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Half Year Report

for the six months ended 31 December 2015

www.waterco.com

Review Of Operations

For the six months ended 31 December 2015 (this Half-year) Waterco Limited reported a Net Profit After Tax of \$2.17 million. This compares with a reported Net Profit After Tax of \$1.49 million for the previous corresponding period (PCP).

Earnings Before Interest & Tax (EBIT) for this Half-year were \$3.86 million (PCP \$3.20 million).

Total Revenue was \$46.21 million (PCP \$43.52 million).

Detailed below is a breakdown of the sales revenue contribution for this Half-year compared with the PCP:

	Dec 2015 (\$000)	Dec 2014 (\$000)	% Change
Australia and New Zealand	31,907	31,351	+ 1.77%
Asia	6,190	5,119	+ 20.92%
North America and Europe	6,811	6,721	+ 1.34%
Sales revenue	44,908	43,191	+ 3.98%
Other revenue	1,303	325	+300.92%
Total	46,211	43,516	+ 6.19%

Divisional EBIT Performance

Detailed below is a breakdown of EBIT contributions by Division for the half-year ended 31 December 2015:

	Dec 2015 (\$000)	Dec 2014 (\$000)	% Change
Australia and New Zealand	3,154	2,791	+ 13.0%
Asia	1,997	1,001	+ 99.5%
North America and Europe	(1,291)	(590)	- 118.8%
Consolidated Reported EBIT	3,860	3,202	+ 20.5%

Australia And New Zealand

In Australia and New Zealand (ANZ), we had a soft start for the beginning of the financial year. However, sales caught up as the weather warmed up, to be marginally higher than PCP. Margins are not as strong as previous year's due to a weaker Australian Dollar (AUD). As a result, Gross Profit was marginally below that of the previous year's level. However, with favourable foreign exchange differences and the receipt of insurance claims for consequential losses suffered in previous years' fires, EBIT was up on PCP.

Asia

In Asia we are experiencing improved performance in sales of our product lines throughout South East Asia, while sales in China improved as a result of wider acceptance of the Hydroxypure system. This is a chlorine-free sanitisation water treatment system, using a combination of ozone and hydrogen peroxide as sanitising agents. The system enables swimmers to enjoy the silkiness of the water, in comparison with the feeling if chlorine was used as the sanitising agent. Used in indoor pools, it eliminates the chlorine odour, which may be unpleasant to some swimmers. A patent to protect this system has been lodged globally, including in China.

Waterco Far East (WFE) continues to consolidate its position as a manufacturer for the Group with improved performance in the quality of the heat pump, after the line was transferred from Waterco Canada and Waterco USA. Further improvement of our manufacturing lines of other products resulted in a better performance compared to PCP.

North America And Europe

In the Northern Hemisphere – namely Canada, the USA and Europe – generally, poor economic conditions prevail. Waterco Canada is expected to trade poorly as a result of a weaker Canadian dollar. The performance of the USA entity is expected to improve, as restructuring exercises, which include the transfer of almost all manufacturing activities to Malaysia, have been completed. The supply of large commercial filters capable of high pressure rating will underpin our presence in the USA. In Europe, in the previous year, we built a strong foundation for growth, despite poor economic conditions and yet turned in a satisfactory financial result. Indications are that we expect this entity to continue to perform well this financial year. The Division's performance, however, is expected to be adversely affected by poor performances of Canada and USA.

This Division reported an EBIT loss for the six months of \$1.29 million, or an increase of 118.8% on the PCP. The main business season for this Division is in the second half of the financial year. Trading conditions in the US remained tough, though we do see prospects of an improvement in the water-treatment sector.

We expect improvement in performance of our businesses in the Northern Hemisphere in the Second Half Year, in particular the European sector.

Product Development & Water Treatment

In this Half-year, Waterco invested approximately \$0.551 million on research & development, which was fully expensed. The Group continues to believe that a strong company culture of delivering to its customers innovative, durable and energy-efficient products is an important strategic measure. Several new products introduced in recent times have had satisfactory success.

Several new patents had been lodged in Australia with some patents pending overseas registration. In addition to patents in the development of water filtration products, an area which Waterco had specialized in, over the years, there were, notably, several patents in a chlorine-free system of sanitization which uses ozone and hydrogen peroxide as an alternative to the traditional methods of using chlorine in various forms. This chlorine-free system extends the Group's efforts in producing environmentally-friendly products and is expected to achieve significant sales, initially in Australia, and subsequently globally.

Working Capital

The group's working capital position as at December 2015 had decreased by \$0.724 million, mainly attributable to decreased Inventory and increased Creditors which offset the large increase in Debtors, compared with the PCP.

	Dec 2015 (\$000)	Dec 2014 (\$000)
Inventory	33,265	36,761
Debtors	21,307	16,298
Creditors	(18,629)	(16,392)
TOTAL	35,943	36,667

Dividend

Based on this Half Year result, the Board is pleased to declare a fully-franked interim dividend of 2 cents per share payable on 15 June 2016.

Outlook

The Board considers this half-year's results as encouraging. Some easing off in the second half year is expected.

The next half-year will be more dependent on the performance of North America and Europe. Sales in the USA, particularly in commercial filters, continue to look promising.

Performance Summary

- Net profit after tax (NPAT) of \$2.17m, compared with \$1.49m in the previous corresponding period
- Earnings before interest and tax (EBIT) were \$3.86m compared with the previous corresponding period of \$3.20m.
- EBIT for Australia and New Zealand increased 13% on the previous corresponding period
- An interim dividend of 2 cents per share (PCP – nil)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

(extracted from the Financial Report for the Half Year)

For the Half Year ended 31 December 2015

	2015 \$M	2014 \$M
Profit/(loss) before income tax	3.235	2.419
Income tax expense	(1.065)	(0.927)
Net profit/(loss) after income tax	2.170	1.492
Non-controlling interest	(0.061)	(0.041)
Net profit/(loss) attributable to members of the parent entity	2.109	1.451
Basic earnings per share (cents)	5.8	4.1
Diluted earnings per share (cents)	5.8	4.1

Condensed Consolidated Statement of Financial Position

(extracted from the Financial Report for the Half Year)

At 31 December 2015

	2015 \$M	2014 \$M
Current assets	62.816	56.904
Non-current assets	39.944	47.159
Total Assets	102.760	104.063
Current liabilities	28.777	23.080
Non-current liabilities	17.507	25.192
Total liabilities	46.284	48.272
Net assets	56.476	55.791
Issued capital	39.265	38.143
Reserves	6.428	7.302
Retained profits	10.265	9.915
Parent entity interest	55.958	55.360
Non-controlling interest	0.518	0.431
Total equity	56.476	55.791

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