



Financial Report

31 December 2020

Herston Quarter STARS, Brisbane

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Directors' Report

The Directors present their report, together with the Consolidated Financial Statements of Watpac Limited (“**BESIX Watpac**” or “**Company**”) and its controlled entities (“**Group**”) for the year ended 31 December 2020 and the Auditor’s Report thereon.

The Group is a for-profit entity.

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.

Mr R Vandenberghe

Chair, Non-executive Director, since 23 August 2017

Ms J M Alroe

Non-executive Director, since 28 February 2020

Ms L C Evans

Non-executive Director, since 25 August 2015

Mr A P Fraser

Non-executive Director, since 22 January 2020

Mr M G Monro

Non-executive Director, since 10 October 2014

Mr C J Schreurs

Non-executive Director, since 10 October 2014

Mr P J Sironval

Non-executive Director, since 20 February 2019

Mr J C M C Beerlandt

Alternate Non-executive Director (for Mr Schreurs), since 23 August 2017

Mr G Aelbrecht

Alternate Non-executive Director (for Mr Vandenberghe), since 1 July 2015

2. Company Secretary

Mr M A Baker

Company Secretary, Chief Financial Officer, appointed 26 August 2011

3. Principal activities

The Group’s operations for the financial year ended 31 December 2020 (**FY20** or **Reporting Period**) principally consisted of contracting activities. This includes provision of construction, project management and investment, design and construction management services across all Eastern states in Australia, and South Australia.

4. Review of Operations

The Group recorded a consolidated profit before tax for the Reporting Period of \$12.2M (FY19: \$0.3M). After adjusting for notional tax expense, this equates to a profit after tax for the Reporting Period of \$4.5M (FY19: \$0.3M profit after tax).

Included in the table below is an overview of the Group's result for FY20 compared to FY19.

<i>In thousands of AUD</i>	FY20	FY19
Total Revenue	919,765	1,522,776
Profit before tax	12,200	273
Income tax expense	(7,687)	-
Net profit after tax attributable to owners of Watpac Limited	4,513	273

Significant investment has been made in strategy development execution in recent periods, aimed at improving the quality of the Group's work in hand. This includes closer integration and sharing of resources with BESIX Group, together with the adoption of more selective tendering practices in accordance with the Group's targeted sector strategy and other expansion into infrastructure and marine markets.

This approach is evident in the Group's financial performance for the Reporting Period with improved profit recognised off a smaller and more selective revenue base.

The Group continues to monitor the impact of COVID-19 on future period operational and financial performance and has complied with Government regulations and advice in relation to the COVID-19 pandemic. Through the COVID-19 Executive Monitoring Team, BESIX Watpac has put in place various management plans for its employees and subcontractors, and senior managers communicate regularly with their teams to ensure they are fully informed about the evolving situation.

4.1 Capital Management and liquidity

Cash and deposits totalled \$337.7M at Balance Date (2019: \$414.3M).

The Group also maintains:

\$280.9M in facilities for the provision of bank guarantees (drawn to \$69.6M at Balance Date); and

\$196.8M in facilities for the provision of insurance bonds (drawn to \$92.8M at Balance Date).

BESIX Watpac therefore has substantial liquidity and extensive capacity to provide required performance bonding on new projects.

5. Significant changes in the state of affairs

During the year ended 31 December 2020, the Group's shares were acquired by BESIX Australia Holdings Pty Ltd from BESIX Group SA. The Group's ultimate controlling party remains BESIX Group SA.

6. Dividends

There have been no dividends paid or declared by the Company since the end of the previous financial period. No dividends were declared or paid by the Company subsequent to 31 December 2020.

7. 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 significantly the operations or state of affairs of the Group in future financial years.

Directors' Report

8. Environmental regulations

The Group's operations are subject to environmental regulation under both Commonwealth and State Government legislation. Building and development approvals, including specific environmental aspects, are required for the Group's construction operations.

Pursuant to this, the Group has established and maintains third party certified Environmental Management Systems developed in accordance with ISO 14001:2015 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.

9. Indemnification and insurance of officers and auditors

Indemnification

Other than connected with the appointment of a new Directors, Mr A Fraser and Ms J Alroe, 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 financial year the Group benefited from Directors' and Officers' liability insurance coverage. This insures 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.

10. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the year ended 31 December 2020.

11. 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 22nd day of February 2021. Signed in accordance with a resolution of the Directors.



R Vandenberghe

Director



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 2020 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

KPMG

Scott Guse

Scott Guse
Partner

Brisbane
22 February 2021

Directors' Declaration

1. In the opinion of the Directors of Watpac Limited (the **Company**):
 - (a) The Company is not publicly accountable;
 - (b) the Consolidated Financial Statements and notes set out on pages 7 to 28 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 2020 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the and the Corporations Regulations 2001; and
 - (c) 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 E3 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 22nd day of February 2021. Signed in accordance with a resolution of the Directors



R Vandenberghe
Director

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

<i>In thousands of AUD</i>	Note	For the year ended	
		31 December 2020	31 December 2019
Revenue from contracts with customers	B1	919,765	1,522,776
Cost of sales		(841,420)	(1,463,470)
Gross profit		78,345	59,306
Other income		1,546	22
Administration expenses		(71,264)	(64,198)
Net finance income		3,573	5,143
Profit before tax		12,200	273
Income tax expense	B2a)	(7,687)	-
Profit after tax		4,513	273
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period		4,513	273

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes on pages 11 to 28.

Consolidated Statement of Financial Position

<i>In thousands of AUD</i>	Note	As at	
		31 December 2020	31 December 2019
ASSETS			
Current assets			
Cash and cash equivalents	C1	297,706	227,337
Cash deposits	C1	40,000	187,000
Trade and other receivables	C2	62,743	82,398
Inventories	C3	-	152
Total current assets		400,449	496,887
Non-current assets			
Property, plant and equipment	C4	2,845	6,032
Right-of-use assets	C5	3,866	5,539
Intangible assets	C6	17,676	17,676
Deferred tax assets	B2b)	11,968	13,693
Total non-current assets		36,355	42,940
Total assets		436,804	539,827
LIABILITIES			
Current liabilities			
Trade and other payables	C7	177,769	222,839
Contract liabilities		97,658	147,557
Lease liability	C5	1,645	2,416
Employee benefits		12,033	13,729
Total current liabilities		289,105	386,541
Non-current liabilities			
Trade and other payables	C7	10,994	20,408
Lease liability	C5	2,559	3,359
Employee benefits		2,389	2,312
Provisions		1,094	1,057
Total non-current liabilities		17,036	27,136
Total liabilities		306,141	413,677
Net assets		130,663	126,150
EQUITY			
Issued capital	D2a)	234,384	234,384
Reserves	D2b)	(2,100)	(2,100)
Retained earnings		(101,621)	(106,134)
Total equity		130,663	126,150

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 11 to 28.

Consolidated Statement of Changes in Equity

<i>In thousands of AUD</i>	For the year ended 31 December 2020			
	Share capital	Fair value reserve	Retained earnings	Total
Total equity at 1 January 2020	234,384	(2,100)	(106,134)	126,150
Profit	-	-	4,513	4,513
Total comprehensive income for the period	-	-	4,513	4,513
Balance at 31 December 2020	234,384	(2,100)	(101,621)	130,663

<i>In thousands of AUD</i>	For the year ended 31 December 2019			
	Share capital	Fair value reserve	Retained earnings	Total
Total equity at 1 January 2019	234,384	(2,100)	(106,407)	125,877
Profit	-	-	273	273
Total comprehensive income for the period	-	-	273	273
Balance at 31 December 2019	234,384	(2,100)	(106,134)	126,150

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 11 to 28.

Consolidated Statement of Cash Flows

<i>In thousands of AUD</i>	Note	For the year ended	
		31 December 2020	31 December 2019
Cash flows from operating activities			
Receipts from customers		1,031,949	1,642,239
Payments to suppliers and employees		(1,110,706)	(1,536,227)
Cash (used in)/generated from operations		(78,757)	106,012
Interest received		6,903	5,856
Interest paid		(740)	(1,746)
Net cash (outflow)/inflow from operating activities		(72,594)	110,122
Cash flows from investing activities			
Movement in cash deposits		147,000	(15,453)
Acquisition of assets		(1,266)	(874)
Proceeds from sale of assets		61	-
Net cash (outflow)/inflow from investing activities		145,795	(16,327)
Cash flows from financing activities			
Repayment of lease liabilities		(2,832)	(3,722)
Net cash outflow from financing activities		(2,832)	(3,722)
Net increase in cash and cash equivalents		70,369	90,073
Cash and cash equivalents at beginning of the year		227,337	137,264
Cash and cash equivalents at the end of the year	C1	297,706	227,337

Notes to the Consolidated Financial Statements

A – About this report

Statement of compliance

The Consolidated Financial Statements of Watpac Limited (**BESIX Watpac** or **Company**) are Tier 2 general purpose consolidated financial statements. They comprise the consolidated results of the Company and its subsidiaries (together referred to as the **Group**) 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 22nd February 2021.

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. In preparing the financial statements, the Group has considered the COVID-19 pandemic.

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 have been considered in the context of the COVID-19 pandemic. They are reviewed on an ongoing basis and actual results may differ from these estimates. Revisions to accounting estimates are recognised prospectively.

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. Revenue from contracts with customers

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Construction contracts	919,765	1,513,630
Property sales	-	9,146
	919,765	1,522,776

a) Disaggregation of revenue from contracts with customers

<i>In thousands of AUD</i>	Construction	Property	Total
31 December 2020			
Segment revenue	920,439	-	920,439
Inter-segment revenue	(674)	-	(674)
Revenue from external customers	919,765	-	919,765
Timing of revenue recognition			
At a point in time	-	-	-
Over time	919,765	-	919,765
	919,765	-	919,765

<i>In thousands of AUD</i>	Construction	Property	Total
31 December 2019			
Segment revenue	1,513,824	9,146	1,522,970
Inter-segment revenue	(194)	-	(194)
Revenue from external customers	1,513,630	9,146	1,522,776
Timing of revenue recognition			
At a point in time	-	9,146	9,146
Over time	1,513,630	-	1,513,630
	1,513,630	9,146	1,522,776

Notes to the Consolidated Financial Statements

B1. Revenue from contracts with customers (continued)

The contractual terms and the way in which the Group operates its construction contracts is predominantly derived from projects containing one performance obligation. This includes where contracts identify various significantly integrated or highly interdependent activities, including staged delivery programmes and / or separate services of design and construct.

A performance obligation is fulfilled over time and, as such, revenue is typically recognised over time based on the stage of completion of a contract. The majority of current construction contracts are measured using an input method. This method is determined based on the Group's efforts in satisfying a performance obligation, relative to total expected inputs to satisfy a performance obligations. Costs incurred is an example of measuring progress under the input method.

Construction work is typically performed on assets controlled by the customer, with the Group having a progressive right to payment for performance.

While the transaction price is normally fixed at the start of the project, it is not uncommon for contracts to be modified during their life in the form of contractual variations and claims. It is also normal practice for contracts to include variable consideration elements, including completion incentives and liquidated damages.

Revenue from contract modifications and variable consideration is only recognised to the extent it is highly probable that there will not be a significant reversal of that revenue.

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.

Key estimates and judgements

Stage of Completion

Under the input method, determining the stage of completion may require an estimate of costs incurred to date as a percentage of total estimated costs for a contract.

Modifications

When a contract modification exists and the Group has an enforceable right to payment, revenue relating to claims and variations is included in the transaction price when the contract modification amount becomes highly probable. This requires judgements and estimates of whether an approved enforceable right exists and meets the highly probable threshold.

Variable Consideration

Determining the amount of variable consideration requires an estimate based on either the expected value or the most likely amount of variable consideration. The estimate of variable consideration is only recognised to the extent that it is highly probable that a significant revenue reversal will not occur in the future.

Notes to the Consolidated Financial Statements

B2. Taxation

The prima facie income tax expense on profit before income tax reconciles to the income tax expense as follows:

a) Reconciliation of income tax expense

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Profit before tax	12,200	273
Income tax at 30% (2019: 30%)	3,660	82
Increase in income tax expense due to:		
Non-deductible expenses	163	238
Non-recognition of deferred tax assets	3,999	365
	7,822	685
Decrease in income tax expense due to:		
Deductible permanent differences	(135)	(225)
Re-recognition of prior period deferred tax assets	-	(460)
Income tax expense on pre-tax profit	7,687	-

b) Movement in deferred tax balances

<i>In thousands of AUD</i>	Net balance 1 January 2020	Recognised in profit or loss	Net balance 31 December 2020	Deferred tax assets at 31 December 2020	Deferred tax liabilities at 31 December 2020
Consolidated					
Property, plant and equipment	695	761	1,456	1,456	-
Leases	82	(27)	55	55	-
Employee benefits	4,833	(485)	4,348	4,348	-
Accrued expenses	8,077	(1,969)	6,108	6,108	-
Borrowing costs	6	(5)	1	1	-
Total	13,693	(1,725)	11,968	11,968	-

Notes to the Consolidated Financial Statements

B2. Taxation (continued)

b) Movement in deferred tax balances (continued)

<i>In thousands of AUD</i>					
31 December 2019	Net balance 1 January 2019	Recognised in profit or loss	Net balance 31 December 2019	Deferred tax assets at 31 December 2019	Deferred tax liabilities at 31 December 2019
Consolidated					
Property, plant and equipment	425	270	695	695	-
Leases	-	82	82	82	-
Employee benefits	4,470	363	4,833	4,833	-
Accrued expenses	7,238	839	8,077	8,077	-
Borrowing costs	58	(52)	6	6	-
Property development projects	1,502	(1,502)	-	-	-
Total	13,693	-	13,693	13,693	-

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.

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

B2. Taxation (continued)

Deferred tax (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 2020	31 December 2019
Income tax losses & offsets*	-	-
Temporary differences	6,558	2,396
Capital losses*	-	-

* During the Reporting Period, the Australian Tax Office approved the members of the existing Watpac Limited tax consolidated group (**Watpac TCG**) joining a multiple entry consolidated group with an effective date of 18 January 2019. As Watpac Limited is no longer the provisional head company, the prior year disclosure has been restated as the underlying tax losses and offsets have been transferred out of the Watpac TCG.

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.

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. Cash

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Current		
Cash and cash equivalents	297,706	227,337
Cash deposits	40,000	187,000
	337,706	414,337

Classification as cash and cash equivalents and cash deposits

Cash is classified as cash and cash equivalents if they have a maturity date of three months or less from the date of deposit. Total cash and cash equivalents as at 31 December 2020 totalled \$297.7M (2019: \$227.3M).

Cash is classified as cash deposits where they have a maturity date exceeding three months from the date of deposit. The Group's cash deposits at 31 December 2020 totalling \$40M (2019: \$187M) have maturity dates ranging from nine to 12 months from the date of deposit.

The total of cash and cash equivalents and cash deposits at 31 December 2020 totalled \$337.7M (2019: \$414.3M).

Reconciliation to statement of cash flows

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Cash and cash equivalents	297,706	227,337
Cash and cash equivalents per statement of cash flows	297,706	227,337

C2. Trade and other receivables

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Current		
Trade receivables	24,026	21,408
Allowance for expected losses	(61)	(113)
	23,965	21,295
Other debtors and prepayments	7,687	15,579
	31,652	36,874
Construction work in progress – amounts due from customers	31,091	45,524
	62,743	82,398

Notes to the Consolidated Financial Statements

C2. Trade and other receivables (continued)

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.

C3. Inventories

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Current		
Raw materials and stores	-	152

Recognition and measurement

Inventories are carried at the lower of cost and net realisable value. Net realisable value is determined on an undiscounted basis.

C4. Property, plant and equipment

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Opening carrying amount	6,032	8,220
Acquisitions	1,370	874
Disposals at net book value	49	-
Depreciation charge for the year	(4,606)	(3,062)
Closing balance	2,845	6,032
<i>Represented by:</i>		
Cost	27,420	26,428
Accumulated depreciation	(24,575)	(20,396)

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. 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

Notes to the Consolidated Financial Statements

C5. Right of use assets and lease liabilities

a) Amounts recognised in the balance sheet

The balance sheet includes the following amounts relating to leases

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Right-of-use assets		
Properties	3,625	5,171
Plant and equipment	91	210
Motor vehicles	150	158
	3,866	5,539
Lease liabilities		
Current	1,645	2,416
Non-current	2,559	3,359
	4,204	5,775

Additions to the right-of-use assets during the 2020 financial year were \$1,158,372 (2019: \$518,493)

b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Depreciation charge of right-of-use assets		
Properties	(2,581)	(3,661)
Plant and equipment	(119)	(181)
Motor vehicles	(131)	(117)
	(2,831)	(3,959)

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Interest expense (included in finance cost)	(300)	(466)
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	(501)	(351)

The total cash outflow for right-of-use asset leases in 2020 was \$2,831,778 (2019: \$3,721,867).

Notes to the Consolidated Financial Statements

C5. Right of use assets and lease liabilities (continued)

c) The Group's leasing activities and how these are accounted for

The Group leases various properties, plant and equipment and motor vehicles. Rental contracts are typically made for fixed periods but may have extension options.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

d) Measurement

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

e) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of \$39,106 (2019 \$5,863).

Notes to the Consolidated Financial Statements

C6. Intangibles

<i>In thousands of AUD</i>	Goodwill
Cost	
Balance at 1 January 2020	17,676
Balance at 31 December 2020	17,676
Carrying amounts	
At 1 January 2020	17,676
At 31 December 2020	17,676

Impairment testing for cash-generating units containing goodwill

<i>In thousands of AUD</i>	31 December 2020
Goodwill	
Construction	17,676
	17,676

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 is 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.

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.

Calculations use cash flow projections over a period of five years and a terminal value calculated using an EBITDA multiple.

Key estimates and judgements

- The calculation of the recoverable amounts of CGUs containing goodwill requires significant judgements and estimates on the key cash flow projections and discount rate assumptions, as well as consideration of other assets and liabilities required to deliver these forecasts.

Key Assumptions

The key assumptions applied in the Construction CGU cash flow projections are:

	Key assumptions
Discount rate (pre-tax WACC)	11.97%
Terminal value earnings multiple	8 times EBITDA

Notes to the Consolidated Financial Statements

C6. Intangibles (continued)

The values assigned to key assumptions are based on past performance and future expectations, in the context of forecast economic conditions, calculated with reference to the specific requirements of the prevailing accounting rules and regulations. The pre-tax discount rate of 11.97% is calculated with reference to industry benchmarks and the weighted average cost of capital metrics applicable to the CGU, and assumes no debt leveraging. This discount rate is considered appropriate given the current economic and market conditions and implications these may have on the future cash flows used in calculating the net present value of the CGU, as per the requirements of the accounting standards. The terminal value has been calculated by applying the earnings multiple to the projected year five cashflows.

Management does not believe that any reasonably possible change in any of these key assumptions would cause the carrying value of the Construction CGU to exceed its recoverable value.

C7. Trade and other payables

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Current		
Trade payables and accrued expenses	31,470	13,328
Subcontractor payable	23,169	38,813
Subcontractor accrual	99,598	145,791
Retentions payable	23,532	24,907
	177,769	222,839
Non-current		
Retentions payable	10,994	20,408

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.

C8. 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 2020	31 December 2019
Insurance bonds	92,774	143,054
Bank guarantees	69,606	96,581

As is common in the industry sectors in which the Group operates, several claims have been brought against controlled entities in relation to both current and past contracts. The assessment of these claims, together with parties' liabilities and any subrogation and / or recovery opportunities is complex and generally requires the application of substantial judgement and estimates. All claims are being defended, however, and based on the current facts and circumstances Directors are of the opinion that adequate provisions have been recognised as at 31 December 2020 relating to potential future outflows associated with those claims.

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 2020 and 31 December 2019, the Group had the following facilities.

<i>In thousands of AUD</i>	Utilised	Unutilised	Facility limit available for utilisation
31 December 2020			
Bank guarantees	69,606	211,334	280,940
Insurance company bonding	92,774	104,018	196,792
Total bonding	162,380	315,352	477,732

<i>In thousands of AUD</i>	Utilised	Unutilised	Facility limit available for utilisation
31 December 2019			
Bank guarantees	96,581	126,984	223,565
Insurance company bonding	143,054	73,738	216,792
Total bonding	239,635	200,722	440,357

Bonding

At 31 December 2020, the Group had \$477.7M 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.

The Group's insurance bond facilities are also provided on a bilateral basis. Some of these facilities currently have the ability to be bank-fronted.

D2. Shareholders' equity

a) Issued capital

<i>In thousands of shares</i>	31 December 2020	31 December 2019
On issue at 1 January	184,614	184,614
On issue at reporting date - fully paid	184,614	184,614

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

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.

D3. Dividends

a) Ordinary shares

No final or interim dividends for the 31 December 2020 or 31 December 2019 financial years were declared or paid.

Notes to the Consolidated Financial Statements

E – Group structure

Included in this section are details of BESIX Watpac's group structure, and includes, Watpac Limited disclosures and information relevant to the BESIX Watpac Deed of Cross Guarantee.

E1. 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 2020	31 December 2019
Ahden Engineering (Aust) Pty Ltd*	-	100%
Watpac Specialty Services Pty Ltd	100%	100%
Watdev Waterloo Pty Ltd*	-	100%
Watdev4 Pty Ltd*	-	100%
Watdev5 Pty Ltd*	-	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%
Watpac Construction (NSW) Pty Ltd	100%	100%
Watpac Construction (Vic) Pty Ltd	100%	100%
Watpac Civil and Mining (Vic) Pty Ltd*	-	100%
JMS Civil and Mining Pty Ltd	100%	100%
JJ McDonald & Sons Sub-Holdings Pty Ltd	100%	100%
JMS Plant Pty Ltd*	-	100%
Watpac Construction (ACT) Pty Ltd*	-	100%
Watpac Super Pty Ltd*	-	100%
Watpac Share Plans Pty Ltd*	-	100%

*Deregistered during the Reporting Period.

Notes to the Consolidated Financial Statements

E2. Parent entity disclosures

The parent entity of the Group is Watpac Limited.

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Result of the parent entity		
Net profit/(loss) for the year	972	(2,363)
Financial position of the parent entity at year end		
Current assets	826	935
Total assets	5,826	5,935
Current liabilities	763	1,844
Total liabilities	763	1,844
Total equity of the parent entity comprising of:		
Share capital	234,384	234,384
Reserves	(2,100)	(2,100)
Retained earnings	(227,221)	(228,193)
Total equity	5,063	4,091

Parent entity guarantees

The parent entity has, in the normal course of business, entered into guarantees in relation to the obligations of its subsidiaries during the financial year.

Notes to the Consolidated Financial Statements

E3. 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 at the relevant reporting dates are listed below:

31 December 2020	31 December 2019
Watpac Construction Pty Ltd	Watpac Construction Pty Ltd
Watpac Finance Pty Ltd	Watpac Finance Pty Ltd
Watpac Corporate Services Pty Ltd	Watpac Corporate Services Pty Ltd
JMS Civil & Mining Pty Ltd	JMS Civil & Mining Pty Ltd
J. J. McDonald & Sons Sub-Holdings Pty Ltd	J. J. McDonald & Sons Sub-Holdings Pty Ltd
	Watpac Developments Pty Ltd
	Watpac Construction (NSW) Pty Ltd
	Watpac Construction (VIC) Pty Ltd
	Watpac Construction (SA) Pty Ltd
	Watpac Civil & Mining (Vic) Pty Ltd

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 31 December 2020 and 31 December 2019 is set out as follows:

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Summarised statement of income and retained profits		
Net profit before tax	3,217	13,676
Income tax expense	(8,772)	-
(Loss)/profit after tax	(5,555)	13,676
Retained earnings at beginning of year	(100,454)	(114,130)
Retained earnings at end of year	(106,009)	(100,454)

Notes to the Consolidated Financial Statements

E3. Deed of Cross Guarantee (continued)

<i>In thousands of AUD</i>	31 December 2020	31 December 2019
Statement of financial position		
Cash and cash equivalents	297,706	227,337
Cash deposits	40,000	187,000
Trade and other receivables	62,420	82,398
Inventories	-	152
Total current assets	400,126	496,887
Property, plant and equipment	2,845	6,032
Right-of-use assets	3,866	5,539
Intangible assets	-	17,676
Deferred tax assets	11,968	13,693
Total non-current assets	18,679	42,940
Total assets	418,805	539,827
Trade and other payables	170,467	222,839
Contract liabilities	97,658	147,557
Lease liability	1,645	2,416
Employee benefits	12,033	13,729
Total current liabilities	281,803	386,541
Trade and other payables	10,994	20,408
Lease liability	2,559	3,359
Employee benefits	2,389	2,312
Provisions	1,094	1,057
Total non-current liabilities	17,036	27,136
Total liabilities	298,839	413,677
Net assets	119,966	126,150
Issued capital	228,075	228,704
Reserves	(2,100)	(2,100)
Retained earnings	(106,009)	(100,454)
Total equity	119,966	126,150

Notes to the Consolidated Financial Statements

F – Other

Included in this section are details of other required disclosures relating to the Group including employee remuneration, together with new and changes to accounting policies.

F1. Employee benefits

The Group has paid contributions of \$8,218,493 to defined contributions plans on behalf of employees for the period ended 31 December 2020 (2019: \$9,531,821).

F2. Related party information

a) Related party transactions

<i>In thousands of AUD</i>	Transaction values year ended		Balance outstanding as at	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
BESIX Group SA	(913)	(186)	(647)	(1,521)
NV BESIX SA	348	(222)	513	(243)
SIX Construct Ltd Co	(109)	(344)	(25)	(122)
BESIX Australia Pty Ltd	157	107	251	244
BESIX Australia Holdings Pty Ltd	(5,908)	-	(5,908)	-

Transactions include management, design and engineering services.

All outstanding balances with associates are priced on an arm's length basis and are to be settled in cash. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed to related parties. No guarantees have been given or received.

b) Key management personnel compensation

The key management personnel compensation was \$2,029,293 for the year ended 31 December 2020 (2019: \$3,643,867)

F3. Changes in accounting policies

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 period ended 31 December 2019.

F4. 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 shareholders 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 2020 and of its financial performance for the year 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 2020;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year 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 year-end or from time to time during the financial year.

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

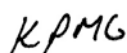
Our objective is:

- 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 . This description forms part of our Auditor's Report.



KPMG



Scott Guse
Partner

Brisbane
22 February 2021

