13,309	12,175
Increase / (decrease) in	liability for annual leave		(445)	298
Increase in liability for I	_		650	933
Equity settled share ba	sed payment transactions		364	429
			192,845	188,560
In AUD			2015	2014
8. Auditors' re	muneration			
<b>Audit services</b> Auditors of the Compar	nv.			
	Australia			
	udit and review of financial reports		225,370	204,624
- (	Other regulatory services		-	5,376
o other services were p	rovided by the Auditors of the Company	in FY15 and FY14.	225,370	210,000
In thousands of AUD		in FY15 and FY14.	225,370 2015	
In thousands of AUD  9. Impairment	expense		2015	210,000
In thousands of AUD	expense	in FY15 and FY14.		
In thousands of AUD  9. Impairment	expense		2015	201
In thousands of AUD  9. Impairment Property development In thousands of AUD	expense		<b>2015</b> 9,080	<b>201</b> .
In thousands of AUD  9. Impairment Property development In thousands of AUD	expense inventory impairment acome and expense		<b>2015</b> 9,080	<b>201</b> .
In thousands of AUD  9. Impairment Property development  In thousands of AUD  10. Net finance in	expense inventory impairment acome and expense		<b>2015</b> 9,080	<b>201</b> 73
In thousands of AUD  9. Impairment Property development  In thousands of AUD  10. Net finance in Recognised in profit an	expense inventory impairment acome and expense		2015 9,080 2015	<b>201</b> 73
In thousands of AUD  9. Impairment  Property development  In thousands of AUD  10. Net finance in  Recognised in profit an  Interest income  Change in carry	expense inventory impairment acome and expense		2015 9,080 2015	<b>201</b> 73
In thousands of AUD  9. Impairment Property development  In thousands of AUD  10. Net finance in Recognised in profit an Interest income Change in carry Finance income	expense inventory impairment acome and expense		2015 9,080 2015 3,758 723	<b>201</b> 73 <b>201</b> 4,588
9. Impairment Property development  In thousands of AUD  10. Net finance in Recognised in profit an Interest income Change in carry Finance income Interest expens	expense inventory impairment  come and expense d loss ing value of receivables		2015 9,080 2015 3,758 723 4,481	<b>201</b> 73 <b>201</b> 4,588
In thousands of AUD  9. Impairment Property development  In thousands of AUD  10. Net finance in Recognised in profit an Interest income Change in carry Finance income Interest expens	expense inventory impairment  come and expense d loss ing value of receivables e on financial liabilities		2015 9,080 2015 3,758 723 4,481	201 73 2014 4,588 4,588 (9,113

# Notes to the consolidated financial statements for the year ended 30 June 2015

In thousands of AUD		2015	2014
11. Income tax exper	nse		
a) Recognised in the income st	atement		
Current tax (benefit)/expense			
Research & development claim		(783)	(791)
Adjustments for prior years		-	(33)
		(783)	(824)
Deferred tax (benefit)/expense	9		
Origination and reversal of tem	porary differences	4,749	7,474
		4,749	7,474
Total income tax (benefit)/expe	ense in income statement	3,966	6,650
Numerical reconciliation between	een tax expense and pre-tax net profit		
- 6.40			
Profit/(loss) before tax		15,489	24,504
Income tax at 30% (2014: 30%) Increase in income tax expense	due to:	4,647	7,351
Non-deductible expenses	due to.	102	123
Non-deductible expenses		4,749	7,474
Research & development claim		(783)	(791)
(Over)/under provided in prior		-	(33)
Income tax expense/(benefit) o		3,966	6,650
b) Amounts recognised in other	comprehensive income 2015		2014
	Тах		Тах
	Roforo		

	2015			2014		
	Dofoso	Tax			Tax	
	Before	(expense)/	Net of tax	Before tax	(expense)/	Net of tax
	tax	benefit			benefit	
Change in fair value of equity instrument	(3,000)	900	(2,100)	-	-	-

# Notes to the consolidated financial statements for the year ended 30 June 2015

## 12. Earnings per share

Basic earnings per share for the year ended 30 June 2015 was 6.11 cents per share (2014: 9.65 cents per share). Basic earnings per share is calculated as follows:

Basic earnings per share calculation	2015	2014
Profit for the year attributable to equity holders of the parent (in thousands of AUD)	11,523	17,854
Divided by weighted average number of ordinary shares at 30 June (in thousands of shares)	188,668	185,007
Basic earnings per share (cents)	6.11	9.65

The calculation of basic earnings per share at 30 June 2015 was based on the profit attributable to ordinary shareholders of \$11,523,000 (2014: \$17,854,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2015 of 188,668,453 (2014: 185,006,667).

In thousands of AUD		
Profit for the year	11,523	17,854
Net profit attributable to equity holders of the parent	11,523	17,854
Weighted average number of shares		
In thousands of Shares	2015	2014
Issued ordinary shares at 1 July	186,490	184,333

# Diluted earnings per share

Diluted earnings per share as at 30 June 2015 was 6.05 cents per share (2014: 9.60 cents per share). Diluted earnings per share is calculated as follows:

2015

2014

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 12. Earnings per share (continued)

Diluted earnings per share calculation	2015	2014
Profit for the year attributable to equity holders of the parent (in thousands of AUD)	11,523	17,854
Divided by weighted average number of ordinary shares (diluted) at 30 June (in thousands of shares)	190,585	185,916
Diluted earnings per share (cents)	6.05	9.60

The calculation of diluted earnings per share at 30 June 2015 was based on the same profit attributable to ordinary shareholders of \$11,523,000 (2014: \$17,854,000) as used in the calculation of basic earnings per share. The weighted average number of ordinary shares outstanding at 30 June 2015 has been adjusted for the effects of all dilutive potential ordinary shares.

### Weighted average number of shares (diluted)

In thousands of Shares	2015	2014
Weighted average number of ordinary shares (basic) Effect of performance rights on issue	188,668 1,917	185,007 909
Weighted average number of ordinary shares (diluted) at 30 June	190,585	185,916

The weighted average number of anti-dilutive shares at 30 June 2015 was 2,655,513 (2014: 3,666,677). Anti-dilutive shares at 30 June 2015 represent performance rights where performance hurdles had not been met and/or are not expected to vest. As a result, these performance rights have been excluded from the total weighted average number of diluted ordinary shares. The total number of anti-dilutive shares has decreased compared to 30 June 2014 mainly due to the expiry of options in October 2014 which were issued in 2006.

# Notes to the consolidated financial statements for the year ended 30 June 2015

In thousands of AUD

## 13. Trade and other receivables

13. Trade and other receivables	Note	2015	2014
Current			
Trade receivables		53,903	34,873
Other debtors and prepayments		35,514	39,611
		89,417	74,484
Construction work in progress – amounts due from customers	14	89,277	49,977
		178,694	124,461
Non-current			
Other receivables		-	25,343
		-	25,343

In thousands of AUD

# 14. Accounting for construction contracts

THE PRODUCTING FOR CONSTRUCTION CONTRACTOR	Note	2015	2014
Construction work in progress comprises:			
Contract costs incurred to date		4,772,876	3,689,539
Profit recognised to date		305,416	177,358
		5,078,292	3,866,897
Less: Progress billings		(4,989,015)	(3,816,920)
Net construction work in progress		89,277	49,977
Net construction work in progress comprises:			
Amounts due from customers	13	89,277	49,977
		89,277	49,977

# Notes to the consolidated financial statements for the year ended 30 June 2015

In thousands of AUD

### 15. Inventories

		2015	2014
Current			
Raw materials	and stores - at cost	15,977	15,635
Property deve	lopment projects:		
Land	and buildings held for sale		
-	Land at cost	6,147	24,166
-	Development costs	8,960	15,102
-	Interest, rates and taxes capitalised	1,469	6,442
Less:	Write-down to net realisable value	(5,431)	(18,219)
		11,145	27,491
Non-current			
Property deve	lopment projects:		
Land	and buildings held for sale		
-	Land at cost	28,882	17,757
-	Development costs	6,870	3,705
-	Interest, rates and taxes capitalised	7,261	3,668
Less:	Write-down to net realisable value	(26,583)	(11,290)
		16,430	13,840

Property development inventories recognised in cost of sales amounted to \$5,203,000 (2014: \$54,108,000).

The total write-down of property development inventories to net realisable value in FY15 amounted to \$9,659,000 (2014: \$2,366,000). This includes a property development impairment expense of \$9,080,000 (2014: \$736,000) and expensing of holding costs of \$579,000 (2014: \$1,630,000).

# 16. Current tax assets and liabilities

There were no current tax assets or liabilities for the Group as at 30 June 2015 (2014: Nil).

# Notes to the consolidated financial statements for the year ended 30 June 2015

## 17. Deferred tax assets and liabilities

## Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	2015	2014	2015	2014	2015	2014
Consolidated		-				
Property, plant and equipment	-	-	(176)	(322)	(176)	(322)
Employee benefits	5,691	5,591	-	-	5,691	5,591
Other provisions	750	171	-	-	750	171
Accrued expenses	1,754	4,268	-	-	1,754	4,268
Borrowing costs	431	392	-	-	431	392
Tax loss carry-forwards	141	494	-	-	141	494
R&D tax offset carried forward	3,751	5,619	-	-	3,751	5,619
Sundry items	-	51	(602)	-	(602)	51
Property development projects	212	-	-	(346)	212	(346)
Other investments	900	-	-	-	900	-
Net tax (assets)/liabilities	13,630	16,586	(778)	(668)	12,852	15,918

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 17. Deferred tax assets and liabilities (continued)

In thousands of AUD					Recognised in	
	Balance 1 July 2013	Recognised in profit or loss	Balance 30 June 2014	Recognised in profit or loss	other comprehensive income	Balance 30 June 2015
Consolidated						
Property, plant and equipment	(731)	409	(322)	146	-	(176)
Employee benefits	5,216	375	5,591	100	-	5,691
Other provisions	242	(71)	171	579	-	750
Accrued expenses	3,600	668	4,268	(2,514)	-	1,754
Borrowing costs	32	360	392	39	-	431
Tax loss carry-forwards	9,072	(8,578)	494	(353)	-	141
R&D tax offset carried forward	4,465	1,154	5,619	(1,868)	-	3,751
Sundry items	430	(379)	51	(653)	-	(602)
Property development projects	(85)	(261)	(346)	558	-	212
Other investments	-	-	-	-	900	900
	22,241	(6,323)	15,918	(3,966)	900	12,852

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 18. Property, plant and equipment

In thousands of AUD	Land and buildings	Plant and equipment	Total
Cost			
Balance at 1 July 2013	322	273,345	273,667
Acquisitions	-	26,439	26,439
Disposals	-	(5,905)	(5,905)
Balance at 30 June 2014	322	293,879	294,201
Balance at 1 July 2014	322	293,879	294,201
Acquisitions	-	23,028	23,028
Disposals	-	(2,841)	(2,841)
Balance at 30 June 2015	322	314,066	314,388
Depreciation			
Balance at 1 July 2013	-	96,052	96,052
Depreciation charge for the year	-	40,020	40,020
Disposals	-	(3,658)	(3,658)
Balance at 30 June 2014	-	132,414	132,414
Balance at 1 July 2014	-	132,414	132,414
Depreciation charge for the year	-	40,488	40,488
Disposals	-	(2,695)	(2,695)
Balance at 30 June 2015	-	170,207	170,207
Carrying amounts			
At 1 July 2013	322	177,293	177,615
At 30 June 2014	322	161,465	161,787
At 1 July 2014	322	161,465	161,787
At 30 June 2015	322	143,859	144,181

The plant and equipment balance as at 30 June 2015 includes assets with a carrying amount of \$64,434,000 under equipment finance (2014: \$107,930,000).

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 19. Intangibles

In thousands of AUD	Goodwill
Cost	
Balance at 1 July 2013	27,698
Balance at 30 June 2014	27,698
Balance at 1 July 2014	27,698
Balance at 30 June 2015	27,698
	_
Carrying amounts	
At 1 July 2013	27,698
At 30 June 2014	27,698
At 1 July 2014	27,698
At 30 June 2015	27,698
	,

### Impairment testing for cash generating units containing goodwill

In thousands of AUD	2015	2014
Construction	17,676	17,676
Mining and Civil	10,022	10,022
	27,698	27,698

The carrying amount of goodwill relates to the acquisitions of Grant Construction Pty Ltd, JAD Group Holdings Ltd and JMS Civil and Mining (Aust) Pty Ltd (together the **Acquisitions**). Goodwill arising from the acquisition of Grant Construction Pty Ltd and JAD Group Holdings Pty Ltd is allocated to the Construction Cash Generating Unit (**CGU**) and goodwill arising from the acquisition of JMS Civil & Mining (Aust) Pty Ltd is allocated to the Mining and Civil CGU. The Construction CGU and Mining and Civil CGU represent the lowest levels within the Group at which goodwill is monitored for internal management purposes.

The recoverable amount of all CGUs is based on their value in use. These calculations use cash flow projections based on applying key assumptions to actual operating results and management forecasts for a period of five years.

### **Construction CGU**

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

### **Key assumptions**

Discount rate (post-tax WACC)

Terminal value earnings multiple

Average forecast EBITDA growth rate (from FY15 actual)

9.61% 8 times EBITDA 1.8%

### Notes to the consolidated financial statements for the year ended 30 June 2015

### 19. Intangibles (continued)

The values assigned to the key assumptions are based on past performance and expectations of future economic conditions, calculated with reference to the specific requirements of the prevailing accounting rules and regulations. The discount rate of 9.61% (2014: 12.54%) is a post-tax measurement based on industry and CGU weighted average cost of capital, and assumes no debt leveraging. This discount rate is considered appropriate given the current economic and market conditions and implications these may have on the future cash flows used in calculating the net present value of the Construction CGU, as per the requirements of the accounting standards. The terminal value has been calculated by applying the earnings multiple to the projected year five cashflows.

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

### Mining & Civil CGU

The key assumptions in the estimate of Mining & Civil CGU recoverable amount at 30 June 2015 are set out below.

### **Key assumptions**

Discount rate (post-tax WACC)
EBITDA growth rate (FY15 to FY16)
Average forecast EBITDA growth rate (from FY16)
Terminal value growth rate (Gordon Growth)

7.58%
(28.0)%
3.1%
2.5%

The values assigned to the key assumptions for the Mining & Civil CGU net present value test, as calculated with reference to the requirements of the accounting standards, have been framed against the current market conditions impacting the resources sector. The discount rate of 7.58% (2014: 8.93%) is a post-tax measurement based on industry and CGU weighted average cost of capital, and assumes possible debt leveraging at 50%. This gearing assumption compares to independent market data indicating the mean debt to equity ratio of comparable participants in the sector is greater than 1.5 times.

The cash flow projections include specific estimates for five years and a terminal growth rate thereafter. Conservative EBITDA growth rates have been assumed in the context of the FY16 base year EBITDA being substantially lower than the actual FY15 EBITDA recorded in the Mining & Civil CGU of \$52,756,000. The terminal value growth rate was determined based on management's estimates of the long term annual EBITDA growth rate, together with consideration of market participant-based assumptions. The forecast EBITDA for the FY16 base year takes into account current work in hand levels and active project tenders, with reasonable contract conversion success rates having been applied to work to win and do assumptions when considering the resources currently available to the CGU.

Utilising the assumptions outlined above, the estimated recoverable amount of the Mining & Civil CGU exceeds its carrying value by approximately \$171,000,000 at 30 June 2015 (2014: approximately \$200,000,000). While a substantial variance, management has identified that a reasonably possible change in the key assumptions that certain market participants may apply may cause the carrying amount to exceed its recoverable amount. The following table shows the amount by which the key assumptions would need to individually change (holding all other assumptions constant) for the estimated recoverable amount to be equal to the carrying amount.

# Notes to the consolidated financial statements for the year ended 30 June 2015

#### 19. Intangibles (continued)

**Assumption changes** that would give rise Key assumptions Possible change from to carrying value used key assumptions \* exceeding recoverable amount 7.58% +5.90% 13.48%

Discount rate (post-tax WACC) EBITDA growth rate (FY15 to FY16) Average forecast EBITDA growth rate (from FY16) Terminal value growth rate (Gordon Growth)

#### 20. Trade and other payables

In thousands of AUD	2015	2014
Current		
Trade payables and accrued expenses Subcontractor payable Subcontractor accrual Retentions payable	20,409 48,037 186,505 18,843	25,111 39,239 164,681 19,818
Non-current	273,794	248,849
Retentions payable	8,711	5,463

#### 21. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk and liquidity risk, refer Note 26.

In thousands of AUD	2015	2014
Current		
Equipment finance liabilities	12,872	39,153
	12,872	39,153
Non-current		
Equipment finance liabilities	18,865	35,648
	18,865	35,648

<sup>(28.0)%</sup> (50.3)% (22.3)% 3.1% (10.4)% (7.3)% 2.5% (9.6)% (7.1)%

<sup>\*</sup> Individual change holding all other assumptions constant.

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 21. Interest-bearing loans and borrowings (continued)

At 30 June 2015, the Group's major equipment finance provider had security by way of specific charges over plant & equipment with a carrying value of \$48,297,000. At 30 June 2014, the Group's major equipment financier had security by way of specific charges over plant and equipment with a carrying value of \$79,332,000 and a residual interest in other group assets, secondary to the Group's core banking group.

#### **Equipment finance liabilities**

Equipment finance liabilities of the Group are payable as follows:

In thousands of AUD	Minimum lease payments	Interest 2015	Principal	Minimum lease payments	Interest 2014	Principal
Less than one year	14,538	1,666	12,872	43,121	3,968	39,153
Between one and five years	20,485	1,620	18,865	37,665	2,017	35,648
	35,023	3,286	31,737	80,786	5,985	74,801

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

# 22. Employee benefits

In thousands of AUD	2015	2014
Current		
Liability for long service leave	4,371	3,789
Liability for annual leave	9,917	10,360
	14,288	14,149
New sumset		
Non-current		
Liability for long service leave	4,153	4,085
Total employee benefits	18,441	18,234

# Superannuation plan

The Group makes contributions to employee nominated defined contribution superannuation funds. The amount recognised as an expense was \$13,309,000 for the financial year ended 30 June 2015 (2014: \$12,175,000).

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 23. Share based payments

## LTIP performance rights

The Group's Long Term Incentive Plan (LTIP) is structured in a manner whereby awards (described as performance rights) granted to Senior Executives are a right to acquire fully paid ordinary shares in the Company for nil consideration, subject to meeting certain pre-determined vesting conditions. Performance rights awards have been made annually by the Board to Senior Executives since 1 July 2012. Upon vesting, performance rights exercise for nil consideration.

	Granted during the year ended 30 June 2015	Granted during the year ended 30 June 2014	Granted during the year ended 30 June 2013
Grant name	2014 LTI Grant	2013 LTI Grant	2012 LTI Grant
Grant date Testing date for performance	8 August 2014	27 August 2013	2012
hurdles	30 June 2017	30 June 2016	30 June 2015
Vesting date	No later than four weeks after the public release of the audited financial report for the 30 June 2017 financial year	No later than four weeks after the public release of the audited financial report for the 30 June 2016 financial year	No later than four weeks after the public release of the audited financial report for the 30 June 2015 financial year
Outstanding as at 1 July 2014 Granted during the year ended 30 June 2015 Exercised during the year ended 30 June 2015 Expired during the year ended 30 June 2015	- 1,480,000 - -	1,375,000 - -	1,315,000 - -
Forfeited during the year ended 30 June 2015	-		<u>-</u>
Outstanding as at 30 June 2015	1,480,000	1,375,000	1,315,000
Exercisable as at 30 June 2015	-	-	<u>-</u>

# **LTIP Vesting conditions**

Employees must be employed by the Group on the vesting date. LTIP performance rights vest approximately three years following the date of grant, subject to the Group achieving two discrete performance measures:

- Earnings Per Share (EPS) targets, which represent 60% of the total grant; and
- Relative Total Shareholder Return (TSR) targets, which represent 40% of the total grant.

### EPS

The proportion of the performance rights that vest subject to meeting EPS targets will be determined based on Watpac's actual aggregate EPS over the three year vesting period, compared to aggregate EPS that would need to be achieved to deliver compound annual growth rate (CAGR) targets, as set out below:

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 23. Share based payments (continued)

	Proportion of EPS grant vesting	Proportion of EPS grant vesting	
Actual cumulative EPS relative to CAGR targets	Grants: 21 August 2012 27 August 2013	Grant: 8 August 2014	
< X	0%	0%	
V but vV	Straight line vesting between	Straight line vesting between	
> X, but < Y	0% and 100%	50% and 100%	
> Y	100%	100%	

#### Where:

- X = 20% for the 2012 LTI Grant, 61% for the 2013 LTI Grant and 15% for the 2014 LTI Grant; and
- Y = 30% for the 2012 LTI Grant, 73% for the 2013 LTI Grant and 33% for the 2014 LTI Grant.

#### TSR

The proportion of the performance rights that vest subject to meeting TSR targets will be determined based on Watpac's TSR relative to a comparator group, as set out in the following table:

### TSR of Watpac relative to TSR of

comparator group of companies	Proportion of TSR vesting
Less than 50 <sup>th</sup> percentile	0%
50 <sup>th</sup> – 75 <sup>th</sup> percentile	Straight line vesting between 50% and 100%
Greater than 75 <sup>th</sup> percentile	100%

Watpac's TSR performance will be assessed over three years commencing at the start of the financial year in which the grant of performance rights is made.

# LTIP performance rights - measurement of fair values

The fair value of services received in return for LTIP performance rights granted was measured based on a Monte-Carlo simulation model with the following inputs:

	2014 LTI Grant	2013 LTI Grant	2012 LTI Grant
Granted	August 2014	August 2013	August 2012
Grant fair value for EPS performance hurdle	\$0.68	\$0.51	\$0.64
Grant fair value for TSR performance hurdle	\$0.51	\$0.33	\$0.51
Exercise price	\$0.00	\$0.00	\$0.00
Share price at date of grant	\$0.85	\$0.63	\$0.73
Expected volatility	44.00%	43.00%	38.00%
Expected life	3 years	3 years	3 years
Risk-free interest rate	2.53%	2.77%	2.59%
Dividend yield	7.00%	7.00%	4.60%

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 23. Share based payments (continued)

The volatility assumption is based on the actual volatility of the Group's daily closing share price over the three year period to grant date.

In accordance with a three year vesting period, share based payments expensed represents one third of the value attributable to the performance rights outstanding as at balance date, adjusted for the portion of rights subject to EPS performance conditions granted in FY12 that are anticipated to fail to vest as a result of not achieving the relevant EPS performance measures.

# STIP performance rights

Performance rights are granted under the Group's Short-Term Incentive Plan (STIP) to facilitate the claw back mechanism that operates under the plan. The STIP requires that 25% of the total award be deferred as performance rights that are subject to an 18 month time based vesting period. The 18 month vesting period was deemed appropriate given it allows for a full financial year and further half years' financial results to be determined prior to participants in the STIP benefitting from 25% of their total STI entitlement.

In FY15, performance rights awards were made to STIP participants in relation to their STI outcomes for FY14. Upon vesting, and subject to the claw back mechanisms at the end of the time based vesting period of the plan, performance rights exercise for nil consideration.

# Granted during the year ended 30 June 2015

	2015
Grant date	2 October 2014
Vesting date	No later than four weeks after the public release of the reviewed financial report for the 31 December 2015 half year
Outstanding as at 1 July 2014	-
Granted during the year ended 30 June 2015 Exercised during the year ended 30 June 2015	402,132
Expired during the year ended 30 June 2015 Forfeited during the year ended 30 June 2015	-
Outstanding as at 30 June 2015	402,132
Exercisable as at 30 June 2015	

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 23. Share based payments (continued)

### **STIP** vesting conditions

The vesting conditions for the performance rights issued under the STIP in the financial year ended 30 June 2015 are:

- The participant being employed by the Company on the vesting determination date; and
- The Watpac Board being satisfied that there is no reason that the performance rights should not vest, having regard to any matters that the Board considers relevant.

### STIP performance rights - measurement of fair values

The STIP does not include a market based performance hurdle, therefore the equity settled component of the award has been valued using a discounted cash flow methodology using the following inputs:

	Granted
	October 2014
Fair value of equity settled STIP	\$0.81
Share price at date of grant	\$0.89
5-day VWAP at date of grant	\$0.91

#### **Option plans**

The 2006 Employee Share Option Plan scheme was approved by the shareholders at the 2006 Annual General Meeting, under which 6,435,000 options over ordinary shares were issued to the senior management and employees for no consideration.

The remaining options pursuant to this scheme expired during the financial year ended 30 June 2015.

The terms and conditions of the options that expired during the period are summarised as follows:

	Initial		Exercise	
	number of	Exercise date	Price	Expiry
Grant date	instruments	on or after	\$	date
25 October 2006	2,337,500	25 October 2009	2.45	25 October 2014
19 December 2006	880,000	25 October 2009	2.45	25 October 2014
Total share options	3,217,500			

All options expired on the earlier of the expiry date, being five years from exercise date, or the termination of the holder's employment. Other than the service period, there were no other vesting conditions.

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 23. Share based payments (continued)

There were no voting or dividend rights attached to the options.

The number and weighted average exercise prices of 2006 Scheme share options are as follows:

	2015		2014	4
	Weighted average Number of exercise price options '000		Weighted average exercise price \$	Number of options '000
Outstanding at the beginning of the year	2.45	1,462	2.45	1,775
Exercised during the year	-	-	-	-
Expired during the year	2.45	(1,437)	-	-
Forfeited during the year	2.45	(25)	2.45	(313)
Outstanding at the end of the year	N/A		2.45	1,462
Exercisable at the end of the year	N/A	-	2.45	1,462

No options issued pursuant to the 2006 Scheme were exercised during the year ended 30 June 2015 (2014: Nil). Rather, all remaining options issued pursuant to the 2006 Scheme expired during the year.

# 24. Provisions

In thousands of AUD	Make good corporate offices	Retirement of directors (i)	Restructuring (ii)	Total
Balance at 1 July 2013	413	364	3,181	3,958
Provisions accrued during the period	156	8	-	164
Provisions utilised during the period		(122)	(2,768)	(2,890)
Balance at 30 June 2014	569	250	413	1,232
Balance at 1 July 2015	569	250	413	1,232
Provisions accrued during the period	141	3	-	144
Provisions utilised during the period	-	(84)	(113)	(197)
Balance at 30 June 2015	710	169	300	1,179
Current	-	84	300	384
Non-current	710	85	-	795
	710	169	300	1,179

### (i) Directors' retirement scheme

The Board's retirement scheme applies to Non-executive Directors who had completed a minimum of five years of service as a Director prior to 30 June 2003. The scheme provides for one-off payments to retiring Non-executive Directors of \$60,000 (adjusted annually by CPI) and \$90,000 for the Chair's (adjusted annually by CPI), from 1 July 2003.

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 24. Provisions (continued)

The accrued retirement benefit of Mr D M Little was paid in FY15 following his retirement as a Non-executive Director of the Company in December 2014. The accrued retirement benefit of Mr R J Lette is presented as a current liability at 30 June 2015, following his retirement as a Non-executive Director of the Company in July 2015.

# (ii) Restructuring

A restructuring provision of \$3,181,000 was recorded following the decision in FY13 to close the Group's civil operations on the east coast of Australia. The balance of the restructuring provision at 30 June 2015 is \$300,000 which mainly reflects onerous lease costs for regional office leases.

#### 25. Capital and reserves

### **Share Capital**

In thousands of shares	2015	2014
On issue at 1 July	186,490	184,333
Issued under Dividend Reinvestment Plan	2,768	2,157
On issue at 30 June - fully paid	189,258	186,490

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

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

# Reserves

# Equity benefits reserve

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

### Fair value reserve

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

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 25. Capital and reserves (continued)

#### **Dividends**

The following dividends were declared or paid by the Company for the year:

		Total		
	Cents	amount	Franked/	
	per share	\$'000	unfranked	Date of payment
2015				
Interim 2015 ordinary	2.0¢	3,785	Unfranked	27/03/2015
Final 2014 ordinary	3.5¢	6,527	Partially franked	19/09/2014
			_	
Total Amount		10,312		
			_	
2014				
Interim 2014 ordinary	2.5¢	4,608	Franked	21/03/2014
Final 2013 ordinary	-	-	-	-
Total Amount		4,608	_	
	•		_	
In thousands of AUD			2015	2014
Dividend franking account				
30% franking credits available to shareholders of				
Watpac Limited for subsequent financial years			41	391
Tracpas Ellinesa for Subsequent inianistal years			71	331

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- (a) the payment/receipt of the current tax liability/receivable; and
- (b) franking credits that the entity may be prevented from distributing in subsequent years.

# 26. Financial instruments

# Financial risk management

### Overview

The Group has exposure to the following risks from use of financial instruments:

Credit risk

Liquidity risk

Market risk

# Notes to the consolidated financial statements for the year ended 30 June 2015

#### 26. Financial instruments (continued)

This note presents information about the Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

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

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

The Audit and Risk Committee also oversees how management monitors compliance with risk management policies and procedures. The Managing Director, Company Secretary, Group Risk Manager and Group Commercial Manager assist the committee with this oversight responsibility. The Group Risk Manager administers the Enterprise Risk Management Framework and internal audit program and ensures compliance with the Schedule of Delegated Authority. The Group Commercial Manager undertakes regular and ad hoc reviews of risk management controls and procedures in accordance with the protocols set out in the Commercial Benchmarks and other Group commercial policy documents. The Group's Commercial Benchmarks set guidelines for acceptable contractual risks and delegated approval limits for departures against these rules.

# (a) Credit risk

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### Cash and cash equivalents and term deposits

The Group held cash and cash equivalents and term deposits totalling \$182,721,000 at 30 June 2015 (2014: \$190,198,000). This represents the maximum credit exposure on these assets. Cash and cash equivalents and term deposits are currently held with bank and financial institution counterparties who are rated A+ to AA- based on Standard & Poor's long-term ratings. The significant majority of the Group's cash and cash equivalents and term deposits are held with a counterparty that is rated as AA- by Standard & Poor's.

#### Trade and other receivables

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

# Notes to the consolidated financial statements for the year ended 30 June 2015

#### 26. Financial instruments (continued)

#### (a) Credit risk (continued)

Any departures from the guidelines as stated in the Commercial Benchmarks must be authorised by General Managers and, if material, approved by the Managing Director and Chief Financial Officer, or failing agreement is referred to the Board. On most occasions, projects are funded by third party financing and it is not until this is in place and evidence provided that the Group will accept the transaction credit risk. Credit risk is seen as a major risk to the Group and as such, significant time is spent on determining counterparties' ability to pay in accordance with their contractual obligations.

The Group's maximum exposure to credit risk arising from financial assets, comprising cash and cash equivalents, term deposits and receivables, excluding the value of any collateral or other security at balance date, is its carrying amount, net of any provisions for impairment, as disclosed in the balance sheet and notes to the financial statements.

#### **Financial guarantees**

The Group's policy is to provide financial guarantees to wholly-owned subsidiaries that are listed in Note 32 as and when required to support the core operations of Construction and Mining and Civil. The Group also provides performance guarantees as part of its activities, details of which are provided in Note 29.

#### Exposure to credit risk

As noted above, the carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

In thousands of AUD	Note	2015	2014
Cash and cash equivalents		112,365	120,119
Term deposits		70,356	70,079
Trade and other receivables – current	13	89,417	74,484
Trade and other receivables – non-current	13	-	25,343
Construction work in progress	13	89,277	49,977
		361,415	340,002

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 26. Financial instruments (continued)

#### (a) Credit risk (continued)

#### Impairment losses

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

In thousands of AUD	Gross 2015	Impairment 2015	Gross 2014	Impairment 2014
Not past due (current & non-current)	64,323	-	95,431	-
Past due 0-30 days	18,813	-	3,656	-
Past due 31-120 days	5,077	-	677	-
Past due 121 days to one year	1,204	-	28	-
More than one year	-	-	79	(44)
	89,417	-	99,871	(44)

In thousands of AUD	Impairment	Impairment
	2015	2014
Balance at 1 July	44	44
Amounts written off	(44)	
Balance at 30 June	-	44

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

The Group has a substantial amount owing from BC Iron at 30 June 2015 relating to work completed at the Nullagine mine from April to June 2015. No allowance for impairment of these amounts has been made due to there being no assessed credit risk associated with collection.

Watpac has a strong receivables collection history across all its operations and consequently the expected credit losses relating to these short-term debtors is considered immaterial. Therefore, and notwithstanding overdue debtors were higher than historical levels at 30 June 2015, no allowance for impairment has been recognised for these assets in the consolidated financial statements for the year ended 30 June 2015. The only movement during the year in the allowance for impairment related to the write-off of sundry trade and other receivables totalling \$44,000 originally recognised several years ago.

### (b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed operating conditions. Short term and rolling twelve month cash flows are regularly prepared

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 26. Financial instruments (continued)

# (b) Liquidity risk (continued)

and reviewed to ensure liquidity targets are forecast to be met at all times. Contracting and Mining & Civil cash flows are monitored in line with the terms of the individual contracts.

The following tables detail the Group's contractual maturities for its financial liabilities. The tables include cash flows attributable to both interest and principal debt repayment obligations.

<b>2015</b> In thousands of AUD	Effective interest rate	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years
Interest-bearing liabilities	6.68%	31,737	35,022	14,538	8,591	11,893
Trade payables	-	20,409	20,409	20,409	-	-
Subcontractor payable	-	48,037	48,037	48,037	-	-
Subcontractor accrual	-	186,505	186,505	186,505	-	-
Retentions payable	-	27,554	27,554	18,843	8,711	-
		314,242	317,527	288,332	17,302	11,893
	-	•			-	

<b>2014</b> <i>In thousands of AUD</i>	Effective interest rate	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years
Interest-bearing liabilities	7.09%	74,801	80,786	43,121	25,726	11,939
Trade payables	-	25,111	25,111	25,111	-	-
Subcontractor payable	-	39,239	39,239	39,239	-	-
Subcontractor accrual	-	164,681	164,681	164,681	-	-
Retentions payable		25,281	25,281	19,818	5,463	-
		329,113	335,098	291,970	31,189	11,939

The Group is currently in a net cash position and maintains a conservative approach to liquidity management. In addition to its substantial cash reserves, the Group also has access to a \$25M revolving credit line which is currently undrawn but fully available for use.

#### (c) Market risk

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

# Notes to the consolidated financial statements for the year ended 30 June 2015

- 26. Financial instruments (continued)
- (c) Market risk (continued)

#### Interest rate risk

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

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

The current low interest rate environment and differential between rate yield on cash holdings versus the return on equity capital to Watpac has been a major factor when assessing capital management initiatives over the past twelve months. This is particularly relevant given the Group's low levels of gearing and forecast increase in cash over the near term from operating earnings, sale of property assets and realisation of working capital.

At balance date, the Group had the following fixed and variable rate financial assets and liabilities:

In thousands of AUD		2015	2014
Fixed rate instruments			
Financial assets	(i)	70,356	70,079
Financial liabilities		(31,737)	(74,801)
		38,619	(4,722)
Variable rate instruments			
Financial assets		112,365	120,119
Financial liabilities		-	-
	·	112,365	120,119

(i) Fixed rate financial assets represent cash in nominated investment accounts and term deposits which have varying maturity dates (not exceeding 6 months).

# Sensitivity analysis for variable rate instruments

If interest rates had been 50 basis points lower or higher at reporting date and all other variables were held constant, the Group's profit from net variable rate instruments would decrease/increase by \$562,000 (2014: \$601,000).

#### Foreign currency risk

Foreign currency risk has been present in recent years and arose as a result of the Group sourcing certain equipment for use in its mining operations from overseas locations. This has previously resulted in the Group having exposure to foreign currency denominated input costs.

In recent months the level of overseas procurement forecast to become part of the Group's Contracting business has increased substantially. While not currently representing a material risk to the Group, if converted, certain new projects will include foreign currency risk, mainly USD and CNY. The Group plans to treat this risk through various hedging strategies

# Notes to the consolidated financial statements for the year ended 30 June 2015

#### 26. Financial instruments (continued)

#### (c) Market risk (continued)

including the maintenance of a level of USD at all times and Group level USD/CNY hedging instruments that accord with the Group's risk management policies.

The Group hedges its foreign currency exposures where it is deemed appropriate and there is an underlying hedged item. All foreign currency hedge transactions are undertaken in accordance with the Group's derivative trading policy.

#### (d) Fair values

#### Fair values versus carrying amounts

At 30 June 2015 and 30 June 2014, the net fair value of the Group's financial instruments approximates carrying values. The following methods and assumptions are used to determine the net fair value of each class of financial instrument.

#### Cash

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

#### Trade and other receivables

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

#### Trade and other payables

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

### Interest bearing loans and borrowings

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

#### **Equity Instruments**

During the period the Group acquired an equity investment in an ASX listed entity. The investment was initially recognised at the subscription price of \$3 million. Investments of this nature are not part of the Group's core operations and as such an irrevocable election was made at initial recognition to designate the investment as a financial asset measured at fair value through other comprehensive income.

Following its continual suspension from trading on ASX in the period since late October 2014, and in the absence of observable market data, the investment has been remeasured to \$nil at 30 June 2015, giving rise to a conservative fair value adjustment, of \$3 million, being recognised in other comprehensive income.

The equity investment was considered a Level 3 financial asset in the fair value hierarchy on the basis that the equity instrument was suspended from trading on ASX and no observable market data was available.

# Notes to the consolidated financial statements for the year ended 30 June 2015

#### 26. Financial instruments (continued)

#### (d) Fair values (continued)

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

In thousands of AUD	2015
Balance at 1 July 2014	-
Equity instruments acquired	3,000
Fair value adjustment included in other comprehensive	
income	(3,000)
Balance at 30 June 2015	-

The Group had no other investments in equity instruments during the period.

# (e) Capital management

Management and the Board manage capital in a manner that attempts to facilitate optimum returns to shareholders, while ensuring Group entities continue to maintain conservative capital models and surplus liquidity. A capital management plan that assists in deriving the lowest cost of capital available, after taking into account market conditions, liquidity, aggregate project risks and future growth strategies adopted by the Group. Watpac's capital structure is regularly reviewed, and where the need arises, appropriate adjustments made to the capital management plan.

# 27. Operating leases

#### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2015	2014
Less than one year	5,502	4,914
Between one and five years	12,736	12,949
More than five years	-	2,661
	18,238	20,524

The Group leases office buildings under operating leases. The leases have varying termination dates up until 2020 (excluding renewal options). The Group also leases minor levels of mining and civil equipment, motor vehicles and computer software under operating lease which typically run from one to five years.

During the financial year ended 30 June 2015, \$5,476,000 was recognised as an expense in the income statement in respect of operating leases (2014: \$7,983,000), which mainly relates to office building leases.

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 28. Capital and other commitments

In thousands of AUD	2015	2014
Plant and equipment - contracted but not provided for and payable		
- Within one year	143	104

### 29. Contingencies

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

In thousands of AUD	2015	2014
Secured contingent liabilities at year end are:		
Bank guarantees	80,111	69,540
Unsecured contingent liabilities at year end are:		
Insurance bonds	71,729	130,101

Controlled entities have entered into joint arrangements under which they then may be jointly and severally liable for liabilities for the joint operations.

Several claims have been brought against controlled entities in relation to past contracts. The controlled entities are defending the claims and Directors are of the opinion that adequate provisions have been recognised as at 30 June 2015 relating to potential future outflows associated with those claims.

# 30. Interests in joint operations

The Group has interests in two unincorporated joint arrangements which are classified as joint operations, being a:

- 50 per cent interest (2014: 50 per cent) in the Ocean Blue JV, a property development project situated at Hervey Bay, Queensland; and
- 50 per cent interest (2014: 50 per cent) in the Boyds Bay Marina JV, a property development project situated at Tweed Heads, Northern New South Wales.

The decision making processes outlined in each contractual arrangement implicitly leads to the existence of joint control.

For the year ended 30 June 2015, the total contribution of the joint operations to the operating profit before tax of the Group was a loss of \$221,000 (2014: loss \$718,000). This includes an impairment of property development inventory of \$160,000 (2014: \$568,000). The Group's share of revenue during the year was \$1,470,000 (2014: \$385,000).

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 30. Interests in joint operations (continued)

Included in the assets and liabilities of the Group are the following assets and liabilities attributable to the joint operations:

In thousands of AUD	2015	2014
Current assets		
Cash and cash equivalents	169	66
Trade and other receivables	1,325	-
Inventories	-	1,612
Total current assets	1,494	1,678
Non-current assets		
Inventories		-
Total non-current assets	-	-
Total assets	1,494	1,678
Current liabilities		
Trade and other payables	76	38
Total current liabilities	76	38
Non-current liabilities		
Trade and other payables	-	-
Total non-current liabilities	-	-
Total liabilities	76	38

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 31. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, relief was granted to the wholly-owned controlled entities listed below from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports. It is a condition of the Class Order that the Company and each of the controlled entities enter into a Deed of Cross Guarantee.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debts in the event of winding up of any of the controlled entities under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event the Company is wound up.

The controlled entities subject to the Deed are:

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

A consolidated summarised income and retained profits statement and balance sheet, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2015 and 30 June 2014 is set out as follows:

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 31. Deed of cross guarantee (continued)

In thousands of AUD	2015	2014
Summarised statement of income and retained profits		
Net Profit/(Loss) before tax	31,337	23,941
Income tax benefit/(expense)	(8,022)	(6,226)
Net Profit/(Loss) after tax	23,315	17,715
Retained earnings at beginning of year	(20,212)	(33,319)
Dividends recognised during the year	(10,312)	(4,608)
Retained earnings at end of year	(7,209)	(20,212)
Retained earnings at end of year	(7,209)	(20,212)
In thousands of AUD	2015	2014
Balance Sheet		
Cash and cash equivalents	112,365	120,085
Term Deposits	70,356	70,079
Trade and other receivables	167,840	112,891
Inventories – stock on hand	15,977	15,635
Inventories – property development assets	3,120	7,096
Total current assets	369,658	325,786
Inventories – property development assets	11,143	13,840
Property, plant and equipment	144,181	161,787
Intangibles	27,698	27,698
Other investments	18,799	37,604
Deferred tax assets	9,132	14,930
Total non-current assets	210,953	255,859
Total assets	580,611	581,645
Trade and other payables	273,529	248,739
Interest-bearing loans and borrowings	12,872	39,153
Employee benefits	14,288	14,149
Provisions	384	413
Total current liabilities	301,073	302,454
Trade and other payables	8,711	5,463
Interest-bearing loans and borrowings	18,865	35,648
Employee benefits	4,153	4,085
Provisions	795	819
Total non-current liabilities	32,524	46,015
Total liabilities	333,597	348,469
Net assets	247,014	233,176
Issued capital	247,023	244,454
Reserves	7,200	8,934
Retained earnings	(7,209)	(20,212)
Total equity	247,014	233,176

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 32. Consolidated entities

	Country of incorporation	Ownershi 2015	p interest 2014
Parent entity			
Watpac Limited			
Subsidiaries			
Ahden Engineering (Aust) Pty Ltd	Australia	100%	100%
Watpac Specialty Services Pty Ltd	Australia	100%	100%
Watdev Anchorage Residential Pty Ltd	Australia	100%	100%
Watdev Waterloo Pty Ltd	Australia	100%	100%
Watdev4 Pty Ltd	Australia	100%	100%
Watdev5 Pty Ltd	Australia	100%	100%
Watdev BRC Pty Ltd	Australia	100%	100%
Watdev Boyds Bay Pty Ltd	Australia	100%	100%
Watpac Finance Pty Ltd	Australia	100%	100%
Watdev10 Pty Ltd	Australia	100%	100%
Watpac Construction (SA) Pty Ltd	Australia	100%	100%
Watpac Corporate Services Pty Ltd	Australia	100%	100%
Watpac Asia Pty Ltd	Australia	100%	100%
Watpac Construction Pty Ltd	Australia	100%	100%
Watpac Developments Pty Ltd	Australia	100%	100%
Watpac Construction (NSW) Pty Ltd	Australia	100%	100%
Watpac Construction (Vic) Pty Ltd	Australia	100%	100%
Watpac Civil and Mining (Vic) Pty Ltd	Australia	100%	100%
JMS Civil and Mining Pty Ltd	Australia	100%	100%
Watpac Mining Pty Ltd	Australia	100%	100%
Watpac Civil & Mining Pty Ltd	Australia	100%	100%
JJ McDonald & Sons Sub-Holdings Pty Ltd	Australia	100%	100%
JMS Plant Pty Ltd	Australia	100%	100%
Watpac Construction (ACT) Pty Ltd	Australia	100%	100%

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

- Bulimba Transactions Pty Ltd
- Riverdev Pty Ltd
- Watdev Asia Pty Ltd
- Watdev Hughes Road Residential Pty Ltd
- Watdev Newstead Pty Ltd
- Watdev Outlook at Peninsula Residential Pty Ltd
- Watdev St. Pauls Pty Ltd
- Watdev9 Pty Ltd
- Fisherman's Wharf Marina Hervey Bay Pty Ltd
- Watdev2 Pty Ltd

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 33. Notes to the statement of cash flows

# (a) Reconciliation of cash flows from operating activities

In thousands of AUD	Note	2015	2014
Cash flows from operating activities			
Total profit for the year		9,423	17,854
Adjustments for:			
Loss on sale of property, plant & equipment		107	146
Share based payments	23	364	429
Depreciation	18	40,488	40,020
Impairment	9	9,080	736
Changes in assets and liabilities:			
(Increase)/decrease in trade and other receivables		(28,890)	8,463
(Increase)/decrease in inventories		4,334	53,100
Increase/(decrease) in payables		28,193	(17,249)
(Increase)/decrease in income tax receivable		-	7,331
(Increase)/decrease in tax assets		3,066	6,323
Increase/(decrease) in provisions and employees benefits		154	(1,302)
Net cash from/(used in) in operating activities		66,319	115,851

The \$28,890,000 increase in trade and other receivables in FY15 is substantially offset by a \$28,193,000 increase in payables over the period. This is mainly due to enhanced work volumes and thus claim sizes at 30 June 2015 compared to 30 June 2014.

# (b) Non-cash financing and investing activities

During the financial year, the Group acquired plant and equipment of \$925,000 (2014: \$4,735,000) by means of finance lease. Secured loans of \$23,052,000 were refinanced under the Group's equipment finance facilities during the reporting period (2014: nil).

# Notes to the consolidated financial statements for the year ended 30 June 2015

#### 34. **Related parties**

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

#### **Non-executive Directors**

Mr R B McGruther (Chair)

Mr J C M C Beerlandt

Mr B C Bowton

Mr G J Dixon

Ms B K Morris (appointed 3 February 2015)

Mr C J Schreurs (appointed 10 October 2014

Mr C R Freeman (resigned 29 September 2014)

Mr R J Lette (retired 31 July 2015)

Mr D M Little (retired 31 December 2014)

Mr K A Mooney (retired 25 November 2014)

### **Executive Directors**

Mr M G Monro Managing Director (appointed 10 October 2014)

# **Executives**

Mr M A Baker Chief Financial Officer/Company Secretary

Mr N A Saclley General Manager - Construction (from 16 March 2015)

Mr R J Hall General Manager - Mining & Civil

Mr E D Edwards General Manager - Construction (until 23 December 2014)

### Transactions with key management personnel

### Key management personnel compensation

The key management personnel compensation included in personnel expenses (Note 7) is as follows:

In AUD	2015 2014	
Short-term employee benefits	3,759,934	3,558,277
Post-employment benefits	166,797	114,697
Termination/retirement benefits	66,348	316,053
Share based payments	182,288	249,411
	4,175,367	4,238,438

# Notes to the consolidated financial statements for the year ended 30 June 2015

### 34. Related parties (continued)

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

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

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

During the reporting period, the Group also used the consulting services of CACE Partners International Pty Ltd (CACE Partners), an entity over which Mr Bowton has significant influence. Total fees paid to CACE Partners in relation to the consulting engagement totalled \$391,647 in the reporting period (2014: nil). There was no balance outstanding to CACE Partners in respect of the consulting engagement, which Mr Bowton did not participate in, at 30 June 2015 (30 June 2014: nil).

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 35. Parent entity

As at, and throughout, the financial year ending 30 June 2015 the parent company of the Group was Watpac Limited.

In thousands of AUD	2015	2014
Result of the parent entity		
Net profit for the period	1,967	13,682
Other comprehensive income	-	-
Total comprehensive income for the period	1,967	13,682
Financial position of the parent entity at year end		
Current assets	10,478	7,576
Total assets	92,114	98,061
Current liabilities	248	254
Total liabilities	333	504
Total equity of the parent entity comprising of:		
Chara and tal	220 570	227.004
Share capital	239,570	237,001
Reserves	3,861	3,861
Retained earnings	(151,650)	(143,305)
Total equity	01 701	07 557
Total equity	91,781	97,557

### Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in Note 31.

# 36. Subsequent events

Other than the announcement of the on market share buy-back which occurred subsequent to 30 June 2015 and is disclosed in section 9.7 of the Directors' Report, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect the operations or state of affairs of the Group in future financial years.

# 37. Changes in accounting policies

Except for the changes noted below, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied in its consolidated financial report as at and for the year ended 30 June 2014.

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 37. Changes in accounting policies (continued)

#### AASB 9 Financial Instruments

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 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 resulted in a decreasing fair value adjustment of \$3 million attributable to the Group's only equity instrument being presented in other comprehensive income rather than the Income Statement (refer Note 26(d)).

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.

### 38. Significant accounting policies

#### (a) Basis of consolidation

# (i) Business Combinations

All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

# Measuring goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination.

### Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 38. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

# (ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases.

#### (iii) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

In respect of its interests in joint operations, the Company recognises its share of jointly held assets, liabilities, revenues and expenses.

# (iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains or losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

# (b) Foreign currency translation

# (i) Functional and presentation currency

Both the functional and presentation currency of the parent and its controlled entities is Australian dollars.

#### (ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the Group's functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date. Foreign currency differences arising on retranslation are recognised in the Income Statement.

### (c) Property, plant and equipment

Items of property, plant and equipment are stated at cost including expenditure that is directly attributable to the acquisition of the asset less accumulated depreciation (see below) and impairment losses. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

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

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 38. Significant accounting policies (continued)

### (c) Property, plant and equipment (continued)

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

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

- Buildings and Improvements 40 years

- Plant and equipment 2 – 10 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Land is not depreciated.

#### (d) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Goodwill is not amortised.

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. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### (e) Leases

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

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

Capitalised leased assets are depreciated over their estimated useful life.

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 38. Significant accounting policies (continued)

# (e) Leases (continued)

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

#### (f) Inventories

#### (i) Property development projects

Property development projects are carried at the lower of cost and net realisable value. The cost of property development inventory includes the cost of initial land acquisition together with development, borrowing and holding costs. Net realisable value is determined on an undiscounted basis and is based on the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

Property development projects which are not expected to be sold within 12 months are classified as non-current.

Interest and other holding costs incurred prior to commencement of and following completion of development are expensed to the income statement when incurred. The Group does not classify a project as having commenced development where significant rental income from pre-existing tenancies has been generated.

### (g) Construction work in progress

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

Cost includes both variable and fixed costs directly related to specific contracts, being those costs which relate to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Those costs which are expected to be incurred under penalty clauses and warranty provisions are also included.

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

# (h) Financial Instruments

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 38. Significant accounting policies (continued)

### (h) Financial instruments (continued)

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

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

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

#### (ii) Non-derivative financial assets - measurement

#### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and at call deposits which are readily convertible to known amounts of cash and are subject to an insignificant change in value. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### Term deposits

Term deposits comprise deposits and nominated investment accounts with financial institutions which are generally readily convertible to known amounts of cash subject to insignificant change in value.

# Loans and receivables

Loans and receivables, which include trade and other receivables, are recognised initially at fair value plus any directly attributable transaction costs where they do not contain a significant financing component. This typically results in loans and receivables being initially measured at their transaction price. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less allowance for expected credit losses. Gains and losses are recognised in the Income Statement where there are changes in fair value.

### **Equity instruments**

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

# (iii) Non-derivative financial liabilities – measurement

# Trade Payables

Trade and other payables are carried at amortised cost.

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 38. Significant accounting policies (continued)

### (h) Financial instruments (continued)

Interest bearing loans and borrowings

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

Gains and losses are recognised in the Income Statement when the liabilities are derecognised and as well as through the amortisation process.

#### (iv) Derivative financial instruments and hedging

Interest rate hedges, including swaps and options, are used to hedge risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to the Income Statement. The fair values of interest rate swap and option contracts are determined by reference to market values for similar instruments. For the purpose of hedge accounting, hedges are classified as cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement.

# (i) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### (j) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group, and which:

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 38. Significant accounting policies (continued)

### (j) Discontinued operations (continued)

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs upon disposal or if earlier, when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

#### (k) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date plus related on costs. In determining the present value of future cash outflows, the market yield as at the reporting date on Australian corporate bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories are recognised against profits on a net basis:

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

A liability is recognised for the amount expected to be paid as a bonus if the Group is expected to have a present legal or constructive obligation to pay this amount or it will likely be paid, as a result of past service provided by the employee and the obligation can be estimated reliably.

# Share-based payment transactions

The Short Term Incentive Plan (STIP), the Long Term Incentive Plan (LTIP) and previously the Employee Share Option Plan (ESOP) allow Group employees to acquire shares of the Company, subject to certain vesting conditions. The fair value of options granted and performance rights issued is recognised as an employee expense with a corresponding increase in equity of the Group. The fair value of performance rights granted and options issued is measured at grant date and annualised over the vesting period.

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

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 38. Significant accounting policies (continued)

### (k) Employee benefits (continued)

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

#### (I) Provisions

A provision is recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

#### (m) Revenue

#### (i) Construction contracts

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

#### (ii) Services contracts

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

# (iii) Sales of property

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

# (iv) Rental income

Rental income is recognised in the Income Statement on a straight-line basis over the term of the lease.

### (v) Interest

Interest revenue is recognised as the interest accrues using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 38. Significant accounting policies (continued)

# (m) Revenue (continued)

#### (vi) Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

#### (n) Borrowing costs

Unless incurred during the development phase of a property development or acquisition of an item of plant and equipment, borrowing costs are recognised as an expense when incurred.

#### (o) Income tax

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

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

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

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

# Notes to the consolidated financial statements for the year ended 30 June 2015

# 38. Significant accounting policies (continued)

#### (o) Income tax (continued)

The head entity, in conjunction with other members of the tax-consolidated group, has a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts.

#### (p) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (**GST**), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (**ATO**). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

# (q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders for:

- costs of servicing equity (other than dividends) and preference share dividends; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares and dividing this by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (r) Comparatives

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

# 39. New accounting standards to be applied in future reporting periods

The accounting standard that has not been adopted early for the year ended 30 June 2015 but will be applicable to the Group in future reporting periods is detailed below:

• AASB 15 Revenue from Contracts with Customers was issued by the International Accounting Standards Board in May 2014. AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new revenue standard is expected to be mandatory for the Group's 30 June 2018 financial statements. The new standard is currently being assessed for the impact, if any, on the Group's future financial results.



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

# Report on the financial report

We have audited the accompanying financial report of Watpac Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2015, and consolidated income statement and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 39 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 year's end or from time to time during the financial year.

# Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

# Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



# Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

# **Report on the Remuneration Report**

We have audited the Remuneration Report included in section 5 of the Directors' Report for the year ended 30 June 2015. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Watpac Limited for the year ended 30 June 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG

**KPMG** 

Simon Crane Partner

Brisbane 25 August 2015