



WATPAC LIMITED
**INTERIM
FINANCIAL REPORT**
31 DECEMBER 2015



Contents

	Page
Directors' Report	2
Lead Auditor's Independence Declaration	16
Consolidated Income Statement	17
Consolidated Statement of Comprehensive Income	18
Consolidated Balance Sheet	19
Consolidated Statement of Changes in Equity	20
Consolidated Statement of Cash Flows	21
Condensed Notes to the Consolidated Interim Financial Statements	22
Directors' Declaration	29
Independent Auditor's Review Report	30



Directors' Report

The Directors present their report, together with the consolidated interim financial statements of Watpac Limited (**Watpac** or **Company**) and its controlled entities (**Group**) for the half year ended 31 December 2015 (**1H FY16** or **Reporting Period**) and the Auditor's review report thereon.

Directors

The Directors of the Company (**Board**) at any time during or since the end of the half year are:

Name	Period of directorship
Non-executive	
Mr Richard B McGruther (Chair)	Director since 17 December 1993, Chair since 29 September 2014
Mr Johan C M C Beerlandt	Director since 27 May 2013
Mr Bradley C Bowton	Director since 28 August 2013
Mr Garret J Dixon	Director since 12 February 2014
Ms Linda C Evans	Director since 25 August 2015
Ms Bronwyn K Morris	Director since 3 February 2015
Mr Carlo J Schreurs	Director since 10 October 2014
Mr Robert J Lette	Retired 31 July 2015
Executive	
Mr Martin G Monro	Director since 10 October 2014



Directors' Report (continued)

Review of operations

Watpac's focus over the Reporting Period was on its core and continuing businesses of Contracting and Mining & Civil.

Each of these businesses are currently in different places in the economic cycle, with:

- the Contracting businesses being subject to more buoyant conditions and the focus therefore being on profitable project execution and work winning strategies; and
- the Mining & Civil business being subject to extremely depressed trading conditions, and therefore a more defensive and conservative capital investment model being adopted for this business.

Throughout the Reporting Period Watpac continued to execute its capital recycling strategy, through the sale of non-core property assets and concentrated efforts on cash management. This has given rise to the maintenance of strong liquidity and a conservative capital allocation model.

Financial

The Group recorded a statutory loss after tax of \$25.3M for the Reporting Period (2014: profit after tax of \$6.2M). This statutory financial result includes several impairment charges being recognised against Mining & Civil and Property assets. With these asset impairments not representing underlying trading results, the information provided in this report has been presented at both a statutory reporting level (**Statutory Result**) and underlying trading level (**Underlying Result**).

An overview of the Statutory Result for the Group and its reportable segments, compared to the first half of the 2015 financial year (**1H FY15** or **Comparative Period**), is detailed below.

<i>In thousands of AUD</i>	Revenue				Statutory Profit / (loss)			
	1H FY16	1H FY15	\$ Variance	% Variance	1H FY16	1H FY15	\$ Variance	% Variance
Contracting	530,642	450,843	79,799	17.70%	20,578	15,805	4,773	30.20%
Mining & Civil	79,333	143,719	(64,386)	(44.80%)	(45,815)	2,405	(48,220)	(2004.99%)
Operating Total	609,975	594,562	15,413	2.59%	(25,237)	18,210	(43,447)	(238.59%)
Property	6,806	435	6,371	1464.60%	(1,945)	(367)	(1,578)	(429.97%)
Unallocated	-	-	-	N/A	(5,785)	(9,317)	3,532	37.91%
Elimination	5,109	-	5,109	N/A	168	-	168	N/A
Total	621,890	594,997	26,893	4.52%	(32,799)	8,526	(41,325)	(484.69%)
Tax benefit / (expense)					7,525	(2,312)	9,837	425.48%
Net profit / (loss) after tax					(25,274)	6,214	(31,488)	(506.73%)



Directors' Report (continued)

The key themes associated with the Group's 1H FY16 Statutory Result are as follows:

- Aggregate work volumes were higher in 1H FY16 when compared to the Comparative Period, the result of substantially higher Contracting revenues (\$79.8M) offset by a reduction in Mining & Civil turnover (\$64.4M).
- Profit attributable to the Contracting segment showed continued strong improvement, increasing from the Comparative Period at both a net profit before tax (\$4.8M) and net profit before tax margin level (0.37%).
- The Statutory Result recorded in the Mining & Civil segment in 1H FY16 includes \$41.7M in pre-tax asset impairment charges, attributable to the following asset classes:
 - Receivables (\$12.5M);
 - Plant & Equipment (**Plant**) and associated Inventory and Spares (**Stock**) (\$19.2M); and
 - Goodwill (\$10.0M).
- The Statutory Result for the Property segment was also adversely impacted by impairments in 1H FY16, with a \$2.5M charge being taken against the Rue de Chapel property tenancies in Melbourne, all of which are contracted to settle at current book values in the second half of the 30 June 2016 financial year.
- Conversely, the Statutory Result benefited from a \$2.7M gain on disposal of a property holding in Brisbane. This property operated as a warehouse for Plant and Stock servicing the Group's Contracting businesses and as such has not been attributed to a reportable segment.

Key metrics in respect of the Statutory Result and Underlying Result compared to 1H FY15 are summarised in the following tables:

In thousands of AUD	1H FY16	1H FY15	\$	%
			Change	Change
Statutory Result				
Total revenue	621,890	594,997	26,893	4.52%
Profit before tax	(32,799)	8,526	(41,325)	(484.69%)
Income tax benefit / (expense)	7,525	(2,312)	9,837	425.48%
Profit / (loss) after tax	(25,274)	6,214	(31,488)	(506.73%)
Profit / (loss) after tax attributable to members	(25,274)	6,214	(31,488)	(506.73%)
Basic earnings per share attributable to members (cents)	(13.41)	3.30	(16.71)	(506.36%)
NTA per share (cents)	113	121	(8)	(6.53%)
Annualised return on shareholders' funds (percentage)	(22.18%)	4.86%	(27.04%)	(556.58%)



Directors' Report (continued)

In thousands of AUD	1H FY16	1H FY15	\$	%
			Change	Change
Underlying Result				
Statutory net profit / (loss) after tax attributable to members	(25,274)	6,214	(31,488)	(506.73%)
Adjust for:				
Pre-tax gain on sale of land & buildings	(2,728)	-	(2,728)	N/A
Pre-tax impairment of property development inventory	2,471	-	2,471	N/A
Pre-tax impairment of Mining & Civil assets				N/A
Receivables	12,497	-	12,497	N/A
Plant & Stock	19,200	-	19,200	N/A
Goodwill	10,022	-	10,022	N/A
Tax on adjustments	(9,481)	-	(9,481)	N/A
Underlying profit / (loss) after tax attributable to members	6,707	6,214	493	7.94%
Underlying earnings per share attributable to members (cents)	3.56	3.30	0.26	7.88%
Underlying result before tax summary				
Contracting segment	20,578	15,805	4,773	30.20%
Mining & Civil segment	(4,096)	2,405	(6,501)	(270.31%)
Property segment	526	(367)	893	(243.32%)
Unallocated	(8,513)	(9,317)	804	(8.63%)
Elimination	168	-	168	N/A
Group Total	8,663	8,526	137	1.61%

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

While the statutory loss recognised during the Reporting Period was extremely disappointing, the impairments recognised in 1H FY16 were necessary given current facts and circumstances. Additional information pertaining to these impairments is included below.

Pleasingly the 1H FY16 result also includes enhanced financial performance from the Group's core Contracting businesses. The increase in turnover and profitability of the Contracting businesses aligns with improvement in market conditions and the successful execution of a number of strategies aimed at improving the quality of the workbook and ultimately financial returns for shareholders.

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

Contracting

Financial Overview

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



Directors' Report (continued)

At both a Statutory Result and Underlying Result level, the Contracting segment reported a pre-tax profit for the Reporting Period of \$20.6M (2014: \$15.8M). The net profit before tax margin of 3.88% in 1H FY16 represents an uplift of 0.26% from that reported in the 30 June 2015 financial year.

Throughout 1H FY16 Watpac's Contracting businesses concentrated on a national delivery focus and the continued cross-utilisation of skills and resources across all regions, striving for enhanced profitability and more robust overall outcomes for current and prospective clients.

The work in hand composition at 31 December 2015 (**Balance Date**) remains diverse at both a geographic and product level, and is the result of forward work planning and tendering activities that accord with identified project and client selection criteria. Against this backdrop the Contracting businesses work in hand increased by approximately \$320M over 1H FY16, and totalled almost \$1.5B at Balance Date.

The allocation of work in hand by business unit, and the revenue delivered by each business during the Reporting Period, is summarised in the table below:

<i>In thousands of AUD</i>	1H FY16 revenue	Work in hand at 31 December 2015
Queensland	280,615	737,585
New South Wales	90,584	266,500
Victoria	124,133	411,942
South Australia	11,871	47,436
Specialty Services	23,439	17,068
Total	530,642	1,480,531

Strategy and Future Performance

Notwithstanding an increase in work in hand levels over recent periods, the Group continues to maintain the capacity, credibility, relationships and financial and operational resources to complete substantial further works in all regions of Australia. Importantly, capital has been progressively recycled out of property development assets in recent years and is now allocated to the Contracting businesses to support future growth. Through the execution of targeted work winning strategies the Board and Management are therefore confident that Watpac's Contracting businesses can deliver improved shareholder returns in future reporting periods.

All key new project opportunities will continue to be targeted on a non-regional specific basis, with the overriding objective to maximise short and long-term shareholder value. For these projects the Group's financial and human capital will be deployed to operating regions as and when is necessary, and this national approach will ensure all of



Directors' Report (continued)

Watpac's clients receive the best possible project outcomes and have access to the full extent of the Group's resources, irrespective of the delivery location.

The recent rise in general construction work volumes in Australia, particularly in residential construction, has placed the cost of certain resources necessary for the delivery of construction projects at a premium. External and internal input costs have come under significant pressure, and this is being closely monitored in the context of a general desire for growth. In particular, rising subcontractor costs represent a key risk to future profitability, and must continue to be critically managed as part of the Group's pre-contract risk management and immediate post award processes.

The continuing maintenance of sufficient forward work volumes will always represent a risk to Watpac's medium and longer term financial outlook. Work in hand levels can fluctuate significantly from period to period, particularly when larger projects are being targeted, and consequently work winning initiatives and strategies to underpin both base load work volumes and the more selective larger key projects remains an important priority of Management and the Board.

As was stated in the Group's 30 June 2015 Annual Report, Watpac's strategy for its Contracting businesses is simple - to grow thoughtfully. This may include new regions and in adjacent markets, however will always be with an absolute focus on improved profitability and shareholder value rather than simply revenue growth.

The Group is currently tendering on a significant number of construction projects across all regions, in a specifically targeted and considered manner and in the context of current and emerging risks. Conversion of a number of these projects over the second half of the 30 June 2016 financial year will assist to underpin the Group's FY17 Contracting workbook, and supplement the already healthy work volumes in hand for delivery in FY18 and beyond.

Mining & Civil

Financial Overview

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

The segment reported a Statutory Result for the Reporting Period of a loss of \$45.8M before tax (2014: pre-tax profit \$2.4M). As has been identified above, the Statutory Result for 1H FY16 includes \$41.7M in asset impairment charges, and therefore translates to an Underlying Result of a loss of \$4.1M before tax (2014: pre-tax profit \$2.4M).



Directors' Report (continued)

The \$6.5M decline in profitability at an Underlying Result level is largely representative of the downturn in the resources industry, which has adversely and significantly impacted work volumes, project margins and operational effectiveness.

A reconciliation of the Mining & Civil business unit's Underlying Result for the Reporting Period to its Statutory Result is provided below.

In thousands of AUD

Mining & Civil underlying pre-tax profit / (loss)	(4,096)
Less statutory adjustments	
Impairment of Receivables	(12,497)
Impairment of Plant & Stock	(19,200)
Impairment of Goodwill	(10,022)
Total Mining & Civil statutory adjustments	<u>(41,719)</u>
Mining & Civil statutory pre-tax profit / (loss)	(45,815)

In addition to the sector-related impacts noted above, the Group's Underlying Result in 1H FY16 was also significantly impacted by a fatality at a mining project site in early September 2015. This distressing event had a profound impact on operating performance at the site two to three months following the incident, as workers came to terms with the severity of what occurred. Operations did not return to a more natural state until December 2015.

The whole Watpac community was deeply saddened by this fatality and there is renewed attention on safety across all areas of the Group. The adverse financial outcome on the project over the Reporting Period (loss of \$2M), while disappointing, was understandably not the immediate focus of Management and the Board. Rather the provision of help and assistance to all employees impacted by the tragedy and ensuring all Watpac's safety policies and procedures were as robust as possible, remained the main objective.

The substantially lower turnover in the Mining and Civil business unit 1H FY16, which also impacted margin contribution, was primarily as a consequence of:

- termination of the Nullagine project by a subsidiary of BC Iron Limited (**BC Iron**), which took effect from 1 July 2015; and
- only modest works being completed at the Cockatoo Island project.

The Nullagine and Cockatoo Island iron ore projects contributed \$81.9M in turnover (in aggregate) to the Comparative Period result, and combined with the now completed WRP project, accounted for a \$112.5M turnover variance between the two reporting periods. This was in part offset by revenue contributions from the



Directors' Report (continued)

recently awarded Cornishman, Kathleen Valley and Axehandle projects, which in aggregate contributed \$39.6M to the 1H FY16 turnover, with the turnover difference anticipated to be less pronounced in the second half of the 30 June 2016 financial year as work volumes at these newer projects reach more normalised levels.

Additional information on the impacts of the Nullagine and Cockatoo Island projects on the Groups' 1H FY16 result is detailed below.

Nullagine Project

In early April 2015, within an environment of low iron ore prices and substantial pressure on marginal operations, the Group received notice of termination for convenience by BC Iron relating to works at the Nullagine project. While not unexpected this was earlier than anticipated, with Watpac's obligations at the Nullagine project ceasing on 1 July 2015, being three months ahead of the contractual end date of 30 September 2015.

In the 30 June 2015 Financial Report the Group reported that despite all conditions of the Nullagine project having been completed, Watpac was still in discussions with BC Iron to determine the final value of outstanding progress claims, other rates adjustments and contractual claims that remained outstanding and unpaid. At 30 June 2015 Watpac had valued its entitlements due from BC Iron at \$12.5M from total claims of almost \$40M.

This \$12.5M receivable recognised was based only on Watpac's standard contractual entitlements, comprising:

- unpaid amounts attributable to standard monthly progress claims for work completed at the Nullagine project in April, May and June 2015 (\$10.7M), the nature of which had been paid by BC Iron for the previous four and a half years;
- standard pick usage adjustments (\$1.6M); and
- the short-payment of BC Iron for certain Plant assets mandatorily acquired by BC Iron under the contract (\$0.2M).

Watpac has been pursuing its outstanding entitlements under the Nullagine contract since July 2015, however as at the date of this report efforts to resolve the dispute have been unsuccessful and the matter is being progressed through the courts.

Despite a continued recovery expectation, in light of BC Iron's recent weakened financial position coupled with the company's decision to suspend all works at its Nullagine mine in December 2015, the Board has determined that an appropriate accounting position to adopt at 31 December 2015 is to impair the \$12.5M in Receivables owing from BC Iron at Balance Date.



Directors' Report (continued)

In the Group's 30 June 2015 Financial Report, Directors noted that the level of idle plant in the Mining & Civil business was higher than historical levels, as a result of the completion of two large-scale projects, one of which was the Nullagine project. The report stated that at the time, there remained an expectation that all Plant values could be recovered through use, and that future work volumes were available to support this.

The 30 June 2015 Financial Report also noted that the state of the resources sector in Australia presented a clear risk to the future work levels and profitability of Watpac's Mining & Civil business. Unfortunately market conditions have not improved over the past six months, and despite Watpac converting several new gold mining contract opportunities in 1H FY16, opportunities in the iron ore sector remain scarce.

As a consequence of these factors and there being no resolution to the dispute with BC Iron, the Board has also elected to impair the full \$19.2M carrying value of all ex-Nullagine Plant and associated Stock assets that have remained idle since the Nullagine contract completed. These assets are of a semi-bespoke nature suited mainly to iron ore mining, and with the outlook for iron ore opportunities bleak, the impairment charge was considered prudent under the circumstances.

A summary of the asset impairments recognised in 1H FY16 and attributable to the Nullagine project / BC Iron dispute is as follows:

<i>In thousands of AUD</i>	
Impairment of Receivables	(12,497)
Impairment of Plant & Stock	(19,200)
Total	(31,697)

The \$31.7M in total impairments attributable to the Nullagine project noted above compares to almost \$40M in current claims outstanding against BC Iron and which are subject to litigation proceedings.

As part of its defence, on 24 December 2015 BC Iron lodged a counter-claim against Watpac for loss of profits, however the Board disputes that this claim has any validity and therefore remains confident of Watpac's prospects for a positive determination through the litigation process.

Cockatoo Island Project

In the 30 June 2015 Financial Report, Directors provided a comprehensive update on the Cockatoo Island iron ore project. The Directors reported at the time that with the exception of \$3.7M in works completed under the direction (and indemnification) of the previous receivers and managers, no revenue not received in cash had been



Directors' Report (continued)

recognised in the Group's 30 June 2015 financial result. Consequently, there remained a substantial entitlement due from the contract counterparty, Pluton Resources Limited (**Pluton**), which was unrecognised at 30 June 2015.

Over the course of 1H FY16, the following events have occurred that are relevant to Pluton:

- The company abandoned its capital raising efforts in the UK in early September 2015. This capital raising was referred to by the Board in Watpac's 30 June 2015 Financial Report and, at the time, it was hoped this would provide the necessary capital for Pluton to resume normal production at Cockatoo Island during the Reporting Period.
- Receivers and managers and voluntary administrators were appointed to Pluton on 8 September 2015, in an attempt to recapitalise the company through a different means and provide a path for recovery clear of unsecured creditor claims (including Watpac's).
- As part of the administrators' proceedings a meeting of creditors was held on 9 December 2015. At this meeting Pluton's creditors voted in favour of a proposed Deed of Company Arrangement (**DOCA**), which included proposed new funding of approximately \$25M by way of a convertible note.
- The DOCA was executed on 4 January 2016, resulting in the administrators retiring and being appointed as joint and several deed administrators.

Under the terms of the DOCA, Watpac was to:

- receive immediate payment of the outstanding \$3.7M entitlement associated with works performed under the direction of the previous receivers and managers, from funds raised from the convertible note;
- convert up to \$8.9M of outstanding and unrecognised entitlements into equity in Pluton at 1c per share (subject to regulatory restrictions); and
- carry the remaining \$16.1M of outstanding and unrecognised entitlements as an ordinary unsecured debt of Pluton, which is to be repaid in a manner to be agreed prior to completion of the deed.

As at the date of this report, it remains to be seen whether the conditions precedent to the DOCA, which includes placement of the convertible note, will be met. Consequently no additional entitlements from Pluton have been accrued in 1H FY16, including \$4M in new claims which arose during the Reporting Period.

Cockatoo Island was previously identified as a possible project on which Watpac could deploy some of the ex-Nullagine Plant & Stock assets. Given the continuing uncertainty around Pluton's future and the nature of any associated mining works, however, the Directors no longer consider this plausible.



Directors' Report (continued)

Goodwill

As a consequence of the reducing financial performance of the Mining & Civil business in recent reporting periods and the significant challenges in the resources sector in Australia, which are anticipated to continue into the foreseeable future, the Board undertook a reassessment of the assumptions in the Mining & Civil Cash Generating Unit (CGU) goodwill impairment calculations at Balance Date. This calculation indicated that the net present value of anticipated future cash flows for the Mining & Civil CGU had reduced significantly since 30 June 2015. This was not an unexpected result given general sector conditions had also deteriorated over the Reporting Period, particularly those relating to iron ore.

Given these factors, all Goodwill previously allocated to the Mining & Civil business (\$10M) has been impaired at Balance Date.

Strategy and Future Performance

Only a moderate level of Plant purchases were made in 1H FY16, reflective of the existing high level of capital allocated to this business unit and desire to reduce future investment levels to that which is more commensurate with market conditions. Capital purchases made over the past six months mainly comprised major maintenance works on existing assets, which were necessary to keep them in good working order.

Despite the challenges facing the sector, Watpac's Mining & Civil business unit is in a unique position, being part of a diversified Group with a strong balance sheet. This represents a clear competitive advantage for the Group in an environment where contractor certainty must be paramount for mine owners.

Pleasingly Watpac's civil operations again contributed positively to the Mining & Civil segment's reported result in 1H FY16. Civil infrastructure activities have provided a meaningful and complementary income stream to the Group's mining services business over recent years and, given current market dynamics, is anticipated to make a greater contribution to turnover and profitability in future years. This will likely include the evaluation of projects on the East Coast of Australia, where future work volumes are more buoyant and will complement the business' traditional activities in WA.

The Mining & Civil business unit must continue to focus on and develop successful work winning initiatives and strategies, and further enhance client relationships. These must emphasise cost competitive solutions, and be based around innovative ideas to reach optimal operational efficiency and effectiveness.



Directors' Report (continued)

Property

Financial Overview

The Property segment recorded a Statutory Result of a \$1.9M loss before tax for the Reporting Period (2014: \$0.4M pre-tax loss). This represents an Underlying Result of a \$0.5M profit before tax. As is noted above, the \$2.5M in asset impairment charges recorded in 1H FY16 were directly attributable to the now contracted for sale Rue de Chapel tenancies.

The positive contribution of the Property segment on an Underlying Result basis was mainly attributable to the unwinding of the discount applied to the disposal of the Waterloo property. This property was contracted for sale in April 2014 and discounted at that time to reflect the time value of money associated with the deferred settlement terms.

The improved comparative underlying financial performance also reflects a decrease in holding and overhead costs associated with the Group's reduced investment in property assets.

Strategy and Future Performance

As at 31 December 2015, the carrying value of the Group's unsold property inventory assets totalled \$18.6M. \$3.1M of the remaining property assets have been earmarked for disposal within the next 12 months, which in addition to \$18M in aggregate settlements associated with the contracted Waterloo and Rue de Chapel properties, will result in further cash inflows and options for the Group regarding reinvestment and/or capital restructuring transactions.

The Board remains committed to divesting all remaining property assets in a timely manner, to further strengthen the Group's financial position and support growth in the Contracting businesses, as is deemed appropriate and which aligns to the strategy for this operation. While there remains a risk that current book values will not be achieved upon sale, the Board believes they are reflective of current market rates.

Capital Management and Liquidity

The Group's cash position remains healthy, with gross cash and term deposits on hand at 31 December 2015 totalling \$226.3M. After adjusting for gross debt, this equates to a net cash balance of approximately \$204M.



Directors' Report (continued)

While favourable timing differences were a factor, the cash management disciplines that continue to be employed across the Group's Contracting businesses aided the strong levels of operating cash reported in 1H FY16. Operating cash flow for 1H FY16 totalled \$55.3M, which compares to \$7.5M reported in the Comparative Period.

Similar to previous periods, Watpac has no significant off-balance sheet lease commitments. Rather off-balance sheet commitments mainly relate to the provision of bank guarantees and surety bonds, as performance security for projects being completed by the Group's Contracting businesses.

Watpac's strong financial position, capital management strategy and risk management framework was again endorsed during 1H FY16, with the Group obtaining a \$20M (20%) increase in its bank guarantee facility limit to \$120M. Watpac's syndicated banking facility limit now totals \$145M, and comprises a \$120M bank guarantee facility and a \$25M revolving credit facility, the latter remaining undrawn and fully available for use throughout 1H FY16. The Group also retained \$210M of available headroom in its surety bond facilities at Balance Date.

The maintenance of a strong balance sheet and the availability of funding facilities remains a key strategic priority for Watpac, as the Group seeks to compete for more projects where financial strength and liquidity is a barrier to entry. These types of targeted projects can only be completed by a limited pool of contractors and as such, competition is more balanced and pricing metrics more in line with normal market behaviour. The Board believes that this strategic approach was instrumental in the Group being asked to join the Learning Communities Victoria consortium, which in October 2015 was awarded the Vic Schools II PPP project, and will continue to provide options not previously available to Watpac.

On 18 February 2016 the Directors resolved that, given current facts and circumstances, no interim FY16 dividend would be declared. Payment of a dividend was not possible due to the Statutory Result recorded for the Reporting Period and there not being sufficient retained earnings. The Board remains open to considering other strategic capital management options in the future, in addition to the current on-market share buy-back.

Rounding

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

Directors' Report (continued)



Dated at Brisbane this 18th day of February 2016.

Signed in accordance with a resolution of the Directors.

R B McGruther

Chair



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

To: the directors of Watpac Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2015 there have been:

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

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'Simon Crane', written in a cursive, flowing style.

Simon Crane
Partner

Brisbane
18 February 2016



Consolidated Income Statement

For the six months ended 31 December 2015

	Note	2015 \$'000	2014 \$'000
Revenue		621,890	594,997
Cost of sales		(592,089)	(557,615)
Gross profit		29,801	37,382
Other income/ (expense)		2,015	(2)
Net property asset income/ (expense)		(15)	(84)
Property development holding costs expensed		(268)	(283)
Operating business unit and corporate administration expenses		(24,030)	(27,392)
Net finance income/ (expense)	8	1,160	(1,095)
		8,663	8,526
Gain on sale of land and buildings		2,728	-
Impairment expense	9	(44,190)	-
Profit/ (loss) before tax		(32,799)	8,526
Income tax benefit/ (expense)	6	7,525	(2,312)
Profit/ (loss) after tax		(25,274)	6,214
Earnings per share			
Basic (loss)/ earnings per share		(13.41c)	3.30c
Diluted (loss)/ earnings per share		(13.41c)	3.28c



Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2015

	2015 \$'000	2014 \$'000
Profit/ (loss) for the period attributable to equity holders of the parent	(25,274)	6,214
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income/ (loss) for the period	(25,274)	6,214



Consolidated Balance Sheet

As at 31 December 2015

	Note	31 Dec 15 \$'000	30 Jun 15 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		125,591	112,365
Term deposits		100,683	70,356
Trade and other receivables	10	135,322	178,694
Inventories - stock on hand	9	14,394	15,977
Inventories - property development assets		3,131	11,145
Total current assets		379,121	388,537
Non-current assets			
Inventories - property development assets		15,503	16,430
Property, plant and equipment	9	117,332	144,181
Intangibles	9	17,676	27,698
Deferred tax assets		20,377	12,852
Total non-current assets		170,888	201,161
Total assets		550,009	589,698
LIABILITIES			
Current liabilities			
Trade and other payables		272,577	273,794
Interest-bearing loans and borrowings		7,482	12,872
Employee benefits		13,860	14,288
Provisions		250	384
Total current liabilities		294,169	301,338
Non-current liabilities			
Trade and other payables		7,713	8,711
Interest-bearing loans and borrowings		14,822	18,865
Employee benefits		4,534	4,153
Provisions		867	795
Total non-current liabilities		27,936	32,524
Total liabilities		322,105	333,862
Net assets		227,904	255,836
EQUITY			
Issued capital		236,573	239,570
Reserves		7,700	7,361
Retained earnings		(16,369)	8,905
Total equity		227,904	255,836



Consolidated Statement of Changes in Equity

For the six months ended 31 December 2015

In thousands of AUD

	31 December 2015					31 December 2014				
	Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total	Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total
Balance at 1 July	239,570	9,461	(2,100)	8,905	255,836	237,001	9,097	-	7,694	253,792
Total comprehensive income/ (loss) for the period										
Profit or loss	-	-	-	(25,274)	(25,274)	-	-	-	6,214	6,214
Total comprehensive income/ (loss) for the period	-	-	-	(25,274)	(25,274)	-	-	-	6,214	6,214
Transactions with owners recorded directly in equity										
Contribution by and distribution to owners										
Dividends to equity holders	-	-	-	-	-	-	-	-	(6,527)	(6,527)
Shares purchased under share buy-back	(2,997)	-	-	-	(2,997)	-	-	-	-	-
Shares issued under dividend reinvestment plan	-	-	-	-	-	2,569	-	-	-	2,569
Share settled performance rights awarded	-	339	-	-	339	-	427	-	-	427
Total contributions by and distributions to owners	(2,997)	339	-	-	(2,658)	2,569	427	-	(6,527)	(3,531)
Total transactions with owners	(2,997)	339	-	-	(2,658)	2,569	427	-	(6,527)	(3,531)
Balance at 31 December	236,573	9,800	(2,100)	(16,369)	227,904	239,570	9,524	-	7,381	256,475



Consolidated Statement of Cash Flows

For the six months ended 31 December 2015

	2015 \$'000	2014 \$'000
Cash flows from operating activities		
Cash receipts from customers	740,134	639,945
Cash paid to suppliers and employees	(684,565)	(631,208)
Cash generated from operations	55,569	8,737
Interest received	1,904	2,017
Interest paid	(1,761)	(3,286)
Income tax paid	(372)	-
Net cash provided by operating activities	55,340	7,468
Cash flows from investing activities		
Investment in term deposits	(30,327)	(16)
Acquisition of property, plant and equipment	(1,308)	(2,142)
Major maintenance of plant and equipment	(4,498)	(10,084)
Proceeds from sale of property, plant and equipment	6,451	3
Net cash used in investing activities	(29,682)	(12,239)
Cash flows from financing activities		
Dividends paid	-	(3,958)
Repayment of interest-bearing liabilities	(9,434)	(19,896)
Consideration paid under share buy-back	(2,998)	-
Net cash used in financing activities	(12,432)	(23,854)
Net increase/ (decrease) in cash and cash equivalents	13,226	(28,625)
Cash and cash equivalents at 1 July	112,365	120,119
Cash and cash equivalents at 31 December	125,591	91,494



Condensed Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2015

1. Reporting entity

Watpac Limited (**Watpac** or **Company**) is a company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the six months ended 31 December 2015 comprises the Company and its subsidiaries (**Group**) and the Group's interests in joint arrangements.

2. Basis of accounting

These consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 Interim Financial Reporting and the *Corporations Act 2001* and with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2015. These consolidated interim financial statements do not include all of the information required for the full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2015.

These consolidated interim financial statements were approved by the Board of Directors on 18 February 2016.

3. Functional and presentation currency

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

4. Significant accounting policies

The accounting policies applied by the Group in the consolidated interim financial statements are the same as those applied in its consolidated financial statements as at and for the year ended 30 June 2015.



Condensed Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 31 December 2015

5. Judgements and estimates

The preparation of the consolidated interim financial statement requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated interim financial statements, the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the Group as at and for the year ended 30 June 2015.

6. Income tax expense

The Group's effective tax rate for the six months ended 31 December 2015 is 22.94% (for the six months ended 31 December 2014: 27.12%). This tax rate is consistent with Management's estimate of the effective tax rate that will be applicable for the year ended 30 June 2016. It mainly reflects taxation benefits expected to arise to the Group in the current year as a consequence of participating in the Research and Development ("R&D") tax incentive regime and the impairment of goodwill previously allocated to the Mining & Civil Cash Generating Unit being on capital account for taxation purposes.

7. Operating segments

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

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

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

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

The Group has three reportable segments, being:

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

Condensed Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 31 December 2015

7. Operating segments (continued)

	Contracting		Mining & Civil		Property		Unallocated		Elimination		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<i>In thousands of AUD</i>												
External revenues	530,642	450,843	79,333	143,719	6,806	435	-	-	5,109	-	621,890	594,997
Inter-segment revenue	5,109	-	-	-	-	-	-	-	-	-	5,109	-
Other material non-cash items:												
Property inventory impairment	-	-	-	-	(2,471)	-	-	-	-	-	(2,471)	-
Receivable impairment	-	-	(12,497)	-	-	-	-	-	-	-	(12,497)	-
Plant & equipment and stock impairment	-	-	(19,200)	-	-	-	-	-	-	-	(19,200)	-
Goodwill impairment	-	-	(10,022)	-	-	-	-	-	-	-	(10,022)	-
Depreciation	(343)	(346)	(9,673)	(19,799)	-	-	(676)	(762)	-	-	(10,692)	(20,907)
Finance income	-	-	-	-	961	202	1,975	2,020	-	-	2,936	2,222
Finance expense	(739)	(605)	(920)	(2,573)	-	-	(117)	(139)	-	-	(1,776)	(3,317)
Reportable segment profit/(loss) before income tax	20,578	15,805	(45,815)	2,405	(1,945)	(367)	(5,785)	(9,317)	168	-	(32,799)	8,526
New acquisitions	25	88	810	2,850	-	-	473	222	-	-	1,308	3,160
Spend on major maintenance	-	-	4,498	10,085	-	-	-	-	-	-	4,498	10,085
Capital expenditure	25	88	5,308	12,935	-	-	473	222	-	-	5,806	13,245



Condensed Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 31 December 2015

8. Net finance income and expense

	31 Dec 15 \$'000	31 Dec 14 \$'000
Interest income	1,975	2,022
Change in carrying value of receivables	961	200
Finance income	2,936	2,222
Interest expense	(1,776)	(3,317)
Finance expense	(1,776)	(3,317)
Net finance income/(expense)	1,160	(1,095)

9. Impairment

	Note	31 Dec 15 \$'000	31 Dec 14 \$'000
Property			
Inventories – property development assets		(2,471)	-
Mining & Civil			
Receivables	10	(12,497)	-
Plant & Equipment		(15,200)	-
Inventories - stock on hand		(4,000)	-
Goodwill		(10,022)	-
		(41,719)	
Total		(44,190)	-

Mining & Civil Segment / Cash Generating Unit (CGU)

As a consequence of the continuing challenging market conditions impacting the mining sector in Australia, the Group has critically assessed the recoverable amount of assets allocated to the Mining and Civil CGU at 31 December 2015 (**Balance Date**) including Goodwill, plant and equipment (**Plant**), stock on hand (**Stock**) and Receivables. Details of each component of this review are included below.



Condensed Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 31 December 2015

9. Impairment (continued)

Plant

The Group's 30 June 2015 Financial Report noted that the level of idle Plant in the Mining & Civil business was higher than historical levels, as a result of the completion of two large-scale projects, one of which was the Nullagine project (which completed on 1 July 2015). There remained an expectation at the time of preparing the Group's 30 June 2015 Financial Report that all Plant values could be recovered through use, and that future work volumes were considered available to support this.

With market opportunities not improving over the Reporting Period, particularly in the iron ore sector, a review of the carrying amounts of all Mining & Civil plant and equipment assets was performed at Balance Date. While the majority of idle Plant assets are versatile in nature and remain in good working condition, such that redeployment to other existing projects or near term opportunities is considered probable, the Group continues to carry a number of semi-bespoke ex-Nullagine project Plant assets where near term redeployment opportunities are now considered more remote.

As a consequence of these factors, an impairment expense of \$15.2M has been recognised at Balance Date against the carrying amount of all ex-Nullagine project Plant assets that have remained idle since the contract completed in July 2015.

The Group's remaining plant assets continue to be utilised in a consistent manner and are not considered to be of a bespoke nature. Consequently, the carrying value ascribed to the balance of the Group's Plant fleet is anticipated to be recovered through use.

Stock

Following completion of the Nullagine Project on 1 July 2015 and with several ex-Nullagine Plant assets being assessed as impaired, the Group completed a review of all associated items of Stock at Balance Date. This review concluded that some items of Stock are attributable to impaired Plant assets or otherwise not anticipated to be used in income producing activities in the near term.

An impairment expense of \$4M has therefore been recorded at Balance Date to reduce the carrying amount of these items of Stock to their expected net realisable value.

Goodwill

The Mining & Civil CGU's value in use calculation was updated at Balance Date to test the carrying value of Goodwill allocated to this CGU. The updated calculation uses cash flow projections based on applying key assumptions to recent actual operating results and management forecasts, discounted at an assessed applicable weighted average cost of capital.

By adopting more conservative cash flow projections and a higher discount rate than was used in the 30 June 2015 calculation, the net present value ascribed to the Mining & Civil CGU reduces significantly.



Condensed Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 31 December 2015

9. Impairment (continued)

Given the outcome of this analysis together with both the decline in financial performance of the Mining & Civil CGU over recent financial reporting periods and challenges currently impacting the resources sectors in Australia, an impairment charge of \$10.02M has been recorded at Balance Date to reduce the carrying value of Goodwill allocated to the Mining & Civil CGU to nil.

10. Trade and other receivables

In the Group's 30 June 2015 Financial Report, it was noted that despite all conditions of the Nullagine project contract having been completed, Watpac was still in discussions with the counterparty, a subsidiary of BC Iron Limited, in determining the final value of outstanding progress claims, other rates adjustments and contractual claims outstanding and unpaid. These unpaid entitlements due from BC Iron were valued at \$12.5M (excluding GST) in the Group's 30 June 2015 Financial Report.

Watpac has been pursuing its outstanding entitlements under the contract since July 2015, however efforts to resolve the dispute have been unsuccessful and this matter will now progress through litigation.

Despite a commercial expectation of recovery, the credit risk associated with these Receivables has substantially increased over the Reporting Period. With the dispute now proceeding to litigation, all outstanding Receivables previously recognised in the 30 June 2015 Financial Report have at Balance Date been impaired to nil.

The majority of the Group's remaining trade and other receivables balance as at Balance Date comprise receivables with terms of less than 12 months (typically 30 days) and therefore do not contain a significant financing component. No allowance for impairment of these amounts has been recognised at Balance Date due to there being no assessed credit risk associated with collection.

11. Related parties

All arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2015 Annual Financial Report.

12. Contingencies

Several claims have been brought against controlled entities in relation to past contracts. The controlled entities are defending the claims and Directors are of the opinion that adequate provisions, where required, have been recognised at 31 December 2015 relating to potential future outflows associated with those claims.



Condensed Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 31 December 2015

12. Contingencies (continued)

On 24 December 2015 a subsidiary of BC Iron Limited made a claim against Watpac in respect of the Watpac's performance under the Nullagine project mining services contract. Watpac disputes the unquantified claims made by BC Iron and, consequently, no provision associated with this claim has been recognised at Balance Date. Additionally, Watpac has substantial counter claims against BC Iron.

13. Capital commitments

	31 Dec 15 \$'000	31 Dec 14 \$'000
Plant and equipment		
Contracted but not provided for and payable		
- within one year	581	87

14. Subsequent events

There has not arisen, in the interval between the end of the financial period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect the operations or state of affairs of the Group in future financial periods.



Directors' Declaration

In the opinion of the Directors of Watpac Limited (the "Company"):

1. the consolidated interim financial statements and notes set out on pages 17 to 28 are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the financial position of the Group as at 31 December 2015 and of its performance for the half-year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Brisbane this 18th day of February 2016.

Signed in accordance with a resolution of the Directors.

R B McGruther

Chair



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

We have reviewed the accompanying interim financial report of Watpac Limited, which comprises the consolidated balance sheet as at 31 December 2015, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Watpac Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Watpac Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'Simon Crane'.

KPMG

A handwritten signature in black ink, appearing to read 'Simon Crane'.

Simon Crane
Partner

Brisbane
18 February 2016