ANNUAL REPORT 2018

WATPAC

Contents

Highlights 2018

52 projects currently underway

1,358 tonnes of steel erected

15,215 tonnes of reinforcing steel

113,000m² of pavement placed

138,413 cubic metres of concrete poured

first Watpac's first Reconciliation Action Plan submitted

four Watpac projects front and centre at 2018 Gold Coast Commonwealth Games with four venues hosting events

wins Anna Meares Velodrome wins National President's Award at 2017 Master Builders National Excellence in Building and Construction Awards

new New Chair Appointed to Watpac Board

launched National safety video launched in conjunction with Supercars

14 operating excavators

>7,787,000 hours worked

28,606 people inducted on site

8,993 toolbox talks held

>70 initiatives launched following employee engagement survey

>750 employees and their families took part in Watpac Family Days

20 tower cranes erected on site

>1,100 learning modules completed through iLearn

Message from the Chair and Managing Director

While the 2018 financial year has been one of challenges, it has also been a year that reinforced Watpac's positioning in our selected markets and commitment to delivering projects that align with our strategy to be a sustainable and successful business that provides bespoke solutions for clients.

Peter Watson
Chair

Martin Monro
Managing Director

Our objective has been one of positioning our businesses within the sectors that align with our core skills and offer long-term opportunities. Refining our approach to project selection in this way brings greater profitability and, in turn, improved value for shareholders.

As such it is pleasing to report on the progress we have made against several of our strategic priorities, and in particular to report the improved financial performance of our Construction businesses.

The Group's construction activities contributed a substantially improved pre-tax profit performance in FY18 of $20.6 million, representing a 75 per cent improvement on prior year earnings. Additionally, almost $1.4 billion in new building work was secured in the 2018 financial year, with a number of projects in our preferred sectors demonstrating Watpac's strong reputation for project excellence and our high standing in the Australian contracting landscape.

This improvement in financial performance has been delivered despite the negative impact from several historical projects, which were adversely affected by prolonged cost escalation pressures existing in prior periods. Importantly all of these projects have now either completed or are substantially complete.

Significant investment in strategy execution, aimed at improving the quality of the Construction workbook nationally, has resulted in a ~$400 million increase to work-in-hand at balance date. This is a circa 30 per cent increase when compared to the position at 30 June 2017, with the workbook now approaching $2 billion.

Strong market conditions and improved public sector investment, particularly in New South Wales and Victoria, have seen the Construction business successfully convert or achieve scope enhancements on almost $1.4 billion of contracts over the past 12 months. The diverse nature of these contracts represents sectors where we offer specialised capabilities and bespoke design management expertise.

Significant project wins include the New South Wales Mid North Coast Correctional Centre expansion project, the second stage of the Hornsby Ku-ring-gai Hospital development, the Deakin Law School building project in Melbourne and the multi-site Department of Defence Explosive Ordnance Logistics Reform Program projects to be delivered across various locations in New South Wales and Victoria.

North Queensland Stadium, Townsville

ARTIST IMPRESSION ONLY

In South Australia, contract conversions included the residential development EI8HT South Esplanade and the recently announced Adelaide Airport Terminal Expansion Project, the second major project the Group will deliver for Adelaide Airport Limited.

In Queensland, the Group commenced Stage 2 of the ~$250 million North Queensland Stadium in Townsville, a project which builds on Watpac's extensive experience in sporting facilities and follows our success in delivering a number of venues for the 2018 Gold Coast Commonwealth Games.

Despite this improvement in earnings from the Construction business, the consolidated underlying trading result for the Group was adversely impacted in FY18 by a reduced operating contribution from the Civil & Mining business.

The 2018 financial year has been one of many challenges for the Civil & Mining business, with several large mining contracts completing in the first half of the Reporting Period and, contrary to initial expectations, no new major opportunities having been converted. After adjusting for an overhead restructuring provision and impairment charges recognised against the carrying value of plant & equipment and stock assets, the Civil & Mining business recorded a statutory pre-tax loss of $49.6 million in FY18. This comprised an underlying pre-tax trading loss of $7.5 million and non-cash statutory adjustments totalling $42.1 million.

Following advice that Watpac had been unsuccessful on two major mining project tenders in March 2018, the Board undertook a review of the Group's mining operations to ascertain options to maximise and preserve value. This review concluded that in the future operation of this business it is 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 marked increase in activity levels across the resources sector.

To a large extent the statutory adjustments recognised in FY18 have arisen as a consequence of these circumstances, with the accounting rules requiring the application of a fair value measurement to this business's assets at balance date. With few recent sales of similar equipment having occurred, this has resulted in the adoption of what Management believes to be conservative valuations for these assets at balance date, and which are not representative of targeted asset realisation values.

Watpac has been successful in recent months with the award of a number of civil infrastructure and rehabilitation projects, consistent with the revised approach to the future operation of this business.

Anna Meares Velodrome, Brisbane

While the 2018 financial year is one which has failed to meet our expectations, we have refined our positioning in our chosen markets and further developed our future plans. This has included the development of a plan to target more sophisticated construction projects, in a subsector of the market that is not currently available to Watpac.

Access to this part of the market was one of the major reasons the Independent Board Committee so adamantly supported BESIX Group's (BESIX) proposal to increase its shareholding in the Group via a scheme of arrangement, as it believed this stronger relationship with BESIX would provide access to a tier of the market that is not currently available. We therefore welcomed the opportunity to implement a much closer alignment with BESIX.

While the resolution put to shareholders ultimately did not pass, the vote was overwhelmingly in favour and reinforced the decision by the Independent Board Committee to formally present the offer to shareholders.

Though the Board and Management team feels that closer alignment with BESIX provides many benefits for clients, shareholders and employees alike, Watpac's overall strategy is strong and remains unchanged as a consequence of the vote.

The timeframes for growth and the pace at which we may approach this desired subsector of the market may now be slower, but we are confident that it can be achieved and execution of this strategy will deliver enhanced value for all stakeholders.

Since the vote, BESIX has remained our most significant shareholder at 28.1 per cent and we continue to pursue joint venture opportunities together.

Cash and term deposits at financial year-end totalled $238 million. All equipment finance borrowings associated with Civil & Mining plant & equipment assets were repaid in the second half of the Reporting Period and as such net cash also totalled $238 million at balance date. This increase from the position at 30 June 2017 reflects Watpac's robust cash management processes and strong workbook.

The Group's substantial level of cash and liquidity is under constant review by Management and the Board, and opportunities for additional capital management will be regularly assessed in the context of the Group's other strategies and funding requirements.


York & George, Sydney


Australian Institute of Tropical Health & Medicine, Townsville

Our focus now turns to achieving a much-improved result for the 2019 financial year. The Board and Management's specific attention over the next 12 months will be on:

- maintaining our focus on targeted building projects in our preferred sectors;
- enhancing our systems and processes to ensure expert project delivery at all times; and
- executing the Civil & Mining business restructure.

The Group has the right capabilities, resources and capital structure in place to deliver the results our shareholders expect and our aim is to generate value by focusing on prospects that draw on these strengths.

Over the last 12 months we have seen a number of changes at Board level including the retirement of Chair and long-standing non-executive director Dick McGruther. Dick's retirement follows a 24-year tenure with the Board during which he contributed valued guidance and financial experience. We appreciate greatly his contribution to the business and his unwavering support of the Group over the many years he served on the Board.

During this period the Board also welcomed Rik Vandenberghe following the resignation of Johan Beerlandt, and we take this opportunity to formally recognise Johan's contribution to the Board since 2013.

At an organisational level, we would like to thank the Management team and employees for their efforts and commitment to delivering outstanding projects for our clients. Our people are our business and we appreciate their support in performing their roles successfully and safely.

Finally to our shareholders, thank you for your ongoing support. Despite the challenges we have faced across the year, we have the foundation in place to build future value.

Peter Watson
Chair

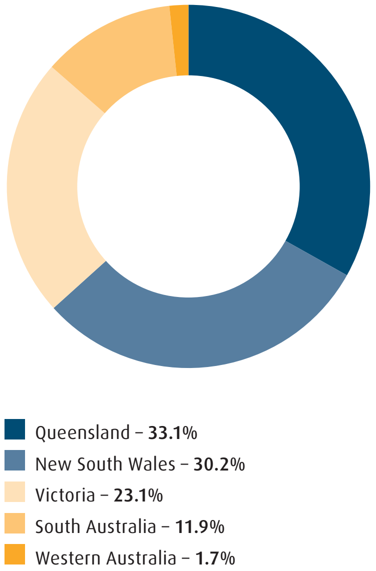
Martin Monro
Managing Director

The Results in Brief

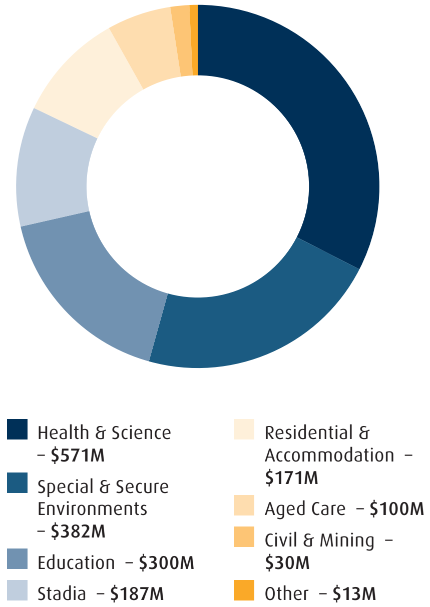
as at 30 June 2018

Work-in-hand by product type (%)

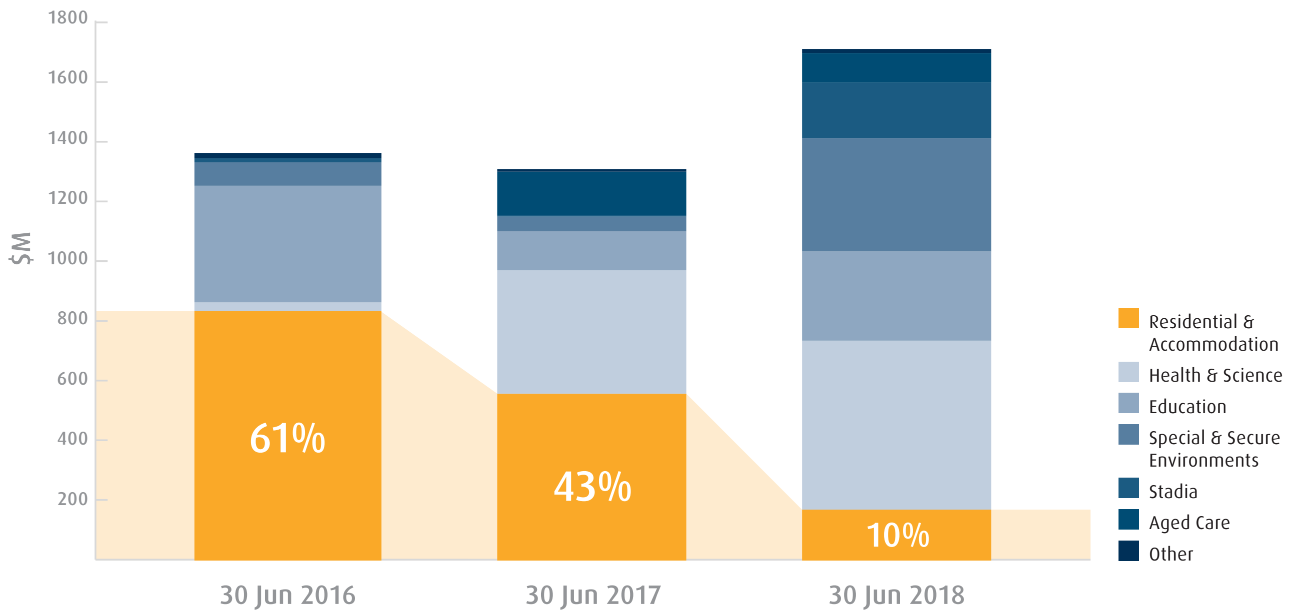
Work-in-hand by region (%)



Work-in-hand ($M) by industry sector



Evolution of Construction Workbook



Creating Landmarks

Healthy Communities

Hornsby Ku-ring-gai Hospital

The contract for the second stage of this hospital redevelopment was awarded to Watpac in June 2018, and involves providing integrated purpose-built health care facilities including a new six storey Clinical Services Building. This building will accommodate a combined Intensive Care and High Dependency Unit, and combined Respiratory/Cardiac and Coronary Care beds collocated with a Cardiac Investigations Unit. Inpatient Medical Units (including general medicine, stroke and dementia/delirium beds), Medical Assessment Unit, Paediatrics, Ambulatory Care Centre, Transit Lounge, a University of Sydney education space, and retail space will also be provided.

The project also includes refurbishing and expanding the emergency department within the existing Hospital's Obstetrics, Paediatrics & Emergency building, providing purpose-built clinical space to meet the region's increased demand.

Casey Hospital Expansion

Works are progressing well at the 13,000 square metre expansion to the existing hospital which will provide 160 new beds, six new operating theatres and the hospital's first intensive care unit. Additional recovery capacity, a new day surgery unit, upgraded pharmacy, pathology and back-of-house areas will be provided, in addition to a new front entry building that includes education and training spaces for Monash University.

Herston Quarter Redevelopment

Demolition of a number of existing buildings including the old Royal Children's Hospital and Surgical Building have been completed, with construction activities now progressing for the new Specialist Public Health Facility. Two tower cranes have been erected enabling the installation of basement and ground floor slabs. Watpac is also delivering the Spanish Steps – which will extend from Herston Road into the main public realm, dedicated carparking, and major infrastructure works and associated road upgrades.

Hornsby Ku-ring-gai Hospital, Sydney


Casey Hospital Expansion, Melbourne

Growing Cities

Mary Lane

External structural works were completed in April 2018 on this 37-storey inner city hotel and residential apartment development. Following the decommissioning of one of the tower cranes in June, works continue on the building's façade as well as completing the podium levels with the final tower crane to be removed shortly. The 5-star Westin Hotel will include 286 rooms as well as four podium levels with a large, resort-style pool, gymnasium, day spa, function space, lobby bar and restaurant. Handover of hotel levels 4 to 16 has commenced to enable internal fit-out to continue. The residential component will feature 184 luxury one, two and three bedroom residences, as well as separate facilities to be enjoyed by residents including a rooftop recreation deck with pool, gymnasium, barbecue and function areas. A multi-layered atrium with laneways is also being delivered and will offer fine dining restaurants and bars.

The Cascades Seniors Living Development

A significant milestone in the construction of this purpose-designed retirement living complex was achieved in April 2018 when all structural works were completed. The ground floor apartments in the Stage 1 building have been completed and are being used as display apartments. All Stage 1 works are expected to be complete by the end of August 2018. Internal fit-out of the Stage 2 building has commenced with practical completion on track for the end of this year.

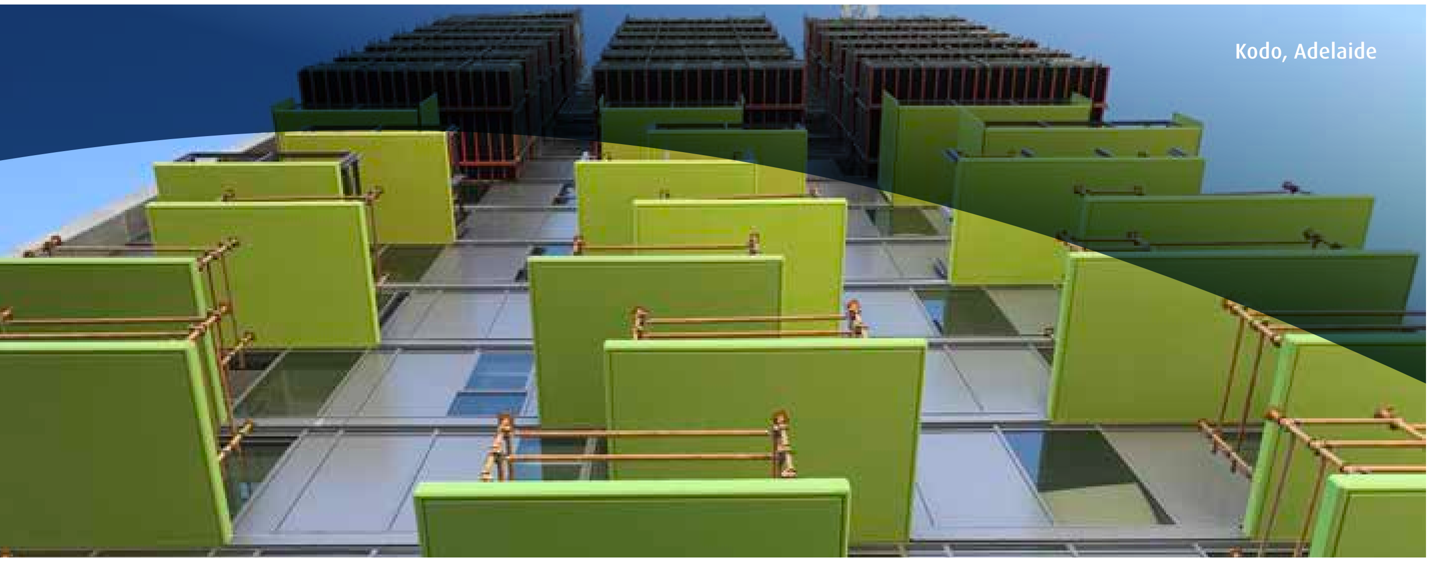
EI8HT South Esplanade

Works commenced on this residential development located in the beachside community of Glenelg in February 2018. Watpac will deliver 52 sophisticated apartments across 11 floors and a two-level basement carpark. The building will maximise the use of open spaces and offer residents an exclusive living experience with world-class amenities including an indoor gymnasium, swimming pool and terrace garden facilities. Watpac will also deliver a public landscaped linkway providing direct beach access from St Johns Row to South Esplanade, and minor refurbishment works to the adjacent heritage-listed Seafield Tower.

Summer Hill

Works were completed at this two-stage project in late 2017, with Watpac transforming the historic flour mill site at Summer Hill into a mixed-use residential precinct. A total of 127 residences were delivered across seven buildings, including the conversion of the iconic flour mill silos into 45 apartments, in addition to providing 18 three-storey terrace homes. Landscaping and retail spaces were also delivered, helping transform this historic site into a thriving new community for residents.

EI8HT South Esplanade, Adelaide



Kodo, Adelaide

Pullman Ibis Hotels and Conference Centre

This project is the biggest third party development to be undertaken at the Brisbane Airport to date, with works completing in October 2017. Featuring the 5-star Pullman Hotel which provides 130 rooms over 10 levels, and the 3.5-star Ibis Hotel offering 243 rooms, the precinct also provides guests with access to lounges, rooftop bars and views across to Moreton Bay. Accompanying the hotels is the Brisbane Airport Conference Centre, providing 13 conference and meeting rooms with the capacity to host 600 delegates.

Newstead Series

This recently completed boutique residential development in the Brisbane riverside suburb of Newstead features 400 luxurious residences offering exclusive apartment and townhome-style living. An expansive half acre of subtropical gardens brings together the four buildings creating an urban oasis for residents as well as providing a lap pool, fire pit, outdoor cinema, alfresco dining areas and recreational space.

Riverlight

Located in one of Brisbane's most sought-after waterfront communities, Riverlight at Hamilton Reach was completed in May 2018 providing 155 one, two and three bedroom apartments and high-end penthouses. Superior finishes and amenities to promote luxury urban living include landscaped walkways, a sensory garden, lap pool and sun deck, a barbecue entertainment area, communal indoor dining room and a fully equipped gymnasium. The new precinct features internal and external seating that have been constructed from recycled wharf timber, as well as standing totems that reflect the historical waterline of the Brisbane River.

Kodo

This 30-storey residential tower will become Adelaide's tallest apartment complex and provide 208 one, two and three bedroom apartments, plus ground floor retail and commercial tenancies. An exclusive sky garden on the top floor of the five-level podium will feature entertaining and recreation areas, and will be surrounded by apartments with mezzanine floors and generous private terraces. Works are currently focused on completing the tower floors as well as commencing installation of the façade window wall system and fit-out.

Union Tower

Construction works at this central Melbourne 35-storey residential development are progressing well with the tower crane recently dismantled following completion of the external structure in April 2018. The building is now watertight and the team is focusing on completing finishes on all levels. The tower will offer 165 one and two bedroom apartments, with only five residences per typical level due to the building's tall and slender design. Amenities to be enjoyed by residents include shared and private working areas, bike storerooms, retail space, common bicycle workshop facilities and a gymnasium.

York & George

With the 39-storey tower topping out in May 2018, focus is now on completing the façade and internal fit-out of this inner-city mixed-use development. The tower crane will be decommissioned and removed from site now that structural works are complete. Featuring 32 levels of residential living, a seven-storey retail and commercial podium and two underground basement levels, a significant component of works involves restoration to two existing heritage-listed buildings. These works are almost complete and will be handed over when the project reaches practical completion in late 2018.


Union Tower, Melbourne

Creating Landmarks

Secure Facilities

Adelaide Airport Terminal Expansion

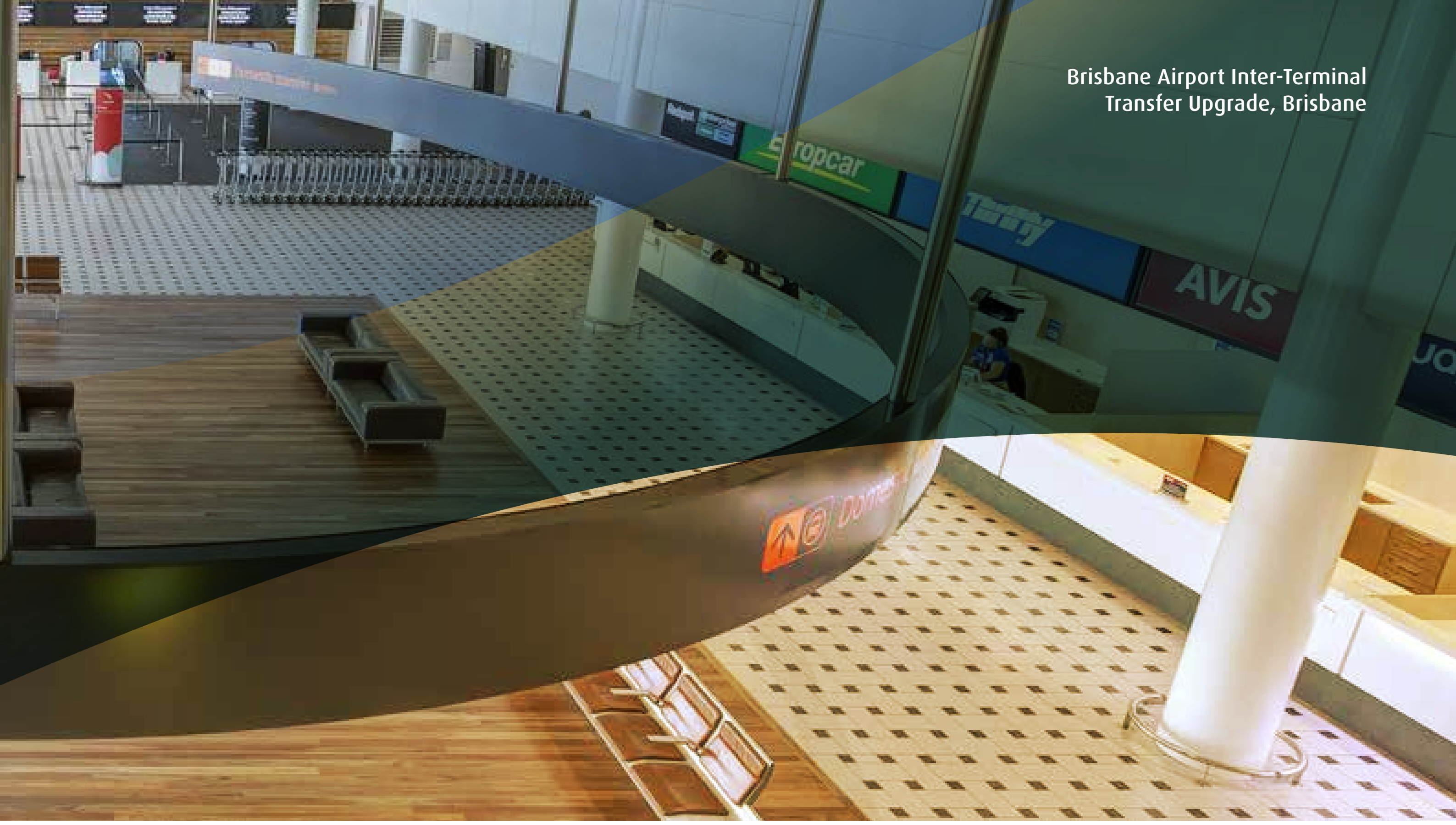
Works on this major project commenced in July 2018 and will see Watpac deliver expansion and refurbishment works of the existing terminal. This includes expanding the international inbound passenger processing and baggage claim facility, international arrivals duty free and passenger and immigration facilities, retail tenancies, and the international gate lounge and duty free areas. The project also involves delivering a new retail concourse with passenger facilities and amenities, and provision for Virgin Australia's domestic lounge and other international airline lounges.

Adelaide Airport Terminal Expansion

ANSTO Nuclear Medicine Molybdenum-99 Facility

Completed in late 2017, this leading health and science facility provides the Australian Nuclear Science and Technology Organisation (ANSTO) with significantly increased capacity to produce the critical life-saving radioisotope molybdenum-99 to a growing world market. The project showcased Watpac's expertise in delivering a complex project requiring extensive engagement with specialist fields around the globe to develop a bespoke design in accordance with rigorous pharmaceutical medicine production requirements.

ANSTO Nuclear Medicine Molybdenum-99 Facility



Brisbane Airport Inter-Terminal Transfer Upgrade, Brisbane

Military Vehicle Centre of Excellence (MILVEHCOE)

Watpac has been appointed as Stage 1 Managing Contractor for the two-stage Rheinmetall Defence Australia Military Vehicle Centre of Excellence. The Centre forms part of the $5.2 billion Land 400 Phase 2 project being delivered by Rheinmetall for the delivery of 211 highly protected BOXER combat reconnaissance vehicles to the Australian Defence Force, the project will deliver a main production facility along with high quality industrial production and testing facilities and an administration building where Rheinmetall will design, develop, manufacture and sustain the 8x8 armoured vehicles. A fleet of more than 2,500 high mobility logistics trucks for the Australian Army will also be maintained at the facility.

Mid North Coast Correctional Centre, New South Wales

Mid North Coast Correctional Centre

Located to the west of the existing correctional centre, Watpac is delivering a new maximum security male facility comprising four accommodation blocks each with 110 beds and an exercise yard. The facility will also include an industries and programs building, health clinic, associated custodial offices, a network of secure walkways, outdoor recreational areas including sports fields and a new secure perimeter with integrated security system. Refurbishment works to a number of facilities within the existing correctional centre will also be undertaken. Construction of the first building is underway now that site clearing has finished.

Explosive Ordnance Logistics Reform Programs

Two Explosive Ordnance Logistics Reform Programs will be delivered at multiple sites throughout New South Wales and Victoria. The first works package will be delivered at Denman in New South Wales and comprises the construction of explosive stores buildings and associated facilities, three light frangible buildings, a mechanical handling equipment store, and an access control building. Associated infrastructure for each of these facilities will also be delivered including security, services and roadworks.

The second multi-site works package involves delivering various explosive ordnance facilities at four operational bases – Mangalore, HMAS Cerberus and Point Wilson in Victoria, and Twofold Bay in New South Wales.

Brisbane Airport Inter-Terminal Transfer Upgrade

With works concluding in March 2018, the upgrade at Brisbane Airport has enhanced the passenger connection journey between the international and domestic terminals. Additional improvements to the international terminal include upgraded baggage handling systems, increased processing capability of the Level 2 bag drop area, new transfer check-in at Level 2 Arrivals and the relocation of Level 2 bus stops.

Swickers Pork Processing Facility, Kingaroy

Specialty Services

Swickers

The construction of new buildings and equipment at Swickers Pork Processing Facility in Kingaroy were completed in late 2017 following a fire at the existing facility. The project included the delivery of a new boning room and extension with full processing equipment fit-out, carcass chillers, and a distribution facility, in addition to extensive external works. The design, installation and commissioning of a new state-of-the-art triple lane boning line was also delivered. The entire project was managed via a fast-tracked delivery program resulting in the facility being handed over to the client 12 months on from the fire.

Brisbane Markets Multi-level Car Park

Located at the busy Brisbane Markets in Rocklea, the new car park was completed in December 2017 and has been designed to maximise the use of natural light. To combat the history of flood events in the area, Level 1 has been designed for forklift loadings as a mitigation strategy for future flooding. The project also included construction of a 24 metre pedestrian bridge linking the car park with a lift to the main trading floor as well as boom gates and turnstiles formed.


BRISBANE MARKETS
QUEENSLAND'S
heart
PRODUCE

Building Futures

Deakin University Law School Building

Awarded in June 2018, the new nine level law school building at Deakin University's Burwood Campus will provide 20,000 square metres of teaching and learning spaces, student support and wellbeing spaces, staff workspaces and basement car parking. A number of environmentally sustainable features will be incorporated into the building including rooftop solar panels, a high efficiency heating ventilation and air-conditioning system, and rainwater harvesting.

Arthur Phillip High School and Parramatta Public School

Watpac is delivering two new state-of-the-art schools in Parramatta for the New South Wales Department of Education – the 18 storey high-rise Arthur Phillip High School and the multi-level Parramatta Public School. Two tower cranes have been installed at the high school, which will accommodate 2,000 students, with the first suspended slab already poured and structural steel erected to Level 2. Works at the 1,000 student public school has also progressed with the tower crane now installed. In addition to delivering new buildings, Watpac will upgrade existing heritage buildings at both sites as well as providing a landscaped rooftop garden for the public school and sports fields for the high school.

Deakin University Law School Building, Melbourne

Queensland Schools PPP

Arthur Phillip High School and Parramatta Public School, Parramatta

Queensland Schools PPP

Works at the final four schools – Redbank Plains, Bellbird Park, Springfield West and Caboolture West, are progressing well with all structural steel components now complete. Cladding of the multi-purpose halls is underway with these final schools expected to be completed ahead of the 2019 academic year. This will mark the completion of all 10 schools Watpac has delivered for the Queensland Government throughout South East Queensland as part of the Plenary Schools Consortium. The success of these projects has been recognised with Pimpama State Primary School, completed by the Watpac project team in late 2016, awarded the Education Facilities Over $10 Million award at the 2017 Gold Coast Master Builders Housing and Construction Awards.

Victorian New Schools PPP

The final Tranche 2 schools were handed over in early 2018, concluding works at each of the 15 schools delivered for the Victorian State Government as part of the Learning Communities Victoria consortium. This multi-site project involved the construction of primary, secondary and special schools, in addition to various community facilities. The exceptional standard of the Watpac team was recognised in June 2018 when one of the schools in the program, Mernda Central P-12 College, won the Best New Construction/Entire New Educational Facility award at the 2018 Learning Environments Australasia Awards.

Bouverie Street Student Accommodation

Converted in early July 2018, this project will deliver a 13 level purpose-built student accommodation for 579 University of Melbourne students offering a mix of ensuited and small and large dormitory rooms, and accessible rooms for mobility, vision and hearing impaired students. The development will feature meeting lounges, a sky lounge, shared kitchens and dining spaces, laundry space, and a sports lounge and gymnasium in addition to a ground level private outdoor space, and a mid-rise and upper roof terrace. Refurbishment works will also be completed on an adjacent heritage building.

Victorian New Schools PPP

Sporting Infrastructure

North Queensland Stadium

Stage 1 civil works delivered as part of this two-stage Managing Contractor project have been completed with Stage 2 now underway. Construction of the new 25,000 seat stadium in Townsville is currently focused on the west and south superstructure, and in July 2018 the first suspended slab was poured. External services infrastructure works are currently underway.

Gabba and Suncorp Stadium Video Board Replacement

Sporting fans now have a greater opportunity to be a part of the on-field action following the installation of four new high definition LED video display screens at the Gabba and Suncorp Stadium. Two 147 square metre screens were installed at the Gabba ahead of the first Ashes test in November 2017 – one each at the eastern and western ends of the ground. The two 167 square metre screens at Suncorp Stadium were completed ahead of the 2017 State of Origin series.

North Queensland Stadium, Townsville

Capel Satellite, Western Australia

Enhanced Delivery

Mt Magnet Gold Mine

In October 2017, operations concluded at Mt Magnet Gold Mine where Watpac has been providing mining services since 2011. The original contract was extended in 2016 to provide additional works at the Blackmans, Titan and Brown Hill Pits over a 16-month period. Throughout the life of the project, more than 4.1 million BCM of ore and waste was moved over 40,000 truck hours.

Axehandle Gold Mine

Operations and rehabilitation of the waste dumps were completed in April 2018 concluding the 32-month mining services contract. More than one million site hours were worked throughout the life of the project and at peak production, five excavators, 19 dump trucks, 10 drill rigs, three dozers, two graders and two watercarts were in operation.

Tutunup South Mineral Sands

Watpac has been the sole mining services provider at this project located 17 kilometres south of Busselton since 2011, with mining concluding in February 2018. Over the life of the mine, approximately 10 million cubic metres of material was excavated and five million cubic metres of ore fed through the processing plant. With mining taking place on both sides of a national highway, over 10,000 haul truck crossings were safely made over the course of operations.

Silver Lake Resources Imperial Majestic Pits

Watpac demobilised from site in May 2018 after more than two years of providing mining services at Silver Lake Resources's gold mine. More than 7.429 million BCM of material was mined over the two years, exceeding the original contracted volume by almost one million BCM. A notable achievement by the project team was working more than 317,000 hours with no Lost Time Injuries.

Capel Satellite

This seasonal project to clean and reline secondary product dams between October and June each year was completed in 2018. The work involved removing iron oxide and ironman gypsum from the dams and dried at a rate of 30,000 tonnes per month, then stockpiling the material ready for export. During the 2017/2018 season, two 45,000 square metre dams were relined with 1.5 millimetre poly liner.

Kalbarri Roadworks

Watpac has upgraded 20 kilometres of unsealed roads and tracks in the Kalbarri National Park, approximately 570 kilometres north of Perth, for Western Australia's Department of Parks and Wildlife. Earthworks, drainage, pavement construction, road sealing and carpark works were all undertaken as part of this project.

South Dandalup Dam Outlet Works

This upgrade to the Water Corporation's South Dandalup Dam was completed in late 2017. Diving crews were required to deliver the work, which involved upgrading the mild steel cement lined bellmouths to stainless steel as well as changing out the valves inside the intake tower. Downstream works below the dam wall included demolishing the existing guard valve pit followed by reinstating the valves and pit, and installation of a DN900 scour dispersion valve at the end of the main scour pipe.

Kwinana Power Station SOR Tank Bund Works and Drainage Removal

Excavation works were undertaken in late 2017 at the Kwinana Power Station site in Naval Base. The project involved removing and disposing of contaminated soils, drainage pipework, HDPE liner, Oil/Water separator and other bund infrastructure from the site.

Tutunup South Rehabilitation

With mining services concluding at Tutunup South Mineral Sands in early 2018, Watpac has been contracted to rehabilitate the mine over a three-year period. Site rehabilitation works will include backfilling all pits, soil profiling all disturbed areas, cleaning and rehabilitating 14 slime dams and reinstating sensitive wetlands. Approximately 3 million cubic meters of material will be returned and profiled to within 30 millimetres by GPS-guided plant in addition to re-establishing native forest and pasture, and reinstating aquifers.

Yoganup Rehabilitation Earthworks

Remediation works to part of the Yoganup Extended mine is being undertaken for Iluka Resources. A fleet of dozers, trucks, an excavator and tractor scoop will be used to complete all works. This includes earthworks associated with returning pasture to areas disturbed by mining activities such as site roads, laydown areas, open pits, stockpiles and tailing dams.

Capel Dam HDPE Reline

Watpac has been contracted to undertake civil works at Iluka Resources's North Capel operation. The first component of work involves excavating and relining a 3,500 cubic metre acid effluent dam and a 25,000 square metre iron oxide dam. Associated works include constructing surrounding roadways, fencing, new pipe launders, poly pipe welding and installing concrete traffic barriers. A new 80,000 cubic metre inert waste pit will be excavated and formed using excavators, trucks and scrapers – comprising the second component of the project.

Miling Bypass, Western Australia

Capel Dam HDPE Reline, Western Australia

Boddington Dam, Western Australia

Miling Bypass

Works on the Miling Bypass Road Construction project commenced in April 2018, where Watpac will upgrade a 9.3 kilometre stretch of the Great Northern Highway and 3.5 kilometres of intersections and side roads. The contract involves clearing, earthworks, drainage, service relocations, pavements, sealing and landscaping. Approximately 40 per cent of the cut to fill has been placed using a fleet of three dump trucks, one excavator and two scrapers. A surface miner was utilised to complete rock excavation cuts, with all cut areas completed in June 2018.

Cataby Civil Works

Works have been progressing as per schedule with the project expected to be completed in the coming months. Recent milestones include completing all clearing, grubbing and topsoil stripping to multiple site areas as well as handing over the mining contractor's area, completing the main access road and carparks, bulk earthworks and HDPE geomembrane lining works. Sheet piling has commenced and over 80 per cent of services are now installed.

Boddington Dam Remedial Works

Remediation works to the Boddington Dam for Water Corporation were completed in May 2018. Works involved demolishing the existing spillway, bulk excavation, construction of a new concrete spillway, rock protection, installation of new outlet pipework and minor infrastructure.

Mt Barker Waste Water Treatment Plant Contingency Overflow Pond

An upgrade to the Water Corporation's Mt Barker Waste Water Treatment Plant was undertaken in early 2018. The project has created a Contingency Overflow Pond alongside existing operational facilities. The work primarily involved delivering clay construction rock lined embankments for the 2.4 mega litre capacity dam along with associated piping, electrical and fencing.

In Focus

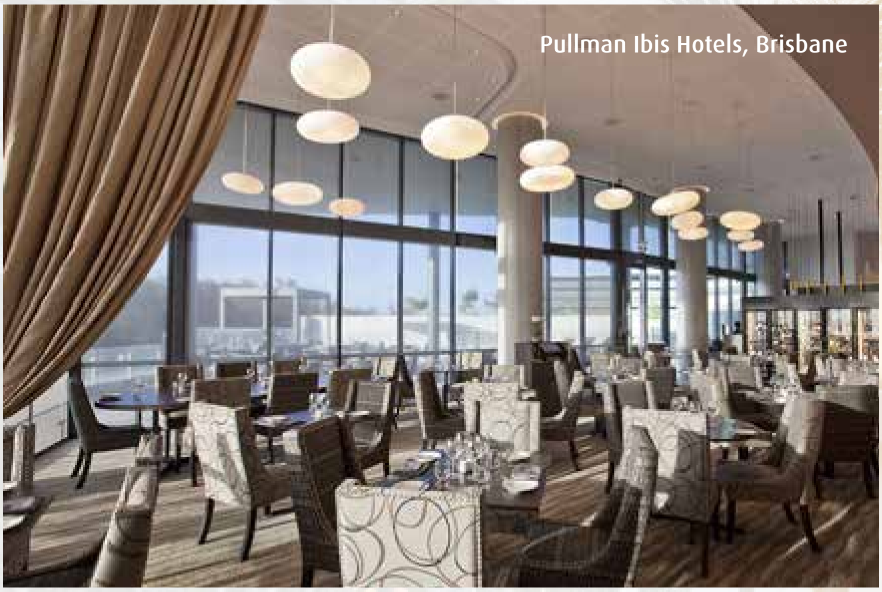
Growing Cities

As the landscape of Australia's cities evolve so too are the ways in which people are choosing to live in these urban settings.

From luxury apartments and hotels to high-rise retirement villages, the construction of Australian cities is changing as people turn to community-based living where the urban setting provides for all stages of life.

With the Group recently completing a number of luxury residential projects General Manager Construction, Nick Saclley, said the business is translating its experience in this sector to meet the demands for lifestyle projects that provide bespoke inner city living for specific life stages.

"Watpac has an outstanding record for delivering premium residential projects such as the recently completed Riverlight and Newstead Series in Brisbane and the three-tower Ryde Garden development in Sydney, however we're seeing greater demand for living solutions that are specific for particular stages of a resident's life," Mr Saclley said.


Pullman Ibis Hotels, Brisbane

"While standard residential development remains strong we are seeing a shift to clients building for targeted life stages that reflect all aspects of a community as a whole – student living, retirement and aged care.

"Clients are recognising the need for city living to now be one which offers a community focus, where people can reside for many years, versus where one's age and circumstance dictates where they live and what services they have access to.

"This change is resulting in our teams applying their experience in building high-end residential projects to a focus on delivering these purpose-built lifestyle solutions we're seeing come to market," Mr Saclley said.

"Our portfolio now comprises a large portion of life-stage focused projects and we're capitalising on our diverse capabilities in residential, luxury hotels and healthcare to ensure these projects bring a client's vision to life and meet lifestyle expectations no matter the age of its resident."

Newstead Series, Brisbane

With two retirement living communities and a student accommodation project underway in Melbourne, Construction Victoria State Manager Nick Pavlovic said the projects draw on the team's CBD expertise.

"Understanding that these projects need to be more than just a place to live ensures our team is in the best position to deliver a building that supports the way residents engage with these spaces," Mr Pavlovic said.

"The 17-level Albert Road Retirement Community in South Melbourne is an example of the changing expectations for retirees seeking an inner city lifestyle where they can enjoy luxury accommodation as well as superior amenity and services.

"Retirement living is definitely evolving from what one imagines as a suburban facility with a shared lounge and dining hall to city communities that offer piano lounges, wine bars, cafes, billiard rooms and theatrettes, in addition to the necessary support services."

This change is mirrored at the Jewish Care St Kilda Road Senior Living and Community Precinct which is embracing urban retirement living needs while meeting the requirements of Melbourne's Jewish community.

"In addition to 156 residential units and associated health and medical services, the building will also provide retail, commercial areas and facilities for residential religious services, a synagogue and communal kosher kitchens," he said.

Mary Lane, Brisbane

Albert Road Retirement Community, Melbourne

Bouverie Street Student Accommodation, Melbourne

"The ultimate goal is to deliver buildings that encourage a sense of traditional community despite its busy location.

"So whether it be university living such as the Bouverie Street Student Accommodation or the Union Tower residential development, people are looking to engage with the location and its residents as a whole."

Construction Queensland/ Northern Territory State Manager, Drew Brockhurst, said the expectation for a building be a place of community has extended to hotels.

"Apart from being a home away from home for travellers, hotels are now spaces to also be enjoyed by everyone," Mr Brockhurst said.

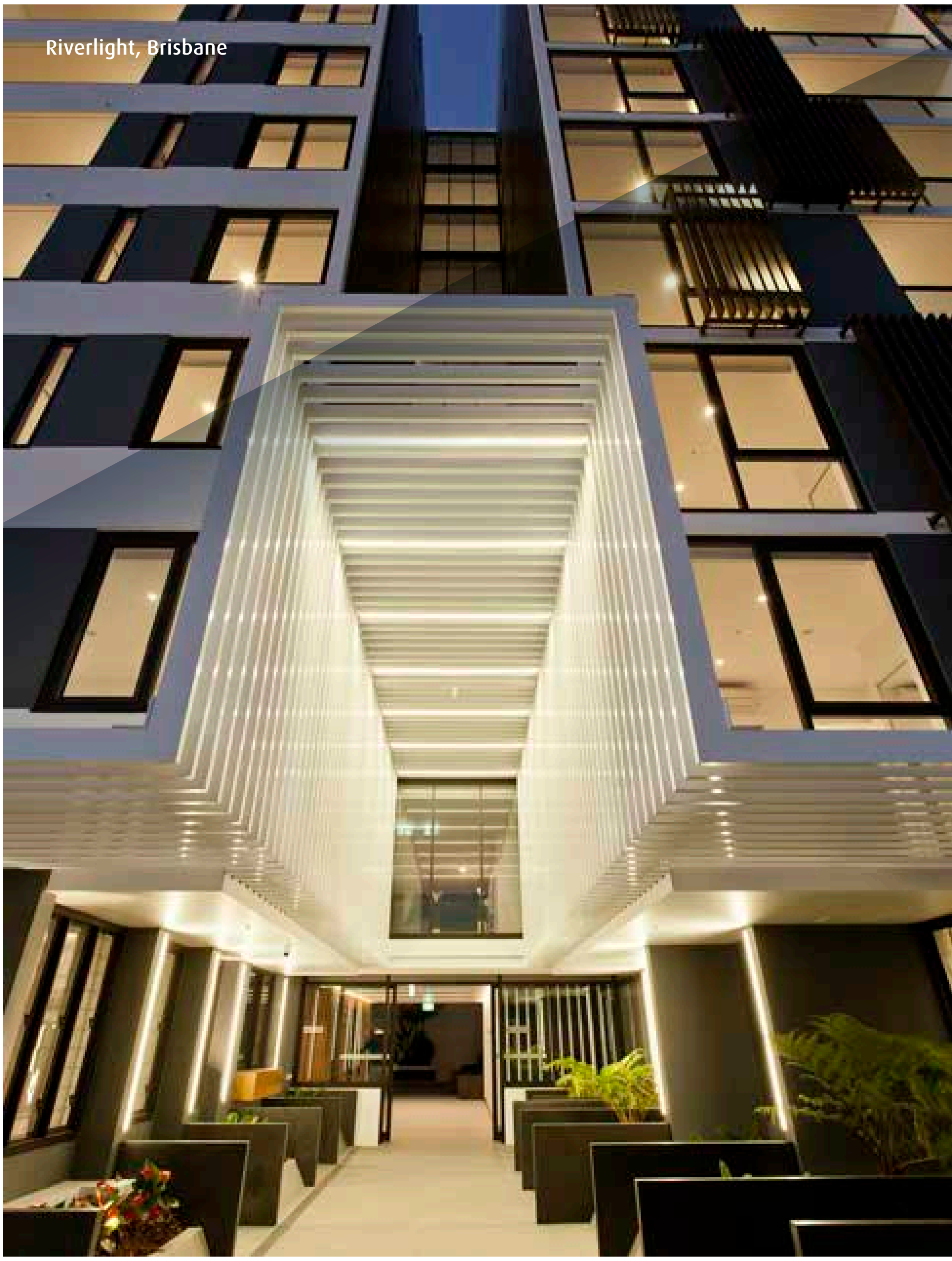
"Developments such as Mary Lane in Brisbane, which will feature the 5-star Westin Hotel, are being designed to be a destination for both guests and locals alike with numerous bar and dining experiences that take advantage of its premier location while offering luxury accommodation.

"This has been a similar experience with the Pullman and Ibis Hotels and Conference Centre at Brisbane Airport.

"While it was built for the executive traveller market, the hotels offer a conference centre and restaurants, so we're finding people are flying into Brisbane, staying at the hotel, holding their meetings with local clients before jumping back on a plane and flying out.

"Our projects are shaping the way communities interact and it is exciting to see how the urban environment is evolving to cater for all aspects of life."

Jewish Care Senior Living and Community Precinct, Melbourne



Riverlight, Brisbane

Inside the Business

Our People

At the heart of Watpac's success is our great people. To ensure that we attract and retain a capable and engaged workforce we must create a culture and environment that encourages innovation, provides opportunity for learning and development, and empowers our people to build careers with us that are fulfilling and successful.

We know that engaged employees are more likely to perform better and improve organisational success. As such the 2018 financial year has been one of action, with the business committed to taking the appropriate steps, where needed, following feedback from our Employee Engagement Survey. Understanding the drivers of our people has resulted in the Group implementing more than 70 initiatives aimed at strengthening our value proposition for prospective and current employees, and ensuring our brand, practices and culture will attract and retain the type of people we need to deliver our strategy. Through localised action plans, initiatives and improvements we are actively building an engaged business and stronger culture.

Our Career Flight Paths is one such initiative developed to demonstrate the career growth opportunities within Watpac. With messaging such as 'Let your career take flight' the initiative addresses the important topic of role clarity, career pathways, and the skills and capabilities required for employees as they embark on various stages of their career journey. The initiative, which has already been undertaken for the Construction business, is underpinned by a nationally agreed competency matrix to support and encourage mobility across states.

The development of our people is an essential part of our success and is critical to attracting and retaining the right people.

We are continually improving the way we deliver our learning and development programs and this has seen Watpac move towards shorter and more intense workshops which have been proven to provide faster and more effective learning. We have also increased one-on-one coaching sessions to allow for more customised and relevant learning for our employees.

A number of new programs were launched across the year including:

- **Leading at Watpac** – providing our leaders with the tools to develop and improve their leadership skills.
- **Building Resilience** – providing managers on site with the techniques to assist with managing people and difficult situations.
- **Project Start Up** – provides alignment for all project stakeholders including the client, subcontractors and consultants at project commencement, supporting the development of positive, productive and candid relationships.
- **Team Alignment** – workshops facilitated for project or work teams with the aim of maximising effectiveness by providing communication and emotional intelligence tools.

In line with our commitment to knowledge sharing, six of our high potential design and Business Information Modelling (BIM) employees attended a study tour of our major shareholder's, BESIX Group, operations in Europe and the Middle East. This tour provided valuable insight into the BIM capability and expertise of BESIX, and allowed our employees to build important international relationships.

Attracting and retaining young talent is also a priority, with a number of employees taking part in our Young Professionals Program. The program provides mentoring and valuable development in areas such as emotional intelligence, critical and strategic thinking, decision making, managing multiple priorities and how to build effective workplace relationships. Our engagement of students has also continued with the Group strengthening partnerships with schools and universities to showcase our industry as a viable career option for all students.

Our approach to the holistic wellbeing of our employees through our Healthy Foundations program continues to provide a strong support system for our employees and their families. A number of 'Family Days' were held across the country with more than 750 employees and their families attending events, providing an opportunity for the business to say thank you for being a part of the Watpac community and to acknowledge the role our employees families' play in making our business a successful and happy workplace.

Our investment in health and wellbeing activities have included a particular focus on mental health, with the delivery of Mental Health First Aid training. To date we have had 64 employees successfully complete the two-day course, with a further 50 scheduled to attend in the coming months.

We have also continued to highlight the important topic of domestic and family violence by supporting White Ribbon Day. This has extended to our Human Resources Managers, Advisors and Coordinators participating in Domestic and Family Violence training, with Watpac now having trained Domestic Violence Contact Officers in all our major offices.

In addition, more than 250 workers at the Ryde Garden project site took part in a week-long training program on domestic violence. One of the first sites in New South Wales to participate, the program was developed for male-dominated industries, and informed our people about the tools, strategies and resources available to help combat this ongoing social issue.

Inclusion and Diversity

An inclusive and diverse business brings innovation, engagement and increased business performance. Our Inclusion and Diversity priorities are driven by the current and emerging needs of our business and people.

Like many organisations, our ability to successfully and sustainably attract females to operational roles is a priority. Watpac leadership is committed to initiatives that contribute to improving the attraction, retention and career pathways for women.

One of these is our involvement with the Explore Careers program which aims to create a positive industry image with students. Designed to engage with high school students the program allows Watpac to build an important partnership with secondary schools and ensure that we are being considered as an employer or industry of choice by all young people. By supporting career events at schools and universities, young women entering the workforce can be encouraged to consider the significant range of careers available across the construction industry.

We again partnered with the National Association of Women in Construction (NAWIC) to demonstrate the many benefits of working in our industry. Through this partnership we have participated in a number of initiatives including hosting site tours and participating in NAWIC mentoring programs.

Demonstrating our commitment to Indigenous engagement has continued to be a priority with the Group recently submitting its first ever Reconciliation Action Plan (RAP) to Reconciliation Australia for endorsement. Our *Reflect* RAP brings together a number of initiatives that encompass employment, training and the establishment of long-lasting relationships to strengthen Watpac's commitment to creating a sustainable future for Aboriginal and Torres Strait Islander people.

The Group will now turn its focus to considering how we can actively participate in the reconciliation journey. This reflection and the implementation of our RAP will allow us to appreciate and better understand potential opportunities that further promote reconciliation between Aboriginal and Torres Strait Islander people and the broader Australian community.

Our RAP working group will continue to play an integral role in ensuring that all employees become champions within our business and promote greater awareness, education and opportunity.

WGEA Reporting

In accordance with the Workplace Gender Equality Act 2012, Watpac lodged its annual compliance reports with the Workplace Gender Equality Agency (WGEA). The reports were compiled using information and organisational data for the period, 1 April 2017 to 31 March 2018. Copies of the Public Reports, and respective compliance certificates, are available on Watpac's website at www.watpac.com.au. For more information on the reporting process, guidelines and industry benchmarks please refer to the Agency's website at www.wgea.gov.au.

Safety and Quality

Delivering on promises safely is a core principle for how we conduct our business. It not only guides the way in which we operate but demonstrates our priority to provide a safe and rewarding work environment for our people, whilst delivering quality outcomes for our clients.

This year we continued to refine our safety management systems and procedures, further strengthening our safety culture and performance. Our business lives by its philosophy of *STOP. THINK. ACT. Work Safe. Home Safe.* and through strong safety systems, processes and visible leadership we strive to provide a work environment that encourages our employees, subcontractors and clients to pause and consider the role they play in providing a safe workplace for everyone.

To this end Watpac continues to report on, and track, incident and injury information while implementing initiatives and programs based on research and contemporary thinking to continuously improve our workplace health and safety performance.

Construction

Across the 2018 financial year, more than 6 million hours were worked by the Group's Construction business, with the Lost Time Injury Frequency Rate and the Medical Treatment Injury Frequency Rate remaining well below industry averages.

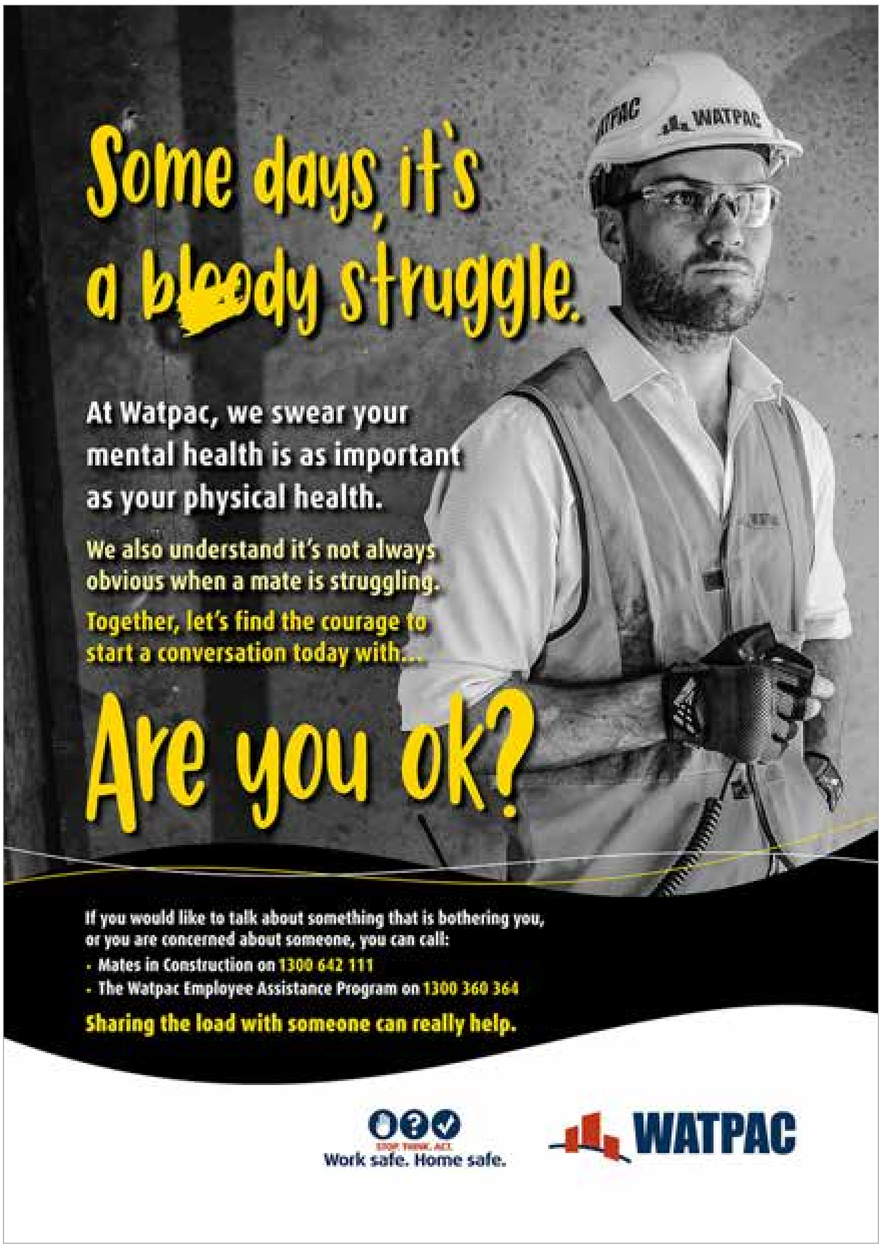
While this data is important to the business, it is the Group's focus on workplace health and safety-related performance objectives and targets that provide the platform for providing a safe environment for all. Lead indicators set at a project level are regularly reviewed against corporate objectives and targets, which allow the business to understand its overall performance, improve safety culture and pursue our goal for continuous improvement.

To support this approach and have a greater understanding of our safety culture the business undertook a diagnostic Safety Cultural Survey which benchmarked Watpac against our industry competitors and assisted in identifying specific challenges, while reinforcing our positive approaches to safety management.

The survey identified a number of outcomes designed to enhance safety culture on site and supported the actions of the business's Safety Culture Action Plan, which aims to enhance knowledge, understanding and the increasing capabilities of our leaders in further promoting the continued improvement of safety at Watpac.

Further advancements were made during the year with the implementation of mobile workplace health and safety technology, which saw the completion of a pilot project for mobile forms and templates. This technology is now being progressively rolled out across the business enabling administrative tasks to be completed in the field, allowing employees more time on site, focusing on the safety of work as it is being undertaken.

The wellbeing of our people is a priority for the business, with Mental Health First Aid training courses rolled-out to support employees in recognising the signs and symptoms of mental health issues. The training also provided tools to offer the necessary support to colleagues if needed.



This training complemented the Watpac Safe Work Month campaign '*We swear your mental health is as important as your physical health*' which included a poster campaign urging people to find the courage to start a conversation with 'Are you ok?'.

The campaign also included toolbox talks across a number of our projects and offices highlighting the importance of finding the courage to have a conversation around mental health and making commitments to the importance of mental wellbeing.

Civil & Mining

For Watpac's Civil & Mining business its commitment to health, safety, environment and quality continued to be at the forefront of delivering successful project outcomes for its clients and employees.

During the 2018 financial year, 650,000 site hours were worked, achieving a Lost Time Injury Frequency Rate of zero – an outstanding result for the business. Significantly, the business also achieved improvements on the past year's performance with a 13 per cent reduction for Restricted Work Injuries, in addition to a 33 per cent reduction in First Aid Injuries and 19 per cent reduction in All Injuries. These results were achieved through dedicated leadership, workforce participation and engagement combined with ongoing systems maturity. For the third year running, the business also recorded a Significant Environmental Incident Rate of zero, with the All Environmental Incident Frequency Rate being reduced by four per cent to 58.4.

The HSEQT Leadership Program has continued to play a pivotal role in communicating and reinforcing the responsibilities of business leaders in the delivery of sustainable and safe practices across our operations. In addition to our Leadership program, the business has provided opportunities for management roles to undertake a Certificate IV Leadership and Management or the Certificate IV in Civil Supervision to further enhance the learnings of the Leadership Program.

In response to a number of manual handling injuries, the refinement of systems and processes around Manual Handling and Fitness for Work has been another key focus. This has included revised processes and documentation for Medicals, as well as a Warm Up and Stretching Program. The business will build on this work to date with manual handling risk assessments and targeted business-wide initiatives to be implemented that engineer out manual handling wherever possible.

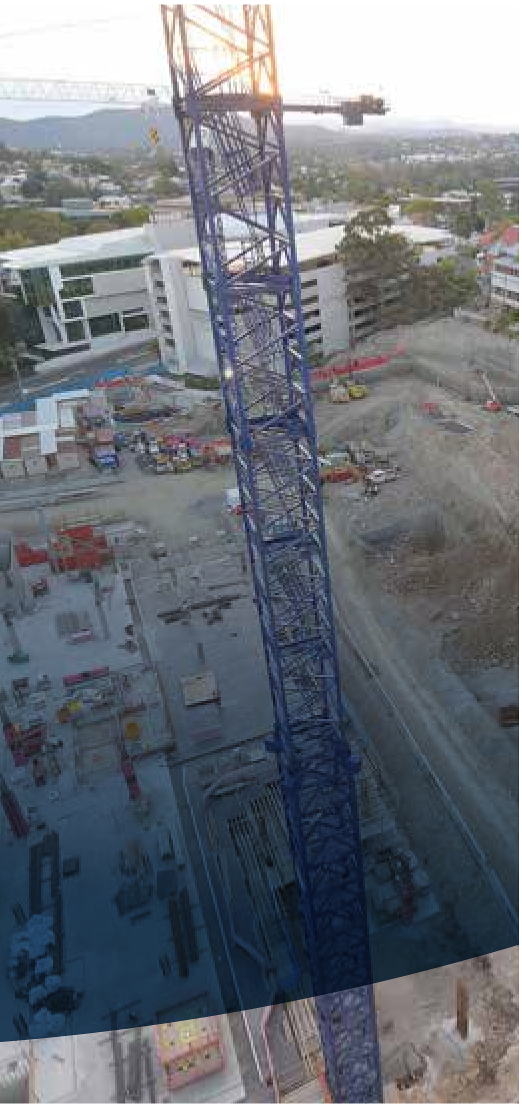
Work on the Management System Review Project continued across the year with Phase Two of the project now 75 per cent complete. This project encompasses the integration of key HSEQ processes with operational risk processes and documentation.

All external accreditations have been maintained, including triple certification in Health & Safety, Environment and Quality with SAI Global and full recognition with the Office of the Federal Safety Commission.

Sustainability and Environment

Sustainability is a vital business practice for ensuring the best economic, environmental and social outcomes for our clients and the communities in which we work.

Ensuring responsible environmental management across all operations and projects allows us to create sustained value and make a positive contribution beyond our core business. Through the adoption of whole-of-life design and construction methodologies the Group continues to deliver sustainable outcomes that reflect innovative processes, provide considered energy measures and encourage recycling and waste minimisation.



Construction

Ecologically Sustainable Design (ESD) remains a guiding principle in the projects we build. As a member of the Green Building Council of Australia (GBCA), the Group continues to deliver projects based on sustainable building practices and continually-evolving industry standards.

In Queensland, design and material selection are providing sustainability measures for numerous projects including the recently completed Riverlight residential tower. This project incorporated several sustainable design initiatives, including high performance single glazed Low-E glass, Photovoltaic Cells, rainwater harvesting, LED lighting, energy efficient appliances and ceiling fans throughout all eastern façade apartments. Native plant species were used in all landscaping, and private and public bicycle spaces provided to encourage cycling into Brisbane's central business district.

At the Herston Quarter Redevelopment in Brisbane construction resources have been carefully selected on the basis of longevity, maintainability and the embodied energy used in the construction process. Through the use of precast off-site fabrication construction times will be reduced, while maintaining a higher degree of quality control. With up to 50 per cent of the external façade comprising glazed windows, the project offers opportunities to maximise natural daylight and ventilation while reducing heat gains from direct sunlight. Façades have also been designed to provide shading based on the orientation of the Specialist Public Health Facility.

In Townsville, the design of the North Queensland Stadium is drawing on the sporting facility's location to provide thermal comfort for visitors. Incorporating natural breezes will reduce the need for air-conditioning, achieving substantial savings in operating energy. In line with best-practice for stadium design and water management, a 500 kilolitre tank will collect rainwater from the stadium roof, saving the equivalent of 6,113 kilolitres of water annually, the equivalent to nearly 85,000 showers or more than 3,000 domestic water tanks.

During the 2018 financial year, Sydney's 333 George Street achieved a 5 Star Green Star V3 Design and As-Built rating. Completed in late 2016, the 18-storey premium office tower is currently targeting a 5 Star NABERS Energy rating. Initiatives for this project included the use of chilled beams, rainwater and stormwater harvesting and a double-glazed, closed cavity facade system with automated blinds that respond to sunlight and glare levels.

The Ryde Garden residential development in Sydney is also on track to obtain a 4 Star Green Star Multi Unit Residential Design rating, with a submission made to the Green Building Council of Australia and receipt of accreditation imminent.

Melbourne's Union Tower, which is nearing completion, is also seeking a high level of energy efficiency, with a minimum of 6 points targeted for energy credit Greenhouse Gas Emissions in the Green Star benchmarking pathway for the project. This will be achieved through efficient building services design, including LED lighting and efficient air-conditioning systems, and a building envelope design which provides good thermal performance via the building fabric specification and glazing selection.

Watpac continues to deliver significant and high profile sustainable projects nationally, including state-of-the-art education precincts such as the Victorian New Schools PPP which was completed in December 2017.

The schools have been designed to use 25 per cent less energy than benchmark buildings in accordance with the Building Code of Australia, inclusive of renewable energy sources. Each of the sites features photovoltaic cells.

Building designs for the project have optimised passive design principles including orientation, shading, and natural light opportunities, in addition to low Volatile Organic Compound materials used throughout to improve indoor air quality.

An integrated civil and landscape design has also provided the schools with an ecologically enhanced water sensitive solution incorporating native planting, rainwater swale retention systems and passive irrigation opportunities. Each school also features an environmental education zone where flora and fauna biodiversity is encouraged. This learning resource, coupled with the project's ESD initiatives will be used to assist in educating students about sustainability, through the involvement of the Centre for Education and Research in Environmental Strategies (CERES). CERES is a specialist not-for-profit sustainability educational facilitator that will provide educational programs to students at all schools, customised for each site's environmental setting.

These sustainability measures will carry over to new education projects currently underway such as Arthur Phillip High School and Parramatta Public School in New South Wales, and the Deakin University Law School Building in Melbourne which will demonstrate an outstanding level of environmental performance, expected to be a minimum 5 Star Green Star rating.

Civil & Mining

Key sustainability initiatives for quality project outcomes continue to be central to the Group's Civil & Mining business. From energy and waste management to water and community wellbeing, sustainability has underpinned a number of projects requiring Infrastructure Sustainability (IS) ratings. This requirement has seen the business's sustainability efforts evolve and offer greater sophistication when applying the IS rating system. The business now comprises a number of Infrastructure Sustainability Accredited Practitioners who are able to oversee the IS rating system and further its infrastructure projects in sustainability. This brought about a closer affiliation between the business and the Infrastructure Sustainability Council of Australia, allowing for greater collaboration and sharing of ideas and innovation in products and methodology.

Sustainability Management Plan templates have been developed to help embed sustainability in our projects through a common framework. Further to this, wherever possible sustainability is being integrated into our existing processes to ensure it becomes a normal part of the way we do business. Sustainability risks and opportunities have been added to our business unit risk register and initiatives and innovation trialled on projects are shared throughout the business through our Innovation Alert process.

A number of initiatives have progressed throughout the year including an energy efficiency initiative trial at the Miling Bypass Project with the use of BP Ultimate Diesel which is more efficient and saves fuel burned, therefore reducing environmental impacts.

Several initiatives were also undertaken at the Cataby Bulk Earthworks project with the site undertaking to be a paperless project, trialling new technology to the business. As part of the site works delivery the team also endeavoured to source earthworks material from within the project footprint, minimising environmental impact and creating cost efficiencies.

Waste management remains a standardised activity with waste stream analysis and suggested waste contractors considered and included in all project Environmental Management Plans. This ensures waste management is planned from tender to project execution stages, with recycling a priority where feasible. Key environmental metrics around diesel, petrol, oils, water and waste continue to be reported monthly, allowing the tracking of usage and emissions across the business, and providing data for modelling of future sustainability initiatives.

In the Community

Across the country our people are passionate about the communities in which we live and work. Whether it be building a new hospital, the local school or a state-of-the-art stadium, Watpac engages daily with the businesses and organisations that make up the fabric of these communities.

The Group is proud to have continued its support of numerous large and small community organisations including our current national charity partner, the Australian Childhood Foundation. Operating throughout Australia, including remote and regional areas and indigenous communities, the foundation provides a range of services and programs to protect children from the trauma of abuse and reduce the harm it causes to children, families and the community.

Through our Workplace Giving program and fundraising efforts we've been able to raise vital funds for this important cause. By matching all donations dollar-for-dollar, we've been pleased to be able to support the foundation's efforts to ensure the rights of all children to a safe and loving childhood.

Our financial and in-kind support for other initiatives remained strong across the year and included the following:

- Participation in the Property Industry Foundation (PIF) Charity Regatta in Sydney and Tour de PIF Charity Ride in Melbourne.
- White Ribbon Day fundraising and awareness events held nationally across project sites and offices.
- Participation in the City2Surf raising funds for Mates in Construction.
- Sourcing personal protective equipment through the Endeavour Foundation's Esafe business with all profits from Esafe used to improve the lives of people living with disabilities.
- Over 290 items of clothing donated to Dress for Success in Brisbane supporting International Women's Day.
- The sale of baked goods across project sites with funds donated to CanTeen Australia.
- Toys, books and clothing donated to the Lady Cilento Children's Hospital in Brisbane for sick children over the Christmas period.
- Participation in The Smith Family's annual Christmas Toy and Book Appeal by donating new toys and books to be given to children in need.
- Townsville Special Children's Christmas Party.

Last year saw the commencement of our naming-rights partnership with Supercars for the Townsville 400. This partnership continued for a second year in 2018 and was established as a way to give back to the Townsville community, celebrating our successful 20 year presence in the city. It was also an opportunity to thank Townsville for its support after Watpac was named as managing contractor for the North Queensland Stadium. The three-day Supercars event attracts over 140,000 people and is estimated to inject around $35 million in to the local economy. Through this sponsorship Watpac was also able to showcase the work of the Australian Childhood Foundation with employees volunteering across the weekend to collect donations for this important national charity.

We place great importance on engaging with the communities in which we are delivering projects. We do this through consultation with key stakeholders, site tours, written information about our construction activities and local industry participation opportunities.

Our strong record for local industry engagement has allowed us to create pathways for Indigenous employment opportunities, business participation and job upskilling. Our goal is to encourage the development of local industry and in turn those that work for these businesses. A number of initiatives were undertaken throughout the year, including industry forums, Indigenous business information sessions, Indigenous job seeker events and 'Meet the Builder' barbecues.


WATPAC

Financial Report 2018

Financial Report

The Directors present their report, together with the Consolidated Financial Statements of Watpac Limited ("Watpac" or "Company") and its controlled entities ("Group") for the financial year ended 30 June 2018 and the Auditor's Report thereon.

1.0 Operating and financial review

The Group's operations for the financial year ended 30 June 2018 (**FY18** or **Reporting Period**) principally comprised its Building Construction and Civil & Mining businesses.

1.1 Group financial summary

The Group recorded a consolidated statutory loss after tax for the Reporting Period of $56.9M. This compares to the statutory loss after tax of $31.4M recorded for the financial year ended 30 June 2017 (**FY17** or **Comparative Period**).

Included in the tables below is an overview of the Statutory Result for the Group and its reportable segments for FY18 compared to FY17 as well as the Underlying Result, which has been adjusted for certain items that are not considered to be part of normal trading activities.

In thousands of AUD	FY18	FY17	$ Change	% Change**
Statutory Result*				
Total revenue	1,080,003	1,108,708	(28,705)	(2.59%)
Profit/(loss) before tax	(46,900)	(33,241)	(13,659)	41.09%
Income tax benefit/(expense)	(10,024)	1,828	(11,852)	(648.36%)
Profit/(loss) after tax attributable to members	(56,924)	(31,413)	(25,511)	81.21%
Total comprehensive income/(loss)	(56,801)	(31,413)	(25,388)	80.82%
Basic earnings per share attributable to members (cents)	(30.94)	(16.89)	(14.05)	83.19%
NTA per share (cents)	67	98	(31)	(31.63%)
Return on shareholders' funds (percentage)	(40.53%)	(15.76%)	(24.77%)	157.17%

In thousands of AUD	FY18	FY17	$ Change	% Change**
Underlying Result*				
Statutory net profit/(loss) after tax attributable to members	(56,924)	(31,413)	(25,511)	81.21%
Adjust for:				
Pre-tax BESIX Scheme of Arrangement Advisory Fees	1,925	-	1,925	N/A
Pre-tax impairment of Civil & Mining Plant/restructuring costs				
Plant	36,502	29,648	6,854	23.12%
Restructuring costs	5,561	-	5,561	N/A
Pre-tax impairment/(impairment reversal) of property development inventory	(2,047)	-	(2,047)	N/A
Pre-tax new business expenditure	-	4,051	(4,051)	(100.00%)
Tax on adjustments	10,024	(1,215)	11,239	(924.82%)
Underlying profit/(loss) after tax attributable to members	(4,959)	1,071	(6,030)	(563.15%)
Underlying earnings per share attributable to members (cents)	(2.70)	0.58	(3.28)	(565.52%)

The table below summarises the Group's result at both a statutory reporting level and an underlying trading result level.

In thousands of AUD	FY18	FY17	$ Change	% Change**
Underlying result before tax summary*				
Construction segment	20,640	11,773	8,867	75.32%
Civil & Mining segment	(7,580)	7,089	(14,669)	(206.93%)
Property segment	(258)	(425)	167	(39.29%)
Unallocated	(17,761)	(17,979)	218	(1.21%)
Group Total	(4,959)	458	(5,417)	(1182.75%)

* *The information presented in the tables above has not been reviewed or audited by the Group's auditor.*

** *Percentage change calculated as dollar change divided by FY17 value.*

1.2 Building Construction

1.2.1 Performance review

Watpac's Building Construction segment provides building construction, project management and investment, design and construction management services across all Eastern states in Australia, and South Australia.

This division reported a pre-tax profit for FY18 of $20.6M (FY17: $11.8M). After the allocation of Corporate overheads, the result translates to a pre-tax profit for the Reporting Period of $4.4M (FY17 pre-tax loss: $3.7M) and represents a pre-tax return on allocated equity capital of 5.2%.

The marked improvement in the financial performance of the Building Construction division in the Reporting Period has been delivered despite the negative effects from several historical projects that carried forward into FY18.

1.2.2 Key risks, strategies and future performance

As has been previously reported, the financial performance of Watpac's Building Construction division was adversely impacted in recent financial periods by heightened levels of construction activity, resulting in significant cost escalation due to increased demand for certain subcontractor trades.

While these specific input cost pressures in South East Queensland have since normalised and subcontractor pricing levels have returned to those more in line with longer-term averages, the risk of future abnormal cost escalation continues to exist across all operating regions and requires constant management attention. In particular, current and forecast levels of building and civil construction activity in both NSW and Victoria requires the application of intense scrutiny and assessment of project cost elements. Additionally, strong disciplines must continue to be maintained across program management and the management of design development activities, given the contractual delivery requirements of most projects.

Significant investment has been made in strategy execution in recent periods, aimed at improving the quality of Building Construction work-in-hand. This includes the adoption of more selective tendering practices in accordance with the Group's targeted sector strategy and applying more rigorous margin and risk/cost escalation discipline to new potential projects.

In addition to improved profitability, this has translated into what Management believe represents a significant enhancement in both the quality and quantity of the workbook, with Building Construction work-in-hand at 30 June 2018 (**Balance Date**) totalling approximately $1.7B, reflecting an increase of almost $400M or circa 30% to the position recorded at 30 June 2017.

While work volumes in hand at Balance Date were therefore much improved, the relatively short lifecycle of most construction projects means that the continued selection and conversion of new work opportunities in targeted sectors remains a key risk to medium to longer term profitability. The Group will endeavour to manage this risk through ongoing refinements to its work-winning capabilities and strategies.

Watpac is presently participating in a number of project opportunities in targeted sectors where the Group has strong credentials. These projects generally require application of specialised expertise, and provide greater scope for the Group to secure new work on more bespoke project opportunities. Conversion of such opportunities will be greatly assisted by Watpac's strong and substantially improved capabilities across program, cost and design management.

Additionally, Watpac will continue to explore opportunities to partner with substantial shareholder BESIX Group (**BESIX**), on projects not currently available to Watpac or on which Watpac may not be seen as a credible contractor in its own right. As was highlighted in the various documents accompanying the proposed BESIX Scheme of Arrangement, which was put to shareholders in the second half of the Reporting Period, the Board considers a closer working relationship with BESIX to represent a unique opportunity for Watpac in the Australian market.

Management and the Board remain confident that through the management of current and emerging risks and the continued enhancement of project execution strategies, Watpac's Building Construction division can deliver improved profitability in FY19 and beyond.

1.3 Civil & Mining

1.3.1 Performance review

The Group's Civil & Mining business provides civil infrastructure and contract mining services throughout Australia.

The Civil & Mining segment reported a Statutory pre-tax loss in FY18 of $49.6M (FY17: pre-tax loss $22.6M). After adding back asset impairment charges and restructuring cost provisions, this reflects an Underlying pre-tax loss for the Reporting Period of $7.6M (FY17: pre-tax profit of $7.1M), or $8.9M after the allocation of Corporate overheads (FY17: pre-tax profit of $4.7M).

With several large projects having completed in the first half of the Reporting Period and no new major mining project conversions, work-in-hand reduced to $30M at Balance Date (30 June 2017: $48M).

1.3.2 Key risks, strategies and future performance

As previously reported, following advice that Watpac had been unsuccessful on two major mining project tenders in March 2018, the Board commenced a comprehensive review of the Group's mining operations to ascertain options to maximise and preserve value.

This review concluded that it is 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 marked increase in activity levels across the resources sector.

Watpac has been successful in recent months with the award of a number of civil infrastructure and rehabilitation projects. The Board is confident that focus in these target markets can create long-term value for shareholders through an appropriate return on investment.

As a consequence of this revised operating model, Plant assets were valued at Balance Date with reference to existing second hand market values, which contrasts to the *value in use* model adopted in prior reporting periods. While the second hand market for Plant is improving in line with the recovery of the resources sector generally, the adoption of this valuation methodology has resulted in the recognition of a $36.5M impairment charge against Watpac's Civil & Mining Plant assets at Balance Date. Additionally, a $5.6M provision for restructuring costs applicable to the Civil & Mining business has also been recognised in the Group's FY18 result. Notwithstanding these accounting outcomes, Management will continue to seek maximum value for remaining Plant assets, either through divestment or ongoing use.

The successful execution of the business restructure plan represents the main risk to the division's return to profitability over the near-term. Thereafter the business must continue to maintain appropriate forward work volumes commensurate with its overhead support structure and business plans, such that profitability is generated at levels that justify the quantum of investment.

With operations mainly focussed in WA at present, geographical expansion will also be targeted, however this will be done in a controlled manner and with reference to the specific risks in those expansion areas.

1.4 Property

1.4.1 Performance review

The Property segment reported a Statutory pre-tax profit in FY18 of $1.8M (FY17: pre-tax loss $0.4M). After adjusting for the net reversal of impairment charges, this reflects an Underlying pre-tax loss for the Reporting Period of $0.3M (FY17: pre-tax loss $0.4M), or $0.5M after the allocation of Corporate overheads (FY17: pre-tax loss $0.5M).

1.4.2 Key risks, strategies and future performance

The carrying value of the Group's unsold property inventory assets at Balance Date totalled $4.2M (30 June 2017: $12.5M).

While there remains some opportunity and risk in achieving book values upon sale, the Board and Management consider that remaining property assets will be divested materially in line with book value over the next six to 12 months.

1.5 Capital management and liquidity

Gross cash and deposits totalled $238M at Balance Date (30 June 2017: $229M). With all equipment finance borrowings associated with Civil & Mining Plant assets being repaid in the second half of FY18, net cash (calculated after adjusting for gross debt) also totalled $238M at 30 June 2018 (30 June 2017: $217.6M). This increase in gross and net cash balances mainly reflects normal working capital movements associated with the Group's core operating businesses, net of the underlying loss recognised in the Reporting Period and cash used to fund capital management activities undertaken throughout the financial year.

The Group's total cash and deposits balance at 30 June 2018 comprises:

- $68.1M (30 June 2017: $94.9M) in cash and cash equivalents with a maturity date of less than three months; and
- $169.9M (30 June 2017: $134.1M) in cash deposits with a maturity date of greater than three months.

The increase in the higher yielding and longer dated cash deposits in the Reporting Period 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 Group also maintains:

- a $170M committed syndicated banking facility for the provision of bank guarantees (drawn to $79.7M at Balance Date); and
- $245M in aggregate bi-lateral facilities for the provision of insurance bonds (drawn to $125.8M at Balance Date).

Watpac therefore has extensive capacity to provide any required performance bonding on new projects.

The scope of the Group's bank guarantee and insurance bonding facilities is a positive demonstration for current and future clients of Watpac's financial strength, providing certainty of delivery for all project stakeholders. The maintenance of a strong balance sheet and funding facilities continues to represent a key strategic priority for the Group.

The substantial level of cash and liquidity is under constant review by Management and the Board, and opportunities for additional capital management will be regularly assessed in the context of the Group's other strategies and funding requirements.

2. Directors

Details of the Directors of the Company in office at any time during or since the end of the financial year are included below.

Current Directors – Non-executive

Mr P L Watson
Chair, Non-executive Director
Director since 7 July 2017, Chair since 25 August 2017

Mr Watson has extensive experience in the construction and engineering industries, 10 years of which were as Managing Director of Transfield Services, subsequently known as Broadspectrum. During this period, he led the business through a successful transition, cultivating a sustainable and successful public company.

With more than 10 years of experience in various Non-executive Director roles, Mr Watson is currently Chair of LogiCamms, was a founding Board member of Infrastructure Australia when it was established as a statutory authority and is a member of the Major Transport Infrastructure Board in Victoria. In addition, Mr Watson advises a number of companies in strategy and corporate governance.

Mr Watson has a Diploma of Civil Engineering, is a member of the Institute of Engineers Australia, a member of the Australian Institute of Company Directors and a Fellow of the Australian Academy of Technological Sciences and Engineering.

Mr Watson was appointed a Director on 7 July 2017 and as Chair of the Board on 25 August 2017. Mr Watson was also appointed as a member of the Remuneration and Nomination committees on 25 August 2017. Mr Watson also currently Chairs the Independent Board Committee and attends all Audit & Risk Committee meetings.

Mr R Vandenberghe
Non-executive Director
Director since 23 August 2017

Mr Vandenberghe is Chief Executive Officer and Managing Director of the BESIX Group.

Prior to these appointments in 2017, Mr Vandenberghe held positions of Chief Executive Officer and Director of ING Belgium, and Chief Executive Officer and Chairman of the Board of Directors of ING Luxembourg. Over the course of his 32 year career in the banking industry Mr Vandenberghe has been actively involved in the activities of the BESIX Group, financing several of its real estate projects and acting as financial advisor to the Group in relation to the management buy-out in 2004.

Mr Vandenberghe was appointed a Director on 23 August 2017 and as a member of the Remuneration Committee on 25 August 2017.

Mr G J Dixon
Non-executive Director
Director since 12 February 2014

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

Mr Dixon's career since graduation in 1981 includes time with a Federal Government construction department, Executive General Manager for civil construction and contract mining group Henry Walker Eltin Ltd, Managing Director of logistics company Mitchell Corporation, Managing Director & CEO of ASX listed Gindalbie Metals Ltd and as Vice President of Iron Ore Business Development for rail freight operator Aurizon. Mr Dixon currently holds the position of President Alcoa Bauxite where he is responsible for the global bauxite mining business for the NYSE listed Alcoa Corporation.

Mr Dixon has a Bachelor of Engineering (Hons) and a Master of Business Administration, and is a member of the Australian Institute of Company Directors.

Mr Dixon has been a Director since 12 February 2014 and is the current Chair of the Remuneration Committee.

Ms B K Morris
Non-executive Director
Director since 3 February 2015

Ms Morris's career as a Non-executive Director in publicly-listed, government and not-for-profit sectors spans more than two decades, across a wide range of industries. She is currently President and Chairman of RACQ and is a director of wholly owned subsidiaries RACQ Insurance and RACQ Bank. She is also a director of Collins Foods Limited, the Menzies Health Institute Queensland and is Queensland President of the Australian Institute of Company Directors. Her previous directorships include QIC Limited, Spotless Group Limited and Chair of Queensland Rail.

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

Ms Morris has been a Director since 3 February 2015, is the current Chair of the Audit and Risk Committee and is a member of the Independent Board Committee.

Ms L C Evans
Non-executive Director
Director since 25 August 2015

Ms Evans is a partner in the Clayton Utz Competition group, practising in competition law. She has been practising since 1987 and a partner since 1994. Ms Evans was a Board member of Clayton Utz for four years and Chairman for two. She is also a director of Cycling Australia Limited and a councillor of the National Competition Council.

Ms Evans has a Bachelor of Jurisprudence and a Bachelor of Laws from the University of Western Australia, and is a member of the Australian Institute of Company Directors.

Ms Evans has been a Director since 25 August 2015, is the current Chair of the Nomination Committee and is a member of the Audit and Risk Committee and Independent Board Committee.

Mr C J Schreurs

Non-executive Director
Director since 10 October 2014

Mr Schreurs is Chief Development Officer of the BESIX Group. Mr Schreurs has a Masters of Engineering from the University of Leuven in Belgium and joined BESIX in 1982. Through his 36-year international career, he has acquired worldwide experience in the different disciplines of the contracting businesses. Mr Schreurs was responsible for establishing BESIX in Australia in 2012.

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

Mr Schreurs has been a Director since 10 October 2014 and acted as an Alternate Director from 27 May 2013 to this date. Mr Schreurs is a member of the Audit and Risk Committee and Nomination Committee.

Mr J C M C Beerlandt

Non-executive Director to 23 August 2017
Alternate Non-executive Director (for Mr Schreurs) from 23 August 2017

Mr Beerlandt is Chairman of one of Belgium's largest construction companies, BESIX Group, and has extensive expertise in the international contracting sector. Mr Beerlandt joined BESIX Group in 1974 and during his previous tenure as Chief Executive Officer oversaw the delivery of major projects in Europe, Africa and the Middle East. Under his leadership, BESIX grew from a traditional civil and building construction company to a multidisciplinary organisation, achieving revenues of over €2.3B in 2017 and currently operating in 22 countries over four continents.

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

Mr Beerlandt resigned as Non-executive Director of Watpac Limited on 23 August 2017 and was appointed as Mr Schreurs' Alternate on the same date.

Mr G Aelbrecht

Alternate Non-executive Director (for Mr Vandenberghe)
Alternate Director since 1 July 2015

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

Mr Aelbrecht acted as Alternate Director for Mr Beerlandt for the period 1 July 2015 to 23 August 2017 and has acted as the Alternate for Mr Vandenberghe since this date.

Previous Director – Non-executive

Mr R B McGruther, OBE
Chair, Non-executive Director
Retired 25 August 2017

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

Mr McGruther retired as a Director on 25 August 2017.

Current Directors – Executive

Mr M G Monro
Managing Director
Director since 10 October 2014

Mr Monro was appointed Chief Executive Officer of Watpac in August 2012 and Managing Director in October 2014. He brings to the role almost 30 years' experience in the national construction sector and abroad, with a proven track record in prudent financial management, safety leadership and successful expansion into new markets.

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

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

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

3. Company Secretary

Mr M A Baker
Company Secretary, Chief Financial Officer
Appointed 26 August 2011

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

Mr Baker holds a Bachelor of Commerce and a Bachelor of Arts and is a fellow of Chartered Accountants Australia and New Zealand. He has also completed the Advanced Management Program at Harvard Business School, is a Fellow of the Governance Institute of Australia and is a certified member of the Finance and Treasury Association of Australia.

4. Directors' meetings

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

	Board Meetings		Audit & Risk Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings		Independent Board Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
Mr P L Watson	8	8	-	-	1	1	2	2	15	15
Mr G J Dixon	7	8	-	-	4	4	-	-	15	15
Ms L Evans	8	8	7	7	-	-	2	2	15	15
Ms B K Morris	8	8	7	7	-	-	-	-	14	15
Mr C J Schreurs /Alternate	7	8	7	7	-	-	2	2	-	-
Mr R Vandenberghe /Alternate	5	6	-	-	1	1	-	-	-	-
Mr R B McGruther	1	2	-	-	1	3	-	-	-	-
Mr J C M C Beerlandt/ Alternate	2	3	-	-	3	3	-	-	-	-
Mr M G Monro	8	8	-	-	-	-	-	-	-	-

A – Number of meetings attended.

B – Reflects the number of meetings held during the time the Director held office during the year and was a member of the Board/relevant committee, excluding those held in a period when a leave of absence was taken (where applicable).

5. Audit and Risk Committee

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

- Ms B K Morris (Chair) – Non-executive Director
- Ms L C Evans – Non-executive Director
- Mr C J Schreurs – Non-executive Director

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

6. Nomination Committee

The three current members of the Nomination Committee are:

- Ms L C Evans (Chair) – Non-executive Director
- Mr P L Watson – Non-executive Director
- Mr C J Schreurs – Non-executive Director

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

7. Independent Board Committee

The three current members of the Independent Board Committee are:

- Mr P L Watson (Chair) – Non-executive Director
- Ms L C Evans – Non-executive Director
- Ms B K Morris – Non-executive Director

The Board established an Independent Board Committee on 25 January 2018 in response to receipt of a confidential acquisition proposal under which it was proposed that BESIX would acquire control in Watpac by way of a members' scheme of arrangement (**Scheme**). The Independent Board Committee's objectives included to ensure:

- Watpac shareholders' best interests were advanced by proper consideration of the Scheme proposal;
- the Board and management were aware of their duties and responsibilities in considering the transaction free from any undue conflict or influence;
- appropriate rules existed about information disclosure; and
- the Board had the opportunity to obtain appropriate advice.

As at the date of this report the Independent Board Committee is still an active Board committee, as a consequence of certain continuing obligations arising from the Scheme documentation.

8. Remuneration Report – Audited

Table of Contents

8.1 Introduction

The 2018 Watpac Remuneration Report has been prepared in accordance with the requirements of s300A of the *Corporations Act 2001* and applies to Key Management Personnel (**KMP**) of the Group. KMP are defined as those persons who have authority and responsibility for planning, directing and controlling the activities of the Group.

KMP of the Group for the 2018 financial year are as follows:

Current
Non-executive Directors
Mr P L Watson - *Chair*
Mr R Vandenberghe
Mr G J Dixon
Ms B K Morris
Mr L C Evans
Mr C J Schreurs
Executive Director
Mr M G Monro (Managing Director)
Executives
Mr M A Baker (Chief Financial Officer & Company Secretary)
Mr R J Hall (General Manager Civil & Mining)
Mr N A Saclley (General Manager Construction)

8.1.1 Key management personnel

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

Biographies of all KMP, with the exception of Mr R J Hall and Mr N A Saclley, are included in section 2 & 3 of the Directors' Report. Details of Mr R J Hall and Mr N A Saclley are included below.

Mr R J Hall

Mr Hall has over 32 years of experience in executive positions, operations and business development, in civil, mining and property development. As General Manager of Watpac's Civil and Mining Business, Mr Hall is responsible for overseeing existing operations, developing and implementing growth and diversification strategies, and proactively implementing the company's safety policies. He brings to the role strong analytical, financial, negotiation, strategic, and management skills and a commitment to mentoring and developing personnel within the business.

Mr Hall has a Bachelor of Engineering (Civil) from Adelaide University and has completed the Executive Management Program at the University of NSW.

Mr N A Saclley

Mr Saclley has 30 years of global experience in the construction industry. With formal qualifications in engineering, he has extensive experience in project management, design and construction, client relationship management and negotiation. Prior to joining Watpac, Mr Saclley held various project and operational management positions in the United Kingdom, the United States and Australia.

Biographies of other members of the Group Senior Executive Team, who are not KMP, are located at www.watpac.com.au.

8.2 Remuneration governance

8.2.1 Board oversight

The Watpac Board is ultimately responsible for ensuring that the Group's remuneration structure is appropriate and aligns with the long-term interests of shareholders.

Watpac's Remuneration Committee, which comprises three Non-executive Directors, assists the Board with all aspects of remuneration strategy, structure and planning. Members of the Remuneration Committee during the 2018 financial year and as at the date of this report were as follows:

Committee members
Current
Mr G J Dixon - *Chair*
Mr P L Watson
Mr R Vandenberghe
Meetings
Number of meetings in FY18 – 4
Other individuals who regularly attend meetings (attendance subject to conflicts of interest)
Mr M G Monro (Managing Director)
Ms A J Liebke (General Manager Human Resources)

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

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

The Remuneration Committee meets as often as necessary in order for it to achieve its objectives.

8.2.2 Use of remuneration consultants

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

All engagements conducted by remuneration consultants are completed under direction of the Remuneration Committee and as such are free of undue influence from Management.

Senior Executives are not involved in the selection and appointment of, or contract negotiation with, remuneration advisors, and all documentation and communication is provided directly to the Remuneration Committee and/or Board. Additionally, the Board has put in place policies managing remuneration advisors' access to Senior Executives on remuneration-related matters.

Ernst & Young (**EY**) have been engaged by the Remuneration Committee in the past two financial years to conduct reviews of Watpac's current executive remuneration framework. The scope of these reviews was to assess Watpac's framework against current market practice in comparable industries and markets, emerging practices and shareholder perspectives, in order to identify opportunities to refine and enhance the current structure.

These reviews gave rise to several amendments to the Group's remuneration framework, some of which were effective for the 30 June 2018 financial year (**FY18**). Details of the Group's revised remuneration structure, inclusive of these amendments, is included in sections 8.3.1 and 8.3.2 of this report.

Fees paid for remuneration services to EY totalled $56,650 in FY18.

8.2.3 Hedging of Company securities

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

8.3 Senior Executive remuneration

Senior Executive remuneration strategies are designed to attract, motivate and retain those employees that the Board and Managing Director believe are important to the delivery of Watpac's strategic objectives. The Group's aim is to reward Senior Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group, and aligned with market practice.

8.3.1 Remuneration strategy

The following table provides details of the Group's exisiting remuneration structure and highlights how remuneration is linked to the achievement of specific outcomes.

	Remuneration component	Current Vehicle	Current Purpose	Current Link to performance
Fixed Remuneration	Fixed remuneration	Comprises base salary, superannuation contributions and other benefits.	To provide competitive fixed remuneration set with reference to role, market and experience.	• Company and individual performance are considered during an annual remuneration review process. • Characteristics of individuals are considered, including experience, reputation, ethics and values, and importance to the Company. • Complexity of roles and personal risk are also assessed.
Performance Remuneration	Short-Term Incentive (**STI**)	Paid in cash.*	Rewards Senior Executives for their contribution to achievement of financial and non-financial performance.	• Pre-tax profit targets are a key financial metric, and act as payment assessment funding gates. • Qualitative measures are then assessed, such as safety performance, forward work-in-hand, and adherence to internal governance, risk management and reporting requirements. • Performance against qualitative performance objectives can increase or decrease base award by up to 50%.

	Long-Term Incentive (**LTI**)	Awards are made in the form of performance rights.	Rewards Senior Executives for their contribution to the creation of shareholder value over a three-year term.	• Vesting of awards is dependent on achievement of two independent performance measures, being:
				  • Earnings Per Share (**EPS**) relative to internal targets set by the Board; and
				  • Total Shareholder Return (**TSR**) relative to a chosen peer group/index.

	Other	Paid in cash.	Rewards selected Senior Executives for their continued service with the Group.	• Payment is linked to achievement of specific service targets.

* Up until 1 July 2017, the Group's STI was paid in cash and performance rights, with the latter subject to an 18-month time-based vesting period and subject to claw back.

The Group's targeted remuneration mix for Senior Executives is, in most cases, more heavily weighted to at-risk payments than the Group's competitors. This structure is deemed appropriate given the strong desire to link executive remuneration outcomes to shareholder value creation.

8.3.2 Remuneration structure

8.3.2.1 Fixed remuneration

Fixed remuneration consists of base salary, superannuation contributions and other benefits. Other benefits include motor vehicle and other allowances, and may include the issuance of Watpac shares to assist with the alignment of executive remuneration and shareholder value. The Group pays fringe benefits tax on benefits where required.

Fixed remuneration is reviewed annually by the Remuneration Committee, and considers individual, business unit and overall Group performance, as well as changing market, industry and economic circumstances. Adjustments are made to reflect appropriate market levels, taking into account factors such as alignment with competitors, skill, experience, contribution, values and ethics, and overall importance of the individual to the Company achieving its strategic objectives.

8.3.2.2 Performance linked remuneration

Performance linked remuneration includes short and long-term and other retention-based incentives designed to reward Senior Executives for exceeding strategic and financial objectives or achieving a specific length of service.

Additional details in relation to Senior Executives' performance-linked remuneration, which is 'at risk', is included below.

STI Plan

The Watpac STI Plan (**STIP**) is designed to ensure the Group's remuneration framework aligns with both the business strategy and the remuneration structures of other publicly listed companies in Australia.

Until 1 July 2017, awards payable under the STIP included cash and performance rights (being a right to acquire fully paid ordinary shares in the Company for nil consideration), subject to meeting certain pre-determined financial and operational performance targets and vesting conditions. From 1 July 2017, awards payable under the STIP reverted to a 100% cash payment.

At or around the commencement of each financial year the Board sets Senior Executives' specific STI targets, being:

- individual target STI amounts, representing two thirds of the maximum amount payable to each STIP participant for that financial year;
- a Group performance STI target, representing the underlying net profit before tax target of the Group for the financial year;
- business units/divisional performance STI target(s), representing the underlying net profit before tax target of the applicable business unit/division relevant to that Senior Executive for the financial year;
- the percentage weighting that achieving the Group performance STI target and business unit/divisional performance STI targets will have towards their total maximum STI amounts; and
- individual performance measures, representing Senior Executives' individual non-financial performance targets.

Commencing 1 July 2017, STI targets also included an additional overall Group profit 'funding gate', representing a minimum profit target that must be met before any STI payments are triggered.

The non-financial assessment criteria which also applied to the STIs include:

Non-Financial Criteria	Details
Safety	• Achievement of Group target safety benchmarks, which are set annually in advance. • Proactive championing of safety leadership and implementation of best practices. • Provision of timely and accurate advice on occupational health and safety incidents and/or breaches.
Business Plans	• Demonstration of actions and behaviours that proactively support and drive achievement of Business Plans and objectives.
Forward work and future growth	• Delivery of, or assistance and support to, achievement of forward work targets.
People and leadership	• Containing controllable employment related costs through effective leadership practices, proactive people management, achievement of low voluntary attrition rates, achievement of engagement ratings, and compliance with relevant legislation.
One Team	• Demonstration and promotion of interdivisional co-operation and collaboration including tender assistance, client introductions, information sharing, and resource sharing.
Watpac Brand	• Contribution to the creation of positive branding to promote and enhance Watpac's reputation with clients, suppliers and employees/candidates.
Business Development	• Proactive maintenance and enhancement of all client relationships to deliver higher levels of profitable repeat work opportunities and to achieve positive references for any work undertaken.
Values	• Demonstration and championing of actions and behaviours that are consistent with Watpac's core values.
Diversity	• Demonstration and championing of appropriate actions and behaviours that support the achievement of Group diversity and gender equity objectives.
Risk Management	• Compliance with Group risk management policies and active championing of cultural improvements relating to risk identification, management and reporting processes.
Reporting	• Adherence to quality standards and pre-agreed Group operational and financial reporting timetables.

All current KMP (excluding Non-executive Directors) participated in the FY18 STIP and FY17 STIP.

Additional details relating to the operation of the FY18 and FY17 STIP and how awards were calculated are included below.

Element	Reference	Details
Target STI Amount	A	66.67% of the maximum amount payable as an STI for the financial year.
Group Funding Gate	B	The minimum Group performance that must be met before any amounts under the STIP become payable, expressed as 85% of the Group Performance Condition.
Group Performance Condition	C	The Group performance STI target, expressed as net profit before tax attributable to ordinary equity holders of the Group, adjusted for non-recurring or abnormal items.
Group Performance Weighting	D	The percentage weighting the Group performance STI target has towards the maximum amount payable as an STI.
Business Unit/Divisional Performance Conditions	E	The business unit/divisional performance STI targets, expressed as net profit before tax attributable to ordinary equity holders of the Group adjusted for non-recurring or abnormal items.
Business Unit/Divisional Performance Weighting	F	The percentage weighting the business unit/divisional performance STI targets have towards the maximum amount payable as an STI.
Individual Performance Conditions	G	Details of non-financial individual performance targets against which Senior Executives will be assessed and provided a rating of between 0.5 and 1.50.
Total STI Entitlement	H	Upon achievement of B, individual components of STI entitlements are calculated in accordance with the following formulas: **C met** — A x D **E met** — A x F The total award calculated as the aggregate amount calculated with reference to the formula above is then adjusted according to the determination of each individual's performance (reference G).
Payment Conditions	I	Payment to be made in cash.

FY18 and FY17 STIP Details

The Target STI Amount for each Senior Executive participating in the FY18 and FY17 STIPs were as follows:

	Target STI amount	
Name	**FY18**	**FY17**
Mr M G Monro	$480,500	$480,500
Mr M A Baker	$271,625	$265,000
Mr R J Hall	$317,750	$310,000
Mr N A Saclley	$333,125	$325,000

The business unit performance conditions applicable to Senior Executives in relation to the FY18 and FY17 STIPs are included in the table below:

Name	Group Funding Gate	Group Performance Weighting	Business Unit/Divisional Performance Weighting	Individual Performance Conditions
Mr M G Monro	Applied	100%	-	Applied
Mr M A Baker	Applied	100%	-	Applied
Mr R J Hall	Applied	50%	50% (Civil & Mining business unit)	Applied
Mr N A Saclley	Applied	50%	50% (Construction Division)	Applied

STI financial performance conditions are set at levels appropriate given market conditions, agreed strategic objectives and the market's general expectation of acceptable return levels. For reasons of commercial sensitivity, these have not been published in this Remuneration Report.

FY18 and FY17 STIP Outcomes

The following table includes details of amounts paid/payable to Senior Executives under the FY18 and FY17 STIPs, as well as other pertinent details relating to the Board's assessment of Senior Executives' rights to these awards.

				Actual STI Payment ($)				
Senior Executives	STIP	Target STI ($)	Maximum Potential STI ($)	Cash Component	Deferred Component	Total STI Payment	% of Target STI	% of Maximum STI
Mr M G Monro[(i)]	FY18	480,500	720,750	-	-	-	-	-
	FY17	480,500	720,750	-	-	-	-	-
Mr M A Baker[(i)]	FY18	271,625	407,438	-	-	-	-	-
	FY17	265,000	397,500	-	-	-	-	-
Mr R J Hall[(ii)]	FY18	317,750	476,625	-	-	-	-	-
	FY17	310,000	465,000	58,125	-	58,125	19	13
Mr N A Saclley[(iii)]	FY18	333,125	499,688	-	-	-	-	-
	FY17	325,000	487,500	-	-	-	-	-

(i) Based on the Board's assessment of performance against the applicable Individual Performance Conditions and given the Statutory Losses reported, both Mr M G Monro and Mr M A Baker's FY17 STI entitlements were reduced to nil.

(ii) Given the Statutory Losses reported, the cash component of Mr R J Hall's FY17 STI entitlement as calculated under the STIP was reduced by 50% and the deferred component to nil.

(iii) Due to the reduction in the Construction segment's profitability in FY17, Mr N A Saclley's FY17 STI as calculated under the respective STIP was reduced to nil.

LTI Plan

Watpac's LTI Plan (**LTIP**) is structured in a manner whereby awards (described as performance rights) granted to Senior Executives represent a right to acquire fully paid ordinary shares in the Company for nil consideration, subject to meeting certain pre-determined vesting conditions. Performance rights awards under the LTIP are made to Senior Executives of the Company at the sole discretion of the Board. All current Senior Executives participate in the LTIP.

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

- EPS targets (**EPS Performance Rights**); and
- relative TSR targets (**TSR Performance Rights**).

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

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

Awards (or a proportion of the award) that do not vest after the three-year performance period are not subject to re-testing. Performance rights do not attract dividends or voting rights.

There are no disposal restrictions on shares obtained as a result of performance rights vesting, other than those contained within the Group's Securities Trading Policy available at www.watpac.com.au.

EPS

EPS Performance Rights vest subject to meeting an actual aggregate EPS result over the three-year vesting period, compared to the aggregate EPS result needed to deliver set Compound Annual Growth Rate (**CAGR**) targets, as set out below.

Actual cumulative EPS relative to CAGR targets	Proportion of EPS grant vesting
Less than minimum CAGR Target	0%
Less than maximum CAGR Target but greater than minimum CAGR Target	Straight line vesting between 50% and 100%
Greater than maximum CAGR Target	100%

The weighting of the EPS targets to the overall award and specific CAGR targets for each LTIP grant outstanding as at the date of this report is included below:

	23 August 2018 Grant (2018 LTI)	20 September 2017 Grant (2017 LTI)	25 August 2016 Grant (2016 LTI)
Weighting	50%	50%	50%
Minimum CAGR	NA*	232%	38%
Maximum CAGR	NA*	274%	60%
Calculated with reference to underlying EPS of:	NA*	0.58 cents per share reported in FY17	4.29 cents per share reported in FY16

* Due to the loss per share recognised in FY18, applicable CAGR measures cannot be calculated. Aggregate EPS targets over the three year 2018 LTI vesting period have, however, been set at a Minimum of 15.68 and Maximum of 21.65.

TSR

TSR Performance Rights provide a strong link between Watpac's total shareholder return performance relative to a selected comparator group. The use of TSR therefore links a significant portion of Senior Executives' LTI earnings capacity to a market-based measure.

The proportion of the TSR Performance Rights that vest under the LTIs will be determined based on Watpac's TSR relative to the performance of companies in comparator groups/indices determined by the Remuneration Committee, in accordance with the following vesting formula.

TSR of Watpac relative to TSR of comparator group of companies	Proportion of TSR vesting
Less than 50th percentile	0%
50th – 75th percentile	Straight line vesting between 50% and 100%
Greater than 75th percentile	100%

Under each LTI Watpac's TSR performance will be assessed over three years, commencing with the start of the financial year in which the grant of performance rights is made. Assessment of Watpac's performance against the performance measures is completed by an external party.

TSR Peer Group Selection Criteria

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

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

From the 2017 LTI, the TSR comparator group was allocated equally into the following two tranches:

- Comparator Group TSR Performance Rights; and
- Index (ASX Small Ordinaries) TSR Performance Rights.

This change provides even greater alignment to companies with a similar market capitalisation to Watpac.

The mix of the companies in the peer group is broadly aligned to the Group's investment profile in the year of the grant. Details of the peer groups applicable to the TSR component of the 2018 LTI, 2017 LTI and 2016 LTI are included in the following table.

2018 LTI	2017 LTI	2016 LTI
Comparator Group TSR Performance Rights (50%)	**Comparator Group TSR Performance Rights (50%)**	**Comparator Group TSR Performance Rights (100%)**
AJ Lucas Group Limited	AJ Lucas Group Limited	AJ Lucas Group Limited
Boart Longyear Limited	Boart Longyear Limited	Boart Longyear Limited
Cardno Limited	Cardno Limited	Cardno Limited
Decmil Group Limited	Decmil Group Limited	Decmil Group Limited
Global Construction Services Limited	Global Construction Services Limited	Devine Limited
Logicamms Limited	GR Engineering Services Limited	Global Construction Services Limited
Monadelphous Group Limited	Logicamms Limited	Gr Engineering Services Limited
RCR Tomlinson Limited	MACA Limited	Logicamms Limited
Service Stream Limited	Macmahon Holdings Limited	Macmahon Holdings Limited
Southern Cross Electrical Engineering Ltd	Monadelphous Group Limited	Monadelphous Limited
SRG Limited	NRW Holdings Limited	NRW Holdings Limited
	RCR Tomlinson Limited	RCR Tomlinson Limited
	Service Stream Limited	Service Stream Limited
	Seymour Whyte Limited	Seymour Whyte Limited
	Southern Cross Electrical Engineering Ltd	Southern Cross Electrical Engineering Ltd
	SRG Limited	SRG Limited
		Sunland Group Limited
		UGL Limited
		S&P/ASX Small Ordinaries Index
Index TSR Performance Rights (50%)	**Index TSR Performance Rights (50%)**	**Index TSR Performance Rights (-%)**
S&P ASX Small Ordinaries Index	S&P ASX Small Ordinaries Index	N/A

*August 2015 LTIP Grant (**2015 LTIP**) Outcome*

The following table includes details of the vesting outcomes of the performance rights issued under the 2015 LTIP.

Hurdle	Weighting	Minimum vesting point	Maximum vesting point	Result achieved	% of grant vested
EPS	50%	7% CAGR	23% CAGR	(81.27%) CAGR	-%
Relative TSR	50%	50^{th} percentile	75^{th} percentile	36^{th} percentile	-%

As such, no performance rights vested under the 2015 LTIP.

8.3.2.3 Other

An additional performance incentive was put in place for one Senior Executive during the 30 June 2018 financial year. This scheme was designed as a key retention tool and is considered appropriate by the Remuneration Committee and Board given its specific objectives.

Participants in the scheme and relevant details are included in the following table:

Name	FY18	FY17	Details
Mr N A Saclley	$100,000	N/A	Retention bonus based on continuing employment with the Group. Amount was a pre-agreed, set amount and applies to the 30 June 2018 and 30 June 2019 financial years.

There are no other incentive schemes currently in operation for Key Management Personnel.

8.3.2.4 Company performance and consequences on shareholder wealth

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

The following table outlines these financial metrics over the five-year period from 1 July 2013 to 30 June 2018.

	2018	2017	2016	2015	2014
Profit/(loss) after tax attributable to the members of the Company ($000's)	(56,924)	(31,413)	(21,363)	11,523	17,854
Underlying profit/(loss) after tax attributable to the members of the Company ($000's)*	(4,959)	1,071	8,042	17,879	18,369
Dividends paid/payable in relation to financial performance during year (cents)	Nil	Nil	Nil	2.0	6.0
Change in share price – 30 June less 1 July ($)	0.15	(0.26)	0.01	(0.03)	0.26
Return on shareholders' funds (%)	(40.53)	(15.76)	(9.25)	4.50	7.03
Total shareholder return (%)	14.29	(14.58)	(0.14)	0.11	33.77

* While the Group's statutory financial results have been audited in each of the financial year's listed above, the underlying net profit/(loss) has not been reviewed or audited by the Company's auditor.

8.3.3 Summary of Senior Executives' contracts

It is the Group's policy that service contracts for Senior Executives, including the Managing Director and Chief Financial Officer and Company Secretary, are unlimited in term but capable of termination in accordance with their contracts. The notice periods applicable to the Managing Director and Chief Financial Officer and Company Secretary are currently six months, and three months for other Senior Executives.

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

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

8.4 Non-executive Directors' remuneration

Details of the Non-executive Directors' current fee structure are included in the table below.

Fee for Role	Annual Fee p.a.
Chair of Board*	$205,000
Non-executive Director	$82,500
Chair of Audit & Risk Committee	$25,000
Member of Audit & Risk Committee	$15,000
Chair of Remuneration Committee	$20,000
Member of Remuneration Committee	$15,000
Chair of Nomination Committee	$10,000
Member of Nomination Committee	$5,000
Chair of Independent Board Committee	$10,000
Member of Independent Board Committee	$5,000

* No fee is payable to the Chair for membership or attendance at Committee meetings. It is the current practice of the Chair to attend all Board committee meetings of the Group.

These fees include all statutory entitlements such as superannuation and cover preparation and attendance at all Board and Committee meetings, irrespective of the number of meetings held during a financial year.

Additional fees may be payable to Non-executive Directors or their related entities should they undertake specific consulting projects for the Company in the areas of their expertise. No such payments have been made in FY18.

Total remuneration for all Non-executive Directors of the Company must not exceed $1,100,000 per annum.

There is no current retirement scheme applicable to Non-executive Directors, however benefits accumulated up until the termination of the old scheme in 2003 remained in place until Directors in office at that time resigned/retired. This previous scheme was based on a pre-requisite of five years of service as a Director and provided for one off payments to retiring Non-executive Directors of $60,000 (adjusted annually by CPI) and $90,000 for the Chair in office at that time (adjusted annually by CPI), from 1 July 2003.

The value of retirement benefits paid in FY18 and closing balance as at 30 June 2018 is as follows:

Non-executive Director	Original benefit at 1 July 2003	Value of benefit (adjusted for CPI) at 1 July 2017	CPI adjustment FY18	Benefits paid FY18	Value of benefit (adjusted for CPI) at 30 June 2018
Mr R B McGruther	$60,000	$87,224	$259	$87,483	$-

8.5 Directors' and Senior Executives' remuneration

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

Remuneration disclosures have been presented on a statutory basis.

		Short-term				Post-employment					
		Salary & fees	STIP - Cash	Other cash bonuses	Non-monetary benefits accounting accrual (i)	Superannuation benefits	Termination/Retirement accrued benefits	Equity settled Performance Rights (accounting accrual) (ii)	Total Remuneration (statutory basis)	Proportion of remuneration performance related (at risk)	Value of performance rights as proportion of remuneration
		$	$	$	$	$	$	$	$	%	%
Non-executive directors											
Mr P L Watson (Chair)	2018	184,243	-	-	-	17,503	-	-	201,746	0.00%	0.00%
(Non-Executive Director from 7 July 2017, Chair from 25 August 2017)	2017	-	-	-	-	-	-	-	-	0.00%	0.00%
Mr R Vandenberghe	2018	81,250	-	-	-	-	-	-	81,250	0.00%	0.00%
	2017	-	-	-	-	-	-	-	-	0.00%	0.00%
Mr G J Dixon	2018	95,691	-	-	-	9,091	-	-	104,782	0.00%	0.00%
	2017	93,607	-	-	-	8,893	-	-	102,500	0.00%	0.00%
Ms L C Evans	2018	100,257	-	-	-	9,524	-	-	109,781	0.00%	0.00%
	2017	95,287	-	-	-	9,052	-	-	104,339	0.00%	0.00%
Ms B K Morris	2018	100,257	-	-	-	9,524	-	-	109,781	0.00%	0.00%
	2017	98,174	-	-	-	9,327	-	-	107,501	0.00%	0.00%
Mr C J Schreurs	2018	102,500	-	-	-	-	-	-	102,500	0.00%	0.00%
	2017	102,500	-	-	-	-	-	-	102,500	0.00%	0.00%
Executive directors											
Mr M G Monro	2018	936,900	-	-	31,493	25,000	-	135,714	1,129,107	12.02%	12.02%
	2017	925,400	-	-	68,663	30,000	-	105,135	1,129,198	9.31%	9.31%
Former directors											
Mr R B McGruther	2018	116,262	-	-	-	3,285	259	-	119,806	0.00%	0.00%
(Chair until 25 August 2017)	2017	177,000	-	-	-	28,000	1,365	-	206,365	0.00%	0.00%
Mr J C M C Beerlandt	2018	16,250	-	-	-	-	-	-	16,250	0.00%	0.00%
(Non-executive Director until 23 August 2017)	2017	97,500	-	-	-	-	-	-	97,500	0.00%	0.00%
Executives											
Mr M A Baker	2018	518,250	-	-	(2,838)	25,000	-	86,172	626,584	13.75%	13.75%
	2017	493,439	-	-	1,892	30,000	-	74,017	599,348	12.35%	12.35%
Mr N A Saclley	2018	638,087	-	100,000	2,208	25,000	-	85,089	850,384	21.77%	10.01%
	2017	593,512	-	-	21,686	35,000	-	74,225	724,423	10.25%	10.25%
Mr R J Hall	2018	607,525	-	-	17,197	25,000	-	58,117	707,839	8.21%	8.21%
	2017	585,900	58,125	-	(14,006)	35,000	-	60,210	725,229	16.32%	8.30%
Total compensation: key management personnel	2018	3,497,472	-	100,000	48,060	148,927	259	365,092	4,159,810		
(Consolidated)	2017	3,262,319	58,125	-	78,235	185,272	1,365	313,587	3,898,903		
Total compensation: key management personnel	2018	2,251,860	-	-	28,655	98,927	259	221,886	2,601,587		
(Parent)	2017	2,082,907	-	-	70,555	115,272	1,365	179,152	2,449,251		

Notes in relation to the table of Directors' and Senior Executives' remuneration

(i) Non-monetary benefits represent the value of reportable fringe benefits for the respective fringe benefits tax year ending 31 March as applicable and net accruals of annual leave and long service leave accrued during the financial year.

(ii) Equity settled performance rights are net of adjustments for performance rights that are anticipated to fail to vest as a result of not achieving the relevant EPS performance measures.

8.6 Other statutory disclosures

8.6.1 Analysis of performance rights granted as remuneration

As is indicated in section 8.3.2.2 above, under the Group's current STIP and LTIP performance rights may be granted to Senior Executives. Performance rights are a right to acquire fully paid ordinary shares in the Company for nil consideration. On vesting, each right automatically converts into one ordinary share. Holders of performance rights do not receive any dividends and are not entitled to vote in relation to the rights during the vesting period.

Details and the vesting profiles of performance rights granted as remuneration to Senior Executives of the Group are included below, along with other pertinent details relating to outstanding performance rights on issue as at 30 June 2018:

							Fair value yet to vest	
	Grant Date	Incentive Plan	Number	Fair Value at Grant Date ($)	Vested in year	Forfeited/ cancelled in year	Min ($)	Max ($)
Mr M G Monro	8-Aug-14	LTIP	440,000	0.61	25%	75%	-	-
	24-Nov-15	LTIP	450,000	0.98	0%	0%	-	438,750
	25-Aug-16	STIP	13,544	0.86	0%	100%	-	-
	27-Oct-16	LTIP	450,000	0.66	0%	0%	-	297,000
	23-Oct-17	LTIP	450,000	0.53	0%	0%	-	239,625
Mr M A Baker	8-Aug-14	LTIP	200,000	0.61	25%	75%	-	-
	20-Aug-15	LTIP	250,000	0.82	0%	0%	-	203,750
	25-Aug-16	STIP	7,245	0.86	0%	100%	-	-
	25-Aug-16	LTIP	300,000	0.70	0%	0%	-	208,500
	20-Sep-17	LTIP	300,000	0.52	0%	0%	-	156,750
Mr R J Hall	8-Aug-14	LTIP	100,000	0.61	25%	75%	-	-
	20-Aug-15	LTIP	120,000	0.82	0%	0%	-	97,800
	25-Aug-16	LTIP	250,000	0.70	0%	0%	-	173,750
	20-Sep-17	LTIP	300,000	0.52	0%	0%	-	156,750
Mr N A Saclley	20-Aug-15	LTIP	200,000	0.82	0%	0%	-	163,000
	25-Aug-16	STIP	13,658	0.86	0%	100%	-	-
	25-Aug-16	LTIP	350,000	0.70	0%	0%	-	243,250
	20-Sep-17	LTIP	300,000	0.52	0%	0%	-	156,750

Grant Date	Incentive Plan	Fair value at grant date ($)	Financial year in which performance period ends	Financial year in which grant vests (subject to performance conditions)
20 August 2015	LTIP	0.82	30 June 2018	30 June 2019
24 November 2015	LTIP	0.98	30 June 2018	30 June 2019
25 August 2016	LTIP	0.70	30 June 2019	30 June 2020
27 October 2016	LTIP	0.66	30 June 2019	30 June 2020
20 September 2017	LTIP	0.52	30 June 2020	30 June 2021
23 October 2017	LTIP	0.53	30 June 2020	30 June 2021

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

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

8.6.2 Analysis of movement in performance rights

The movement during the reporting period by value (assessed fair value at grant date) and number of performance rights held by Directors and Senior Executives is detailed below:

	Incentive Plan	As at 1 July 2017	Granted in year	Exercised in year	Forfeited/ cancelled in year	As at 30 June 2018	Vested as at 30 June 2018
By value							
Mr M G Monro	LTIP	$1,005,030	$239,625	$67,320	$201,960	$975,375	-
	STIP	$11,648	-	-	$11,648	-	-
Mr M A Baker	LTIP	$534,650	$156,750	$25,500	$96,900	$569,000	-
	STIP	$6,231	-	-	$6,231	-	-
Mr R H Hall	LTIP	$332,750	$156,750	$12,750	$48,450	$428,300	-
	STIP	-	-	-	-	-	-
Mr N A Saclley	LTIP	$406,250	$156,750	-	-	$563,000	
	STIP	$11,746	-	-	$11,746	-	-
By number							
Mr M G Monro	LTIP	1,340,000	450,000	110,000	330,000	1,350,000	-
	STIP	13,544	-	-	13,544	-	-
Mr M A Baker	LTIP	750,000	300,000	50,000	150,000	850,000	-
	STIP	7,245	-	-	7,245	-	-
Mr R J Hall	LTIP	470,000	300,000	25,000	75,000	670,000	-
	STIP	-	-	-	-	-	-
Mr N A Saclley	LTIP	550,000	300,000	-	-	850,000	-
	STIP	13,658	-	-	13,658	-	-

While the total assessed fair value of performance rights granted as at Balance Date is included in the table above, amounts are allocated to Senior Executives remuneration evenly over the relevant vesting periods.

8.6.3 Analysis of movement in shares

The movement during the reporting period in the number of ordinary shares in Watpac Limited held directly, indirectly or beneficially by KMP at 30 June 2018, including their related parties, is as follows:

	As at 1 July 2017	Acquisitions	Received on exercise of rights	Received as other remuneration	Sales	As at 30 June 2018
Non-executive Directors						
Mr P L Watson	-	139,639	-	-	-	139,639
Mr G J Dixon	35,000	-	-	-	-	35,000
Ms L C Evans	24,000	21,081	-	-	-	45,081
Ms B K Morris	10,000	-	-	-	-	10,000
Executive Director						
Mr M G Monro	450,000	15,000	110,000	10,000	-	585,000
Executives						
Mr M A Baker	212,015	-	50,000	10,000	-	272,015
Mr R J Hall	52,590	-	25,000	-	37,500	40,090
Mr N A Saclley	15,948	-	-	10,000	-	25,948

9. Directors' interests

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

	Ordinary shares	Performance Rights
Non-executive Directors		
Mr P L Watson	139,639	-
Mr R Vandenberghe	-	-
Mr G J Dixon	35,000	-
Ms B K Morris	10,000	-
Ms L C Evans	45,081	-
Mr C J Schreurs	-	-
Executive Director		
Mr M G Monro	585,000	1,350,000

10. Dividends

There have been no dividends paid or declared by the Company since the end of the previous financial year. No dividends were declared or paid by the Company subsequent to 30 June 2018.

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

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

12. Events subsequent to reporting date

Except as disclosed in the Financial Report, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect the operations or state of affairs of the Group in future financial years.

13. Environmental regulations

The Group's operations are subject to environmental regulation under both Commonwealth and State Government legislation. Building and property development approvals, including specific environmental aspects, are required for the Group's construction and development operations.

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

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

14. Indemnification and insurance of officers and auditors

Indemnification

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

Insurance premiums

During the financial year the Group paid premiums in respect of Directors' and Officers' liability insurance contracts for the insurance year ended 30 June 2018. Such insurance contracts insure against certain liability (subject to specific exclusions) of persons who are or have been directors or executive officers of the Group. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

15. Non-audit services

In addition to their statutory duties, during the year KPMG, the Company's auditor, has performed other non-assurance services by way of consulting services.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to KPMG and its related practices for audit and non-audit services provided are set out in Note G4 of the Financial Report.

16. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 71 and forms part of the Directors' Report for the financial year ended 30 June 2018.

17. Rounding

In accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 commencing 1 April 2017, amounts in the Financial Report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Dated at Brisbane this 23rd day of August 2018.

Signed in accordance with a resolution of the Directors.

P L Watson – Chair

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Watpac Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Watpac Limited for the financial year ended 30 June 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Scott Guse
Partner
Brisbane
23 August 2018

Directors' Declaration

1. In the opinion of the directors of Watpac Limited (the **Company**):
   (a) the Consolidated Financial Statements and notes set out on pages 83 to 114 and the Remuneration Report in section 8 of the Directors' report, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note F3 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.
3. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2018.
4. The Directors draw attention to section A of the Consolidated Financial Statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Brisbane this 23rd day of August 2018.

Signed in accordance with a resolution of the Directors

P L Watson – Chair

Independent Auditor's Report

To the shareholders of Watpac Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Watpac Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Recognition of revenue relating to construction and civil and mining contracts; and
- Impairment of property, plant and equipment and inventory.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue relating to construction and civil and mining contracts

Refer to Note B2 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The Group enters into contracts to perform various construction and civil and mining services (projects) for a wide range of customers. The Group contracts in a variety of ways. Each project has a different risk profile based on its individual contractual and delivery characteristics. This is a key audit matter as auditing construction and mining and civil revenue involves assessing a range of factors by the Group at reporting date. This necessitated the involvement of the more experienced members of the audit team. The range of factors include: • the amount of costs incurred to date; • the finalisation of known or expected contract variations; • valuation requirements relating to outcomes of known but unsettled claims and liquidated damages exposure; and • the expectation to deliver contracts within the planned timelines. We specifically focused on: • contracts in the Group's largest revenue streams for construction and mining and civil; and • contracts with time delays, a deterioration in margin, or that were loss making.	Our procedures included: • Testing key controls such as management's review and approval of revenue recognition against actual costs to those forecasted; • Selection of a sample of contracts across the construction and mining and civil revenue streams for testing using: - Data Analytic routines based on a number of quantitative and qualitative factors, related to the size and risk of projects (including contacts with time delays, a deterioration in margin, or loss making); and - The Group's contract profit summary reporting tool. • For the sample selected, we: - inquired with various project management personnel to understand project schedules, forecasted revenues/costs and risks and opportunities; - read relevant contract terms and conditions to evaluate the inclusion of individual characteristics and project risks in the Group's estimates. This included understanding the liquidated damages exposure if contracts are not delivered on time; - we compared the monthly revenue recorded by the Group to underlying evidence of costs incurred to total costs and the subsequent cash settlements received from customers subsequent to period end; - tested the known and expected contract variations and claims included within

	revenue against the criteria for recognition in the accounting standards. This was done by inspecting: - correspondence between the Group and the customer; and - the Group's legal advice received on contentious matters.
Impairment of Civil and Mining assets	
Refer to Note B5 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**

The assessment of impairment of the assets held within the Group's Civil and Mining ("CM") division is a key audit matter, given the restructuring and subsequent large impairment recognised in writing down the assets of that division to their fair value increasing our audit effort in this area. Write-downs of $26.5m against the plant and equipment and $10.0m against inventory balances were recorded during the financial year.
 	
The impairment assessment performed incorporated significant judgment. In particular, we focused on those judgements listed below which impacted the carrying value of the recorded assets:
• The revised strategy for the CM division, and the use of a 'fair value less costs of disposal valuation methodology as opposed to the historical approach of applying a 'value in use' methodology to plant and equipment, as required by Accounting Standards;
• Consideration of the Group's divestment strategy for specified assets of the CM business, including the timeframe for their anticipated sale; and
• Recent valuations of major plant and equipment from external valuations experts engaged by the Group.
 	
To assess these significant judgements, we involved senior audit team members to consider and challenge the Group's assumptions.
	Our procedures included:
	• Inquiring with Management and inspection of their CM strategy papers to understand the divestment strategy for specified assets of the CM business. We did this to consider the use of the fair value less cost of disposal valuation methodology applied;
	• Inspecting a range of valuations of assets from external experts engaged by the Group, and considering the results of these valuations using our understanding of the:
	  • nature of the assets;
	  • timeframe of divestment; and
	  • nature of the market in which the Group is intending to sell the assets in to;
	• For the selection of external valuations noted above, we inspected copies of the valuations, and using our knowledge of the Group's intent, assessed the valuation basis, as they applied to the CM assets;
	• For the selection of external valuations noted above, we performed an assessment of the scope, competency and objectivity of the external experts engaged by the Group; and
	• Comparing recent asset sales made by the Group and indicative offers presented to the Group for CM assets to the external valuations obtained by the Group.

Other Information

Other Information is financial and non-financial information in Watpac Limited’s annual reporting which is provided in addition to the Financial Report and the Auditor’s Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor’s Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company’s ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor’s Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor’s Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Watpac Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in Section 7 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Scott Guse

Scott Guse
Partner
Brisbane
23 August 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		For the year ended 30 June	
In thousands of AUD	Note	2018	2017
Revenue	B2	**1,080,003**	1,108,708
Cost of sales		**(1,029,573)**	(1,054,838)
Gross profit		**50,430**	53,870
Other income		**461**	331
Property development holding costs expensed		**(252)**	(443)
Administration expenses		**(58,856)**	(55,226)
Net finance income		**3,258**	1,926
Results from operating activities		**(4,959)**	458
Impairment expense	B5	**(34,455)**	(29,648)
Restructuring expenses	B6	**(5,561)**	-
Scheme of Arrangement expenses	B7	**(1,925)**	-
New business expenditure		**-**	(4,051)
Profit/(loss) before tax		**(46,900)**	(33,241)
Income tax benefit/(expense)	B4a)	**(10,024)**	1,828
Profit/(loss) after tax		**(56,924)**	(31,413)
Other comprehensive income for the period, net of tax	B4b)	**123**	-
Total comprehensive income/(loss) for the period		**(56,801)**	(31,413)
Earnings per share			
Basic earnings/(loss) per share	B3	**(30.94c)**	(16.89c)
Diluted earnings/(loss) per share	B3	**(30.94c)**	(16.89c)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes on pages 83 to 114.

Consolidated Statement of Financial Position

		As at 30 June	
In thousands of AUD	Note	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents		**68,106**	94,916
Cash deposits		**169,937**	134,127
Trade and other receivables	C2	**128,190**	157,352
Inventories – stock on hand	C4	**140**	10,352
Inventories – property development assets	C4	**4,226**	1,321
Total current assets		**370,599**	398,068
Non-current assets			
Inventories – property development assets	C4	**-**	11,188
Property, plant and equipment	C5	**55,855**	84,154
Intangibles	C6	**17,676**	17,676
Deferred tax assets	B4c)	**13,693**	23,717
Total non-current assets		**87,224**	136,735
Total assets		**457,823**	534,803
LIABILITIES			
Current liabilities			
Trade and other payables	C7	**281,224**	293,548
Borrowings	D1	**-**	6,089
Employee benefits	G1	**14,494**	14,004
Provisions		**5,594**	49
Total current liabilities		**301,312**	313,690
Non-current liabilities			
Trade and other payables	C7	**11,967**	11,756
Borrowings	D1	**-**	5,380
Employee benefits	G1	**3,002**	3,739
Provisions		**1,104**	875
Total non-current liabilities		**16,073**	21,750
Total liabilities		**317,385**	335,440
Net assets		**140,438**	199,363
EQUITY			
Issued capital	D4a)	**233,727**	235,563
Reserves	D4b)	**7,506**	7,671
Retained earnings		**(100,795)**	(43,871)
Total equity		**140,438**	199,363

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 83 to 114.

Consolidated Statement of Changes in Equity

	For the year ended 30 June 2018				
In thousands of AUD	Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total
Balance at 1 July 2017	235,563	9,771	(2,100)	(43,871)	199,363
Other comprehensive income/(loss) for the period	-	-	123	-	123
Profit/(loss)	-	-	-	(56,924)	(56,924)
Total comprehensive income/(loss) for the period	-	-	123	(56,924)	(56,801)
Purchase of Treasury shares	(1,836)	(951)	-	-	(2,787)
Share settled performance rights awarded	-	663	-	-	663
Total contributions by and distributions to owners	(1,836)	(288)	-	-	(2,124)
Total transactions with owners	(1,836)	(288)	-	-	(2,124)
Balance at 30 June 2018	**233,727**	**9,483**	**(1,977)**	**(100,795)**	**140,438**

	For the year ended 30 June 2017				
In thousands of AUD	Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total
Balance at 1 July 2016	235,563	9,844	(2,100)	(12,458)	230,849
Other comprehensive income/(loss) for the period	-	-	-	-	-
Profit/(loss)	-	-	-	(31,413)	(31,413)
Total comprehensive income/(loss) for the period	-	-	-	(31,413)	(31,413)
Purchase of Treasury shares	-	(539)	-	-	(539)
Share settled performance rights awarded	-	466	-	-	466
Total contributions by and distributions to owners	-	(73)	-	-	(73)
Total transactions with owners	-	(73)	-	-	(73)
Balance at 30 June 2017	235,563	9,771	(2,100)	(43,871)	199,363

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 83 to 114.

Consolidated Statement of Cash Flows

		For the year ended 30 June	
In thousands of AUD		2018	2017
Cash flows from operating activities			
Cash receipts from customers		**1,217,791**	1,204,037
Cash paid to suppliers and employees		**(1,189,775)**	(1,204,985)
Cash generated from operations		**28,016**	(948)
Interest received		**5,292**	3,990
Interest paid		**(1,841)**	(2,547)
Income tax refunded		**-**	345
Net cash provided by operating activities	C1	**31,467**	840
Cash flows from investing activities			
Investment in cash deposits		**(35,810)**	(12,022)
Acquisition of assets		**(10,397)**	(14,951)
Proceeds from sale of assets		**2,186**	696
Net cash used in investing activities		**(44,021)**	(26,277)
Cash flows from financing activities			
Repayment of borrowings		**(11,469)**	(6,983)
Purchase of treasury shares		**(2,787)**	(539)
Finance facility transaction costs		**-**	(1,476)
Net cash used in financing activities		**(14,256)**	(8,998)
Net decrease in cash and cash equivalents		**(26,810)**	(34,435)
Cash and cash equivalents at 1 July		**94,916**	129,351
Cash and cash equivalents at 30 June		**68,106**	94,916

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes on pages 83 to 114.

A – About this report

Statement of compliance

The Consolidated Financial Statements of Watpac Limited (**Watpac** or **Company**) are general purpose financial statements. They comprise the consolidated results of the Company and its subsidiaries (together referred to as the **Group**), and the Group's interests in joint arrangements, and:

- have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*; and
- comply with International Financial Reporting Standards (**IFRS**) adopted by the International Accounting Standards Board.

The Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements (collectively known as the **Financial Statements**), were authorised for issue by the Board of Directors on 23 August 2018.

Rounding of amounts

In accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the Financial Statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Basis of accounting

The Financial Statements are presented in Australian dollars (**AUD**) which is the functional currency of the Company. They have been prepared on the historical cost basis, except for certain financial assets which are measured at fair value.

The accounting policies set out in the Financial Statements have been applied consistently by all entities in the Group. Details of the Group's accounting policies, including any changes made during the year, are included in the Financial Statements.

Use of judgements and estimates

Preparation of the Financial Statements requires Management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are reviewed on an ongoing basis and actual results may differ from these estimates. Revisions to accounting estimates are recognised prospectively.

Judgements made by Management in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements, and assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the future, are included in the Financial Statements.

Comparatives

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

B – Business Performance

Included in this section is information most applicable to the Group's business performance, together with a summary of the accounting policies and the significant judgements and estimates used in calculating its financial performance.

B1. Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses.

The Group has identified its operating segments by assessing the internal reports where discrete financial information is reported on a regular basis to the Managing Director, Watpac's chief operating decision maker, to effectively allocate Group resources and assess performance.

Reportable segments are based on aggregated operating segments determined by the similarity of products sold and/or services provided by each operating segment.

For the year ended 30 June 2018 (**Reporting Period**), the Group has identified three reportable segments, being:

- *Building Construction:* Building construction, project management and investment, design and construction management services.
- *Civil & Mining:* Contract mining services and civil infrastructure works.
- *Property:* Development, investment in and trading of property assets.

The following items are not allocated to operating segments as they are not considered part of the core operations of any segment:

- corporate assets;
- unallocated/corporate expenses; and
- costs associated with new business.

Information regarding the results of each reportable segment is included on the following page.

2018 *In thousands of AUD*	Building Construction	Civil & Mining	Property	Unallocated	Elimination	Total
External Revenue	984,972	81,361	11,335	-	-	1,077,668
Inter-segment revenue	2,335	-	-	-	-	2,335
Total segment revenue	**987,307**	**81,361**	**11,335**	**-**	**-**	**1,080,003**
Other material non-cash items:						
- Depreciation	(629)	(6,987)	-	(2,101)	-	(9,717)
Other significant items						
- (Impairment)/impairment reversal	-	(36,502)	2,047	-	-	(34,455)
- Restructuring expenses	-	(5,561)	-	-	-	(5,561)
- Scheme of Arrangement expenses	-	-	-	(1,925)	-	(1,925)
Finance income	-	-	-	5,297	-	5,297
Finance expense	(1,456)	(583)	-	-	-	(2,039)
Total segment profit/(loss) before tax	**20,640**	**(49,643)**	**1,789**	**(19,686)**	**-**	**(46,900)**
Reportable segment assets	**122,703**	**55,331**	**15,561**	**264,228**	**-**	**457,823**
Total capital expenditure	**419**	**8,080**	**-**	**1,898**	**-**	**10,397**

2017 *In thousands of AUD*	Building Construction	Civil & Mining	Property	Unallocated	Elimination	Total
External Revenue	954,832	148,928	7,283	-	-	1,111,043
Inter-segment revenue	(2,335)	-	-	-	-	(2,335)
Total segment revenue	**952,497**	**148,928**	**7,283**	**-**	**-**	**1,108,708**
Other material non-cash items:						
- Impairment						
- Plant & Equipment/Stock	-	(29,648)	-	-	-	(29,648)
- Depreciation	(681)	(17,700)	-	(2,039)	-	(20,420)
New business expenditure	-	-	-	(4,051)	-	(4,051)
Finance income	-	-	-	4,496	-	4,496
Finance expense	(1,632)	(938)	-	-	-	(2,570)
Total segment profit/(loss) before tax	**11,773**	**(22,559)**	**(425)**	**(22,030)**	**-**	**(33,241)**
Reportable segment assets	**144,281**	**109,177**	**12,851**	**291,208**	**(22,714)**	**534,803**
Total capital expenditure	**282**	**12,910**	**-**	**1,759**	**-**	**14,951**

Geographical segments

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

Major customer

Construction segment revenues include revenue from one major customer comprising $132,042,000. In the prior year there was one major customer contributing revenue of $179,156,000 to the Building Construction segment.

B2. Revenue

In thousands of AUD	2018	2017
Construction contracts - Building	**987,307**	952,497
Construction contracts - Civil Infrastructure	**27,954**	21,313
Mining services contracts	**53,407**	127,615
Property sales	**11,335**	7,283
	1,080,003	1,108,708

Recognition and measurement

Construction contracts – Building and Civil Infrastructure

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed for building and civil infrastructure projects. An expected loss on a contract is recognised immediately.

Mining services contracts

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

Sales of property

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

During the Reporting Period property assets sales of $11.335M were recognised at the time that sale contracts became unconditional. All associated sales are scheduled to complete in the first quarter of the 2019 financial year.

Key estimates and judgements

- Construction contracts: Determining the stage of completion requires an estimate of works completed to date as a percentage of total estimated works. Where variations and modifications are made to a contract, the amount of revenue that will arise is subject to estimation, based on the probability that the contract sum will change by a specified amount.
- Mining services contracts: Determining the amount of revenue that can be recognised requires judgements about when the criteria for reliable estimation of the transaction has been satisfied.

B3. Earnings per share

Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Basic earnings/(loss) per share calculation	2018	2017
Profit/(loss) for the year attributable to ordinary shareholders of the Company *(in thousands of AUD)*	**(56,924)**	(31,413)
Divided by weighted average number of ordinary shares at 30 June *(in thousands of shares)*	**184,005**	186,030
Basic earnings/(loss) per share *(cents)*	**(30.94)**	(16.89)

Weighted average number of shares – basic earnings/(loss) per share calculation

In thousands of Shares	2018	2017
Issued ordinary shares at 1 July	**186,030**	186,019
Effect of shares cancelled under share buy-back arrangement	**(2,025)**	-
Effect of performance rights vested	**-**	11
Weighted average number of ordinary shares at 30 June	**184,005**	186,030

Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, after adjustments for the effects of all dilutive potential ordinary shares.

Diluted earnings/(loss) per share calculation	2018	2017
Profit/(loss) for the year attributable to ordinary shareholders of the Company *(in thousands of AUD)*	**(56,924)**	(31,413)
Divided by weighted average number of ordinary shares (diluted) at 30 June *(in thousands of shares)*	**184,005**	186,030
Diluted earnings/(loss) per share *(cents)*	**(30.94)**	(16.89)

Weighted average number of shares – diluted earnings per share calculation

In thousands of Shares	2018	2017
Weighted average number of ordinary shares (basic)	**184,005**	186,030
Effect of performance rights on issue	**-**	-
Weighted average number of ordinary shares (diluted) at 30 June	**184,005**	186,030

The weighted average number of anti-dilutive shares assessed as at 30 June 2018 was 1,045,968 (2017: 3,280,324). This represents all performance rights on issue other than those expected to vest and convert into ordinary shares.

All such performance rights have, however, been excluded from the calculation given the Group has reported a loss for the Reporting Period. Consequently, diluted earnings per share is equal to basic earnings per share.

B4. Taxation

The prima facie income tax expense/(benefit) on profit/(loss) before income tax reconciles to the income tax expense/(benefit) as follows:

(a) Reconciliation of income tax expense/(benefit)

In thousands of AUD	2018	2017
Profit/(loss) before tax	**(46,900)**	(33,241)
Income tax at 30% (2017: 30%)	**(14,070)**	(9,972)
Increase in income tax expense/(benefit) due to:		
Non-deductible expenses	**170**	126
Non-recognition of current period deferred tax assets	**8,135**	8,894
De-recognition of prior period deferred tax assets	**16,590**	-
	10,825	(952)
Research & development claim	**(646)**	(880)
(Over)/under provided in prior years	**(155)**	4
Income tax expense/(benefit) on pre-tax net profit/(loss)	**10,024**	(1,828)

(b) Amounts recognised in other comprehensive income

	2018			2017		
In thousands of AUD	Before tax	Tax (expense) /benefit	Net of tax	Before tax	Tax (expense) /benefit	Net of tax
Change in fair value of foreign currency	123	-	123	-	-	-
	123	-	123	-	-	-

(c) Movement in Deferred tax balances

In thousands of AUD 2018	Net balance 1 July 2017	Recognised in profit or loss	Net balance 30 June 2018	Deferred tax assets at 30 June 2018	Deferred tax liabilities at 30 June 2018
Consolidated					
Property, plant and equipment	(995)	4,385	3,390	3,390	-
Employee benefits	5,554	(167)	5,387	5,387	-
Other provisions	5,037	651	5,688	5,688	-
Accrued expenses	2,943	(266)	2,677	2,677	-
Borrowing costs	182	(96)	86	86	-
Tax loss carry-forwards	2,848	5,491	8,339	8,339	-
R&D tax offset carried forward	15,559	2,556	18,115	18,115	-
Property development projects	133	(874)	(741)	-	(741)
Inventories – stock on hand	1,350	3,021	4,371	4,371	-
Gross	32,611	14,701	47,312	48,053	(741)
Non-recognition of current period deferred tax assets	(8,894)	(8,135)	(17,029)		
De-recognition of prior period deferred tax assets	-	(16,590)	(16,590)		
Total	23,717	(10,024)	13,693		

In thousands of AUD 2017	Net balance 1 July 2016	Recognised in profit or loss	Net balance 30 June 2017	Deferred tax assets at 30 June 2017	Deferred tax liabilities at 30 June 2017
Consolidated					
Property, plant and equipment	(5,286)	4,291	(995)	-	(995)
Employee benefits	5,806	(252)	5,554	5,554	-
Other provisions	3,511	1,526	5,037	5,037	-
Accrued expenses	1,025	1,918	2,943	2,943	-
Borrowing costs	186	(4)	182	182	-
Tax loss carry-forwards	1,663	1,185	2,848	2,848	-
R&D tax offset carried forward	14,682	877	15,559	15,559	-
Property development projects	302	(169)	133	133	-
Inventories – stock on hand	-	1,350	1,350	1,350	-
Gross	21,889	10,722	32,611	33,606	(995)
Non-recognition of current period deferred tax assets	-	(8,894)	(8,894)		
Total	21,889	1,828	23,717		

Recognition and measurement

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

Current Tax

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

Deferred tax

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

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

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

During the Reporting Period the Group conducted a strategic review of the Civil & Mining business. This review determined that the business model would be amended to adopt a more selective approach to tendering new opportunities.

As a consequence of a reduced level of earnings from the Civil & Mining business being included in the assessment of future taxable profits, the Group has critically assessed the recoverable amount of deferred tax assets at 30 June 2018 (**Balance Date**).

While Watpac's Building Construction division was profitable in the Reporting Period and is anticipated to deliver improved profitability in FY19 and beyond, given the uncertainty of future earnings associated with the revised model for the Civil & Mining business, certain components of the deferred tax assets balance have not been recognised at Balance Date.

The components of the deferred tax assets balance not recognised at Balance Date are presented in the table below.

In thousands of AUD	**2018**	**2017**
Income tax losses & offsets	**26,454**	8,894
Temporary differences	**7,165**	-
Capital losses	**18,016**	18,016

Offsetting deferred tax balances

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Tax consolidation

Watpac Limited and its wholly owned controlled entities are part of a tax-consolidated group under Australian tax law. Watpac Limited is the head entity in the tax-consolidated group.

Key estimates and judgements

- Recognition and measurement of deferred tax assets requires judgements and estimates of future taxable profit that will be available, against which the deductible temporary differences and tax losses and offsets can be utilised.

B5. Impairment expense

In thousands of AUD	Note	2018	2017
Civil & Mining			
Plant and equipment	C5	**26,480**	25,148
Inventories – stock on hand		**10,022**	4,500
Total Civil & Mining		**36,502**	29,648
Property			
Impairment		**921**	-
Impairment reversal		**(2,968)**	-
Total Property		**(2,047)**	-
Total		**34,455**	29,648

Civil & Mining

As detailed at Note B4, during the Reporting Period the Group conducted a strategic review of the Civil & Mining business. This review determined that a more selective approach to tendering new opportunities would be adopted under a rationalised overhead structure and with divestment of surplus assets. Consequently, the Group critically assessed the recoverable amount of assets allocated to the Civil & Mining CGU at Balance Date.

Given the limited forward look through of work-in-hand and the outcome of the strategic review, plant & equipment and stock assets were valued at Balance Date with reference to existing second hand market values. This contrasts to the value in use model adopted in prior reporting periods for plant & equipment assets.

The adoption of this revised valuation methodology has resulted in the recognition of a $36,502,000 impairment charge against Civil & Mining CGU assets at Balance Date (2017: $29,648,000).

B6. Restructuring expenses

Consistent with the revised Civil & Mining business model, restructure plans were put in place during the Reporting Period.

In accordance with the prevailing accounting standards, a $5,561,000 provision for restructuring costs associated with the Civil & Mining business has therefore been recorded in the Consolidated Statement of Profit or Loss in the Reporting Period.

B7. Scheme of Arrangement expenses

On 26 February 2018, the Group announced that it had entered into a Scheme Implementation Agreement with its major shareholder BESIX Group SA (**BESIX**) pursuant to which it was proposed that BESIX acquire a further 50% of the issued shares in Watpac that it did not already own by way of a Scheme of Arrangement (**Scheme**).

While over 67% of the votes cast by Watpac Limited shareholders were for the BESIX Scheme proposal, this was lower than the 75% threshold required by the *Corporations Act 2001*. Consequently, the BESIX Scheme did not proceed.

As noted at section 2.7 of the Scheme Booklet, certain transaction and advisory costs were incurred regardless of whether or not the Scheme became effective. The total costs incurred in relation to the Scheme in the Reporting Period were $1,925,000 (2017: nil), with all attributed costs recognised in the Consolidated Statement of Profit or Loss in the Reporting Period.

C – Operating assets and liabilities

Included in this section is information relating to the Group's operating assets and liabilities, together with a summary of the accounting policies and the judgements and estimates relevant to these items.

C1. Reconciliation of operating cash flows from operating activities

In thousands of AUD	Note	2018	2017
Total loss for the year		**(56,924)**	(31,413)
Adjustments for:			
(Gain)/loss on sale of plant and equipment		**313**	(249)
Foreign exchange revaluation		**123**	-
Share based payments		**663**	466
Finance facility transaction costs		**-**	1,476
Depreciation	C5	**9,717**	20,420
Impairment	B5	**34,455**	29,648
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables		**29,162**	(15,521)
(Increase)/decrease in inventories		**10,520**	4,141
Increase/(decrease) in payables		**(12,113)**	(5,333)
(Increase)/decrease in tax assets		**10,024**	(1,828)
Increase/(decrease) in provisions and employee benefits		**5,527**	(967)
Net cash from/(used in) operating activities		**31,467**	840

C2. Trade and other receivables

In thousands of AUD	Note	2018	2017
Current			
Trade receivables		**36,320**	26,617
Allowance for expected losses		**(153)**	(109)
		36,167	26,508
Other debtors and prepayments		**8,618**	13,785
		44,785	40,293
Construction work in progress – amounts due from customers	C3	**83,405**	117,059
		128,190	157,352

The movement in the expected loss provision during the reporting period was:

In thousands of AUD	Gross 2018	Gross 2017
Balance at 1 July	**(109)**	-
Expected losses recognised in the consolidated profit or loss	**(44)**	(109)
Balance at 30 June	**(153)**	(109)

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

In thousands of AUD	Gross 2018	Gross 2017
Not past due	**44,395**	37,965
Past 0-30 days	**407**	2,279
Past due 31-120 days	**45**	89
Past due 121 days to one year	**22**	69
More than one year	**69**	-
Gross carrying amount	**44,938**	40,402
Expected loss provision	**(153)**	(109)
Net carrying amount	**44,785**	40,293

The expected loss provision recognised at 30 June 2018 has arisen following a detailed assessment of the trade and other receivables balances at that date.

Recognition and measurement

Trade and other receivables are recognised initially at fair value plus any directly attributable transaction costs where they do not contain a significant financing component. This typically results in the initial measurement of trade and other receivables at their transaction price.

Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

The following basis is used to assess the allowance for expected losses:

- historical collectability data;
- an individual account assessment of past credit history; and
- any current facts and circumstance that indicate an increase or decrease in credit risk or likelihood of debtor insolvency.

Watpac has a strong receivables collection history across all its operations. Consequently, only a modest allowance for impairment of $153,000 has been recognised for trade and other receivable assets as at 30 June 2018 (30 June 2017: $109,000).

Further information on the Group's exposure to credit risk is provided at Note E2a).

C3. Accounting for construction contracts

In thousands of AUD	Note	2018	2017
Cumulative contracts in progress at reporting date			
Cumulative costs incurred plus recognised profits less recognised losses to date		**1,485,318**	1,342,261
Less: Progress billings		**(1,401,913)**	(1,225,202)
Net construction work in progress		**83,405**	117,059
Net construction work in progress comprises:			
Amounts due from customers	C2	**83,405**	117,059
		83,405	117,059

Recognition and measurement

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

Cost includes both variable and fixed costs directly related to specific contracts, being those costs which directly relate to contract activity, those which can be allocated to specific contracts on a reasonable basis, and other costs specifically chargeable under the contract.

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

C4. Inventories

In thousands of AUD	2018	2017
Current		
Raw materials and stores	**18,662**	18,852
Less: Write-down to net realisable value	**(18,522)**	(8,500)
	140	10,352
Property development assets		
Land and buildings held for sale		
- Land at cost	**9,240**	2,860
- Development costs	**582**	95
- Interest, rates and taxes capitalised	**1,893**	612
Less: Write-down to net realisable value	**(7,489)**	(2,246)
	4,226	1,321
Non-current		
Property development assets		
Land and buildings held for sale		
- Land at cost	**-**	17,981
- Development costs	**-**	6,208
- Interest, rates and taxes capitalised	**-**	5,323
Less: Write-down to net realisable value	**-**	(18,324)
	-	11,188

Recognition and measurement

Inventories, which include raw materials and property development assets, are carried at the lower of cost and net realisable value. Net realisable value is determined on an undiscounted basis.

Inventories which are not expected to be sold or converted to cash within 12 months are classified as non-current.

Key estimates and judgements

- Determining the net realisable value of raw materials and stores requires judgement regarding the level and composition of stock required for rendering of future services (and its applicability to items of plant & equipment).
- Determining the net realisable value of property development inventories requires estimates of future selling prices in the ordinary course of business less the estimated transaction costs and selling expenses.

C5. Property, plant and equipment

	Plant and equipment	
In thousands of AUD	**2018**	**2017**
Carrying amount at 1 July	**84,154**	115,218
Acquisitions	**10,397**	14,951
Disposals at net book value	**(2,499)**	(447)
Depreciation charge for the year	**(9,717)**	(20,420)
Impairment	**(26,480)**	(25,148)
Balance at 30 June	**55,855**	84,154
Represented by:		
Cost	**279,691**	279,625
Accumulated depreciation/impairment	**(223,836)**	(195,471)

No Plant assets are subject to external finance arrangements (2017: $38,470,000).

The carrying value of Plant assets allocated to the Civil and Mining CGU was assessed for impairment at Balance Date. Details of this assessment are disclosed at Note B5.

Recognition and measurement

Items of property, plant and equipment are stated at cost including expenditure that is directly attributable to the acquisition of the asset less accumulated depreciation and impairment losses. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group, with the carrying value of plant and equipment assets tested for indicators of impairment at each reporting date.

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

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

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

- Plant and equipment 2 – 10 years

Key estimates and judgements

- The calculation of depreciation requires estimates of the useful lives and residual values of property, plant and equipment.
- Determining the recoverable amount of plant and equipment assets requires estimates of the amount and timing of future cash flows expected to be derived from the assets.

C6. Intangibles

In thousands of AUD	Goodwill
Cost	
Balance at 1 July 2016	27,968
Balance at 30 June 2017	27,968
Balance at 1 July 2017	**27,968**
Balance at 30 June 2018	**27,968**
Carrying amounts	
At 1 July 2016	17,676
At 30 July 2017	17,676
At 1 July 2017	**17,676**
At 30 June 2018	**17,676**

Impairment testing for cash-generating units containing goodwill

In thousands of AUD	2018	2017
Goodwill		
Construction	**17,676**	17,676
Civil and Mining	**-**	-
	17,676	17,676

Recognition and measurement

Goodwill

Goodwill acquired in a business combination is initially measured at cost and subsequently measured at cost less any impairment losses. Cost represents the excess of the cost of the business combination over the net fair value of the identifiable assets and liabilities acquired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination’s synergies. Goodwill is not amortised.

Allocation of goodwill to cash-generating units (CGUs)

Goodwill has been allocated for impairment testing purposes to CGUs that are significant either individually or in aggregate, taking into consideration the nature of service, resource allocation, how operations are monitored and where independent cash flows are identifiable.

Two independent CGUs have been identified by the Group against which asset impairment testing is conducted.

CGU impairment testing

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates, and involves a number of key estimates and judgements. Where the recoverable amount of a CGU, determined on a value in use basis, is less than the carrying amount, an impairment loss is recognised.

Calculations use cash flow projections over a period of five years and a terminal value calculated using an EBITDA multiple.

Key estimates and judgements

The calculation of the recoverable amounts of CGUs containing goodwill requires significant judgements and estimates on the key cash flow projections and discount rate assumptions, as well as consideration of other assets and liabilities required to deliver these forecasts.

Construction CGU

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

	Key assumptions
Discount rate (pre-tax WACC)	14.29%
Terminal value earnings multiple	8 times EBITDA
EBITDA growth rate (FY18 to FY19)	59.33%
Normalised EBITDA growth rate (FY18 to FY19)*	25.33%

* Adjusted for abnormal items in FY18

The values assigned to key assumptions are based on past performance and future expectations, in the context of forecast economic conditions, calculated with reference to the specific requirements of the prevailing accounting rules and regulations. The pre-tax discount rate of 14.29% (2017: 14.29% pre-tax) is calculated with reference to industry benchmarks and the weighted average cost of capital metrics applicable to the CGU, and assumes no debt leveraging. This discount rate is considered appropriate given the current economic and market conditions and implications these may have on the future cash flows used in calculating the net present value of the CGU, as per the requirements of the accounting standards. The terminal value has been calculated by applying the earnings multiple to the projected year five cashflows.

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

C7. Trade and other payables

In thousands of AUD	2018	2017
Current		
Trade payables and accrued expenses	**13,002**	17,554
Subcontractor payable	**44,695**	39,226
Subcontractor accrual	**200,893**	214,194
Retentions payable	**22,634**	22,574
	281,224	293,548
Non-current		
Retentions payable	**11,967**	11,756

Recognition and measurement

Trade and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods or services or an assessment is made that costs have been incurred. Due to the typically short-term nature of these financial obligations, their carrying amounts are estimated to represent their fair values.

A provision for the total estimated loss on a construction project is made as soon as the loss is identified, with any resulting cost adjustments recognised as an increase to the subcontractor accrual balance.

C8. Contingent liabilities

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

In thousands of AUD	2018	2017
Secured contingent liabilities at year end are:		
Bank guarantees	**79,700**	70,977
Unsecured contingent liabilities at year end are:		
Insurance bonds	**125,767**	128,049

Several claims have been brought against controlled entities in relation to both current and past contracts. The controlled entities are defending the claims and Directors are of the opinion that adequate provisions have been recognised as at 30 June 2018 relating to potential future outflows associated with those claims.

On 6 July 2018, cracking at the base of a pre-cast column was identified at the Kodo Apartments project in South Australia. The cause of the issue has not yet been proven and, as such, while avenues for cost recovery remain available (including costs arising from program delays), the Group is unable to quantify any associated financial impacts.

To date rectification costs appear minor, however ascertaining the exact issue will enable a better understanding of the implications on the delivery program, which could including substantial gross cost impacts (that is, prior to any insurance or other recoveries).

D – Capital structure

Included in this section are details of the Group's capital structure. It also contains disclosures relating to the Group's capital risk management policies.

D1. Borrowings

In thousands of AUD	2018	2017
Current		
Secured equipment finance liabilities		
- Chattel mortgage liabilities	-	5,960
- Finance lease and hire purchase liabilities	-	129
	-	6,089
Non-current		
Secured equipment finance liabilities		
- Chattel mortgage liabilities	-	5,256
- Finance lease and hire purchase liabilities	-	124
	-	5,380

Recognition and measurement

Chattel mortgage borrowings

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

Finance leases and hire purchase liabilities

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

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

Capitalised leased assets are depreciated over their assessed estimated useful lives.

All borrowings were repaid in the Reporting Period. Consequently the Group had nil borrowings at Balance Date (30 June 2017: $11,469,000).

D2. Financing facilities

At 30 June 2018 and 2017, the Group had the following facilities.

In thousands of AUD 2018	Utilised	Unutilised	Facility limit available for utilisation
Bank guarantees	**79,700**	**90,300**	**170,000**
Insurance company bonding	**125,767**	**119,233**	**245,000**
Total bonding	**205,467**	**209,533**	**415,000**
Equipment finance	**-**	**2,000**	**2,000**

In thousands of AUD 2017	Utilised	Unutilised	Facility limit available for utilisation
Bank guarantees	70,977	96,744	167,721
Insurance company bonding	128,049	116,951	245,000
Total bonding	199,026	213,695	412,721
Equipment finance	11,469	10,000	21,469

Bonding

At 30 June 2018, the Group had $415M of bank guarantee and insurance company bond facilities to support its activities. $170M of these facilities are provided to the Group on a committed basis and $245M on an uncommitted basis. All facilities are subject to the specific terms and conditions contained in the relevant funding agreements.

A syndicate of lenders provides the Group's committed bank guarantee facilities on a secured basis. The syndicated bank guarantee facility is due to mature in November 2020.

The Group's uncommitted insurance bond facilities are provided by four insurance companies on an unsecured basis, and are subject to certain unsecured Group guarantees. The insurance bond facilities have varying maturity dates and are subject to annual reviews. Some of these facilities currently have the ability to be bank-fronted.

The Group believes that the total $209.5M headroom under the bank guarantee and insurance bond facilities is more than sufficient to meet the requirements of all presently identified new project opportunities and to support future growth strategies.

Equipment finance facilities

At 30 June 2018, the Group had $2M (2017: $21M) of equipment finance facilities. During the Reporting Period equipment finance facilities of $19M were closed.

The reduction in the value of the equipment finance facilities in the Reporting Period reflects the voluntary early repayment, and closure, of equipment finance borrowings with two financiers.

Covenants on financing facilities

The Group's bank guarantee facility agreement contains certain undertakings including obligations relating to financial covenants. This requires the Group to hold certain levels of assets and liabilities and to operate within certain financial ratios.

The main financial covenants which the Group is subject to relate to net current assets/liabilities, interest coverage, net debt to earnings before interest, tax, and depreciation and amortisation ratios, together with minimum cash balance and tangible net worth thresholds.

Assessment of performance against financial covenants is undertaken and reported to the Board on a regular basis. Reporting of financial covenants occurs quarterly for the rolling 12 month periods to 31 March, 30 June, 30 September and 31 December.

The Group was in compliance with all its financial covenants throughout the Reporting Period.

Refinancing requirements

Depending on the nature of the facility, capital position of the Group and strategic requirements, Management may seek to negotiate with existing and new financiers to extend maturing facilities, undertake a refinancing, or repay them (where applicable).

The Group's financial performance, financial position, general and sector-specific market conditions and general availability of credit, may influence the outcome of any such negotiations.

D3. Commitments

(a) Capital expenditure commitments

In thousands of AUD	2018	2017
Plant and equipment – contracted but not provided for and payable		
- Within one year	**128**	778

(b) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2018	2017
Less than one year	**4,131**	5,368
Between one and five years	**5,438**	8,894
More than five years	**-**	-
	9,569	14,362

The Group leases office buildings under operating leases, which comprise the majority of the Group's operating lease commitments. The leases have varying termination dates up until 2022 (excluding renewal options). The Group also leases motor vehicles and computer software under operating leases which typically run from one to five years.

During the financial year ended 30 June 2018, $5,135,000 was recognised as an expense in the income statement in respect of operating leases (2017: $5,984,000), which mainly related to office building leases.

Recognition and measurement

Operating Leases

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

(c) Equipment finance commitments

Equipment finance liabilities of the Group were voluntarily repaid during the Reporting Period. This included chattel mortgage and finance lease/hire purchase arrangements.

In thousands of AUD	Minimum payments	Interest	Principal	Minimum payments	Interest	Principal
	2018			2017		
Less than one year	-	-	-	6,627	539	6,088
Between one and five years	-	-	-	5,535	154	5,381
	-	-	-	12,162	693	11,469

D4. Shareholders equity

(a) Issued capital

In thousands of shares	2018	2017
On issue at 1 July	**186,056**	186,019
Shares cancelled under buy-back arrangement	**(2,670)**	-
Shares issued upon vesting of performance rights	**-**	37
On issue at 30 June – fully paid	**183,386**	186,056

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

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

(a) Reserves

Equity benefits reserve

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

Fair value reserve

The fair value reserve substantially comprises the cumulative net change in the fair value of investments in equity instruments where an election has been made to measure the investment at fair value through other comprehensive income, together with revaluation of foreign currency reserves.

D5. Dividends

(a) Ordinary shares

No final or interim dividends for the 2018 and 2017 financial years were declared or paid.

(b) Franking credits

The franking account balance at 30 June 2018 is $41,000 (2017: $41,000).

E – Financial risk management

Included in this section are details of the Group's risk management disclosures relating to capital and financial risks.

E1. Capital risk management

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

E2. Financial risk management

Overview

The Group has exposure to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk

The Board has overall responsibility for the establishment and oversight of the risk management framework applicable to the Group's financial investments. The Audit and Risk Committee, a committee of the Board, is responsible for assessing the appropriateness of the risk management policies adopted by Management and regular financial risk management reports are provided by Management to the Board

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

The Audit and Risk Committee also oversees how management monitors compliance with risk management policies and procedures. The Managing Director, Chief Financial Officer and Group Risk and Compliance Manager assist the committee with this oversight responsibility. The Group Risk and Compliance Manager administers the Enterprise Risk Management Framework and internal audit program, and ensures compliance with the Group's Schedule of Delegated Authority. Regular and ad hoc reviews of risk management controls and procedures are undertaken by operational management in accordance with the protocols set out in various policy documents. The Group's Commercial Benchmarks set a framework against which contractual risks are assessed.

(a) Credit risk

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated Statement of Financial Position.

Cash and cash equivalents and term deposits

Cash and cash equivalents comprise cash at bank and in hand and at call deposits which are readily convertible to known amounts of cash and are subject to an insignificant change in value.

At 30 June 2018, the Group held cash and cash equivalents and cash deposits totalling $238,043,000 (2017: $229,043,000). This represents the maximum credit exposure on these assets. Cash and cash equivalents and cash deposits are currently held with bank and financial institution counterparties who are rated AA- to BBB+ based on Standard & Poor's long-term ratings.

Trade and other receivables

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

Any departures from the guidelines as stated in the Commercial Benchmarks must be authorised by Business Unit Leaders and Divisional General Managers and, if material, approved by the Managing Director and Chief Financial Officer. Failing agreement between the Managing Director and Chief Financial Officer, the matter is referred to the Board.

Private sector construction projects are generally funded by third party financing and it is not until this is in place and sufficient evidence of funding provided to Watpac that the Group will accept the transaction credit risk. Private mining and civil infrastructure project counterparties are assessed for credit worthiness through a review of the entities' current financial position, access to capital markets, and the economics of the underlying assets that they operate. Where necessary and available, credit risk insurance options are investigated and cover placed.

Credit risk is seen as a major risk to the Group and as such, significant time is spent on determining counterparties' ability to pay in accordance with their contractual obligations.

The Group's maximum exposure to credit risk arising from financial assets, comprising cash and cash equivalents, term deposits and receivables, excluding the value of any collateral or other security at Balance Date, is its carrying amount, net of any provisions for impairment, as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements.

Financial guarantees

The Group's policy is to provide financial guarantees to wholly-owned subsidiaries that are listed in Note F1 as and when required to support the core operations of Construction and Civil and Mining operations. The Group also provides performance guarantees as part of its activities, details of which are provided in Note C8.

Exposure to credit risk

As noted above, the carrying amount of the Group's financial assets represents the maximum credit exposure.

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

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed operating conditions. Short term and rolling 12 month forecasts are regularly prepared and reviewed to ensure liquidity targets are anticipated to be met at all times. Construction and Civil & Mining cash flows are monitored in line with the terms of the individual contracts.

The following tables detail the Group's contractual maturities for its financial liabilities, including cash flows attributable to both interest and principal debt repayment obligations (where applicable).

In thousands of AUD **2018**	Effective interest rate	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years
Borrowings	-%	-	-	-	-	-
Trade payables		13,002	13,002	13,002	-	-
Subcontractor payable and accrual		245,588	245,588	245,588	-	-
Retentions payable		34,601	34,601	22,634	11,967	-
		293,191	**293,191**	**281,224**	**11,967**	**-**

In thousands of AUD 2017	Effective interest rate	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years
Borrowings	6.19%	11,469	12,162	6,627	5,535	-
Trade payables		17,554	17,544	17,544	-	-
Subcontractor payable and accrual		253,420	253,420	253,420	-	-
Retentions payable		34,330	34,330	22,574	11,756	-
		316,773	317,456	300,165	17,291	-

The Group is currently in a substantial net cash position and maintains a conservative approach to liquidity management.

(c) Market risk

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

Interest rate risk

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

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

The current low interest rate environment and differential between rate yield on cash holdings versus the Group's weighted average cost of capital has been a major factor when assessing capital management initiatives over recent years. This is particularly relevant given the Group's low levels of gearing and forecast increase in cash over the near term from operating earnings, sale of property and plant and equipment assets and movements in working capital.

At Balance Date, the Group had the following fixed and variable rate financial assets and liabilities:

In thousands of AUD		2018	2017
Fixed rate instruments			
Financial assets	(i)	**130,052**	105,051
Financial liabilities		**-**	(11,469)
		130,052	93,582
Variable rate instruments			
Financial assets		**107,991**	123,992
Financial liabilities		**-**	-
		107,991	123,992

(i) Fixed rate financial assets represent cash in investment accounts and term deposits which have varying maturity dates (not exceeding 9 months).

Sensitivity analysis for variable rate instruments

If interest rates had been 50 basis points lower or higher at reporting date and all other variables were held constant, the Group's profit from net variable rate instruments would have decreased/increased by $540,000 (2017: $620,000).

Foreign currency risk

Foreign currency risk has been mainly applicable in the Civil and Mining operations in previous years, arising as a consequence of the Group sourcing plant and equipment from overseas. This resulted in the Group having exposure to foreign currency denominated input costs. Only minimal foreign currency purchases are currently made in the Civil and Mining business.

The level of overseas procurement forming part of the Group's Construction businesses has increased in recent years. While not currently representing a material risk exposure to the Group, new projects may include foreign currency risk, mainly USD and CNY. The Group plans to treat this risk through various hedging strategies, including holding foreign currency reserves and, where appropriate, the use of hedging instruments that accord with the Group's risk management policies.

The Group hedges its foreign currency exposures where it is deemed appropriate and there is an underlying hedged item. All foreign currency hedge transactions are undertaken in accordance with the Group's Financial Risk Management and Hedging Policy and Securities Trading Policy.

E3. Financial instrument fair values

At 30 June 2018 and 30 June 2017, the net fair value of the Group's financial instruments approximates their carrying values. The following methods and assumptions are used to determine the net fair value of each class of financial instrument.

Cash

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

Trade and other receivables

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

Trade and other payables

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

Borrowings

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

Recognition and measurement

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

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

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

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

F – Group structure

Included in this section are details of Watpac's group structure, and includes, Watpac Limited disclosures and information relevant to the Watpac Deed of Cross Guarantee.

F1. Controlled entities

The controlled entities of the Group listed below, all of which are incorporated in Australia, were wholly owned during the current year and prior year, unless otherwise stated:

	Ownership interest	
	2018	2017
Ahden Engineering (Aust) Pty Ltd	100%	100%
Watpac Specialty Services Pty Ltd	100%	100%
Watdev Waterloo Pty Ltd	100%	100%
Watdev4 Pty Ltd	100%	100%
Watdev5 Pty Ltd	100%	100%
Watpac Finance Pty Ltd	100%	100%
Watpac Construction (SA) Pty Ltd	100%	100%
Watpac Corporate Services Pty Ltd	100%	100%
Watpac Construction Pty Ltd	100%	100%
Watpac Developments Pty Ltd	100%	100%
Watpac Construction (NSW) Pty Ltd	100%	100%
Watpac Construction (Vic) Pty Ltd	100%	100%
Watpac Civil and Mining (Vic) Pty Ltd	100%	100%
JMS Civil and Mining Pty Ltd	100%	100%
Watpac Civil & Mining Pty Ltd	100%	100%
JJ McDonald & Sons Sub-Holdings Pty Ltd	100%	100%
JMS Plant Pty Ltd	100%	100%
Watpac Construction (ACT) Pty Ltd	100%	100%
Watpac Super Pty Ltd	100%	100%
Watpac Share Plans Pty Ltd	100%	100%

F2. Parent entity disclosures

The parent entity of the Group is Watpac Limited.

In thousands of AUD	2018	2017
Result of the parent entity		
Net profit/(loss) for the period	**(44,751)**	(36,558)
Other comprehensive income	**-**	-
Total comprehensive income/(loss) for the period	**(44,751)**	(36,558)
Financial position of the parent entity at year end		
Current assets	**2,145**	9
Total assets	**10,283**	56,519
Current liabilities	**704**	265
Total liabilities	**704**	353
Total equity of the parent entity comprising of:		
Share capital	**233,727**	235,563
Reserves	**4,221**	4,221
Retained earnings	**(228,369)**	(183,618)
Total equity	**9,579**	56,166

Parent entity guarantees

As highlighted in Note E2, the parent entity has, in the normal course of business, entered into guarantees in relation to the debts of its subsidiaries during the financial year.

F3. Deed of Cross Guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 (effective 29 September 2016), relief is granted to the wholly-owned controlled entities listed below from the *Corporations Act 2001* (**Act**) requirements for preparation, audit and lodgement of financial reports. It is a condition of the Instrument that the Company and each of the controlled entities enter into a Deed of Cross Guarantee.

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

The controlled entities subject to the Deed are:

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

A consolidated summarised income and retained profits statement and statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2018 and 30 June 2017 is set out as follows:

In thousands of AUD	2018	2017
Summarised statement of income and retained profits		
Net Profit/(loss) before tax	**(50,588)**	(35,171)
Income tax benefit/(expense)	**(10,024)**	1,285
Net Profit/(loss) after tax	**(60,612)**	(33,886)
Retained earnings at beginning of year	**(46,387)**	(12,501)
Retained earnings at end of year	**(106,999)**	(46,387)

In thousands of AUD	2018	2017
Statement of financial position		
Cash and cash equivalents	**68,106**	94,916
Cash deposits	**169,937**	134,127
Trade and other receivables	**116,855**	157,352
Inventories – stock on hand	**140**	10,352
Inventories – property development assets	**4,226**	1,321
Total current assets	**359,264**	398,068
Inventories – property development assets	**-**	3,565
Property, plant and equipment	**55,855**	84,154
Intangibles	**17,676**	17,676
Deferred tax assets	**13,570**	23,594
Total non-current assets	**87,101**	128,989
Total assets	**446,365**	527,057
Trade and other payables	**281,136**	293,527
Borrowings	**-**	6,089
Employee benefits	**14,494**	14,004
Provisions	**5,594**	49
Total current liabilities	**301,224**	313,669
Trade and other payables	**11,967**	11,756
Borrowings	**-**	5,380
Employee benefits	**3,002**	3,739
Provisions	**1,104**	874
Total non-current liabilities	**16,073**	21,749
Total liabilities	**317,297**	335,418
Net assets	**129,068**	191,639
Issued capital	**228,560**	230,519
Reserves	**7,507**	7,507
Retained earnings	**(106,999)**	(46,387)
Total equity	**129,068**	191,639

G – Other

Included in this section are details of other required disclosures relating to the Group including employee and auditors remuneration, together with new and changes to accounting policies.

G1. Employee benefits

(a) Employee benefits provision

In thousands of AUD	2018	2017
Current	**14,494**	14,004
Non-current	**3,002**	3,739
Total	**17,496**	17,743

Recognition and measurement

The employee benefits liability represents accrued annual leave and long services leave entitlements recognised in respect of employee's services up to the end of the Reporting Period. These liabilities are measured at the amounts expected to be paid when they are settled and include related on-costs.

Employee benefits that are not expected to be settled within 12 months of Balance Date are measured at the present value of the estimated future payments up to the reporting date plus related on costs. In determining the present value of future cash outflows, the market yield as at the reporting date on Australian corporate bonds, which have terms to maturity approximating the terms of the related liability, are used.

(b) Employee benefits expense

In thousands of AUD	2018	2017
Wages and salaries	**113,174**	136,498
Other personnel expenses	**10,116**	11,859
Superannuation expense	**10,329**	11,446
Increase/(decrease) in liability for annual leave	**552**	(481)
Decrease in liability for long service leave	**(800)**	(358)
Equity settled share based payment transactions	**663**	466
	134,034	159,430

Recognition and measurement

Employee benefit expenses arising in respect of the following categories are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on a net basis:

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

G2. Key management personnel remuneration

The key management personnel compensation included in employee benefits expense (Note G1) is as follows:

In AUD	2018	2017
Short-term employee benefits	**3,645,532**	3,398,679
Post-employment benefits	**148,927**	185,272
Termination/retirement benefits	**259**	1,365
Share based payments	**365,092**	313,587
	4,159,810	3,898,903

Recognition and measurement

The Group's Short Term Incentive Plan (**STIP**) and Long Term Incentive Plan (**LTIP**) allow senior executives to acquire shares in the Company, subject to certain vesting conditions.

The fair value of such equity-settled share-based transactions are measured at fair value at grant date and amortised over the vesting period. The cost is recognised as an employee benefits expense with a corresponding increase in reserves of the Group.

The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest except where they relate to non-market based measures. Expenses previously recognised are reversed when a performance right is forfeited within the vesting period.

Key estimates and judgements

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

G3. Related party information

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

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

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

G4. Auditors' remuneration

In AUD	2018	2017
Auditors of the Company – KPMG Australia		
Audit services:		
- Audit and review of financial reports	**246,458**	252,318
- Subcontractor retention trust account review	**4,100**	5,125
Other services:		
- Employment services	**19,558**	40,835
	270,116	298,278

G5. New accounting policies

AASB 15 *Revenue from Contracts with Customers*

AASB 15 *Revenue from Contracts with Customers* (**AASB 15**) provides a new five-step model for recognising revenue earned from a contract with a customer and will replace the existing AASB 118 *Revenue,* AASB 111 *Construction Contracts,* and various related interpretations.

The standard becomes mandatory for the Group for the 30 June 2019 financial year.

The core principal of AASB 15 is that an entity recognises revenue for a performance obligation in accordance with the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Except for two mining rehabilitation projects, all of the Group's secured contracts at Balance Date comprises building construction and civil infrastructure projects. Notwithstanding certain building construction and civil infrastructure projects may have staged delivery programmes and/or separate services of design and construct, the vast majority of these contracts typically contain one performance obligation.

Contract revenue for a performance obligation will continue to be recognised over time, however AASB 15 provides new requirements for measuring progress of performance obligations, and recognising costs, contract modifications and variable consideration. Significant judgements and estimates are used in accounting for building construction and civil infrastructure contracts, including the estimation of a project's completion date, costs incurred under a largely subcontracted delivery model and the probability of customer approvals of variations and acceptance of claims.

While Watpac's implementation of the new standard is ongoing, areas that may change under AASB 15 compared to the current revenue recognition treatment for building construction and civil infrastructure projects under AASB 111 are included below.

Measuring progress of an over-time performance obligation and treatment of costs

AASB 15 requires an entity to measure progress, and thus recognise revenue, of an over-time performance obligation based on either an input or output method.

The output method is determined based on direct measurements of value transferred to a customer at a point in time, relative to the remaining value of work to be completed, with an example being surveys of work performed. The Group presently recognises construction contract revenue on a surveys of work performed basis, being an output-based methodology under AASB 15.

The input method is determined based on an entity's efforts in satisfying a performance obligation, relative to total expected inputs to satisfy a performance obligation. Costs incurred is an example of measuring progress under the input method. Under AASB 15 costs are expensed when a performance obligation is satisfied and control of the underlying asset is transferred to the customer.

Watpac's present intention is to transition to an input method for measuring progress for some or all construction contracts under AASB 15. This may result in changes to the timing of project cost (and therefore margin) recognition compared to treatment under the current accounting standards.

It is estimated that between $4M and $6M of profit (pre-tax), which was recognised prior to 30 June 2018 using an output based approach, would have been deferred to later years if an input based approach under AASB 15 for measuring progress of an over-time performance obligation was applied to all projects continuing into the new financial year.

Treatment of contract modifications

It is not uncommon for contracts to be modified during their life. AASB 15 contains specific rules regarding the treatment of contract modifications.

Watpac presently applies a balanced accounting treatment in recognising revenue under AASB 111 for contract modifications, however there are certain building construction and civil infrastructure projects where a contractual variation or claim may be in dispute, notwithstanding Watpac's assertion that it has a clear legal entitlement to the recovery.

In comparison to AASB 111, AASB 15 contains a higher probability threshold, such that revenue from contract modifications can only be recognised to the extent that it is *highly probable* that there will not be a significant reversal of this revenue.

As a consequence of the higher threshold for recognising revenue under the new standard, it is estimated that FY18 revenue (and therefore margin) of between $2M and $4M would have been deferred to later years under AASB 15.

Summary

Watpac's current expectation is that the above adjustments across the Group are accounted for as a cumulative catch up upon transition to AASB 15. While the assessment is ongoing, based on the current assessment a reduction in the Group's shareholder equity balance of between $6M and $10M might consequently be recognised at 1 July 2018.

AASB 16 *Leases*

AASB 16 *Leases* will eliminate the distinction between on-balance sheet finance leases and off-balance sheet operating leases by mandating a single, on-balance sheet accounting model that is similar to current finance lease accounting.

The new standard will become mandatory for the Group for the 30 June 2020 financial year. Refer Note D3b) for the value of the Group's current operating lease commitments.

G6. Changes in accounting policies

The accounting policies applied by the Group in these Consolidated Financial Statements are the same as those applied in its Consolidated Financial Statements as at and for the year ended 30 June 2017.

G7. Subsequent events

There has not arisen, since the end of the financial year, any item, transaction or event of a material and unusual nature that have significantly affected, or may significantly affect, the operations or state of affairs of the Group in future financial years.

On 6 July 2018, cracking at the base of a pre-cast column was identified at the Kodo Apartments project in South Australia. The cause of the issue has not yet been proven and, as such, while avenues for cost recovery remain available (including costs arising from program delays), the Group is unable to quantify any associated financial impacts.

To date rectification costs appear minor, however ascertaining the exact issue will enable a better understanding of the implications on the delivery program, which could including substantial gross cost impacts (that is, prior to any insurance or other recoveries).

Voting Rights – Ordinary Shares

Fully Paid Ordinary Shares - 1 vote for every 1 share

Distribution of holdings of fully paid ordinary shares as at 31 July 2018

Range	Holders
1 – 1,000	992
1,001 – 5,000	1,059
5,001 – 10,000	492
10,001 – 100,000	1,057
100,001 Over	106
Total	**3,706**

Holdings of less than a marketable parcel

At 31 July 2018 there were 787 holders of ordinary shares holding less than a marketable parcel.

The top 20 fully paid ordinary shareholders at 31 July 2018

Holder	No. of shares	Percentage
BESIX GROUP SA	51,553,318	28.11
CITICORP NOMINEES PTY LIMITED	22,155,706	12.08
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	16,520,358	9.01
J P MORGAN NOMINEES AUSTRALIA LIMITED	9,123,216	4.97
JOHN GOSS PROJECTS PTY LTD	7,016,532	3.83
NATIONAL NOMINEES LIMITED	3,628,790	1.98
FILETRON PTY LTD	3,215,000	1.75
ONE MANAGED INVT FUNDS LTD <SANDON CAPITAL INV LTD A/C>	3,165,402	1.73
MR JOHN ROSTYN HOMEWOOD	1,960,000	1.07
BNP PARIBAS NOMS PTY LTD <DRP>	1,915,907	1.04
BRAZIL FARMING PTY LTD	1,466,719	0.80
MS SANDIE KARIN ANGUS	1,000,000	0.55
MR BENJAMIN MICHAEL SEYMOUR	969,236	0.53
WATPAC SHARE PLANS PTY LTD <WATPAC EMPLOYEE SHARE A/C>	755,000	0.41
MR NEVILLE MORGAN + MRS JENNIFER GAYLE MORGAN <MORGAN SUPER FUND A/C>	720,000	0.39
PINECREST PTY LTD <RAINBOW COMM UNIT A/C>	643,597	0.35
NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	627,479	0.34
INVIA CUSTODIAN PTY LIMITED <CLEM JONES FOUNDATION A/C>	625,000	0.34
MR ROBERT JAMES LETTE + MRS THERESA MYFANWY LETTE <LETTE SUPER FUND A/C>	608,808	0.33
MR MARK MC DONALD + MRS JUDI MC DONALD <M A & J L MCDONALD S/F A/C>	592,037	0.32
Total	**128,262,105**	**69.94**

The Company's register of substantial shareholders records the following information as at 31 July 2018

Holder	Fully paid ordinary shares	Percentage of total shares*
BESIX GROUP SA	51,553,318	28.11%
COMMONWEALTH BANK OF AUSTRALIA AND ITS SUBSIDIARIES	16,013,714	8.73%
ADAM SMITH ASSET MANAGEMENT PTY LIMITED	10,928,811	5.87%

* *As at time of substantial shareholder notice.*

Issued Shares

Issued capital of the Company as at 31 July 2018 183,386,244

Corporate Directory

Non-executive Directors

P L Watson	Chair, Non-executive Director
R Vandenberghe	Non-executive Director
G J Dixon	Non-executive Director
B K Morris	Non-executive Director
L C Evans	Non-executive Director
C J Schreurs	Non-executive Director

Alternate Director

J C M C Beerlandt	Alternate for C J Schreurs
G Aelbrecht	Alternate for R Vandenberghe

Company Secretary

M A Baker

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Share Registry Office

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Tel 1300 850 505

Auditor

KPMG

Brisbane Qld

Managing Director

M G Monro

Chief Financial Officer

M A Baker

Corporate Contacts

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General Manager Mining & Civil
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Corporate Governance Statement

A copy of the 2018 Corporate Governance Statement can be found in the Corporate Governance section of the Watpac website.