31 December 2019
Financial Report

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On the cover

A selection of key Watpac projects during 2019. Clockwise from top left:

- Queensland Country Bank Stadium (Townsville, Queensland) *Completed*
- Specialist Rehabilitation and Ambulatory Care Centre, Herston Quarter (Brisbane, Queensland) Render *In progress*
- Brisbane Airport Corporation Domestic Terminal Building – Southern Retail Upgrade (Brisbane, Queensland) *Completed*
- Casey Hospital Expansion Project (Berwick, Victoria) *Completed early 2020*
- Mid North Coast Correctional Centre Expansion (Kempsey, New South Wales) *Completed*
- Kodo residential tower (Adelaide, South Australia) *Completed*

Directors' Report

The Directors present their report, together with the Consolidated Financial Statements of Watpac Limited ("Watpac" or "Company") and its controlled entities ("Group") for the year ended 31 December 2019 and the Auditor's Report thereon.

Details of the Directors of the Company in office at any time during or since the end of the financial year are included below.

1. Directors

1.1 Current Directors – Non-executive

Mr R Vandenberghe
Non-executive Director
Director since 23 August 2017

Mr Vandenberghe is Chief Executive Officer and Managing Director of the BESIX Group.

Prior to these appointments in 2017, Mr Vandenberghe held positions of Chief Executive Officer and Director of ING Belgium, and Chief Executive Officer and Chairman of the Board of Directors of ING Luxembourg. Over the course of his 33 year career in the banking industry Mr Vandenberghe has been actively involved in the activities of the BESIX Group, financing several of its real estate projects and acting as financial advisor to the Group in relation to the management buy-out in 2004.

Mr Vandenberghe was appointed a Director on 23 August 2017.

Ms L C Evans
Non-executive Director
Director since 25 August 2015

Ms Evans is a partner in the Clayton Utz Competition group, practising in competition law. She has been practising since 1987 and a partner since 1994. Ms Evans was a Board member of Clayton Utz for four years and Chairman for two. She is also a councillor of the National Competition Council.

Ms Evans has a Bachelor of Jurisprudence and a Bachelor of Laws from the University of Western Australia, and is a member of the Australian Institute of Company Directors.

Ms Evans has been a Director since 25 August 2015.

Mr C J Schreurs
Non-executive Director
Director since 10 October 2014

Mr Schreurs is Chief Development Officer of the BESIX Group. Mr Schreurs has a Masters of Engineering from the University of Leuven in Belgium and joined BESIX in 1982. Through his 38-year international career, he has acquired worldwide experience in the different disciplines of the contracting businesses. Mr Schreurs was responsible for establishing BESIX in Australia in 2012.

In his role within the BESIX Group Mr Schreurs is focussed on guiding innovation practices and the alignment of strategies and actions to achieve one common objective and to develop and prepare BESIX for future challenges. On 1 February 2020 Mr Schreurs was also appointed Managing Director of wholly owned BESIX Group subsidiary, Franki Foundations.

Mr Schreurs has been a Director since 10 October 2014 and acted as an Alternate Director from 27 May 2013 to this date.

Mr M G Monro
Non-executive Director
Director since 10 October 2014

Mr Monro was the Chief Executive Officer of Watpac from August 2012 and Managing Director from October 2014 until his retirement in an executive capacity in June 2019. He has more than 30 years' experience in the national construction sector and abroad, with a proven track record in prudent financial management, safety leadership and successful expansion into new markets.

Mr Monro is the immediate past National President/ Vice President for the Australian Industry Group and a member of the Royal Melbourne Showgrounds Joint Venture Board. He is also a Specialist Workplace Relations Advisor to the Board of the Australian Constructors Association, a body dedicated to making the construction industry safer, more efficient, more competitive and better able to contribute to the development of Australia.

He has formal qualifications in Psychology and Human Resources Management, is a graduate of the Accelerated Development Program at the London Business School, a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Institute of Building.

Directors' Report

1.1 Current Directors – Non-executive (continued)

Mr A Fraser
Non-executive Director
Director since 22 January 2020

Mr Fraser is an accomplished company director and executive and is currently director of Sunsuper (Chair), New Zealand Rugby League and Motorsport Australia. His charitable directorships include Orange Sky Australia (Chair), Hear and Say, 3rd Space and the Council of Griffith University (Chair of Finance and Risk). Mr Fraser's former directorships include Moorebank Intermodal Company Ltd and the Australian Sports Commission, where he was a member of the Finance, Audit and Risk Committee.

Previously Mr Fraser was Head of Strategy and Investment for the National Rugby League and held ministerial positions in two Queensland governments, including Treasurer from 2007 to 2012 and as the state's youngest Deputy Premier in 2011. A graduate of Griffith University, Mr Fraser has a First-Class Honours Degree in Law and a Bachelor of Commerce and won the University Medal.

Mr P J Sironval
Non-executive Director
Director since 20 February 2019

Mr Sironval serves as Chief Operating Officer of BESIX Group and Managing Director of the Middle East Business Unit, where he is responsible for all operations in the U.A.E., Oman, Qatar and Bahrain. He has over 20 years of experience in the contracting industry throughout the Middle East, Europe and Africa, which aided in BESIX Group's success in being regionally recognised as one of the leaders in the construction sector today. Pierre started his career with BESIX in 1995 as a Project Engineer where he was assigned to the construction of a Beach Resort in Mauritius. A few years later, he became Project Manager and successfully led the development of numerous assignments in Europe and in the Middle East. Mr Sironval has been Managing Director of Six Construct since 2013.

Pierre has a Masters in Civil Engineering and Architecture as well as a Bachelor in Special Mathematics from KU Leuven (Belgium).

Mr J C M C Beerlandt
Alternate Non-executive Director (for Mr Schreurs)
Alternate Director since 23 August 2017

Mr Beerlandt is Chairman of the BESIX Group, and has extensive expertise in the international contracting sector. Mr Beerlandt joined BESIX Group in 1974 and during his previous tenure as Chief Executive Officer oversaw the delivery of major projects in Europe, Africa and the Middle East. Under his leadership, BESIX grew from a traditional civil and building construction company to a multidisciplinary organisation.

Mr Beerlandt is a Member of the Advisory Board of ING Bank and Chairman of the Arab Belgian Luxemburg Chamber of Commerce. He has a Masters of Civil Engineering and Architecture from the University of Ghent in Belgium and completed The General Manager Program at Harvard Business School. Mr Beerlandt resigned as Non-executive Director of Watpac Limited on 23 August 2017 and was appointed as Mr Schreurs' Alternate on the same date.

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

Mr Aelbrecht, Chief Human Resources Officer within the BESIX Group, is a member of the BESIX Group's Executive and Strategic Committee and a Director of the BESIX Foundation. Mr Aelbrecht has been employed by the BESIX Group since 2007 and previously held the position of Vice-President Compensation & Benefits at Belgacom, Belgium's national public telecommunications company, where he worked for over 13 years. Mr Aelbrecht acted as Alternate Director for Mr Beerlandt for the period 1 July 2015 to 23 August 2017 and has acted as the Alternate for Mr Vandenberghe since this date.

1.2 Other Previous Directors – Non-executive

Mr G J Dixon
Non-executive Director
Resigned 18 February 2019

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

Mr P L Watson
Non-executive Director
Resigned 31 May 2019

Mr Watson resigned as a Director on 31 May 2019. Mr Watson had served as a Director since 7 July 2017 and as Chair of the Board since 25 August 2017.

Directors' Report

2. Company Secretary

Mr M A Baker
Company Secretary, Chief Financial Officer
Appointed 26 August 2011

Mr Baker is the Chief Financial Officer and Company Secretary, having joined Watpac in March 2010. Prior to this, he served as the Chief Financial Officer and Company Secretary of Ariadne Australia Limited. Mr Baker has a background in assurance and has been involved in a number of complex domestic and international corporate transactions. He has significant experience in the areas of strategy development and execution, financial due diligence, transaction structuring and corporate governance. Mr Baker has completed the Advanced Management Program at Harvard Business School, holds a Bachelor of Commerce and a Bachelor of Arts, and has a Graduate Diploma in Applied Corporate Governance. Mr Baker is also a Fellow of the Institute of Chartered Accountants Australia, a Fellow of the Institute of Chartered Secretaries and Administrators, a Fellow of the Financial Services Institute of Australasia, and is a certified Senior Member of the Finance and Treasury Association of Australia.

3. Principal activities

The Group's operations for the financial year ended 31 December 2019 (**FY19** 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. Financial Year

Pursuant to a resolution of the Board of Directors, the Group's financial year end date was changed effective 31 December 2018 from 30 June to 31 December in order to align with that of its parent company, BESIX Group SA (**BESIX**). Accordingly, the current financial period covers a twelve-month period from 1 January 2019 to 31 December 2019.

The comparative figures cover a transitional six month period from 1 July 2018 to 31 December 2018 (**TFY18**), which, together with the adoption of AASB 15 *Revenue from Contracts with Customers* in TFY18 and AASB 16 *Leases* in FY19, may result in amounts for TFY18 not being comparable with amounts shown for the Reporting Period.

5. Review of Operations

The Group recorded a consolidated profit after tax from continuing operations for the Reporting Period of $0.3M (TFY18: $0.4M loss after tax).

Included in the table below is an overview of the Group's result for FY19 compared to TFY18. As noted at section 4, amounts shown for TFY18 represent the Group's six month trading result for that transitional financial period.

In thousands of AUD	**FY19**	**TFY18**
Total Revenue	1,522,776	530,970
Operating result from continuing operations	273	1,053
Other non-trading items	-	(1,435)
Profit/ (loss) after tax from continuing operations	273	(382)
Loss from discontinued Civil & Mining business	-	(5,920)
Net profit/ (loss) after tax attributable to owners of Watpac Limited	273	(6,302)

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.

Work in hand at 31 December 2019 (**Balance Date**) totalled approximately $1.3B.

5.1 Capital management and liquidity

Cash and deposits totalled $414.3M at Balance Date (31 December 2018: $308.8M). This increase has been favourably impacted by positive working capital movements.

The Group also maintains:

- $223.6M in facilities for the provision of bank guarantees (drawn to $96.6M at Balance Date); and
- $216.8M in facilities for the provision of insurance bonds (drawn to $143.1M at Balance Date).

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

Directors' Report

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 2019.

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

8. Environmental regulations

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

Pursuant to this, the Group has established and maintains third party certified Environmental Management Systems developed in accordance with AS/NZS ISO14001:2004 and has a dedicated group of Environmental Advisors who monitor compliance with the above environmental regulations and company policy.

The Directors are not aware of any significant breaches during the period covered by this report.

9. Indemnification and insurance of officers and auditors

Indemnification
Other than connected with the appointment of a new Director, Mr A Fraser, since the end of the previous financial year the Group has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Group. Each Director, Alternate Director and Officer of the Company has in place a Deed of Indemnity, Access and Insurance, on normal commercial terms.

Insurance premiums
During the Reporting Period the Group 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 7 and forms part of the Directors' Report for the year ended 31 December 2019.

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 21st day of February 2020.

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 2019 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
Partner

Brisbane
21 February 2020

Directors' Declaration

1 In the opinion of the Directors of Watpac Limited (the **Company**):

(a) the Consolidated Financial Statements and notes set out on pages 10 to 37 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 2019 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the Company and the group entities identified in Note F3 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

3 The Directors draw attention to section A of the Consolidated Financial Statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Brisbane this 21st day of February 2020.

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

In thousands of AUD	Note	Year ended 31 December 2019	6 months ended 31 December 2018
Revenue from contracts with customers	B1	1,522,776	530,970
Cost of sales		(1,463,470)	(505,343)
Gross profit		59,306	25,627
Other income		22	439
Property development holding costs expensed		-	(55)
Administration expenses		(64,198)	(26,969)
Net finance income		5,143	2,011
Results from operating activities		273	1,053
Other non-trading items		-	(1,435)
Profit/ (loss) before tax		273	(382)
Income tax benefit/(expense)	B2a)	-	-
Profit/ (loss) after tax from continuing operations		273	(382)
Loss from discontinued operations, net of tax	F4	-	(5,920)
Profit/ (loss) attributable to owners of Watpac Limited		273	(6,302)
Other comprehensive income for the period, net of tax		-	(123)
Total comprehensive income/ (loss) for the period		273	(6,425)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes on pages 14 to 37.

Consolidated Statement of Financial Position

In thousands of AUD	Note	As at 31 December 2019	31 December 2018
ASSETS			
Current assets			
Cash and cash equivalents	C1	227,337	137,264
Cash deposits	C1	187,000	171,547
Trade and other receivables	C2	82,398	49,727
Inventories - stock on hand	C3	152	135
Inventories - property development assets	C3	-	4,030
Total current assets		496,887	362,703
Non-current assets			
Property, plant and equipment	C4	6,032	8,220
Right-of-use assets	C5	5,539	-
Intangible assets	C6	17,676	17,676
Deferred tax assets	B2c)	13,693	13,693
Total non-current assets		42,940	39,589
Total assets		539,827	402,292
LIABILITIES			
Current liabilities			
Trade and other payables	C7	222,839	175,536
Excess billings		147,557	77,594
Lease liability	C5	2,416	-
Employee benefits		13,729	12,645
Provisions		-	33
Total current liabilities		386,541	265,808
Non-current liabilities			
Trade and other payables	C7	20,408	7,620
Lease liability	C5	3,359	-
Employee benefits		2,312	1,965
Provisions		1,057	1,022
Total non-current liabilities		27,136	10,607
Total liabilities		413,677	276,415
Net assets		126,150	125,877
EQUITY			
Issued capital	D3a)	234,384	234,384
Reserves	D3b)	(2,100)	(2,100)
Retained earnings		(106,134)	(106,407)
Total equity		126,150	125,877

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 14 to 37.

Consolidated Statement of Changes in Equity

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

	For the period ended 31 December 2018				
In thousands of AUD	**Share capital**	**Equity benefits reserve**	**Fair value reserve**	**Retained earnings**	**Total**
Total equity at 30 June 2018	**233,727**	**9,483**	**(1,977)**	**(100,795)**	**140,438**
Opening balance adjustment on application of AASB 15	-	-	-	(8,136)	(8,136)
Balance at 1 July 2018	**233,727**	**9,483**	**(1,977)**	**(108,931)**	**132,302**
Other comprehensive income/(loss) for the period	-	-	(123)	-	(123)
Profit/(loss)	-	-	-	(6,302)	(6,302)
Total comprehensive income/(loss) for the period	-	-	(123)	(6,302)	(6,425)
Share settled options forfeited	-	(8,210)	-	8,210	-
Share settled performance rights forfeited	-	(616)	-	616	-
Share settled performance rights awarded	657	(657)	-	-	-
Total contributions by and distributions to owners	657	(9,483)	-	8,826	-
Total transactions with owners	657	(9,483)	-	8,826	-
Balance at 31 December 2018	**234,384**	**-**	**(2,100)**	**(106,407)**	**125,877**

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 14 to 37.

Consolidated Statement of Cash Flows

In thousands of AUD	Note	For the period ended 31 December 2019	31 December 2018
Cash flows from operating activities			
Receipts from customers		1,642,239	694,001
Payments to suppliers and employees		(1,536,227)	(662,981)
Cash generated from operations		106,012	31,020
Interest received		5,856	2,306
Interest paid		(1,746)	(676)
Net cash inflow from operating activities		110,122	32,650
Cash flows from investing activities			
Investment in cash deposits		(15,453)	(1,610)
Acquisition of assets		(874)	(4,082)
Proceeds from sale of subsidiary		-	41,500
Proceeds from sale of assets		-	700
Net cash (outflow)/ inflow from investing activities		(16,327)	36,508
Cash flows from financing activities			
Repayment of lease liabilities		(3,722)	-
Net cash outflow from financing activities		(3,722)	-
Net increase in cash and cash equivalents		90,073	69,158
Cash and cash equivalents at beginning of the period		137,264	68,106
Cash and cash equivalents at the end of the period	C1	227,337	137,264

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes on pages 14 to 37.

Notes to the Consolidated Financial Statements

A – About this report

Statement of compliance

The Consolidated Financial Statements of Watpac Limited (**Watpac** or **Company**) are general purpose financial statements. They comprise the consolidated results of the Company and its subsidiaries (together referred to as the **Group**), and the Group's interests in joint arrangements, and:

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

The Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements (collectively known as the **Financial Statements**), were authorised for issue by the Board of Directors on 21st February 2020.

Rounding of amounts

In accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the Financial Statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Basis of accounting

The Financial Statements are presented in Australian dollars (**AUD**) which is the functional currency of the Company. They have been prepared on the historical cost basis, except for certain financial assets which are measured at fair value.

The accounting policies set out in the Financial Statements have been applied consistently by all entities in the Group. Details of the Group's accounting policies, including any changes made during the year, are included in the Financial Statements.

Use of judgements and estimates

Preparation of the Financial Statements requires Management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are reviewed on an ongoing basis and actual results may differ from these estimates. Revisions to accounting estimates are recognised prospectively.

Comparatives

Pursuant to a resolution of the Board of Directors, the Group's financial year end date has been changed from 30 June to 31 December with effect from 1 July 2018. Accordingly, the current financial period covers a twelve-month period from 1 January 2019 to 31 December 2019.

The comparative figures cover a six month period from 1 July 2018 to 31 December 2018 (**TFY18**), which may result in amounts for TFY18 not being comparable with amounts shown for the Reporting Period.

Notes to the Consolidated Financial Statements

B – Business Performance

Included in this section is information most applicable to the Group's business performance, together with a summary of the accounting policies and the significant judgements and estimates used in calculating its financial performance.

B1. Revenue from contracts with customers

In thousands of AUD	31 December 2019	31 December 2018
From continuing operations		
Construction contracts - Building	1,513,630	518,210
Property sales	9,146	12,760
	1,522,776	530,970

(a) Disaggregation of revenue from contracts with customers

In thousands of AUD	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

In thousands of AUD	Construction	Property	Total
31 December 2018			
Segment revenue	518,210	12,760	530,970
Inter-segment revenue	-	-	-
Revenue from external customers	518,210	12,760	530,970
Timing of revenue recognition			
At a point in time	-	12,760	12,760
Over time	518,210	-	518,210
	518,210	12,760	530,970

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 contacts 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.

Notes to the Consolidated Financial Statements

B1. Revenue from contracts with customers (continued)

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.

B2. Taxation

The prima facie income tax expense/(benefit) on profit/(loss) before income tax reconciles to the income tax expense/(benefit) as follows:

a) Reconciliation of income tax expense/(benefit) – Continuing Operations

In thousands of AUD	31 December 2019	31 December 2018
Profit/ (loss) before tax from continuing operations	273	(382)
Income tax at 30% (31 December 2018: 30%)	82	(115)
Increase in income tax expense/(benefit) due to:		
Non-deductible expenses	116	60
De-recognition / non-recognition of deferred tax assets	365	3,157
	563	3,102
Decrease in income tax expense due to:		
Deductible permanent differences	(225)	(95)
Research & development claim	-	(619)
Re-recognition of prior period deferred tax assets	(338)	-
Over provided in prior years	-	(2,388)
Income tax expense/ (benefit) on pre-tax profit/ (loss)	-	-

b) Amounts recognised in other comprehensive income

	31 December 2019			31 December 2018		
In thousands of AUD	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Change in fair value of equity instrument	-	-	-	(123)	-	(123)
	-	-	-	(123)	-	(123)

Notes to the Consolidated Financial Statements

B2. Taxation (continued)

c) Movement in deferred tax balances

In thousands of AUD 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	-

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

Recognition and measurement

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at Balance Date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- goodwill;
- the initial recognition of assets or liabilities not in a business combination that affect neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The Company recognises deferred tax assets arising from unused tax losses and R&D tax offsets of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Consolidated Financial Statements

B2. Taxation (continued)

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

In thousands of AUD	31 December 2019	31 December 2018
Income tax losses & offsets	25,327	25,401
Temporary differences	2,396	999
Capital losses	7,804	7,804

Offsetting deferred tax balances

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Tax consolidation

Watpac Limited and its wholly owned controlled entities are part of a tax-consolidated group under Australian tax law. Watpac Limited is the head entity in the tax-consolidated group.

Key estimates and judgements

- Recognition and measurement of deferred tax assets requires judgements and estimates of future taxable profit that will be available, against which the deductible temporary differences and tax losses and offsets can be utilised.

Notes to the Consolidated Financial Statements

C – Operating assets and liabilities

Included in this section is information relating to the Group's operating assets and liabilities, together with a summary of the accounting policies and the judgements and estimates relevant to these items.

C1. Cash

In thousands of AUD	31 December 2019	31 December 2018
Current		
Cash and cash equivalents	227,337	137,264
Cash deposits	187,000	171,547
	414,337	308,811

i) Classification as cash and cash equivalents and cash desposits

Cash is classified as cash and cash equivalents if they have a maturity date of three months of less from the date of deposit. Total cash and cash equivalents as at 31 December 2019 totalled $227.3M (31 December 2018: $137.3M).

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 2019 totalling $187.0M (31 December 2018: $171.5M) have maturity dates ranging from six to 12 months from the date of deposit.

The total of cash and cash equivalents and cash deposits at 31 December 2019 totalled $414.3M (31 December 2018: $308.8M).

ii) Reconciliation to statement of cash flows

In thousands of AUD	31 December 2019	31 December 2018
Cash and cash equivalents	227,337	137,264
Cash and cash equivalents per statement of cash flows	227,337	137,264

C2. Trade and other receivables

In thousands of AUD	31 December 2019	31 December 2018
Current		
Trade receivables	21,408	26,613
Allowance for expected losses	(113)	(65)
	21,295	26,548
Other debtors and prepayments	15,579	16,699
	36,874	43,247
Construction work in progress – amounts due from customers	45,524	6,480
	82,398	49,727

Recognition and measurement

Trade and other receivables are recognised initially at fair value plus any directly attributable transaction costs where they do not contain a significant financing component. This typically results in the initial measurement of trade and other receivables at their transaction price.

Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

The following basis is used to assess the allowance for expected losses:

- historical collectability data;
- an individual account assessment of past credit history; and
- any current facts and circumstance that indicate an increase or decrease in credit risk or likelihood of debtor insolvency.

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

Notes to the Consolidated Financial Statements

C3. Inventories

In thousands of AUD	31 December 2019	31 December 2018
Current		
Raw materials and stores	152	135
Property development assets		
Land and buildings held for sale		
- Land at cost	-	8,029
- Development costs	-	679
- Interest, rates and taxes capitalised	-	2,112
Less: Write-down to net realisable value	-	(6,790)
	-	4,030

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

In thousands of AUD	31 December 2019	31 December 2018
Opening carrying amount	8,220	55,855
Acquisitions	874	4,082
Disposals at net book value	-	(48,206)
Depreciation charge for the year	(3,062)	(3,511)
Closing balance	6,032	8,220
Represented by:		
Cost	26,428	26,180
Accumulated depreciation	(20,396)	(17,960)

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

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases

In thousands of AUD	Notes	31 December 2019	31 December 2018
Right-of-use assets			
Properties		5,171	-
Plant and equipment		210	-
Motor Vehicles		158	-
		5,539	-
Lease liabilities			
Current		2,416	-
Non-current		3,359	-
		5,775	-

Additions to the right-of-use assets during the 2019 financial year were $518,493.

(ii) Amounts recognised in the statement of profit or loss

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

In thousands of AUD	31 December 2019	31 December 2018
Depreciation charge of right-of-use assets		
Properties	(3,661)	-
Plant and equipment	(181)	-
Motor Vehicles	(117)	-
	(3,959)	-

In thousands of AUD	31 December 2019	31 December 2018
Interest expense (included in finance cost)	(466)	-

The total cash outflow for leases in 2019 was $3,721,867.

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 of 2 to 7 years 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.

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.

Notes to the Consolidated Financial Statements

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

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. Low-value assets comprise IT-equipment and small items of office furniture. During FY19, no short-term leases and leases of low-value assets were recognised.

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 $5,863.

Key estimates and judgements in determining the lease term

- In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

C6. Intangibles

In thousands of AUD	Goodwill
Cost	
Balance at 1 July 2018	27,968
Balance at 31 December 2018	17,676
Balance at 1 January 2019	**17,676**
Balance at 31 December 2019	**17,676**
Carrying amounts	
At 1 July 2018	17,676
At 31 December 2019	17,676
At 1 January 2019	**17,676**
At 31 December 2019	**17,676**

Impairment testing for cash-generating units containing goodwill

In thousands of AUD	31 December 2019	31 December 2018
Goodwill		
Building Construction	17,676	17,676
	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.

Notes to the Consolidated Financial Statements

C6. Intangibles (continued)

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)	12.29%
Terminal value earnings multiple	8 times EBITDA
EBITDA growth rate (FY20 to FY21)	5.67%

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 12.29% 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

In thousands of AUD	31 December 2019	31 December 2018
Current		
Trade payables and accrued expenses	13,328	21,117
Subcontractor payable	38,813	34,529
Subcontractor accrual	145,791	94,148
Retentions payable	24,907	25,742
	222,839	175,536
Non-current		
Retentions payable	20,408	7,620

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.

Notes to the Consolidated Financial Statements

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.

In thousands of AUD	31 December 2019	31 December 2018
Insurance bonds	143,054	138,814
Bank guarantees	96,581	74,252

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 2019 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 2019 and 31 December 2018, the Group had the following facilities.

In thousands of AUD	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

	Utilised	Unutilised	Facility limit available for utilisation
31 December 2018			
Bank guarantees	74,252	95,748	170,000
Insurance company bonding	138,814	86,186	225,000
Total bonding	213,066	181,934	395,000

Bonding
At 31 December 2019, the Group had $440.4M 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.

In October 2019 the Group entered into new bilateral facility arrangements for the provision of bank guarantee facilities.

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. Commitments

a) Capital expenditure commitments

In thousands of AUD	31 December 2019	31 December 2018
Plant and equipment - contracted but not provided for and payable		
- Within one year	-	-
b) Non Cancellable operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Less than one year	-	3,922
Between one and five years	-	4,250
More than five years	-	2,019
	-	10,191

The Group leases office buildings under operating leases, which historically comprise the majority of the Group's operating lease commitments. The Group also leases motor vehicles and computer software under operating lease which typically run from one to five years.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, in accordance with AASB16, see note C5 for further information.

Notes to the Consolidated Financial Statements

D3. Shareholders equity

a) Issued capital

In thousands of shares	31 December 2019	31 December 2018
On issue at 1 January	184,614	183,386
Shares issued upon vesting of performance rights	-	1,228
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.

D4. Dividends

a) Ordinary shares

No final or interim dividends for the 31 December 2019 or 31 December 2018 financial periods were declared or paid.

b) Franking credits

The franking account balance at 31 December 2019 is $41,000 (31 December 2018: $41,000).

Notes to the Consolidated Financial Statements

E – Financial risk management

Included in this section are details of the Group's risk management disclosures relating to capital and financial risks.

E1. Capital risk management

Management and the Board manage capital in a manner that attempts to facilitate an optimum return to its shareholder, while ensuring Group entities continue to maintain a conservative capital model and levels of surplus liquidity required for execution of growth strategies. A capital management plan that assists in deriving the lowest cost of capital available, after taking into account market conditions, liquidity, aggregate project risks and future growth strategies, has been adopted by the Group. Watpac's capital structure is regularly reviewed by the Board, and where the need arises, appropriate adjustments made to the capital management plan.

E2. Financial risk management

Overview
The Group has exposure to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk

The Board has responsibility for the establishment and oversight of the risk management framework applicable to the Group's financial investments. The Executive Committee comprising the Chief Executive Officer and Chief Financial Officer is responsible for assessing the appropriateness of the Group's risk management policies adopted and provide regular financial risk management reports to the Board.

The Board also oversees how management monitors compliance with risk management policies and procedures. The Chief Executive Officer, Chief Financial Officer and Group Risk and Compliance Manager assist the Board with this oversight responsibility. The Group Risk and Compliance Manager administers the Enterprise Risk Management Framework and internal audit program, and ensures compliance with the Group's Schedule of Delegated Authority. Regular and ad hoc reviews of risk management controls and procedures are undertaken by operational management in accordance with the protocols set out in various policy documents. The Group's Commercial Benchmarks set a framework against which contractual risks are assessed.

a) Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. Management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers where the group has an exposure above pre-agreed benchmarks.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated Statement of Financial Position.

Cash and cash equivalents and term deposits
Cash and cash equivalents comprise cash at bank and in hand and at call deposits which are readily convertible to known amounts of cash and are subject to an insignificant change in value.

At 31 December 2019, the Group held cash and cash equivalents and cash deposits totalling $414,337,000 (31 December 2018: $308,811,000). This represents the maximum credit exposure on these assets. Cash and cash equivalents and cash deposits are currently held with bank and financial institution counterparties who are rated AA- to A- based on Standard & Poor's long-term ratings.

Trade and other receivables
The Group's exposure to credit risk on trade and other receivables is dependent on the individual characteristics of each customer. Major new customers undergo a credit assessment process prior to contractual documents being executed, in accordance with the Group Credit Risk policies and Commercial Benchmarks.

Any departures from the guidelines as stated in the Commercial Benchmarks must be authorised by Business Unit Leaders and, if material, approved by the Chief Executive Officer and Chief Financial Officer. Failing agreement between the Chief Executive Officer and Chief Financial Officer, the matter is referred to the Board.

Private sector construction projects are generally funded by third party financing and it is not until this is in place and sufficient evidence of funding provided to Watpac that the Group will accept the transaction credit risk.

Credit risk is seen as a major risk to the Group and as such, significant time is spent on determining counterparties' ability to pay in accordance with their contractual obligations.

Notes to the Consolidated Financial Statements

E2. Financial risk management (continued)

The Group's maximum exposure to credit risk arising from financial assets, comprising cash and cash equivalents, term deposits and receivables, excluding the value of any collateral or other security at Balance Date, is its carrying amount, net of any provisions for impairment, as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements.

Financial guarantees

The Group's policy is to provide financial guarantees to wholly-owned subsidiaries that are listed in Note F1 as and when required to support the core operations. The Group also provides performance guarantees as part of its activities, details of which are provided in Note C8.

Exposure to credit risk

As noted above, the carrying amount of the Group's financial assets represents the maximum credit exposure.

The majority of the Group's trade and other receivables comprise receivables with terms of less than 12 months (typically 30 days) and therefore do not contain a significant financing component. Where the Group has an assessed exposure to credit risk, which results in the outcome of a transaction not being able to be estimated reliably.

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed operating conditions. Short term and rolling 12 month forecasts are regularly prepared and reviewed to ensure liquidity targets are anticipated to be met at all times. Construction cash flows are monitored in line with the terms of the individual contracts.

The following tables detail the Group's contractual maturities for its financial liabilities, including cash flows attributable to both interest and principal debt repayment obligations (where applicable).

In thousands of AUD

31 December 2019	**Carrying amount**	**Contractual cash flows**	**12 months or less**	**1-2 years**	**2-5 years**
Trade payables	13,328	13,328	13,328	-	-
Subcontractor payable and accrual	184,604	184,604	184,604	-	-
Retentions payable	45,315	45,315	24,907	20,408	-
	243,247	243,247	222,839	20,408	-

31 December 2018	**Carrying amount**	**Contractual cash flows**	**12 months or less**	**1-2 years**	**2-5 years**
Trade payables	21,117	21,117	21,117	-	-
Subcontractor payable and accrual	128,677	128,677	128,677	-	-
Retentions payable	33,362	33,362	25,742	7,620	-
	183,156	183,156	175,536	7,620	-

The Group has substantial cash reserves and maintains a conservative approach to liquidity management.

c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management at Watpac is to manage and control market risk exposures within acceptable parameters.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates currently only affects cash on deposit. The Group's policy with respect to controlling interest rate risk is to ensure regular review of the current and forecast total cash positions and assess the impact adverse changes in interest rates have on finance income and expenses. Consideration is given to:

- renewals/extension of existing positions; and
- alternative products and investment options.

Notes to the Consolidated Financial Statements

E2. Financial risk management (continued)

The current low interest rate environment and differential between rate yield on cash holdings versus the Group's weighted average cost of capital has been a major factor when assessing capital management initiatives over recent years. This is particularly relevant given the Group has no on-balance sheet debt (with the exception of lease liabilities related to right of use assets).

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

In thousands of AUD		31 December 2019	31 December 2018
Fixed rate instruments			
Financial assets	(i)	308,056	131,468
		308,056	131,468
Variable rate instruments			
Financial assets		106,281	177,343
		106,281	177,343

(i) Fixed rate financial assets represent cash in investment accounts and term deposits which have varying maturity dates (not exceeding 12 months).

Sensitivity analysis for variable rate instruments

If interest rates had been 50 basis points lower or higher at reporting date and all other variables were held constant, the Group's profit from net variable rate instruments would have decreased/increased by $531,410 (31 December 2018: $443,000).

Foreign currency risk

The level of overseas procurement forming part of the Group's Construction businesses has increased in recent years. While not currently representing a material risk exposure to the Group, new projects may include foreign currency risk, mainly USD, AED and EUR. The Group plans to treat this risk through various hedging strategies, including holding foreign currency reserves and, where appropriate, the use of hedging instruments that accord with the Group's risk management policies.

The Group hedges its foreign currency exposures where it is deemed appropriate and there is an underlying hedged item. All foreign currency hedge transactions are undertaken in accordance with the Group's Financial Risk Management and Hedging Policy and Securities Trading Policy.

E3. Financial instrument fair values

At 31 December 2019 and 31 December 2018, the net fair value of the Group's financial instruments approximates their carrying values. The following methods and assumptions are used to determine the net fair value of each class of financial instrument.

Cash

The carrying amount approximates the fair value because of their short term to maturity.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date and any expected credit losses, where appropriate.

Trade and other payables

Net fair value is based on the expected future cash outflows required to settle liabilities. As such, carrying value approximates net fair value.

Borrowings

The net fair value of borrowings is calculated as the discounted value of expected future cash flows.

Recognition and measurement

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset or it does not expect cash flows to occur. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Notes to the Consolidated Financial Statements

E3. Financial instrument fair values (continued)

Equity instruments are recognised initially at fair value plus any directly attributable transaction costs. Unless the equity instrument is held for trading or contingent consideration, an irrevocable election is made at initial recognition to designate any subsequent fair value changes either in the income statement, or other comprehensive income.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to sell them on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements

F – Group structure

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

F1. Controlled entities

The controlled entities of the Group listed below, all of which are incorporated in Australia, were wholly owned during the current year and prior year, unless otherwise stated:

	Ownership interest	
	31 December 2019	31 December 2018
Ahden Engineering (Aust) Pty Ltd	100%	100%
Watpac Specialty Services Pty Ltd	100%	100%
Watdev Waterloo Pty Ltd	100%	100%
Watdev4 Pty Ltd	100%	100%
Watdev5 Pty Ltd	100%	100%
Watpac Finance Pty Ltd	100%	100%
Watpac Construction (SA) Pty Ltd	100%	100%
Watpac Corporate Services Pty Ltd	100%	100%
Watpac Construction Pty Ltd	100%	100%
Watpac Developments Pty Ltd	100%	100%
Watpac Construction (NSW) Pty Ltd	100%	100%
Watpac Construction (Vic) Pty Ltd	100%	100%
Watpac Civil and Mining (Vic) Pty Ltd	100%	100%
JMS Civil and Mining Pty Ltd	100%	100%
JJ McDonald & Sons Sub-Holdings Pty Ltd	100%	100%
JMS Plant Pty Ltd	100%	100%
Watpac Construction (ACT) Pty Ltd	100%	100%
Watpac Super Pty Ltd	100%	100%
Watpac Share Plans Pty Ltd	100%	100%

Notes to the Consolidated Financial Statements

F2. Parent entity disclosures

The parent entity of the Group is Watpac Limited.

In thousands of AUD	31 December 2019	31 December 2018
Result of the parent entity		
Net profit/(loss) for the period	(2,363)	5,513
Other comprehensive income	-	-
Total comprehensive income/(loss) for the period	(2,363)	5,513
Financial position of the parent entity at year end		
Current assets	935	2,358
Total assets	5,935	7,523
Current liabilities	1,844	1,069
Total liabilities	1,844	1,069
Total equity of the parent entity comprising of:		
Share capital	234,384	234,384
Reserves	(2,100)	(2,100)
Retained earnings	(228,193)	(225,830)
Total equity	4,091	6,454

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.

F3. Deed of Cross Guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 (effective 29 September 2016), relief is granted to the wholly-owned controlled entities listed below from the *Corporations Act 2001* (**Act**) requirements for preparation, audit and lodgement of financial reports. It is a condition of the Instrument that the Company and each of the controlled entities enter into a Deed of Cross Guarantee.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debts in the event of winding up of any of the controlled entities under certain provisions of the Act. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event the Company is wound up.

The controlled entities subject to the Deed are:

- Watpac Specialty Services Pty Ltd
- Watpac Construction Pty Ltd
- Watpac Developments Pty Ltd
- Watpac Corporate Services Pty Ltd
- Watpac Construction (NSW) Pty Ltd
- Watpac Construction (Vic) Pty Ltd
- Watpac Civil & Mining (Vic) Pty Ltd
- JMS Civil & Mining Pty Ltd
- JJ McDonald & Sons Sub-Holdings Pty Ltd
- Watpac Construction (SA) Pty Ltd
- Watpac Finance Pty Ltd

Notes to the Consolidated Financial Statements

F3. Deed of Cross Guarantee (continued)

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 2019 and 31 December 2018 is set out as follows:

In thousands of AUD	31 December 2019	31 December 2018
Summarised statement of income and retained profits		
Net profit/(loss) before tax	13,676	(957)
Income tax benefit/(expense)	-	504
Net profit/(loss) after tax from continuing operations	13,676	(453)
Profit/(loss) from discontinued operations, net of tax	-	(2,035)
Profit/(loss) attributable to owners of Watpac Limited	13,676	(2,488)
Retained earnings at beginning of period	(114,130)	(120,468)
Forfeit share based payments during the period	-	8,826
Retained earnings at end of period	(100,454)	(114,130)

In thousands of AUD	31 December 2019	31 December 2018
Statement of financial position		
Cash and cash equivalents	227,337	137,264
Cash deposits	187,000	171,547
Trade and other receivables	82,398	49,027
Inventories – stock on hand	152	135
Inventories – property development assets	-	4,030
Total current assets	496,887	362,003
Property, plant and equipment	6,032	8,220
Right of Use Assets	5,539	-
Intangibles	17,676	17,676
Deferred tax assets	13,693	13,693
Total non-current assets	42,940	39,589
Total assets	539,827	401,592
Trade and other payables	222,839	173,928
Intercompany loans	-	14,185
Excess Billings	147,557	77,594
Lease Liability	2,416	-
Employee benefits	13,729	12,645
Provisions	-	159
Total current liabilities	386,541	278,511
Trade and other payables	20,408	7,620
Lease Liability	3,359	-
Employee benefits	2,312	1,965
Provisions	1,057	1,022
Total non-current liabilities	27,136	10,607
Total liabilities	413,677	289,118
Net assets	126,150	112,474
Issued capital	228,704	228,704
Reserves	(2,100)	(2,100)
Retained earnings	(100,454)	(114,130)
Total equity	126,150	112,474

Notes to the Consolidated Financial Statements

F4. Discontinued Operations

On 21 December 2018, J.J. McDonald & Sons Sub-Holdings Pty Ltd, an indirect subsidiary of Watpac Limited disposed of its 100% shareholding in Watpac Civil & Mining Pty Ltd. The results of this discontinued operation have consequently been reported separately from continuing operations for the comparative period.

In thousands of AUD	31 December 2019	31 December 2018
Summarised statement of income and retained profits		
Loss from discontinued operations	-	(2,035)
Loss from sale of discontinued operations, net of tax	-	(3,885)
	-	(5,920)

In thousands of AUD	31 December 2019	31 December 2018
Cashflows from/(used in) discontinued operation		
Net cash provided by operating activities	-	2,782
Net cash used in investing activities	-	(2,091)
Net cash used in financing activities	-	(691)
Net cash flows for the period	-	-

Notes to the Consolidated Financial Statements

G – 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.

G1. Employee benefits

a) Employee benefits

The Group has paid contributions of $9,531,821 to defined contributions plans on behalf of employees for the period ended 31 December 2019 (31 December 2018: $4,432,000).

G2. New accounting policies

AASB 16 Leases

In the Reporting Period, the Group has applied AASB 16 Leases. The new standard came into effect on 1 January 2019 and became mandatory for the Group from that date.

AASB 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied AASB 16 using the modified retrospective approach and therefore comparative information has not been restated. Details of the change in accounting policy are disclosed below.

Definition of a Lease

The Group assesses whether a contract is or contains a lease at contract inception based on the new definition of a lease. Under AASB 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases and the definition of a lease under AASB 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease element, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease element.

As a Lessee

The Group leases assets including office and other premises, motor vehicles, construction equipment and IT equipment. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group has, however, elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. small tooling items and some IT assets). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets and lease liabilities as separate lines in the statement of financial position, rather than as part of 'property, plant and equipment' and 'loans and borrowings' respectively.

Significant Accounting Policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, generally discounted using the Group's incremental borrowing rate or rate implicit in the lease (where determinable).

The lease liability is remeasured when there is a change in future lease payments arising from a change in indices, rates, estimates of amounts to be paid, or changes in the assessment of whether purchase, extension or termination options are reasonably certain to be exercised or not (as appropriate).

The Group has applied judgement, as lessee, to determine the lease terms for some contracts featuring renewal options, which has a corresponding impact on the amount of lease liabilities and right-of-use assets recognised.

Notes to the Consolidated Financial Statements

G2. New accounting policies (continued)

Transition

At transition, for leases classified as operating leases under AASB 117 (predominantly leases relating to office premises and the like), lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Applied a single discount rate to a portfolio of leases with similar characteristics (in this case, motor vehicles);
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease terms if the contract contains options to extend or terminate the lease.

Impacts on Financial Statements

i. Impacts on transition

Amounts recognised on transition to AASB 16 are summarised as below

Carrying value of Right-of-use assets

In thousands of AUD	31 December 2019	1 January 2019
Properties	5,171	8,832
Plant and equipment	210	-
Motor Vehicles	158	145
	5,539	**8,977**

Lease Liabilities

Current		
Properties	2,207	3,431
Plant and equipment	119	-
Motor Vehicles	90	104
	2,416	**3,535**
Non-current		
Properties	**3,194**	**5,401**
Plant and equipment	96	-
Motor Vehicles	69	41
	3,359	5,442

The weighted average rate applied to discount lease payments on leases formerly classified as operating leases is 6.16%.

ii. Impacts for the period

During the twelve months ended 31 December 2019, in addition to the right-of-use asset and lease liability balances noted above, the Group recognised $3,956,557 of depreciation charges and $465,525 of interest costs under AASB 16.

Notes to the Consolidated Financial Statements

G3. Changes in accounting policies

Other than the implementation of AASB 16 as detailed in Note G3, the accounting policies applied by the Group in these Consolidated Financial Statements are the same as those applied in its Consolidated Financial Statements as at and for the period ended 31 December 2018.

The comparative figures cover a six-month period from 1 July 2018 to 31 December 2018, which together with the transition method adopted for AASB 16 Leases may result in amounts for TFY18 not being comparable with amounts shown for the Reporting Period.

G4. 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 2019 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 2019;
- 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

KPMG

Scott Guse
Partner

Brisbane
21 February 2020

WATPAC

watpac.com.au