

# 31 December 2018 Financial Report

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## On the cover

A selection of key Watpac projects during 2018. Clockwise from top left:

- NSW Forensic Medicine and Coroner's Court Facility (Lidcombe, New South Wales) *Completed*
- Brisbane Airport Corporation Domestic Terminal Building – Terminal Transfer (Brisbane, Queensland) *Completed*
- Adelaide Airport Terminal Expansion (Adelaide, South Australia) *In progress*
- Riverlight Residential Project (Brisbane, Queensland) *Completed*
- Victorian Schools Project PPP, Meranda South Prep-12 (Victoria) *Completed*
- Roma Hospital Redevelopment, Main Works (Roma, Queensland) *In progress*

## Directors' 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 transitional financial year comprising the six months ended 31 December 2018 and the Auditor's Report thereon.

### 1. 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 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.

##### **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.

##### **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 37-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.

## Directors' Report

### 1. Directors (continued)

#### **Mr J C M C Beerlandt**

*Alternate Non-executive Director (for Mr Schreurs)*

*Alternate Director since 23 August 2017*

Mr Beerlandt is Chairman of the 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.

Mr Beerlandt is a Member of the Advisory Board of ING Bank and Chairman of the Arab Belgian Luxembourg 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.

### Other Previous Directors – Non-executive

#### **Ms B K Morris**

*Non-executive Director*

*Resigned 30 September 2018*

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 resigned as a Director on 30 September 2018. Ms Morris had served as a director since 3 February 2015.

#### **Mr G J Dixon**

*Non-executive Director*

*Resigned 18 February 2019*

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 resigned as a Director on 18 February 2019. Mr Dixon had served as a Director since 12 February 2014.

### 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 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.

## Directors' Report

### 1. Directors (continued)

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.

### 2. 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 Financial Services Institute of Australia and is a Senior certified member of the Finance and Treasury Association of Australia.

### 3. Significant changes in state of affairs

#### **3.1 BESIX Takeover**

On 29 October 2018, the Group announced that it had entered into a Bid Implementation Agreement with its major shareholder BESIX Group SA (**BESIX**) pursuant to which BESIX agreed to make an unconditional off-market takeover bid to acquire all issued shares in Watpac not already held by BESIX.

On 3 December 2018, the unconditional off-market bid closed with BESIX having increased their shareholding in Watpac to 91.82%. On 6 December 2018, BESIX announced the compulsory acquisition of the remaining Watpac shares. Watpac subsequently delisted from ASX on 24 December 2018.

#### **3.2 Divestment of Civil & Mining business**

On 21 December 2018, the Group announced that it had completed the sale of its Western Australia-based Civil & Mining business to a Sydney-based investment and advisory firm Remagen Capital in order to focus on its East Coast building, marine and civil construction businesses.

#### **3.3 Change in financial year end and accounting standards**

Pursuant to a resolution of the Board of Directors, the Group's financial year end date has been changed from 30 June to 31 December in order to align with that of BESIX. Accordingly, the current transitional financial period covers a six-month period from 1 July 2018 to 31 December 2018.

The comparative figures cover a twelve-month period from 1 July 2017 to 30 June 2018 (**FY18**), which, together with the transition method adopted for AASB 15 *Revenue from Contracts with Customers*, may result in amounts for FY18 not being comparable with amounts shown for the Reporting Period.

### 4. Review of operations

#### **4.1 Principal activities**

The Group's operations for the transitional financial year comprising the six months ended 31 December 2018 (**TFY18** or **Reporting Period**) principally consisted of contracting activities.

#### **4.2 Group financial summary**

The Group recorded a consolidated loss after tax from continuing operations for the Reporting Period of \$0.4M (FY18: \$2.7M profit after tax). After adjusting for the discontinued Western Australia-based Civil & Mining operations, the Group recorded a loss after tax for TFY18 of \$6.3M (FY18: \$56.9M loss after tax).

## Directors' Report

### 4. Review of operations (continued)

Included in the table below is an overview of the Group's result for TFY18 compared to FY18. As noted at section 3.3, the six month period TFY18 amounts are not comparable with amounts shown for FY18, which represent the Group's 12 month trading result for that period.

*In thousands of AUD*

	TFY18	FY18
Total Revenue	530,970	998,642
Operating result from continuing operations	1,053	2,621
Other non-trading items	(1,435)	122
Profit after tax from continuing operations	(382)	2,743
Loss from discontinued Civil & Mining business	(5,920)	(59,667)
Net profit after tax attributable to owners of Watpac Limited	(6,302)	(56,924)

#### 4.3 Construction

Watpac's Construction segment provides 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 TFY18 of \$9.8M (FY18: \$20.6M).

As previously reported, significant investment has been made in strategy execution in recent periods, aimed at improving the quality of 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.

Construction work in hand at 31 December 2018 (**Balance Date**) totalled approximately \$1.7B, being broadly consistent with the position recorded at 30 June 2018.

#### 4.4 Civil & Mining

As noted above, on 21 December 2018 the Group announced that it had completed the sale of its Western Australia-based Civil & Mining business to a Sydney-based investment and advisory firm Remagen Capital, in order to focus on its East Coast businesses.

Financial results for the Civil & Mining business are shown in this report as a discontinued operation.

#### 4.5 Property

The Property segment reported a pre-tax profit in TFY18 of \$0.6M (FY18:\$1.8M). This primarily reflects the partial reversal of impairment charges recognised against development assets in previous financial periods.

The carrying value of the Group's unsold property inventory assets at Balance Date totalled \$4.0M. The remaining property assets are expected to be divested over the next six months.

#### 4.6 Capital management and liquidity

Cash and deposits totalled \$308.8M at Balance Date (30 June 2018: \$238M). This increase reflects cash proceeds received from the sale of the Civil & Mining business in December 2018, property settlements completed in TFY18, as well as working capital movements associated with the Group's core Construction business.

The Group also maintains:

- a \$170M syndicated facility for the provision of bank guarantees (drawn to \$74.3M at Balance Date); and
- \$225M in aggregate bi-lateral facilities for the provision of insurance bonds (drawn to \$138.8M at Balance Date).

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

### 5. 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 31 December 2018.

## Directors' Report

### 6. Events subsequent to reporting date

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.

### 7. 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.

### 8. 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 Reporting Period the Group paid premiums in respect of Directors' and Officers' liability insurance contracts for the insurance year commencing 1 July 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 insurance contracts, as such disclosure is prohibited under the terms of the contract.

### 9. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 8 and forms part of the Directors' Report for the transitional year ended 31 December 2018.

### 10. 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 20th day of February 2019.

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 period ended 31 December 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

Scott Guse  
Partner  
Brisbane  
20 February 2019

## 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 11 to 38 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 31 December 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 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 20th day of February 2019.

Signed in accordance with a resolution of the Directors

A handwritten signature in black ink, appearing to read 'P L Watson', with a stylized flourish at the end.

**P L Watson** – Chair

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	B2. Revenue	C2. Inventories	D2. Commitments	E2. Financial risk management	F2. Parent entity disclosures	G2. Related party information
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## Consolidated Statement of Profit or Loss and Other Comprehensive Income

*In thousands of AUD*

	Note	6 months ended 31 December 2018	Year ended 30 June 2018
Revenue	B2	530,970	998,642
Cost of sales		(505,343)	(949,575)
<b>Gross profit</b>		25,627	49,067
Other income		439	363
Property development holding costs expensed		(55)	(252)
Administration expenses		(26,969)	(50,398)
Net finance income		2,011	3,841
<b>Results from operating activities</b>		1,053	2,621
Other non-trading items		(1,435)	122
<b>Profit/ (loss) before tax</b>		(382)	2,743
Income tax benefit/(expense)	B3a)	-	-
<b>Profit/ (loss) after tax from continuing operations</b>		(382)	2,743
Loss from discontinued operations, net of tax	F4	(5,920)	(59,667)
<b>Profit/(Loss) attributable to owners of Watpac Limited</b>		(6,302)	(56,924)
<b>Other comprehensive income for the period, net of tax</b>		(123)	123
<b>Total comprehensive income/ (loss) for the period</b>		(6,425)	(56,801)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes on pages 15 to 38.

## Consolidated Statement of Financial Position

In thousands of AUD	Note	As at	
		31 December 2018	30 June 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		137,264	68,106
Cash deposits		171,547	169,937
Trade and other receivables	C1	43,247	127,890
Inventories - stock on hand	C2	135	140
Inventories - property development assets	C2	4,030	4,526
<b>Total current assets</b>		<b>356,223</b>	<b>370,599</b>
<b>Non-current assets</b>			
Property, plant and equipment	C3	8,220	55,855
Intangibles	C4	17,676	17,676
Deferred tax assets	B3c)	13,693	13,693
<b>Total non-current assets</b>		<b>39,589</b>	<b>87,224</b>
<b>Total assets</b>		<b>395,812</b>	<b>457,823</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	C5	246,650	281,224
Employee benefits		12,645	14,494
Provisions		33	5,594
<b>Total current liabilities</b>		<b>259,328</b>	<b>301,312</b>
<b>Non-current liabilities</b>			
Trade and other payables	C5	7,620	11,967
Employee benefits		1,965	3,002
Provisions		1,022	1,104
<b>Total non-current liabilities</b>		<b>10,607</b>	<b>16,073</b>
<b>Total liabilities</b>		<b>269,935</b>	<b>317,385</b>
<b>Net assets</b>		<b>125,877</b>	<b>140,438</b>
<b>EQUITY</b>			
Issued capital	D3a)	234,384	233,727
Reserves	D3b)	(2,100)	7,506
Retained earnings		(106,407)	(100,795)
<b>Total equity</b>		<b>125,877</b>	<b>140,438</b>

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 15 to 38.

## Consolidated Statement of Changes in Equity

## For the period ended 31 December 2018

*In thousands of AUD*

Total equity at 30 June 2018

Opening balance adjustment on application of AASB 15

Balance at 1 July 2018

Other comprehensive income/(loss) for the period

Profit/(loss)

Total comprehensive income/(loss) for the period

Share settled options forfeited

Share settled performance rights forfeited

Share settled performance rights awarded

Total contributions by and distributions to owners

Total transactions with owners

Balance at 31 December 2018

Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total
233,727	9,483	(1,977)	(100,795)	140,438
-	-	-	(8,136)	(8,136)
233,727	9,483	(1,977)	(108,931)	132,302
-	-	(123)	-	(123)
-	-	-	(6,302)	(6,302)
-	-	(123)	(6,302)	(6,425)
-	(8,210)	-	8,210	-
-	(616)	-	616	-
657	(657)	-	-	-
657	(9,483)	-	8,826	-
657	(9,483)	-	8,826	-
234,384	-	(2,100)	(106,407)	125,877

## For the year ended 30 June 2018

*In thousands of AUD*

Balance at 1 July 2017

Other comprehensive income/(loss) for the period

Profit/(loss)

Total comprehensive income/(loss) for the period

Purchase of Treasury shares

Share settled performance rights awarded

Total contributions by and distributions to owners

Total transactions with owners

Balance at 30 June 2018

Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total
235,563	9,771	(2,100)	(43,871)	199,363
-	-	123	-	123
-	-	-	(56,924)	(56,924)
-	-	123	(56,924)	(56,801)
(1,836)	(951)	-	-	(2,787)
-	663	-	-	663
(1,836)	(288)	-	-	(2,124)
(1,836)	(288)	-	-	(2,124)
233,727	9,483	(1,977)	(100,795)	140,438

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 15 to 38.

## Consolidated Statement of Cash Flows

*In thousands of AUD*

	For the period ended	
	31 December 2018	30 June 2018
<b>Cash flows from operating activities</b>		
Cash receipts from customers	694,001	1,217,791
Cash paid to suppliers and employees	(662,981)	(1,189,775)
Cash generated from operations	31,020	28,016
Interest received	2,306	5,292
Interest paid	(676)	(1,841)
<b>Net cash provided by operating activities</b>	<b>32,650</b>	<b>31,467</b>
<b>Cash flows from investing activities</b>		
Investment in cash deposits	(1,610)	(35,810)
Acquisition of assets	(4,082)	(10,397)
Proceeds from sale of subsidiary	41,500	-
Proceeds from sale of assets	700	2,186
<b>Net cash provided by investing activities</b>	<b>36,508</b>	<b>44,021</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	-	(11,469)
Purchase of treasury shares	-	(2,787)
<b>Net cash used in financing activities</b>	<b>-</b>	<b>(14,256)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>69,158</b>	<b>(26,810)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>68,106</b>	<b>94,916</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>137,264</b>	<b>68,106</b>

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes on pages 15 to 38.

## Notes to the Consolidated Financial Statements

### 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 – Reduced Disclosure Requirements adopted by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*; and
- comply with Australian Accounting Standards – Reduced Disclosure Requirements.

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 20 February 2019.

#### 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.

#### Comparatives

Pursuant to a resolution of the Board of Directors, the Group's financial year end date was changed from 30 June to 31 December in order to align with that of Watpac's parent company BESIX Group SA. Accordingly, the current transitional financial period covers a six-month period from 1 July 2018 to 31 December 2018. The comparative figures cover a twelve-month period from 1 July 2017 to 30 June 2018, which may not be comparable with amounts shown for the current period.

## Notes to the Consolidated Financial Statements

### 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 six months ended 31 December 2018 (**Reporting Period**), and following the divestment of the Group's Western Australian-based Civil & Mining business in December 2018, the Group has identified two reportable continuing operations segments, being:

- *Construction*: Building, marine and civil construction, project management and investment, design and construction management services
- *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.

31 December 2018	Construction	Property	Unallocated	Total continuing operations
<i>In thousands of AUD</i>				
External Revenue	518,210	12,760	-	530,970
Inter-segment revenue	-	-	-	-
<b>Total segment revenue</b>	<b>518,210</b>	<b>12,760</b>	<b>-</b>	<b>530,970</b>
Other material non-cash items:				
- Depreciation	(372)	-	(1,229)	(1,601)
Other significant items				
- Net property impairment reversal	-	620	-	620
- Takeover expenses	-	-	(2,055)	(2,055)
Finance income	-	-	2,690	2,690
Finance expense	(679)	-	-	(679)
<b>Total segment profit/(loss) before tax</b>	<b>9,762</b>	<b>562</b>	<b>(10,706)</b>	<b>(382)</b>
<b>Reportable segment assets</b>	<b>53,510</b>	<b>4,032</b>	<b>338,270</b>	<b>395,812</b>
<b>Total capital expenditure</b>	<b>403</b>	<b>-</b>	<b>888</b>	<b>1,291</b>

## Notes to the Consolidated Financial Statements

### B1. Segment information (continued)

30 June 2018	Construction	Property	Unallocated	Total continuing operations
<i>In thousands of AUD</i>				
External Revenue	984,972	11,335	-	996,307
Inter-segment revenue	2,335	-	-	2,335
<b>Total segment revenue</b>	<b>987,307</b>	<b>11,335</b>	<b>-</b>	<b>998,642</b>
Other material non-cash items:				
- Depreciation	(629)	-	(2,101)	(2,730)
Other significant items				
- Net property impairment reversal	-	2,047	-	2,047
- Scheme of Arrangement expenses	-	-	(1,925)	(1,925)
Finance income	-	-	5,297	5,297
Finance expense	(1,456)	-	-	(1,456)
<b>Total segment profit/(loss) before tax</b>	<b>20,640</b>	<b>1,789</b>	<b>(19,686)</b>	<b>2,743</b>
<b>Reportable segment assets</b>	<b>122,703</b>	<b>15,561</b>	<b>264,228</b>	<b>402,492</b>
<b>Total capital expenditure</b>	<b>419</b>	<b>-</b>	<b>1,898</b>	<b>2,317</b>

#### 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.

### B2. Revenue

The effect of initially applying AASB 15 on the Group's revenue from contracts with customers is described in Note G3. Due to the transition method chosen in applying AASB 15, comparative information has not been restated to reflect the new requirements.

<i>In thousands of AUD</i>	31 December 2018	30 June 2018
<b>From continuing operations</b>		
Construction contracts - Building	518,210	987,307
Property sales	12,760	11,335
	<b>530,970</b>	<b>998,642</b>

#### 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.

## Notes to the Consolidated Financial Statements

**B3. 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) – Continuing Operations**

<i>In thousands of AUD</i>	31 December 2018	30 June 2018
Profit/(Loss) before tax from continuing operations	(382)	2,743
Income tax at 30% (30 June 2018: 30%)	(115)	823
Increase in income tax expense/(benefit) due to:		
Non-deductible expenses	60	151
De-recognition / non-recognition of deferred tax assets	3,157	-
	3,102	974
Deductible permanent differences	(95)	-
Research & development claim	(619)	(646)
Over provided in prior years	(2,388)	(328)
Income tax expense/(benefit) on pre-tax loss	-	-

**b) Amounts recognised in other comprehensive income**

	31 December 2018			30 June 2018		
<i>In thousands of AUD</i>	Before tax	Tax (expense) / benefit	Net of tax	Before tax	Tax (expense) / benefit	Net of tax
Change in fair value of equity instrument	(123)	-	(123)	123	-	123
	(123)	-	(123)	123	-	123

**c) Movement in Deferred tax balances**

<i>In thousands of AUD</i>	Net balance 1 July 2018	Recognised in profit or loss	Net balance 31 December 2018	Deferred tax assets at 31 December 2018	Deferred tax liabilities at 31 December 2018
<b>31 December 2018</b>					
<b>Consolidated</b>					
Property, plant and equipment	596	(171)	425	425	-
Employee benefits	5,387	(917)	4,470	4,470	-
Accruals and other creditors	8,365	(1,127)	7,238	7,238	-
Borrowing costs	86	(28)	58	58	-
Property development projects	(741)	2,243	1,502	1,502	-
Total	13,693	-	13,693	13,693	-

## Notes to the Consolidated Financial Statements

**B3. Taxation (continued)***In thousands of AUD*

	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
<b>30 June 2018</b>					
<b>Consolidated</b>					
Property, plant and equipment	(995)	1,591	596	596	-
Employee benefits	5,554	(167)	5,387	5,387	-
Accruals and other creditors	7,980	385	8,365	8,365	-
Borrowing costs	182	(96)	86	86	-
Tax losses & offsets	9,513	(9,513)	-	-	-
Property development projects	133	(874)	(741)	-	(741)
Inventories – stock on hand	1,350	(1,350)	-	-	-
<b>Total</b>	<b>23,717</b>	<b>(10,024)</b>	<b>13,693</b>	<b>14,434</b>	<b>(741)</b>

**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.

## Notes to the Consolidated Financial Statements

### B3. Taxation (continued)

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

<i>In thousands of AUD</i>	31 December 2018	30 June 2018
Income tax losses & offsets	28,001	26,454
Temporary differences	999	7,165
Capital losses	7,767	5,405

#### 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.

## Notes to the Consolidated Financial Statements

### 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. Trade and other receivables

*In thousands of AUD*

##### Current

Trade receivables

Allowance for expected losses

Other debtors and prepayments

Construction work in progress – amounts due from customers

	31 December 2018	30 June 2018
	26,613	36,320
	(65)	(153)
	26,548	36,167
	16,699	8,318
	43,247	44,485
	-	83,405
	43,247	127,890

##### 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.

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

#### C2. Inventories

*In thousands of AUD*

##### Current

Raw materials and stores

Less: Write-down to net realisable value

Property development assets

Land and buildings held for sale

- Land at cost

- Development costs

- Interest, rates and taxes capitalised

Less: Write-down to net realisable value

	31 December 2018	30 June 2018
	135	18,662
	-	(18,522)
	135	140
	8,029	9,240
	679	582
	2,112	1,893
	(6,790)	(7,189)
	4,030	4,526

##### 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.

##### Key estimates and judgements

- 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, selling expenses and other liabilities associated with the asset.

## Notes to the Consolidated Financial Statements

### C3. Property, plant and equipment

*In thousands of AUD*

	31 December 2018	30 June 2018
Opening carrying amount	55,855	84,154
Acquisitions	4,082	10,397
Disposals at net book value	(48,206)	(2,499)
Depreciation charge for the year	(3,511)	(9,717)
Impairment	-	(26,480)
Closing balance	8,220	55,855
<i>Represented by:</i>		
Cost	26,180	279,691
Accumulated depreciation/impairment	(17,960)	(223,836)

No Plant assets are subject to external finance arrangements.

#### 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

### C4. Intangibles

*In thousands of AUD*

	Goodwill
<b>Cost</b>	
Balance at 1 July 2017	27,968
Balance at 30 June 2018	27,968
<b>Balance at 1 July 2018</b>	<b>27,968</b>
<b>Balance at 31 December 2018</b>	<b>17,676</b>
<b>Carrying amounts</b>	
At 1 July 2017	17,676
At 30 July 2018	17,676
<b>At 1 July 2018</b>	<b>17,676</b>
<b>At 31 December 2018</b>	<b>17,676</b>

#### Impairment testing for cash-generating units containing goodwill

*In thousands of AUD*

Goodwill	31 December 2018	30 June 2018
Building Construction	17,676	17,676
	17,676	17,676

## Notes to the Consolidated Financial Statements

### C4. Intangibles (continued)

#### 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.

Following the sale of the Civil & Mining CGU in December 2018, the Group has one CGU 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.

Impairment testing is also relevant to the assessment of the carrying value of each CGU's assets. No impairment to Building Construction CGU assets was identified as at Balance Date. The next impairment test will be performed at 30 June 2019.

### C5. Trade and other payables

*In thousands of AUD*

#### Current

Trade payables and accrued expenses  
Subcontractor payable  
Subcontractor accrual  
Retentions payable

#### Non-current

Retentions payable

	31 December 2018	30 June 2018
	21,117	13,002
	34,529	44,695
	165,262	200,893
	25,742	22,634
	246,650	281,224
	7,620	11,967

#### 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.

## Notes to the Consolidated Financial Statements

### C6. Contingent assets and liabilities

#### 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.

<i>In thousands of AUD</i>	31 December 2018	30 June 2018
Secured contingent liabilities at year end are:		
Bank guarantees	74,252	79,700
Unsecured contingent liabilities at year end are:		
Insurance bonds	138,814	125,767

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 31 December 2018 relating to potential future outflows associated with those claims.

#### Contingent assets

Arising from the sale of Watpac Civil & Mining Pty Ltd (Refer note F4) the Group is entitled to up to \$18.5m in deferred consideration. This deferred consideration has taken the form of a vendor loan and is repayable, together with any accrued interest, over a maximum period of 60 months subject to the purchaser meeting various terms and conditions.

## Notes to the Consolidated Financial Statements

### 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. Financing facilities

At 31 December 2018 and 30 June 2018, the Group had the following facilities.

*In thousands of AUD*

##### 31 December 2018

	Utilised	Unutilised	Facility limit available for utilisation
Bank guarantees	74,252	95,748	170,000
Insurance company bonding	138,814	86,186	225,000
Total bonding	213,066	181,934	395,000

##### 30 June 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

#### Bonding

At 31 December 2018, the Group had \$395M of bank guarantee and insurance company bond facilities to support its activities. All facilities are subject to the specific terms and conditions contained in the relevant funding agreements.

A syndicate of lenders provides the Group's bank guarantee facilities on a secured basis. The syndicated bank guarantee facility is due to mature in November 2019, however a refinance of this facility is expected to occur prior to 30 June 2019.

The Group's insurance bond facilities are provided by four insurance companies, and are subject to certain 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.

#### Equipment finance facilities

At 31 December 2018, the Group had no equipment finance facilities (30 June 2018: \$2M).

The reduction in the value of the equipment finance facilities in the Reporting Period reflects the closure of equipment finance borrowings with one financier following the sale of the Civil & Mining business.

#### 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.

## Notes to the Consolidated Financial Statements

### D2. Commitments

#### a) Capital expenditure commitments

*In thousands of AUD*

Plant and equipment - contracted but not provided for and payable  
Within one year

31 December 2018	30 June 2018
-	128

#### b) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

*In thousands of AUD*

Less than one year  
Between one and five years  
More than five years

31 December 2018	30 June 2018
3,922	4,131
4,250	5,438
2,019	-
10,191	9,569

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 lease which typically run from one to five years.

During the 6 months ended 31 December 2018, \$2,629,000 was recognised as an expense in the income statement in respect of operating leases (30 June 2018: \$5,135,000), 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.

### D3. Shareholders equity

#### a) Issued capital

*In thousands of shares*

On issue at 1 July  
Shares cancelled under buy-back arrangement  
Shares issued upon vesting of performance rights  
On issue at reporting date - fully paid

31 December 2018	30 June 2018
183,386	186,056
-	(2,670)
1,228	-
184,614	183,386

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.

#### b) Reserves

##### Equity benefits reserve

The equity benefits reserve was used to record the value of equity benefits, including share options and performance rights previously provided to employees as part of their remuneration whilst Watpac Limited was listed on ASX.

##### 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.

## Notes to the Consolidated Financial Statements

### **D4. Dividends**

#### **a) Ordinary shares**

No final or interim dividends for the 31 December 2018 or 30 June 2018 financial years were declared or paid.

#### **b) Franking credits**

The franking account balance at 31 December 2018 is \$41,000 (30 June 2018: \$41,000).

## Notes to the Consolidated Financial Statements

### 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 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 Board 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 31 December 2018, the Group held cash and cash equivalents and cash deposits totalling \$308,811,000 (30 June 2018: \$238,043,000). 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.

## Notes to the Consolidated Financial Statements

### E2. Financial risk management (continued)

#### 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.

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 Building Construction operations. The Group also provides performance guarantees as part of its activities, details of which are provided in Note C6.

#### 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 comprise 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.

#### 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 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*

#### 31 December 2018

	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years
Trade payables	21,117	21,117	21,117	-	-
Subcontractor payable and accrual	199,791	199,791	199,791	-	-
Retentions payable	33,362	33,362	25,742	7,620	-
	254,270	254,270	246,650	7,620	-

#### 30 June 2018

	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years
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	-

## Notes to the Consolidated Financial Statements

### E2. Financial risk management (continued)

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. 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 recent sale of the Group's Western Australia-based Civil & Mining business and having no on-balance sheet debt.

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

<i>In thousands of AUD</i>		31 December 2018	30 June 2018
<b>Fixed rate instruments</b>			
Financial assets	(i)	131,468	130,052
		131,468	130,052
<b>Variable rate instruments</b>			
Financial assets		177,343	107,991
		177,343	107,991

(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 \$443,000 (30 June 2018: \$540,000).

#### Foreign currency risk

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 31 December 2018 and 30 June 2018, 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.

## Notes to the Consolidated Financial Statements

### E3. Financial instrument fair values (continued)

#### **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.

## Notes to the Consolidated Financial Statements

### 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	
	31 December 2018	30 June 2018
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%
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%

\*On 21 December 2018, J.J.McDonald & Sons Sub-Holdings Pty Ltd, an indirect subsidiary of Watpac Limited disposed of its 100% shareholding in Watpac Civil & Mining Pty Ltd. Refer to Note F4 for further details.

## Notes to the Consolidated Financial Statements

### F2. Parent entity disclosures

The parent entity of the Group is Watpac Limited.

*In thousands of AUD*

#### Result of the parent entity

Net profit/(loss) for the period

Other comprehensive income

Total comprehensive income/(loss) for the period

#### Financial position of the parent entity at year end

Current assets

Total assets

Current liabilities

Total liabilities

#### Total equity of the parent entity comprising of:

Share capital

Reserves

Retained earnings

#### Total equity

	31 December 2018	30 June 2018
	5,513	(44,751)
	-	-
	5,513	(44,751)
	2,358	2,145
	10,497	10,283
	1,069	704
	1,069	704
	234,384	233,727
	(2,100)	4,221
	(222,856)	(228,369)
	9,428	9,579

#### Parent entity guarantees

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 Construction (SA) Pty Ltd
- Watpac Finance Pty Ltd

## Notes to the Consolidated Financial Statements

### F3. Deed of Cross Guarantee (continued)

On 21 December 2018 Watpac Civil & Mining Pty Ltd was sold. Refer to Note F4 for further details. A Deed of Revocation has been lodged with ASIC removing Watpac Civil & Mining Pty Ltd from the Deed of Cross Guarantee.

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*

#### Summarised statement of income and retained profits

	31 December 2018	30 June 2018
Net Loss before tax	(1,042)	(945)
Income tax benefit/(expense)	-	-
Net Profit/(loss) after tax from continuing operations	(1,042)	(945)
Loss from discontinued operations, net of tax	(2,035)	(59,667)
Loss attributable to owners of Watpac Limited	(3,077)	(60,612)
Retained earnings at beginning of year	(106,999)	(46,387)
Forfeit share based payments during the year	8,826	-
Retained earnings at end of year	(101,250)	(106,999)

*In thousands of AUD*

#### Statement of financial position

	31 December 2018	30 June 2018
Cash and cash equivalents	137,264	68,106
Cash deposits	171,547	169,937
Trade and other receivables	43,247	116,555
Inventories – stock on hand	135	140
Inventories – property development assets	4,030	4,526
<b>Total current assets</b>	<b>356,223</b>	<b>359,264</b>
Property, plant and equipment	8,220	55,855
Intangibles	17,676	17,676
Deferred tax assets	13,570	13,570
<b>Total non-current assets</b>	<b>39,466</b>	<b>87,101</b>
<b>Total assets</b>	<b>395,689</b>	<b>446,365</b>
Trade and other payables	246,537	281,136
Employee benefits	12,645	14,494
Provisions	33	5,594
<b>Total current liabilities</b>	<b>259,215</b>	<b>301,224</b>
Trade and other payables	7,620	11,967
Employee benefits	1,965	3,002
Provisions	1,022	1,104
<b>Total non-current liabilities</b>	<b>10,607</b>	<b>16,073</b>
<b>Total liabilities</b>	<b>269,822</b>	<b>317,297</b>
<b>Net assets</b>	<b>125,867</b>	<b>129,068</b>
Issued capital	229,217	228,560
Reserves	(2,100)	7,507
Retained earnings	(101,250)	(106,999)
<b>Total equity</b>	<b>125,867</b>	<b>129,068</b>

## Notes to the Consolidated Financial Statements

### F4. Discontinued Operations

On 21 December 2018, J.J. McDonald & Sons Sub-Holdings Pty Ltd, an indirect subsidiary of Watpac Limited disposed of its 100% shareholding in Watpac Civil & Mining Pty Ltd. The Civil & Mining Business Unit was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of profit or loss and other comprehensive income has therefore been restated to reflect the results from Civil & Mining as a discontinued operation separately from continuing operations.

*In thousands of AUD*

#### Summarised statement of income and retained profits

Loss from discontinued operations

Loss from sale of discontinued operations, net of tax

31 December 2018	30 June 2018
(2,035)	(59,667)
(3,885)	-
(5,920)	(59,667)

*In thousands of AUD*

#### Cashflows from/(used in) discontinued operation

Net cash provided by operating activities

Net cash used in investing activities

Net cash used in financing activities

Net cash flows for the period

31 December 2018	30 June 2018
2,782	14,749
(2,091)	(5,896)
(691)	(8,853)
-	-

## Notes to the Consolidated Financial Statements

### 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

The Group has paid contributions of \$4,432,000 to defined contributions plans on behalf of employees for the period ended 31 December 2018 (30 June 2018: \$10,329,000).

#### G2. Related party information

##### a) Parent and ultimate controlling entity

On 29 October 2018 BESIX Group SA and Watpac Limited entered a Bid Implementation Agreement pursuant to which BESIX agreed to make an unconditional off-market takeover bid to acquire all issued shares in Watpac Limited not then held by BESIX.

In November 2018 BESIX acquired a controlling interest in Watpac Limited and became the ultimate parent entity.

At 31 December 2018, a balance of \$43,853 was payable to another wholly owned subsidiary of the parent entity. This balance is reflected within accruals.

##### b) Director transactions

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.

##### c) Key management personnel compensation

Key management personnel compensation for the period ended 31 December 2018 was \$1,750,673 (30 June 2018 \$4,159,810).

#### G3. New accounting policies

##### AASB 15 Revenue from Contracts with Customers

In the current reporting period, the Group has applied AASB 15 *Revenue from Contracts with Customers* (as amended in April 2016). The new standard came into effect on 1 January 2018 and became mandatory for the Group from 1 July 2018.

AASB 15 *Revenue from Contracts with Customers* (AASB 15) establishes a comprehensive framework for determining whether, how much, and when, revenue is recognised, and replaces AASB 18 *Revenue* (AASB 18), AASB 111 *Construction Contracts* (AASB 111), and related interpretations. The core principle is that an entity recognises revenue when a customer obtains control of the goods or services. Judgement is required in determining the timing of the transfer of control as to whether this is at a point in time or over time.

The Group has adopted AASB 15 with the cumulative effect method of initially applying the standards as an adjustment to the opening balance of equity at 1 July 2018. Accordingly, the information presented for FY18 has not been restated and is presented as previously reported under AASB 18 and AASB 111.

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.

The majority of the Group's contracts comprise building construction projects. Notwithstanding certain building construction 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 continues to be recognised over time, however significant judgements and estimates are used in accounting for construction projects, including 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. Where revenue was previously recognised under AASB 111 when it is probable that work performed will result in revenue, AASB 15 has a higher probability threshold requiring revenue only to be recognised only to the extent that it is highly probable that there will be no significant reversal of this revenue.

## Notes to the Consolidated Financial Statements

### G3. New accounting policies (continued)

#### (a) 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 or work performed. The Group previously recognised construction contract revenue under AASB 111 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 expenses when a performance obligation is satisfied and control of the underlying asset is transferred to the customer.

Watpac has transitioned to an input method for measuring progress for the majority of current construction contracts under AASB 15. This has resulted in changes to the timing of project cost, and therefore margin, recognition compared to treatment under AASB 111 with \$5,060,000 of margin recognised under AASB 111 at 30 June 2018 that would have been deferred under AASB 15. This adjustment is reflected in the Retained Earnings opening balance adjustment.

#### (b) 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. Under AASB 111 Watpac applied a balanced accounting treatment in recognising revenue 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 AASB 15, FY18 revenue, and therefore margin, of \$3,076,000 would have been deferred to later years. This adjustment is reflected in the Retained Earnings opening balance adjustment.

#### (c) Sales of property

Revenue from the sale of property was previously recognised under AASB 18 when the significant risk and rewards of ownership had passed to the buyer and could be measured reliably. Risks and rewards of ownership may be passed on transfer of legal title or upon a sale contract being unconditional. AASB 15 requires control to have transferred to the customer for revenue to be recognised. The risks and rewards of ownership transferring does not equate to control having transferred, and as such revenue for sales of property is recognised at the time title transfers to the buyer.

The following table summarises the impact of transition to AASB 15 on retained earnings at 1 July 2018.

<i>In thousands of AUD</i>	<b>Note</b>	<b>Impact of adopting AASB 15 at 1 July 2018</b>
<b>Retained earnings</b>		
Progress measurement	(a)	(5,060)
Contract modifications	(b)	(3,076)
Impact at 1 July 2018		(8,136)

The following tables summarise the impact of adopting AASB 15 on the Group's statement of financial position as at 31 December 2018 and its statement of profit or loss and Other Comprehensive Income for the six months then ended for each of the line items affected. There was no material impact on the Group's statement of cash flows for the six months ended 31 December 2018.

## Notes to the Consolidated Financial Statements

### G3. New accounting policies (continued)

#### Impact on the consolidated statement of financial position

31 December 2018 <i>In thousands of AUD</i>	Note	As reported	Adjustments	Amounts without adoption of AASB 15
<b>Assets</b>				
Trade and other receivables	C1	43,247	42,257	85,504
Others		352,565	-	352,565
<b>Total assets</b>		395,812	42,257	438,069
<b>Liabilities</b>				
Trade and other payables	C5	246,650	33,103	279,753
Others		23,285	-	23,285
<b>Total liabilities</b>		269,935	33,103	303,038
<b>Equity</b>				
Retained earnings		(106,407)	9,154	(97,253)
Others		232,284	-	232,284
<b>Total equity</b>		125,877	9,154	135,031

#### Impact on the consolidated statement of profit or loss

For the period ended 31 December 2018 <i>In thousands of AUD</i>	As reported	Adjustments	Amounts without adoption of AASB 15
Revenue	530,970	2,966	533,936
Cost of sales	(505,343)	(1,949)	(507,292)
Other income	439	-	439
Net finance income	2,011	-	2,011
Others	(28,459)	-	(28,459)
<b>Profit for the period from continuing operations</b>	(382)	1,017	635

### G4. Changes in accounting policies

Other than the implementation of AASB 15 as detailed in G3, 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 2018.

### G5. Subsequent events

There has not arisen, since the end of the Reporting Period, 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.

# Independent Auditor's Report

To the shareholder of Watpac Limited

## 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 31 December 2018 and of its financial performance for the period ended on that date; and
- complying with *Australian Accounting Standards - Reduced Disclosure Requirements* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 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 period 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 period-end or from time to time during the financial period.

## 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.

## 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.

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 - Reduced Disclosure Requirements* 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.

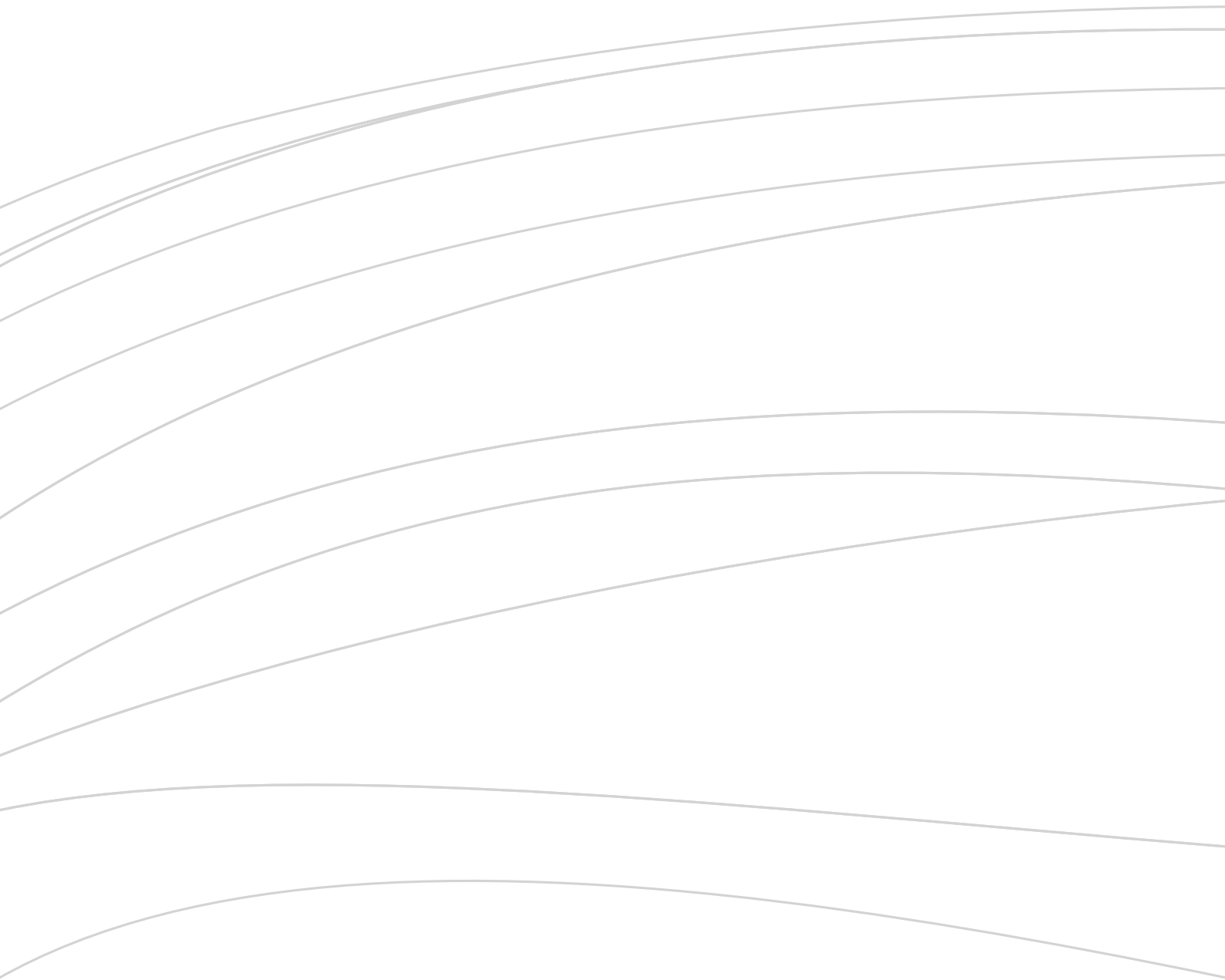
Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

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/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf) . This description forms part of our Auditor's Report.

KPMG

Scott Guse  
Partner  
Brisbane  
20 February 2019



[watpac.com.au](http://watpac.com.au)