

Shareholder Newsletter | 2015

On 24 February 2015, Watpac Limited reported a net profit after tax of \$6.2 million for the half year ended 31 December 2014 (1HFY15). The result reflects a focus on a healthy balance sheet, strong stakeholder relationships and repeat work. An interim unfranked dividend of 2.0 cents per share was paid on 27 March 2015.

Welcome

Our half year results were reflective of the Group's capability across its core contracting and mining and civil operations. Over the reporting period we continued to strengthen our balance sheet, enrich client relationships and focus on strategic priorities while delivering an acceptable financial performance across all of our businesses.

Performance highlights for the first half of FY15 included:

- Revenue of \$595.0 million (1HFY14: \$609.3 million).
 - » Contracting revenue of \$450.8 million (1HFY14: \$448.4 million).
 - » Mining and civil revenue of \$143.7 million (1HFY14: \$147.7 million).
- Gross margin of \$37.4 million (1HFY14: \$39.9 million).
- Contracting segment pre-tax profit of \$15.8 million, a 58 per cent increase on the comparative period (1HFY14: \$10.0 million).
- Mining and civil segment pre-tax profit of \$2.4 million (1HFY14: \$9.1 million).
- Strong balance sheet with a gross cash position of \$161.6 million as at 31 December 2014.

The improved financial performance of the Group's contracting segment was consistent with improved market conditions across the construction sector generally. While the business had a broadly similar turnover to FY14 first half, a profit increase of 58 per cent was recorded, being an indication of the success of our national approach to delivering a diverse mix of projects for our clients.

Despite a reduction in the financial performance of the mining and civil business, which is reflective of the current state of the resources sector and impact of falling commodity prices, the business was profitable, with all projects delivering a positive gross margin over the period.

→ Dividend

The Group's profitability has contributed to positive returns for shareholders with the Board declaring an interim unfranked dividend of 2.0 cents which was paid on 27 March 2015. The strong financial position of the Group also gave rise to a suspension of the Watpac Dividend Reinvestment Plan.

→ Balance sheet strength

Watpac has retained a strong cash position with \$162 million in cash and term deposits on hand at 31 December 2014. The company's gross debt position also reduced by nearly \$20 million to \$56 million over the past six months, giving rise to a net cash position of over \$100 million.

With a much improving financial position and strong cash balance, in the context of available near term growth opportunities, the Watpac Board now intends to consider various positive capital management initiatives with the view to enhancing long-term shareholder value.



Martin Monro and Richard McGruther

→ Outlook

Looking ahead, the combination of a strengthened balance sheet and focused business development ensures we are well positioned to continue to build shareholder value.

The Group's reputation for delivering quality projects assisted the contracting business to secure more than \$250 million in new contracts and extensions in the first half of FY15. Since balance date we have been awarded further work, including the \$78 million contract for the Pullman Ibis Hotels and conference centre development at Brisbane Airport. Currently the contracting business has a total forward order book of \$1.1 billion.

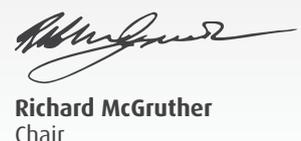
Despite the current conditions of the resources sector the Group's mining and civil business is continuing to respond proactively focusing on assisting our clients to maximise production and cost efficiencies. The conversion of two new contracts for this business during the first half of FY15 is a strong endorsement of the capabilities of our team in providing quality services in this sector.

The Group remains focused on the divestment of its property assets and the improved 1HFY15 results reflect our commitment to reducing property holding and overhead costs. While further sales were slow over the first half of the financial year, pleasingly the first tranche of the Waterloo property sale, which was contracted in FY14 settled, resulting in a cash inflow of approximately \$9 million.

With our strength in contracting and stabilising results in mining and civil, the Group remains confident in our ability to deliver an underlying full year net profit after tax result broadly in line with that recorded last year. Our renewed focus on key stakeholders, national credentials and further strengthening of the Group's balance sheet places the business in a good position to capitalise on all future opportunities.



Martin Monro
Managing Director

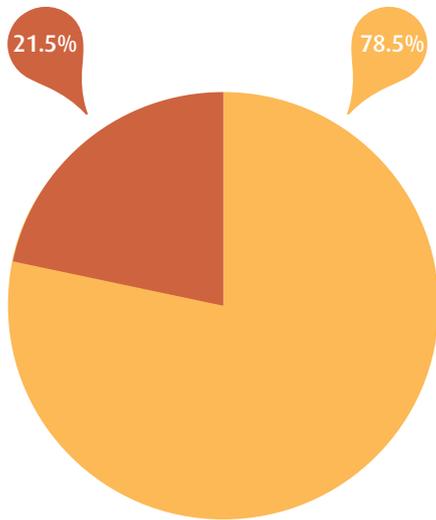


Richard McGruther
Chair

The results in brief

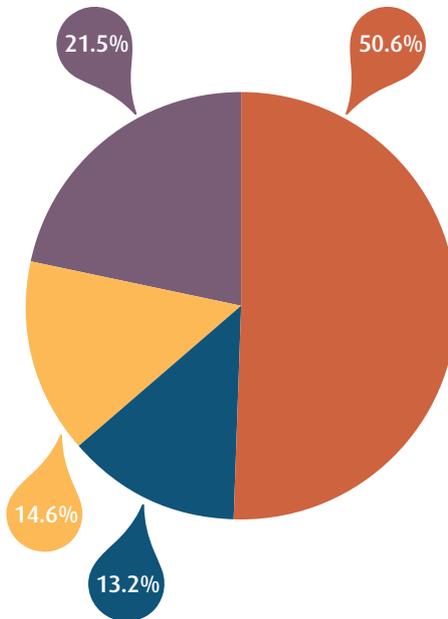
Order book breakdown (\$1.2bn total as at 31 December 2014)

WORK IN HAND BY PRODUCT TYPE



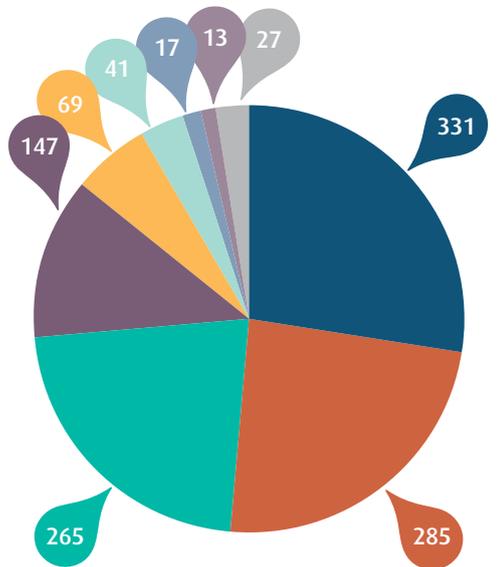
Contracting Mining & Civil

WORK IN HAND BY REGION



Queensland Victoria
New South Wales Western Australia

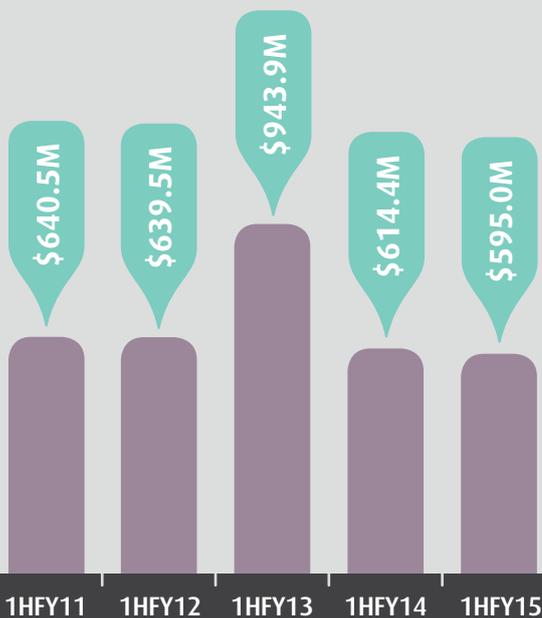
WORK IN HAND (\$M) BY INDUSTRY SECTOR



Education Commercial
Health Residential
Science Sports & Stadiums
Defence Transport/Logistics
Other

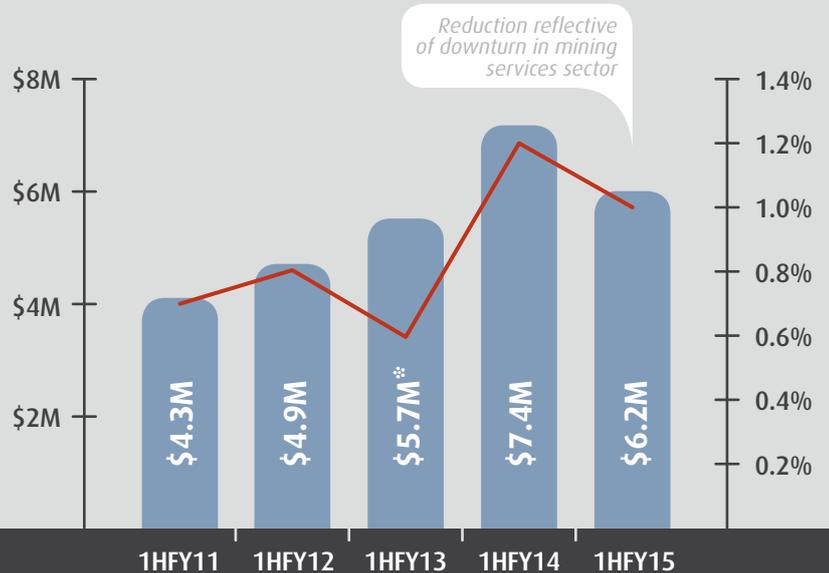
TOTAL REVENUE

(6 months to 31 December 2014)



NET PROFIT AFTER TAX

NPAT NPAT % of revenue



*Adjusted NPAT \$5.7M – excludes property impairment.

Across the business

→ Construction

Watpac Construction continued to perform profitably throughout the year and is well positioned to take advantage of the improving construction market.

A number of significant contract wins for 1HFY15 include:

- \$45 million Knox Private Hospital Expansion (VIC)
- \$44 million Queensland State Velodrome (QLD)
- \$24 million Bapcare Residential Aged Care Facility (VIC)
- \$24 million Ronald McDonald House (QLD).

The Group continues to focus on the delivery of a significant portfolio of work nationally including:

- \$350 million Queensland Schools PPP (QLD)
- \$206 million 180 Brisbane office tower (QLD)
- \$160 million Base Security Improvement Program (National)
- \$148 million Gold Coast Private Hospital (QLD)
- \$114 million Southpoint office tower (QLD)
- \$83 million ANSTO Nuclear Medicine Molybdenum-99 Facility (NSW)
- \$72 million 333 George Street office tower (NSW)
- \$60 million Leicester Street Student Accommodation for University of Melbourne (VIC)
- \$46 million Kempsey District Hospital expansion (NSW).

The business has also recently commenced work on the Pullman Ibis Hotels and conference centre development at Brisbane Airport following the announcement of this contract in March 2015.

The Group's commitment to excellence was also recognised in November with One Central Park being named 'Best Tall Building Worldwide' by the Committee of Tall Buildings and Urban Habitat. This project continues to receive recognition and has been nominated as a finalist for the Australian Construction Achievement Award 2015.



180 Brisbane (QLD)

→ Mining & Civil

New project wins and steady work in hand have ensured Watpac Mining & Civil has continued to perform profitably despite ongoing challenges within the resources sector.

The business commenced three new contracts in 1HFY15 including:

- \$29 million mining services contract with Hanking Gold
- \$17 million tailings storage facility civil contract with Sirius Resources
- \$8 million spillway remedial civil works for WA Water Corporation.

Ongoing mining services continue at major projects such as the \$200 million Mt Magnet Gold Mine Project and the \$93 million Cockatoo Island Iron Ore Project.



Mt Magnet mine site (WA)

→ Specialty Services

Watpac Specialty Services is strengthening its position as a respected leader in the specialised construction market. The business commenced work on two design and construction projects for Baiada Poultry including their Oakburn Protein Plant and Hanwood Facility Expansion.

The team continued to deliver challenging projects within complex environments such as the \$11.9 million contract for the Virgin Australia Business Lounge Expansion at the Brisbane Domestic Terminal.

A number of key projects were completed in 1HFY15 including the \$16.3 million design and construction of the Brisbane Girls Grammar School Year 7 & Research Facility and the \$8.3 million Brisbane Grammar School Middle School Refurbishment.

→ Property

Watpac advanced its strategy to divest of Watpac Property real estate assets to realise cash.

The Group continues to work towards finalising the \$40 million sale of the remaining Waterloo Junction development site, with the first stage of the sale reaching settlement (\$10 Million) in March 2015. The remainder of the sale will be finalised by no later than 30 June 2016.

The remaining portfolio is valued at \$41 million and includes the retail component of the Victorian project Rue de Chapel and the marine industrial Aquarium Avenue site in Brisbane. There are signs of improvement in the property market and it is hoped this will assist the divestment of these non-core assets in the near term at or around book value.

Brisbane Girls Grammar (QLD)



Rue De Chapel (VIC)

Keeping in touch

→ Receive updates electronically

Watpac values a sustainable environment and encourages shareholders to receive communications electronically where possible. Notifications of Dividends, Notices of Meetings, Annual Reports and other important notifications 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 inquiries about your shareholding, dividends, 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 the latest information such as company announcements, current and historical share prices, dividend information, key financial dates and contact details please visit: www.watpac.com.au

