

ASX RELEASE

2 November 2018

ASX Market Announcements
20 Bridge Street
SYDNEY NSW 2000

Dear Sir / Madam

Target's Statement Dispatched to Shareholders

Watpac Limited (**Watpac**) confirms that it has completed dispatch of its Target's Statement (and accompanying Independent Expert's Report) to Watpac shareholders in relation to BESIX's off-market takeover bid.

A copy of the Target's Statement as dispatched is attached.

Yours sincerely,
WATPAC LIMITED



Mark Baker
COMPANY SECRETARY

– ENDS –

For further information contact:

Investor Relations – Mark Baker, Chief Financial Officer on 07 3251 6442
Media – Amanda Campbell, Corporate Affairs Manager on 07 3251 6453

Watpac is a leading national construction and mining contracting group with operations in all mainland States and Territories. Watpac has 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.

WATPAC LIMITED
ABN 98 010 562 562

Level 1, 12 Commercial Road
Newstead QLD 4006
PO Box 2053
Fortitude Valley QLD 4006

Phone 07 3251 6300
Fax 07 3251 6393
Web www.watpac.com.au



THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about how to deal with this document, you should contact your broker, financial adviser or legal adviser immediately.

BESIX Group — Bidder's Statement

Bidder's Statement



Recommended unconditional cash Offer by:
BESIX Group SA,
a limited liability company incorporated in Belgium,
under Company No. BCE 0400.459.154

To purchase all your shares in:
Watpac Limited
(ABN 98 010 562 562)

For each Watpac Share you will receive \$0.92

AS STATED IN THE TARGET'S STATEMENT, THE
INDEPENDENT DIRECTORS OF WATPAC
UNANIMOUSLY RECOMMEND YOU ACCEPT THE
UNCONDITIONAL CASH OFFER IN THE ABSENCE OF A
SUPERIOR PROPOSAL.

The Offer is dated 1 November 2018 and will close at 6.00
pm (Brisbane Time) on 3 December 2018, unless extended
or withdrawn. This Bidder's Statement was lodged with
ASIC on 29 October 2018.

Watpac — Target's Statement

Target's Statement



Watpac Limited
(ABN 98 010 562 562)

THIS TARGET'S STATEMENT HAS BEEN ISSUED BY
WATPAC LIMITED IN RESPONSE TO THE OFF-MARKET
TAKEOVER BID MADE BY BESIX GROUP SA FOR ALL
OF YOUR SHARES IN WATPAC LIMITED.

YOUR INDEPENDENT DIRECTORS UNANIMOUSLY
RECOMMEND THAT YOU ACCEPT THE
UNCONDITIONAL CASH OFFER FROM BESIX, IN THE
ABSENCE OF A SUPERIOR PROPOSAL.

The Independent Expert's Report states that the Offer is fair
and reasonable.

Legal Adviser for BESIX Group

**KING & WOOD
MALLESONS**

Financial Adviser for BESIX Group



Legal Adviser for Watpac



Financial Adviser for Watpac



BIDDER'S STATEMENT

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TARGET'S STATEMENT

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BIDDER'S STATEMENT

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION
If you are in any doubt as to how to deal with this document, you should consult your legal,
financial or other professional adviser as soon as possible

Recommended unconditional cash Offer by:

BESIX Group SA, a limited liability company incorporated in Belgium,
under Company No. BCE 0400.459.154
to purchase all of your shares in:
Watpac Limited
ABN 98 010 562 562

For each Watpac Share you will receive \$0.92

**The Independent Directors of Watpac UNANIMOUSLY recommend you ACCEPT the
unconditional cash Offer in the absence of a Superior Proposal**

The Offer is dated 1 November 2018 and will close at 6.00 pm (Brisbane Time) on 3
December 2018, unless extended or withdrawn. This Bidder's Statement was lodged with
ASIC on 29 October 2018.

Please call 1300 217 429 (toll-free within Australia) or +61 2 8022 7919 (from outside
Australia), Monday to Friday between 8.30 am and 5.00 pm (Brisbane Time)
if you require assistance.

Legal Adviser

**KING & WOOD
MALLESONS**

Financial Adviser



Key Dates

Announcement of Offer	29 October 2018
Date of this Bidder's Statement	29 October 2018
Date of Offer	1 November 2018
Date Offer closes (unless extended or withdrawn):	6.00 pm (Brisbane Time) on 3 December 2018

Important Information

Nature of this document

The Offer in this Bidder's Statement is given by BESIX Group SA (**BESIX**) to Watpac Limited (ABN 98 010 562 562) (**Watpac**) under Part 6.5 of the Corporations Act and sets out certain disclosures required by the Corporations Act together with the terms of the Offer to acquire your Watpac Shares.

This Bidder's Statement is dated 29 October 2018 and includes an Offer dated 1 November 2018 on the terms set out in Appendix 1 to this Bidder's Statement.

A copy of this Bidder's Statement was lodged with ASIC on 29 October 2018. ASIC takes no responsibility for the content of this Bidder's Statement.

Defined Terms

Terms used in this Bidder's Statement are defined in the Glossary in section 9 of this Bidder's Statement.

Investment decisions

You should read this Bidder's Statement in its entirety before deciding whether to accept the Offer. This Bidder's Statement does not take into account the individual investment objectives, financial situation or particular needs of individual Watpac Shareholders. Accordingly, before making a decision whether or not to accept the Offer, you should consider seeking independent financial, tax or other professional advice.

Disclaimer as to Watpac information

The information on Watpac, Watpac Shares and the Watpac Group's business contained in this Bidder's Statement has been prepared by BESIX using publicly available information and should not be considered comprehensive.

Information in this Bidder's Statement concerning Watpac, Watpac Shares and the Watpac Group has not been independently verified by BESIX. Accordingly, none of BESIX, the BESIX Board, nor any member of the BESIX Group or their respective officers, employees, agents or advisors, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

Further information relating to Watpac's business may be included in Watpac's target statement which Watpac must

provide to Watpac Shareholders in response to this Bidder's Statement.

Notice to foreign company shareholders

This Bidder's Statement and the Offer are subject to Australian disclosure requirements which may be different from those applicable in other jurisdictions. The Bidder's Statement and Offer do not in any way constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

The distribution of this Bidder's Statement may, in some countries, be restricted by laws or regulation. Accordingly, persons who come into possession of this Bidder's Statement should inform themselves of, and observe, those restrictions.

Privacy

BESIX has collected your information from the register of Watpac Shareholders for the purposes of the Offer. The type of information BESIX has collected about you includes your name, contact details and information on your shareholding in Watpac. Without this information, BESIX would be hindered in its ability to carry out the Offer. The Corporations Act requires the names and addresses of Watpac Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to BESIX's Related Bodies Corporate, external service providers, and may be required to be disclosed to regulators, such as ASIC.

Websites

Both BESIX and Watpac maintain internet sites. The BESIX internet site is at www.besix.com/en. The Watpac internet site is at www.watpac.com.au.

Information contained in, or otherwise accessible through, these internet sites is not a part of this Bidder's Statement. All references in this Bidder's Statement to these internet sites are inactive textual references to these sites and are for your information only.

Updated Information

Information contained in this Bidder's Statement is subject to change from time to time. This information may be updated and made available to you on BESIX's website at www.besix.com/en. Alternatively, please refer to any ASX announcements of Watpac regarding the Offer.

Enquiries

If you are in any doubt as to how to deal with this Bidder's Statement, you should consult your professional adviser.

How to accept the Offer

The Offer may only be accepted for all of your Watpac Shares. You may accept the Offer during the Offer Period in the manner specified below. How you accept the Offer depends on whether your Watpac Shares are in a CHESS Holding or an Issuer Sponsored Holding. Your personalised Acceptance Form outlines which type of holding you have.

If you hold your Watpac Shares in an Issuer Sponsored Holding (your SRN starts with an "I"), to accept the Offer you must complete, sign and return the enclosed personalised Acceptance Form in accordance with the instructions on it and lodge it by returning it (together with all other documents required by the instructions on your personalised Acceptance Form) in the reply paid envelope provided or to the address indicated on the form (and set out below) so that your acceptance is received before the end of the Offer Period.

If you hold your Watpac Shares in a CHESS Holding (your HIN starts with an "X"), to accept the Offer you must comply with the ASX Settlement Operating Rules by doing one of the following:

- (a) instruct your Controlling Participant (usually your broker) to initiate acceptance of the Offer on your behalf in accordance with Rule 14.14 of the ASX Settlement Operating Rules in sufficient time for the Offer to be accepted before the end of the Offer Period. Acceptances must be received by 6.00 pm (Brisbane Time) on the last day of the Offer Period, unless the Offer Period is extended;
- (b) complete and sign the accompanying personalised Acceptance Form and send it directly to your Controlling Participant (usually your Broker), (together with all other documents required by the instructions on the form) in sufficient time for the Offer to be accepted before the end of the Offer Period with instructions to initiate acceptance of the Offer on your behalf in accordance with Rule 14.14 of the ASX Settlement Operating Rules before the end of the Offer Period. Acceptances must be received by 6.00 pm (Brisbane Time) on the last day of the Offer Period, unless the Offer Period is extended; or
- (c) complete, sign and return your personalised Acceptance Form in accordance with the instructions on it and lodge it by returning it to the address indicated on the Application Form (and set out below) in sufficient time so that your acceptance is received before 6.00 pm (Brisbane Time) on the second last day of the Offer Period, unless the Offer Period is extended. This will authorise BESIX to instruct your Broker or other Controlling Participant to initiate acceptance of the Offer on your behalf.

If you are a Broker or an ASX Settlement Participant, to accept the Offer you must initiate acceptance in accordance with the requirements of the ASX Settlement Operating Rules before the end of the Offer Period. Acceptances must be received by 6.00 pm (Brisbane Time) on the date the Offer closes, unless the Offer Period is extended.

If some of your Watpac Shares are held in an Issuer Sponsored Holding and some in a CHESS Holding, if you wish to accept the Offer you will need to accept the Offer separately for each holding. Clause 4 of the Offer Terms in Appendix 1 contains further information on how to accept the Offer.

The postal and delivery address for your completed personalised Acceptance Form is as follows:

Computershare Investor Services Pty Limited
GPO Box 52
Melbourne Victoria 3001
Australia

A reply paid envelope (for use by Watpac Shareholders within Australia) is enclosed for your convenience.

The transmission of your personalised Acceptance Form and other documents is at your own risk.

For full details see clause 4 of the Offer Terms in Appendix 1.



CEO's Letter

29 October 2018

Dear Watpac Shareholder,

On behalf of BESIX, I am pleased to make you an unconditional all-cash Offer for all of your Watpac Shares. Under BESIX's Offer, accepting Watpac Shareholders will receive \$0.92 cash consideration for each Watpac Share held.

Background

On 25 February 2018, BESIX and Watpac entered into a Scheme Implementation Agreement pursuant to which BESIX offered to acquire 50% of the Watpac Shares which BESIX did not already own pursuant to a scheme of arrangement under Part 5.1 of the Corporations Act (**Scheme**).

On 7 June 2018, a meeting of Watpac Shareholders was convened to vote on the Scheme (**Scheme Meeting**). Although both the independent directors unanimously recommended the Scheme in the absence of a superior offer and the independent expert that considered the Scheme concluded that it was in the best interests of Watpac Shareholders (in the absence of a superior offer) and the Scheme was approved by almost 90% of Watpac Shareholders by number, the Scheme did not meet the requisite approval of Watpac Shareholders by value. As a result, the Scheme did not proceed.

Feedback received from Watpac Shareholders indicated that the proportional nature of the Scheme was an issue for some Watpac Shareholders when considering the Scheme. To address this feedback and in light of the conclusion previously reached by the independent expert that considered the Scheme, BESIX is now proposing to acquire 100% of the Watpac Shares it does not already own by way of an unconditional all-cash off-market takeover bid for the same consideration as was offered under the Scheme. As a result, the Offer provides you with the opportunity to obtain liquidity in the form of certain all cash consideration for all your Watpac Shares.

Transaction rationale

Whilst the BESIX Group is a global business, it operates largely outside of Australia. BESIX believes that the proposed acquisition of an increased stake in Watpac presents an opportunity for a combined group to implement a service offering which is geographically diversified, has broader operational capabilities and will enhance overall competitiveness.

Whilst preserving its Australian identity, BESIX is seeking to increase its ownership to obtain a controlling interest in Watpac and BESIX intends to expand its strategic support including putting its extensive, innovative and international track record and expertise behind the Watpac brand, providing Watpac with an enhanced technical and technological edge such as direct access to BESIX's world-class engineering platform (including Building Information Modelling capabilities), and assisting Watpac to diversify its services offering.

The Offer provides a significant premium for your Watpac Shares

At the date of the announcement of the Offer, the Offer price represents a premium of:

- 40.5% over the last closing price of Watpac Shares on 26 October 2018 (\$0.66);
- 38.8% over the 1 month volume weighted average price (**VWAP**) of Watpac Shares to 26 October 2018 (\$0.66);
- 30.5% over the VWAP of Watpac Shares since the Scheme Meeting to vote on the Scheme held on 7 June 2018 of \$0.71;

-
- 37.3% over the undisturbed price as at 23 February 2018¹ (as well as the 1 month VWAP to 23 February 2018); and
 - 54.7% over adjusted net tangible assets per Watpac Share of \$0.59.²

Recommended Offer

The Board of BESIX unanimously supports the Offer and the Independent Directors unanimously recommend the Offer, in the absence of a Superior Proposal. The BESIX Board believes there are potential benefits for BESIX, Watpac and Watpac Shareholders, including:

- ✓ The Offer price of \$0.92 per Watpac Share represents an attractive cash price for your Watpac Shares.
- ✓ The Offer price represents an attractive valuation for Watpac.
- ✓ The Offer represents a significant liquidity event allowing you to monetise your investment in Watpac.
- ✓ The Offer is unconditional.
- ✓ If your Watpac Shares are registered in an Issuer Sponsored Holding in your name, you will not incur any brokerage charges on the transfer of your Watpac Shares if you accept the Offer.

Accepting the Offer

Please carefully read this Bidder's Statement. Full terms of the Offer are set out in Appendix 1 of this Bidder's Statement.

I strongly encourage you to accept the Offer as soon as possible. The Offer is scheduled to close at 6.00 pm (Brisbane Time) on 3 December 2018, unless extended or withdrawn. To accept the Offer, you must follow the instructions in the attached Acceptance Form. If you accept the Offer, BESIX will pay you the Cash Consideration within ten Business Days after receipt of your valid acceptance.

As the Offer is unconditional, BESIX intends to conduct on-market purchases of Watpac Shares from time to time at or below the Cash Consideration Price in accordance with item 2 of section 611 of the Corporations Act from 29 October 2018 (being the date the Bidder's Statement was given to Watpac). If you require any assistance, please contact 1300 217 429 (toll free within Australia) or +61 2 8022 7919 (normal charges apply) between 8.30 am and 5.00 pm (Brisbane Time) Monday to Friday.

Yours sincerely,



Rik Vandenberghe³
Managing Director and CEO

¹ Being the last closing price of Watpac Shares on 23 February 2018 being the trading day prior to the announcement of the Scheme.

² Adjusted net tangible assets per Watpac Share of \$0.59 per Watpac Share is calculated based on \$140.4 million reported net assets as at 30 June 2018 less goodwill (\$17.7 million) and deferred tax assets (\$13.7 million), divided by the number of Watpac Shares on issue of 183.4 million.

³ Permanent representative of Audymatt bvba.

Frequently Asked Questions

You may have questions in relation to the Offer. The following set of questions and answers is intended to assist in your understanding of the Offer. They are qualified by, and should be read in conjunction with, the detailed information contained in this Bidder's Statement. You should read the Bidder's Statement in full before deciding whether or not to accept the Offer. You should also have reference to the Target's Statement which Watpac will send to Watpac Shareholders as required under the Corporations Act.

No.	Question	Answer	Further information
1	What is the Offer?	BESIX is offering to buy ALL of your Watpac Shares by way of an unconditional all cash off-market takeover bid. The Offer relates to all Watpac Shares that exist or will exist on the Register Date.	<i>Appendix 1 contains the full terms of the Offer.</i>
2	What will I receive if I accept the Offer?	If you accept the Offer, you will receive \$0.92 in cash for each Watpac Share that you own.	<i>Appendix 1 contains the full terms of the Offer.</i>
3	When does the Offer close?	The Offer is currently scheduled to close at 6.00 pm (Brisbane Time) on 3 December 2018, unless extended or withdrawn.	<i>See clause 3 of Appendix 1.</i>
4	Can BESIX extend the time at which the Offer is to close?	Yes, the Offer Period can be extended at BESIX's election or otherwise in accordance with the Corporations Act. BESIX will give written notice of any extension of the Offer Period in accordance with the Corporations Act.	<i>See clause 3 of Appendix 1.</i>
5	What are the conditions to the Offer?	The Offer is not subject to any conditions.	
6	Who is BESIX?	The BESIX Group is a leading Belgian multi-services group, operating in the contracting, concessions and property development sectors.	<i>Section 3 of the Bidder's Statement contains further information regarding BESIX.</i>
7	What relevant interest does BESIX have in Watpac?	As at the date of this Bidder's Statement, BESIX holds a relevant interest of 28.1% in Watpac Shares. Note that if BESIX acquires a further relevant interest in Watpac Shares, it will lodge substantial holding notice(s) as required by the Corporations Act.	<i>See section 4.10 for further details.</i>
8	How will BESIX fund the Cash Consideration?	The consideration for the acquisition of the Watpac Shares will be funded by BESIX from its available internal cash reserves and from currently available BESIX Group debt funding facilities.	<i>See section 6 for further details.</i>
9	What happens if I accept the Offer and then BESIX increases the Cash Consideration?	BESIX does not have any current intention to increase the Cash Consideration (although it reserves the right to do so). If BESIX improves the Cash Consideration, all Watpac Shareholders who accept the Offer (whether they have accepted the Offer before or after improvement of the Cash Consideration) will be entitled to receive the benefit of the	

No.	Question	Answer	Further information
		improved Cash Consideration.	
10	What happens if Watpac declares a distribution on or after the Announcement Date?	<p>BESIX will be entitled to all Rights declared, paid, made or which arise or accrue on or after the Announcement Date.</p> <p>If any Rights are declared, paid, made or arise or accrue after the Announcement Date to the holders of Watpac Shares, and BESIX does not receive the benefit of those Rights, BESIX will be entitled to deduct the amount (or value, as reasonably assessed by BESIX) of such Rights by reducing the consideration otherwise due to you under the Offer.</p>	<i>See clause 5.4 of Appendix 1.</i>
11	What choices do I have as a Watpac Shareholder?	<p>As a Watpac Shareholder, you have the following choices in respect of your Watpac Shares:</p> <ul style="list-style-type: none"> • accept the Offer; • sell some or all of your Watpac Shares on the ASX (unless you have already accepted the Offer for your Watpac Shares); or • do nothing. 	
12	If I decide to accept the Offer how do I do so?	To accept the Offer, you should follow the instructions set out in clause 4 of Appendix 1 and on your personalised Acceptance Form which accompanies this Bidder's Statement.	<i>See your Acceptance Form enclosed with this Bidder's Statement and clause 4 of Appendix 1.</i>
13	Can I accept the Offer for part of my holding?	No, you cannot accept the Offer for part of your holding.	
14	Can I sell my Watpac Shares on market?	Yes, you can sell some or all of your Watpac Shares on market, but you may incur brokerage costs if you do. The cash proceeds from a sale may be more or less than the value of the Cash Consideration.	
15	What are the consequences of accepting the Offer now?	Once you accept the Offer you will not be able to sell your Watpac Shares on market, accept any other offer or otherwise deal with your Watpac Shares even if a Superior Proposal is subsequently made by a third party. You will also no longer be entitled to any Rights declared, paid, made, accrued or which may arise in the future.	<i>See clauses 5.4 and 7 of the Offer Terms set out in Appendix 1.</i>
16	Can I withdraw my acceptance?	No. If you accept the Offer, you cannot withdraw your acceptance. This is because the Offer is unconditional.	
17	If I accept the Offer, when will I receive the Cash Consideration?	If you accept the Offer, BESIX will pay you the Cash Consideration within ten Business Days after receipt of your valid acceptance.	<i>See clause 5.2 of the Offer Terms set out in Appendix 1.</i>
18	Will I need to pay brokerage if I accept the Offer?	If your Watpac Shares are registered in an Issuer Sponsored Holding in your name and you deliver them in accordance with the instructions set out on the Acceptance Form, you will not incur any brokerage connected with you accepting the	<i>Appendix 1 contains the full terms of the Offer. See also the instructions on the Acceptance Form.</i>

No.	Question	Answer	Further information
		<p>Offer.</p> <p>If your Watpac Shares are in a CHESS Holding or you hold your Watpac Shares through a bank, custodian or other nominee, you should ask your Controlling Participant (usually, your Broker or the bank, custodian or other nominee) whether it will charge any transaction fees or service charges connected with you accepting the Offer.</p>	
19	What happens if I do not accept the Offer?	<p>Subject to the explanation below, you will remain the holder of your Watpac Shares if you do not accept the Offer.</p> <p>If BESIX does not compulsorily acquire your Watpac Shares under the Corporations Act, unless you sell your Watpac Shares, you will remain a shareholder in Watpac.</p> <p>In these circumstances and, depending on the number of Watpac Shares acquired by BESIX, as a result of the Offer you may be a minority shareholder in what may be a less liquid stock.</p> <p>Further, if Watpac ceases to have the spread of shareholders as required under the ASX Listing Rules, Watpac may need to be removed from the official list of the ASX.</p>	<p><i>See section 5.2 of this Bidder's Statement regarding BESIX's intentions if it acquires a 50.01% relevant interest or more in Watpac's Shares.</i></p> <p><i>Section 5.3 of the Bidder's Statement provides more information regarding BESIX's intentions if it acquires a relevant interest in at least 90% of Watpac's Shares.</i></p> <p><i>See section 5.4 of this Bidder's Statement regarding BESIX's intentions if it acquires less than a 50.01% relevant interest in Watpac's Shares.</i></p>
20	What are the taxation implications of accepting the Offer?	<p>Section 7 of this Bidder's Statement contains an overview of the Australian taxation implications of accepting this Offer.</p> <p>BESIX recommends you seek independent professional advice in relation to your own particular circumstances.</p> <p>Non-Australian tax consequences for Watpac Shareholders are not included in this Bidder's Statement. Non-resident Watpac Shareholders are urged to seek their own advice as to their tax consequences of accepting the Offer.</p>	<p><i>See section 7 of this Bidder's Statement.</i></p>

1 WHY YOU SHOULD ACCEPT THE OFFER

- ✓ **The Independent Directors unanimously recommend that you should accept the Offer, in the absence of a Superior Proposal**

The Independent Directors unanimously recommend that, in the absence of a Superior Proposal, you accept the Offer.

Further details of Watpac's reasons to accept the Offer are outlined in section 1 of the Target's Statement.

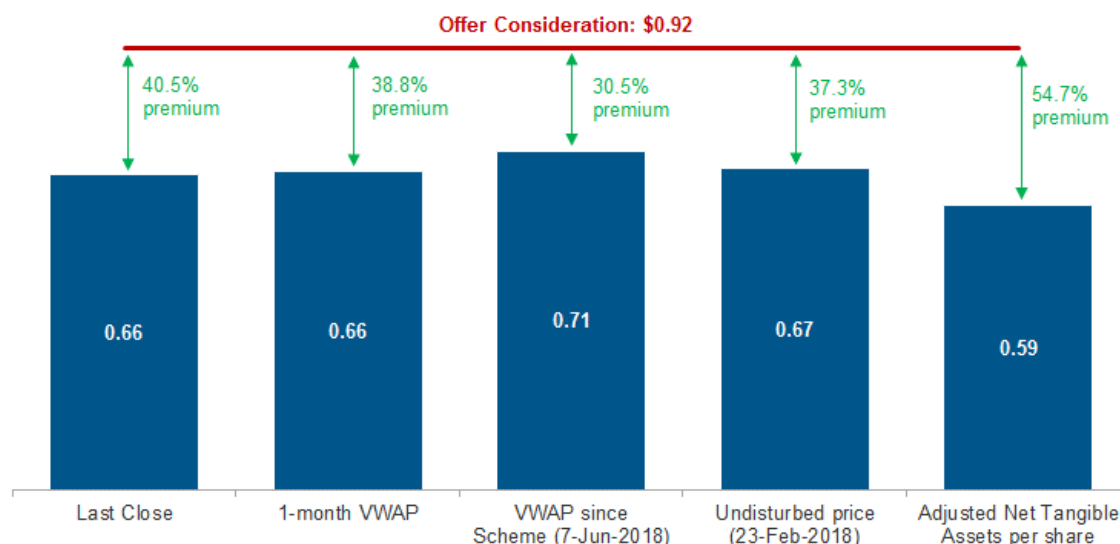
- ✓ **The Offer price of \$0.92 per Watpac Share represents an attractive cash price for your Watpac Shares**

The Cash Consideration of \$0.92 per Watpac Share represents an attractive premium to historical trading prices.

The Offer represents a premium of:

- 40.5% over the last closing price of Watpac Shares on 26 October 2018 (\$0.66);
- 38.8% over the 1 month volume weighted average price (**VWAP**) of Watpac Shares to 26 October 2018 (\$0.66);
- 30.5% over the VWAP of Watpac Shares since the Scheme Meeting to vote on the Scheme held on 7 June 2018 of \$0.71;
- 37.3% over the undisturbed price as at 23 February 2018⁴ (as well as the 1 month VWAP to 23 February 2018); and
- 54.7% over adjusted net tangible assets per Watpac Share of \$0.59.⁵

The graph below shows the Cash Consideration of \$0.92 per Watpac Share relative to historical trading prices of Watpac Shares.



⁴ Being the last closing price of Watpac Shares on 23 February 2018 being the trading day prior to the announcement of the Scheme.

⁵ Adjusted net tangible assets per Watpac Share of \$0.59 per Watpac Share is calculated based on \$140.4 million reported net assets as at 30 June 2018 less goodwill (\$17.7 million) and deferred tax assets (\$13.7 million), divided by the number of Watpac Shares on issue of 183.4 million.

✓ **Represents an attractive valuation for Watpac**

The Offer represents an enterprise value for Watpac of \$149 million.⁶ This valuation represents an enterprise value / FY18A underlying EBITDA multiple of 21.9x which is high compared to historical engineering and construction transactions for ASX-listed companies.⁷

✓ **Significant liquidity event for monetising your investment in Watpac**

The Offer provides an opportunity for Watpac Shareholders to monetise their investment and be provided with immediate liquidity whilst realising a significant premium on the recent Watpac Share price.

In the twelve months preceding the Announcement Date, Watpac's total aggregate traded volume was approximately 16.9% of the total Watpac Shares on issue and the average daily traded volumes of Watpac Shares was 118,565 per day. In the absence of the Offer, this general low level of liquidity of Watpac Shares means it may be more difficult for Watpac Shareholders to sell their shareholding in a timely manner in the ordinary course of trading on the ASX. Conversely, if you accept the Offer, you will be provided with immediate liquidity and will be paid the Cash Consideration ten Business Days after receipt of your valid acceptance.

✓ **The Offer is unconditional**

There are no conditions attached to the Offer and you can sell your Watpac Shares to BESIX for \$0.92 per Watpac Share by accepting the Offer. Accordingly, you can accept the Offer knowing that you will be paid in cash ten Business Days after receipt of your valid acceptance. Please follow the instructions set out in clause 4 of the Offer Terms and the Acceptance Form to accept the Offer.

✓ **Since the announcement of the Scheme, no Competing Transaction has emerged**

As far as BESIX is aware, since the announcement of the execution of the Scheme Implementation Agreement between Watpac and BESIX on 25 February 2018 and up to the date of this Bidder's Statement, no Competing Transaction has emerged, and BESIX considers that the likelihood of Watpac receiving a Competing Transaction is low given:

- BESIX's current 28.1% relevant interest in Watpac Shares on issue.
- The Independent Directors have unanimously recommended that Watpac Shareholders accept the Offer in the absence of a Superior Proposal.
- BESIX and Watpac have entered into a Bid Implementation Agreement containing customary deal protections, including no-shop, no-talk, matching and notification rights.

✓ **If your Watpac Shares are registered in an Issuer Sponsored Holding in your name, you will not incur any brokerage charges on the transfer of your Watpac Shares if you accept the Offer**

If you accept the Offer and if your Watpac Shares are registered in an Issuer Sponsored Holding in your name, you will not incur brokerage on the transfer of your Watpac Shares to BESIX pursuant to the Offer.

If you sell your Watpac Shares on the ASX, rather than disposing of them via the Offer, you may incur brokerage charges (and potentially, GST on those charges).

✓ **Watpac's Share price may fall after the Offer lapses**

The closing Watpac Share price on 26 October 2018 being the last trading day prior to the Announcement Date was, \$0.66.

⁶ Calculated as 183.4 million Watpac Shares on issue multiplied by the Offer price of \$0.92 less excess cash of \$20 million, as set out in the Independent Expert's Report annexed to the Target's Statement as Annexure B.

⁷ Based on FY18 underlying EBITDA of \$6.8 million AUD.

The Watpac Share price may trade at levels below the Offer price once the Offer has lapsed (although this is difficult to predict with any degree of certainty). As a result, Watpac Shareholders who have not accepted the Offer before it lapses may not have another opportunity to sell their Watpac Shares for \$0.92 per Watpac Share.

2 OVERVIEW OF THE OFFER

The following is a summary only of the Offer and is qualified by the detailed information contained in the rest of this Bidder's Statement. You should read this Bidder's Statement in full before deciding how to deal with your Watpac Shares.

The terms of the Offer are contained in Appendix 1.

2.1 SUMMARY OF THE OFFER TERMS

The Offer

BESIX offers to acquire all of your Watpac Shares on the Offer Terms set out in Appendix 1. You will be entitled to receive \$0.92 cash for every Watpac Share acquired from you.

The Offer relates to Watpac Shares that exist or will exist as at the Register Date.

Offer Period

The Offer is scheduled to close at 6.00 pm (Brisbane Time) on 3 December 2018 (but it may be extended).

Payment Date

If you accept the Offer you will be provided with the Cash Consideration within ten Business Days after receipt of your valid acceptance, provided that all relevant documents have been received by BESIX and correctly completed.

No conditions

The Offer is not subject to any conditions.

2.2 HOW TO ACCEPT THE OFFER?

Acceptances for the Offer must be received in sufficient time to be acted upon before the close of the Offer Period.

To accept the Offer you should follow the instructions set out in clause 4 of the Offer Terms and the Acceptance Form.

2.3 FURTHER INFORMATION

If you have any questions in relation to the Offer or how to accept it, or if you have lost your personalised Acceptance Form and require a replacement, please call 1300 217 429 (callers in Australia) or +61 2 8022 7919 (callers outside Australia) Monday to Friday, between 8.30 am and 5.00 pm (Brisbane Time).

3 INFORMATION ON BESIX

3.1 OVERVIEW OF BESIX

The BESIX Group is a leading Belgian multi-services group, operating in the contracting, concessions and property development sectors. Headquartered in Brussels (Belgium), the BESIX Group was founded in 1909 and has since grown steadily. The BESIX Group is active in practically every field of construction and caters for multi-size projects.

The BESIX Group is present in Australia, Belgium, the Netherlands, France, Luxembourg, Eastern Europe, North and Central Africa, the Middle East and in South Asia. The BESIX Group has about 14,000 employees active in 22 countries.

In 2017, the BESIX Group generated revenues in excess of AUD 3.6 billion and a consolidated net result in excess of AUD 160 million. As at 31 December 2017, the BESIX Group had an order book in excess of AUD 4.7 billion, a consolidated equity position in excess of AUD 1.0 billion, and a net cash position⁸ in excess of AUD 225 million.⁹

3.2 BESIX GROUP'S PRINCIPAL ACTIVITIES AND OPERATIONS

The BESIX Group aims to provide high-quality and cost-efficient construction solutions in many areas, including:

- (a) Contracting across a widespread range of activities:
 - i. **Buildings** – The BESIX Group is able to take on projects with technical complexity, high logistics requirements, top performance and tight construction deadlines. The BESIX Group has expertise in constructing airports, banks, hospitals, commercial buildings, governmental buildings, cultural and religious buildings, high rise, car parks, hotels and warehouses.
 - ii. **Infrastructure** – The BESIX Group relies on its engineering skills and implementation resources to construct complex public works such as bridges, railways, roadworks and tunnels.
 - iii. **Marine Works** – The combination of the BESIX Group's know-how, in-house engineering department and specialised floating equipment allows it to offer its clients tailor-made solutions for the construction of coastal marine facilities such as breakwaters, jetties, locks, marinas, quay walls and subsea pipelines.
 - iv. **Sports and Leisure** – The BESIX Group has built a number of sports and leisure complexes including stadiums, athlete and spectator facilities and entertainment parks.
 - v. **Environment** – The BESIX Group uses its skills to design innovative, cutting-edge solutions and integrates appropriate technologies in the design, engineering, execution, start-up and commissioning of wastewater treatment plants, upgrades of treatment capacity, sludge drying and vaporization, pumping stations and hydroelectric installations as well as the installation and maintenance of underground pipes and sewage disposal systems.
 - vi. **Industry** – The BESIX Group has been extending its industrial activities in recent years and offers its skills in the design, construction, civil engineering and installation of technical facilities to its industrial clients. Its areas of expertise include cement plants, compost installations, as well as power plants, petrochemical factories and desalination plants.
 - vii. **Piling & Foundations** – The BESIX Group offers a complete range of optimised solutions and technologies for the realization of piles, deep foundations, retaining walls, containment of polluted sites, redevelopment and/or soil improvement, injection works, renovation of existing piles and foundations and the coordination of related activities.

⁸ Excluding the impact of debt from BESIX Real Estate activities (BESIX RED).

⁹ BESIX financials are reported in EUR and have been converted to AUD at an EUR to AUD exchange rate of 0.635.

The Contracting activities of the BESIX Group are split across three business units: Europe, Middle East and International.

- (b) **Concessions & Assets** – The BESIX Group is active as an equity stakeholder, EPC contractor as well as maintenance contractor in the design, construction, operation and maintenance of infrastructure assets. The BESIX Group currently holds concessions and assets ranging from waste water treatment plants to transport facilities (tunnels, bridges, roads and tramways), car parks and hotels. The BESIX Group is also active in facilities management for such assets. The BESIX Group is able to participate in the full lifecycle of infrastructure assets through public-private partnerships or private-private partnerships under Design, Build, Finance and Maintain (DBFM) as well as Build, Own, Operate and Transfer (BOOT) and other contracting models.
- (c) **Real Estate** – The BESIX Group is also active in the property development of commercial, residential, retail and multi-purpose buildings. These developments are built by the BESIX Group itself and mainly occur in Belgium, the Netherlands, Luxembourg, France and Portugal.

Across all its activities, the BESIX Group has the ability to utilise its in-house engineering department which has developed particular expertise and focus areas such as complex and high-rise construction, bridges, marine structures, water treatment plants, foundations, soil mechanics, facades and Building Information Modelling (BIM).

Internationally, the BESIX Group has been involved in the construction of iconic landmarks such as the Burj Khalifa Tower, the world's tallest building in Dubai; the Grand Egyptian Museum; the Ferrari Experience theme park in Abu Dhabi, and the CBX and Carpe Diem office towers in Paris.

The BESIX Group also is or has been active on two 2022 FIFA World Cup Stadiums in Qatar, various public-private partnership projects in the transport segment (tunnels, trams, roadways), waste water treatment plants and public service buildings, as well as the passenger terminals at Brussels, Paris and Doha International Airports.

In Australia, the BESIX Group has mainly been active on marine projects in Western Australia, where it currently is the design & build contractor for Fortescue Metals Group's new tug infrastructure in Port Hedland, and where it previously had a design, procurement and construction contract for a series of marine works on Chevron's Wheatstone LNG Project.

Over the last 12 months, the BESIX Group was awarded the renovation / maintenance contract for the main access Leopold II Tunnel in Brussels (Belgium), a contract for the design, construction and part of the operation of one of the world's largest thermal waste recycling plants (Waste to Energy) in Dubai, as well as the Design & Construct contract of a 1.4km bridge in Roskilde, Denmark.

Most recently, BESIX Group announced the following significant contract wins across its international operations:

- The design and build of the Bank of Africa Tower which rises to 250 metres and once built will be the tallest tower in Morocco and Africa;
- The design and build of the Nachtigal dam and hydroelectric power station in Cameroon, through a public-private partnership;
- The appointment as the infrastructure contractor for the Shindagha Bridge in Dubai (UAE), a 295-metre bridge that will rise 15.5 m above the Dubai Creek, and that will allow the passage of various types of boats, consisting of six lanes in each direction in addition to a pedestrian crossing;
- The design, build and pre-finance of the new A16 ring road of northern Rotterdam (The Netherlands) in combination with Dura Vermeer, Van Oord, John Laing, Rebel and TBI;
- The design and build of the rerouting of the Rotterdam port railway line (The Netherlands), a four kilometre elevated rail viaduct, including two steel arched bridges; and
- The EPC contract for the Sea Water Reverse Osmosis (SWRO) Plant at the Jebel Ali Power Station, Dubai (UAE), reaffirming BESIX Group as a partner of choice for the sustainable development ambitions of the UAE.

BESIX Group has already achieved various milestones on different turnkey projects in 2018, including:

- August 2018: the opening of the luxurious five-star The Chedi Hotel and the first of two marinas in the seaside resort Luštica Bay in Montenegro. As the main contractor for the construction of the residential part of Luštica Bay, BESIX Group has already delivered several phases of this development;
- June 2018: the concrete placement of the pile cap for the Dubai Creek Tower, which is estimated to rise up to a staggering height of more than 1,000 metres, surpassing the height of the current tallest tower in the world, the Burj Khalifa (828 m high);
- June 2018: the handover of a large and innovative hospital to client Hospital Group Sud Île-de-France (GHSIF) in Melun (France) after a construction period of 36 months. The successful completion of this project reconfirmed the expertise of BESIX Group in building healthcare facilities; and
- January 2018: the placement of the Ramses II statue (82 tonnes) into the great hall of the Grand Egyptian Museum (Cairo) which is being built by BESIX Group.

Diversification towards other disciplines has taken place in 2018 with the acquisition of Belgian interiors specialist Flamant in May 2018 and the launch of its Start-Up Accelerator as well as a Smart Building partnership during the European Summer of 2018. In the real estate sector, the BESIX Group also announced in March 2018 a strategic partnership with A-Star Group to co-develop various European sites in the Build To Rent space.

Additional information on the BESIX Group is available on the company website www.besix.com/en.

3.3 BESIX CORPORATE GOVERNANCE

BESIX has a strong commitment to corporate governance. BESIX's Board of Directors is comprised of the following members:

- Mr Johan Beerlandt (Chairman);
- Mr Rik Vandenberghe;
- Mr Osama Bishai;
- Mr Jérôme Guiraud;
- Mr Mark Littel;
- Mr Philippe Quoilin;
- Baron Jean Stephenne (independent);
- Mr Wouter De Geest (independent);
- Baron Philippe Vlerick (independent); and
- Mr Paddy Padmanathan (independent).

Mr Rik Vandenberghe is also a director of Watpac and Mr Johan Beerlandt an alternate director of Watpac.

BESIX's Executive & Strategic Committee which meets twice per month and is comprised from a mixture of BESIX Board members and members from BESIX's senior management team, has responsibility for the day-to-day Management of the BESIX Group.

3.4 OWNERSHIP OF BESIX

Manco Investment Company SCRL (MIC) owns 50% of the issued share capital in BESIX. MIC is a cooperative holding company incorporated under Belgian law and whose purpose is to act as a vehicle through which relevant BESIX management hold an indirect interest in shares in that company.

Orascom Construction Limited through its subsidiary, OC IHC 3 B.V. (OC BV) owns 50% of the issued share capital in BESIX. OC BV is a holding company incorporated under Dutch law, headquartered in Amsterdam, the Netherlands, and registered with the Netherlands Chamber of Commerce. Further information is available on the Orascom Construction Limited website.

3.5 PUBLICLY AVAILABLE INFORMATION ABOUT BESIX

Further information about BESIX is available in electronic form at www.besix.com/en.

4 INFORMATION ON THE WATPAC GROUP

4.1 DISCLAIMER

The information on the Watpac Group in this section 4 and elsewhere in this Bidder's Statement has been prepared by BESIX using publicly available information and information provided by Watpac management.

The information in this Bidder's Statement concerning Watpac has not been independently verified and has been based on information contained in the Target's Statement. BESIX and its Board do not, subject to applicable law, make any representation or warranty, express or implied, as to the accuracy or completeness of this information. The information on Watpac is not considered comprehensive. For more details regarding Watpac, you should refer to the Target's Statement, which Watpac will send to Watpac Shareholders as required by the Corporations Act, and which is attached to this Bidder's Statement.

4.2 OVERVIEW OF THE WATPAC GROUP AND ITS PRINCIPAL ACTIVITIES

Watpac is a public company, headquartered in Brisbane, Queensland and listed on the Australian Securities Exchange since 1985 (ASX code: WTP).

Watpac was founded in 1983 and has since grown to become a leading national construction, civil infrastructure and mining contracting group with operations in all mainland states and territories.

The Watpac Group (consisting of Watpac Limited and its wholly-owned subsidiaries) has been responsible for delivering many iconic projects within the markets that it operates and has worked extensively with State and Federal Governments, as well as highly respected corporate clients.

Nationally, the Watpac Group employs approximately 700 staff across its construction, civil & mining and corporate business units.

Watpac Group's construction operations are focused on its traditionally strong East Coast markets (including South Australia and the Northern Territory), while the civil & mining business delivers projects nationally, with operations currently dominated by projects in Western Australia.

4.3 BUSINESS SEGMENTS

Building construction

Watpac's building construction segment provides building construction, project management and investment, design and construction management services. The Watpac Group presently derives the majority of its turnover through the building construction segment.

Watpac's construction capabilities span a diverse range of project types, methodologies and sectors, including advanced science, research and technology facilities, education, health, food processing, stadiums and sporting facilities, high security structures such as correctional facilities, airport terminals, defence facilities and other government buildings, in addition to more traditional commercial, residential and industrial construction.

Watpac's initial home market of Queensland has been supplemented over time by acquisitions in New South Wales (Grant Constructions in 2004) and Victoria (J A Dodd in 2007), as well as the establishment of a permanent presence in South Australia and past delivery of projects in the Northern Territory and Australian Capital Territory. While Queensland continues to deliver the most significant turnover contribution of the building construction segment, Watpac's operations in the states of New South Wales, Victoria and South Australia have grown to become meaningful contributors to the Watpac Group, having delivered, a number of large, high-profile and important social infrastructure projects.

Watpac has successfully partnered with a number of high-calibre, repeat clients and project investment firms particularly in the education and health sectors. This has resulted from Watpac's strategic targeting and previous delivery of highly successful projects, and aligns with a long-term strategy to increase exposure to complex building work for quality clients where Watpac's capabilities and experience can add value.

This strategy has seen a recent marked improvement in the quality and geographical distribution of the building construction segment workbook which (as illustrated in the graphs disclosed by Watpac in its FY18 Full Year Results Presentation dated and released to the ASX on 23 August 2018), now features a more desirable balance between traditional, baseload projects and those in targeted sectors that present greater opportunity for the Watpac Group's credentials and financial performance.

Watpac's near term objective is to pursue more desired projects that align to the strategic objectives of enhancing profitability and maximising shareholder value. This includes targeting projects in the previously identified sectors of Health & Sciences, Education and Special & Secure Environments (including Defence work). These targeted sectors have generally exhibited higher barriers to entry, require application of specialised experience and know-how, and provide greater latitude for Watpac to balance securing new work with competitiveness on factors beyond simply price.

In addition to the focus on project selection and enhanced risk management practices, Watpac is also endeavouring to improve internal programs by adopting national best practices, establishing centres of excellence with a focus on innovation and developing in-house design management capabilities.

Civil & Mining

The Watpac Group's civil & mining business provides civil infrastructure and contract mining services throughout Australia. These operations commenced at Watpac in 2007 with the acquisition of J A Dodd, followed soon after in 2008 with the purchase of the JMS Group and formed the basis of Watpac's capability in the mining and civil infrastructure spaces.

While initially East Coast-focused, the business has evolved under Watpac ownership to take advantage of resources and infrastructure opportunities in Western Australia, where a majority of projects have been delivered in recent years.

The civil & mining business has broad capabilities with particular success having been enjoyed in the business' key specialisation of open-cut contract mining services. This is in addition to strong civil capabilities in roads and bridges, dams, spillways and other public water infrastructure, as well as mine establishment and maintenance work including haul roads, tailings dams, waste and rock dumps.

The business' project teams are particularly adept at delivering in remote and regional areas, which is a capability that management are keen to emphasise and extend to other geographical markets as an avenue for future growth and building on past success.

Watpac Group's mining workbook is currently at a low level as a number of projects drew to a close over the past twelve months. Watpac's approach to securing work in this segment has been to maintain pricing discipline and to adopt a selective approach to tendering, aimed at protecting value in the long term and encouraging sustainability of earnings.

While sentiment in the Western Australia resources sector has recently been improving, aggressive pricing has been observed from a number of other participants in an effort to secure volumes.

As disclosed to the market under the ASX announcement dated 28 March 2018, Watpac was advised that it was unsuccessful on two major mining project tenders. As a result, the Watpac Board decided to conduct a comprehensive review of the civil and mining business, to ascertain options to maximise and preserve value. This review concluded that it was appropriate for Watpac to rationalise overheads, divest any surplus assets and adopt a more selective approach to tendering new opportunities, which are now more generally available due to the recent increase in activity levels across the resources sector. As a result, assets allocated to the civil and mining business were written down to their assessed fair market value less costs to sell at 30 June 2018 and a business restructuring provision recognised.

Since this decision was made and the Watpac Group's 30 June 2018 financial results released, Watpac has been approached by several parties expressing an interest in acquiring the business. One of these options is currently under evaluation by the Watpac Board and has an assessed potential transaction value broadly in line with the current written down value of this business' assets.

Property

Watpac's property business currently holds properties in Queensland with a carrying value of \$4.2 million.

These remaining properties are expected to be divested in the next twelve months.

Summary of Financial Information (12 months to 30 June 2018)¹⁰

Segment	Construction	Civil & Mining	Property	Unallocated / Elimination	Consolidated
FY18A revenue (A\$m)	985.0	81.4	11.3	2.3	1,080.0
FY18A underlying PBT (after unallocated) (A\$m)	4.4	(8.9)	(0.5)	-	(5.0)
FY18A Statutory PBT (A\$m)	20.6	(49.6)	1.8	(19.7)	(46.9)
FY18A Assets (A\$m)	122.7	55.3	15.6	264.2	457.8

4.4 WATPAC DIRECTORS

The Watpac Board comprises the following directors:

Name	Position
Peter Watson*	Chair, Non-Executive Director
Garret Dixon*	Non-Executive Director
Linda Evans*	Non-Executive Director
Carlo Schreurs	Non-Executive Director
Rik Vandenberghe	Non-Executive Director
Johan Beerlandt	Alternate Non-Executive Director (for Carlo Schreurs)
Geert Aelbrecht	Alternate Non-Executive Director (for Rik Vandenberghe)
Martin Monro	Managing Director

** Member of the IBC and an Independent Director*

4.5 SUBSTANTIAL SHAREHOLDERS

As at 26 October 2018, being the last practicable trading day prior to the date of this Bidder's Statement, based on substantial shareholder notices lodged with the ASX and registry data, the substantial shareholders of Watpac were:

¹⁰ Watpac FY18 investor presentation and Watpac Annual Report 2018.

Shareholder	Last notice	Number of Watpac Shares	Voting power (%)
BESIX Group SA	1 December 2017	51,553,318	28.11%
Commonwealth Bank of Australia and its Subsidiaries	23 May 2018	16,013,714	8.73%
Adam Smith Asset Management Pty Limited	14 June 2017	10,928,811	5.87%

Actual voting power may differ from that shown above as there is no obligation to publicly disclose changes in voting power of less than 1%.

4.6 WATPAC'S ISSUED SECURITIES

Watpac Shares

As at the date of this Bidder's Statement, Watpac had 183,386,244 Watpac Shares on issue.

Watpac Performance Rights

As at the date of this Bidder's Statement, Watpac had 5,755,000 Performance Rights on issue, comprised as follows:

- 1,860,000 2016 Long Term Incentive Plan Performance Rights issued on 25 August 2016 and 28 October 2016;
- 2,105,000 2017 Long Term Incentive Plan Performance Rights issued on 20 September 2017 and 23 October 2017; and
- 1,790,000 2018 Long Term Incentive Plan Performance Rights issued on 17 September 2018 and 25 September 2018.

In addition, a further 450,000 2018 Long Term Incentive Plan Performance Rights have been approved for issuance by the Board, however remain subject to Watpac Shareholder approval at the Annual General Meeting.

Details regarding the effect of the Offer on the Performance Rights are included at section 4.8 of this Bidder's Statement.

Watpac Shares are quoted on the ASX. Watpac's Performance Rights are unlisted and therefore cannot be traded on the ASX.

4.7 TRADING OF WATPAC SHARES

The latest recorded sale price of Watpac Shares on ASX before the Announcement Date was \$0.66 as at the close of trading on ASX on 26 October 2018.

The undisturbed price of Watpac Shares on the ASX on 23 February 2018, being the day prior to the announcement of the Scheme (which was ultimately unsuccessful) was \$0.67.

The VWAP of Watpac Shares between the Scheme Meeting held on 7 June 2018 and the Announcement Date was \$0.71.

In the twelve months preceding the Announcement Date, Watpac's total aggregate traded volume was approximately 16.9% of the total Watpac Shares on issue and the average daily traded volumes of Watpac Shares was 118,565 per day.

4.8 EFFECT OF OFFER ON PERFORMANCE RIGHTS

Under the Bid Implementation Agreement, Watpac and BESIX have agreed how the Performance Rights will be treated in connection with any change of control of Watpac arising as a result of the Offer.

The treatment of Performance Rights under the Offer is detailed in full in clause 6 and Schedule 6 of the Bid Implementation Agreement, a summary of which is annexed as Appendix 2 of this Bidder's Statement.

4.9 DIVIDENDS

No dividends have been paid to Watpac Shareholders since 27 March 2015.

4.10 DETAILS OF RELEVANT INTERESTS IN WATPAC SECURITIES

Details of BESIX's relevant interests in the securities of Watpac are set out in the table below.

Class of securities	Total number in class	Relevant interest of BESIX immediately before the Bidder's Statement lodged with ASIC	Relevant interest of BESIX immediately before the Offer¹¹ is sent
Ordinary securities	51,553,318	51,553,318 (28.1)%	51,553,318 (28.1)%

4.11 DETAILS OF VOTING POWER IN WATPAC

As at the date of this Bidder's Statement, BESIX's voting power in Watpac is 28.1%.

BESIX's voting power in Watpac as at the date immediately before the Offer¹² is sent is 28.1%.

4.12 CONSIDERATION PROVIDED FOR WATPAC SECURITIES DURING PREVIOUS FOUR MONTHS

BESIX and its associates have not acquired or disposed of Watpac Shares during the period of four months before the date of this Bidder's Statement.

Note that BESIX intends to conduct on-market purchases of Watpac Shares from time to time in accordance with item 2 of section 611 of the Corporations Act from the date the Bidder's Statement is given to Watpac as stated in section 5.5 of this Bidder's Statement.

4.13 NO INDUCING BENEFITS GIVEN DURING PREVIOUS FOUR MONTHS

During the period of four months before the date of this Bidder's Statement, neither BESIX nor any of its associates gave, or offered to give, or agreed to give a benefit to another person which was likely to induce the other person, or an associate of the other person, to:

- accept the Offer; or
- dispose of Watpac Shares,

and which is not offered to all holders of Watpac Shareholders under the Offer.

¹¹ For these purposes, means the first Offer pursuant to section 636(1)(k) of the Corporations Act.

¹² For these purposes, means the first Offer pursuant to section 636(1)(k) of the Corporations Act.

4.14 PUBLICLY AVAILABLE INFORMATION ABOUT THE WATPAC GROUP

Watpac is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a listed company, Watpac is subject to the ASX Listing Rules which require continuous disclosure of any information Watpac has concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

Wapac is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Wapac may be obtained from or inspected at an ASIC office. A substantial amount of information about Wapac, including its ASX filings are available in electronic form from its website www.watpac.com.au.

The most recent audited financial statements of Wapac for the financial year ended 30 June 2018 were lodged with the ASX on 23 August 2018.

In addition, the Corporations Act requires the Wapac Directors to provide a Target's Statement to Wapac Shareholders setting out certain material information regarding Wapac, which is attached to this Bidder's Statement.

5 BESIX'S INTENTIONS

5.1 INTRODUCTION

This section sets out BESIX's intentions in relation to the following:

- the continuation of the business of Watpac;
- any major changes to be made to the business of Watpac; and
- the future employment of the present employees of Watpac.

Those intentions have been formed on the basis of the facts and information regarding Watpac, and the general business environment, which are known to BESIX at the time of preparation of this Bidder's Statement. Final decisions on these matters have not been made and will only be reached in the light of all material facts and circumstances at the relevant time, including once BESIX has had an opportunity to conduct a review of Watpac's operations and assets as referred to below. Accordingly, the statements set out in this section are statements of current intentions only, which may vary as new information becomes available or circumstances change.

5.2 INTENTIONS UPON ACQUIRING 50.01% OR MORE OF WATPAC SHARES

This section describes BESIX's intentions if it were to acquire a relevant interest in at least 50.01% of Watpac Shares on issue.

(a) Long term value creating opportunities through increased alignment

As a minority shareholder with a 28.1% shareholding, BESIX considers that it has been practically limited in delivering and maximising its international resource and capability potential to Watpac. By increasing its shareholding in order to obtain a controlling interest in Watpac, BESIX will be better positioned to drive long term value opportunities for Watpac.

If BESIX acquires 50.01% or more of Watpac's Shares, BESIX's current intentions are to add additional resources to Watpac and provide a range of potential benefits to Watpac, including:

- access to other construction segments in Australia including Tier 1 or more complex building projects;
- opportunities to diversify into other contracting disciplines and sectors with higher margin potential;
- enhanced technical capabilities inherent in BESIX's business (such as the input of its in-house engineering department);
- optimal financial arrangements which can be supported by BESIX's existing facilities;
- access to BESIX's international client base, commercial and technical references, as well as its network of key suppliers, subcontractors and consultants;
- ability to benefit from BESIX's expertise and international profile and reputation in construction markets; and
- access to BESIX's extensive innovation program.

(b) Directors

If BESIX acquires a relevant interest in 50.01% or more of Watpac Shares on issue, on request from BESIX, Watpac and BESIX will procure the appointment to the Watpac Board of such number of directors nominated by BESIX which is commensurate with BESIX's economic interest in Watpac, subject to those directors providing a consent to act as a director of Watpac.

If BESIX acquires a relevant interest in less than 100% of the Watpac Shares on issue as at the end of the Offer, the Watpac Board will include at least two independent directors.

(c) **General strategic and operational review**

BESIX's intention is that Watpac will operate as a standalone business, retaining the Watpac brand name, heritage and local identity along with its solid corporate governance. This is the case irrespective of whether Watpac remains an ASX-listed entity or not.

BESIX recognises and values the significant quality and highly skilled people working at Watpac. With the additional day-to-day support of BESIX, both organisations will be able to achieve success together and provide employees of both companies the opportunity to explore new ventures, gain exposure to various contracting disciplines, complement each other's skill sets and geographical reach as well as broaden the career development opportunities of Watpac staff, also internationally.

BESIX is supportive of current Watpac management and their strategic direction.

Consistent with BESIX's model of business, following the end of the Offer, BESIX would continue to monitor the performance of Watpac and as appropriate conduct a general strategic and operational review of Watpac's structure, assets, business, personnel and operations.

Following the general strategic and operational review process, the executive management of Watpac may be enhanced or supplemented by BESIX, but BESIX will only do so in order to ensure that Watpac has the best possible skills and resources available to undertake its business.

BESIX has not determined the scope of any staff changes. If there are any actions to be taken as an outcome of the strategic and operational review, applicable employment laws will be complied with. However, subject to the outcome of the general strategic and operational review noted above, it is not BESIX's current intention to make any material redundancies.

BESIX intends to support the ongoing review of potential strategic options for Watpac's civil and mining business.

(d) **ASX Listing**

Subject to continued compliance by Watpac with the ASX Listing Rules (including Watpac maintaining a sufficient spread of shareholders) and BESIX being of the view that the benefits of a listing on the ASX outweigh the additional corporate and compliance costs of doing so, BESIX intends to maintain Watpac's listing on the ASX (although Watpac Shareholders should be aware that in this circumstance the liquidity of Watpac Shares on the ASX may be materially diminished). If Watpac ceases to have the spread of shareholders as required under the ASX Listing Rules, BESIX may make an application to remove Watpac from the official list of the ASX.

5.3 FURTHER INTENTIONS UPON ACQUIRING 90% OR MORE OF WATPAC SHARES

In addition to the intentions described in section 5.2 above, this section sets out BESIX's further intentions if it were to acquire a relevant interest in 90% or more of the Watpac Shares.

(a) **Compulsory acquisition at end of Offer Period or a later time**

If it becomes entitled to do so under the Corporations Act, BESIX may compulsorily acquire any outstanding Watpac Shares.

It is possible that even if BESIX is not entitled to or required to proceed to compulsory acquisition of minority holdings after the end of the Offer Period under Part 6A.1 of the Corporations Act, it may subsequently become entitled to exercise rights of general compulsory acquisition under Part 6A.2 of the Corporations Act; for example, as a result of acquisitions of Watpac Shares in reliance on the "3% creep" exception in item 9 of section 611 of the Corporations Act. If so, BESIX may exercise those rights.

(b) **ASX Listing**

If a compulsory acquisition process is undertaken, BESIX would procure the removal of Watpac from the official list of the ASX.

5.4 INTENTIONS IF BESIX DOES NOT ACQUIRE 50.01% OF WATPAC

This section sets out BESIX's intentions if the Offer closes and BESIX has not acquired a relevant interest in at least 50.01% of Watpac Shares on issue.

In that circumstance:

- BESIX does not expect to be in a position to give effect to the intentions set out in sections 5.2 or 5.3 of the Bidder's Statement; and
- BESIX would have regard to the circumstances at the time and consider the appropriate courses of action that are in the best interests of BESIX. If BESIX does not acquire a relevant interest in 50.01% or more of Watpac Shares on issue, BESIX may review its substantial shareholding in Watpac.

5.5 ON-MARKET PURCHASES

From the date the Bidder's Statement is given to Watpac, BESIX intends to conduct on-market purchases of Watpac Shares from time to time in accordance with item 2 of section 611 of the Corporations Act. BESIX has appointed Macquarie Securities to make such on-market purchases on its behalf.

6 FUNDING

6.1 CONSIDERATION UNDER THE OFFER

The Cash Consideration for the acquisition of Watpac Shares will be satisfied in cash (in Australian dollars).

6.2 CASH CONSIDERATION

Based on the number of Watpac Shares on issue as at the date of this Bidder's Statement, the maximum amount of cash that would be payable by BESIX under the Offer if acceptances were received for all Watpac Shares in return for the Cash Consideration is approximately \$123.1 million.

6.3 SOURCES OF CASH CONSIDERATION

BESIX has obtained all internal approvals necessary to fund the Cash Consideration from its available internal cash reserves and from currently available BESIX Group debt funding facilities.

6.4 PROVISION OF CONSIDERATION

On the basis of the arrangement described in this section, BESIX is of the opinion that it has a reasonable basis for holding the view, and holds the view, that BESIX will be able to provide 100% of the Cash Consideration offered under the Offer.

7 AUSTRALIAN TAXATION CONSIDERATIONS

7.1 INTRODUCTION

The following is an outline of the principal Australian income tax consequences applicable to a Watpac Shareholder who disposes of their Watpac Shares under the Offer. This outline reflects the current provisions of the *Income Tax Assessment Act 1936* (Cth) and the *Income Tax Assessment Act 1997* (Cth) and the regulations made under those Acts, taking into account BESIX's understanding of the current administrative practices of the Australian Taxation Office. The outline does not otherwise take into account or anticipate changes in the law, whether by way of judicial decision or legislative action, nor does it take into account tax legislation of countries apart from Australia.

The following outline is not exhaustive of all possible Australian income tax considerations that could apply to Watpac Shareholders. The summary is only relevant to those Watpac Shareholders who hold their shares on capital account and it does not address all tax considerations applicable to Watpac Shareholders.

The summary does not apply to Watpac Shareholders:

- (a) that may be subject to special tax rules, such as banks, insurance companies, tax exempt organisations, superannuation funds, dealers in securities;
- (b) who do not hold the Watpac Shares on capital account;
- (c) who are exempt from Australian tax;
- (d) who hold the Watpac Shares on behalf of another person;
- (e) who acquired their Watpac Shares as part of an employee share scheme or who hold Performance Rights;
- (f) who have not been resident in the same country for tax purposes throughout the period they have owned their Watpac Shares;
- (g) who are, or have been, temporary residents of Australia for the purposes of the Australian tax legislation; or
- (h) who are subject to the "taxation of financial arrangements" regime.

For Watpac Shareholders who are non-residents of Australia for tax purposes, it is assumed that the Watpac Shares are not held and have never been held, as an asset of a permanent establishment of that Watpac Shareholder in Australia. This outline does not constitute tax advice, and is not intended to and should not be used or relied upon by anyone, and BESIX accepts no duty of care to any other person or entity. Each Watpac Shareholder should consult their own tax adviser regarding the consequences of acquiring, holding or disposing of their Watpac Shares.

7.2 AUSTRALIAN RESIDENT WATPAC SHAREHOLDERS

This section applies to Watpac Shareholders who are Australian residents for tax purposes or are non-residents of Australia who hold their Watpac Shares through a permanent establishment in Australia.

(a) **Accepting the Offer**

If you accept the Offer, the disposal of your Watpac Shares will constitute a capital gains tax (**CGT**) event for Australian income tax purposes. You will be taken to have disposed of your Watpac Shares for CGT purposes when the contract to sell your Watpac Shares is formed. This should be the date that you accept the Offer.

(b) **Compulsory acquisition**

If BESIX becomes entitled to compulsorily acquire any outstanding Watpac Shares under the Corporations Act (see section 5.3 above) and your Watpac Shares are compulsorily acquired, you will be taken to have disposed of

your Watpac Shares for CGT purposes. The date of disposal will be the date you cease to be the owner of the Watpac Shares.

(c) Not accepting the Offer

There should be no CGT consequences if you do not accept the Offer and your Watpac Shares are not compulsorily acquired as per section 5.3.

(d) Calculating the capital gain or loss

If you acquired your Watpac Shares before 20 September 1985, then, in general, no CGT consequences should arise on the disposal of those shares. If you acquired your Watpac Shares after 20 September 1985, you may make a capital gain or loss on the disposal of the Watpac Shares.

You will realise a capital gain in connection with the disposal of a Watpac Share to the extent that your capital proceeds are more than the CGT cost base of that Watpac Share. You will realise a capital loss to the extent that the amount you receive (or will receive) is less than the CGT reduced cost base of the Watpac Share.

Capital losses can usually only be offset against capital gains you realise in the same income year or in later income years. As the loss rules are complex, if you are a company or a trustee you should seek your own independent professional advice as to how these rules may apply, having regard to your particular circumstances.

Any net capital gain should be included in your assessable income for that income year. Broadly, your net capital gain in respect of an income year will be calculated by aggregating all of your capital gains realised in that income year and reducing that amount by your capital losses realised in that income year and any available net capital losses from prior years. The net capital gain may be reduced by the CGT discount (discussed below).

(e) Capital Proceeds

The capital proceeds for a Watpac Share should equal the Cash Consideration.

(f) Cost Base

Generally, the cost base of a Watpac Share should be the total amount you paid for the Watpac Share, your acquisition costs and other costs relating to the holding and disposal of the Watpac Share, to the extent to which you have not claimed an income tax deduction for such costs. The reduced cost base of a Watpac Share is usually determined in a similar, but not identical, manner.

If you acquired a Watpac Share before 11.45 am on 21 September 1999, and you are an individual, complying superannuation entity, the trustee of a trust or a listed investment company, it may be possible to index expenditure incurred at or before that time in working out the cost base (but not the reduced cost base) of the Watpac Share. If you choose to calculate your cost base with reference to indexation, the CGT discount (discussed below) would not be available.

We recommend that you consult your tax adviser to confirm the cost base or reduced cost base of your Watpac Shares.

(g) CGT Discount

If you are an individual, complying superannuation entity or trustee of a trust and you acquired your Watpac Share at least 12 months prior to the time of the CGT event (excluding the date of acquisition and the date of the CGT event), the CGT discount may apply to reduce your net capital gain made from the disposal of a Watpac Share.

Individuals and trusts may be entitled to a CGT discount of 50%, while complying superannuation entities may be entitled to a CGT discount of 33 ⅓%. The CGT discount is not available to companies.

7.3 NON-RESIDENT WATPAC SHAREHOLDERS

If you are not a resident of Australia for tax purposes, and do not use your Watpac Shares in carrying on a business through an Australian permanent establishment, you may be able to disregard the whole of any capital

gain or capital loss made upon the disposal of your Watpac Shares, unless the Watpac Shares constitute “indirect Australian real property interests”. The Watpac Shares will constitute an indirect Australian real property interest if:

- (a) you hold a “non-portfolio interest” in Watpac; and
- (b) the Watpac Shares pass the “principal asset test”.

You will hold a “non-portfolio interest” in Watpac if you (together with your associates):

- (c) hold 10% or more of Watpac Shares at the time of disposal; and
- (d) held more than 10% of Watpac Shares throughout a 12 month period during the 24 months preceding the disposal.

Broadly, the Watpac Shares will pass the “principal asset test” if the market value of Watpac’s direct and indirect Australian real property assets (i.e. its taxable Australian real property interests) exceeds the sum of the market values of Watpac’s assets that are not taxable Australian real property.

If you have held, or hold, a non-portfolio interest in Watpac (either on a stand-alone basis or with their associates) and you are not a resident of Australia for tax purposes and do not hold your Watpac Shares through an Australian permanent establishment, you should obtain specific advice on the Australian tax consequences of disposing of your Watpac Shares (including whether the Watpac Shares would pass the principal asset test, and the calculation of any capital gain or loss arising from the disposal).

7.4 NON-RESIDENT CGT WITHHOLDING

Where a non-resident of Australia disposes of certain taxable Australian property, the purchaser is required to withhold 12.5% of the purchase price, and remit that amount to the Australian Taxation Office.

BESIX will be required to withhold 12.5% of the Cash Consideration if your Watpac Shares are indirect Australian real property interests and BESIX:

- (a) knows or reasonably believes that you are a non-resident of Australia; or
- (b) does not reasonably believe that you are a foreign resident for tax purposes; and either
 - (i) you have an address outside Australia; or
 - (ii) BESIX is entitled to pay the Cash Consideration to a place outside Australia.

In the Acceptance Form, you can make a declaration that:

- (a) as the registered holder of the Watpac Shares, you are an Australian tax resident; or
- (b) the Watpac Shares are not indirect Australian real property interests (see section 7.3 above).

In these circumstances, if such a declaration is provided and received by BESIX within the required time, BESIX does not intend to withhold any amount of the Cash Consideration payable to you. If no such declaration is made, and BESIX considers that an obligation to withhold may arise, BESIX may withhold from the payment of the Cash Consideration, and remit that amount to the Australian Taxation Office. The non-resident CGT withholding tax is not a final tax, and you will receive a credit for amounts withheld on filing an Australian tax return and may receive a refund of tax if amounts have been withheld in excess of your actual Australian tax liability.

7.5 STAMP DUTY AND GST

A Watpac Shareholder that disposes a Watpac Share to BESIX is not expected to incur any Australian stamp duty or be subject to Goods and Services Tax (**GST**) on that disposal.

8 ADDITIONAL INFORMATION

8.1 SUMMARY OF BID IMPLEMENTATION AGREEMENT

BESIX and Watpac entered into a Bid Implementation Agreement in respect of the Offer on 28 October 2018. A summary of certain key terms of the Bid Implementation Agreement is set out below.

(a) Definitions

For the purposes of this section 8.1, the following terms have the meanings given to them below:

Competing Transaction means any proposal, agreement, arrangement, reorganisation or transaction (whether by way of takeover bid, scheme of arrangement, capital reduction, sale of assets, sale or issue of securities, joint venture or otherwise) which, if completed would mean a person (other than BESIX and its Related Bodies Corporate) whether alone or with any associate thereof would:

- (i) directly or indirectly, acquire an interest or relevant interest in, or become the holder of 10% or more of the Watpac Shares (other than as custodian, nominee or bare trustee); or
- (ii) directly or indirectly acquire, obtain a right to acquire, or otherwise obtain an economic interest in all or a substantial part or a material part of the assets of or business conducted by the Watpac Group; or
- (iii) acquire control of Watpac, within the meaning of section 50AA of the Corporations Act; or
- (iv) otherwise acquire or merge (including by a reverse takeover bid or dual listed company structure) with Watpac or implement any proposal which prejudices or jeopardises, or might reasonably be expected to prejudice or jeopardise, the Takeover Bid,

and, for the avoidance of doubt, any sales pertaining to Watpac's civil and mining division (whether by way of a partial or full sale of shares, assets or business) will not be a Competing Transaction.

Exclusivity Period means the period from and including the date of this agreement to the earlier of:

- (i) the termination of the Bid Implementation Agreement in accordance with its terms; and
- (ii) two months after the end of the Offer Period.

Superior Proposal means a bona fide Competing Transaction which the Independent Directors, acting reasonably and in good faith, and after taking advice from its legal and financial advisers, determine is:

- (i) reasonably capable of being completed taking into account all aspects of the Competing Transaction, including its conditions; and
- (ii) more favourable to Watpac Shareholders than the Takeover Bid, taking into account all aspects of the Competing Transaction.

Takeover Bid means the off-market takeover bid by BESIX for all Watpac Shares to be implemented in accordance with Chapter 6 of the Corporations Act (which is the subject of this Bidder's Statement).

(b) Takeover Bid

BESIX has agreed to make the Offer and each of BESIX and Watpac have agreed to use all reasonable endeavours in order to implement the Offer.

(c) Independent Director Recommendation

Each of the Independent Directors recommends the Offer to Watpac Shareholders subject to there being no Superior Proposal.

(d) **Exclusivity Arrangements**

No existing discussions

Watpac represents and warrants that, other than the discussions with BESIX in respect of the Takeover Bid, it is not currently in negotiations or discussions in respect of any Competing Transaction with any person.

No-Shop

During the Exclusivity Period, Watpac must ensure that neither it nor any of its representatives directly or indirectly solicits, invites, encourages or initiates any enquiries, negotiations or discussions or communicates any intention to do any of these things, with a view to obtaining any offer, proposal or expression of interest from any person in relation to a Competing Transaction.

No-talk

Subject to the exception set out below, during the Exclusivity Period, Watpac and its representatives must not negotiate or enter into, or participate in negotiations or discussions regarding, a Competing Transaction, even if not solicited, invited or encouraged by Watpac, or the Competing Transaction has been publicly announced.

Due diligence

Subject to the exception set out below, during the Exclusivity Period, Watpac and its representatives must not enable any other person other than BESIX and its representatives, to undertake due diligence investigations on the Watpac Group or their businesses or operations, or make its employees, officers or any non-public information relating to Watpac or any of its Related Bodies Corporate available to any other person.

Notice of Unsolicited Approach

During the Exclusivity Period, Watpac must promptly inform BESIX if it or any of its Related Bodies Corporate or representatives receives any unsolicited approach with respect to any Competing Transaction, receives any request for information relating to Watpac or any of its Related Bodies Corporate or any of their businesses or operations or any request for access to the books or records of Watpac or any of its Related Bodies Corporate which Watpac has reasonable grounds to suspect may relate to a Competing Transaction, and if it provides any information relating to Watpac or any of its Related Bodies Corporate or any of their businesses or operations in connection with a Competing Transaction.

Exceptions to no-talk and no due diligence

Where expressly stated above, the no-talk and no due diligence obligations do not apply to the extent they restrict Watpac, any of its Related Bodies Corporate or any of their respective associates, from taking or refusing to take any action following an actual or proposed Competing Transaction provided that the Independent Directors have determined in good faith that, after receiving written legal advice from Queen's Counsel or Senior Counsel, failing to respond to such a Competing Transaction would be reasonably likely to constitute a breach of the Watpac Director's fiduciary or statutory obligations.

Matching Right

During the Exclusivity Period, Watpac must not enter into any legally binding agreement, arrangement or understanding pursuant to which a third party or Watpac proposes to undertake or give effect to a Competing Transaction and must use its best endeavours to procure that none of the Independent Directors change their recommendation in favour of the Takeover Bid to publicly recommend a Competing Transaction unless:

- (i) the Independent Directors acting in good faith determine that the Competing Transaction would or is likely to be a Superior Proposal;

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- (ii) Watpac has provided BESIX with the material terms of the Competing Transaction (including price and the identity of the party making the proposal); and
 - (iii) Watpac has given BESIX 3 Business Days after the provision of that information to provide a matching or superior proposal.

If BESIX makes a matching offer, Watpac and BESIX must use their best endeavours to agree any amendments to the Bid Implementation Agreement, the Offer and the contents of any supplementary bidder's statement and target's statement which are reasonably necessary or desirable to reflect the matching offer as soon as reasonably practicable.

(e) **Conduct of business**

The Bid Implementation Agreement sets out the obligations of Watpac from the date of the Bid Implementation Agreement up to the earlier of the end of the Offer Period and the date the Bid Implementation Agreement is terminated in relation to the conduct of its business. Broadly, Watpac has agreed to:

- conduct its business in the ordinary and proper course (and materially in accordance with applicable laws), consistent with the most recent business plans and budgets made public or disclosed to BESIX prior to the date of the Bid Implementation Agreement and in substantially the same manner as previously conducted except in certain circumstances;
- maintain the condition of its business and assets materially in the manner maintained prior to the date of the Bid Implementation Agreement;
- keep available the services of its key officers and employees;
- preserve its relationships with those whom it has business dealings;
- enforce all standstill obligations under any agreement to which a member of the Watpac Group is a party;
- ensure that any contract entered into after the date of the Bid Implementation Agreement does not contain any change of control provisions (or where they do, the consent of the counterparty to the Takeover Bid is provided concurrently with entry into the contract);
- ensure there is no decrease in the amount of cash in Watpac other than in the ordinary course of business or as a result of reasonable costs incurred in relation to the Takeover Bid; and
- consult with BESIX with respect to any decisions regarding its business and operations, other than decisions in the normal course of business consistent with past practice.

Broadly, Watpac has agreed not to:

- issue any new shares or rights to be issued shares in the capital of Watpac;
- enter into, materially change or terminate a material contract or settle or agree to settle any claim by Watpac for less than the alleged amount where that amount was greater than \$5m, or against Watpac where the alleged amount of the claim was greater than \$5m;
- increase the remuneration of, benefits to, pay any bonuses to (other than in accordance with existing arrangements and in the ordinary course), issue any securities to or otherwise vary the employment arrangements with, any directors or employees;
- accelerate the rights of any of its directors or employees to any benefits;

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- pay any termination payments to directors, executives or employees, other than as provided for in an existing employment contract as at the date of the Bid Implementation Agreement which has been provided to BESIX;
 - materially amend any arrangement with its financiers in respect of the transactions contemplated by the Bid Implementation Agreement;
 - announce, declare or pay any dividends or other distributions;
 - take any action which is, or could be reasonably expected to give rise to, a 'prescribed event' as that term is defined in the Bid Implementation Agreement;
 - take any action which would have a material impact on its information technology systems; or
 - agree to do any of the above matters.

These restrictions are set out in full in clause 7 of the Bid Implementation Agreement.

(f) **Termination rights**

Watpac or BESIX can terminate the Bid Implementation Agreement if:

- BESIX withdraws the Takeover Bid as permitted by the Corporations Act for any reason;
- the other is in material breach of the Bid Implementation Agreement and has given notice to the other and the relevant circumstances continue to exist 5 business days after the time such notice is given;
- if a Court or other Regulatory Authority has issued a final and non-appealable order, decree or ruling which permanently restrains or prohibits the Takeover Bid; or
- the other party or, in the case of Watpac, any of its Related Bodies Corporate, becomes insolvent.

BESIX can terminate the Bid Implementation Agreement if:

- any Independent Director does not recommend, withdraws or adversely modifies their recommendation, or otherwise makes a public statement indicating they no longer support the Takeover Bid; or
- any Independent Director which has a relevant interest in Watpac Shares qualifies or withdraws their intention to accept the Offer;
- Watpac breaches the conduct of business or exclusivity provisions in the Bid Implementation Agreement;
- a person (other than BESIX and its associates) obtains a relevant interest in 10% or more Watpac Shares and that person did not have a relevant interest of 10% or more as at the date of the Bid Implementation Agreement and their relevant interest has increased by at least 5% since the date of the Bid Implementation Agreement; or
- a Material Adverse Effect or Prescribed Event occurs.

The termination rights are set out in full in clause 10 of the Bid Implementation Agreement.

8.2 DATE FOR DETERMINING HOLDERS OF SHARES

For the purposes of section 633 of the Corporations Act, the date for determining the people to whom information is to be sent under items 6 and 12 of section 633(1) is the Register Date.

8.3 ASIC MODIFICATIONS AND EXEMPTIONS, ASX WAIVERS

ASIC has published various “Class Order” instruments providing for modifications and exemptions that apply generally to all persons, including BESIX, in relation to the operation of Chapter 6 of the Corporations Act. BESIX may rely on this “Class Order” relief.

8.4 CONSENTS

Each of the following parties has given and has not, before the date of this Bidder’s Statement, withdrawn its consent to be named in this Bidder’s Statement in the form and context in which it is named:

- (a) King & Wood Mallesons as legal adviser to BESIX;
- (b) Macquarie Capital as financial adviser to BESIX; and
- (c) Computershare Investor Services Pty Limited as share registry.

As permitted by ASIC Class Order 13/521, this Bidder’s Statement includes or is accompanied by statements which are made, or based on statements made, in documents lodged with ASIC or given to ASX. Pursuant to this ASIC Class Order, the consent of the person to whom such statements are attributed is not required for the inclusion of these statements in this Bidder’s Statement. Any Watpac Shareholder who would like to receive a copy of any of these documents may obtain a copy free of charge (within two Business Days of the request) during the Offer Period by contacting 1300 217 429 (toll-free within Australia) or +61 2 8022 7919 (from outside Australia), Monday to Friday between 8.30 am and 5.00 pm (Brisbane Time).

8.5 NO OTHER MATERIAL INFORMATION

Except as disclosed in this Bidder’s Statement, there is no other information that is:

- (a) material to the making of a decision by a Watpac Shareholder whether or not to accept the Offer; and
- (b) known to BESIX,

and has not previously been disclosed to Watpac Shareholders.

9 GLOSSARY

9.1 DEFINITIONS

The following defined terms are used throughout this Bidder's Statement unless the contrary intention appears or the context requires otherwise:

Acceptance Form means the form of acceptance and transfer accompanying the Offer or any replacement or substitute acceptance form provided by or on behalf of BESIX.

Announcement Date means 29 October 2018 being the date of announcement of the Offer.

Annual General Meeting means the annual general meeting of Watpac to be held on or around 13 November 2018.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or Australian Securities Exchange, as appropriate.

ASX Listing Rules means the official listing rules of the ASX, as amended from time to time.

ASX Settlement means ASX Settlement Pty Limited (ABN 49 008 504 532).

ASX Settlement Operating Rules means the operating rules of ASX Settlement.

BESIX means BESIX Group SA.

BESIX Board means the Board of directors of BESIX.

BESIX Group means BESIX and each of its Subsidiaries.

BESIX Group SA a limited liability company incorporated in Belgium, under Company No. BCE 0400.459.154, Avenue des Communautés 100, B-1200 Brussels, Belgium.

BESIX's Takeover Transferee Holding means the holding of Watpac Shares on the CHESSE sub register of BESIX established for the purposes of the Offer.

Bid Implementation Agreement means the agreement signed between BESIX and Watpac on 28 October 2018 which sets out the rights and obligations of the parties in this transaction.

Bidder's Statement means this document, being the statement of BESIX under Part 6.5 Division 2 of the Corporations Act relating to the Offer.

Brisbane Time means the time in Brisbane, Queensland, Australia.

Broker means a person who is a share broker and a participant in CHESSE.

Business Day means a day on which banks are open for general banking business in Brisbane (not being a Saturday, Sunday or public holiday in that place).

Cash Consideration is defined in clause 2 of Appendix 1.

CGT means the tax arising as a result of a CGT event as defined in the *Income Tax Assessment Act 1997* (Cth).

CHESSE means the Clearing House Electronic Sub register System, operated by ASX Settlement which provides for electronic share transfer, settlement and registration of securities in Australia.

CHESSE Holding means a holding of Watpac Shares on the CHESSE sub register of Watpac, being a register administered by ASX Settlement and which records uncertificated holdings of shares.

Competing Transaction has the meaning given in the Bid Implementation Agreement.

Controlling Participant means a Broker or Participant who is designated as the controlling participant for shares in a CHESS Holding in accordance with the ASX Settlement Operating Rules.

Corporations Act means the *Corporations Act 2001* (Cth).

Disclosed means Fairly Disclosed:

- (a) by one party in writing to the other party prior to the date of the Bid Implementation Agreement; or
- (b) in any announcement made by Watpac on ASX prior to the date of the Bid Implementation Agreement.

Encumbrances means any:

- (a) security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, option, right of pre-emption, power, title retention, or flawed deposit arrangement; or
- (b) right, interest or arrangement which has the effect of giving another person a preference, priority or advantage over creditors including any right of set-off; or
- (c) right that a person (other than the owner) has to remove something from land (known as a profit à prendre), easement, public right of way, restrictive or positive covenant, lease, or licence to use or occupy; or
- (d) third-party right or interest or any right arising as a consequence of the enforcement of a judgment; or
- (e) any agreement to create any of them or allow them to exist.

Fairly Disclosed means disclosed in sufficient detail so as to enable a reasonable and sophisticated person to identify the nature and scope of the relevant matter, event or circumstance.

HIN means a Holder Identification Number, which is the number that starts with an "X", to identify a Watpac Shareholder with a CHESS Holding and has the same meaning as in the ASX Settlement Operating Rules.

Independent Directors means Mr Peter Watson, Ms Linda Evans and Mr Garret Dixon.

Issuer Sponsored Holding means a holding of Watpac Shares on Watpac's issuer sponsored sub register.

Macquarie Securities means Macquarie Securities (Australia) Limited (ACN 002 832 126).

Offer means the offer by BESIX on the Offer Terms to acquire Watpac Shares (and for the avoidance of doubt includes each such offer made to an individual Watpac Shareholder pursuant to that offer).

Offer Period means the period commencing on 1 November 2018 and ending on 3 December 2018, or such later date to which the Offer has been extended.

Offer Terms means the terms of the Offer set out in Appendix 1 of this Bidder's Statement.

Participant means a non-broker participant under the ASX Settlement Operating Rules.

Performance Rights means a performance right issued by Watpac in respect of Watpac Shares, whether vested or unvested, and those proposed to be issued following the receipt of shareholder approval at the Annual General Meeting.

Register Date means the date set by BESIX pursuant to section 633(2) of the Corporations Act, being 29 October 2018.

Regulatory Authority includes:

- (a) ASX, ASIC and the Takeovers Panel;
- (b) a government or governmental, semi-governmental or judicial entity or authority;
- (c) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (d) any regulatory organisation established under statute,

including, in Australia and Belgium.

Related Bodies Corporate has the meaning given in the Corporations Act.

relevant interest has the meaning given in the Corporations Act.

Rights means all accretions, rights or benefits of whatever kind attaching to or arising from Watpac Shares directly or indirectly after the date of this Bidder's Statement, including, but not limited to, all dividends or other distributions and all rights to receive any dividends or other distributions, or to receive or subscribe for shares, stock units, notes, bonds, options or other securities, declared, paid or made by Watpac or any of its subsidiaries.

Scheme means the scheme of arrangement pursuant to which BESIX proposed to acquire 50% of the Watpac Shares held by each Watpac Shareholder (other than BESIX) which was announced on 26 February 2018 by Watpac, but which was ultimately unsuccessful.

Scheme Meeting means the meeting of Watpac Shareholders which was convened on 7 June 2018 to vote on the Scheme.

SRN means a Security holder Reference Number, which is the number which starts with an "I", allocated by Watpac to identify a Watpac Shareholder with an Issuer Sponsored Holding, and has the same meaning as in the ASX Settlement Operating Rules.

Subsidiary means a subsidiary as that term is defined in the Corporations Act.

Superior Proposal has the meaning given in the Bid Implementation Agreement.

Target's Statement means the target's statement issued by Watpac in relation to the Offer and includes any supplementary target's statement.

VWAP means the volume weighted average price for Watpac Shares traded on the ASX over a specified period.

Watpac means Watpac Limited (ABN 98 010 562 562), a company incorporated in Australia.

Watpac Board means the Board of directors of Watpac.

Watpac Group means Watpac and each of its Subsidiaries.

Watpac Shares means fully paid ordinary shares in the capital of Watpac.

Watpac Shareholders means holders of Watpac Shares.

Watpac Subsidiary means a Subsidiary of Watpac.

9.2 REFERENCES TO CERTAIN GENERAL TERMS

Unless the contrary intention appears, a reference in this Bidder's Statement to:

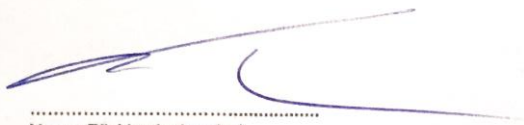
- (a) **(variations or replacement)** a document includes any variation or replacement of it;

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- (b) **(sections, clauses, paragraphs, appendices and annexures)** a section, clause, paragraph, appendix or annexure is a reference to a section, clause, paragraph, appendix or annexure to this Bidder's Statement or any appendix to this Bidder's Statement;
- (c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (d) **(law)** law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- (e) **(singular includes plural)** the singular includes the plural and vice versa;
- (f) **(person)** the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Regulatory Authority;
- (g) **(executors, administrators, successors)** a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and permitted assigns;
- (h) **(reference to a group of persons)** a group of persons or things is a reference to any two or more of them jointly and to each of them individually;
- (i) **(dollars)** Australian dollars, dollars, AUD, A\$ or \$ is a reference to the lawful currency of Australia;
- (j) **(calculation of time)** a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;
- (k) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (l) **(accounting terms)** an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia;
- (m) **(meaning not limited)** the words "include", "including", "for example" or "such as" when introducing an example, are not to be read as words of limitation;
- (n) **(time of day)** time is a reference to Brisbane Time; and
- (o) **(headings)** headings are for convenience only and do not affect interpretation.

10 APPROVAL OF BIDDER'S STATEMENT

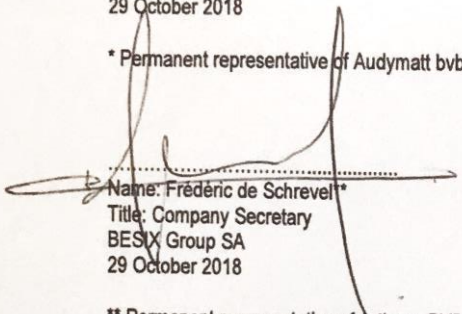
The copy of this Bidder's Statement that is to be lodged with ASIC has been approved by a resolution passed by the Directors of BESIX on 28 October 2018.

Signed in accordance with section 351 of the Corporations Act.



.....
Name: Rik Vandenberghe*
Title: Managing Director - CEO
BESIX Group SA
29 October 2018

* Permanent representative of Audymatt bvba



.....
Name: Frédéric de Schrevel*
Title: Company Secretary
BESIX Group SA
29 October 2018

** Permanent representative of Arthepa BVBA

Appendix 1 - Offer Terms

1 OFFER

BESIX offers to acquire all of your Watpac Shares, together with all Rights attaching to them, on the following terms.

This Offer relates to Watpac Shares that exist or will exist as at the Register Date and extends to any Watpac Shares that are issued between that date and the end of the Offer Period as a result of the vesting of any Performance Rights.

You may only accept this Offer for all of your Watpac Shares.

By accepting this Offer, you undertake to transfer to BESIX not only the Watpac Shares to which this Offer relates but also all Rights attached to those Watpac Shares (see clauses 5.4 and 5.5).

2 CONSIDERATION

The consideration offered to Watpac Shareholders is \$0.92 cash for each Watpac Share (**Cash Consideration**).

3 OFFER PERIOD

This Offer will, unless withdrawn, remain open for acceptance during the period commencing on the date of this Offer, being 1 November 2018, and ending at 6.00 pm (Brisbane Time) on:

- (a) 3 December 2018; or
 - (b) any date to which the period of this Offer is extended in accordance with the Corporations Act,
- whichever is the later.

If, within the last 7 days of the Offer Period, either of the following events occur:

- (a) the Offer is varied to improve the consideration offered; or
- (b) BESIX's voting power in Watpac increases to more than 50%,

then the Offer Period will be automatically extended so that it ends 14 days after the relevant event in accordance with section 624(2) of the Corporations Act.

4 HOW TO ACCEPT THIS OFFER

4.1 ACCEPTANCES

Acceptances must be received in the manner specified below prior to the close of the Offer Period at 6.00 pm (Brisbane Time) on 3 December 2018, unless extended and in the case of any acceptance in respect of a CHESS Holding, lodged at or sent to the address as indicated under clause 4.3(e) before 6.00 pm (Brisbane Time) on the second last business day of the Offer Period in accordance with clause 4.3(e).

4.2 ALL OF YOUR HOLDING

The Offer is for all of your Watpac Shares.

4.3 ACCEPTANCE PROCEDURE FOR WATPAC SHAREHOLDERS

How you accept this Offer depends on whether your Watpac Shares are held in a CHESS Holding or an Issuer Sponsored Holding (the Acceptance Form outlines which type of holding you have):

- (a) **If you hold your Watpac Shares in a CHESS Holding** (your HIN starts with an "X") you must comply with the ASX Settlement Operating Rules.

If you hold your Watpac Shares in a CHESS Holding, to accept this Offer you must either:

- (i) instruct your Controlling Participant (usually your broker) to initiate acceptance of this Offer on your behalf in accordance with Rule 14.14 of the ASX Settlement Operating Rules in sufficient time for this Offer to be accepted before the end of the Offer Period; or
- (ii) complete and sign your personalised Acceptance Form and send the completed Acceptance Form (together with all other documents required by the instructions on the form) directly to your Controlling Participant (usually your broker) in sufficient time for this Offer to be accepted before the end of the Offer Period with instructions to initiate acceptance of this Offer on your behalf in accordance with Rule 14.14 of the ASX Settlement Operating Rules before the end of the Offer Period; or
- (iii) complete and sign your personalised Acceptance Form and lodge it by returning it to the address as indicated under clause 4.3(e) so that your acceptance is received before 6.00 pm (Brisbane Time) on the second last business day of the Offer Period. This will authorise BESIX to request your Controlling Participant (usually your broker) to initiate acceptance of this Offer on your behalf.

- (b) **If you hold your Watpac Shares in an Issuer Sponsored Holding (your SRN starts with an "I")**

If your Watpac Shares are in an Issuer Sponsored Holding, to accept this Offer you must complete and sign your personalised Acceptance Form in accordance with the instructions on it and lodge it by returning it (together with all other documents required by the instructions on the Acceptance Form) to the address indicated under clause 4.3(e) so that your acceptance is received before the end of the Offer Period.

- (c) **If some of your Watpac Shares are held in a number of forms**

If some of your Watpac Shares are in different holdings your acceptance of this Offer may require action under clauses 4.3(a) and 4.3(b) in relation to the separate portions of your Watpac Shares.

- (d) **If you are a Broker or a Participant**, to accept this Offer you must initiate acceptance in accordance with the requirements of the ASX Settlement Operating Rules before the end of the Offer Period.

- (e) **Postal address**

Completed Acceptance Forms should be sent to:

Watpac Offer
c/- Computershare Investor Services Pty Limited
GPO Box 52
Melbourne VIC 3001

A reply paid envelope (not able to be used by Watpac Shareholders outside Australia) is enclosed for your convenience.

The transmission of the Acceptance Form and other documents is at your own risk.

(f) **Acceptance Form**

The Acceptance Form which accompanies this Offer forms part of it. Subject to clause 4.5, the requirements on the Acceptance Form must be observed in accepting this Offer in respect of your Watpac Shares.

(g) **Beneficial owners**

Beneficial owners whose Watpac Shares are registered in the name of a Broker, investment dealer, bank, trust company or other nominee should contact that nominee for assistance in accepting this Offer.

4.4 POWER OF ATTORNEY, DECEASED ESTATE

When accepting this Offer, you should also forward for inspection:

- (a) if the Acceptance Form is executed by an attorney, a certified copy of the power of attorney; and
- (b) if the Acceptance Form is executed by the executor of a will or the administrator of the estate of a deceased Watpac Shareholder, a certified copy of the relevant grant of probate or letters of administration.

4.5 WHEN ACCEPTANCE IS COMPLETE

Acceptance of this Offer will not be complete until the completed Acceptance Form has been received at the address set out in clause 4.3(e) and the requirements of this clause 4 have otherwise been met, provided that:

- (a) BESIX may in its sole discretion and without notice to you waive any or all of those requirements at any time (including but not limited to requirements in relation to the manner or method of acceptance, or the deadline for receipt of acceptances specified under clause 4.3); and
- (b) where such requirements have been complied with in respect of some but not all of your Watpac Shares, BESIX may, in its sole discretion, deem your acceptance of this Offer complete in respect of those Watpac Shares for which the requirements have been complied with but not in respect of the remainder (unless BESIX waives those requirements in accordance with clause 4.5(a)).

Where BESIX elects to waive any requirement of this clause 4, your acceptance of this Offer will be complete regardless of any failure by you to comply with the waived requirement.

5 PAYMENT FOR YOUR WATPAC SHARES

5.1 HOW PAYMENT FOR YOUR WATPAC SHARES WILL BE MADE

- (a) **Cash Consideration:** payment of the cash amount to which you are entitled under the Offer will be made by cheque (or otherwise as determined by BESIX) in Australian currency.
- (b) **Address:** anything to be dispatched to you under this clause 5.1 will be sent to you at your own risk by pre-paid ordinary mail or, in the case of addresses outside Australia, by pre-paid airmail, to your address as shown on the register of Watpac (or such other address as you may notify in writing to BESIX).
- (c) **Joint holdings:** if your Watpac Shares are held in a joint name, the cheque will be issued in the name of the joint holders and forwarded to the address that appears first in the register of Watpac.

5.2 WHEN CASH CONSIDERATION IS PROVIDED

Subject to clause 5.3 and the Corporations Act, if you accept the Offer, BESIX will provide the Cash Consideration to which you are entitled on acceptance of this Offer within ten Business Days after receipt of your valid acceptance.

5.3 WHERE ADDITIONAL DOCUMENTS ARE REQUIRED

Where the Acceptance Form or any subsequent request from BESIX requires additional documents to be given with your acceptance (such as a certified copy of any of a power of attorney, grant of probate or letters of administration, or any other document reasonably requested by BESIX to give better effect to your acceptance):

- (a) if the documents are given with your acceptance, BESIX will provide the Cash Consideration in accordance with clauses 5.1 and 5.2; or
- (b) if the documents are given after the end of the Offer Period, BESIX will pay you the Cash Consideration within ten Business Days after those documents are given in accordance with clauses 5.1.

If you do not provide BESIX with the required additional documents within one month after the end of the Offer Period, BESIX may, in its sole discretion, rescind the contract resulting from your acceptance of this Offer.

5.4 WHERE BESIX IS ENTITLED TO ANY RIGHTS

If BESIX becomes entitled to any Rights as a result of your acceptance of this Offer, it may require you to give BESIX all documents necessary to vest those Rights in BESIX or otherwise to give BESIX the benefit or value of those Rights. If you do not give those documents to BESIX, or if you have received the benefit of those Rights, then BESIX may deduct from the consideration otherwise due to you the amount (or value, as reasonably assessed by BESIX) of those Rights in accordance with clause 5.5.

5.5 RIGHTS GENERALLY

If:

- (a) you have (or any previous holder of your Watpac Shares has) received the benefit of any Rights (whether in respect of non-cash benefits or otherwise); or
- (b) you are (or any previous holder of your Watpac Shares is) entitled to receive the benefit of any Rights under the terms that provide for or otherwise apply to those Rights (for example, if the Right is to receive a dividend, if you are (or any previous holder of your Watpac Shares is) the registered holder of the share at the specified time for determining those entitled to the dividend); or
- (c) your Watpac Shares were issued (or otherwise came into existence) on or after the specified time for determining entitlements in respect of any Rights to Watpac Shareholders,

then BESIX may deduct the value (as reasonably assessed by BESIX) of such Rights from any Cash Consideration otherwise payable to you.

If BESIX does not, or cannot, make such a deduction, you must pay such value or amount to BESIX.

6 NO CONDITIONS

Offer is not subject to any conditions.

7 EFFECT OF ACCEPTANCE

7.1 NO REVOCATION OF ACCEPTANCE

Once you have accepted this Offer, you will be unable to revoke your acceptance and the contract resulting from your acceptance will be binding on you. In addition, you will be unable to withdraw your acceptance of this Offer or otherwise dispose of your Watpac Shares.

7.2 YOUR AGREEMENT

By signing and returning the Acceptance Form, or otherwise accepting this Offer, you will be deemed to have:

-
- (a) irrevocably authorised BESIX to alter the Acceptance Form on your behalf by:
- (i) inserting correct details of your Watpac Shares (including details of a parcel of Watpac Shares required by clause 10.4(b));
 - (ii) filling in any blanks remaining on the Acceptance Form; and
 - (iii) rectifying any errors in, and omissions from, the Acceptance Form,
- as may be necessary to make the Acceptance Form a valid acceptance of this Offer and to enable registration of the transfer of your Watpac Shares to BESIX, and agreed to provide any document reasonably requested by BESIX to make the Acceptance Form a valid acceptance of this Offer or to otherwise give better effect to your acceptance; and
- (b) if any of your Watpac Shares are in a CHESS Holding, irrevocably authorised BESIX to:
- (i) instruct your Controlling Participant to initiate acceptance of this Offer in respect of all such Watpac Shares in accordance with the ASX Settlement Operating Rules; and
 - (ii) give any other instructions in relation to those Watpac Shares to your Controlling Participant on your behalf under the sponsorship agreement between you and the Controlling Participant; and
- (c) agreed to indemnify BESIX in respect of any claim or action against it or any loss, damage or liability whatsoever incurred by it as a result of you not producing your HIN or SRN or in consequence of the transfer of your Watpac Shares to BESIX being registered by Watpac without production of your HIN or SRN; and
- (d) irrevocably accepted this Offer in respect of all your Watpac Shares despite any difference between that number and the number of Watpac Shares shown on the Acceptance Form; and
- (e) agreed to the terms of this Offer and, agreed to transfer (or consented to the transfer in accordance with the ASX Settlement Operating Rules) to BESIX of your Watpac Shares; and
- (f) represented and warranted to BESIX, as a fundamental condition which goes to the root of the contract resulting from your acceptance of this Offer, that at the time of acceptance and at the time of transfer of your Watpac Shares to BESIX:
- (i) you have paid to Watpac all amounts which are due for payment in respect of your Watpac Shares; and
 - (ii) all of your Watpac Shares are fully paid and free from all Encumbrances and restrictions on transfer of any nature; and
 - (iii) you have full power and capacity to sell and transfer those Watpac Shares; and
- (g) irrevocably appointed BESIX and each of its directors from time to time individually as your agent and attorney on your behalf to:
- (i) attend and vote in respect of your Watpac Shares at all general meetings of Watpac;
 - (ii) receive from Watpac or any other party, and retain, any share certificates which were held by Watpac, or any other party, whether pursuant to the terms of any employee incentive scheme (including, without limitation, any employee share scheme) or otherwise; and
 - (iii) sign all documents (including an instrument appointing one of BESIX's directors as a proxy in respect of any or all of your Watpac Shares and any application to Watpac for a replacement certificate in respect of any share certificate which has been lost or destroyed) and resolutions relating to your Watpac Shares, and generally to exercise all powers and rights which you may have as a Watpac Shareholder and perform such actions as may be appropriate in order to

vest good title in your Watpac Shares in BESIX, and to have agreed that, in exercising such powers, any such director is entitled to act in BESIX's interests as the beneficial owner and intended registered holder of your Watpac Shares; and

- (h) agreed not to vote in person at any general meeting of Watpac or to exercise (or purport to exercise) in person, by proxy or otherwise, any of the powers conferred on the BESIX or a BESIX director by clause 7.2(g); and
- (i) irrevocably authorised and directed BESIX to direct Watpac to pay to BESIX, or to account to BESIX for, all Rights in respect of your Watpac Shares, subject to BESIX accounting to you for any such Rights received by BESIX if this Offer is withdrawn or any contract resulting from your acceptance to this Offer is rescinded or rendered void; and
- (j) irrevocably authorised BESIX to notify Watpac on your behalf that your place of address for the purposes of serving notices upon you in respect of your Watpac Shares is the address specified by BESIX in the notification; and
- (k) where, at that time, you have a right to be registered as a holder of the Watpac Shares the subject of your acceptance as the result of an on-market purchase (but are not a Watpac Shareholder):
 - (i) agreed to use best endeavours to procure the delivery of the Watpac Shares the subject of your acceptance to BESIX in accordance with your acceptance (including giving BESIX all documents necessary to vest those Watpac Shares in BESIX or otherwise to give BESIX the benefit or value of those Watpac Shares);
 - (ii) agreed not do or omit to do anything which may frustrate your acceptance of this Offer, or otherwise obstruct registration of the transfer of the Watpac Shares the subject of your acceptance to BESIX;
 - (iii) irrevocably assigned to BESIX all contractual rights and recourse against the vendor in respect of your on-market purchase which contractual rights and recourse may arise by reason of that person's failure to complete that trade;
 - (iv) agreed to assign to BESIX (without any further action being required) all rights in respect of your on-market purchase immediately on any failure by you to complete that trade, including irrevocably assigning to BESIX the right to (at BESIX's ultimate discretion) complete that trade on your behalf, and agreed that BESIX may deduct from the consideration otherwise payable to you (pursuant to a valid acceptance of this Offer and the delivery of the Watpac Shares the subject of that acceptance) any amount paid by BESIX in order to settle that on-market purchase on your behalf. If BESIX does not, or cannot, make such a deduction, you must pay such amount to BESIX; and
 - (v) agreed that if you are unable to assign to BESIX any of the rights and recourse specified under clause 7.2(k)(iii) and (iv), you will assign such rights and recourse as soon as you are legally able to; and
- (l) authorised BESIX to cause a message to be transmitted to ASX Settlement in accordance with Rule 14.17.1 of the ASX Settlement Operating Rules so as to transfer all of your Watpac Shares to BESIX's Takeover Transferee Holding. BESIX will be so authorised even though at the time of such transfer it has not provided the Cash Consideration due to you under this Offer.

By accepting this Offer you will be deemed to have agreed to the matters set out in clauses 7.2(a) to 7.2(l) above, notwithstanding where this Offer has been caused to be accepted in accordance with the ASX Settlement Operating Rules.

Except in relation to Watpac Shares in a CHESS Holding, BESIX may at any time deem the receipt of a signed Acceptance Form to be a valid acceptance of this Offer even though you omit to include your share certificate(s) (if any) or there is non-compliance with any one or more of the other requirements for acceptance but, if BESIX does so, BESIX is not obliged to make the Cash Consideration available to you until all of the requirements for acceptance have been met.

8 WITHDRAWAL

BESIX may withdraw unaccepted Offers at any time with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

9 VARIATION

BESIX may vary this Offer in accordance with the Corporations Act.

10 ACCEPTANCES BY TRANSFEREES AND NOMINEES

10.1 WHO MAY ACCEPT THIS OFFER

During the Offer Period:

- (a) any person who is able to give good title to a parcel of your Watpac Shares may accept this Offer (if they have not already accepted an offer in the form of this Offer) as if an offer on terms identical with this Offer has been made to them; and
- (b) any person who holds one or more parcels of Watpac Shares as trustee, nominee, or otherwise on account of another person, may accept as if a separate and distinct offer had been made in relation to:
 - (i) each of those parcels; and
 - (ii) any parcel they hold in their own right.

10.2 HOLDING SHARES

- (a) A person is taken to hold Watpac Shares if the person is, or has a right to be registered as, the holder of those Watpac Shares.
- (b) A person who has a right to be registered as a holder of Watpac Shares may accept this Offer by completing and signing the Acceptance Form in accordance with the instructions on it and lodging it by returning it (together with all other documents required by the instructions on the Acceptance Form) to the address indicated under clause 4.3(e) so that the acceptance is received before the end of the Offer Period.

10.3 HOLDING SHARES ON TRUST OR AS A NOMINEE

A person is taken to hold Watpac Shares on trust for, as nominee for, or on account of, another person if they:

- (a) are entitled to be registered as the holder of particular Watpac Shares; and
- (b) hold their interest in the Watpac Shares on trust for, as nominee for, or on account of, that other person.

10.4 EFFECTIVE ACCEPTANCE

An acceptance of an offer under clause 10.1(b) is ineffective unless:

- (a) the person who holds on account of another person, gives BESIX a notice stating that the Watpac Shares consist of a separate parcel; and
- (b) the acceptance specifies the distinct number of Watpac Shares in that parcel.

References in this Offer to your Watpac Shares will be treated to relate to that separate distinct parcel.

10.5 NOTICE OF ACCEPTANCE

A notice under clause 10.4(a) of these terms must be made:

-
- (a) if it relates to Watpac Shares entered on a CHESS subregister - in an electronic form approved by the ASX Settlement Operating Rules; or
 - (b) otherwise - in writing.

A person may, at the one time, accept for two or more parcels under this clause as if there had been a single offer for a separate parcel consisting of those parcels.

11 OTHER MATTERS

11.1 NOTICES AND OTHER COMMUNICATIONS

Subject to the Corporations Act, a notice or other communication given by BESIX to you in connection with this Offer shall be deemed to be duly given if it is in writing and:

- (a) is delivered at your address as recorded on the register of members of Watpac or the address shown in the Acceptance Form; or
- (b) is sent by pre-paid ordinary mail, or in the case of an address outside Australia by pre-paid airmail, to you at either of those addresses.

11.2 RETURN OF DOCUMENTS

If:

- (a) this Offer is withdrawn after your Acceptance Form has been sent to BESIX, but before it has been received; or
- (b) for any other reason BESIX does not acquire the Watpac Shares to which your Acceptance Form relates,

you may request BESIX by notice in writing to return to you all documents (other than the Acceptance Forms) to such address as you nominate. Where such address is inside Australia, those documents will be sent to you by pre-paid ordinary mail. Where such address is outside Australia, those documents will be sent to you by pre-paid airmail. BESIX intends to destroy the Acceptance Forms in the above circumstances.

11.3 COSTS AND EXPENSES

All costs and expenses of the preparation, despatch and circulation of the Bidder's Statement and this Offer and all stamp duty payable in respect of a transfer of Watpac Shares in respect of which Offers are accepted, will be paid by BESIX.

11.4 FOREIGN LAWS

This Offer is not registered in any jurisdiction outside Australia (unless an applicable foreign law treats it as registered as a result of the Bidder's Statement being lodged with ASIC). It is your sole responsibility to satisfy yourself that you are permitted by any foreign law applicable to you to accept this Offer.

11.5 GOVERNING LAW

This Offer and any contract resulting from acceptance of it is governed by the law in force in Queensland.

Appendix 2 – Treatment of Performance Rights

In this Appendix, the following terms are given the following meaning:

Watpac Change of Control means when BESIX acquires a relevant interest in more than 50% of the Watpac Shares on issue.

2016 Performance Rights means the Performance Rights issued by Watpac on 25 August 2016 and 28 October 2016.

2017 Performance Rights means the Performance Rights issued by Watpac on 20 September 2017 and 23 October 2017.

2018 Performance Rights means the Performance Rights issued by Watpac on 17 September 2018 and 25 September 2018, and the 450,000 Performance Rights that may be issued by Watpac after the receipt of shareholder approval at the Annual General Meeting.

1 2016 Performance Rights

In the event of a Watpac Change of Control:

- (c) 50% of both the EPS tranche and TSR tranche of the 2016 Performance Rights will vest; and
- (d) the remaining half of the 2016 Performance Rights will be cancelled by Watpac.

2 2017 Performance Rights

In the event of a Watpac Change of Control, and subject to clause 6.1(d) of the Bid Implementation Agreement:

- (a) 50% of both the EPS tranche and the TSR tranche of the 2017 Performance Rights will vest during the Offer Period (and in any event, as soon as possible after a Watpac Change of Control, such that vesting occurs prior to the end of the Offer Period).
- (b) The vesting conditions of the remaining 50% of the 2017 Performance Rights will be amended as follows:
 - (i) half of the remaining 2017 Performance Rights (comprising 25% of the total 2017 Performance Rights on issue) will vest if the Watpac FY19 budgeted net profit result approved by the Watpac Board is achieved by Watpac. If the Watpac FY19 budgeted net profit result approved by the Watpac Board is not achieved by Watpac, then these Performance Rights will lapse; and
 - (ii) the remaining half of the 2017 Performance Rights (comprising 25% of the total 2017 Performance Rights on issue) will vest if the Watpac FY20 budgeted net profit result which is approved by the Watpac Board is achieved by Watpac. If the Watpac FY20 budgeted net profit result which is approved by the Watpac Board is not achieved by Watpac, then these Performance Rights will lapse.

The terms of the 2017 Performance Rights will otherwise remain the same.

3 2018 Performance Rights

In the event of a Watpac Change of Control, the 2018 Performance Rights will be cancelled by Watpac and the parties will use reasonable endeavours to replace the 2018 Performance Rights with a new employee retention and incentive structure in accordance with clause 6.1(b) of the Bid Implementation Agreement.



TARGET'S STATEMENT

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION
If you are in any doubt as to how to deal with this document, you should consult your legal,
financial or other professional adviser as soon as possible

**This Target's Statement has been issued by Watpac Limited ABN 98 010 562 562 in
response to the off-market takeover bid made by BESIX Group SA for all of your
shares in Watpac Limited**

Your Independent Directors recommend that you

ACCEPT

the unconditional cash Offer from BESIX Group SA in the absence of a Superior Proposal

The Independent Expert's Report states that the Offer is fair and reasonable.

Legal Adviser



HERBERT
SMITH
FREEHILLS

Financial Adviser

LUMINIS PARTNERS
IN AFFILIATION WITH EVERCORE

Watpac — Target's Statement

Key dates

Date of Offer	1 November 2018
Date of this Target's Statement	29 October 2018
Close of Offer Period (unless extended or withdrawn)	6.00 pm (Brisbane Time) on 3 December 2018

Important notices

Nature of this document

This document is a target's statement (**Target's Statement**) issued by Watpac Limited (ABN 98 010 562 562) (**Watpac**) under Part 6.5 Division 3 of the Corporations Act in response to the unconditional off-market takeover bid (**Offer**) made by BESIX Group SA (**BESIX**), pursuant to the bidder's statement attached to this Target's Statement (**Bidder's Statement**) which was served on Watpac on 29 October 2018, for all of the ordinary shares in Watpac.

You should read this Target's Statement in its entirety.

Defined terms

A number of defined terms are used in this Target's Statement. These terms are explained in the glossary in section 12 of this Target's Statement.

In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in the Corporations Act have the same meaning and interpretation as in the Corporations Act.

No account of personal circumstances

This Target's Statement does not take into account the individual investment objectives, financial or tax situation or particular needs of each Watpac Shareholder. It does not contain personal advice. It is important that you read this Target's Statement in its entirety before making any investment decision and any decision relating to the Offer. Your Directors encourage you to seek independent financial and taxation advice before making a

decision whether or not to accept the Offer for your Watpac Shares.

ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and given to ASX on the date of this Target's Statement. Neither ASIC nor ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

Disclaimer regarding forward looking statements

This Target's Statement including the Independent Expert's Report may contain forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which Watpac operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected. None of Watpac, any of its officers and employees, or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Disclaimer as to information about BESIX

The information on BESIX and the BESIX Group contained in this Target's Statement has been prepared by Watpac using publicly available information and the Bidder's Statement. The information in the Target's Statement concerning BESIX and BESIX Group and its assets and liabilities, financial position and performance, profits, losses and prospects, has not been independently verified by Watpac. Accordingly, Watpac does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

Foreign jurisdictions

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with laws and regulations outside Australia.

Diagrams and rounding

Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Target's Statement. In addition, any numerical information may not add up due to rounding.

Privacy

Watpac has collected your information from the Watpac register of Watpac Shareholders for the purpose of providing you with this Target's Statement. Such information may include your name, contact details and shareholdings of Watpac Shareholders. Without this information, Watpac

would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of shareholders to be held in a public register. Personal information of the type described above may be disclosed to Watpac, BESIX and their external service providers (such as share registries and printers), authorised securities brokers, Related Bodies Corporate and affiliates of Watpac and BESIX and may be required to be disclosed to regulators, such as ASIC.

If you would like details of information about you held by Watpac, please contact Computershare Investor Services Pty Limited's Privacy Officer at privacy@computershare.com.au or see the Privacy Policy at <http://www.computershare.com/au>.

Watpac's privacy policy is available at www.watpac.com.au/privacy-policy/.

The registered address of BESIX is Avenue des Communautés 100, B-1200 Brussels, Belgium.

Watpac website

The contents of Watpac's website does not form part of this Target's Statement and Watpac Shareholders should not rely on that content.

Watpac Shareholder Information Line

Watpac has established a Shareholder Information Line which Watpac Shareholders may call if they have any queries in relation to the Offer. The telephone number for the Shareholder Information Line is:

1300 217 429 (within Australia)

+61 2 8022 7919 (outside Australia)

which is available Monday to Friday between 8.30am and 5.00pm (Brisbane Time).

Calls to the Shareholder Information Line may be recorded.

Further information relating to the Offer can be obtained from Watpac's website at www.watpac.com.au.



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CHAIRMAN'S LETTER

29 October 2018

Dear fellow Watpac Shareholder

On behalf of Watpac, I am pleased to provide you with this Target's Statement, which sets out Watpac's response to the Bidder's Statement provided by its cornerstone shareholder BESIX Group SA (**BESIX**).

As set out in the Bidder's Statement (attached to this Target's Statement), BESIX Group SA is proposing to purchase all of your Watpac Shares by way of an all-cash, unconditional off-market takeover bid for \$0.92 per Watpac Share (the **Offer**).

Background

You will recall that on 25 February 2018, BESIX and Watpac entered into a Scheme Implementation Agreement pursuant to which BESIX offered to acquire 50% of the Watpac Shares which BESIX did not already own pursuant to a scheme of arrangement under Part 5.1 of the Corporations Act (**Scheme**).

On 7 June 2018, a meeting of Watpac Shareholders was convened to vote on the Scheme (**Scheme Meeting**). Although the independent directors unanimously recommended the Scheme in the absence of a superior offer, the independent expert who considered the Scheme concluded that it was in the best interests of Watpac Shareholders (in the absence of a superior offer), and the Scheme was approved by almost 90% of Watpac Shareholders by number, the Scheme did not meet the requisite approval of Watpac Shareholders by value. As a result, the Scheme did not proceed.

Feedback received from some Watpac Shareholders indicated that the proportional nature of the Scheme was an issue. To address this feedback, BESIX has proposed this Offer to acquire 100% of the Watpac Shares it does not already own by way of an unconditional off-market takeover bid for the same cash consideration as was offered under the Scheme (being \$0.92 per Watpac Share (**Cash Consideration**)). From the date the Bidder's Statement is given to Watpac, BESIX also intends to conduct on-market purchases of Watpac Shares and may do so from time to time in accordance with item 2 of section 611 of the Corporations Act. BESIX has appointed Macquarie Securities to make such on-market purchases on its behalf.

This Offer provides you with the opportunity to sell all of your Watpac Shares for the Cash Consideration. If you accept the Offer, you will be paid the Cash Consideration ten Business Days after receipt of your valid acceptance.

The Independent Directors have considered the proposal and, as announced by Watpac and BESIX on 29 October 2018, entered into a bid implementation agreement with BESIX in respect of the Offer (**Bid Implementation Agreement**).

Independent Directors' Recommendation

The Independent Directors have considered all available information and recommend that you **ACCEPT** the Offer in the absence of a Superior Proposal. As at the date of this Target's Statement, no Superior Proposal has emerged.

The key reasons for the Independent Directors' recommendation to **ACCEPT** the Offer include:

- ✓ The Offer price of \$0.92 per Watpac Share represents an attractive cash price for your Watpac Shares.
- ✓ The Independent Expert has concluded that the Offer is fair and reasonable.
- ✓ The Offer price represents an attractive valuation for Watpac.
- ✓ The Offer represents a significant liquidity event allowing you to monetise your investment in Watpac.

✓ The Offer is unconditional.

A full discussion of the reasons for the Independent Directors' recommendation is set out section 1 of this Target's Statement.

Independent Expert's Report

This Target's Statement includes an Independent Expert's Report from Lonergan Edwards as Annexure B. The Independent Expert has concluded that BESIX's Offer is fair and reasonable. The Independent Expert has assessed the value of Watpac on a 100% controlling interest basis at between \$0.81 and \$0.95 per Watpac Share. The Cash Consideration of \$0.92 is within the upper end of this range. You should read the Independent Expert's Report in full.

How to accept the Offer

The Offer is open until 6.00 pm (Brisbane Time) on 3 December 2018 unless extended. To accept the Offer please follow the instructions set out in the Bidder's Statement and on the Acceptance Form.

Enquiries

If you have any enquiries in relation to this Target's Statement or your shareholding in Watpac, please do not hesitate to call the Shareholder Information Line on 1300 217 429 (within Australia) or + 61 2 8022 7919 (outside Australia), Monday to Friday between 8.30am and 5.00pm (Brisbane Time).

Next steps

Please read this Target's Statement (including the Independent Expert Report) and the Bidder's Statement carefully, and in their entirety, as these documents will assist you in making an informed decision on whether or not to accept BESIX's Offer.

I encourage you to seek advice from independent and appropriately licensed financial, legal, taxation and other professional advisers before making your decision in relation to your Watpac Shares.

On behalf of the Watpac Board, I reiterate our support for the Offer, and encourage you to **ACCEPT** the Offer, in the absence of a Superior Proposal.

We will update you with any material developments in relation to the Offer.

I also take this opportunity to thank you for your continued support of Watpac.

Yours sincerely



Peter Watson
Chairman

1 REASONS TO ACCEPT THE OFFER

1.1 YOU WILL RECEIVE AN ATTRACTIVE PRICE FOR YOUR WATPAC SHARES WITH CERTAINTY OF CONSIDERATION

Watpac Shareholders are being offered unconditional, all-cash consideration of \$0.92 per Watpac Share under the Offer.

The Offer provides Watpac Shareholders with the opportunity to sell their Watpac Shares for certain value. Your Directors consider that Watpac operates in dynamic and challenging markets, and its business naturally entails a range of risks and uncertainties. By accepting the Offer, Watpac Shareholders will eliminate their exposure to the risks associated with an investment in Watpac, some of which are set out in section 8.9 of this Target's Statement. These risks include, but are not limited to, share price volatility caused by general market conditions and Watpac's operational performance.

The Cash Consideration of \$0.92 for each Watpac Share under the Offer represents a premium of:

- 40.5% over the last closing price of Watpac Shares on 26 October 2018 (\$0.66);
- 38.8% over the 1 month volume weighted average price (**VWAP**) of Watpac Shares to 26 October 2018 (\$0.66);
- 30.5% over the VWAP of Watpac Shares since the Scheme Meeting to vote on the Scheme held on 7 June 2018 of \$0.71;
- 37.3% over the undisturbed price as at 23 February 2018¹³ (as well as the 1 month VWAP to 23 February 2018); and
- 54.7% over adjusted net tangible assets per Watpac Share of \$0.59.¹⁴

1.2 REPRESENTS AN ATTRACTIVE VALUATION FOR WATPAC

The Offer represents an enterprise value for Watpac of \$149 million.¹⁵ This valuation represents an enterprise value / FY18A underlying EBITDA multiple of 21.9x which is high compared to historical engineering and construction transactions for ASX-listed companies.

1.3 SIGNIFICANT LIQUIDITY EVENT FOR MONETISING YOUR INVESTMENT IN WATPAC

The Offer provides an opportunity for Watpac Shareholders to monetise their investment and be provided with immediate liquidity whilst realising a significant premium on the recent Watpac Share price.

In the twelve months preceding the Announcement Date, Watpac's total aggregate traded volume was approximately 16.9% of the total Watpac Shares on issue, and the average daily traded volumes of Watpac Shares was 118,565 per day. In the absence of the Offer, this general low level of liquidity of Watpac Shares means it may be more difficult for Watpac Shareholders to sell their shareholding in a timely manner in the ordinary course of trading on the ASX. Conversely, if you accept the Offer, you will be provided with immediate liquidity and will be paid the Cash Consideration ten Business Days after receipt of your valid acceptance.

1.4 NO COMPETING TRANSACTION HAS EMERGED AS AT THE DATE OF THIS TARGET'S STATEMENT

Since the announcement of the execution of the Scheme Implementation Agreement in respect of the Scheme on 26 February 2018, and up to the date of this Target's Statement, no alternative proposals have emerged or are currently under consideration by Watpac, and your Directors are not aware of any other likely Competing Transaction which might be made. Your Directors are not aware of any possibility that a Superior Proposal will be made in the foreseeable future, although the opportunity is available for an alternative offer to be made.

¹³ Being the last closing price of Watpac Shares on 23 February 2018 being the trading day prior to the announcement of the Scheme.

¹⁴ Adjusted net tangible assets per Watpac Share of \$0.59 per Watpac Share is calculated based on \$140.4 million reported net assets as at 30 June 2018 less goodwill (\$17.7 million) and deferred tax assets (\$13.7 million), divided by the number of Watpac Shares on issue of 183.4 million.

¹⁵ Calculated as 183.4 million Watpac Shares on issue multiplied by the Offer price of \$0.92 less excess cash of \$20 million as set out in the Independent Expert's Report annexed to the Target's Statement as Annexure B.

1.5 THE OFFER IS UNCONDITIONAL

The Offer is unconditional and will provide Watpac Shareholders with timely receipt of the Cash Consideration within ten Business Days of BESIX receiving a validly completed Acceptance Form and any additional documents required to enable BESIX to become the holder of the relevant Watpac Shares.

Details on how to accept the Offer for all of your Watpac Shares are set out in Appendix 1 of the Bidder's Statement and the Acceptance Form.

1.6 THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE OFFER IS FAIR AND REASONABLE

Loneragan Edwards was retained to provide to Watpac the Independent Expert's Report.

This Target's Statement includes, in Annexure B, a full copy of the report by Lonergan Edwards (an independent expert not associated with either Watpac or BESIX) stating whether, in its opinion, the Offer is fair and reasonable and giving reasons for forming that opinion.

The Independent Directors recommend that you read the report in full.

By way of summary, Lonergan Edwards has:

- assessed the value of Watpac on a 100% controlling interest basis to be in the range of \$0.81 and \$0.95 per Watpac Share; and
- concluded that the Offer is fair and reasonable.

In forming its opinion, the Independent Expert noted that: "the Offer consideration represents a significant premium to the recent market prices of Watpac shares prior to the announcement of the Offer; and in the absence of the Offer, the price of Watpac shares is likely to trade at a significant discount to our valuation and the Offer consideration due to the portfolio nature of individual shareholdings. Further, in our opinion, it is highly unlikely that a higher offer will be received from a third party prior to the close of the Offer."

1.7 WATPAC'S SHARE PRICE MAY FALL AFTER THE OFFER LAPSES

The closing Watpac Share price on 26 October 2018, being the last trading day prior to the Announcement Date, was \$0.66.

If the Offer is not accepted by Watpac Shareholders, your entire holding of Watpac Shares will continue to be subject to market volatility, including general stock market movements, the impact of general economic conditions and demand for listed securities.

Given the nature of the markets in which it operates, Watpac faces ongoing risks to successfully achieving its current strategic objectives. As such, although it is difficult to predict with any degree of certainty, the IBC is of the opinion that once the Offer has lapsed, the price at which Watpac Shares trade may fall, including to a price that is below the Cash Consideration of \$0.92 per Watpac Share.

As a result, Watpac Shareholders who do not accept the Offer before it lapses may not have another opportunity to sell their Watpac Shares for \$0.92.

The Independent Expert is of the opinion that Watpac's share price will fall to a level below the Cash Consideration if BESIX's Offer is not accepted: "If the Offer is not accepted, we expect that, at least in the short term, Watpac shares will trade at a significant discount to our valuation and the Offer consideration due to the difference between the value of Watpac shares on a portfolio basis and their value on a 100% controlling interest basis."

2 REASONS WHY YOU MAY NOT ACCEPT THE OFFER

2.1 YOU MAY DISAGREE WITH YOUR INDEPENDENT DIRECTORS' RECOMMENDATION OR THE CONCLUSION OF THE INDEPENDENT EXPERT

Notwithstanding the recommendation of the Independent Directors in the absence of a Superior Proposal and the Independent Expert's opinion that the Offer is fair and reasonable, you may disagree.

2.2 YOU MAY WISH TO CONTINUE BEING A WATPAC SHAREHOLDER WITH EXPOSURE TO ANY POTENTIAL UPSIDE TO THE WATPAC SHARE PRICE

You may believe that the future prospects of Watpac exceed the value of the Offer, and that you are comfortable remaining fully invested in Watpac notwithstanding the advice of your Independent Directors and the Independent Expert.

You may also wish to maintain your current investment exposure in Watpac in relation to the specific characteristics of Watpac – in terms of the industry, operational profile, size, capital structure and potential dividend stream.

Further, if you accept the Offer, you will lose your right to sell your Watpac Shares on market, accept a Competing Transaction or otherwise deal with your Watpac Shares. You will no longer have any exposure to any potential upside in the performance of Watpac and the price of Watpac Shares.

2.3 YOU MAY CONSIDER THAT THERE IS THE POTENTIAL FOR A COMPETING TRANSACTION TO BE MADE IN THE FORESEEABLE FUTURE

You may consider that there is a possibility that a Competing Transaction could emerge in the foreseeable future. However, BESIX's support would be required for a Competing Transaction to be successful (given its 28.1% shareholding), and since the announcement of the Scheme to the ASX by Watpac on 26 February 2018 and up to the date of this Target's Statement, no Competing Transaction has emerged for Watpac's consideration.

As set out in section 8.1 of the Bidder's Statement, under the Bid Implementation Agreement, Watpac is bound by customary exclusivity obligations, including in relation to alternative proposals.

2.4 THE TAXATION CONSEQUENCES OF ACCEPTING THE OFFER MAY NOT BE FAVOURABLE GIVEN YOUR FINANCIAL POSITION

Acceptance of the Offer may result in taxation consequences for Watpac Shareholders (potentially including capital gains tax for Watpac Shareholders), which will arise earlier than may otherwise have been the case. A general outline of the Australian taxation considerations of accepting the Offer are set out in the taxation report included in section 7 of the Bidder's Statement.

3 INDEPENDENT DIRECTORS' RECOMMENDATION

3.1 DIRECTORS OF WATPAC

The Directors of Watpac as at the date of this Target's Statement are:

Name	Position
Peter Watson*	Chair, Non-Executive Director
Garret Dixon*	Non-Executive Director
Linda Evans*	Non-Executive Director
Carlo Schreurs	Non-Executive Director
Rik Vandenberghe	Non-Executive Director
Johan Beerlandt	Alternate Non-Executive Director (for Carlo Schreurs)
Geert Aelbrecht	Alternate Non-Executive Director (for Rik Vandenberghe)
Martin Monro	Managing Director

**Member of the IBC and an Independent Director*

3.2 RECOMMENDATION OF THE INDEPENDENT DIRECTORS AND INTENTIONS

Your Independent Directors unanimously recommend that you ACCEPT the Offer in the absence of a Superior Proposal.

In assessing the Offer and reaching this conclusion, your Independent Directors have had regard to a number of considerations, including the information set out in the Bidder's Statement and the Independent Expert's Report, Watpac's trading prospects, including initiatives the Board and Management team aim to deliver, as well as the inherent uncertainties and ongoing risks given the nature of all markets in which Watpac operates.

Based on this assessment and for the reasons set out in this Target's Statement (in particular those set out in section 1), the Independent Directors believe that the Cash Consideration offered by BESIX of \$0.92 per Watpac Share represents fair value for your Watpac Shares and a significant premium to Watpac's market value prior to the announcement of the Offer, providing you with certain cash value for your Watpac Shares which will de-risk your investment in Watpac.

Those Independent Directors who have a relevant interest in Watpac Shares presently intend to accept the Offer in respect of those Watpac Shares in the absence of a Superior Proposal. Your Independent Directors confirm that no Superior Proposal has been received as at the date of this Target's Statement.

Those Independent Directors (and their associates) collectively hold 0.12% of the Watpac Shares, being 219,720 Watpac Shares of a total issued capital of 183,386,244 Watpac Shares (see section 10.1 of this Target's Statement for more information on the respective shareholdings of the Independent Directors).

In considering whether to accept the Offer, your Independent Directors encourage you to:

-
- read the whole of this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement;
 - have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
 - consider the alternatives noted in section 6.3 of this Target's Statement; and
 - obtain financial advice from your broker or financial adviser upon the Offer and obtain taxation advice on the effect of accepting the Offer.

4 FREQUENTLY ASKED QUESTIONS

THIS SECTION ANSWERS SOME COMMONLY ASKED QUESTIONS ABOUT THE OFFER. IT IS NOT INTENDED TO ADDRESS ALL RELEVANT ISSUES FOR WATPAC SHAREHOLDERS. THIS SECTION SHOULD BE READ TOGETHER WITH ALL OTHER PARTS OF THIS TARGET'S STATEMENT.

Question	Answer
1. What is the Bidder's Statement?	The Bidder's Statement is the document setting out the terms of the Offer. BESIX lodged the Bidder's Statement with ASIC on the same date of the lodgement of the Target's Statement with ASIC, and will commence dispatch of the Bidder's Statement to Watpac Shareholders on or around 1 November 2018 (being attached to this Target's Statement).
2. What is this Target's Statement and why have I received it?	<p>This Target's Statement is Watpac's formal response to the Offer and the Bidder's Statement. You have received this Target's Statement because you are a Watpac Shareholder.</p> <p>This Target's Statement includes the recommendation of the Independent Directors to ACCEPT the Offer in the absence of a Superior Proposal.</p>
3. What is the Offer?	The Offer is an all-cash, unconditional off-market offer made by BESIX to acquire all of the Watpac Shares on the terms set out in the Bidder's Statement.
4. What is BESIX offering for my Watpac Shares?	BESIX is offering \$0.92 in cash for each Watpac Share you hold.
5. When does the Offer close?	<p>The Offer will close at 6.00 pm (Brisbane Time) on 3 December 2018 unless extended or withdrawn.</p> <p>The Independent Directors will keep you informed if there are any material developments in relation to the Offer.</p>
6. Is the Offer conditional?	No. The Offer is an all-cash, unconditional off-market offer.
7. What choices do I have as a Watpac Shareholder?	<p>As a Watpac Shareholder you have the choice to:</p> <ul style="list-style-type: none">• accept the Offer for all of your Watpac Shares;• sell your Watpac Shares on ASX, which may be at a higher or lower price than the Cash Consideration; or• reject the Offer, in which case you do not need to do anything. <p>There are several implications in relation to each of the above choices. A summary of these implications is set out in section 5 of this Target's Statement.</p> <p>Watpac Shareholders should carefully consider the Independent Directors' recommendation and other important issues set out in this Target's Statement.</p>

Question	Answer
8. What do your Independent Directors recommend?	<p>Your Independent Directors recommend that you ACCEPT the Offer in the absence of a Superior Proposal, for the reasons detailed in section 1.</p> <p>If there is a change in this recommendation or any material developments in relation to the Offer, Watpac will lodge a supplementary target's statement.</p>
9. What does the Independent Expert say?	<p>The Independent Expert has concluded that the Offer is fair and reasonable.</p> <p>The Independent Expert's report accompanies this Target's Statement as Annexure B.</p>
10. What do the Directors intend to do with their Watpac Shares?	<p>Each Director who holds Watpac Shares intends to ACCEPT the Offer in respect of their personal shareholdings in Watpac in the absence of a Superior Proposal.</p>
11. How do I accept the Offer?	<p>To accept the Offer, you must follow the instructions in the Bidder's Statement and on the Acceptance Form. Details of how to accept the Offer are set out in clause 4 of Appendix 1 of the Bidder's Statement.</p> <p>You may wish to seek independent financial and taxation advice from your professional adviser in relation to the action that you should take in relation to the Offer and your Watpac Shares.</p>
12. What are the consequences of accepting the Offer now?	<p>If you accept the Offer, you will give up your right to sell your Watpac Shares on the ASX or otherwise deal with your Watpac Shares while the Offer remains open.</p>
13. How do I reject the Offer?	<p>To reject the Offer, you do not need to do anything.</p> <p>However, you should note that the Independent Directors' recommendation is that you ACCEPT the Offer in the absence of a Superior Proposal.</p>
14. If I accept the Offer, can I withdraw my acceptance?	<p>The Offer is unconditional. Your acceptance of the Offer is irrevocable and you are not entitled to withdraw your acceptance.</p>
15. When do I have to make a decision?	<p>If you wish to accept the Offer, you must do this before its scheduled closing date. BESIX has stated that the Offer remains open until 6.00pm (Brisbane time) on 3 December 2018. It is possible that BESIX may choose to extend the Offer Period in accordance with the Corporations Act. In addition, the Offer Period may be extended automatically in certain circumstances.</p>
16. Can I be forced to sell my Watpac Shares?	<p>You cannot be forced to sell your Watpac Shares unless BESIX proceeds to compulsory acquisition of Watpac Shares, as further explained in section 7.6 of this Target's Statement. If BESIX proceeds to compulsory acquisition under Part 6A.1 of the Corporations Act, then you will be paid the same consideration as is payable by BESIX under the Offer.</p>

Question	Answer
17. What are the tax implications of accepting the Offer?	<p>A general description of the taxation treatment for certain Australian resident Watpac Shareholders accepting the Offer is set out in section 7 of the Bidder's Statement. As this section of the Bidder's Statement is a general outline only, you should not rely on those descriptions as advice for your own taxation affairs.</p> <p>You should consult your taxation adviser for detailed taxation advice before making a decision as to whether or not to accept the Offer for your Watpac Shares. You may, for example, be liable for capital gains tax on the sale of your Watpac Shares if you accept the Offer.</p>
18. Can I sell my Watpac Shares on market?	<p>You can sell your Watpac Shares on market unless you have accepted the Offer. If you sell your Watpac Shares on market:</p> <ul style="list-style-type: none"> • you will not benefit from any possible increase in the value of Watpac Shares; and • you will not benefit from any possible increase in the consideration that may be provided under the Offer or any other offer, should one be made. <p>You should note, however, that from the date the Bidder's Statement is given to Watpac, BESIX also intends to conduct on-market purchases of Watpac Shares and may do so from time to time in accordance with item 2 of section 611 of the Corporations Act. BESIX has appointed Macquarie Securities to make such on-market purchases on its behalf.</p>
19. When will I be paid if I accept the Offer?	<p>If you accept the Offer, you will be paid the Cash Consideration within ten Business Days of BESIX receiving your validly completed Acceptance Form and all other relevant documents.</p>
20. How can I get updates on the Watpac Share price?	<p>If you have access to the internet, you can receive updates by visiting the ASX website at www.asx.com.au.</p>
21. Who should I call if I have any questions?	<p>Watpac has established a Shareholder Information Line for Watpac Shareholders in relation to the Offer. The telephone number is 1300 217 429 (within Australia), and +61 2 8022 7919 (outside Australia). It is available Monday to Friday between 8.30am and 5.00pm (Brisbane Time). Calls to these numbers may be recorded.</p> <p>Announcements made to ASX by Watpac and other information relating to the Offer can be obtained from Watpac's website at www.watpac.com.au.</p>

5 YOUR CHOICES AS A WATPAC SHAREHOLDER

As a Watpac Shareholder, you have the following three (3) choices available to you in relation to the Offer set out below.

The Independent Directors recommend that you **ACCEPT** the Offer in the absence of a Superior Proposal, for the reasons set out in section 1.

The Independent Directors encourage you to consider your personal risk profile, investment objectives and tax and financial circumstances before making any decision in relation to your Watpac Shares.

5.1 OPTION 1 – ACCEPT THE OFFER

If you accept the Offer, you must accept the Offer in relation to all of your Watpac Shares.

Details of the consideration that will be received by Watpac Shareholders who accept the Offer are set out in section 1.1 of this Target's Statement and in the Bidder's Statement.

Watpac Shareholders who accept the Offer may be liable for capital gains tax on the disposal of their Watpac Shares. However, they will not incur any brokerage charge.

The Bidder's Statement contains details of how to accept the Offer in clause 4 of Appendix 1 of the Bidder's Statement.

The Offer is unconditional. If you accept the Offer, you:

- will lose your exposure to any future growth potential in Watpac, although there can be no certainty this growth will occur and there are risks associated with an investment in Watpac (refer to the risk factors in section 8.9 of this Target's Statement for more information);
- will not be able to accept a higher price from a competing bidder if such a transaction eventuates; and
- may be liable to pay capital gains tax or income tax on the disposal of your Watpac Shares which may have financial consequences for some Watpac Shareholders (refer to section 7 of the Bidder's Statement for further details of the tax consequences of the Offer).

This course of action is unanimously recommended by the Independent Directors in the absence of a Superior Proposal.

5.2 OPTION 2 – SELL ALL OR SOME OF YOUR WATPAC SHARES ON MARKET

You can sell all or some of your Watpac Shares on market at any time if you have not already accepted the Offer.

In section 5.5 of the Bidder's Statement, BESIX has indicated that from the date the Bidder's Statement is given to Watpac, BESIX also intends to conduct on-market purchases of Watpac Shares and may do so from time to time in accordance with item 2 of section 611 of the Corporations Act. BESIX has appointed Macquarie Securities to make such on-market purchases on its behalf.

If you sell all of your Watpac Shares on market, you:

- will lose the ability to accept the Offer;
- will not receive the benefits of any future potential growth in Watpac, or any potential higher competing offer for your Watpac Shares (though it cannot be determined whether such events will occur);
- may receive more or less for your Watpac Shares than the Cash Consideration price;
- may incur a brokerage charge; and
- may be liable for capital gains tax or income tax on the sale.

Watpac Shareholders who wish to sell their Watpac Shares on market should contact their broker for information on how to effect a sale. You should also seek your own specific professional advice regarding the taxation consequences of selling your Watpac Shares on market.

On 26 October 2018 Watpac's share price closed at \$0.66. The Offer price of \$0.92 per Watpac Share represents a 38.8% premium to this share price. The latest price for Watpac Shares may be obtained from the ASX website www.asx.com.au.

5.3 OPTION 3 – REJECT THE OFFER BY DOING NOTHING

If you do not wish to accept the Offer and want to retain your Watpac Shares, simply do nothing and take no action in relation to documents sent to you from BESIX.

You should note that:

- if you choose not to accept BESIX's Offer, you will not receive any money from BESIX unless BESIX holds a relevant interest in 90% of the Watpac Shares at the end of the Offer Period and exercises its compulsory acquisition rights in these circumstances to acquire those Watpac Shares that it does not already own (as further explained in section 7.6 of this Target's Statement); and
- if BESIX acquires more than 50% but less than 90% of the Watpac Shares, and you continue to hold Watpac Shares, you will be exposed to the risks associated with being a minority shareholder of Watpac, as further explained in section 7.10 of this Target's Statement.

6 IMPORTANT MATTERS FOR WATPAC SHAREHOLDERS TO CONSIDER

6.1 THE OFFER

Watpac and BESIX jointly announced BESIX's intention to make an unconditional off-market takeover bid for all of your Watpac Shares on 29 October 2018. BESIX is offering \$0.92 cash for each of your Watpac Shares. The Offer is unconditional.

The Offer is open for acceptance from 1 November 2018 until 6.00pm (Brisbane Time) on 3 December 2018 unless it is extended or withdrawn (sections 7.3 and 7.4 of this Target's Statement describe the circumstances in which BESIX can extend or withdraw its Offer).

6.2 MINORITY OWNERSHIP CONSEQUENCES

If BESIX acquires more than 50% but less than 90% of the Watpac Shares then, BESIX will acquire a majority shareholding in Watpac.

Accordingly, Watpac Shareholders who do not accept the Offer will become minority shareholders in Watpac. This has a number of possible implications, including:

- (a) BESIX will be in a position to cast the majority of votes at a general meeting of Watpac. This will enable it to control the composition of Watpac's Board and senior management, determine Watpac's dividend policy and control the strategic direction of the businesses of Watpac and its subsidiaries (whilst acknowledging that it is BESIX's intention to maintain at least two independent directors in the event that it obtains control of Watpac but does not acquire 100% of the Watpac Shares);
- (b) the Watpac share price may fall immediately following the end of the Offer Period and it is unlikely that Watpac's share price will contain any takeover premium;
- (c) liquidity of Watpac Shares may be lower than at present;
- (d) if the number of Watpac Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing then BESIX may seek to have Watpac removed from the official list of the ASX. If this occurs, Watpac Shares will not be able to be bought or sold on the ASX; and
- (e) future Watpac dividend policy under the management of BESIX may vary significantly from current Watpac dividend policy.

6.3 OTHER ALTERNATIVES TO THE OFFER

It is possible that an alternative corporate control proposal for Watpac could materialise in the future. However, BESIX's support would be required for the Superior Proposal to proceed (given its 28.1% shareholding). Since the announcement of the Scheme to the ASX by Watpac on 26 February 2018 and up to the date of this Target's Statement, no Superior Proposal has emerged and the Independent Directors are not aware of any alternative or Superior Proposal that is likely to emerge.

6.4 WATPAC SHARE PRICE ABSENT THE OFFER

While there are many factors that influence the market price of Watpac Shares, your Independent Directors anticipate that, following the close of the Offer, the market price of Watpac Shares may fall if BESIX's Offer fails, if BESIX acquires more than 50% (but less than 90%) of the Watpac Shares or if the takeover is otherwise unsuccessful.

6.5 TAXATION

The taxation implications of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances. Watpac Shareholders who are Australian residents and hold their Watpac Shares on capital account may realise a gain or a loss and may incur a liability for taxation, by selling their Watpac Shares to BESIX. A general outline of the Australian taxation considerations of accepting the Offer are set out in section 7 of the Bidder's Statement. That general outline has been prepared by BESIX.

You should carefully read and consider the taxation consequences of accepting the Offer. The outline provided in the Bidder's Statement is of a general nature only and you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

7 KEY FEATURES OF THE OFFER

7.1 CONSIDERATION PAYABLE TO SHAREHOLDERS WHO ACCEPT THE OFFER

BESIX is offering \$0.92 cash for each of your Watpac Shares. The Offer is unconditional.

7.2 OFFER PERIOD

The Offer is open for acceptance until 6.00pm (Brisbane Time) on 3 December 2018 unless it is extended or withdrawn (sections 7.3 and 7.4 of this Target's Statement describe the circumstances in which BESIX can extend or withdraw its Offer).

7.3 EXTENSION OF THE OFFER PERIOD

BESIX may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- BESIX improves the consideration offered under the Offer; or
- BESIX's voting power in Watpac increases to more than 50%.

If either of these 2 events occur, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

7.4 WITHDRAWAL OF OFFER

BESIX may not withdraw the Offer if you have already accepted it. Before you accept the Offer, BESIX may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

7.5 EFFECT OF ACCEPTANCE – ACCEPTANCE OF THE OFFER IS IRREVOCABLE AND CANNOT BE WITHDRAWN

As the Offer is unconditional, your acceptance of the Offer is irrevocable and you are not entitled to withdraw your acceptance.

If you accept the Offer, you will lose your ability to accept a Competing Transaction, if one emerges, even if you consider the Competing Transaction to be more attractive. However, if BESIX were to increase its Cash Consideration to a higher all-cash sum as a result of a Competing Transaction being publicly announced at a time after you have accepted the Offer, you will be entitled to receive the improved consideration.

BESIX will also be entitled to the amount or value of all rights attaching to the Watpac Shares (including distributions) which arise or are paid on or after the Announcement Date in respect of Watpac Shares.

The effect of acceptance of the Offer is also set out in clause 7 of Appendix 1 of the Bidder's Statement. Watpac Shareholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the rights attaching to their Watpac Shares and the representations and warranties which they give by accepting of the Offer.

7.6 COMPULSORY ACQUISITION

BESIX will be able to compulsorily acquire any outstanding Watpac Shares for which it has not received acceptances on the same terms as the Offer if during, or at the end of, the Offer Period BESIX (taken together with its associates):

- has a relevant interest in at least 90% (by number) of the Watpac Shares; and
- has acquired at least 75% (by number) of the Watpac Shares for which it has made an Offer.

If these thresholds are met, BESIX will have one month from the end of the Offer Period within which to give compulsory acquisition notices to Watpac Shareholders who have not accepted the Offer. Watpac Shareholders

have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant shareholder to establish to the satisfaction of a court that the terms of the Offer do not represent 'fair value' for their Watpac Shares. If compulsory acquisition occurs, Watpac Shareholders who have their Watpac Shares compulsorily acquired are likely to be issued their consideration approximately 5 to 6 weeks after the compulsory acquisition notices are dispatched to them.

The consideration payable by BESIX will be the Cash Consideration last offered under the Offer.

It is possible that even if BESIX is not entitled to or required to proceed to compulsory acquisition of minority holdings after the end of the Offer Period under Part 6A.1 of the Corporations Act, it may subsequently become entitled to exercise rights of general compulsory acquisition under Part 6A.2 of the Corporations Act; for example, as a result of acquisitions of Watpac Shares in reliance on the "3% creep" exception in item 9 of section 611 of the Corporations Act. If so, BESIX has indicated in the Bidder's Statement that it may exercise those rights.

7.7 EFFECT OF AN IMPROVEMENT IN CONSIDERATION ON WATPAC SHAREHOLDERS WHO HAVE ALREADY ACCEPTED THE OFFER

If BESIX improves the consideration offered under the Offer, all Watpac Shareholders, whether or not they have accepted the Offer before that improvement in consideration, will be entitled to the benefit of that improved consideration.

7.8 BESIX'S INTENTIONS

BESIX's intentions if it were to acquire a relevant interest in at least 50.01% of Watpac Shares on issue are set out in section 5.2 of the Bidder's Statement, BESIX's further intentions if it were to acquire a relevant interest in 90% or more of the Watpac Shares are set out in section 5.3 of the Bidder's Statement, and BESIX's intentions if it does acquire a relevant interest in at least 50.01% of Watpac Shares on issue are set out in section 5.4 of the Bidder's Statement.

7.9 PERFORMANCE RIGHTS

There are various Performance Rights on issue with senior executives of Watpac as part of their remuneration packages, and additional Performance Rights proposed to be issued to Mr Monro following shareholder approval at the Annual General Meeting, details of which are outlined in section 8.3 of this Target's Statement.

The treatment of Performance Rights in the event that BESIX acquires a relevant interest in more than 50% of the Watpac Shares on issue (**Watpac Change of Control**), has been agreed by Watpac and BESIX in accordance with clause 6 and Schedule 6 of the Bid Implementation Agreement, and summarised in Annexure A of this Target's Statement.

Where a Performance Right is to be vested, Watpac must take all steps in accordance with the plan rules governing any Performance Rights to accelerate the vesting of any unvested Performance Rights on issue as at the date of the Watpac Change of Control on the condition that such Performance Rights will be deemed exercised upon vesting and notify the holders of such Performance Rights of the acceleration and deemed exercise.

7.10 LIQUIDITY OF WATPAC SHARES

If BESIX acquires a majority but not all of the Watpac Shares, the number of Watpac Shares traded on ASX could be significantly reduced. Under those circumstances, Watpac Shareholders who do not accept the Offer run the risk of being minority shareholders in a company that may have reduced share trading liquidity. This factor may affect the market price for the Watpac Shares and reduce the price that Watpac Shareholders could subsequently realise for their Watpac Shares.

7.11 TRANSACTION EXPENSES

The Offer has resulted in Watpac incurring expenses that would not otherwise arise from trading in the current financial year. These expenses are anticipated to be approximately \$2 million. Expenses include legal, financial and tax advisers engaged to assist in this transaction and other transaction related expenses which will have a negative impact on the statutory earnings in the current financial year.

7.12 MARKET TRADING

Watpac Shareholders who accept the Offer will be giving up their rights to sell or otherwise deal with their Watpac Shares.

7.13 PAYMENT

You will be paid within ten Business Days of BESIX receiving your validly completed Acceptance Form and all other relevant documents.

See clause 5 of Appendix 1 of the Bidder's Statement for further details on when you will be sent your payment from BESIX.

7.14 HOW TO ACCEPT THE OFFER

Instructions on how to accept the Offer are set out in the Bidder's Statement and Acceptance Form.

8 INFORMATION ABOUT WATPAC

8.1 OVERVIEW OF WATPAC

Watpac is a public company, headquartered in Brisbane, Queensland and listed on the Australian Securities Exchange since 1985 (ASX code: WTP).

Watpac was founded in 1983 and has since grown to become a leading national construction, civil infrastructure and mining contracting group with operations in all mainland states and territories.

The Watpac Group (consisting of Watpac Limited and its wholly-owned subsidiaries) has been responsible for delivering many iconic projects within the markets that it operates and has worked extensively with State and Federal Governments, as well as highly respected corporate clients.

Nationally, the Watpac Group employs approximately 700 staff across its construction, civil & mining and corporate business units.

Watpac Group's construction operations are focused on its traditionally strong East Coast markets (including South Australia and the Northern Territory), while the civil & mining business delivers projects nationally, with operations currently dominated by projects in Western Australia.

8.2 BUSINESS SEGMENTS

Building construction

Watpac's building construction segment provides building construction, project management and investment, design and construction management services. The Watpac Group presently derives the majority of its turnover through the building construction segment.

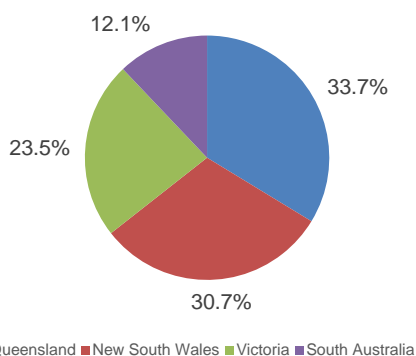
Watpac's construction capabilities span a diverse range of project types, methodologies and sectors, including advanced science, research and technology facilities, education, health, food processing, stadiums and sporting facilities, high security structures such as correctional facilities, airport terminals, defence facilities and other government buildings, in addition to more traditional commercial, residential and industrial construction.

Watpac's initial home market of Queensland has been supplemented over time by acquisitions in New South Wales (Grant Constructions in 2004) and Victoria (J A Dodd in 2007), as well as the establishment of a permanent presence in South Australia and past delivery of projects in the Northern Territory and Australian Capital Territory. While Queensland continues to deliver the most significant turnover contribution of the building construction segment, Watpac's operations in the states of New South Wales, Victoria and South Australia have grown to become meaningful contributors to the Watpac Group, having delivered a number of large, high-profile and important social infrastructure projects.

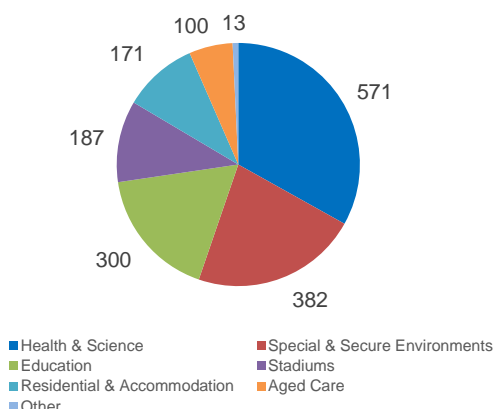
Watpac has successfully partnered with a number of high-calibre, repeat clients and project investment firms particularly in the education and health sectors. This has resulted from Watpac's strategic targeting and previous delivery of highly successful projects, and aligns with a long-term strategy to increase exposure to complex building work for quality clients where Watpac's capabilities and experience can add value.

This strategy has seen a recent marked improvement in the quality and geographical distribution of the building construction segment workbook which, as illustrated in the following graphs, now features a more desirable balance between traditional, baseload projects and those in targeted sectors that present greater opportunity for the Watpac Group's credentials and financial performance.

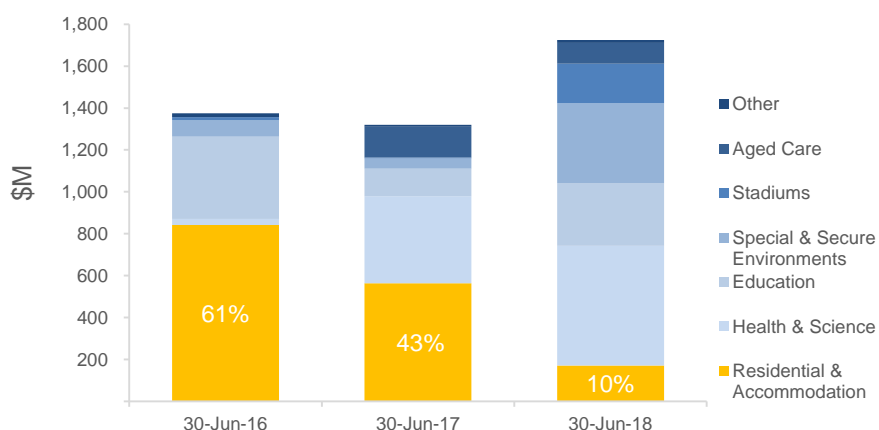
**Construction Work-in-hand (\$'M)
by region**



**Construction Work-in-hand (\$'M)
by industry sector**



Evolution of Construction Workbook



Watpac's near term objective is to pursue more desired projects that align to the strategic objectives of enhancing profitability and maximising shareholder value. This includes targeting projects in the previously identified sectors of Health & Sciences, Education and Special & Secure Environments (including Defence work). These targeted sectors have generally exhibited higher barriers to entry, require application of specialised experience and know-how, and provide greater latitude for Watpac to balance securing new work with competitiveness on factors beyond simply price.

In addition to the focus on project selection and enhanced risk management practices, Watpac is also endeavouring to improve internal programs by adopting national best practices, establishing centres of excellence with a focus on innovation and developing in-house design management capabilities.

Civil & Mining

The Watpac Group's civil & mining business provides civil infrastructure and contract mining services throughout Australia. These operations commenced at Watpac in 2007 with the acquisition of J A Dodd, followed soon after in 2008 with the purchase of the JMS Group and formed the basis of Watpac's capability in the mining and civil infrastructure spaces.

While initially East Coast-focused, the business has evolved under Watpac ownership to take advantage of resources and infrastructure opportunities in Western Australia, where a majority of projects have been delivered in recent years.

The civil & mining business has broad capabilities with particular success having been enjoyed in the business' key specialisation of open-cut contract mining services. This is in addition to strong civil capabilities in roads and bridges, dams, spillways and other public water infrastructure, as well as mine establishment and maintenance work including haul roads, tailings dams, waste and rock dumps.

The business' project teams are particularly adept at delivering in remote and regional areas, which is a capability that management are keen to emphasise and extend to other geographical markets as an avenue for future growth and building on past success.

Watpac Group's mining workbook is currently at a low level as a number of projects drew to a close over the past twelve months. Watpac's approach to securing work in this segment has been to maintain pricing discipline and to adopt a selective approach to tendering, aimed at protecting value in the long term and encouraging sustainability of earnings.

While sentiment in the Western Australia resources sector has recently been improving, aggressive pricing has been observed from a number of other participants in an effort to secure volumes.

As disclosed to the market under the ASX announcement dated 28 March 2018, Watpac was advised that it was unsuccessful on two major mining project tenders. As a result, the Watpac Board decided to conduct a comprehensive review of the civil and mining business, to ascertain options to maximise and preserve value. This review concluded that it was appropriate for Watpac to rationalise overheads, divest any surplus assets and adopt a more selective approach to tendering new opportunities, which are now more generally available due to the recent increase in activity levels across the resources sector. As a result, assets allocated to the civil and mining business were written down to their assessed fair market value less costs to sell at 30 June 2018 and a business restructuring provision recognised.

Since this decision was made and the Watpac Group's 30 June 2018 financial results released, Watpac has been approached by several parties expressing an interest in acquiring the business. One of these options is currently under evaluation by the Watpac Board and has an assessed potential transaction value broadly in line with the current written down value of this business' assets.

Property

Watpac's property business currently holds properties in Queensland with a carrying value of \$4.2 million.

These remaining properties are expected to be divested in the next twelve months.

8.3 WATPAC'S ISSUED SECURITIES

Watpac Shares

As at the date of this Target's Statement, Watpac had 183,386,244 Watpac Shares on issue.

Watpac Performance Rights

As at the date of this Target's Statement, Watpac also had 5,755,000 Performance Rights on issue, comprised as follows:

- 1,860,000 2016 Long Term Incentive Plan performance rights issued on 25 August 2016 and 28 October 2016;
- 2,105,000 2017 Long Term Incentive Plan performance rights issued on 20 September 2017 and 23 October 2017; and
- 1,790,000 2018 Long Term Incentive Plan performance rights issued on 17 September 2018 and 25 September 2018,

(together, the **Watpac Performance Rights Plans**).

In addition, a further 450,000 2018 Long Term Incentive Plan Performance Rights have been approved for issuance by the Board, however remain subject to Watpac Shareholder approval at the Annual General Meeting.

Watpac Shares are quoted on the ASX. Watpac's Performance Rights are unlisted and therefore cannot be traded on the ASX.

8.4 EFFECT OF OFFER ON PERFORMANCE RIGHTS

Under the terms of each of the Watpac Performance Rights Plans set out in section 8.3 above, in the event of a Watpac Change of Control (where the Offer proceeds and BESIX obtains relevant interest in more than 50% of the Watpac Shares on issue), the Watpac Board has discretion to make determinations concerning the accelerated vesting of the Performance Rights.

Under the Bid Implementation Agreement, Watpac and BESIX have agreed how the Performance Rights will be treated in connection with any Watpac Change of Control arising as a result of the Offer.

The treatment of Performance Rights under the Offer is detailed in full in clause 6 and Schedule 6 of the Bid Implementation Agreement, and summarised in Annexure A of this Target's Statement.

8.5 SUBSTANTIAL HOLDERS

The substantial holders of Watpac as at the date of this Target's Statement are as follows:

Shareholder	Last notice	Number of Watpac Shares	Voting power (%)
BESIX Group SA	1 December 2017	51,553,318	28.11%
Commonwealth Bank of Australia and its Subsidiaries	23 May 2018	16,013,714	8.73%
Adam Smith Asset Management Pty Limited	14 June 2017	10,928,811	5.87%

8.6 RECENT SHARE PRICE PERFORMANCE OF WATPAC

The latest recorded sale price of Watpac Shares on ASX before the Announcement Date was \$0.66 as at close of trading on ASX on 26 October 2018.

The price of Watpac Shares was \$0.66 as at 26 October 2018, being the last practicable trading day prior to the date of this Target's Statement.

The following chart shows the last sale price of Watpac Shares on ASX in the 12 months prior to the Announcement Date.



Source: Bloomberg

8.7 LATEST FINANCIAL RESULTS AND CHANGE OF FINANCIAL POSITION

Watpac's last published audited financial statements are for the year ended 30 June 2018 were lodged with ASX on 23 August 2018.

Except as disclosed in this Target's Statement and any announcement made by Watpac since 23 August 2018 the Directors are not aware of any material change to Watpac's financial position as disclosed in Watpac's audited financial statements for the year ended 30 June 2018 lodged with ASX on 23 August 2018.

8.8 ASX DISCLOSURES BY WATPAC SINCE 30 JUNE 2018

Since 30 June 2018, Watpac has made a number of announcements to ASX pertaining to new project awards that may be relevant to its future financial performance. Details of these projects are listed below.

Date	Project Name	Value*
21/08/18	Melbourne Data Centre	\$75M
7/08/18	Roma Hospital Redevelopment	\$74M
2/07/18	Bouverie Street Student Accommodation	\$49M

* Total development value.

A copy of each these announcements may be obtained from ASX or from Watpac's website at www.watpac.com.au.

8.9 KEY RISKS

General risks

Watpac is currently exposed to a number of risks that Watpac Shareholders should be aware of. A brief outline of these risks is set out below, which should be considered in conjunction with Watpac's ongoing disclosure under ASX Listing Rules.

The following describes known principal risks and uncertainties that could materially affect Watpac. There may be additional risks unknown to Watpac and other general risks which may affect Watpac.

Like many listed companies, Watpac is exposed to a number of general risks that could materially adversely affect its financial position, assets and liabilities, reputation, profits, prospects and the market price and value of Watpac Shares.

These could include any or all of the following:

- fluctuations in economic conditions in Australia and internationally, including fluctuations in economic growth, interest rates, exchange rates, the level of inflation and employment levels;
- fluctuations in Australian and overseas stock markets;
- changes in government fiscal, monetary, regulatory and foreign policy in relevant jurisdictions and changes to political or judicial policies or conditions;
- increases in expenses (including wage inflation); and
- natural disasters and catastrophic events.

Specific risks relating to Watpac and the industries in which it operates

(a) Profitability

Watpac has incurred statutory losses after tax in three of the last five financial years. These statutory losses have largely been attributed to strategic repositioning, rapid short-term cost fluctuations, cyclical downturns and the level of competitive intensity in its core business sectors.

While Watpac has developed a range of strategies and approaches to address recent profitability issues, no assurance can be given that these business improvements will be achieved.

(b) Delivery and performance of current workbook

A significant proportion of Watpac's revenue and earnings are derived from delivering building construction, refurbishment, project and design management contracts.

Watpac's ability to deliver improved earnings over the short-term is dependent on the successful delivery of its current work-in-hand in line with expectations (including cost expectations). These expectations are typically set prior to delivering a project, and require commercial judgement on price and allocation of risks based on information that may be uncertain or incomplete at the time of making the assessment. Actual circumstances arising that differ materially from these assumptions may cause Watpac to suffer financial loss, despite controls, procedures and protocols that are in place to ensure that assumptions are as robust as possible.

Further, cost escalation pressures (such as those experienced in the South East Queensland subcontractor market in previous years), commercial complexity in dealing with clients, consultants and subcontractors, adverse credit events or insolvencies involving project counterparties, variances in the timing for delivery of key projects or failures by Watpac or subcontractors to perform contractual obligations as required may lead to additional costs and liability which may further affect Watpac's future financial performance.

(c) Ability to secure new projects

Watpac's main sources of revenue and earnings are from the provisions of building construction, refurbishment, project and design management services. Watpac's ability to maintain and grow its future revenue and earnings is dependent upon its ability to secure new projects.

Watpac expects to continue to have a broad range of competitors in each of its core markets. As noted in 'Profitability' above, Watpac has developed a range of strategic initiatives to position itself in more attractive market segments with higher entry barriers, however no assurances can be given that Watpac will be able to continue to secure new projects, or maintain or increase the margin it obtains under project contracts.

(d) Reputational risks

Watpac has developed an established brand within the construction industry and has formed strong customer relationships with clients across each of its core businesses.

Maintaining a strong reputation in the market is an important factor in ensuring that Watpac continues to win new projects. A failure, or perceived failure, in relation to the services provided by Watpac may damage this reputation and these client relationships and may affect Watpac's future financial performance.

(e) Cyclical market risk

Watpac's core businesses are heavily aligned to the construction and natural resources sectors and industries related to each.

A downturn or other changes impacting these sectors (for example increases in interest rates or weakness in commodity prices) may affect Watpac's future revenue or the value of Watpac's assets, which may in turn affect the future financial performance of Watpac.

(f) **Operational disruptions**

Watpac's core businesses are subject to a wide range of operational risks that may impact on a particular business' or project's performance including employment relations risks, health and safety risks, environmental and weather risk, project equipment or information technology system failures or other downtime, subcontractor performance failures, disputes or natural disasters.

While Watpac has used its best endeavours to minimise its exposure to these risks by putting in place appropriate internal procedures, contractual protections and insurance policies, no assurances can be given that Watpac's policies, contractual protections or insurance coverage will be sufficient to cover the potential impacts of one or more disruptions occurring.

To the extent such an unprotected disruption arises, the costs of responding to, addressing or remediating such a disruption may have an impact on the future financial performance of Watpac.

(g) **Further changes in asset valuations**

As described above under 'Cyclical market risks', downturns or other changes impacting the construction and natural resources sectors may impact on the value of Watpac's assets, which may in turn affect the future financial performance of Watpac.

Factors that may influence the value of Watpac's assets therefore include the demand for construction services (which may be affected by increases in interest rates), the demand for civil and mining works (which may be affected by weakness in commodity prices) and increases in Watpac's input costs.

(h) **Litigation and liability risk**

Due to the nature and scope of the activities undertaken by Watpac and the number of parties it deals with under its contracts, Watpac may be subject to potential claims or litigation from third parties including clients, suppliers, subcontractors, employees and regulators.

Such claims, which may include third party indirect or consequential losses, may relate to defective work performed, personal or property damage or regulatory compliance liability.

While Watpac has used its best endeavours to minimise its exposure to these risks by putting appropriate quality and contractual management practices and insurance policies in place, no assurances can be given that this will be sufficient to cover the liability arising from such matters.

To the extent such liabilities arise, the litigation and the costs of responding to any threats of legal action or investigation may have an adverse impact on the financial position and future financial performance of Watpac.

(i) **Labour risks**

It is possible that Watpac may face difficulties in sourcing suitably qualified workers to deliver on project obligations. Further, in a labour constrained market, it is possible that Watpac may face input cost pressures. Industrial relations may also give rise to, or exacerbate, such difficulties.

8.10 PUBLICLY AVAILABLE INFORMATION ABOUT THE WATPAC GROUP

Wapac is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a listed company, Wapac is subject to the ASX Listing Rules which require continuous disclosure of any information Wapac has concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

In addition, Wapac is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Wapac may be obtained from or inspected at an ASIC office. A substantial amount of information about Wapac, including its ASX filings are available in electronic form from its website www.watpac.com.au.

9 OVERVIEW OF FINANCIAL PERFORMANCE

9.1 Historical Financial Information

This section 9.1 sets out summary financial information in relation to Watpac for the purpose of this Target's Statement. The financial information has been extracted from Watpac's audited financial statements for the financial years ended 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018.

The historical financial information of Watpac in this section 9.1 is presented in an abbreviated form and does not contain all disclosures, presentations, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. A substantial amount of information on Watpac, including copies of its annual reports, is publicly available and may be accessed in electronic form by visiting Watpac's website www.watpac.com.au or via ASX's company announcement platform.

Watpac Shareholders without access to the company's website or ASX's company announcements platform can obtain copies of this information by contacting the Shareholder Information Line on 1300 217 429 (within Australia) or +61 2 8022 7919 (outside Australia) Monday to Friday between 8.30am and 5.00pm (Brisbane Time).

Watpac's recent statutory historical consolidated income statements, historical consolidated statements of financial position and historical consolidated cash flow statements are disclosed in the annual financial reports for the financial years ended 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018. The historical financial information of Watpac has been prepared in accordance with the recognition and measurement principles contained in the Australian Accounting Standards.

The financial information provided in this section 9.1 is a summary only, has been prepared solely for inclusion in this Target's Statement and should be read in conjunction with other information contained in this Target's Statement.

a) Historical consolidated statement of comprehensive income

Set out below is a summary of Watpac's consolidated statements of comprehensive income for the financial years ended 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018.

The summarised historical consolidated statements of comprehensive income of Watpac which are set out:

- in the second column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2015 as disclosed within Watpac's 2015 Annual Report;
- in the third column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2016 as disclosed within Watpac's 2016 Annual Report;
- in the fourth column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2017 as disclosed within Watpac's 2017 Annual Report; and
- in the fifth column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2018 as disclosed within Watpac's 2018 Annual Report.

	FY15 \$'000 Audited	FY16 \$'000 Audited	FY17 \$'000 Audited	FY18 \$'000 Audited
Revenue	1,218,476	1,223,128	1,108,708	1,080,003
Cost of sales	(1,137,086)	(1,167,351)	(1,054,838)	(1,029,573)
Gross profit	81,390	55,777	53,870	50,430

	FY15 \$'000 Audited	FY16 \$'000 Audited	FY17 \$'000 Audited	FY18 \$'000 Audited
Other income	60	2,009	331	461
Property development holding costs expenses	(579)	(552)	(443)	(252)
Administration expenses	(54,232)	(50,388)	(55,226)	(58,856)
Net finance income / (expense)	(2,070)	1,635	1,926	3,258
Results from operating activities	24,569	8,481	458	(4,959)
Gain on sale of land and buildings	-	2,728	-	-
New business expenditure	-	-	(4,051)	-
Restructuring expenses	-	-	-	(5,561)
Scheme of Arrangement expenses	-	-	-	(1,925)
Impairment expense (net)	(9,080)	(41,609)	(29,648)	(34,455)
Profit / (loss) before tax	15,489	(30,400)	(33,241)	(46,900)
Income tax benefit / (expense)	(3,966)	9,037	1,828	(10,024)
Profit / (loss) after tax	11,523	(21,363)	(31,413)	(56,924)
Other comprehensive income for the period, net of tax	(2,100)	-	-	123
Total comprehensive income / (loss) for the period	9,423	(21,363)	(31,413)	(56,801)
Earnings per share				
Basic earnings / (loss) per share	6.11	(11.41)	(16.89)	(30.94)
Diluted earnings / (loss) per share	6.05	(11.41)	(16.89)	(30.94)

b) Historical consolidated balance sheet

Set out below is a summary of Watpac's consolidated balance sheets as at 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018.

The summarised historical consolidated balance sheets of Watpac which are set out:

- in the second column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2015 as disclosed within Watpac's 2015 Annual Report;
- in the third column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2016 as disclosed within Watpac's 2016 Annual Report;

- in the fourth column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2017 as disclosed within Watpac's 2017 Annual Report; and
- in the fifth column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2018 as disclosed within Watpac's 2018 Annual Report.

	30 June 2015 \$'000 Audited	30 June 2016 \$'000 Audited	30 June 2017 \$'000 Audited	30 June 2018 \$'000 Audited
ASSETS				
Current assets				
Cash and cash equivalents	112,365	129,351	94,916	68,106
Cash deposits	70,356	122,105	134,127	169,937
Trade and other receivables	178,694	141,831	157,352	128,190
Inventories - stock on hand	15,977	14,377	10,352	140
Inventories - property development assets	11,145	8,112	1,321	4,226
Total current assets	388,537	415,776	398,068	370,599
Non-current assets				
Inventories - property development assets	16,430	9,013	11,188	-
Property, plant and equipment	144,181	115,218	84,154	55,855
Intangibles	27,698	17,676	17,676	17,676
Deferred tax assets	12,852	21,889	23,717	13,693
Total non-current assets	201,161	163,796	136,735	87,224
Total assets	589,698	579,572	534,803	457,823
LIABILITIES				
Current liabilities				
Trade and other payables	273,794	301,411	293,548	281,224
Borrowings	12,872	7,236	6,089	-
Employee benefits	14,288	14,776	14,004	14,494
Provisions	384	111	49	5,594
Total current liabilities	301,338	323,534	313,690	301,312
Non-current liabilities				
Trade and other payables	8,711	9,226	11,756	11,967

	30 June 2015 \$'000 Audited	30 June 2016 \$'000 Audited	30 June 2017 \$'000 Audited	30 June 2018 \$'000 Audited
Borrowings	18,865	11,216	5,380	-
Employee benefits	4,153	3,807	3,739	3,002
Provisions	795	940	875	1,104
Total non-current liabilities	32,524	25,189	21,750	16,073
Total liabilities	333,862	348,723	335,440	317,385
Net assets	255,836	230,849	199,363	140,438
EQUITY				
Issued capital	239,570	235,563	235,563	233,727
Reserves	7,361	7,744	7,671	7,506
Retained earnings	8,905	(12,458)	(43,871)	(100,795)
Total equity	255,836	230,849	199,363	140,438

c) Historical consolidated statement of cash flows

Set out below is a summary of Watpac's consolidated statements of cash flows as at 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018.

The summarised historical consolidated statements of cash flows of Watpac which are set out:

- in the second column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2015 as disclosed within Watpac's 2015 Annual Report;
- in the third column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2016 as disclosed within Watpac's 2016 Annual Report;
- in the fourth column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2017 as disclosed within Watpac's 2017 Annual Report; and
- in the fifth column of the table below, have been extracted from the audited financial statements of Watpac for the year ended 30 June 2018 as disclosed within Watpac's 2018 Annual Report.

	FY15 \$'000 Audited	FY16 \$'000 Audited	FY17 \$'000 Audited	FY18 \$'000 Audited
Cash flows from operating activities				
Cash receipts from customers	1,313,417	1,383,596	1,204,037	1,217,791
Cash paid to suppliers and employees	(1,244,146)	(1,292,837)	(1,204,985)	(1,189,775)
Cash generated from operations	69,271	90,759	(948)	28,016

	FY15 \$'000 Audited	FY16 \$'000 Audited	FY17 \$'000 Audited	FY18 \$'000 Audited
Interest received	3,815	3,858	3,990	5,292
Interest paid	(6,483)	(3,334)	(2,547)	(1,841)
Income taxes refunded / (paid)	(284)	(60)	345	-
Net cash provided by operating activities	66,319	91,223	840	31,467
Cash flows from investing activities				
Investment in cash deposits	(277)	(51,749)	(12,022)	(35,810)
Acquisition of assets	(22,103)	(14,609)	(14,951)	(10,397)
Proceeds from sale of assets	40	9,586	696	2,186
Net cash used in investing activities	(22,340)	(56,772)	(26,277)	(44,021)
Cash flows from financing activities				
Repayment of borrowings	(43,989)	(13,285)	(6,983)	(11,469)
Purchase of treasury shares	-	(4,007)	(539)	(2,787)
Finance facility transaction costs	-	(173)	(1,476)	-
Dividends paid	(7,744)	-	-	-
Net cash used in financing activities	(51,733)	(17,465)	(8,998)	(14,256)
Net increase / (decrease) in cash and cash equivalents	(7,754)	16,986	(34,435)	(26,810)
Cash and cash equivalents at 1 July	120,119	112,365	129,351	94,916
Cash and cash equivalents at 30 June	112,365	129,351	94,916	68,106

d) Material changes in Watpac's financial position since Watpac's 30 June 2018 Annual Report

Other than as disclosed in the notes to the Annual Report for the financial year ended 30 June 2018 in relation to the impact of adopting AASB 15 *Revenue from Contracts with Customers* on 1 July 2018, no Director is aware of any material change to the financial position of Watpac since 30 June 2018.

Watpac will provide a copy of the Annual Report for the financial year ended 30 June 2018 free of charge to any person who requests a copy.

9.2 Capital management and liquidity

As illustrated in section 9.1, the Watpac Group maintains a substantial level of cash and liquidity. Following the repayment of all equipment finance borrowings in FY18, gross and net cash and deposits as at 30 June 2018 totalled \$238M comprising:

- \$68.1M in cash and cash equivalents with a maturity date of less than three months (as highlighted in the table above in section 9.1); and
- \$169.9M in cash deposits with a maturity date of greater than three months.

The increase in the higher yielding and longer dated cash deposits over the past few financial years is reflective of Watpac's robust cash management and forecasting processes, strong order book enabling more cash to be deposited in higher-yielding investments, and yield maximisation activities constantly evolving.

The Watpac Group also has extensive capacity to provide any required performance bonding on new projects through the maintenance of:

- a \$170M committed syndicated banking facility for the provision of bank guarantees (drawn to \$79.7M as at 30 June 2018); and
- \$205M in aggregate bi-lateral facilities for the provision of insurance bonds (drawn to \$125.8M as at 30 June 2018).

The maintenance of a strong balance sheet and funding facilities is a key strategic priority and capital risk management strategy for the Watpac Group.

9.3 Forecast financial performance

Watpac does not provide specific earnings or cash flow forecasts to the market. Forecasts by their nature are uncertain and may be affected by unexpected events, many of which are outside Watpac's control. In particular, Watpac's trading prospects are subject to inherent uncertainties and ongoing risks related to the nature of its operations and the sectors in which Watpac operates.

However, Watpac does provide detailed information in relation to its work-in-hand, key project wins and delivery profile, which allows market participants to form their own view of Watpac's outlook. Watpac Shareholders who may form their own view are encouraged to read the risk factors set out in section 8.9 of this Target's Statement.

9.4 Dividend policy

Watpac has not paid dividends to Watpac Shareholders in recent history as a result of statutory losses having been incurred and inadequate retained earnings from which to make such distributions.

Watpac is not able to indicate if and when dividends will be paid in the future if the Offer is not implemented, as payment of any dividend will depend on the future profitability, financial position and capital requirements of Watpac, as well as general business and other factors considered relevant by Watpac's Board.

10 INTERESTS OF DIRECTORS

10.1 INTERESTS OF DIRECTORS IN SECURITIES IN WATPAC

As at the date immediately prior to this Target's Statement, the number and description of securities in Watpac in which each of the Directors has a relevant interest is set out in the table below.

Director	Number of Shares	Number of Performance Rights
Martin Monro	585,000	900,000*
Peter Watson	139,639	Nil
Linda Evans	45,081	Nil
Garret Dixon	35,000	Nil
Total	804,720	900,000

* As referred to in section 8.3, a further 450,000 2018 Long Term Incentive Plan Performance Rights have been approved for issuance by the Board, however remain subject to Watpac Shareholder approval at the Annual General Meeting, and the agreed treatment of Performance Rights pursuant to a Watpac Change of Control detailed in clause 6 and Schedule 6 of the Bid Implementation Agreement, and summarised in Annexure A of this Target's Statement.

As at the date of this Target's Statement, each Director who holds Watpac Shares intends to **ACCEPT** the Offer in respect of their Watpac Shares.

10.2 DEALINGS BY DIRECTORS IN WATPAC SECURITIES

There have been no acquisitions or disposals of interest in any Watpac Shares by any Director in the four months ending on the day preceding the date of this Target's Statement.

10.3 INTERESTS AND DEALINGS IN BESIX

As at the date immediately before the date of this Target's Statement, no Director (other than the BESIX nominee Directors) had a relevant interest in any securities of BESIX.

No Director (other than the BESIX nominee Directors) acquired or disposed of a relevant interest in any BESIX securities in the 4 month period ending on the date immediately before the date of this Target's Statement.

10.4 BENEFITS AND AGREEMENTS

(a) Benefits in connection with retirement from office

As a result of the Offer, no payment or other benefit (other than a benefit permitted by section 200F or 200G and compulsory superannuation entitlements or in his or her capacity as a Watpac Shareholder) has been proposed to be made or given to any Director, secretary or executive officer of Watpac or any Related Body Corporate of Watpac in connection with the loss of, or their resignation from, their office in Watpac or in a Related Body Corporate of Watpac or as compensation for the loss of, or as consideration for or in connection with their retirement from, office in that Related Body Corporate of Watpac or in Watpac.

(b) Agreements connected with or conditional on the Offer

There are no agreements made between any director of Watpac and any other person in connection with, or conditional upon, the outcome of the Offer other than in their capacity as a holder of Watpac Shares or Performance Rights.

(c) Interests of Watpac Directors in contracts with BESIX

None of the Watpac Directors have any interest in any contract entered into by BESIX, or a BESIX entity, other than in their capacity as a Watpac Shareholder.

Ms Evans is a partner of Clayton Utz, a national law firm, which is one of a number of legal firms that provide legal services to BESIX on normal commercial terms and conditions and which currently advises BESIX on one matter unrelated to Watpac. Ms Evans is not involved in advising BESIX and the IBC does not consider this to create any conflict of interest.

(d) Benefits from BESIX

None of the Watpac Directors has agreed to receive, or is entitled to receive, any benefit from BESIX or a BESIX Associate, which is conditional on, or is related to, the Offer, other than in their capacity as a Watpac Shareholder.

11 ADDITIONAL INFORMATION

11.1 BID IMPLEMENTATION AGREEMENT

BESIX and Watpac entered into a Bid Implementation Agreement in respect of the Offer on 28 October 2018. A summary of certain key terms of the Bid Implementation Agreement is set out in section 8.1 of the Bidder's Statement.

11.2 POTENTIAL IMPACT OF OFFER ON FINANCING ARRANGEMENTS AND MATERIAL CONTRACTS

Watpac has 17 Change of Control Contracts, broadly being client agreements to which Watpac or a subsidiary is a party that contain change of control provisions that would be triggered as a result of BESIX obtaining control of Watpac pursuant to the Offer. In these circumstances, Watpac must obtain counterparty consent or approval to the change of control.

While no assurance as to the outcome of the change of control process can be given, Watpac does not consider the risk of counterparties withholding their consent or approval to represent a high likelihood of occurrence given the nature of the Offer and the identity of BESIX as the acquirer of Watpac Shares (being an existing major shareholder).

11.3 MATERIAL LITIGATION

Watpac is from time to time involved in disputes and litigation and is currently involved in a number of such disputes and litigation in the ordinary course of its business.

As at the date of this Target's Statement, Watpac is not involved in any ongoing litigation or dispute which has been assessed to be material in the context of Watpac and its Subsidiaries taken as a whole.

11.4 ASX WAIVERS

Watpac will apply for any ASX waivers necessary to give effect to the treatment of the Performance Rights contemplated by clause 6 and Schedule 6 of the Bid Implementation Agreement, and will notify Watpac Shareholders of any further developments in relation to this matter.

11.5 CONSENTS

This Target's Statement contains statements made by, or statements said to be based on statements made by Lonergan Edwards as the Independent Expert. Lonergan Edwards has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of the Target's Statement.

Herbert Smith Freehills has given, and has not withdrawn before the date of this Target's Statement, its written consent to be named in this Target's Statement as Australian legal advisers in the form and context in which it is so named. Herbert Smith Freehills has not advised on the laws of any foreign jurisdiction and has not provided tax advice in relation to any jurisdiction.

Each of the parties listed below has also given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn their written consent to be named in this Target Statement in the form and context in which they are so named:

- Luminis Partners Pty Ltd;
- Computershare Investor Services Pty Ltd; and
- Macquarie Securities (Australia) Limited.

As permitted by ASIC Class Order 13/521 this Target's Statement contains statements which are made, or based on statements made, in documents lodged by BESIX with ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX, by BESIX. Pursuant to the Class Order, the consent of BESIX is not required for the inclusion of such statements in this Target's Statement. Any Watpac Shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting the Shareholder Information Line on 1300 217 429 (within Australia) or +61 2 8022 7919 (outside Australia).

As permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72 (**Corporations Instrument 2016/72**), this Target's Statement may include or be accompanied by certain statements:

- which fairly represent what purports to be a statement by an official person;
- which are a correct and fair copy of, or extract from, what purports to be a public official document; or
- which are a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication.

11.6 OTHER MATERIAL INFORMATION

The Target's Statement is required to include all the information that Watpac Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for Watpac Shareholders and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Director.

The Independent Directors are of the opinion that the information that Watpac Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in Target's releases to ASX, and in the documents lodged by Watpac with ASIC, prior to the date of this Target's Statement; and
- the information contained in this Target's Statement (including the information contained in the Independent Expert's Report).

The Independent Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Independent Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken to be endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Independent Directors have had regard to:

- the nature of the Watpac Shares;
- the matters that Watpac Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to Watpac Shareholders' professional advisers; and
- the time available to Watpac to prepare this Target's Statement.

11.7 DATE OF TARGET'S STATEMENT

This Target's Statement is dated 29 October 2018, which is the date on which it was lodged with ASIC.

11.8 APPROVAL OF TARGET'S STATEMENT

This Target's Statement has been approved by a resolution passed by the Directors on 28 October 2018.



Signed for and on behalf of **Watpac Limited** in accordance with section 351 of the Corporations Act.

Director
Watpac Limited
29 October 2018

12 GLOSSARY

12.1 DEFINITIONS

\$, A\$ or AUD means Australian dollar.

Acceptance Form means the acceptance form enclosed with the Bidder's Statement.

Annual General Meeting means the annual general meeting of Watpac to be held on or around 13 November 2018.

Announcement Date means 29 October 2018.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691).

ASX Listing Rules means the official listing rules of the ASX, as amended from time to time.

Australian Accounting Standards means the accounting standards developed and maintained by the Australian Accounting Standards Board.

BESIX means BESIX Group SA a limited liability company incorporated in Belgium, under Company No. BCE 0400.459.154, Avenue des Communautés 100, B-1200 Brussels, Belgium.

Bid Implementation Agreement means the agreement signed between BESIX and Watpac on 28 October 2018 which sets out the rights and obligations of the parties in this transaction.

Bidder's Statement means the bidder's statement in relation to the Offer, prepared by BESIX and dated 29 October 2018 and includes any supplementary bidder's statement.

Board means the board of directors of Watpac.

Brisbane Time means the time in Brisbane, Queensland, Australia.

Business Day means a day on which banks are open for general banking business in Brisbane (not being a Saturday, Sunday or public holiday in that place).

Cash Consideration means the cash consideration offered under the Offer. As at the date of this Target's Statement, it is \$0.92.

Change of Control Contract means client agreements to which Watpac or a subsidiary is a party that contain change of control provisions that would be triggered as a result of BESIX obtaining over 50% ownership of Watpac pursuant to the Offer.

Competing Transaction has the meaning given to that term in the Bid Implementation Agreement.

Computershare Investor Services means Computershare Investor Services Pty Limited ABN 48 078 279 277.

Corporations Act means *Corporations Act 2001* (Cth).

Directors means the current directors of Watpac.

Herbert Smith Freehills means Herbert Smith Freehills ABN 98 773 882 646.

IBC means the independent board committee consisting of the Independent Directors.

Independent Directors means Mr Peter Watson, Ms Linda Evans and Mr Garret Dixon.

Independent Expert means Lonergan Edwards.

Independent Expert's Report means the report prepared by the Independent Expert as to whether the Offer is fair and reasonable and dated 28 October 2018 which is contained in Annexure B to this Target's Statement.

Lonergan Edwards means Lonergan Edwards & Associates Limited ABN 53 095 445 560.

Luminis Partners Pty Ltd means Luminis Partners Pty Ltd ABN 82 602 701 235.

Macquarie Securities means Macquarie Securities (Australia) Limited ACN 002 832 126.

Offer means the takeover offer by BESIX for Watpac Shares under Chapter 6 of the Corporations Act as described in the Bidder's Statement.

Offer Period means the period during which the Offer will remain open for acceptance in accordance with clause 3 of Appendix 1 of the Bidder's Statement.

Performance Rights means a performance right issued by Watpac in respect of Watpac Shares or issued by Watpac in respect of Watpac Shares pursuant to the Annual General Meeting, whether vested or unvested.

relevant interest has the same meaning as in the Corporations Act.

Related Bodies Corporate has the meaning given in the Corporations Act.

Scheme means the scheme of arrangement pursuant to which BESIX proposed to acquire 50% of the Watpac Shares held by each Watpac Shareholder (other than BESIX) which was announced on 26 February 2018 by Watpac, but which was ultimately unsuccessful.

Scheme Meeting means the meeting of Watpac Shareholders which was convened on 7 June 2018 to vote on the Scheme.

Superior Proposal has the same meaning given in the Bid Implementation Agreement.

Target's Statement means this document (including the attachments), being the statement of Watpac under Part 6.5 Division 3 of the Corporations Act.

WVAP means the volume weighted average price for Watpac Shares traded on the ASX over a specified period.

Watpac means Watpac Limited ACN 010 562 562.

Watpac Change of Control has the meaning given in section 7.9.

Watpac Share means a fully paid ordinary share in Watpac.

Watpac Shareholder means a registered holder of Watpac Shares.

12.2 INTERPRETATION

Unless the context otherwise requires:

- headings used in this Target's Statement are inserted for convenience and do not affect the interpretation of this Target's Statement;
- words or phrases defined in the Corporations Act have the same meaning in this Target's Statement;
- a reference to a section is a reference to a section of this Target's Statement;
- a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- the singular includes the plural and vice versa;
- the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- Australian dollars, dollars, A\$ or \$ is a reference to the lawful currency of Australia; and
- a reference to time is a reference to the time in Brisbane, Queensland, Australia.

ANNEXURE A – TREATMENT OF PERFORMANCE RIGHTS

In this Annexure, the following terms are given the following meaning:

Watpac Change of Control means when BESIX acquires a relevant interest in more than 50% of the Watpac Shares on issue.

2016 Performance Rights means the Performance Rights issued by Watpac on 25 August 2016 and 28 October 2016.

2017 Performance Rights means the Performance Rights issued by Watpac on 20 September 2017 and 23 October 2017.

2018 Performance Rights means the Performance Rights issued by Watpac on 17 September 2018 and 25 September 2018, and the 450,000 Performance Rights that may be issued by Watpac after the receipt of shareholder approval at the Annual General Meeting.

1 2016 Performance Rights

In the event of a Watpac Change of Control:

- (a) 50% of both the EPS tranche and TSR tranche of the 2016 Performance Rights will vest; and
- (b) the remaining half of the 2016 Performance Rights will be cancelled by Watpac.

2 2017 Performance Rights

In the event of a Watpac Change of Control, and subject to clause 6.1(d) of the Bid Implementation Agreement:

- (c) 50% of both the EPS tranche and the TSR tranche of the 2017 Performance Rights will vest during the Offer Period (and in any event, as soon as possible after a Watpac Change of Control, such that vesting occurs prior to the end of the Offer Period).
- (d) The vesting conditions of the remaining 50% of the 2017 Performance Rights will be amended as follows:
 - (i) half of the remaining 2017 Performance Rights (comprising 25% of the total 2017 Performance Rights on issue) will vest if the Watpac FY19 budgeted net profit result approved by the Watpac Board is achieved by Watpac. If the Watpac FY19 budgeted net profit result approved by the Watpac Board is not achieved by Watpac, then these Performance Rights will lapse; and
 - (ii) the remaining half of the 2017 Performance Rights (comprising 25% of the total 2017 Performance Rights on issue) will vest if the Watpac FY20 budgeted net profit result which is approved by the Watpac Board is achieved by Watpac. If the Watpac FY20 budgeted net profit result which is approved by the Watpac Board is not achieved by Watpac, then these Performance Rights will lapse.

The terms of the 2017 Performance Rights will otherwise remain the same.

3 2018 Performance Rights

In the event of a Watpac Change of Control, the 2018 Performance Rights will be cancelled by Watpac and the parties will use reasonable endeavours to replace the 2018 Performance Rights with a new employee retention and incentive structure in accordance with clause 6.1(b) of the Bid Implementation Agreement.

ANNEXURE B –INDEPENDENT EXPERT’S REPORT

LONERGAN EDWARDS & ASSOCIATES LIMITED

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AFS Licence No 246532
Level 7, 64 Castlereagh Street
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Telephone: [61 2] 8235 7500
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The Independent Board Committee
Watpac Limited
Level 1
12 Commercial Road
Newstead QLD 4006

28 October 2018

Subject: Takeover offer for Watpac Limited

Dear Independent Board Committee

Introduction

- 1 On 26 February 2018, Watpac Limited (Watpac or the Company) announced that it had entered into a Scheme Implementation Agreement (the Agreement) with its major shareholder BESIX Group SA (BESIX). Had Watpac shareholders¹ approved this transaction (Scheme), BESIX would have increased its interest in Watpac from 28.1% to 64.1% by acquiring 50% of the issued shares in Watpac that it did not own for an offer consideration of \$0.92 cash per share.
- 2 Whilst 89.86% of Watpac shareholders voting on the Scheme (by number) voted in favour of the transaction, the Scheme did not obtain the required (75%) level of shareholder support by number of shares voted on the Scheme. As a result, the Scheme was not implemented.
- 3 BESIX has now announced an unconditional takeover offer at \$0.92 cash per share for all the shares in Watpac it does not own (the Offer). In addition to the Offer, we understand that BESIX also intends to buy Watpac shares on-market at a price of up to \$0.92 per share through its nominee (Macquarie Capital).

Watpac

- 4 Watpac is a national construction and civil and mining services company with operations across all mainland states and territories in Australia. The Company currently operates across two business segments, being Construction and Civil & Mining², and serves a variety of clients including local, state and federal governments, private developers, retailers, commercial and industrial entities, mining companies and sports and community organisations.

¹ Unless the context requires otherwise, a reference to "Watpac shareholders" in this report is a reference to Watpac shareholders other than BESIX.

² Legacy property assets owned by the Company and allocated to the Property segment are in the process of being sold.

BESIX

- 5 BESIX is a leading Belgian multi-services group, operating in the contracting, concessions and property development sectors. Headquartered in Brussels (Belgium), BESIX was founded in 1909 and is active in practically every field of construction and caters for multi-size projects. The contracting activities of BESIX include buildings, infrastructure, marine works, sports and leisure, environment, industry as well as piling and foundations. BESIX employs about 14,000 employees active in 22 countries across Australia, Europe, Africa, the Middle East and South Asia.

Purpose of report

- 6 The Independent Directors of Watpac have requested that Lonerган Edwards & Associates Limited (LEA) prepare an independent expert's report (IER) stating whether, in our opinion, the Offer is fair and reasonable to Watpac shareholders and the reasons for that opinion. LEA is independent of Watpac and BESIX and has no other involvement or interest in the Offer.

Summary of opinion

- 7 In our opinion, the Offer is fair and reasonable to Watpac shareholders. We have formed this opinion for the reasons set out below.

Value of Watpac

- 8 We have assessed the value of Watpac shares on a 100% controlling interest basis at \$0.81 to \$0.95 per share, as shown below:

Watpac – valuation summary			
	Paragraph reference	Low \$m	High \$m
Construction Business	126	60.5	73.8
Civil & Mining Business	137	44.0	53.0
Property assets held for sale	142	16.0	16.5
Surplus cash	150	20.0	20.0
Tax losses and R&D ⁽¹⁾ tax offsets	152	9.3	12.3
Total equity value		149.8	175.6
Fully diluted shares on issue (million)	158	185.1	185.1
Equity value per share		\$0.81	\$0.95

Note:

1 Research and development (R&D).

Assessment of fairness

- 9 Pursuant to the Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) an offer is “fair” if the value of the offer consideration is equal to or greater than the value of the securities the subject of the offer. This comparison for Watpac shares is shown below:

Position of Watpac shareholders			
	Low	High	Mid-point
	\$ per share	\$ per share	\$ per share
Value of Offer consideration	0.92	0.92	0.92
Value of 100% of Watpac (on a controlling interest basis)	0.81	0.95	0.88
Extent to which the Offer consideration exceeds (or is less than) the value of Watpac	0.11	(0.03)	0.04

- 10 As the Offer consideration is toward the high end of our assessed valuation range for Watpac shares on a 100% controlling interest basis, in our opinion, the Offer is fair to Watpac shareholders when assessed based on the guidelines set out in RG 111.

Assessment of reasonableness

- 11 Pursuant to RG 111, a transaction is reasonable if it is fair. Consequently, in our opinion, the Offer is also “reasonable” in the absence of a superior proposal.
- 12 Further, in our opinion, the Offer is “reasonable” because:
- (a) the Offer consideration represents a significant premium to the recent market prices of Watpac shares prior to the announcement of the Offer
 - (b) in the absence of the Offer, the price of Watpac shares is likely to trade at a significant discount to our valuation and the Offer consideration due to the portfolio nature of individual shareholdings.
- 13 Further, in our opinion, it is highly unlikely that a higher offer will be received from a third party prior to the close of the Offer.

General

- 14 In preparing this report we have considered the interests of Watpac shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 15 The impact of accepting the Offer on the tax position of Watpac shareholders depends on the individual circumstances of each investor. Watpac shareholders should read the Target Statement and consult their own professional advisers if in doubt as to the taxation consequences of the Offer.
- 16 The ultimate decision whether to approve the Offer should be based on each Watpac shareholder’s assessment of their own circumstances. If Watpac shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice. For our full opinion on the Offer and the reasoning behind our opinion, we recommend that Watpac shareholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Martin Holt
Authorised Representative

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I Key terms of the Offer

- 17 On 26 February 2018, Watpac Limited (Watpac or the Company) announced that it had entered into a Scheme Implementation Agreement (the Agreement) with its major shareholder BESIX Group SA (BESIX). Had Watpac shareholders approved this transaction (Scheme), BESIX would have increased its interest in Watpac from 28.1% to 64.1% by acquiring 50% of the issued shares in Watpac that it did not own for an offer consideration of \$0.92 cash per share.
- 18 Whilst 89.86% of Watpac shareholders voting on the Scheme (by number) voted in favour of the transaction, the Scheme did not obtain the required (75%) level of shareholder support by number of shares voted on the Scheme. As a result, the Scheme was not implemented.
- 19 BESIX has now announced an unconditional takeover offer at \$0.92 cash per share for all the shares in Watpac it does not own (the Offer). We understand that BESIX also intends to buy Watpac shares on-market at a price of up to \$0.92 per share through its nominee (Macquarie Capital).

II Scope of our report

Purpose

- 20 As BESIX and Watpac have common directors there is a statutory requirement to obtain an IER in relation to the Offer. Accordingly, the Independent Directors of Watpac have requested that LEA prepare an IER stating whether, in LEA's opinion, the Offer is "fair and reasonable".
- 21 This report has been prepared to assist the Independent Directors of Watpac in making their recommendation to Watpac shareholders in relation to the Offer and to assist the shareholders of Watpac assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable. This report should not be used for any other purpose.
- 22 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 23 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111.
- 24 RG 111 distinguishes "fair" from "reasonable" and considers:
- (a) the Offer to be "fair" if the value of the Offer consideration is equal to or greater than the value of the securities that are the subject of the Offer. A comparison must be made assuming 100% ownership of the target company
 - (b) the Offer to be "reasonable" if it is fair. The Offer may also be "reasonable" if, despite not being "fair", the expert believes there are sufficient reasons for shareholders to approve the Offer in the absence of a superior proposal.
- 25 Our report has therefore considered:
- (a) the market value of 100% of the shares in Watpac
 - (b) the value of the Offer consideration of \$0.92 cash per share
 - (c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)
 - (d) the listed market price of Watpac shares prior to the announcement of the Offer
 - (e) the extent to which a control premium is being paid to Watpac shareholders
 - (f) the value of Watpac to an alternative offeror and the likelihood of a superior proposal being made for Watpac prior to the closing date of the Offer
 - (g) the likely market price of Watpac securities if the Offer is not accepted.

Limitations and reliance on information

- 26 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 27 Our report is also based upon financial and other information provided by Watpac and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 28 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Offer from the perspective of Watpac securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 29 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.
- 30 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 31 We in no way guarantee the achievability of any budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

III Profile of Watpac

Overview

- 32 Watpac is a national construction and civil and mining services company with operations across all mainland states and territories in Australia. The Company operates across two business segments, being Construction and Civil & Mining³, and serves a variety of clients including local, state and federal governments, private developers, retailers, commercial and industrial entities, resource companies and sports and community organisations.

History

- 33 Watpac's construction business was founded in 1983. Following two years of expansion, which included completing projects such as the iconic Brisbane Entertainment Centre, Watpac listed on the Australian Securities Exchange (ASX) in 1985.
- 34 Over the five years to 2008, Watpac made a number of strategic acquisitions that broadened both its service offering and geographical reach. A summary of these acquisitions is as follows:

Watpac – key business acquisitions		
Date	Acquisition	Business overview
Aug 2004	Grant Constructions (\$3.3 million)	A property and construction company based in Northwest Sydney generating revenues in excess of \$100 million per annum and targeting projects valued at up to \$40 million. The company was established in 1990 and employed over 80 staff.
Nov 2007	J A Dodd (\$15 million)	A Melbourne based building, civil and landscape construction company with annual turnover in excess of \$100 million. The company was renowned for providing quality building, civil infrastructure and targeted projects with a value of less than \$20 million.
Aug 2008	JMS Group (\$20 million)	An Australian wide civil construction and mining services company with estimated revenues of approximately \$120 million and around 250 staff. The company specialised in working in remote and logistically difficult locations, supported by offices in Brisbane, Perth, Adelaide and Townsville.

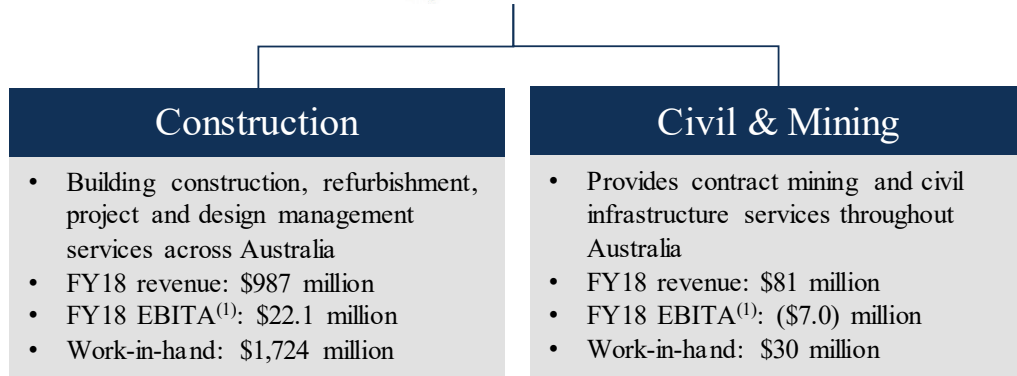
- 35 The above acquisitions enabled Watpac to diversify geographically, with the acquisitions of Grant Constructions and J A Dodd providing the Company with a base to expand into the New South Wales (NSW) and Victorian construction markets respectively. The addition of the JMS Group, which had operations in Perth and Adelaide, also expanded Watpac's operations beyond the east coast of Australia and into the mining services sector.

Current operations

- 36 Watpac is headquartered in Queensland (QLD), with offices located in Brisbane, Sydney, Melbourne, Adelaide, Perth, Townsville and Port Macquarie. It employs approximately 700 staff and has successfully delivered projects worth more than \$12 billion (in aggregate) over its history. Watpac's operations are organised into two business segments, summarised as follows:

³ Legacy property assets owned by the Company and allocated to the Property segment are in the process of being sold.

Watpac – divisions



Note:

1 Before significant items. In addition, the Company reported underlying earnings before interest, tax and amortisation of acquired intangibles (EBITA) of negative \$17.8 million from corporate functions and inter segment eliminations.

Construction

- 37 Construction is Watpac's largest operating division and has a history dating back over 30 years. The segment focuses on the provision of building construction, refurbishment and project and design management services. The business operates nationally, with established project teams based in QLD, NSW, Victoria and South Australia and a presence in the Australian Capital Territory and the Northern Territory.
- 38 Watpac Construction targets a range of sectors such as health and science, education, defence and secure environments, stadiums, commercial, residential and accommodation. Key customers include local, state and federal governments, resource companies, airports, universities and education providers, commercial, residential and industrial property developers, and real estate trusts.
- 39 The Construction segment has been negatively impacted by a number of loss-making contracts in recent periods, examples of which have included:
- 333 George Street, Sydney – which was adversely impacted by a major flood event in January 2016, in addition to site access and latent condition issues
 - ANSTO Mo-99 Facility, Lucas Heights – which was negatively impacted by initial design issues as well as the performance of certain subcontractors.

Civil & Mining

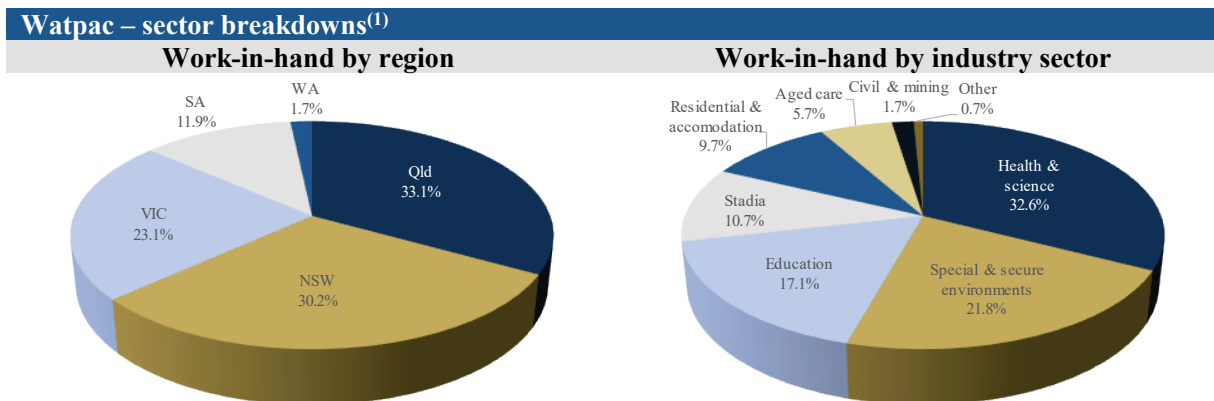
- 40 The Civil & Mining segment commenced operations following the acquisition of JMS Group in August 2008. It has delivered complex mining and civil projects in remote locations, from the Pilbara and Kalgoorlie regions in Western Australia (WA), to the Bowen Basin in QLD. Mining services include project management, contract open-cut mining, drilling and blasting, and mineral and processing facilities. Civil infrastructure activities include mine access and haul roads, tailings dams, airfields, storage dams, marine works, bulk earthworks, bridge and road works, drainage and pipework.

Property

- 41 Watpac holds properties at two locations in QLD which have a carrying value of \$4.2 million. These properties were originally acquired as part of the Company's property development activities, which are subject to a realisation campaign as a result of the competing capital interests of the group. The properties are yet to be sold due to unique circumstances that have since been addressed in order to maximise value prior to an orderly sale. Watpac currently anticipates that the remaining property assets will be divested over the next 12 months.

Work-in-hand

- 42 The following charts show a breakdown of Watpac's work-in-hand by region and industry sector as at 30 June 2018:



Note:

1 Rounding differences exist.

- 43 With respect to the above we note that:
- (a) Watpac's level of work-in-hand as at 30 June 2018 is weighted towards its largest markets along the east coast Australian states
 - (b) some 98.3% of the Company's work-in-hand is associated with its Construction business
 - (c) Watpac's largest industry exposures are to the health and science (32.6%), special and secure environments (21.8%), and education (17.1%) sectors.

Financial performance

- 44 The financial performance of Watpac for the five years ended 30 June 2018 (FY18) is set out below:

Watpac – statement of financial performance⁽¹⁾					
	FY14	FY15	FY16	FY17	FY18
	Audited	Audited	Audited	Audited	Audited
	\$m	\$m	\$m	\$m	\$m
Revenue	1,203.0	1,218.5	1,223.1	1,108.7	1,080.0
Underlying EBITA ⁽²⁾	36.0	31.1	11.8	3.0	(3.0)
Financial expenses	(10.8)	(6.6)	(3.3)	(2.6)	(2.0)
Significant items ⁽³⁾	(0.7)	(9.1)	(38.8)	(33.7)	(41.9)
Profit before tax	24.5	15.5	(30.4)	(33.2)	(46.9)
Income tax (expense) / benefit	(6.7)	(4.0)	9.0	1.8	(10.0)
Net profit after tax	17.9	11.5	(21.4)	(31.4)	(56.9)
<i>Revenue growth</i>	<i>(18.4%)</i>	<i>1.3%</i>	<i>0.4%</i>	<i>(9.4%)</i>	<i>(2.6%)</i>
<i>Underlying EBITA margin</i>	<i>3.0%</i>	<i>2.6%</i>	<i>1.0%</i>	<i>0.3%</i>	<i>(0.3%)</i>

Note:

- 1 Rounding differences exist.
- 2 Before significant items. It should be noted that Watpac includes interest income in earnings before interest, tax, depreciation and amortisation (EBITDA) and EBITA on the basis that the interest income largely arises due to the receipt of customer revenue in advance of paying subcontractors and creditors (i.e. working capital management) rather than on company cash balances.
- 3 Significant items comprise:

Gain on sale of land and buildings	-	-	2.7	-	-
Scheme costs	-	-	-	-	(1.9)
Impairment charges	(0.7)	(9.1)	(41.5)	(29.6)	(34.5)
Restructuring expenses	-	-	-	-	(5.5)
New business expenditure	-	-	-	(4.1)	-
Total significant items	(0.7)	(9.1)	(38.8)	(33.7)	(41.9)

45 In addition to the above, we set out below the key financial measures by operating segment:

Watpac – segment performance⁽¹⁾					
	FY14	FY15	FY16	FY17	FY18
	\$m	\$m	\$m	\$m	\$m
Construction revenue	856.6	929.3	1,048.7	952.5	987.3
Civil & Mining revenue	287.8	284.0	166.5	148.9	81.4
Property revenue	55.6	5.1	8.0	7.3	11.3
Elimination	3.0	-	-	-	-
Total revenue	1,203.0	1,218.5	1,223.1	1,108.7	1,080.0
Construction margin	25.8	35.0	27.5	13.4	22.1
Civil & Mining margin	23.8	14.4	0.9	8.0	(7.0)
Property margin	0.7	(0.5)	0.1	(0.4)	(0.3)
Unallocated and elimination	(14.3)	(17.8)	(16.6)	(18.0)	(17.8)
Total EBITA (before significant items)	36.0	31.1	11.8	3.0	(3.0)
<i>Construction work-in-hand (year end)</i>	<i>1,392.0</i>	<i>1,159.0</i>	<i>1,609.0</i>	<i>1,320.0</i>	<i>1,724.4</i>
<i>Civil & Mining work-in-hand (year end)</i>	<i>449.0</i>	<i>219.0</i>	<i>156.0</i>	<i>48.0</i>	<i>29.6</i>
Total work-in-hand (year end)	1,841.0	1,378.0	1,765.0	1,368.0	1,754.0
<i>Construction EBITA margin⁽²⁾</i>	<i>3.0%</i>	<i>3.8%</i>	<i>2.6%</i>	<i>1.4%</i>	<i>2.2%</i>
<i>Civil & Mining EBITA margin⁽²⁾</i>	<i>8.3%</i>	<i>5.1%</i>	<i>0.5%</i>	<i>5.4%</i>	<i>(8.6%)</i>

Note:

- 1 Rounding differences exist.
 - 2 Prior to unallocated corporate costs.
-

Historical performance

- 46 Revenue and work-in-hand levels for the Construction segment increased over the three years to FY16, initially driven in part by improved residential construction activity levels in the east coast construction sector but more recently by improvements to Watpac's balance sheet strength to support increased bonding lines and project execution capacity. Over the same period, revenue and work-in-hand for the Civil & Mining segment decreased reflecting difficult industry conditions (following a period of falling commodity prices) initially that led to subdued levels of activity in the resources sector, with selective tendering practices for longer-term projects subject to cost escalation risk resulting in lower comparative work volumes more recently, as optimism has returned to the sector.
- 47 Underlying EBITA reduced from \$36.0 million in FY14 to \$11.8 million in FY16. This predominantly reflected:
- (a) a significant reduction in earnings derived from the Civil & Mining segment, due to challenging conditions in the resources industry, a reduction of available work in the iron ore industry; and
 - (b) losses recognised on two major projects in the Construction segment⁴.

Year to 30 June 2017 (FY17)

- 48 Revenue decreased by 9.4% in FY17, primarily due to the reduction in Construction revenues associated with the recalibration of work-in-hand to preferred sectors, as well as the timing of major new project awards. Civil & Mining revenue also decreased in FY17, despite an improvement in underlying industry conditions in the resources sector in the second half of the reporting period.
- 49 Underlying EBITA decreased by \$8.8 million compared to FY16, which reflected a combination of the following:
- (a) a decrease in EBITA from the Construction segment of \$14.1 million, due to a decline in revenue as well as cost escalation pressures⁵ predominately on certain residential projects awarded in previous periods
 - (b) an increase in EBITA from the Civil & Mining segment of \$7.1 million (from a low base), notwithstanding a reduction in revenue, due to enhanced operational performance, innovative work methods and flexibility and interchangeability of its plant and equipment fleet⁶

⁴ Namely the 333 George Street project and the ANSTO Mo-99 Facility project (refer Section VI).

⁵ In its FY17 results presentation, Watpac management stated that these cost escalations exceeded those typically experienced over the long term and this adversely impacted EBITA by some \$20 million.

⁶ During FY17, plant and equipment for the Civil & Mining segment was impaired by some \$29.6 million due to low work-in-hand levels.

- (c) EBITA from the Property segment decreasing by \$0.5 million; and
- (d) an increase in underlying corporate costs of \$1.2 million (before allowance for non-recurring costs of \$4.1 million associated with new business development) and an increase in elimination adjustments of \$0.2 million.

Year to 30 June 2018 (FY18)

- 50 Revenue decreased marginally (2.6%) in FY18 compared to FY17, primarily due to a material reduction in Civil & Mining segment revenue attributable to low levels of work-in-hand. This more than offset the 3.7% increase in revenue in the Construction segment.
- 51 Underlying EBITA decreased by \$6.0 million compared to FY17 (an EBITA loss of \$3.0 million was incurred in FY18), which primarily reflected the following:
- (a) EBITA in the Construction segment improving by \$8.7 million due to higher revenues and profit margins
 - (b) an EBITA loss by the Civil & Mining segment of \$7.0 million, due to the low level of work-in-hand and completion of several projects. During the period no new mining projects were awarded to this division
 - (c) a reduction in unallocated overheads of \$0.2 million.

FY19 outlook

- 52 In its FY18 results announcement, Watpac provided the following comments regarding the outlook for FY19:

“In FY18 almost \$1.4 billion in new building work was secured, including the second stage of the Hornsby Ku-ring-gai Hospital redevelopment, the Deakin Law School building, the multi-site Department of Defence Explosive Ordnance Logistics Reform Programs, the Rheinmetall Defence Australia Military Vehicle Centre of Excellence and the Adelaide Airport Terminal Expansion.

With a strong workbook and renewed focus ... the Group [is] well poised for a return to profitability.”

Financial position

- 53 The financial position of Watpac as at 30 June 2018, set out by business segment, is shown below:

Watpac – statement of financial position⁽¹⁾

	Construction	Civil & Mining	Property	Consolidated
	A\$m	A\$m	A\$m	A\$m
Cash and cash equivalents	238.0	-	-	238.0
Trade and other receivables	29.4	4.0	11.3	44.8
Work in progress	79.4	4.0	-	83.4
Inventory	0.1	-	-	0.1
Creditors and accruals (current)	(288.3)	(7.2)	(0.1)	(295.7)
Provisions (current)	-	(5.6)	-	(5.6)
Net working capital	58.6	(4.8)	11.2	65.1
Plant and equipment	8.5	47.3	-	55.9
Property	-	-	4.2	4.2
Goodwill	17.7	-	-	17.7
Deferred tax assets	13.7	-	-	13.7
Trade and other payables (non-current)	(12.0)	-	-	(12.0)
Employee benefits / provisions (non-current)	(3.1)	(1.0)	-	(4.1)
Total funds employed	83.5	41.5	15.4	140.4
Borrowings	-	-	-	-
Net assets	83.5	41.5	15.4	140.4
Net tangible assets⁽²⁾	52.1	41.5	15.4	109.0
Net tangible assets per share⁽³⁾				\$0.59

Note:

- 1 Rounding differences exist.
- 2 Excludes goodwill and deferred tax assets.
- 3 Based on fully diluted shares on issue of 185.1 million.

Cash and working capital

- 54 Consistent with construction companies generally, Watpac receives cash payments from its customers in advance of paying its workforce and subcontractors and as a result holds relatively high levels of cash. However, this cash balance should be viewed in light of Watpac's overall net working capital position, as only a portion of the cash balance is actually surplus to the operating requirements of the Construction business.

Property

- 55 Following the sale of a property in May 2018 for \$11.3 million (which settled in September 2018), Watpac owns properties at two locations in QLD which have a carrying value of \$4.2 million. These properties were originally acquired as part of the Company's property development activities, but are now in a realisation phase.

Plant and equipment

- 56 Plant and equipment is carried at historical cost less accumulated depreciation and impairment. The vast majority of Watpac's plant and equipment relates to a range of mining and civil equipment held by the Civil & Mining segment. This plant and equipment was impaired by \$26.5 million in FY18 and \$25.1 million in FY17.

Goodwill

- 57 Goodwill is carried at cost less any impairment losses and is tested annually for impairment using the value in use method. As at 30 June 2018, a pre-tax discount rate of 14.3% was adopted for impairment testing purposes.

Financing facilities

- 58 As at 30 June 2018, the Group had the following financing facilities in place:

Watpac – financing facilities⁽¹⁾			
	Utilised A\$m	Unutilised A\$m	Total facilities A\$m
Bank guarantees	79.7	90.3	170.0
Insurance company bonding	125.8	119.2	245.0
Total bonding	205.5	209.5	415.0
Equipment finance	-	2.0	2.0

Note:

- 1 Rounding differences exist.

- 59 In respect of the above we note that:

- (a) of the \$415.0 million bonding in place as at 30 June 2018, \$170.0 million of these facilities were provided on a committed basis, and \$245.0 million on an uncommitted basis (which has subsequently reduced by \$40 million)
- (b) a syndicate of lenders provides the Company's committed bank guarantees on a secured basis. This facility is due to mature in November 2020
- (c) the Company's uncommitted insurance bond facilities are provided by four insurance companies on an unsecured basis and are subject to certain unsecured Company guarantees. The insurance bond facilities have varying maturity dates and are subject to annual reviews
- (d) Watpac maintains bank guarantees and insurance bonding facilities well in excess of current requirements (based on recent annual revenue of around \$1 billion). Further details on these facilities are discussed in Section VI.

Share capital and performance

- 60 Watpac has 183.4 million fully paid ordinary shares on issue. In addition the Company has 5.755 million performance rights issued to employees, and plans to issue a further 450,000 performance rights in November 2018 (subject to shareholder approval at the AGM). The performance rights convert to shares on a one for one basis with no consideration payable upon the satisfaction of certain performance conditions. Further information on the performance rights and their treatment for valuation purposes is set out in Section VI.

Significant shareholders

- 61 As at 15 October 2018, based on substantial shareholder notices lodged with the ASX, the significant shareholders in Watpac (i.e. shareholders with an interest in Watpac of more than 5%) were as follows:

Watpac – substantial shareholders⁽¹⁾

Shareholder	Shares held	
	Millions	% interest
BESIX	51.5	28.1
Commonwealth Bank of Australia	16.0	8.7
Adam Smith Asset Management Pty Ltd	10.9	5.9
	76.1	42.7

Note:

1 Rounding differences exist.

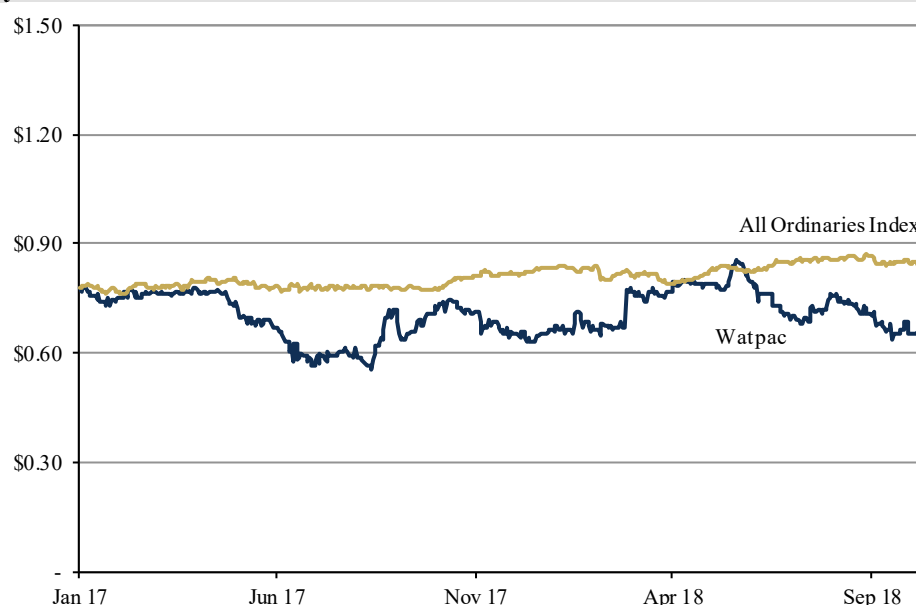
- 62 BESIX first acquired a substantial holding in Watpac during April and May 2013 after entering into agreements to purchase a 15.6% interest from a major Watpac shareholder, Mr Kevin Seymour (who sold 15.01%), and other parties. BESIX subsequently acquired additional Watpac shares that increased its shareholding to 19.0% by the end of 2013. Its interest has since increased (in aggregate) by a further 9.1% to take its current shareholding to 28.1% (including shares acquired under the creep provisions permissible under the Corporations Act, participation in Watpac's dividend reinvestment plan and the effect of a buy back in 2017 which reduced total shares on issue).

Share price performance

- 63 The following chart illustrates the movement in the share price of Watpac from 1 January 2017 to 15 October 2018:

Watpac – share price history⁽¹⁾

1 January 2017 to 15 October 2018



Note:

1 Based on closing prices. The All Ordinaries Index has been rebased to the Watpac's last traded price on 3 January 2017 (note Watpac shares did not trade on 1 January 2017 or 2 January 2017 due to public holiday), being \$0.78.

Source: Bloomberg.

- 64 Watpac shares have underperformed the All Ordinaries Index. This appears to be attributable to recent earnings declines in the Construction business and the continued reduction in the level of work, revenue and earnings for the Civil & Mining business.

Liquidity in Watpac shares

- 65 The liquidity in Watpac shares based on trading on the ASX over the 12 month period prior to 15 October 2018 is set out below:

Watpac – liquidity in shares						
Period	Start date	End date	No of shares traded 000	WANOS ⁽¹⁾ outstanding 000	Implied level of liquidity Period ⁽²⁾ %	Annual ⁽³⁾ %
1 month	16 Sep 18	15 Oct 18	1,277	183,386	0.7	8.4
3 months	16 Jul 18	15 Oct 18	6,405	183,386	3.5	14.0
6 months	16 Apr 18	15 Oct 18	16,580	183,386	9.0	18.1
1 year	16 Oct 17	15 Oct 18	30,702	183,392	16.7	16.7

Note:

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

- 66 As indicated in the table above, the level of trading in Watpac shares (as a percentage of the total number of shares on issue) has been low. However, we note that the value of Watpac shares traded in the 12 months prior to 15 October 2018 totalled \$22.6 million.

IV Industry overview

Introduction

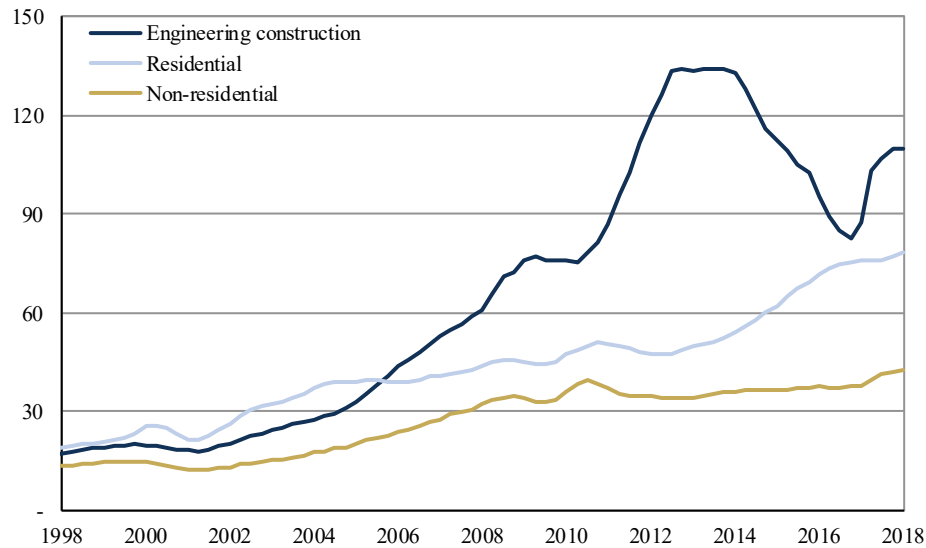
- 67 Watpac provides building construction, refurbishment and design management services to a variety of clients throughout Australia. The Company primarily targets the residential and non-residential segments of the Australian building and construction industry, with a focus on residential, accommodation, health and science, education, defence and secure environments, stadiums and commercial projects.

Building and construction activity

- 68 The value of turnover for the Australian building and construction industry was \$231 billion in the year to 30 June 2018, having grown at a compound annual growth rate (CAGR) of 11.0% over the last 10 years. The construction and building industry is one of Australia's largest employers, accounting for around 10% of Australia's workforce.
- 69 A split of the Australian building and construction industry into three key segments is as follows, noting that the residential and non-residential sectors represent approximately 55% of the total industry:
- (a) **engineering construction** – this represents approximately 45% of industry revenue⁷ and involves major infrastructure, mining and heavy industrial resource-based project construction
 - (b) **residential building** – refers to the construction of new houses, units and multi-storey apartments as well as housing alterations and additions to existing dwellings. Residential building represents approximately 35% of total industry revenue
 - (c) **non-residential building** – this accounts for approximately 20% of industry revenue and relates to the construction of commercial buildings such as offices, shops and factories as well as institutions like schools and hospitals.
- 70 The following chart sets out Australian building and construction revenue by segment over the 20 years to June 2018:

⁷ Engineering construction accounted for approximately 60% of industry revenue during peak mining levels in 2012 and 2013 but following the decrease in mining investment over recent years has since declined.

**Building and construction activity – rolling year
(\$ billion)**



Note:

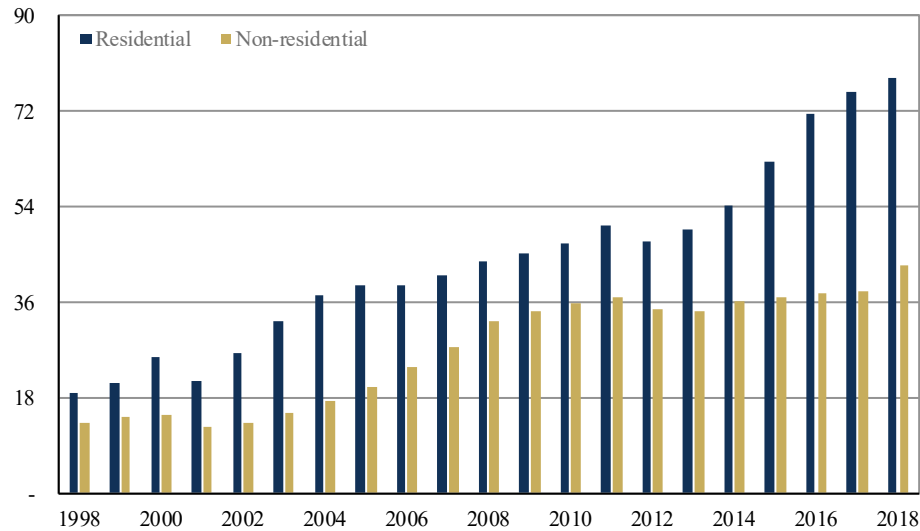
1 The rebound in engineering construction from September 2017 is primarily the result of the arrival of two large liquid gas modules (which are manufactured offshore and included in the ABS numbers).

Source: Australian Bureau of Statistics (ABS).

- 71 The engineering construction sector recorded a period of significant growth up to the 2012 and 2013 years which was largely driven by growth in mining (primarily iron ore and coal), energy (most notably liquid natural gas) and infrastructure projects to support the export of such commodities. Engineering construction levels peaked in March 2013 (which roughly coincided with peak mining levels) and have since declined as investment in mining construction has slowed⁸.
- 72 A more detailed summary of turnover for Watpac's key residential and accommodation (i.e. including hotels) and non-residential sectors, over the 20 years to June 2018, is set out as follows:

⁸ The partial recovery post September 2017 is due to the importation of two significant liquid natural gas platforms. Notwithstanding that this work is undertaken overseas, the ABS includes this as new construction.

**Residential and non-residential building activity
(\$ billion)**



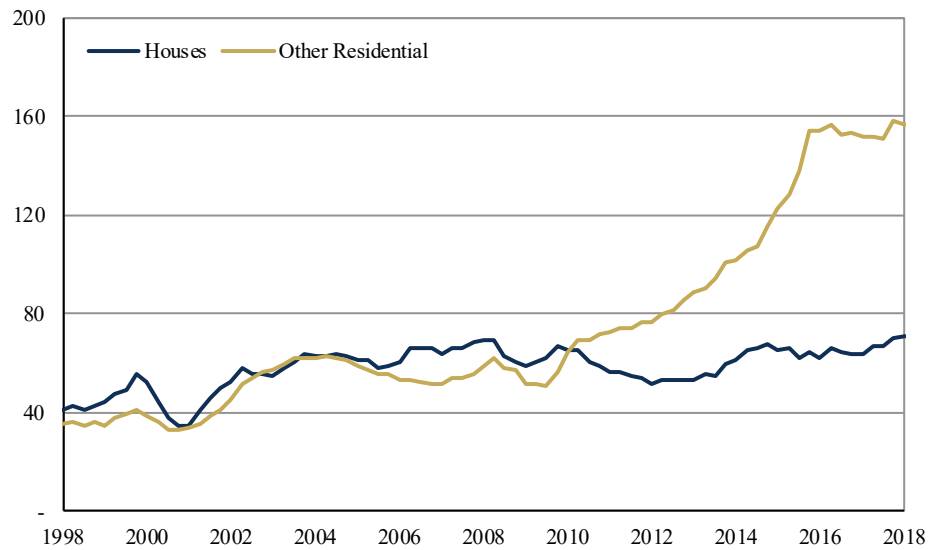
Source: ABS.

- 73 Residential building construction levels have increased substantially since 2012, driven in part by a prolonged period of low mortgage rates which has increased demand from both investors and new home buyers. As indicated below, the majority of this growth has centred around high rise multi-unit apartment construction (particularly in NSW, Victoria and QLD).
- 74 The slowdown in business activity that followed the global financial crisis (GFC) in 2008, which was attributable to, inter alia, limited availability of finance, resulted in a significant decline in commercial building activity. In response, the Federal Government funded a stimulus package targeting the education and health sectors. This essentially brought forward later years' expenditure and more than offset the decline in commercial related activity, resulting in record non-residential building levels. This also partially explains why non-residential building turnover levels only exceeded the 2011 levels in 2016.

Residential building

- 75 The chart below shows a summary of the number of dwellings under construction for the 20 years to June 2018. It also highlights the magnitude by which recent residential building activity has been driven by Other Residential (i.e. multi-unit apartment dwellings and townhouses) construction:

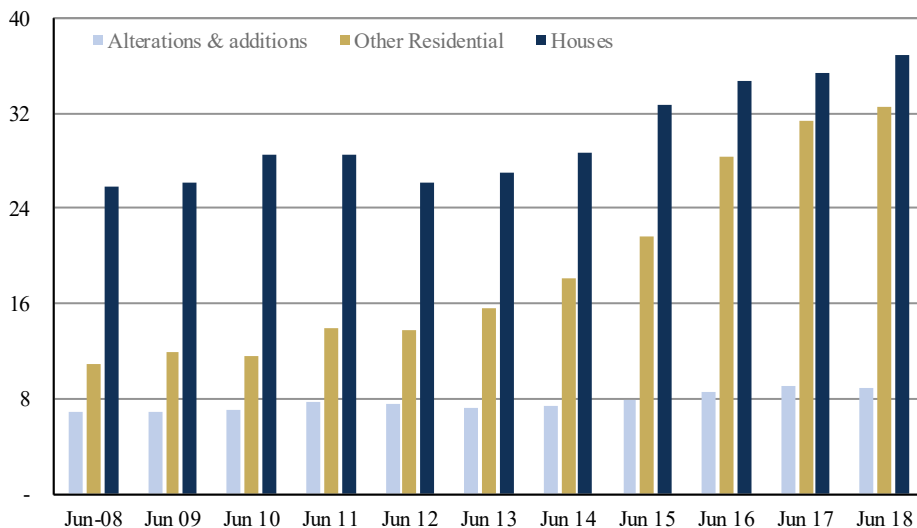
**Dwellings under construction
(000s)**



Source: ABS.

- 76 The value of residential construction activity has increased at a CAGR of 6.0% over the 10 years to June 2018 to reach \$78.3 billion. This activity is comprised of the construction of new houses and new Other Residential dwellings (new multi-unit apartments and townhouses) as well as the level of alterations and additions to existing dwellings, as set out below.

**Residential construction revenue
(\$ billion)**



Source: ABS.

- 77 Trends in the construction of residential housing are generally driven by house prices, population growth and levels of housing affordability. Of these, the direction of house prices tends to be the most significant driver, with rising house prices typically driving new dwelling investment. Growth in residential high density construction is also associated with growth in

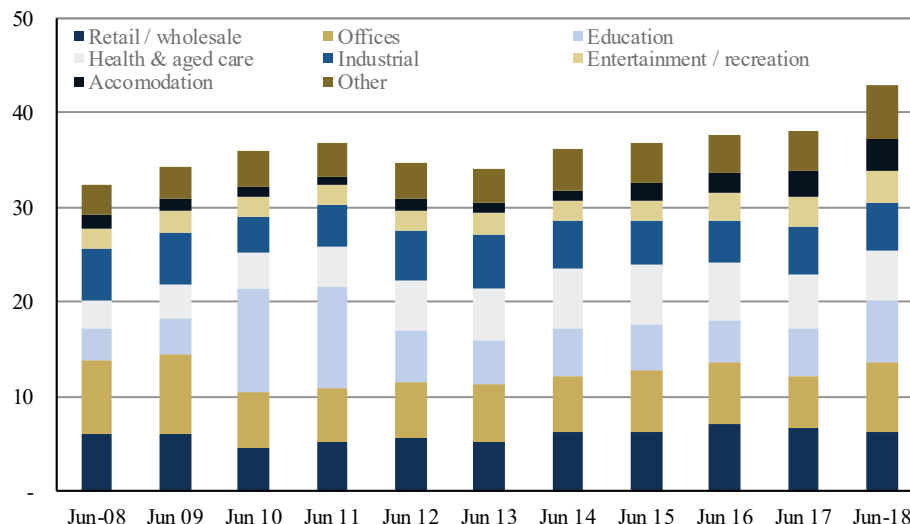
non-residential construction, for example as governments look to add urban infrastructure to such areas.

- 78 Over the five years to June 2013, residential construction in Australia grew at a CAGR of 2.6% per annum, reflective of the relatively modest growth in property prices throughout this period. In the five years to June 2018, however, residential construction benefited from the significant increase in property prices (particularly in Sydney and Melbourne), a period of record low borrowing costs and continued population growth. This resulted in residential construction turnover growing at a CAGR of 9.5% per annum. Over this period, Other Residential construction increased at a CAGR of 15.8% per annum, due to a significant increase in construction of high density residential dwellings along the eastern state capital cities.
- 79 Key indicators for residential building activity, including loan approval levels, house prices, auction clearance rates and lending levels, appear to have peaked towards the end of 2017. There has also been a period of increased scrutiny from lenders, particularly around investment and interest only loans. Given investor demand has driven Other Residential building activity in recent periods, the level of high rise apartment construction activity is expected to moderate over the coming years (albeit from record levels).

Non-residential building

- 80 Non-residential building activity reached record levels of \$42.8 billion for the year to 30 June 2018, with the level of sector diversification increasing significantly since the last peak in the year to 30 June 2011⁹...

Non-residential construction activity – rolling year
(\$ billion)



Source: ABS.

- 81 In the period post the winding back of the Federal Government's stimulus spending on education and health in 2010 and 2011, annual growth in non-residential construction has gradually increased annually. This generally reflects growth in certain non-residential

⁹ Which, as stated above, was largely driven by the Federal Government-driven stimulus package post the GFC that targeted the education and healthcare sectors.

property segments such as education, health and aged care, entertainment and recreation and accommodation, modest growth for the industrial property segment and declining expenditure for the office property segment.

Competition

- 82 Market share concentration is relatively low in the Australian building and construction industry, with the largest 10 participants estimated to account (in aggregate) for approximately 10% of industry revenue. As a result competition levels are generally very high. The largest firms include CIMIC Group, LendLease Group and Downer EDI and these companies tend to be large scale, multidisciplinary organisations with a capacity to operate across many segments of the construction and building industries.
- 83 Barriers to entry also vary by industry sub-segment according to the level of complexity of construction and the level of capital intensity. Barriers are generally lowest and competition highest in the housing construction sector, where there are numerous smaller operators willing to predominantly compete on price. Barriers to entry tend to be higher (and competition comparatively lower) in the non-residential building sector due to increased size, scale and level of sophistication of the work required (including an understanding of complex construction technologies).

Growth drivers

- 84 Growth in the Australian building and construction industry is underpinned by a number of factors including the size of the Australian population, house prices, housing affordability and interest rates and government funding. A summary of these drivers shown across the residential and non-residential building industries is as follows:

Growth drivers by industry segment		
	Residential building	Non-residential building
Population	✓	✓
House prices	✓	-
Housing affordability and interest rates	✓	✓
Government funding	✓	✓

Population growth

- 85 Construction and building activity has a high correlation with population size. In general, increasing population levels drive demand for residential housing, non-residential social infrastructure (such as education and healthcare facilities) as well as investment in civil infrastructure (such as roads, rail, water and wastewater facilities).
- 86 Australia's population has grown at 1.6% per annum over the 10 years to 31 March 2018, which ranked among the highest rate of growth in the developed world¹⁰. Population growth is expected to continue at relatively high levels into the foreseeable future, in part due to Australia's relatively high immigration levels.

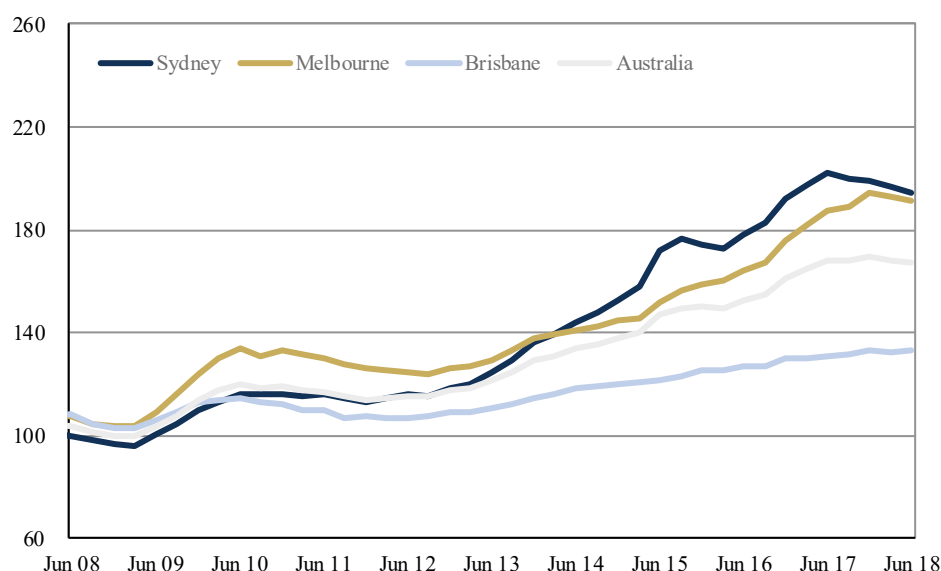
¹⁰ Source: ABS.

- 87 Further, the number of Australians aged 65 and over is projected to increase at 2.8% per annum from 3.8 million in FY17 (or 15% of the total population) to 7.2 million (or 20% of the total population) by FY40¹¹. Given this age group is a key driver of health expenditure and aged care facilities, the ageing of Australia's population is likely to increase demand for construction of healthcare and aged care facilities.

House prices

- 88 The direction of residential property prices tends to influence the level of new dwelling investment, with increasing house prices associated with higher levels of building activity and vice versa. The weighted average house price growth across Australia's eight capital cities increased by approximately 61.8%¹² in the 10 years to June 2018¹³.

Australian residential property prices⁽¹⁾⁽²⁾



Note:

- 1 The residential property price indices have been rebased to 100 as at September 2007.
- 2 Data for Australia represents the weighted average of the eight capital cities (Sydney, Melbourne, Brisbane, Adelaide, Perth, Hobart, Darwin, and Canberra).

Source: ABS.

- 89 Dwelling prices have moderated in more recent periods under the weight of tighter lending conditions for interest only and investor loans, and a broader weakening in confidence within the housing market. A number of industry participants expect price growth to continue to moderate, notwithstanding that strong population growth and solid growth in employment are likely to be supportive of overall housing demand.

¹¹ Source: ABS and LEA analysis.

¹² This largely reflected the considerable growth in Australia's two largest cities, Sydney and Melbourne, which reported house price growth of approximately 94.5% and 77.9% respectively over the period.

¹³ Source: ABS.

Housing affordability and interest rates

- 90 Growth in residential and non-residential construction is being supported by the accommodative stance of monetary policy and historically low interest rates, with the Reserve Bank of Australia's (RBA) official cash rate at a record low of 1.5%. This reduces borrowing costs for businesses and households which are both at record low levels. Conversely, increasing interest rates tends to weaken demand for housing and hence can act as a drag on property investment.
- 91 Historically low interest rates and strong growth in Australian national income have assisted with housing affordability in recent years. However, this has been impacted, to some extent, by corresponding increases in property prices.

Government funding

- 92 The Federal and State Governments are significant drivers of key sub segments of the non-residential building industry such as healthcare and education, as well as for infrastructure spending on transport initiatives such as road and rail construction, which can lead to increased residential development. State Government's first home buyer's grants and stamp duty levels and concessions also have the potential to influence demand for residential property investment.

V Valuation approach

Valuation approaches

- 93 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 94 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 95 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 96 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, EBITDA¹⁴, EBITA, EBIT¹⁵ or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

¹⁴ Earnings before interest, tax, depreciation and amortisation (EBITDA).

¹⁵ Earnings before interest and tax (EBIT).

- 97 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

- 98 Our assessment of the market value of Watpac is based upon a sum-of-the-parts approach whereby the market value of the individual business divisions is added to the value of surplus assets (including properties and surplus cash).
- 99 The primary valuation methodologies used for each business division are set out below:

Valuation methods adopted		
Business division	Primary method	Reason
Construction Business	Capitalisation of EBITA ⁽¹⁾	<ul style="list-style-type: none"> • Demonstrated history of profits and expectation of ongoing profitability • Listed company multiples for broadly "comparable" companies and relevant transaction evidence is generally expressed in terms of EBITA • Given the nature of the business (e.g. reliance on one off projects and low profit margins), the level of intangible value in the business should be relatively low. Consequently, we have also cross-checked our valuation range having regard to the net tangible assets employed in the business and the value of total intangibles implied by our valuation.
Civil & Mining Business	Realisable value of net assets	<ul style="list-style-type: none"> • The Civil & Mining Business was unprofitable in FY18 and work-in-hand declined to only \$30 million as at 30 June 2018 • However, the Civil & Mining Business has a significant investment in tangible net assets (carrying value of \$41.5 million as at 30 June 2018) • Given the above we have assessed value on a notional orderly realisation of assets basis.

Note:

- 1 As Watpac does not have any amortisation of acquired intangible asset charges in its financial results, EBITA is equivalent to EBIT.

- 100 Our overall assessment of the value of Watpac shares on a 100% controlling interest basis has been cross-checked by considering the volume weighted average market price (VWAP) of Watpac shares prior to the announcement of the Offer, adjusted for a premium for control (based on empirical evidence undertaken by LEA on the average premiums paid in successful takeovers).

VI Valuation of Watpac shares

Valuation methodology

- 101 Our assessment of the market value of Watpac on a 100% controlling interest basis is based upon a sum-of-the-parts approach whereby the market value of the individual business divisions is added to the value of surplus assets.
- 102 Separate values have therefore been attributed to:
- (a) the Construction Business
 - (b) the Civil & Mining Business
 - (c) properties held for sale
 - (d) surplus cash; and
 - (e) deferred tax assets.

Construction Business

- 103 As stated in Section V, we have adopted the capitalisation of EBITA method as the primary methodology to value the Construction Business. Under this methodology the value of the business is derived by capitalising the underlying EBITA (before significant items) at an appropriate EBITA multiple.
- 104 In order to assess the appropriate level of EBITA for valuation purposes we have had regard to the historical and forecast results of the Construction Business, and have discussed the business unit's financial performance, operating environment and prospects with Watpac management.

Historical profitability

- 105 We set out below a summary of the revenue and related profit margins (before unallocated overheads) of the Construction Business:

Construction Business – summary of construction revenue and related profit margins⁽¹⁾						
	FY13	FY14	FY15	FY16	FY17	FY18
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue	1,045.6	856.6	929.3	1,048.7	952.5	987.3
Construction margin ⁽²⁾⁽³⁾	24.3	25.8	35.0	27.5	13.4	22.1
Margin	2.3%	3.0%	3.8%	2.6%	1.4%	2.2%
Work-in-hand ⁽⁴⁾	823.0	1,392.0	1,159.0	1,609.0	1,320.0	1,724.4

Note:

- 1 Before unallocated costs.
- 2 Before significant items.
- 3 New business (tender) costs of \$4.1 million were treated as a significant item in FY17 and are therefore not reflected in the FY17 construction margin above. These costs have been treated as a significant item given the large size of this opportunity (some \$1 billion contract value). Watpac's tender for this project was not successful.
- 4 As at the end of each period.

- 106 We note that over the FY13 to FY18 period, revenue and EBITA before unallocated overheads (and significant items) averaged \$970.0 million and \$24.7 million respectively. The average EBITA margin before unallocated costs was therefore around 2.5% of revenue.

Commentary on recent results

- 107 The FY15 results reflected improved market conditions across the construction sector generally compared to FY14, resulting in revenues increasing 8.5%. EBITA margins increased to 3.8% (the highest achieved over the above period) driven by above average performance delivered on a number of more specialised construction projects.
- 108 In FY16 revenue increased 12.8%. However, EBITA margins were negatively impacted by aggregate losses of \$22.1 million recognised on two significant projects¹⁶:
- (a) 333 George Street (Sydney central business district) – which was impacted by a major flood event in January 2016, and site access and latent condition issues
 - (b) ANSTO Mo-99 Facility (Lucas Heights) – due, in part, to the complex nature of the nuclear medical facility.
- 109 In FY17 revenue fell 9.2%, in part due to the recalibration of work-in-hand to preferred industry sectors and the timing of major new project awards. EBITA margins in FY17 were adversely impacted by cost escalation pressures predominately on residential projects awarded in previous periods. In particular, Watpac management stated at the time of its FY17 earnings result that subcontracting price rises “*considerably exceeding those typically experienced over the long term*” adversely impacted EBITA by some \$20 million in FY17.
- 110 During FY18 cost escalation pressures continued, but were less significant than in FY17, which resulted in a partial recovery in EBITA margins. New projects secured in the second half of FY18 increased work on hand as at 30 June 2018 to \$1,724.4 million (representing a 30.6% increase over the year).

Earnings adopted for valuation purposes

- 111 We have assessed the earnings of the Construction Business having regard to, inter-alia:
- (a) the Construction margins (before unallocated overheads) achieved over the FY13 to FY18 period. This recognises the variability of construction margins from year to year depending on the performance of individual contracts (and the fact that losses on some projects occur from time to time) and changes in market conditions over time
 - (b) the level of overheads likely to be incurred if the Construction Business was a standalone operation.
- 112 Having regard to the performance of the business over the above periods, we have adopted the following Construction Business profit margin before unallocated overheads for valuation purposes:

¹⁶ Source: FY16 full year results presentation.

Construction Business – profit margin

	\$m	\$m
Revenue	1,000.0	1,000.0
Construction profit margin ⁽¹⁾	2.50%	2.75%
Construction profit (before overheads)	25.0	27.5

Note:

- 1 As stated above, average construction margins (before unallocated overhead costs) over the FY13 to FY18 period were around 2.5% of revenue. Watpac management consider that higher construction margins can be achieved in future due to, inter-alia, more selective tendering. In this regard we note that the Construction division reported EBITA margins (before overheads) of 2.6% of revenue in the 6 months ended 30 June 2018. Furthermore, we understand from Watpac management that recently secured projects were tendered at a margin (before overheads) consistent with or above the margin adopted for valuation purposes.

- 113 Unallocated overhead costs were \$18.0 million in FY17 and \$17.8 million in FY18. These costs are net of interest income of \$4.5 million and \$5.3 million respectively, which is included in the underlying EBITA reported by Watpac on the basis that the interest income largely arises due to the receipt of customer revenue in advance of paying subcontractors and creditors (i.e. working capital management), rather than on company cash balances. For valuation purposes we have treated unallocated overhead costs as being primarily attributable to the Construction Business.
- 114 As noted in paragraph 150 we have treated \$20 million of Watpac's cash as being surplus to its business operations. As interest income is netted off overhead costs, we have excluded the interest income on surplus cash.
- 115 For valuation purposes we have notionally assumed that Watpac exits its Civil & Mining Business. Annual overhead cost savings of around \$2.5 million to \$3.0 million are considered achievable by management under such a scenario.¹⁷
- 116 Consequently, we have assessed the earnings of the Construction Business as follows:

Construction Business EBITA

	Low \$m	High \$m
Construction profit (before overheads)	25.0	27.5
Allowance for overheads	(17.8)	(17.8)
Savings due to exit of Civil & Mining	2.5	3.0
Less interest income on surplus cash	(0.4)	(0.4)
EBITA	9.3	12.3

EBITA multiple

- 117 The selection of the appropriate EBITA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

¹⁷ Some of these cost savings have already been achieved since 30 June 2018.

- | | |
|---|--|
| <ul style="list-style-type: none"> • The stability and quality of earnings • The quality of the management and the likely continuity of management • The nature and size of the business • The spread and financial standing of customers • The financial structure of the company and gearing level • The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors • The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors | <ul style="list-style-type: none"> • The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc • The cyclical nature of the industry • Expected changes in interest rates • The asset backing of the underlying business of the company and the quality of the assets • The extent to which a premium for control is appropriate • Whether the assessment is consistent with historical and prospective earnings |
|---|--|

118 We discuss below specific factors taken into consideration when assessing the appropriate EBITA multiple range for the Construction Business.

Listed company multiples

119 The EBITA multiples for smaller ASX listed companies operating in the construction sector are set out below. Consistent with the approach adopted above when assessing the earnings of the Construction Business, we have (where applicable) treated cash holdings (other than surplus cash) as being part of the operating assets of these companies (i.e. part of their enterprise value) and have therefore included interest income (other than interest income attributed to surplus cash) in EBITA:

Listed company multiples					
	Enterprise value ⁽¹⁾	Forecast FY19 EBITA multiple	Work in hand / FY19 revenue	FY19 EBITA margin	Implied goodwill ⁽²⁾ / EBITA
	\$m	x	x	%	x
NRW Holdings	756	9.6	2.0	7.1	6.4
SRG Global	309	7.5	na	7.1	na
Decmil	146	6.4	1.4	3.6	0.7
Tempo Australia	35	14.7	0.9	3.7	11.4

Note:

- 1 As at 12 October 2018.
- 2 Implied goodwill calculated as market capitalisation less net tangible assets.
- 3 Brief descriptions of each listed company's operating activities are set out in Appendix C.

120 In our opinion, none of the above listed companies are directly comparable to Watpac's Construction Business. In particular, we note that:

- (a) most of the listed companies are larger (in enterprise value terms) than Watpac's Construction Business (and NRW Holdings and SRG Global are significantly larger)
- (b) NRW Holdings also has a larger level of work-in-hand (2.0 times revenue) than the Construction Business (1.7 times revenue)

- (c) due to the nature of their operations and industry sectors in which they provide their services, the listed companies generate significantly higher profit margins than the Construction Business (whose profit margins have averaged only 2.5% of revenue prior to unallocated overheads over the FY13 to FY18 period)
- (d) the value of work-in-hand therefore has a significantly higher inherent value for the listed companies (due to their substantially higher profit margins). This should translate into higher goodwill values (and multiples)
- (e) the higher profit margins generated by the listed companies also imply that they are more likely to be able to absorb losses on individual contracts when they arise. In contrast, the Construction Business' small profit margins provide limited margin for error in the event of tender errors or project cost overruns (as evidenced by the reduced profit margins in recent years).

121 Given the above, in our view the Construction Business should trade on lower EBITA multiples than the above listed companies.

Transaction evidence

122 We set out below recent transaction evidence in the Australasian construction sector:

Transaction multiples – Construction companies				
Date ⁽¹⁾	Target	Acquirer	EV 100% ⁽²⁾ (millions)	EBITA multiples x
Aug 17	Golding Group	NRW Holdings	A\$85	3.3 H ⁽³⁾
Mar 17	Seymour Whyte	VINCI	A\$85	6.2 F ⁽³⁾
Mar 17	Geotech	ACCIONA	A\$262	9.9 H
Dec 16	Pindan Group	Oxley Holdings	A\$70 ⁽⁴⁾	8.8 H ⁽⁵⁾
Oct 16	UGL	CIMIC Group	A\$736	8.0 F
Feb 16	Higgins Group Holdings	Fletcher Building	NZ\$315	7.9 F
Jul 15	Austral Construction	Keller	£28	5.6 H
Jun 15	HEB Construction	VINCI	A\$70	8.4 H
Dec 14	John Holland Group	CCCC	1,150	7.7 F
Feb 14	Rob Carr	Seymour Whyte	A\$47	6.8 H
Jul 13	Clough	Murray & Roberts Holdings	A\$753	7.9 F

Note:

- 1 Date of announcement.
- 2 Enterprise value on a 100% basis.
- 3 Multiple based on average underlying EBITA achieved over FY14 to FY17.
- 4 Transaction was for a 40% stake in the company.
- 5 Multiple based on average underlying EBITA achieved over FY13 to FY16.
- 6 The proportional takeover offer for Leighton Holdings by HOCHTIEF in March 2014 has been excluded from the above table due to the substantial size of the Leighton Holdings business (enterprise value of in excess of A\$9 billion).

Source: LEA analysis using data from ASX announcements, broker reports and company annual reports.

123 In relation to the above transaction evidence it should be noted that:

- (a) except where noted, the transactions relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control

- (b) none of the above businesses are directly comparable to the Construction Business. In particular, we note that the above target companies generally achieved higher EBIT margins and greater earnings growth than the Construction Business
- (c) the companies acquired differ materially in terms of their size and nature of operations. Given the significantly larger size of UGL, Leighton Holdings (now CIMIC), John Holland and Clough we would expect the Construction Business to trade at a significant discount to the EBITA multiples implied by the acquisition of these companies
- (d) with the exception of the transaction multiples for Golding Group, Seymour Whyte and Pindan Group (which are based on the average EBITA achieved by these companies over a number of years¹⁸), the transaction multiples are calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The multiples are therefore not necessarily reflective of the multiple which would be derived from an assessment of each target company's "maintainable" earnings.

Conclusion on appropriate EBITA multiple

124 In our opinion, the EBITA multiple for the Construction Business should be at the low end of the range of observed transaction multiples. This is principally because:

- (a) the Construction Business has no recurring revenue due to the one-off nature of its projects (consistent with the nature of construction businesses generally)
- (b) the level of work-in-hand as at 30 June 2018 of \$1,724 million represents only 1.7 times the level of annual revenue adopted for valuation purposes¹⁹
- (c) the profitability of the Construction Business is dependent on being awarded significant new work each year in order to utilise its workforce and cover overhead costs
- (d) the Construction Business generates very low net margins (some 2.5% before unallocated overhead costs²⁰ and well below industry average margins), increasing the likelihood of losses arising due to, for example, tender errors and/or project cost overruns
- (e) the net tangible asset backing of the Construction Business as at 30 June 2018 was only \$32.1 million²¹ (which implies a value for goodwill (technically, total intangibles) based on our valuation of the Construction Business of between \$28.4 million and \$41.7 million)²². In our view, it is unlikely that a purchaser would attribute a higher value to intangibles given the recent performance of the Construction Business and the nature of its activities.

¹⁸ As stated above, the underlying profitability of construction companies can vary materially from year to year depending on the performance of individual contracts (and the fact that losses on some projects occur from time to time). In addition, the reporting of underlying profitability (consistent with the relevant Australian Accounting Standards) on projects in progress is inherently subjective. Accordingly, in our view, it is more appropriate to consider the transaction prices as a multiple of the average level of EBIT generated over a number of years.

¹⁹ Being \$1,724 million (work-in-hand) divided by \$1,000 million (revenue).

²⁰ Whilst higher margins are generated on certain individual contracts, the reported net margin over many years also reflects projects on which losses have been incurred.

²¹ This comprises the \$52.1 million shown in the balance sheet in Section III less our adopted surplus cash of \$20 million.

²² These goodwill values reflect goodwill / EBITA multiples of 3.1x to 3.4x.

- 125 Based on the above, we have adopted pre-tax (EBITA) multiples of 6.0 to 6.5. Given the greater risk associated with the achievement of our higher EBITA figure of \$12.3 million, we have applied the lower EBITA multiple to these earnings, and the higher EBITA multiple to the lower level of EBITA (\$9.3 million) adopted for valuation purposes.

Valuation of Construction Business

- 126 On this basis our assessed value of the Construction Business is as follows:

Value of Construction Business		
	Low \$m	High \$m
Pre-tax earnings	9.3	12.3
Pre-tax multiple	6.5	6.0
Value	60.5	73.8

Civil & Mining Business

Historical profitability

- 127 We set out below a summary of the revenue and related profit margins (before unallocated overheads) of the Civil & Mining Business:

Civil & Mining Business – summary of financial performance (before unallocated costs)						
	FY13 \$m	FY14 \$m	FY15 \$m	FY16 \$m	FY17 \$m	FY18 \$m
Revenue	288.8	287.8	284.0	166.5	148.9	81.4
Profit margin ⁽¹⁾	27.8	23.8	14.4	0.9	8.0	(7.0)
Margin	9.6%	8.3%	5.1%	0.5%	5.4%	(8.6%)
Work-in-hand ⁽²⁾	518.0	449.0	219.0	156.0	48.0	29.6

Note:

- 1 Before significant items (primarily impairment charges and gains and losses of sale of non-current assets).
- 2 As at the end of each period.

- 128 Revenue was relatively steady over the period FY13 to FY15. However, margins came under pressure in FY15 due to difficult market conditions in the mining sector, which was impacted in particular by falling commodity prices. This also contributed to a 51% decline in work-in-hand over FY15.
- 129 The reduction in work-in-hand as at 30 June 2015 compared to the prior years lead to substantially lower revenues in FY16. In particular, work was ceased in FY15 on two iron ore projects (Nullagine²³ and Cockatoo Island²⁴) which contributed some \$148 million in revenue during that year.

²³ The owner of the Nullagine project, BC Iron initiated legal proceedings against Watpac in December 2015 for failure to comply with its obligations under its mining services contract. This litigation was settled in June 2016.

²⁴ The Cockatoo Island project was owned by Pluton Resources which went into receivership in September 2015.

- 130 The FY16 result reflected combined losses on two major projects of around \$8.0 million²⁵. In addition, impairment charges of \$38.9 million (which are not reflected in the table above) were recognised in FY16 following a reassessment of carrying values for receivables, goodwill, plant and stock.
- 131 Further impairment charges of \$29.6 million and \$36.5 million were recognised in FY17 and FY18 respectively, reflecting the continued decline in business activity²⁶.
- 132 Whilst the reported underlying financial performance (before significant items) improved in FY17, losses were incurred in FY18 due to the continued low level of work-in-hand. Work-in-hand as at 30 June 2018 declined to \$30 million.
- 133 Due to the low level of work-in-hand and limited success in converting new tender opportunities given aggressive pricing by competitors, on 28 March 2018 Watpac announced that it intended to conduct a comprehensive review of its Mining business, which included exploring sale options for the business and/or its assets, either in part or in its entirety. At the date of this report, we understand this review is ongoing.

Valuation

- 134 Whilst the Civil & Mining Business is currently unprofitable and has a low level of work-in-hand, the business has a relatively high level of net tangible assets (NTA). Accordingly, we have assessed the value of the Civil & Mining Business on a notional orderly realisation of assets basis.
- 135 As at 30 June 2018, the NTA of the Civil & Mining Business was \$41.5 million, which comprised:

Civil & Mining Business – net tangible assets as at 30 June 2018	
	\$m
Plant and equipment (gross)	55.0
Allowance for selling costs	(7.7)
Net working capital balances	(4.7)
Employee entitlements	(1.1)
Net tangible assets	<u>41.5</u>

- 136 The carrying value of plant and equipment reflected a gross value of \$55 million less an allowance for realisation costs and losses during the (notional) sale period of \$7.7 million. This gross asset value was determined by the Directors after considering:
- (a) an independent valuation of the plant and equipment; and
 - (b) the results of the recent review process (which remains in progress).
- 137 Having regard to the independent valuation and the results of the review / sale process to date (including the non-binding indicative interest received for the business²⁷) we have adopted the following valuation range for the Civil & Mining Business:

²⁵ Source: Page 18 of the FY16 results presentation.

²⁶ These impairment charges are not reflected in the above table, as the results are shown before impairment charges.

²⁷ Details of which remain confidential.

Civil & Mining Business – LEA valuation range		
	Low \$m	High \$m
Estimated net realisable value of plant and equipment	50.0	60.0
Allowance for other liabilities ⁽¹⁾	(6.0)	(7.0)
Assessed value of business net of other liabilities	44.0	53.0

Note:

- 1 Includes employee entitlements, residual business liabilities and other transaction expenses (such as legal costs relating to any sale).

Property assets

- 138 Watpac owns properties at two locations in QLD which have a current carrying value of \$4.2 million. These properties were originally acquired as part of the company's property development activities which were discontinued a number of years ago.
- 139 The estimated market value of these two properties (in aggregate) is some \$0.5 million to \$1.0 million above book value.
- 140 In addition, a third property was sold for \$11.3 million prior to 30 June 2018 (with settlement after year end). We have treated this receivable as at 30 June 2018 as a surplus asset.
- 141 As the Company has sufficient tax losses to offset any gain on sale, no allowance for potential associated tax liabilities has been made.
- 142 We have therefore adopted the following valuation range for the properties (including the receivable as at 30 June 2018):

Property assets		
	Low \$m	High \$m
Receivable	11.3	11.3
Net realisable value of remaining properties	4.7	5.2
Total	16.0	16.5

Surplus cash

- 143 As noted in Section III, Watpac had cash balances of around \$238 million and no borrowings as at 30 June 2018.
- 144 In order to determine the level of surplus cash held we have considered, inter-alia:
- (a) the net working capital position of Watpac; and
 - (b) the key conditions and covenants in Watpac's current bank guarantee and insurance bonding facilities.

Net working capital position

- 145 The significant cash balance reflects the fact that Watpac generally receives cash payments from customers in advance of paying subcontractors. As a result the net working capital position of the Company (excluding the working capital balances of the Civil & Mining Business and the property assets) is significantly less than the cash held, as shown below:

Net working capital as at 30 June 2018 (excluding Civil & Mining and property assets)	
	Actual \$m
Cash	238.0
Other current assets	108.9
Total current assets	346.9
Current liabilities	(288.3)
Net working capital	58.6
Current ratio	1.20
Rounding differences exist.	

Bank guarantee and insurance bonding facilities

- 146 Watpac's bank guarantee and insurance bonding facilities require the Company to maintain a minimum current ratio (being current assets divided by current liabilities) and a minimum level of net tangible assets.
- 147 Whilst the specific terms of these facilities are commercially sensitive, it should also be noted that:
- (a) Watpac had total bank guarantee and insurance bonding facilities at the date of this report of \$375.0 million, of which only \$205.5 million was utilised
 - (b) over the past 12 months the Company has maintained total bank guarantees and insurance bonding facilities well in excess of current requirements
 - (c) in order to undertake annual revenues from the Construction Business of around \$1 billion (consistent with the level assumed for valuation purposes), management has advised that bonding facilities could be significantly reduced
 - (d) it is reasonable to assume that a lower level of bonding facilities would translate to a lower net tangible asset covenant.

Current ratio

- 148 Having regard to the covenants in Watpac's current bank guarantee facilities, in our view a current ratio (being current assets divided by current liabilities) of 1.2 would be prudent. Whilst the reported current ratio as at 30 June 2018 was consistent with this view²⁸, this ratio varies materially depending on the timing of creditor payments.

²⁸ Calculated excluding the current assets and current liabilities of the Civil & Mining Business and property assets.

- 149 For example, if some of the cash balance as at 30 June 2018 was (notionally) used to pay down current liabilities then the current ratio would be substantially higher, and the level of surplus cash would vary as shown below:

Implied surplus capital based on current ratio (excluding Civil & Mining and property assets)				
	Actual⁽¹⁾	Pro-forma assuming reduction in		
	\$m	\$50m	\$100m	\$150m
Cash	238.0	188.0	138.0	88.0
Other current assets	108.9	108.9	108.9	108.9
Total current assets	346.9	296.9	246.9	196.9
Current liabilities	(288.3)	(238.3)	(188.3)	(138.3)
Net working capital	58.6	58.6	58.6	58.6
Current ratio	1.20	1.25	1.31	1.42
Prudent current ratio ⁽²⁾ (say)	1.20	1.20	1.20	1.20
Excess	-	0.05	0.11	0.22
Implied surplus capital (\$m)	-	10.9	20.9	30.9

Note:

- 1 Actual as at 30 June 2018.
 - 2 Having regard to the key conditions and covenants in Watpac's current bank guarantee and insurance bonding facilities.
- Rounding differences exist.

Conclusion on surplus cash

- 150 Having regard to the above and, in particular, the key terms of Watpac's bank guarantee and insurance bonding facilities (which are confidential) we have adopted surplus capital for valuation purposes of \$20 million. This implies net working capital for the Company (excluding the Civil & Mining Business and property assets) of \$39 million as at 30 June 2018 (which we consider reasonable).

Tax losses and R&D tax offsets

- 151 As at 30 June 2018 Watpac had R&D tax offsets of \$18.1 million (benefit)²⁹ and tax losses of \$27.8 million (providing a future tax benefit of some \$8.3 million)³⁰. As a result Watpac is unlikely to pay income tax for many years.
- 152 We have assessed the value of these future tax benefits at between \$9.3 million and \$12.3 million. This reflects the present value of the expected future tax saving over a five year period using a discount rate of 15% per annum. In forming this view we have considered:
- (a) the extent to which these future tax benefits could be utilised, based on the level of EBITA adopted for valuation purposes
 - (b) the time period over which any utilisation could occur

²⁹ On an undiscounted basis (i.e. no discounting to allow for the time value of money or risk has been allowed for in this figure).

³⁰ In addition, we note that Watpac has other deferred tax assets and capital losses.

- (c) the reluctance by purchasers generally to pay significant value for future tax benefits due to, inter alia, the uncertainty associated with their ability to utilise the future tax benefits (including the risk of adverse tax legislation changes).

Shares on issue

- 153 Watpac has 183.4 million fully paid ordinary shares on issue. In addition, the Company has 5,755,000 performance rights on issue, and plans to issue 450,000 performance rights in November 2018 (subject to shareholder approval at the annual general meeting (AGM)). These performance rights generally vest three years after their date of grant, subject to the achievement of various earnings per share (EPS) and total shareholder return (TSR) performance conditions:

Performance rights on issue			
Tranche	Subject to EPS condition	Subject to TSR condition	Total
2016 long-term incentive (LTI) plan	930,000	930,000	1,860,000
2017 LTI plan	1,052,500	1,052,500	2,105,000
2018 LTI Plan	895,000	895,000	1,790,000
2018 LTI plan (subject to approval at 2018 AGM)	225,000	225,000	450,000
Total			<u>6,205,000</u>

- 154 In relation to the above performance rights we note the following:
- (a) the cumulative underlying EPS generated by Watpac over the three-year period to FY19 (2016 LTI plan) or FY20 (2017 LTI plan) must exceed 25.35 cents per share or 29.58 cents per share respectively in order for a proportion of the 2016 LTI and 2017 LTI performance rights subject to the EPS condition to vest. In our opinion, we consider this to be highly unlikely given recent performance and we have therefore assumed that these performance rights will not vest
- (b) in contrast, the cumulative underlying EPS required to be generated by Watpac over the three year period to FY21 (2018 LTI plan) only needs to exceed 15.68 cents per share for a proportion of the performance rights to vest
- (c) the TSR tranche of the 2016, 2017 and 2018 LTI plans depends on the TSR performance of Watpac shares over a three year period relative to the TSR performance of listed companies operating in similar sectors (and in the case of the 2017 and 2018 LTI plans, the return on the S&P / ASX Small Ordinaries Index).
- 155 In order for a proportion of the TSR tranche to vest, Watpac's TSR performance must be in the top 50% of companies in the comparator group. Whilst Watpac's TSR performance over FY16 to FY18 placed Watpac in the bottom 50% of such companies, the minimum TSR performance condition could still be met as the TSR performance is measured over a three year period.

- 156 However, the 2016 LTI award is measured against a starting Watpac share price of \$0.82, which is well above the current share price (\$0.675 on 15 October 2018). In contrast:
- (a) the 2017 LTI award is measured against a starting Watpac share price of only \$0.565
 - (b) the starting Watpac share price for the 2018 LTI award is equal to \$0.72 (being the opening share price on 2 July 2018).
- 157 As a result there is a reasonable likelihood that the TSR tranche of the 2017 LTI and 2018 LTI performance rights will vest. Accordingly, for valuation purposes it is appropriate to assume that a higher proportion of the 2017 LTI and 2018 LTI performance rights subject to the TSR performance hurdle will vest compared to the performance rights under the 2016 LTI plan.
- 158 Based on the above, for valuation purposes we have adopted the following number of fully diluted shares on issue (in the absence of the Offer):

Fully diluted number of shares on issue adopted for valuation purposes	
	millions
Shares on issue	183.4
TSR tranche of 2016 LTI performance rights (assuming 10% vest)	0.1
TSR tranche of 2017 LTI performance rights (assuming 50% vest)	0.5
2018 LTI performance rights (assuming 50% vest)	1.1
Fully diluted shares on issue	<u>185.1</u>

Valuation of shares in Watpac

- 159 Based on the above, our assessed value of 100% of the shares in Watpac is as follows:

Watpac – valuation summary			
	Paragraph reference	Low \$m	High \$m
Construction Business	126	60.5	73.8
Civil & Mining Business	137	44.0	53.0
Property assets held for sale	142	16.0	16.5
Surplus cash	150	20.0	20.0
Tax losses and R&D tax offsets	152	9.3	12.3
Total equity value		149.8	175.6
Fully diluted shares on issue (million)	158	185.1	185.1
Equity value per share		<u>\$0.81</u>	<u>\$0.95</u>

Cross-check to pre-announcement share trading range

- 160 In order to cross-check our valuation of Watpac shares we have considered the listed market price of Watpac shares up to 15 October 2018 (being the date of our analysis), adjusted for a premium for control.

- 161 The volume weighted average share prices for Watpac in the one and three month periods up to 15 October 2018 were \$0.66 and \$0.70 respectively³¹. Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover, and after adjusting the pre-bid market price for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover).
- 162 Adding a 30% to 35% premium for control to these share prices would therefore result in a theoretical “control” value of \$0.86 to \$0.95 per share. Our valuation range is broadly consistent with this range.

Comparison with reported net asset position

- 163 As at 30 June 2018, Watpac had reported net assets of \$140.4 million, equivalent to \$0.76 per share (on a fully diluted basis).
- 164 Our valuation of Watpac shares therefore reflects a premium to the reported net assets per share of between 7% and 25%.

³¹ We note that these share prices may continue to reflect some expectation of corporate activity in relation to Watpac, given the unresolved nature of BESIX’s intentions as regards the Company following the Watpac shareholder rejection of the previously proposed Scheme.

VII Evaluation of the Offer

165 In our opinion, the Offer is fair and reasonable. We have formed this opinion for the following reasons.

Value of Watpac

166 As set out in Section VI, we have assessed the market value of 100% of Watpac at between \$0.81 and \$0.95 per share.

Value of Offer consideration

167 Under the Offer, Watpac shareholders will receive \$0.92 cash per share (the Offer consideration).

Fair and reasonable opinion

Assessment of fairness

168 Pursuant to RG 111 the Offer is “fair” if the value of the Offer consideration is equal to, or greater than, the value of the securities the subject of the Offer. This comparison is shown below:

Comparison of the Offer consideration to value of Watpac			
	Low	High	Mid-point
	\$ per share	\$ per share	\$ per share
Value of Offer consideration	0.92	0.92	0.92
Value of 100% of Watpac	0.81	0.95	0.88
Extent to which the Offer consideration exceeds (is less than) the value of Watpac	0.11	(0.03)	0.04

169 As the Offer consideration is toward the high end of our assessed valuation range for Watpac shares on a 100% controlling interest basis, in our opinion, the Offer is fair to Watpac shareholders when assessed based on the guidelines set out in RG 111.

Assessment of reasonableness

170 Pursuant to RG 111, a transaction is reasonable if it is fair. Consequently, in our opinion, the Offer is also “reasonable”.

171 In assessing whether the Offer is reasonable LEA has also considered, in particular:

- (a) the extent to which a control premium is being paid to Watpac shareholders
- (b) the value of Watpac to an alternative offeror and the likelihood of a superior proposal being made for Watpac prior to the close of the Offer
- (c) the likely market price of Watpac securities if the Offer is not accepted.

172 These issues are discussed in detail below.

Extent to which a control premium is being paid

- 173 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares³² three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium range reflects the fact that:
- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
 - (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
 - (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
 - (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.
- 174 In considering the control premium implied by the Offer, we have had regard to the Offer consideration of \$0.92 per share. We have calculated the premium implied by the Offer consideration by reference to the market prices of Watpac shares (as traded on the ASX) for periods up to and including 15 October 2018 (being the date of our analysis).
- 175 The implied offer premium relative to Watpac share prices up to 15 October 2018 is shown below:

Implied offer premium relative to recent share prices		
	Watpac share price ⁽¹⁾ \$	Implied control premium %
1 month VWAP to 15 October 2018	0.66	39.4
3 months VWAP to 15 October 2018	0.70	31.4

Note:

- 1 We note that these share prices may continue to reflect some expectation of corporate activity in relation to Watpac, given the unresolved nature of BESIX's intentions as regards the Company following the Watpac shareholder rejection of the previously proposed Scheme.

- 176 Based on the above, in our opinion, the Offer consideration provides Watpac shareholders with a premium that is consistent with observed premiums generally paid in successful takeovers. Prima facie therefore, Watpac shareholders are being appropriately compensated for the fact that control of Watpac will pass to BESIX if the Offer is accepted.

³² After adjusting the pre-bid market prices for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover.

Likelihood of an alternative offer

- 177 We have been advised by the Independent Directors of Watpac that no formal alternative offers or informal approaches have been received subsequent to the rejection of the Scheme by Watpac shareholders on 7 June 2018. In our opinion, it is therefore highly unlikely that a superior proposal from a third party will be received prior to the close of the Offer.

Likely price of Watpac shares if the Offer is not accepted

- 178 If the Offer is not accepted we expect that, at least in the short term, Watpac shares will trade at a significant discount to our valuation and the Offer consideration due to the difference between the value of Watpac shares on a portfolio basis and their value on a 100% controlling interest basis. In this regard, we note that Watpac shares last traded at \$0.675 per share on 15 October 2018.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.
- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target Statement to be sent to Watpac shareholders in connection with the Offer.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$65,000 plus GST.
- 9 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.
- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our

Appendix A

directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 24 years and 32 years of experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Independent Directors of Watpac to accompany the Target Statement to be sent to Watpac shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Watpac agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Watpac which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Target Statement.

Appendix C

Description of listed companies

NRW Holdings Limited

- 1 NRW Holdings provides a range of diversified contract services to the resources and infrastructure sectors in Australia. Its activities include the delivery of civil infrastructure projects, bulk earthworks, concrete installation, rail formation and contract mining services including mine development, waste stripping, ore haulage, maintenance services and drill and blast services. In August 2017, NRW Holdings acquired Golding Group, a Queensland-based services contractor with exposure to the east coast civil, urban and infrastructure markets.

Decmil Group Limited

- 2 Decmil Group offers a diversified range of services to the Australian resources, renewable energy and infrastructure sectors. It delivers multi-disciplinary projects with expertise across the design, engineering and construction phases. Decmil Group also provides workforce accommodation services at its Homeground Villages property in Gladstone. Decmil Group is headquartered in Perth with offices in Brisbane, Melbourne and Auckland, New Zealand.

SRG Global Limited

- 3 Global Construction Services Limited and SRG Limited merged in August 2018, with the merged company to be known as SRG Global. A description of the two companies prior to the merger is summarised below:
 - (a) Global Construction Services is a construction and maintenance services company that delivers a suite of integrated on-site products, services and solutions to the infrastructure, energy, oil and gas, industrial, commercial and residential sectors. Its activities are focused on the provision of scaffolding, formwork, concreting, site accommodation, temporary fencing, façade and window installation and various other specialised site services. Global Construction Services operates from seven locations spread across Western Australia as well as from offices located in Sydney, Melbourne and Brisbane.
 - (b) SRG is a diversified civil and construction company with specific expertise in complex engineering construction, particularly in the areas of post-tensioning and dam strengthening. It also manufactures a range of specialised engineering products which are cross-sold into its construction projects and provides drill and blast and other related mining services through its Mining division. SRG is headquartered in Perth and serves clients in the infrastructure and resources sectors from its offices throughout Australia as well as in the Middle East and Hong Kong.

Tempo Australia Limited

- 4 Tempo Australia is a multi-disciplinary provider of construction, maintenance, sustaining capital works and shutdown services to operators in the resources, energy, commercial and industrial sectors. It has specific expertise in the provision of structural, mechanical and piping services as well as electrical, telecom and data communications services through its recent acquisitions of Cablelogic and KP Electric. Tempo Australia currently services its clients from 12 operating facilities across Australia, including Sydney, Brisbane, Canberra, Melbourne, Perth and Adelaide.

Appendix D

Glossary

Term	Meaning
ABS	Australian Bureau of Statistics
AGM	Annual general meeting
Agreement	Scheme Implementation Deed between Watpac and BESIX dated 25 February 2018
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
BESIX	BESIX Group SA
CAGR	Compound annual growth rate
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Corporations Regulations	<i>Corporations Regulations 2001</i>
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation of acquired intangibles
EBITDA	Earnings before interest, tax depreciation and amortisation
EPS	Earnings per share
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year ended 30 June
GFC	Global financial crisis
IER	Independent expert's report
LEA	LonerGAN Edwards & Associates Limited
LTI	Long-term incentive
NPV	Net present value
NSW	New South Wales
NTA	Net tangible assets
Offer	\$0.92 cash per Watpac share
QLD	Queensland
R&D	Research and development
RBA	Reserve Bank of Australia
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
Scheme	Scheme of arrangement under which BESIX proposed to acquire a further 50% of the issued shares in Watpac that it did not already own for \$0.92 per share
TSR	Total shareholder return
VWAP	Volume weighted average price
WA	Western Australia
WANOS	Weighted average number of shares outstanding
Watpac or Company	Watpac Limited