



# **Watpac Limited**

## **2018 Corporate Governance Statement**

**DATE: 23 AUGUST 2018**

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## Executive Summary

The Board of Directors (**Board**) of Watpac Limited (**Watpac** or **Group**) is pleased to present Watpac's 2018 Corporate Governance Statement (**Statement**). The Statement has been dated 23 August 2018 by order of the Board.

Watpac's corporate governance principles have been framed with reference to the Australian Securities Exchange (**ASX**) Corporate Governance Council's (**Council**) principles and recommendations (3rd edition) (**Principles**). The Principles set out the recommended corporate governance practices for entities listed on the ASX that, in the Council's view, are likely to achieve good governance outcomes and meet the reasonable expectations of most investors in most situations.

Watpac has in place structures, policies, and procedures that have been developed by the Board to assist management to ensure operations are founded on the same core principles advocated by the Council. The Group's culture supports openness and transparency in the application of rules, relationships, systems and processes by which authority is exercised and controlled by the Board and Watpac's senior executives (**Senior Executives** or **Management**).

As has been recognised by the Council, the Board's determination on what are appropriate governance practices for Watpac is based on a range of factors, including the Group's size, complexity, history and corporate culture.

Where possible and appropriate, the Board seeks to adopt all of the Council's recommendations, and believes that the existence of robust corporate governance principles are for the benefit of all of Watpac's shareholders (**Shareholders**).

Included below is a summary of the Principles, together with an assessment of Watpac's corporate governance policies and procedures against the Council's framework.

## **1. Lay solid foundations for management and oversight**

A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.

### **1.1. Recommendation 1.1 – The roles of the board and management**

A listed entity should disclose:

- a) the respective roles and responsibilities of its board and management; and
- b) those matters expressly reserved to the board and those delegated to management.

Watpac has rules in place governing the respective roles and responsibilities of the Board and Management.

The Board is responsible to Shareholders for the Group's corporate governance practices, and is responsible for the direction and oversight of the Company's businesses on behalf of Shareholders.

The operation of the Board is governed by a Board Charter, which sets out the role and responsibilities of the Board and those delegated to Management. A copy of the Board Charter is available at <http://www.watpac.com.au/investor-centre/corporate-governance>.

The general responsibilities of the Board are listed below:

- protection and enhancement of company performance and shareholder value in accordance with any duties and obligations imposed on the Board by law and the Constitution of Watpac;
- the review and approval of the objectives and strategic direction of Watpac, developed with the Managing Director and the Group Senior Executive Team;
- establishing specialised committees where appropriate to assist in carrying out its responsibilities;
- ensuring integrity in financial reporting and monitoring the financial performance of Watpac by reviewing and approving budgets and monitoring results;
- approving the appointment, reappointment, termination and compensation of the external auditor, upon recommendation of the Audit and Risk Committee;
- the approval of Directors' Reports, Financial Statements and the Statement, profit forecasts and other reports required at law or under the ASX Listing Rules to be adopted by the Board;
- approving all significant business transactions including acquisitions, divestments and capital expenditure and ensuring proper capital management, including approving dividend payments;
- with the guidance of the Audit and Risk Committee, monitoring the adequacy of internal control systems and procedures and that compliance with these systems and procedures is maintained, and reviewing Watpac's risk management framework at least annually to satisfy itself that this continues to be sound;
- with the guidance of the Remuneration Committee, the review of performance and remuneration of Directors and employees;
- ensuring there is an effective corporate governance structure and practice in place;
- with the guidance of the Nomination Committee, monitoring Board composition and performance, and overseeing the Board succession planning process;
- monitoring systems of legal compliance and ensuring that Watpac Policies are adhered to by the Managing Director, Group Senior Executive Team and all Watpac employees;
- where required by any Watpac Policy, reviewing and approving any change to those Watpac Policies;
- ensuring that other appropriate policies, practices and procedures are in place to promote compliance with applicable laws;

- maintaining professional and ethical conduct at all times by complying with the code of conduct for Directors;
- promoting ethical and responsible decision making of the Managing Director, the Group Senior Executive Team and all other Watpac employees;
- ensuring the Group makes timely and balanced disclosure according to the Continuous Disclosure Policy;
- monitoring and ensuring that shareholders are informed of the Group's performance and major developments;
- performing other functions as are prescribed by the Constitution of the Company (**Constitution**), the *Corporations Act (2001)* (**Corporations Act**) and other applicable laws and regulations; and
- developing and reviewing the Company's values and corporate governance policies (including in respect of diversity and the measurable objectives for achieving diversity) and monitoring corporate culture, setting the tone from the top.

The Board delegates responsibility for the day-to-day operations and administration of Watpac to the Managing Director. This delegated responsibility is documented in various Group policy documents and the Watpac Schedule of Delegated Authority, and includes (but is not limited to):

- ensuring a safe workplace;
- promoting ethical and responsible decision making of the Group Senior Executive Team and all other Watpac employees;
- developing and recommending to the Board strategies, business plans and policies, and overseeing their ongoing management;
- negotiating terms and conditions of Senior Executive appointments;
- ensuring the Board is given sufficient information to enable it to perform its functions, assist with strategy setting and monitor performance;
- monitoring the financial performance and financial position of Watpac;
- ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed;
- ensuring the integrity of financial reporting;
- ensuring that appropriate policies, practices and procedures are in place to ensure compliance with applicable laws; and
- presenting regular reports to the Watpac Board detailing operational reviews, management accounts, financial statements (audited and unaudited), status reports, and marketing and public relations.

The Managing Director is accountable to the Board for all matters within his / her delegated authority.

## **1.2. Recommendation 1.2 – Checks conducted and information provided on new directors**

A listed entity should:

- a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and
- b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Watpac has in place requirements for appropriate checks to be undertaken before appointing a person as a Director. These include (where necessary):

- background reference checks;

- police checks; and/or
- receipt of an appropriately witnessed statutory declaration from the proposed Director confirming that they:
  - (i) have not been the subject of any criminal or civil penalty proceedings or other enforcement action by any government agency in which they were found to have engaged in behaviour involving fraud, dishonesty, misrepresentation, concealment of material facts or breach of duty;
  - (ii) have not been refused membership of, or had a membership suspended or cancelled by any professional body on the ground that they were engaged in behaviour involving fraud, dishonesty, misrepresentation, concealment of material facts or breach of duty;
  - (iii) have not been the subject of any disciplinary action (including any censure, monetary penalty or banning order) by a securities exchange or other authority responsible for regulating securities markets for failure to comply with his/her obligations as a director of a listed entity;
  - (iv) have not been a Director of a listed entity (or, in the case of a listed trust, in respect of which he/she was a director of the responsible entity) at the time conduct has been the subject of any disciplinary action (including any censure, monetary penalty, suspension of trading or termination of listing) by a securities exchange or other authority responsible for regulating securities markets; and
  - (v) are not aware of any pending or threatened investigation or enquiry by a government agency, professional body, securities exchange or other authority responsible for regulating securities markets that could lead to proceedings or action of the type described in (i), (ii), (iii) or (iv) above.

These checks are conducted before any Director is appointed by the Board and/ or put forward to Shareholders as a candidate for election, as a Director.

Furthermore Shareholders are provided, in a Notice of Meeting, with all material information the Board believes is relevant to a decision on whether or not Shareholders elect or re-elect a Director.

### **1.3. Recommendation 1.3 – Written agreements with directors**

A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

#### *Non-executive Directors*

All new Directors are required to enter into a written agreement pertaining to their role as a Director of Watpac.

Non-executive Directors' letters of appointment include confirmation that:

- The appointment is and will be governed by the Constitution, the Corporations Act, the *Corporations Regulations 2001* (Cth) and the ASX Listing Rules (**Listing Rules**).
- The Constitution requires that the appointment be confirmed by Watpac's shareholders at the next annual general meeting.
- Thereafter Non-executive Directors must retire from office as a Director and may submit themselves for re-election from time to time, as required by the Constitution and the ASX Listing Rules.
- The appointment may be terminated in accordance with the Corporations Act and the Constitution.
- During the period of appointment, Directors must carry out their duties as a Director in accordance with their fiduciary and common law duties, the duties and powers of directors set

out in the Corporations Act, the Listing Rules, other relevant pieces of legislation, and the Constitution.

- Directors are required to comply with all of the Board and Board Committee charters, policies, codes and procedures in force, as well as such other requirements or policies as the Board may specify from time to time.
- It is expected that a Director of Watpac will commit a significant number of hours each month to the Group and that all Directors will devote sufficient time to adequately discharging duties as Directors and to be fully prepared for all meetings.
- Directors will receive Directors' fees (including Board and applicable Committee membership fees) commencing from their date of appointment as a Director, and that this amount may be reviewed from time to time, and is subject to the requirements of the Constitution.
- Directors must not place themselves in a position where duties to Watpac conflict with their own personal interests or duties to another organisation.
- Watpac will enter into a Deed of Indemnity, Access and Insurance with each Director, which sets out the rights and obligations of Watpac and Directors in relation to indemnification, maintenance of insurance and access to Board documents.
- Any confidential information which is acquired by a Director during their tenure as a Director of Watpac must be kept confidential and not used for any purpose other than the performance of their duties as a Director. This is in addition to Directors' obligations under the Corporations Act, the Constitution and the general law.

#### *Executive Directors and Senior Management*

The Managing Director and all other employees (including Senior Executives) have written letters of appointment. These employment agreements include details such as:

- terms of employment such as commencement date, term, location, hours of work and remuneration;
- performance review process;
- leave entitlements;
- details of key Group policies and the requirement for employees to comply with all other policies and procedure documents;
- termination provisions; and
- confidentiality, intellectual property rights and post-employment restrictions.

In addition, each employee of the Group is provided with a position description which details:

- key information relevant to the position;
- key responsibilities;
- delegated authority; and
- required skills and experience.

The Group's employment contracts are reviewed regularly and updated as and when required for all new employees, or where existing employees have a change in role or responsibility that warrants a new employment contract.

Further details on the Group's employment arrangements with Non-executive Directors, Executive Directors and Senior Management can be found in the 2018 Watpac Remuneration Report, which forms part of the Watpac 30 June 2018 Financial Report available at <http://www.watpac.com.au/investor-centre/publications>.

**1.4. Recommendation 1.4 – Reporting line of company secretary**

The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The role of Watpac's Company Secretary is to:

- ensure that Watpac conforms to its obligations under the Listing Rules and requirements of the Australian Securities and Investments Commission (**ASIC**) and that all other Group companies comply with the requirements of ASIC;
- attend to the execution of corporate documents as required/authorised;
- supervise all share register related activities emerging from secretarial duties;
- as directed by the Chair, make arrangements for and give notice of all Board and Shareholder meetings;
- direct the preparation of all minutes, agendas, notices, and other correspondence related to meetings of the Board and Board Committees as required;
- direct preparation of the Group's annual report; and
- perform special assignments as requested by the Board.

Watpac's Company Secretary reports directly to the Board through the Chair, however all Directors have direct access to the Company Secretary to assist with the proper discharge of their duties.

**1.5. Recommendation 1.5 – Diversity policy and achievement against objectives**

A listed entity should:

- a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;
- b) disclose that policy or a summary of it; and
- c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:
  - 1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or
  - 2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.

Watpac is committed to providing an inclusive workplace and an organisational culture that embraces diversity and equality.

In the 2018 financial year, the Group implemented a new Inclusion and Diversity Policy providing a framework for achieving a diverse and skilled workforce, a workplace characterised by inclusive practices and behaviours, and a workplace environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives. This policy applies to Directors, employees, consultants, sub-contractors and all other parties transacting with the Group.

With the guidance of the Remuneration Committee, the Board of Directors review and assess the objectives contained in the Group's Inclusion and Diversity Policy annually and monitor progress towards the achievement of these objectives and relating implementation initiatives and programs.

To support the achievement of the policy's objectives, the Group also established a national Inclusion and Diversity Committee in the 2018 financial year. Members of the Inclusion and Diversity Committee

have been selected from across the Group and work with our senior executives to help shape, promote and encourage inclusiveness and diversity within Watpac.

Watpac also has a specific Gender Equity Strategy, which strives to cultivate a workplace allowing each employee to achieve their very best potential.

The Group operates in business sectors that have traditionally had low representation of women. This means that the availability of employees and workers with industry experience can be a limiting factor in achieving gender diversity. To address this issue the Group has implemented a long-term strategy of developing the work environment and workplace culture to be more attractive to all existing and potential employees, including women, and to allow each employee to achieve his or her potential.

The Board believe that the implementation of policies and associated training in the area of diversity, equal employment opportunities, harassment and bullying, and occupational health and safety form part of the Group's inherent corporate responsibility.

The Group's gender equity objectives are:

- to improve gender diversity in non-traditional industries and locations;
- safeguard equity in remuneration; and
- ensure diversity in the talent pipeline.

The specific business activities and objectives which form part of the Group's current Diversity Program are as follows:

<b>Business Activity</b>	<b>Objectives</b>
Recruitment and staffing	<ul style="list-style-type: none"><li>• Improve gender diversity in non-traditional industries and locations</li></ul>
Remuneration	<ul style="list-style-type: none"><li>• Remuneration Equity</li></ul>
Career Development and Leadership Diversity	<ul style="list-style-type: none"><li>• Increase the percentage of women in leadership roles</li><li>• Diversity in talent pipeline</li></ul>

Demonstrating and championing appropriate actions and behaviours that support achievement of diversity and gender equity objectives remains a key non-financial individual performance measure in the Group's Short Term Incentive Plan, which operates for selected key Senior Executives of the Group. The Group currently employs approximately 734 staff, of which approximately 15.80% are female. There is one female staff member on the Group Senior Executive Team (which currently comprises 10 personnel) and two of seven Non-executive Directors are female.

The gender diversity exhibited by the Watpac Board continues as a positive demonstration of the Group's commitment to its measurable objectives in this area.

The Group was awarded a notice of compliance by the Workplace Gender Equality Agency, attesting the Group's compliance with the Workplace Gender Equality Act 2012 during the 2017-2018 reporting period.

In addition to gender diversity, the Group is also focused on promoting cultural, religious and ethnic diversity and inclusiveness. Watpac has a formal Indigenous Engagement Policy which articulates the Group's commitment to becoming a valued partner to indigenous communities and creating increased opportunities for employment and engagement.

In accordance with the policy, a cross-functional group with members drawn from across the organisation has been formed to play a key role in formulating a Reconciliation Action Plan. The plan has been developed in conjunction with Reconciliation Australia (Australia's preeminent body for the promotion and facilitation of reconciliation between the wider Australian community and Aboriginal and Torres Strait Islander peoples) and is expected to receive their official endorsement in the coming months. This plan will form the basis for the Group to build its indigenous workforce and generate stronger links with Aboriginal communities moving forward, with a number of initiatives already underway.

#### **1.6. Recommendation 1.6 – Evaluating the performance of the board**

A listed entity should:

- a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and
- b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board has delegated responsibility for the evaluation of the performance of the Board, its committees and individual Directors to the Group's Nomination Committee. The Board has defined this committee's purpose to, amongst other duties, assist the Board in its oversight of the following key matters:

- the assessment of the performance of individual Directors and the endorsement of retiring Directors seeking election; and
- assisting the Board as required in relation to the performance evaluation of the Board as a whole, its committees and individual Directors, and in developing and implementing plans for identifying, assessing and enhancing Director competencies.

Substantial changes have occurred to the Watpac Board over the period since the Group's previous Corporate Governance Statement including:

- the retirement of previous Chair Richard McGruther as a Director, effective 25 August 2017;
- the appointment of Peter Watson as Chair, effective 25 August 2017;
- the resignation of Johan Beerlandt as a Director and his appointment as an Alternate Director, effective 23 August 2017; and
- the appointment of Rik Vandenberghe as a Director, effective 23 August 2017.

The Nomination Committee engaged an external party to undertake an externally facilitated evaluation of performance of the Board in the 2018 financial year.

This review included individual interviews with Directors and selected members of the Group Senior Executive Team to assist with an assessment of the effectiveness and performance of the Board. This review concluded that the Board is functioning effectively against the majority of its key responsibilities. Some minor improvement opportunities were identified, however, and are in the process of being implemented.

#### **1.7. Recommendation 1.7 – Evaluating the performance of senior executives**

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and

(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

Watpac has in place comprehensive processes for the evaluation of the Managing Director and Senior Executives. While performance is monitored continuously, Watpac also has a structured annual performance review process that provides for an assessment of employees’:

- performance against the Group’s core values of One Team, Commitment, Inspiration, Innovation and Candour;
- achievement of previously identified performance goals and personal development objectives;
- new performance goals and personal development objectives for the following 12 months;
- core competencies and identification of strengths and weaknesses, focussing on improvement areas and how these can be achieved;
- short and long term personal development plans; and
- on the job and other development opportunities.

In the 30 June 2018 financial year a performance appraisal was undertaken on the Managing Director and each Senior Executive of the Group.

The outcome of the performance assessments of the Managing Director and Senior Executives are a key non-financial performance measure used by the Chair (in the case of the Managing Director) and the Managing Director (in the case of Senior Executives) when assessing any remuneration matters, including salary reviews and/or awards due under the Group’s Short Term Incentive Plans.

## 2. Structure the board to add value

A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

### 2.1. Recommendation 2.1 – Nomination committee

The board of a listed entity should:

- a) have a nomination committee which:
  - 1) has at least three members, a majority of whom are independent directors; and
  - 2) is chaired by an independent director, and disclose:
    - 3) the charter of the committee;
    - 4) the members of the committee; and
    - 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings;
- or
- b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

Details of the current members of the Nomination Committee are included below.

<b>Director</b>	<b>Independence</b>
Linda Evans (Chair)	Independent
Peter Watson (from 25 August 2017)	Independent
Carlo Schreurs	Not Independent

The Nomination committee therefore has at least three members, a majority of whom are independent Directors, and it is chaired by an independent Director.

The Board has defined the Nomination Committee's purpose as assisting the Board in its oversight of:

- the identification of suitable candidates for appointment to the Board, the Managing Director position, and members of the Group Senior Executive Team (as appropriate and following consultation with and recommendation by the Managing Director);
- the plan for succession of the Managing Director and periodic evaluation of it;
- the assessment of the performance of individual Directors and the endorsement of retiring Directors seeking re-election;
- assisting the Board to develop a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership;
- undertaking appropriate checks before appointing a person, or putting forward to shareholders a candidate for election, as a Director;
- monitoring the length of service of current Board members, considering succession planning issues and identifying the likely order of retirement by rotation of non-executive Directors;
- assisting the Board as required in relation to the performance evaluation of the Board, its committees and individual Directors (as appropriate), and in developing and implementing plans for identifying, assessing and enhancing director competencies; and

- reviewing any Annual Report disclosures relevant to the functions of the Nomination Committee, including any statement detailing the Committee’s activities and the process used for appointments.

The Nomination Committee’s roles and responsibilities are governed by the Nomination Committee Charter. A copy of this charter is available at <http://www.watpac.com.au/investor-centre/corporate-governance>.

Further information on the relevant qualifications and experience of the members of the Group’s Nomination Committee and the number of times the committee met during the 30 June 2018 financial year can be found in the Directors’ Report included in the Group’s 30 June 2018 Annual Report, which is available at <http://www.watpac.com.au/investor-centre/publications>.

**2.2. Recommendation 2.2 – Board skills**

A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Board has developed and adopted a skills matrix. This skills matrix identifies:

- the current skills, knowledge, experience and capabilities of the Board, and
- any gaps in skills or competencies that can be addressed in future Director appointments.

This matrix, current as at the date of the Statement is as follows:

**Watpac Limited  
Board Skills Matrix  
From 24 August 2017 to 23 August 2018**

Desired skills	Directors with specific and significant expertise in this area *	Targeted minimum number of Directors with such expertise *	Target Met?
Significant executive experience	5	4	Yes
Significant non-executive experience	3	3	Yes
Industry and sector experience or knowledge			
Construction	4	4	Yes
Mining	2	2	Yes
Civil	5	4	Yes
Property	4	4	Yes
Leadership	7	7	Yes
Governance and compliance	5	4	Yes
Strategic thinking	7	7	Yes
Desired behavioural competencies	7	7	Yes
Geographic experience	5	2	Yes
Subject matter expertise			
Accounting	3	3	Yes
Capital management	5	3	Yes
Corporate finance	3	3	Yes
Taxation	2	2	Yes
Risk management	7	7	Yes
Legal	5	3	Yes
Information Technology	4	2	Yes
Human Resources	4	3	Yes
Workplace health and safety	7	7	Yes
Industrial Relations	6	4	Yes
Environment and sustainability	6	4	Yes
Public policy or government relations	6	4	Yes
Community relations	6	4	Yes

This skills matrix is aimed at clarifying board thinking on composition and is used by the Nomination Committee for Board assessment purposes. The disclosure of the skills matrix applicable to the Board is aimed at providing confidence to the Shareholders on the Board's decision-making credentials.

All skills targets were met throughout the entire financial year, demonstrative of the comprehensive work that has been completed by the Nomination Committee and Board on execution of the Board rejuvenation strategy in recent years.

### **2.3. Recommendation 2.3 – Director independence and length of service**

A listed entity should disclose:

- a) the names of the directors considered by the board to be independent directors;
- b) if a director has an interest, position, association or relationship of the type described in the Principles but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and
- c) the length of service of each director.

In making its assessment of independence, the following interests, positions, associations and relationships have been considered by the Board:

- **Executive Capacity** - is, or has the Director been, employed in an executive capacity by Watpac or any subsidiaries, and there has not been a period of at least three years between ceasing such employment and serving on the Board.
- **Professional Services Provider** - is, or has the Director within the last three years been, a partner, director or senior employee of a provider of material professional services to Watpac or any subsidiaries.
- **Business Relationship** - is, or has the Director been within the last three years, in a material business relationship (e.g. as a supplier or customer) with Watpac or any subsidiaries, or an officer of, or otherwise associated with, someone with such a relationship.
- **Substantial Holder** - is the Director a substantial security holder of Watpac or an officer of, or otherwise associated with, a substantial security holder of Watpac.
- **Contractual Relationship** - does the Director have a material contractual relationship with Watpac or any subsidiaries other than as a director.
- **Family Ties** - does the Director have close family ties with any person who falls within any of the categories described above.
- **Tenure** - has the Director been in office at Watpac for such a period that his or her independence may have been compromised.

These criteria are taken from the Principles and have been deemed appropriate by the Board.

Details on the composition of Watpac's Board and its assessment of the independence of each Director, which has been determined with reference to the specific criteria listed above, is detailed in the following table.

Watpac Limited  
Board Independence Matrix  
As at 23 August 2018

Name	Date of Appointment	Executive Capacity	Professional Services Provider	Assessed as Impact on Independent Judgement					Tenure	Independent?
				Business Relationship	Substantial Holder	Contractual Relationship	Family Ties			
Bronwyn Morris	3/02/15	×	×	×	×	×	×	×	×	Yes
Carlo Schreurs / Johan Beerlandt	10/10/14	×	×	×	✓	×	×	×	×	No
Garret Dixon	12/02/14	×	×	×	×	×	×	×	×	Yes
Linda Evans	25/08/15	×	×	×	×	×	×	×	×	Yes
Martin Monro	10/10/14	✓	×	×	×	×	×	×	×	No
Peter Watson	1/07/17	×	×	×	×	×	×	×	×	Yes
Rik Vandenberghe / Geert Aelbrecht	23/08/17	×	×	×	✓	×	×	×	×	No
									Total independent	4
									% of Board independent	57%
									Target	50%
									Target Met?	Yes

As a nominated Director of the Group’s major shareholder BESIX Group, which currently holds approximately 28% of the shares on issue, and being the Chief Executive Officer of that organisation, Mr Rik Vandenberghe has been assessed by Directors as being a non-independent Director. Similarly, Mr Carlo Schreurs, who is also a nominee of BESIX Group and its Chief Development Officer, has also been assessed by Directors as not being an independent Director of Watpac.

While not being classified as independent, the Board does not believe that the actions of either Mr Vandenberghe or Mr Schreurs are in any way impaired, but rather that their decisions are always made in the best interests of Watpac’s shareholders. Both Mr Vandenberghe and Mr Schreurs bring substantial skills and experience to the Board, and play an active and important role on the Board.

Mr Martin Monro, the Managing Director of the Group, has not been classified as an independent Director given his executive role within Watpac.

The overriding objective of the Board is to ensure it is comprised of members with the appropriate skills and attributes to maximise value for Shareholders.

**2.4. Recommendation 2.4 – Composition of the board and independence**

A majority of the board of a listed entity should be independent directors.

As is noted above, Watpac's Board currently complies with the requirement of the Principles to have a majority of independent Directors.

**2.5. Recommendation 2.5 – Independence of the chair from the CEO role**

The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

Mr Watson, the current Chair of the Board, has been determined to be independent by the other Directors.

Mr Martin Monro currently occupies the position of Managing Director/CEO, and is therefore independent of the role of Chair of the Board.

**2.6. Recommendation 2.6 – New director induction**

A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

The Group has an extensive program for inducting new Directors. This includes the provision of a substantial amount of information relevant to the operation of the Group and the Board, including:

- a Group structure chart;
- details of key personnel, including the contact details of other Board members and members of the Watpac Group Senior Executive Team;
- the Constitution;
- Group insurance details;
- the Directors' Code of Conduct;
- copies of the Board Charter and Board Committee Charters;
- the Group's Material Personal Interest Policy;
- the Securities Trading Policy;
- Directors' Guide;
- historical reports on Watpac's financial and operational performance, as required; and
- copies of previous Board meeting minutes and papers, as required.

New Directors also:

- visit at least one project site soon after their appointment, and receive a site-based induction, including a safety induction and complete a site safety walk; and
- have additional focussed discussions regarding the company and its operations with the Chair of the Board, Managing Director and Company Secretary over the first six months of their tenure as a Director.

The Nomination Committee is responsible for overseeing the induction process for any new Director, and is also delegated the responsibility to review and make recommendations to the Board in relation to Directors' training and development opportunities.

### **3. Act ethically and responsibly**

A listed entity should act ethically and responsibly.

#### **3.1. Recommendation 3.1 – Code of conduct**

A listed entity should:

- a) have a code of conduct for its directors, senior executives and employees; and
- b) disclose that code or a summary of it.

Watpac has in place the following policies, which apply to all of the Group's Directors and employees:

- Code of Business Conduct and Ethics;
- Gifts and Hospitality Policy; and
- Fraud and Unethical Conduct Policy.

The Code of Business Conduct and Ethics provides employees with guidance on the way they are expected to work and their responsibilities and obligations with respect to acceptable and unacceptable behaviour and conduct in the workplace. This includes day-to-day operations as well as guidance for handling an ethical dilemma or conflict of interest in the workplace.

Watpac's Gifts and Hospitality Policy details the circumstances in which employees can offer or receive a gift (including hospitality or attending events). The Gifts and Hospitality Policy includes a requirement that all gifts/hospitality valued at \$300 or more must be declared.

Watpac has no tolerance for fraudulent or unethical conduct. The Fraud and Unethical Conduct Policy provides employees with examples of such behaviour and, importantly, encourages employees to report any behaviour or situation which breaches or potentially breaches the Code of Business Conduct and Ethics or the law.

Watpac also has a Whistleblower Service, which is accessible to all employees of the Group. This Whistleblower Service encourages employees to report any behaviour or situation which is considered to be fraudulent or unethical conduct. This service also provides employees with a confidential means to report or escalate potential concerns that relate to fraud or unethical conduct quickly and easily, and operates 24 hours a day, 7 days a week.

Watpac also has a specific Code of Conduct for Directors.

A copy of the Code of Conduct for Directors can be found on the Group's website at <http://www.watpac.com.au/investor-centre/corporate-governance>.

The Board encourages the highest standards of ethical conduct by all Directors and employees of the Group.

The Managing Director and other members of the Group Senior Executive Team investigate all unethical and irresponsible conduct by employees, with appropriate levels of disciplinary action applied where departures from the Group's principles are found.

More severe incidents are investigated under the direct instruction of the Group's Audit & Risk Committee and may involve the use of external consultants.

#### 4. Safeguard integrity in corporate reporting

A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

##### 4.1. Recommendation 4.1 – Audit committee

The board of a listed entity should:

- a) have an audit committee which:
  - 1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and
  - 2) is chaired by an independent director, who is not the chair of the board, and disclose:
    - 3) the charter of the committee;
    - 4) the relevant qualifications and experience of the members of the committee; and
    - 5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

Watpac has an Audit and Risk Committee, which operates in accordance with a formal Charter approved by the Board. A copy of this charter can be found at <http://www.watpac.com.au/investor-centre/corporate-governance>.

The primary purpose of the Audit and Risk Committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities by reviewing and reporting to the Board on the following matters:

- the integrity of financial statements;
- internal control systems and risk management;
- the objectivity and effectiveness of internal auditors;
- the independence, objectivity and effectiveness of external auditors;
- the formal policy on the provision of non-audit services;
- Group insurances; and
- corporate governance controls generally.

Details of the current members of the Audit and Risk Committee are included below.

<b>Director</b>	<b>Independence</b>
Bronwyn Morris (Chair)	Independent
Linda Evans	Independent
Carlo Schreurs	Not Independent

This Board committee therefore comprises at least three members, a majority of whom are independent Directors and is chaired by an independent Director.

Further information on the relevant qualifications and experience of the members of the Group's Audit & Risk Committee and the number of times the committee met during the 30 June 2018 Financial Year can be found in the Directors' Report included in the Group's 30 June 2018 Annual Report at <http://www.watpac.com.au/investor-centre/publications>.

#### **4.2. Recommendation 4.2 – CEO and CFO declaration**

The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Managing Director / Chief Executive Officer and the Chief Financial Officer provide a statement in accordance with section 295A of the Corporations Act to the Board each reporting period, prior to the Directors' Declaration being made to adopt the Half Year and Annual Financial Reports.

The Managing Director / Chief Executive Officer and the Chief Financial Officer are also required to provide the Board with a representation letter pertaining to the key inputs into the half and full year financial results of the Group.

#### **4.3. Recommendation 4.3 – Annual General Meeting**

A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The Board encourages full participation of shareholders at Annual General Meetings (**AGM**) to ensure a high level of accountability and identification with the Group's strategy and goals. The Group's auditor attends the AGM and is available to Shareholders should they have any questions.

Shareholders are also given the opportunity to submit questions to the Group's auditor in advance of the AGM.

## 5. Make timely and balanced disclosure

A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

### 5.1. Recommendation 5.1 – Continuous disclosure

A listed entity should:

- a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
- b) disclose that policy or a summary of it.

The Directors have established processes and procedures for complying with The Company's continuous disclosure obligations under the ASX Listing Rules, which are documented in the Group's Continuous Disclosure Policy.

The purpose of this Continuous Disclosure Policy is to:

- set out the general and continuous disclosure obligations of Watpac under the Listing Rules and the Corporations Act;
- ensure Watpac's commitment to these disclosure obligations is communicated throughout the organisation; and
- develop processes to ensure and monitor compliance with this policy.

The policy covers various topics, including:

- when information must be disclosed;
- exceptions to the general disclosure rules;
- examples of matters that would require disclosure;
- who determines what should be disclosed;
- the use of trading halts and voluntary suspensions;
- process for the release of ASX announcements;
- appropriate responses to market speculation and rumours; and
- processes for dealing with media and analysts.

Watpac's Continuous Disclosure Policy ensures that matters having a material effect on the price of the Company's securities are notified to ASX in a timely manner.

A copy of the Group's Continuous Disclosure Policy can be found at <http://www.watpac.com.au/investor-centre/corporate-governance>.

All announcements made on ASX are published on Watpac's website.

## 6. Respect the rights of security holders

A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

### 6.1. Recommendation 6.1 – Shareholder information available on websites

A listed entity should provide information about itself and its governance to investors via its website.

Watpac provides a substantial amount of information on the Group's operations on its website, [www.watpac.com.au](http://www.watpac.com.au). This information includes:

- the names and brief biographical information for each Director and Senior Executive;
- the Board Charter and the charters of each Board Committee; and
- the Group's corporate governance policies and other corporate governance materials.

The Company aims to keep shareholders informed of all major developments in an ongoing manner as follows:

- All shareholders are provided with a hard copy of, or access to an electronic copy of:
  - a full annual report, which includes relevant information about the operations of the Group during the past financial year, changes in the state of affairs and details of future developments.
  - a half-yearly update containing summarised information relating to the financial performance for the half-year including a review of the activities of the Company for that period.
- The annual and half-yearly financial reports are lodged with ASX, and are available to view both via ASX and on the Watpac website.
- All other ASX announcements, including regular project updates and media releases relating to the Group's activities are made available on the Watpac website.

Watpac's website also has a dedicated Investor Centre. This includes:

- recent ASX announcements;
- matters of Corporate Governance; and
- details relevant to the maintenance of Shareholders' securities in Watpac.

### 6.2. Recommendation 6.2 – Investor relations program

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

Watpac has in place an investor relations program, which is based around increasing the investment community's awareness and level of understanding of the Group's activities.

There are two key objectives underpinning Watpac's investor relations strategy, being:

- to build relationships with buy and sell-side research analysts to encourage a broader understanding of the Group's activities; and
- to maintain relationships with existing investors and build relationships with potential new investors not currently on the Watpac share register.

In addition to undertaking investor road shows, Watpac's Managing Director and Chief Financial Officer regularly attend meetings with current and prospective shareholders, analysts and brokers, in an attempt to fulfil these broad objectives.

The Chair of the Board and Chair of the Remuneration Committee also attend meetings with current shareholders and their advisors as is deemed necessary.

### **6.3. Recommendation 6.3 – Encouraging shareholder participation at meetings**

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

At each general meeting of Watpac, the chair of the meeting provides shareholders and authorised proxy holders with an opportunity to ask questions in relation to any voting item to be considered at the meeting and / or any other aspect of the company's past operations and financial performance or future strategies.

Furthermore shareholders not able to attend the meeting are provided with an opportunity to submit a written question to the Group's auditor prior to an Annual General Meeting, provided that the question relates to:

- the content of the Auditor's Report; or
- the conduct of the audit in relation to the Financial Report.

### **6.4. Recommendation 6.4 – Option of electronic communication for shareholders**

A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

Watpac's share registry provides the option for shareholders to receive communication electronically, and similarly send communication electronically.

Furthermore shareholders are equally able to correspond with Watpac via electronic communication.

Shareholders can update preferences by accessing the Investor Centre on Watpac's website at [www.watpac.com.au](http://www.watpac.com.au).

## **7. Recognise and manage risk**

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

### **7.1. Recommendation 7.1 – Risk committee**

The board of a listed entity should:

- a) have a committee or committees to oversee risk, each of which:
  - 1) has at least three members, a majority of whom are independent directors; and
  - 2) is chaired by an independent director, and disclose:
    - 3) the charter of the committee;
    - 4) the members of the committee; and
    - 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings;
- or
- b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework. A listed entity should provide information about itself and its governance to investors via its website.

Watpac has a combined Audit and Risk Committee, a primary purpose of which is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to recognising and managing risk.

Additional information on the Group's Audit and Risk Committee is included in section 4.1 above.

### **7.2. Recommendation 7.2 – Review of risk management framework**

The board or a committee of the board should:

- a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and
- b) disclose, in relation to each reporting period, whether such a review has taken place.

The Watpac Board places a high priority on the management of risk. The Managing Director, Company Secretary and Group Risk and Compliance Manager work closely with the Group Senior Executive Team and report regularly to the Audit and Risk Committee on the status of the Group's risks. The assessment of risk is an ongoing process.

The Group's risk management objective is to protect and enhance shareholder value, while safeguarding its people, reputation and operating environment through continuous improvement and innovation in our approach to risk management.

Watpac's approach to risk management is guided by the International Standard on Risk Management ISO31000. In addition to operational and financial risk, the Group is also committed to implementing a best practice approach in the key categories of Legal and Compliance Risk and Environment, Health and Safety Risk.

At Watpac, safety is an absolute priority and a core value, and the Board is acutely aware of its safety, social and environmental responsibilities. The Group's national management systems have been accredited at the highest level, achieving certification for AS4801 (Safety), ISO9001 (Quality Assurance)

and ISO14001 (Environmental) standards. The Board is committed to continually improving the Company's systems and performance.

The approach to enterprise risk management is also focused on identifying opportunities to enhance value, increase competitive advantage and improve profitability.

The Group's risk management policies are designed to:

- integrate risk management within all project planning and management processes;
- identify, evaluate, treat, monitor, quantify and report all significant risks to the Group's Audit and Risk Committee;
- ensure all risk management evaluations take into account any potential value creation, or competitive advantage, which may be derived for the business;
- provide the information, training and processes to enable our people to effectively implement and maintain risk management practices;
- ensure risks and business objectives are appropriately balanced when designing risk treatments and risk transfer arrangements to drive business value; and
- encourage our associated entities, suppliers and subcontractors to adopt Watpac's risk management practices.

Risk management and internal controls are in place to manage assessed key business risks throughout the Group.

Corporate employees, acting as a second line of defence in the risk governance framework undertake regular project reviews. Key project and business risk areas are continually monitored and reported within each operating division in accordance with the Group's risk management framework.

The Group's internal control environment is also continually monitored, reported to and discussed by the Audit and Risk Committee. Amendments to the Group's internal control environment are overseen by the Managing Director, Company Secretary and the Group Risk and Compliance Manager, with formal approval for any changes required to be endorsed by the Audit and Risk Committee.

The Group's risk management framework is subject to annual review by the Audit and Risk Committee, and risk appetite subject to annual review by the full Board.

### **7.3. Recommendation 7.3 – Internal audit**

A listed entity should disclose:

- a) if it has an internal audit function, how the function is structured and what role it performs; or
- b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

Watpac has in place tailored internal audit procedures across a number of key aspects of the Group's operations, which is executed under a structured internal audit program.

The Group's internal audit activities are currently:

- undertaken by both internal personnel and specialist internal audit consultants; and
- subject to work activities approved by the Audit and Risk Committee following recommendation by the Group Risk and Compliance Manager and/or the Group's internal audit advisors, or by others identified as appropriate by the Audit & Risk Committee, and are based on key project, business unit and Group-level risks.

The Group operates a rolling three-year internal audit program, which guides the work effort of the internal audit team. This plan is regularly reviewed and amended as necessary, to take into account the actual risks facing the Group, their severity and any changes to levels of risk.

**7.4. Recommendation 7.4 – Material exposure to certain risks**

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those.

At present the Group's future operating and financial performance is predominantly subject to sector-specific and general economic risks.

Details of the Board's assessment of these risks are included in the 2018 Directors' Report, which forms part of the 30 June 2018 Financial Report, and which can be accessed at <http://www.watpac.com.au/investor-centre/publications>.

## 8. Remunerate fairly and responsibly

A listed entity should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders.

### 8.1. Recommendation 8.1 – Remuneration committee

The board of a listed entity should:

- a) have a remuneration committee which:
  - 1) has at least three members, a majority of whom are independent directors; and
  - 2) is chaired by an independent director, and disclose:
    - 3) the charter of the committee;
    - 4) the members of the committee; and
    - 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings;
- or
- b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

Watpac has a Remuneration Committee, which operates in accordance with a formal Charter approved by the Board. A copy of this charter can be found at <http://www.watpac.com.au/investor-centre/corporate-governance>.

The purpose of the Remuneration Committee is to review and make recommendations to the Board in relation to the overall remuneration policy for Watpac and, specifically:

- Non-executive Director remuneration;
- remuneration of the Managing Director, and on the recommendation of the Managing Director, other members of the Group Senior Executive Team and other Senior Executives;
- the implementation of, and amendment of, any short term or long term incentive plans;
- the annual performance review of the Managing Director; and
- other matters referred to the committee by the Board.

The Remuneration Committee also monitors management of succession planning and assists the Chair of the Board in the annual performance review of the Managing Director. In fulfilling its responsibilities, the Remuneration Committee monitors Group wide remuneration levels with reference to independent market assessments and is responsible for the Company's policies in respect of short and long-term incentives, and retirement and termination benefits.

Remuneration levels are competitively set to attract and retain the most qualified and experienced Directors and Senior Executives. The Remuneration Committee also obtains independent advice where required on the appropriateness of remuneration packages given trends in comparative companies, both locally and nationally.

Details of the current members of the Remuneration Committee are included below.

<b>Director</b>	<b>Independence</b>
Garret Dixon (Chair)	Independent
Peter Watson (from 25 August 2017)	Independent
Rik Vandenberghe (from 23 August 2017)	Not Independent

This Board committee therefore has at least three members, a majority of whom are independent Directors and is chaired by an independent Director.

Further information on the relevant qualifications and experience of the members of the Group's Remuneration Committee and the number of times the committee met during the 30 June 2018 Financial Year can be found in the Remuneration Report included in the Group's 30 June 2018 Annual Report at <http://www.watpac.com.au/investor-centre/publications>.

## **8.2. Recommendation 8.2 – Remuneration policies and practices**

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

Further information on the policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other Senior Executives can be found in the Remuneration Report included in the Group's 30 June 2018 Annual Report at <http://www.watpac.com.au/investor-centre/publications>.

## **8.3. Recommendation 8.3 – Limiting economic risks of equity-based remuneration**

A listed entity which has an equity-based remuneration scheme should:

- a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
- b) disclose that policy or a summary of it.

Employees participating in equity-based remuneration schemes are bound by the terms of the Watpac Securities Trading Policy, which can be found at <http://www.watpac.com.au/investor-centre/corporate-governance>.

Under the terms of this policy, participants may not trade in instruments or other financial products which operate to limit the economic risk of any Watpac securities held under any equity based incentive schemes provided by Watpac while those holdings are subject to performance hurdles or are otherwise unvested.

Any sale or other trade involving those securities, once performance hurdles have been met and they have vested, must be done in compliance with the terms of the Securities Trading Policy.