



**WATERCO**

**Water, the liquid of life**

# **Half-Year report**

**for the six months ended 31st December 2009**

## REVIEW OF OPERATIONS

For the six months ended 31 December 2009 (this half-year) Waterco Limited reported a Net Profit After Tax of \$2.11 million. This compares with a reported after tax profit of \$1.35 million for the previous corresponding period (PCP), the six months ended 31 December 2008.

Earnings Before Interest & Tax for this half-year were \$3.80 million (PCP \$3.22 million).

Total Revenue was \$38.72 million (PCP \$39.39 million).

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

	Dec 09	Dec 08	% Change
Australia and New Zealand	\$ 29,838,774	\$ 28,990,825	+ 2.9%
S E Asia	\$ 2,049,338	\$ 2,376,601	-13.8%
North America	\$ 3,669,924	\$ 3,913,279	-6.2%
Others	\$ 2,862,424	\$ 3,862,467	-25.9%
Unallocated Revenue	\$ 302,785	\$ 242,720	+24.7%
<b>Total</b>	<b>\$ 38,723,245</b>	<b>\$ 39,385,892</b>	<b>-1.7%</b>

The improvement in Sales in Australia/New Zealand of 2.9% is mainly from a continuing improvement of sales in the 63 store Swimart Franchise Group. We are pleased to note that first half revenues of those retail stores were ahead of the PCP by approximately 10%. This is despite a poor start at the beginning of the season in Australia, a flat economy in New Zealand and a decline of new pools built in both Australia and New Zealand.

Sales in Europe are less than PCP with a strong absence of forward sales, mainly as a result of low confidence from distributors in their outlook for the coming season which occurs in the second half of the financial year.

## **DIVISIONAL PERFORMANCE**

Detailed below is a breakdown of division EBIT contributions (after consolidation adjustments for unrealised forex gains/losses and intercompany dividends) for the half-year ending 31 Dec 2009:

	<b>Dec 09</b>	<b>Dec 08</b>	<b>% Change</b>
Australia and New Zealand	\$ 4,419,372	\$ 3,603,790	+22.6%
S E Asia	\$ 478,688	\$ 1,064,806	-55.0%
North America	(\$ 1,140,678)	(\$ 1,859,956)	+38.7%
Others	\$ 39,897	\$ 413,476	-90.4%
<b>Consolidated Reported EBIT</b>	<b>\$ 3,797,279</b>	<b>\$ 3,222,116</b>	<b>+17.9%</b>

The half-year EBIT result of \$3.80 million includes an EBIT loss of \$1.14 million (PCP \$1.86 million EBIT loss) for our North American operations, whose season is in the second half-year.

### **Australia & New Zealand Operations**

Profitability in the Australia and New Zealand Operations arose mainly from strong Australian and New Zealand currencies, improved sales and some significant internal restructuring expense savings.

### **S. E. Asia**

Waterco Far East is now the Group's principal manufacturing facility for pumps and filters for

both the commercial and the residential sectors. Waterco Far East supplies all major overseas divisions, including Australia.

The Group's concerted efforts in reducing inventory levels in response to the Global Financial Crisis continued into first half of this financial year. As a result, there was a marked reduction of manufacturing activities. This mainly accounted for most of the reduction in profitability compared to the PCP. However, manufacturing activities have since increased with the world economy showing signs of recovery. We expect this increase in manufacturing activities to continue steadily into the second half of this financial year, whereas in the PCP for the second half, manufacturing activities were reduced drastically as a result of the Global Financial Crisis. Profitability for the second half for this financial year is, therefore, likely to show improvement over the previous corresponding period.

## **North America**

Our North America operations, incorporating the group's operations in USA and Canada, reported an EBIT loss for the six months of \$1.14 million which is an improvement on the loss of \$1.86 million from the PCP. The main business season for North America is in the second half of the financial year. Currently, trading conditions in the USA are tough.

Commercial filters are currently being made in Augusta, Georgia. The largest filter we make is 88 inches in diameter. Volume at this stage, though still low, has contributed to an improvement in sales and profitability. With the organisation restructured on lower overheads, losses are reduced and will continue to improve into the second half year.

## Others

Trading conditions in Europe are still difficult, with some poor-performing economies amidst some improving ones hindering progress of the overall recovery. Our operations in Europe have similarly felt this phenomenon.

## PRODUCT DEVELOPMENT & WATER TREATMENT

In this half-year, Waterco spent approximately \$0.41 million on research & development, which was fully expensed. This level of expenditure is consistent with previous years and underpins the strong company culture we have towards delivering to our customers innovative, durable and energy efficient products.

## WORKING CAPITAL

	Dec 09	Dec 08
<b>Total</b>	<b>\$ 26,935,414</b>	<b>\$ 34,364,936</b>
INVENTORY	\$ 25,012,490	\$ 31,693,429
DEBTORS	\$ 13,945,423	\$ 15,325,202
CREDITORS	( \$ 12,022,499 )	( \$ 12,653,695 )

The group's working capital position as at December 2009 has been reduced by \$7.43m due to the large reduction in inventory (\$6.68m) compared to the previous corresponding period.

Group Inventory level has fallen by \$6.68 million on the previous corresponding period. This reduction was mainly due to the inventory-reduction measures implemented in the second half of the last financial year.

## **DIVIDEND**

Based on the half-year results, your directors are pleased to declare a fully-franked interim dividend of 3 cents per share (last year 2 cents), payable on 4 June 2010 to shareholders on our register at 7 May 2010.

## **OUTLOOK**

The board of Waterco considers this half-year's results as satisfactory, reflecting a gradual return to profitability. Although budgeted sales revenue has not been achieved, the sales revenue compares well with the PCP.

The next half-year will be more dependent on the Northern Hemisphere business, namely Europe and North America. Current reduction of losses compared to the PCP is pleasing, and further improvement is expected.

Trading conditions in Australia remain firm and based on recent improvement in the various Waterco Entities globally, forecast Net Profit After Tax for the full year is now revised upwards from \$3 Million previously to \$3.50 Million.

## **PERFORMANCE SUMMARY**

- Profit/(Loss) attributable to shareholders before income tax of \$3.15 million was up 36%
- Earnings per share of 7.1cents was up 48%
- Interim dividend of 3 cents per share (fully franked) was up 50%.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(extracted from the Financial Report for the Half-Year)

For the Half-Year ended 31 December 2009	2009 \$M	2008 \$M
Profit/(loss) before income tax	3.163	2.287
Income tax expense	(1.056)	(0.942)
Net profit/(loss) after income tax	2.107	1.345
Non-controlling interest	0.012	(0.025)
Net profit/(loss) attributable to members of the parent entity	2.095	1.370
Basic earnings per share (cents)	7.1	4.8
Diluted earnings per share (cents)	7.1	4.8

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(extracted from the Financial Report for the Half-Year)

At 31 December 2009	2009 \$M	2008 \$M
Current assets	43.815	49.294
Non-current assets	30.187	37.970
Total Assets	74.002	87.264
Current liabilities	15.753	26.710
Non-current liabilities	20.172	13.706
Total liabilities	35.925	40.416
Net assets	38.077	46.848
Issued capital	31.184	30.521
Reserves	(3.657)	9.472
Retained profits	10.199	6.505
Parent entity interest	37.726	46.498
Non-controlling interest	0.351	0.350
Total equity	38.077	46.848



## **REGISTERED OFFICE**

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