

Shareholder Newsletter | 2017

On 16 February 2017 Watpac Limited reported a statutory net profit after tax of \$0.6 million for the half year ended 31 December 2016 (1HFY17), reflecting a return to profitability for the Group's Civil & Mining business, as east coast residential construction activity and its associated cost escalation pressures diminished the performance of the Construction business.

Welcome

As a national construction and civil and mining company we are committed to providing value to all of our stakeholders, including our clients, employees, the communities in which we work and, importantly, our shareholders. In recent years, Watpac has worked hard to build a strong and healthy foundation for sustainable future growth, which will ultimately benefit these stakeholders.

We are pleased to be able to report that, through our highly skilled employees and subcontractors, we continue to deliver projects of excellence throughout Australia. This includes critical social infrastructure that has a long and enduring benefit to a wide variety of communities. While shareholder returns are down on expectations, both of our operating divisions remain profitable.

The Construction and Civil & Mining businesses recorded pre-tax profits of \$10.1 million (1HFY16: \$20.6 million) and \$2.8 million (1HFY16: pre-tax statutory loss of \$45.8 million) respectively in the first half of the 2017 financial year. Overall, the Group reported an underlying net profit after tax of \$3.1 million (1HFY16: \$6.7 million).

Although this is down from the comparative period, we believe our focus on selective tendering, client relationships, the development of innovative and cost effective methods, coupled with our strong financial platform, provides a strong base from which to continue to deliver value through the current cycle. Despite our financial results being below expectations, we are proud of our achievements, and importantly the way in which we deliver our projects.

It has been pleasing to see the Group's Civil & Mining business remain profitable given the challenges continuing in this sector. This business' attention to production and cost efficiencies through our innovative problem solving culture results in positive outcomes not only for Watpac, but also our clients. We firmly believe the previous redistribution of our mining project portfolio to those sectors offering better long-term stability has created stronger opportunities for future value creation.

Despite performing profitably, the challenges of Queensland's residential construction activity and its associated cost pressures did have a negative impact on the results reported by our Construction division. Additionally our work-in-hand reduced over the reporting period, however this is a direct result of our disciplined approach to project selection and a focus on projects and sectors where we believe we can bring the most value.



Martin Monro and Richard McGruther

Watpac ended the first half of the 2017 financial year with a forward order book of approximately \$1.2 billion. Through the conversion of projects like the Herston Quarter Redevelopment in Brisbane, a significant social infrastructure project for Australian Unity, Watpac's work-in-hand has improved to almost \$1.4 billion as at 31 March 2017. We remain confident that our targeted work winning strategies will continue to deliver a pipeline of projects in a sustainable manner, comprising an appropriate sector mix that will ultimately lead to a sustained improvement in our long term performance.

Watpac has retained a solid liquidity position with \$237.4 million in gross cash and deposits on hand at 31 December 2016. The Group's total debt was reduced by \$3.7 million to \$14.8 million over the course of 1HFY17.

During the first half of the 2017 financial year Watpac realised a milestone achievement, with the Group negotiating a \$170 million bank guarantee facility, a \$50 million increase on the previous limit. The enhanced syndicated facility was created to align with the Group's strategy to target Construction projects with higher barriers to entry, and where the ability to create additional value for all project stakeholders is maximised.

Together with Watpac's insurance bond facilities, the Group has current surplus project bonding capacity of in excess of \$200 million.

Looking ahead the outlook for the construction market is sound, but in a general sense, is anticipated to remain highly competitive.

With a strong balance sheet and project delivery capabilities however, we believe the Group is well positioned for future growth.

A handwritten signature in black ink, appearing to read "Martin Monro".

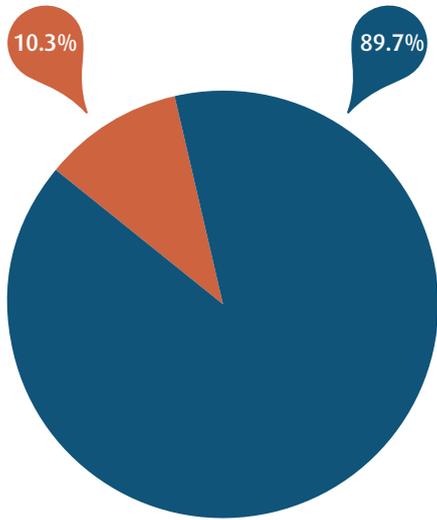
Martin Monro
Managing Director

A handwritten signature in black ink, appearing to read "Richard McGruther".

Richard McGruther
Chair

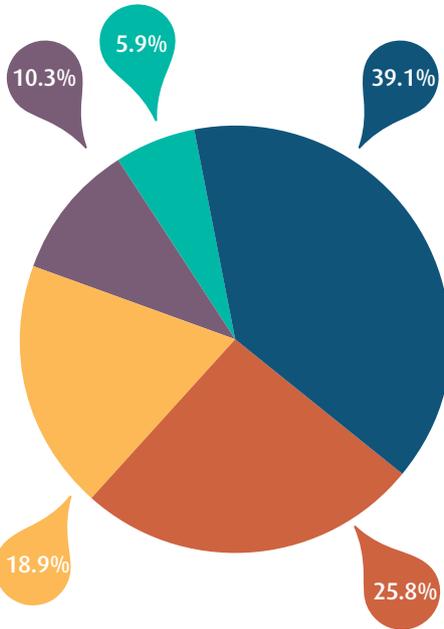
The results in brief (as at 31 December 2016)

WORK-IN-HAND BY PRODUCT TYPE



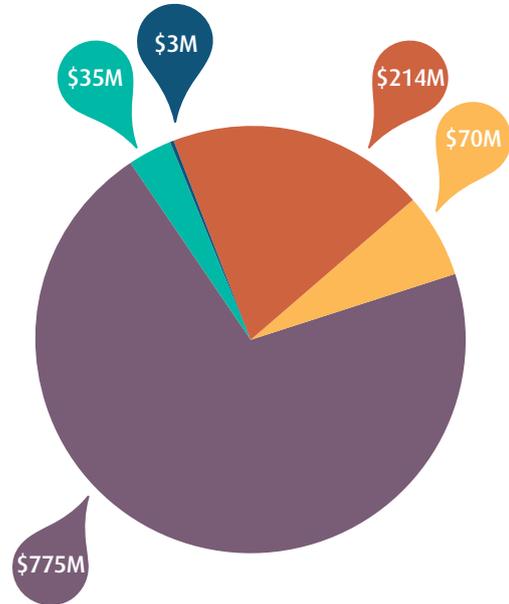
● Construction ● Civil & Mining

WORK-IN-HAND BY REGION



● Queensland ● Western Australia
● New South Wales ● South Australia
● Victoria

WORK-IN-HAND BY SECTOR - CONSTRUCTION

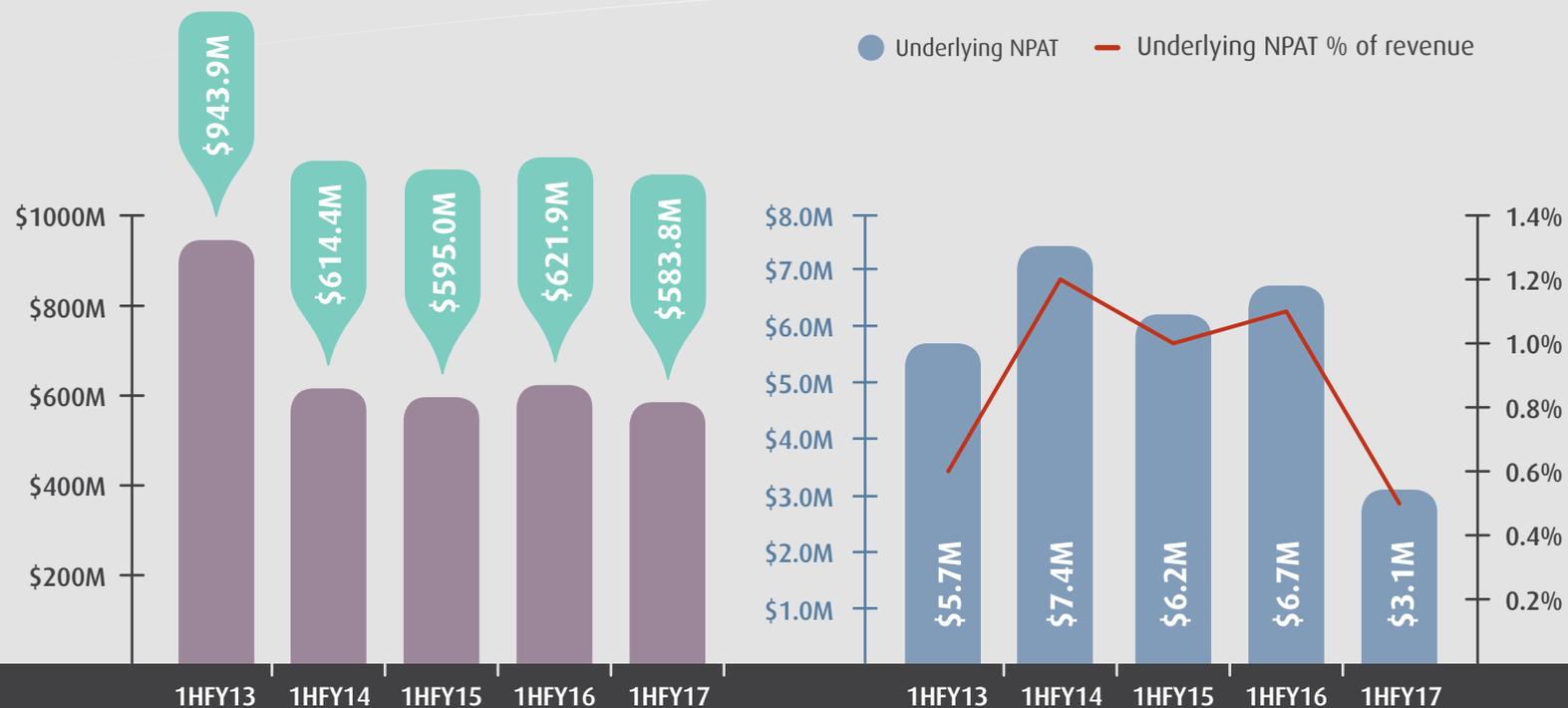


● Commercial ● Residential & Accommodation
● Education ● Special & Secure Environments
● Health & Science

TOTAL REVENUE

NET PROFIT AFTER TAX

● Underlying NPAT — Underlying NPAT % of revenue



Across the business

→ Construction

Watpac's Construction businesses performed profitably over the first half of FY17 as Queensland's prolonged residential construction activity continued, despite cost escalation pressures in South East Queensland.

A number of recent contract wins include:

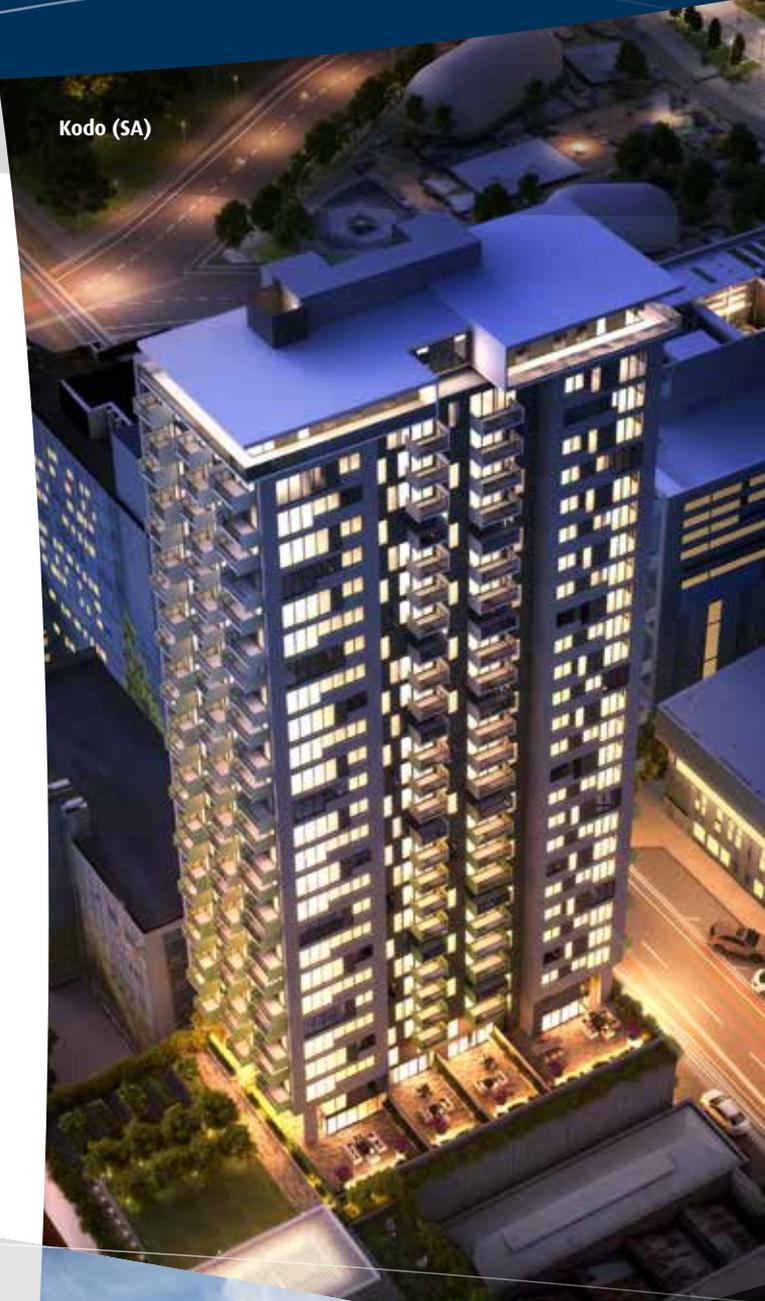
- \$325 million Herston Quarter Redevelopment (QLD)
- \$100 million Kodo residential apartment complex (SA)
- \$61 million Albert Retirement Community (VIC)
- \$47 million Union Tower residential project (VIC)
- \$25 million The Cascades Seniors Living Development (NSW).

The ongoing delivery of a significant portfolio of work nationally including:

- \$350 million Queensland Schools PPP (QLD)
- \$291 million Victorian Schools PPP (VIC)
- \$264 million Ryde Garden residential development (NSW)
- \$188 million Mary Lane hotel and residential precinct (QLD)
- \$129 million York & George mixed-use tower (NSW)
- \$95 million Newstead Series residential project (QLD)
- \$84 million ANSTO Nuclear Medicine Molybdenum-99 Facility (NSW)
- \$78 million Pullman Ibis Hotel and conference centre development at Brisbane Airport (QLD)
- \$78 million Riverlight residential development (QLD)
- \$62 million Summer Hill Flour Mill residential precinct (NSW)
- \$56 million 17th Construction Squadron redevelopment at RAAF Base Amberley (QLD)
- \$34.5 million expansion of the Frankston Private Hospital (VIC).

The Group's commitment to excellence was recognised by Master Builders Australia in November, with 180 Brisbane winning the National Commercial/Industrial Construction Award – over \$100M. The project was also named Project of the Year and Brisbane Project of the Year by Queensland Master Builders in the first half of FY17.

Kodo (SA)



Herston Quarter Redevelopment (QLD)



Albert Retirement Community (VIC)

→ Civil & Mining

Despite lower work volumes, Watpac's Civil & Mining business returned to profitability in the first half of FY17, with sound project selection and operational performance supporting the recent successful conversion of a number of contracts.

These included:

- \$7 million Kalbarri National Park roads and carpark upgrades for the Western Australian Department of Parks and Wildlife
- \$4 million Harold Road passing lanes on the Albany Highway for Main Roads Western Australia
- \$2 million Muja Power Station fly ash dam embankment lift for energy supplier Synergy
- \$2 million Toodyay treated wastewater storage dam remedial works for the Water Corporation of Western Australia
- \$1 million Nova Nickel waste rock pad construction for Independence Nova
- \$1 million Denmark water treatment plan remedial works for the Water Corporation of Western Australia.

Ongoing mining services continue at major projects including Hanking Gold's Axehandle Gold Mine, Ramelius Resources' Mt Magnet Gold Mine, Iluka Resources' Tutunup South Mineral Sands project and Silver Lake Resources' Imperial/Majestic Pits.



Financial calendar (anticipated)

23 August 2017 – Full year results announcement

19 October 2017 – Annual General Meeting (Brisbane)

** Important information: Dates may be altered by Watpac Limited should circumstance arise. Any changes will be advised to the Australian Securities Exchange.*

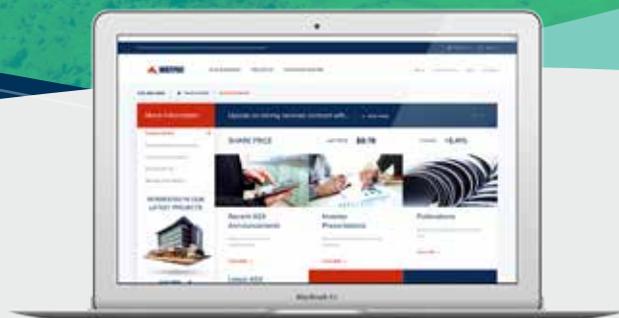
Keeping in touch

Receive updates electronically

Watpac values a sustainable environment and encourages shareholders to receive communications electronically where possible. Notifications of shareholder correspondence including, Notices of Meetings, Annual Reports and other important information can all be instantly delivered to your email inbox. To elect to receive electronic communications please contact Computershare on 1300 552 270.

Share registry contact

For general enquiries including about your shareholding, changing your address, or obtaining a copy of the current Annual Report please contact Computershare on 1300 552 270. You can also update your details online at: www.computershare.com.au/easyupdate/wtp



Investor Centre

Our Investor Centre keeps you informed about financial information across the Group. For all the latest information please visit: www.watpac.com.au