

PRESS RELEASE

18 February 2016

Strong Construction performance offset by Mining & Civil impairments

National construction and mining services group Watpac Limited (ASX: WTP) (**Watpac** or **Group**) today announced its financial results for the half year ended 31 December 2015 (**1H FY16**), reflecting a strong performance from the Group's construction businesses (**Contracting Segment**), offset by a weaker performance from the group's mining & civil business.

Key 1H FY16 highlights:

- Revenue up 4.5 per cent to \$621.9 million (1H FY15: \$595.0 million)
 - Contracting Segment revenue of \$530.6 million up 17.7 per cent on the comparative period (1H FY15: \$450.8 million)
 - Mining and civil revenue of \$79.3 million down 44.8 per cent on the comparative period (1H FY15: \$143.7 million)
- Statutory net loss after tax of \$25.3 million (1H FY15: \$6.2 million profit after tax) impacted by \$41.7 million in pre-tax mining & civil asset impairments
- Underlying net profit after tax of \$6.7 million (1H FY15: \$6.2 million)
 - Contracting Segment pre-tax profit of \$20.6 million, a 30.2 per cent increase on the comparative period (1H FY15: \$15.8 million)
 - Mining and civil underlying pre-tax loss of \$4.1 million after adjusting for asset impairments
- Strong balance sheet with a gross cash position of \$226.3 million as at 31 December 2015
- 4.15 million shares bought back to date through on-market share buy-back

Commenting on the result, Watpac Managing Director Martin Monro, said during the reporting period the Group had continued to reposition its operations with now more than 85 per cent of revenue derived from the construction businesses.

"The strong financial performance of the Group's construction businesses is reflective of Watpac's reputation for delivering quality projects and innovative outcomes for our clients," Mr Monro said.

"We had a number of significant contract wins over the half year, which is consistent with the improved market conditions in the sector and demonstrative of the successful execution of a number of strategies aimed at improving the depth and quality of our workbook.

"Whilst it was extremely disappointing to realise large impairments in the mining and civil business, these were necessary given the challenges impacting the resources sector. Pleasingly, our civil infrastructure activities are performing well and are expected to make a greater contribution to turnover and profitability in future periods."

Contracting Segment

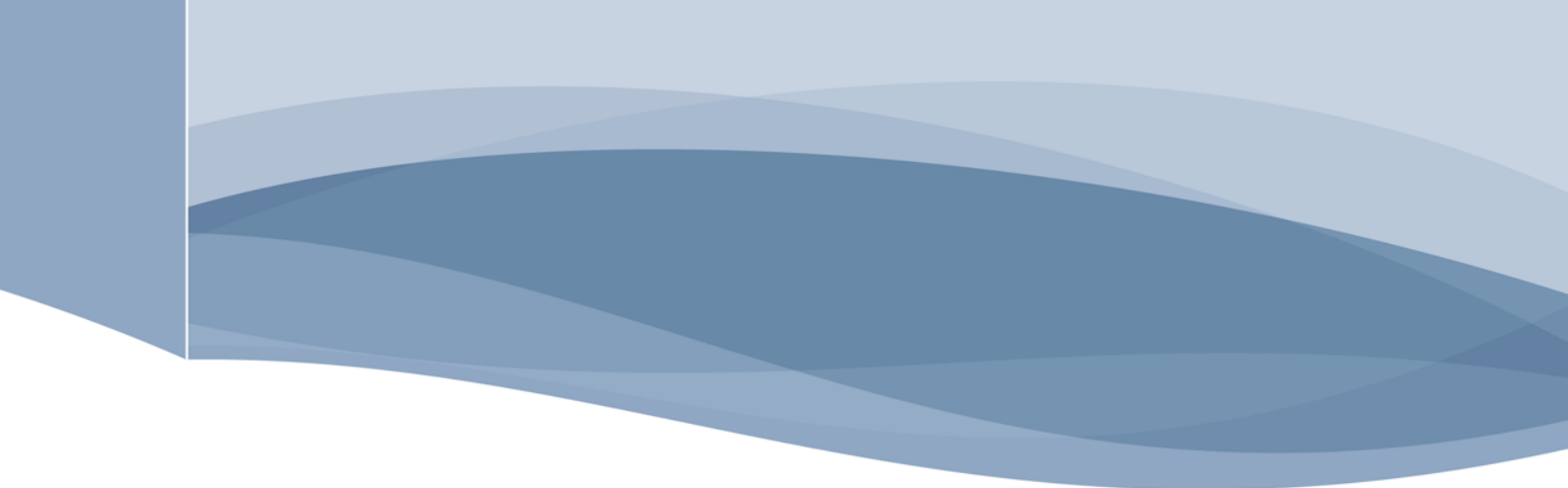
The Group's construction businesses continued to perform strongly, contributing a pre-tax profit of \$20.6 million (1H FY15: \$15.8 million) and achieved a pre-tax profit margin of 3.88 per cent – up from 3.51 per cent in the comparative period.

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Mr Monroe said the well-known capability of Watpac's construction businesses has resulted in an increase of approximately \$320 million of work in hand for the last six months, which totalled almost \$1.5 billion at 31 December 2015.

"During the period Watpac's construction businesses won a number of new contracts across a diverse geographical base," he said.

"While the overall volume improvement was pleasing, as important is the composition of our workbook, which reflects a great mix of projects that should underpin continued improvement in the financial performance of our Contracting Segment."

Mining and Civil Segment

Revenue for the mining and civil business declined during the period. This is primarily a consequence of the Nullagine project completing on 1 July 2015 and only modest works being completed at the Cockatoo Island project in 1H FY16.

The reducing work volumes, together with declining underlying financial performance and general sector challenges, has resulted in a \$10 million impairment charge being recorded to reduce the carrying value of mining & civil goodwill to nil at balance date. Impairment charges were also recorded against the carrying value of Receivables (\$12.5 million) and Plant & Stock assets (\$19.2 million) that previously operated at the Nullagine project. Mr Monroe said these impairments, while disappointing, were considered prudent given the circumstances.

"For some of our current and former mining clients, weaker commodity prices have gravely impacted their operations and this has presented difficulties that we have had to actively manage."

Despite the challenges facing the sector, Mr Monroe said Watpac's mining & civil business is in a strong position, being part of a diversified group with a healthy balance sheet.

"We cannot do anything about the number of new work opportunities, but we are operating in an environment where contractor certainty must be paramount for mine owners and our strong financial position gives us a clear advantage over many of our competitors.

"While we are committed to providing exceptional services to our valued clients, we will also continue aligning investment levels in our mining & civil business to be commensurate with market conditions."

Strong cash flow generation supports solid balance sheet

The Group's cash position remains strong with gross cash and term deposits totalling \$226.3 million at 31 December 2015. The gross debt position has been reduced by almost \$9.5 million to \$22.3 million over the course of the reporting period. After adjusting for gross debt Watpac has a net cash balance of \$204 million, driven by strong operating cash flows generated by the construction businesses.

During the period the Group obtained an additional \$20 million increase in its bank guarantee facility limit to \$120 million. The syndicated banking facility limit now totals \$145 million, and comprises a \$120 million bank guarantee facility and a \$25 million revolving credit facility, the latter remaining undrawn and fully available for use throughout the reporting period. The Group also retained \$210 million of available headroom in its surety bond facilities at balance date.

The on-market share buy-back announced in August 2015 remains ongoing and the Board remains open to considering other strategic capital management options in the future.

Contracting Segment underpins positive outlook

Mr Monro said the improved financial performance of the construction businesses and continued contract wins supports a positive outlook for the Group.

“In addition to delivering net margin improvement, the Group’s construction businesses have seen a 28 per cent increase in work in hand over the first half of FY16, and the Board and Management are confident in Watpac’s ability to generate continued growth.

“We have recently commenced a number of significant new construction projects, including the \$300 million plus Victorian Schools II PPP project as part of the Learning Communities Victoria consortium. This project will see Watpac build 15 new government schools across Victoria as part of the consortium which will also be financing, designing and maintaining the facilities for a period of 25 years.”

While the Group’s mining and civil business had delivered a reduced financial contribution for the half year, Mr Monro said Watpac’s relationships and experience in this sector still yields opportunities.

“This is demonstrated through the award of the \$80 million contract with existing client Hanking Gold at its Axehandle Gold project and the \$9.3 million contract with Main Roads WA to deliver the South Western Highway Realignment project at Burekup during the period.

“In addition, civil infrastructure activities are expected to make a greater contribution to turnover and profitability in future periods.”

Mr Monro said the Group remains committed to its capital recycling program through the disposal of remaining property assets.

“All four settlements of the Rue de Chapel retail precinct will be completed by the end of May 2016, generating a further \$6 million in cash and marking the last of our property assets in Victoria to be sold.

“Watpac has a strong balance sheet that will support future growth, and we remain committed to maintaining an operating platform that underpins the Group’s healthy financial position and shareholder value creation.

“Through the execution of targeted work winning strategies the Board and management are confident that Watpac’s businesses can deliver improved shareholder returns in future reporting periods.”

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Note to editors: Watpac is a leading national construction and mining contracting group with operations in all mainland States and Territories. We have been listed on the Australian Securities Exchange since 1985 and have offices in Brisbane, Sydney, Melbourne, Adelaide, Perth, Townsville and Port Macquarie. More information is available at www.watpac.com.au.

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