WATERCO

water, the liquid of life

Half Year Report

for the six months ended 31 December 2014

www.waterco.com

Review Of Operations

For the six months ended 31 December 2014, the Group reported a Net Profit After Tax (NPAT) of $1.49 million. This is a reduction of $0.61 million compared with a reported NPAT of $2.10 million for the previous corresponding period (PCP). The reduction in NPAT was mainly due to additional provision for stock valuation write-down.

Earnings Before Interest & Tax (EBIT) for this half year was $3.20 million (PCP $3.87 million).

Total Revenue was $ 43.52 million (PCP $41.42 million).

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

	Dec 2014 ($000)	Dec 2013 ($000)	% Change
Australia and New Zealand	31,351	30,428	+ 3.03%
Asia	5,119	5,390	- 5.03%
North America and Europe	6,721	5,227	+ 28.6%
Sales revenue	**43,191**	**41,045**	**+ 5.2%**
Other revenue	325	380	+ 14.5%
Total	**43,516**	**41,425**	**+ 5.05%**

Sales in Australia and New Zealand registered a moderate growth for the half year compared to PCP and coupled with a strong improvement notably in Europe this half year, the Group recorded a decent increase of 5.05%.

Sales in Asia were not up to expectations, with China under-performing as a result of the property sector receding again.

North American sales were flat in this half year whereas Europe showed signs of recovery despite sluggish general economic conditions. We hope to see this continue in the second half year before we conclude that the recovery can be sustained. For now, results are encouraging.

Divisional EBIT Performance

Detailed below is a breakdown of EBIT contributions by Division for the half year ended 31 December 2014:

	Dec 2014 ($000)	Dec 2013 ($000)	% Change
Australia and New Zealand	2,791	2,822	- 1.1%
Asia	1,001	2,589	- 61.3%
North America and Europe	(590)	(1,540)	+ 61.7%
Consolidated Reported EBIT	**3,202**	**3,871**	**- 17.3%**

Australia And New Zealand

As expected, profitability remained below expectations in line with a continued competitive business environment, as well as higher cost of goods as a result of a weaker Australian Dollar (AUD). A slow-down in government spending continued throughout the relevant reporting period resulting in a reduction in sales of our commercial filters. Overall, we have maintained a modest growth in sales compared to PCP.

Asia

Waterco Far East (WFE) consolidated its position as the Group's principal manufacturing facility for pumps and filters for both the commercial and the residential sectors, supplying to all major overseas divisions, including Australia. WFE has commenced production of heat pumps, with technology transferred from Waterco Canada and Waterco USA to meet demand in Europe and Australia for the next season. In addition to being in a more central geographical location, WFE also offers the Group benefits from economies of scale and favourable labour cost. Local sales of this entity improved compared with PCP. The relocation of the heat pump manufacturing facility from North America was completed during the year. WFE absorbed the costs of relocation, including some write down of inventory, resulting in a lower profitability than expected.

North America And Europe

This Division reported an EBIT loss for the six months of $590,000, a considerable improvement compared to the PCP loss of $1,540,000. 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.

Commercial filters are currently being made in Augusta, Georgia, with the largest filter made being eighty-eight inches in diameter. The availability of a range of large filters made in Waterco's factory in the United States has been received positively and should improve Waterco's position as a supplier to the local market. There are plans to widen the filter range in Augusta in the near future.

There was hardly any change in the trading conditions in Europe during this half year. As business environment in the Euro-Zone was still weak, margins continued to come under pressure. Despite difficult economic conditions, our UK based entity had increased sales and improved performance beyond expectations.

Of the entities in this region, the seasonality of the business in Canada is the most pronounced, with profit margins skewed markedly in favour of the second half of the financial year. Assembly of heat pumps had been transferred to Asia, reducing manufacturing activities in North America. Losses in Canada are expected to be curbed this financial year, with a much lower level of overheads.

Product Development & Water Treatment

In this half year, Waterco invested approximately $0.524 million on research and 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.

Working Capital

The Group's working capital position as at 31 December 2014 had increased by $2.412 million, mainly attributable to increased inventory and other debtors and reduction in creditors, compared with the PCP.

	Dec 2014 ($000)	Dec 2013 ($000)
Inventory	36,761	36,161
Debtors	16,298	15,671
Creditors	(16,392)	(17,577)
TOTAL	**36,667**	**34,255**

Dividend

As a result of the fire at our Head Office in NSW on 7 January 2015 and decrease in the performance for the half year, the Board will not be declaring an interim dividend (PCP 3 cents per share).

Outlook

The Board considers this half year's results as below expectation after making an additional provision for stock write down valuation of $500,000.

The next half year will be more dependent on the performance of North America and Europe. Sales in Europe look promising with a better level of forward orders compared to PCP. In North America, sales level is expected to be maintained and with lower overheads, an improvement in financial results is expected.

Performance Summary

- Net profit after tax (NPAT) of $1.49m, compared with $2.10m in the PCP.

- Earnings before interest and tax (EBIT) was $3.20m compared with the PCP of $3.87m.

- Nil interim dividend (PCP 3 cents per share).

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 2014

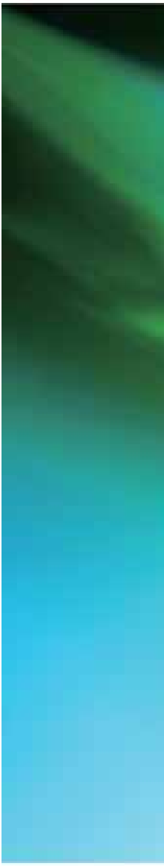
	2014 $M	2013 $M
Profit/(loss) before income tax	2.419	3.165
Income tax expense	(0.927)	(1.063)
Net profit/(loss) after income tax	1.492	2.102
Non-controlling interest	(0.041)	(0.040)
Net profit/(loss) attributable to members of the parent entity	1.451	2.062
Basic earnings per share (cents)	4.10	6.0
Diluted earnings per share (cents)	4.10	6.0

Condensed Consolidated Statement of Financial Position

(extracted from the Financial Report for the Half Year)

At 31 December 2014

	2014 $M	2013 $M
Current assets	56.904	55.313
Non-current assets	47.159	41.406
Total Assets	104.063	96.719
Current liabilities	36.118	22.853
Non-current liabilities	12.154	25.489
Total liabilities	48.272	48.342
Net assets	55.791	48.377
Issued capital	38.143	36.785
Reserves	7.302	(0.511)
Retained profits	9.915	11.740
Parent entity interest	55.360	48.014
Non-controlling interest	0.431	0.363
Total equity	55.791	48.377



REGISTERED OFFICE
Waterco Limited
A.B.N. 62 002 070 733
36 South Street,
Rydalmere, NSW 2116.
Website: www.waterco.com
Tel: + 61 2 9898 8600
Fax: + 61 2 9898 1877

SHARE REGISTRY
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3000
Website: www.computershare.com
Tel: 1300 85 05 05 (Australia)
Tel: + 61 3 9415 4000 (Overseas)
Fax: + 61 3 9473 2500