

28 October 2014

Waterco Limited (ASX Code: WAT)

Chairman's Address at the 2014 Annual General Meeting on 28 October 2014

The Annual Report for the financial year ended 30 June 2014 has been made available to shareholders and other interested parties, as usual. Included in the report was the CEO's Review of Operations for 2013/2014, wherein I have provided a summary of our operations for the year and touched briefly on the outlook for the year ahead. In this address, I shall not repeat what I have written there but I shall instead focus on providing more information on the factors that will influence our outlook for the new financial year 2014/2015.

We have just completed four months of trading in the new financial year. I shall build on our performance for these four months and attempt to provide you with our expectation for the full year.

In the first four months of this new financial year, sales in Australia and New Zealand (ANZ) have been flat compared with the previous corresponding period (PCP). However, margins have been holding up well, as most of the inventory sold during this period had been brought into ANZ during the Fourth Quarter of the previous financial year, when the Australian Dollar (AUD) was stronger. If the lower AUD seen in recent weeks prevails for much of this financial year, it may put pressure on margins in the Second Half Year. We have implemented price increases, which come into effect every year, at the beginning of the season. This will help offset the resultant higher cost of goods arising from a weaker AUD in the Second Half-Year.

In the North America and Europe Division – namely Canada, the USA and Europe – generally poor economic conditions continue.

A recent price increase put in place for the coming season in Waterco Canada will provide workable margins, though sales are expected to be down on the PCP. As the operations have been restructured, with much lower overheads, Waterco Canada is expected to be profitable, as a result.

Waterco USA continues to benefit from the inroads made into the water-treatment industry, with one of our major customers, GE Water, showing greater acceptance of our composite high-pressure filters. The largest filter developed by Waterco to date, the MD10000, has been installed and well-accepted in several small desalination plants as pre-filters. Waterco is pleased to note that its high-pressure filters are now being considered for a larger desalination plant. As the use of composite filters in large desalination plants is still in its infancy, securing this large supply contract, worth more than \$20 million in sales, is still a significant challenge. Waterco, nevertheless, sees this as a positive development in its efforts to make further inroads into this lucrative industry. Waterco USA has been restructured, significantly reducing manufacturing activities and increasing focus on sales, and is expected to return to profit.

The economic conditions in Europe are expected to be challenging, but results of the First Quarter are encouraging and point towards a reasonable season coming up for this entity.

Taking the above factors into consideration, we project a Profit After Tax of \$2.5 million for the full financial year ending 30 June 2015. As before, we will work hard towards improving on this forecast. With the likelihood of improvement in our North America and Europe Division, we believe that we have the foundation to improve results of the Group this financial year.

For the longer term, we expect that improvement in our performance will be achieved through innovation and gaining greater acceptance in the water-treatment industry. The contribution by this sector to Waterco's operations has seen steady growth in the previous financial year and into the First Quarter of this financial year.

I would like to thank Waterco's shareholders for their continuing support, and my fellow directors, the management and employees for the efforts they have put in during the year.

Yours faithfully
WATERCO LIMITED



SOON SINN GOH
CEO

About Waterco Ltd – www.waterco.com

Established in 1981 and listed on the ASX in 1989, Waterco (ASX: WAT) manufactures and distributes a diverse range of products for the international swimming pool and water treatment markets. Waterco is also the franchisor of Swimart, Australia and New Zealand's largest network of pool and spa retail outlets, and is also the distributor of Zane Pool Heating solutions via a network of Australian dealerships.

Waterco delivers high quality, innovative products at exceptional value in over 40 countries. This includes a comprehensive range of swimming pool & spa equipment and chemicals as well as domestic and industrial water treatment equipment.

The company's head office is in Sydney, Australia with international offices, manufacturing plants and warehouses located in Australia, New Zealand, Malaysia, Indonesia, Singapore, China, USA, Canada, France and the UK.