



HUGHES DRILLING LIMITED

ABN 12 124 279 750



APPENDIX 4D

FINANCIAL REPORT

HALF YEAR ENDED 31 DECEMBER 2014

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Hughes Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Current Reporting Period 31 December 2014

Previous Corresponding Period 31 December 2013

A\$'000				
Revenue from Ordinary Activities	Up	39.5%	to	54,521
Net Profit / (Loss) After Tax from Ordinary Activities Attributable to Members	Up	44.7%	to	6,543
Net Profit / (Loss) After Tax Attributable to Members	Up	44.7%	to	6,543

Dividends

There have been no dividends paid or proposed in the half-year ended 31 December 2014 (31 December 2013: Nil). As such a record date for determining entitlement to dividends is not applicable.

Net Tangible asset backing per ordinary share

31 Dec 2014	31 Dec 2013
\$0.31	\$0.28

Additional Appendix 4D disclosure requirements can be found in the notes to the half-year financial report. This report is based on the consolidated half-year report which has been subject to a review. The review report is attached as part of the half-year financial report.

Directors' Report

Your directors present their report on the Group consisting of Hughes Drilling Limited and the entities it controlled at the end of, or during, the period under review from 1 July 2014 to 31 December 2014.

Directors

The following persons were directors of the Group during the period under review and up to the date of this report:

Mr Robert (Bob) Hughes	Appointed 10 February 2012
Mr Andrew Drake	Appointed 10 February 2012
Mr Barry O'Connor	Appointed 05 November 2012
Mr Jeff Branson	Appointed 03 October 2013
Mr John Silverthorne	Appointed 03 October 2013
Mr Gary Belcher	Appointed 18 July 2014

Company Secretary

Mr Paul Brenton	Appointed 09 August 2010
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Review and Results of Operations

On behalf of the Board I am pleased to inform shareholders that Hughes Drilling Limited ("Hughes", "HDX" or the "Company") generated revenue of \$54.5m and a profit before tax of \$7.4m for the half year to 31 December 2014.

Table 1: Review & Results of Operations 1st Half FY2015

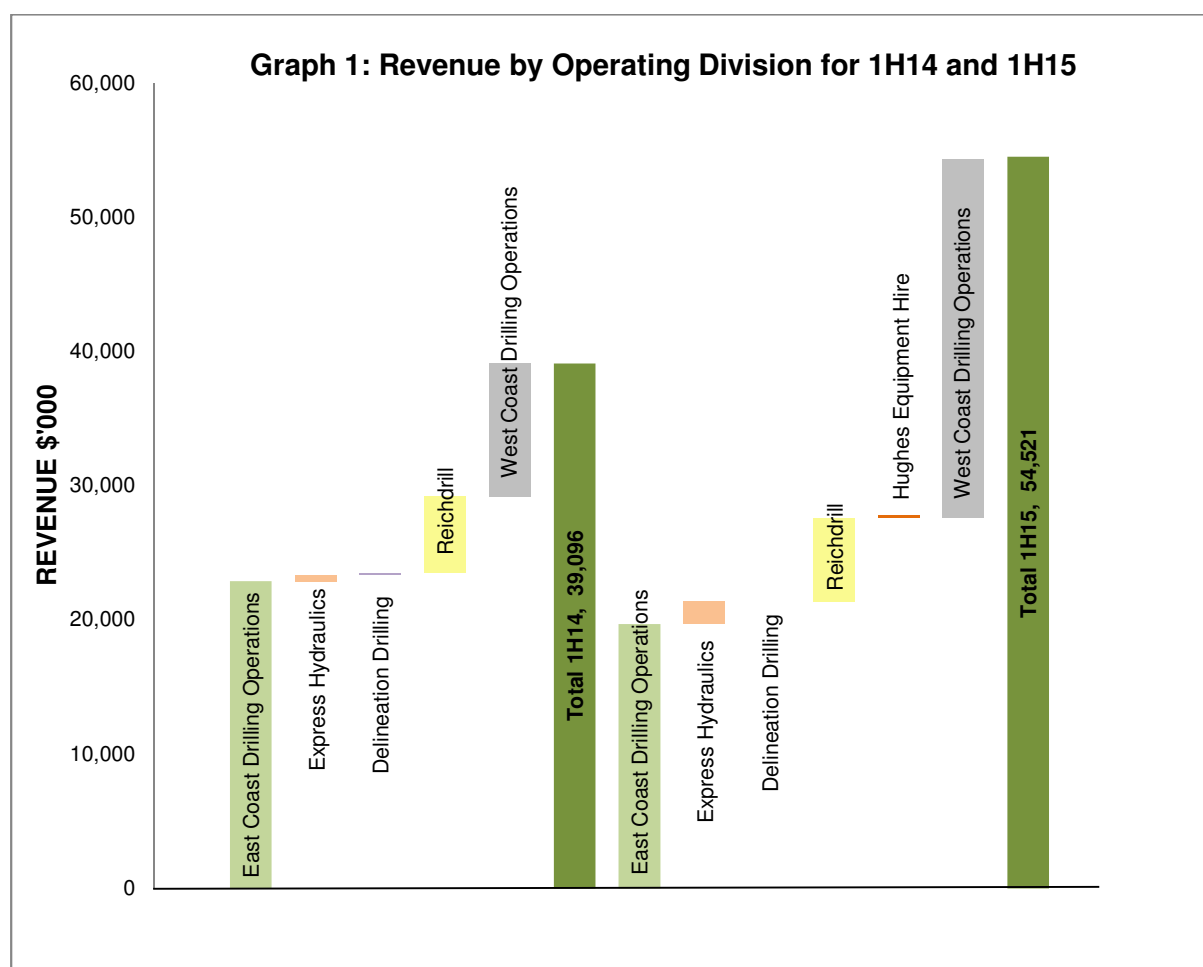
CONSOLIDATED FINANCIAL RESULTS	31 Dec 2014 A\$ '000	31 Dec 2013 A\$ '000	% Change
Financial Performance			
Revenue	54,521	39,096	39.5%
EBITDA	14,535	10,214	42.3%
<i>EBITDA Margin</i>	26.7%	26.1%	2.3%
Depreciation & amortization	5,469	4,214	29.8%
Finance Costs	1,662	1,480	12.3%
EBT	7,404	4,521	63.8%
Tax	861	0	100.0%
NPAT	6,543	4,521	44.7%
<i>NPAT Margin %</i>	12.0%	11.6%	3.4%
Cash Flow			
Net Cash from Operating Activities	11,458	3,818	200.1%
Net Cash used in Investing Activities	(11,873)	(9,643)	(23.1%)
Free Cash Flow	(415)	(5,825)	92.9%
Debt			
Cash	1,306	3,703	(64.7%)
Debt (including overdraft)	47,989	50,626	(5.2%)
Net Debt	46,683	46,923	(0.5%)
Debt / Debt + Equity	40.0%	42.8%	(6.5%)

Directors' Report Continued

Review of Operations - Revenue

Revenue for the 6 months ending December 2014 was \$54.5m; an increase of 39.5% from \$39.1m for the corresponding 6 months to December 2013, the movement in revenue was driven by:

- **East Coast Drilling Operations (Production Blast Hole Drilling)** (36.1 % of Group revenue): Revenue of \$19.7m was achieved for the 6 month period, a decrease of 14.0% from the corresponding 6 month period to 31 December 2013. Rig numbers for East Coast Drilling remain at 39, compared to 41 for the corresponding 6 month period (two REICHdrill C700s transferred to JSW Australia in June 2014). Rig utilisation ended 1H15 at 78% and was relatively consistent for the last 6 months; however, certain mines have scaled back monthly drill metres (particularly in 2Q15) which has led to some reduced revenue. The start of 2H15 has been positive with a number rigs being deployed to either existing mine sites to bolster the drilling or to new mine sites.
- **West Coast Drilling Operations (JSW Australia – Production Blast Hole, Water Well and Resource Definition Drilling)** (49.0% of Group revenue): The acquisition of JSW Australia was completed in October 2013, therefore had a three month contribution for the 1H14 period of \$9.9m, compared to the current contribution of \$26.7m for the full 1H15 period. Current owned rigs are 24 (including 2 C700 REICHdrill production rigs and 1 Hydco 1200, transferred from QLD and NSW), this is bolstered by an additional 7 rigs on hire. JSW has been able to continue to win quality drilling contracts during 1H15 due to its focus on safety, and professional and cost effective execution of drilling contracts. The growth of the WA revenue base has been through Production Drilling and Water Well drilling divisions. All Water Well drills are fully utilised and any suitable equipment from the unutilised Delineation Division are being relocated to WA to meet the strong demand. The majority of the Water Well contracts are for Government Department work, and there is a strong order pipeline.



Notes:

- 1H14 comprises six months of Hughes Drilling and REICHdrill and three months of JSW Australia results.
- 1H15 comprises six months of Hughes Drilling, REICHdrill and JSW Australia results.

Directors' Report Continued

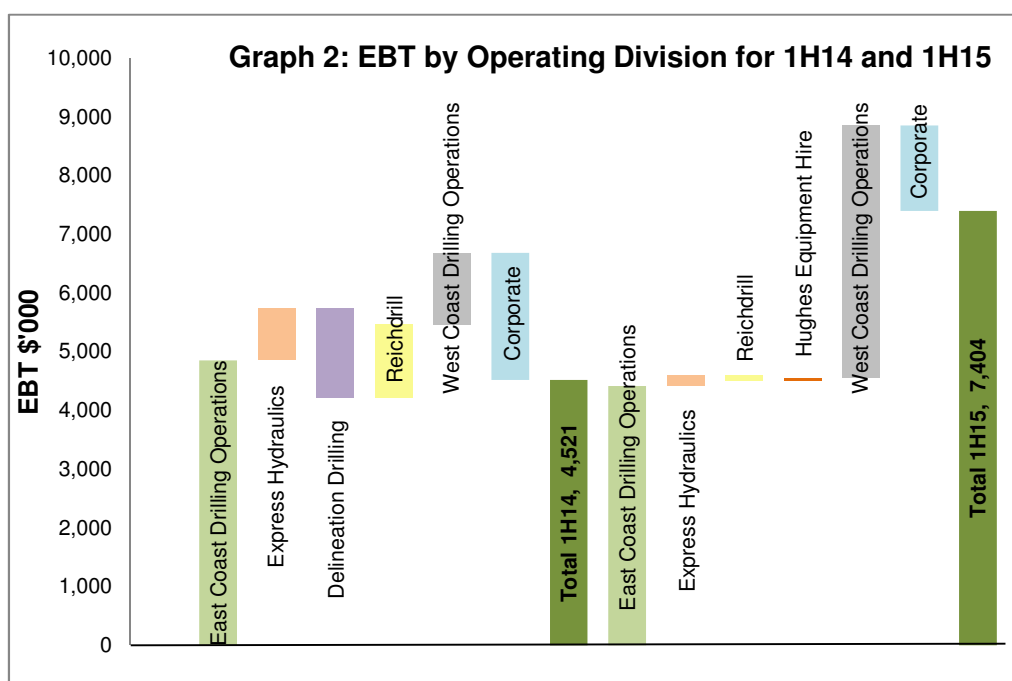
- **REICHdrill** (11.4% of Group revenue): Revenue of \$6.2m for 1H15 an increase of \$0.5m on 1H14. REICHdrill spare part sales have remained strong for 1H15, averaging \$0.4m per month, this has been driven by a focused approach by REICHdrill to ensure distributors are directing the sales to REICHdrill for genuine parts, and the fact the operators are running their equipment longer (i.e., not swapping out for new equipment). There were 7 rigs sold in 1H14, four C550 Production Drill Rigs, and two Water Well Drill Rigs (T650 and T690). Depressed commodity prices have a direct effect on the decision making of equipment operators on whether to commit to purchasing new equipment or not. However, REICHdrill currently has a record number of price enquiries and quotes issued to potential customers, but converting the enquiry to a sale has been challenging, and this is common across all OEMs in the current market.
- **Express Hydraulics** (3.1% of Group revenue): Express Hydraulics has achieved a solid revenue growth in 1H15 of 280% to \$1.7m from \$0.4m in 1H14. Ongoing spare parts sales, and the recently established Mackay Facility, which is wining rebuild and refurbishment work have driven the growth. As equipment operators hold off from replacing their aging equipment for new equipment, Express Hydraulics will benefit through increased part sales and refurbishment work.
- **Hughes Equipment Hire** (0.4% of Group revenue): Hughes Equipment Hire was established in 1H15; the equipment hire will initially focus on the hire of Sullivan Palatek compressors to the mining and construction industries. There are currently 14 commissioned units, with 11 on hire (12 month contract with a blue chip customer), with a further 26 units being commissioned or on order. The establishment of the hire fleet has been driven by the customers holding off on the acquisition of new equipment, and requesting the option to hire the equipment.
- **Delineation Drilling** (0.0% of Group revenue): This division has been absorbed by both the East Coast and West Coast Drilling Operations.

Directors' Report Continued

Review of Operations - Profitability

Earnings Before Tax (EBT) for the 6 months to December 2014 was \$7.4m, an increase of 63.8% from the result of \$4.5m in the corresponding 6 months to December 2013. The underlying change in EBT was driven by:

- **East Coast Drilling Operations (Production Blast Hole Drilling)** (59.7% of Group EBT): EBT contribution of \$4.4m with a period to period decrease of \$0.4m or 9.0%, marginally lower than the 14.0% decrease in revenue for the same period. This is largely due to a lower utilisation of the rigs on site by the mines, i.e., less drill metres, and the decline of the Australian dollar to the US dollar and the effect that this has had on the cost of imported drill consumables.
- **West Coast Drilling Operations (JSW Australia – Production Blast Hole, Water Well and Resource Definition Drilling)** (58.1% of Group EBT): EBT contribution for 1H15 of \$4.3m against the three month contribution of \$1.2m in the corresponding prior period. JSW are still in the process of benefitting from the Hughes Group increased purchasing power and corporate operating practices which will see further EBT margin benefits though FY15.
- **REICHdrill** (-1.2% of Group EBT): 1H15 operating loss of \$0.1m compared to a profit of \$1.3m for 1H14. The small loss is due to maintaining the labour force during the weaker sales period, based on the level of sales orders, with production expected to ramp up quickly.
- **Express Hydraulics** (2.4% of Group EBT): Underlying profit of \$0.2m for the six month period ended 31 December 2014 is a decrease on the corresponding half year by \$0.7m due to increased costs associated with the new Mackay facility and expanded Yatala facility.
- **Hughes Equipment Hire** (0.6% of Group EBT): First partial period contribution for this business with a \$0.04m positive EBT for three months of trading.
- **Delineation Drilling** (0.0% of Group EBT): No direct contribution to the EBT result for the 1H15 period as the operating business has effectively been absorbed into East and West Coast Drilling Operations.
- **Corporate** (-19.7% of Group EBT): Corporate overheads for the Group came to \$1.5m, a decrease of \$0.7m on the corresponding six month period to 31 December 2013.



Notes:

- 1H14 comprises six months of Hughes Drilling and REICHdrill and three months of JSW Australia results.
- 1H15 comprises six months of Hughes Drilling, REICHdrill and JSW Australia results.
- For the purposes of comparison, the EBT for 1H14 and 1H15 have been normalised between the divisions.

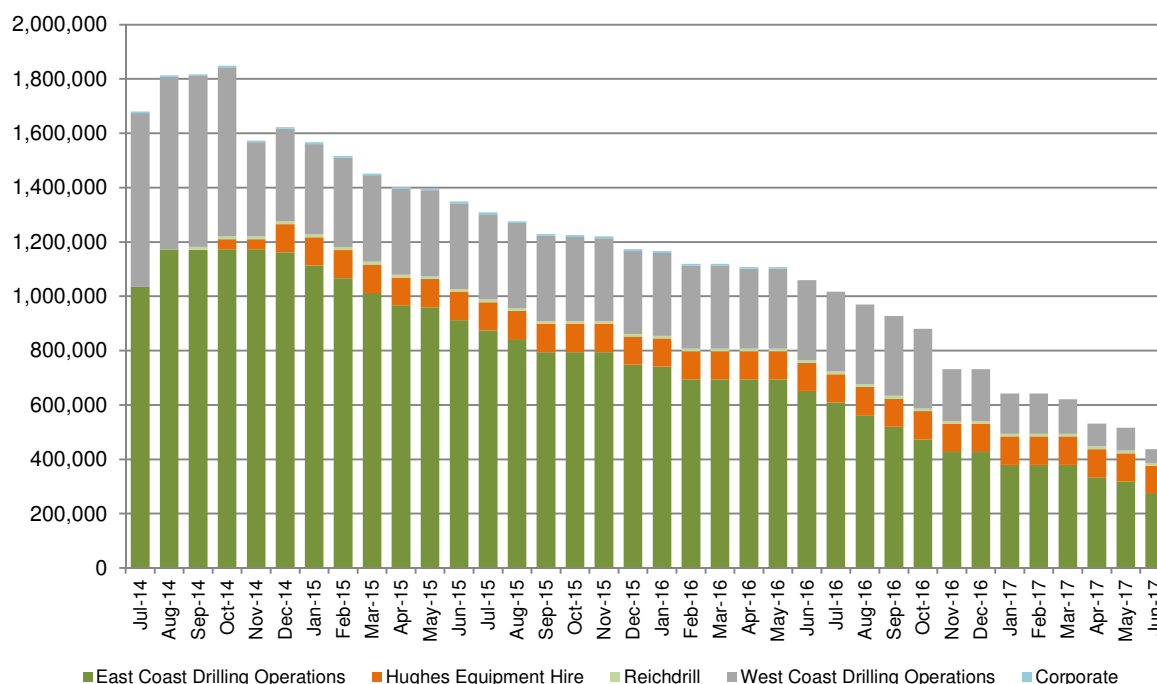
Directors' Report Continued

Review of Borrowings

Repayment of debt has remained a focus of the Hughes Group; however, new Hire Purchase debt has been utilised to fund the expansion of the business via the recently established Hughes Equipment Hire division.

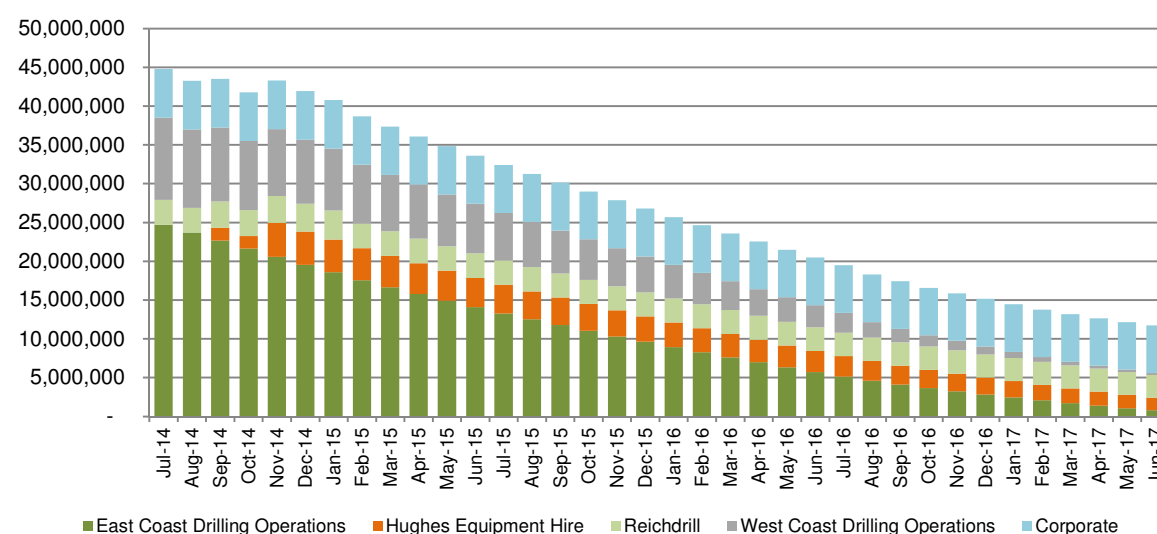
- Monthly repayment of Hire Purchase principle and interest is approximately \$1.6m at 31 December 2014, reducing to less than \$1.4m by 30 June 2015.
- The establishment of the Hughes Equipment Hire fleet was funded through Hire Purchase, \$1.6m in September 2014 and \$2.8m in November 2014.
- The capital expenditure in 1H15 has been partially funded by \$4.5m Hire Purchase, with remainder funded through cash flow

Graph 3: Equipment Finance Repayment Summary



Note: The above graph represents equipment finance (Hire Purchase) only, and assumes no new debt.

Graph 4: Hughes Group Debt Position



Note: The above graph assumes no new debt and excludes overdraft.

Directors' Report Continued

Dividends

The directors recognise the long term advantages to the Company of paying dividends. With a moderating fleet growth rate it is expected that net cash holdings should rise together with a progressive reduction in debt and, subject to profitability and other factors, this would normally enable Directors to consider the timing of the commencement of dividend payments.

Rounding of Amounts

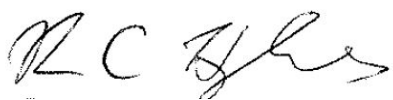
The amounts contained in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) in accordance with Australian Securities and Investment Commission Class Order 98/0100. The company is an entity to which the Class Order applies.

Auditor's Independence Declaration

In accordance with the Audit Independence requirements of the *Corporations Act 2001*, the Directors have received and are satisfied with the "Audit Independence Declaration" provided by the Company's external auditors PwC. The Audit Independence Declaration is attached to this financial report.

Signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the *Corporations Act 2001*.

For and on behalf of the Directors



Robert (Bob) Hughes
Managing Director

Brisbane, Queensland
27 February 2015



Auditor's Independence Declaration

As lead auditor for the review of Hughes Drilling Limited for the half year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Hughes Drilling Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'D A Turner'.

Darren Turner
Partner
PricewaterhouseCoopers

Newcastle
27 February 2014

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Consolidated 31 Dec 2014 \$ '000	Consolidated 31 Dec 2013 \$ '000
Continuing Operations		
Revenue	54,521	39,096
Cost of Goods Sold	(40,541)	(29,319)
	<u>13,980</u>	<u>9,777</u>
Other Income	177	156
General and Administrative Expenses	(4,543)	(3,826)
Selling and Marketing Expense	(548)	(106)
Operating Profit	<u>9,066</u>	<u>6,001</u>
Finance costs	(1,662)	(1,480)
Profit for the period before Income Tax	<u>7,404</u>	<u>4,521</u>
Income tax (expense)/benefit	(861)	-
Profit/Loss for the period	<u>6,543</u>	<u>4,521</u>
Profit for the period attributable to:		
- Owners of Hughes Drilling Limited	6,437	4,484
- Non controlling Interest	106	37
	<u>6,543</u>	<u>4,521</u>
Earnings per share for profit attributable to ordinary equity holders of the company from continuing operations – cents/share		
- Basic profit per share	3.14c	2.32c
- Diluted profit per share	3.09c	2.27c
Profit for the period	6,543	4,521
Other comprehensive income		
Items that may need to be reclassified to profit and loss		
- Exchange differences on translation of foreign operations	1,009	251
Total comprehensive income for the period	<u>7,552</u>	<u>4,772</u>
Total comprehensive income for the period attributable to:		
- Owners of Hughes Drilling Limited	7,406	4,725
- Non controlling Interest	146	47
	<u>7,552</u>	<u>4,772</u>
The accompanying notes form part of the financial statements		

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2014

	Note	Consolidated 31 Dec 2014 \$ '000	Consolidated 30 Jun 2014 \$ '000
CURRENT ASSETS			
Cash and cash equivalents	4	1,306	426
Trade and other receivables		18,383	18,066
Inventories		43,852	37,830
Assets held for sale	5	2,029	130
TOTAL CURRENT ASSETS		65,570	56,452
NON-CURRENT ASSETS			
Deferred tax asset		3,684	4,228
Property, plant and equipment	6	68,257	63,569
Intangible assets	7	8,016	8,016
TOTAL NON-CURRENT ASSETS		79,957	75,813
TOTAL ASSETS		145,527	132,265
CURRENT LIABILITIES			
Bank overdraft	4	6,028	4,288
Trade and other payables		22,413	19,237
Provisions		2,381	1,834
Borrowings		23,950	24,170
TOTAL CURRENT LIABILITIES		54,772	49,529
NON-CURRENT LIABILITIES			
Provisions		652	542
Borrowings		18,012	17,655
TOTAL NON-CURRENT LIABILITIES		18,664	18,197
TOTAL LIABILITIES		73,436	67,726
NET ASSETS		72,091	64,539
EQUITY			
Contributed equity	8	38,227	38,227
Other reserves		2,354	1,385
Retained Earnings		24,511	23,134
Current period profit/loss		6,437	1,377
Capital and reserves attributable to Owners of Hughes Drilling Limited		71,529	64,123
Non-Controlling Interest		562	416
		72,091	64,539

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Contributed equity	Reserves	Retained earnings	Total	Non controlling Interest	Total
	\$ '000	\$ '000	\$ '000	\$'000	\$'000	\$ '000
CONSOLIDATED						
Balance 1 July 2013	29,783	1,217	23,134	54,134	223	54,357
Profit for the half year	-	-	4,484	4,484	37	4,521
Other Comprehensive Income	-	241	-	241	10	251
Total Comprehensive income for the year	-	241	4,484	4,725	47	4,772
Transactions with owners in their capacity as owners:						
Employee share schemes – Value of employee services	-	202	-	202	-	202
Shares issued as consideration for purchase of JSW	8,432	-	-	8,432	-	8,432
Transactions –Non Controlling interest	-	-	-	-	146	146
Put options issued Non- Controlling interest	-	(146)	-	(146)	-	(146)
Balance at 31 Dec 2013	38,215	1,514	27,618	67,347	416	67,763
Balance 1 July 2014	38,227	1,385	24,511	64,123	416	64,539
Profit for the year	-	-	6,437	6,437	106	6,543
Other Comprehensive Income	-	969	-	969	40	1,009
Total Comprehensive Income for the year	-	969	6,437	7,406	146	7,552
Balance at 31 Dec 2014	38,227	2,354	30,948	71,529	562	72,091

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Note	Consolidated 31 Dec 2014 \$ '000	Consolidated 31 Dec 2013 \$ '000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		54,886	36,846
Payments to suppliers and employees		(41,766)	(31,471)
		13,120	5,375
Interest paid		(1,662)	(1,557)
Net cash (used in)/generated by operating activities		11,458	3,818
CASH FLOW FROM INVESTING ACTIVITIES			
Loan advanced to related party		-	(2,500)
Net cash acquired from subsidiary		-	(695)
Proceeds from sale of plant and equipment		-	391
Purchase of plant and equipment		(11,873)	(6,839)
Net cash (used in)/generated by investing activities		(11,873)	(9,643)
CASH FLOW FROM FINANCING ACTIVITIES			
Transaction with non-controlling interest		-	146
Payment for share issue costs		-	(182)
Proceeds from borrowings		8,964	9,597
Repayment of borrowings		(9,290)	(9,281)
Net cash (used in)/generated by financing activities		(326)	280
Net (decrease)/increase in cash and cash equivalents		(741)	(5,545)
CASH AT THE BEGINNING OF THE HALF YEAR		(3,862)	4,736
Effects of exchange rate changes on cash and cash equivalents		(119)	40
CASH AT THE END OF THE HALF YEAR	4	(4,722)	(769)

The accompanying notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This condensed consolidated financial report for the half-year reporting period ended 31 December 2014 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This condensed consolidated half year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Hughes Drilling Limited during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below:

a) Changes in accounting policy

There were no changes in accounting policy of the Group during the half year ended 31 December 2014.

b) New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period, however the group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

c) Impact of standards issued but not yet applied

Standards issued but not yet applied by the entity will not have any significant impact of the financial statement of group.

2. SEGMENT REPORTING

AASB 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Information reported to the Board for the purpose of resource allocation and assessment of performance is more specifically focused on Drilling and Non drilling services.

Management has determined the operating segments based on the reports received by the Board of Directors to make strategic decisions. The Board considers Drilling from a nature of service provided.

The results from continuing operations of the group are reflected in the following table:

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT REPORTING (continued)

31 Dec 2014 in \$'000	Drilling	Non Drilling	Total
Sales to external customers	46,401	8,120	54,521
Other income/(expenses)	145	(351)	(206)
Inter-segment revenue	-	1,395	1,395
Total revenue	46,546	9,164	55,710
Cost of sales	(28,674)	(7,364)	(36,038)
Depreciation	(5,236)	(233)	(5,469)
Interest expense	(1,559)	(103)	(1,662)
Overhead	(3,592)	(1,545)	(5,137)
Loss/(profit) on asset sales	-	-	-
Total expense	(39,061)	(9,245)	(48,306)
Profit/(loss) before tax	7,485	(81)	7,404
Tax (expense)/benefit	(1,589)	728	(861)
Profit/(loss) after tax	5,896	647	6,543
Assets			
Total assets	118,883	26,644	145,527
Liabilities			
Total liabilities	(70,943)	(2,493)	(73,436)
31 Dec 2013 in \$'000	Drilling	Non Drilling	Total
Sales to external customers	32,950	6,146	39,096
Other income	107	49	156
Inter-segment revenue	-	1,584	1,584
Total revenue	33,057	7,779	40,836
Cost of sales	(21,666)	(4,653)	(26,319)
Depreciation	(4,112)	(102)	(4,214)
Interest expense	(1,466)	(14)	(1,480)
Overhead	(3,236)	(1,044)	(4,280)
Loss/(profit) on asset sales	(22)	-	(22)
Total expense	(30,502)	(5,813)	(36,315)
Profit/(loss) before tax	2,555	1,966	4,521
Tax (expense)/benefit	-	-	-
Profit/(loss) after tax	2,555	1,966	4,521
Assets			
Total assets	118,810	15,331	134,141
Liabilities			
Total liabilities	(52,682)	(13,696)	(66,378)

NOTES TO THE FINANCIAL STATEMENTS

3. EXPENSES

Profit before income tax for the half year includes the following specific expenses:

	Consolidated 31 Dec 2014 \$ '000	Consolidated 31 Dec 2013 \$ '000
Depreciation		
Land and buildings	43	27
Motor vehicles	424	294
Office Equipment	127	91
Plant and equipment	4,875	3,802
	<u>5,469</u>	<u>4,214</u>
Finance costs		
Interest expense – bank and other loans	205	88
Other finance charges - lease liability	1,457	1,392
	<u>1,662</u>	<u>1,480</u>
Employee benefits expense		
Non-executive Directors' remuneration	80	138
Salaries and wages	19,166	14,216
	<u>19,246</u>	<u>14,354</u>
Share based payment		
Share based payment expense	-	202
	<u>-</u>	<u>202</u>
Rental – operating leases		
Plant & Equipment	317	218
	<u>317</u>	<u>218</u>

4. CASH AND CASH EQUIVALENTS

	Consolidated 31 Dec 2014	Consolidated 30 Jun 2014
Cash at bank and on hand	1,306	426
Bank overdraft	(6,028)	(4,288)
Balance as per statement of cash flows	<u>(4,722)</u>	<u>(3,862)</u>

5. CURRENT ASSETS – NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Property, plant and equipment	2,029	130
	<u>2,029</u>	<u>130</u>

The assets identified above represent the surplus assets of the businesses requirements. These assets are currently being sold via auctions and tender process and are not being depreciated.

NOTES TO THE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 31 Dec 2014 \$ '000	Consolidated 30 Jun 2014 \$ '000
Freehold Land and Buildings		
At cost	1,546	1,540
Accumulated depreciation	(236)	(194)
Foreign Exchange	9	-
Net book amount	<u>1,319</u>	<u>1,346</u>
Motor Vehicles		
At cost	6,291	6,261
Accumulated depreciation	(3,248)	(2,825)
Foreign Exchange	49	-
Net book amount	<u>3,092</u>	<u>3,436</u>
Office equipment		
At cost	1,421	1,375
Accumulated depreciation	(860)	(733)
Foreign Exchange	4	-
Net book amount	<u>565</u>	<u>642</u>
Plant and equipment		
At cost	103,310	103,161
Accumulated depreciation	(46,973)	(46,915)
Accumulated impairment losses	-	(2,179)
Foreign Exchange	124	-
Net book amount	<u>56,461</u>	<u>54,067</u>
Capital work in progress		
At cost	<u>6,820</u>	<u>4,079</u>
Total Property, plant and equipment		
Cost	119,387	116,416
Accumulated depreciation	(51,316)	(50,667)
Accumulated Impairment losses	-	(2,179)
Foreign Exchange Gain/Loss	186	-
Total Net book amount	<u>68,257</u>	<u>63,569</u>

NOTES TO THE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation

Reconciliation of the carrying amount of fixed assets for the current financial year is set out below:

	Consolidated 31 Dec 2014 \$ '000	Consolidated 30 Jun 2014 \$ '000
Freehold Land and Buildings		
Opening carrying value	1,346	857
Exchange differences	9	(1)
Acquired through net investment in subsidiary	-	527
Additions	7	31
Disposals	0	-
Depreciation expense	(43)	(68)
Written down value at 31 December	1,319	1,346
Motor Vehicles		
Opening carrying value	3,436	2,446
Exchange differences	49	(1)
Acquired through net investment in subsidiary	-	451
Additions	31	1,506
Disposals	-	(138)
Depreciation expense	(424)	(828)
Written down value at 31 December	3,092	3,436
Office Equipment		
Opening carrying value	642	541
Exchange differences	4	(3)
Acquired through net investment in subsidiary	-	166
Additions	46	154
Disposals	-	-
Depreciation expense	(127)	(216)
Written down value at 31 December	565	642
Plant and Equipment		
Opening carrying value	54,067	34,754
Exchange differences	124	(15)
Acquired through net investment in subsidiary	0	22,437
Additions	6,798	456
Transfer to non-current asset available for sale	(1,899)	-
Transfer from Capital work in progress	2,283	6,348
Disposals	(37)	(187)
Depreciation expense	(4,875)	(8,776)
Impairment expense	-	(950)
Written down value at 31 December	56,461	54,067

The bank has a fixed and floating charge over all unencumbered assets of the Group.

NOTES TO THE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Capital Work in Progress	Consolidated 31 Dec 2014 \$'000	Consolidated 30 Jun 2014 \$'000
Opening carrying value	4,078	3,036
Acquired through net investment in subsidiary	-	52
Additions	5,119	7,339
Disposal	(94)	
Transfer to Property Plant and Equipment	(2,283)	(6,348)
Written down value at 31 December	<u>6,820</u>	<u>4,079</u>
Total Property, Plant and Equipment	<u>68,257</u>	<u>63,569</u>

7. INTANGIBLE ASSETS AND GOODWILL

Intellectual Property

At cost	197	197
Accumulated impairment	(197)	(197)
Total net book amount	<u>-</u>	<u>-</u>

Trademarks

At cost	3	3
Accumulated impairment	-	-
Total net book amount	<u>3</u>	<u>3</u>

Goodwill

At cost	12,018	12,018
Accumulated impairment	(4,005)	(4,005)
Total net book amount	<u>8,013</u>	<u>8,013</u>

Total Intangibles and Goodwill

At cost	12,021	12,021
Accumulated impairment	(4,005)	(4,005)
Total net book amount	<u>8,016</u>	<u>8,016</u>

NOTES TO THE FINANCIAL STATEMENTS

7. INTANGIBLE ASSETS AND GOODWILL (continued)

Reconciliation

Reconciliation of the carrying amount of intangible assets for the current financial year is set out below:

	Consolidated 31 Dec 2014 \$'000	Consolidated 30 Jun 2014 \$'000
Trade marks		
Opening carrying value	3	3
Additions	-	-
Amortisation	-	-
Closing net book value	<u>3</u>	<u>3</u>

Goodwill

Opening net book amount	8,013	7,575
Additions - JSW goodwill	-	5,892
Adjustment - REICHdrill Inc. goodwill	-	(1,449)
Impairment - EDMSL goodwill	-	(4,005)
Closing net book value	<u>8,013</u>	<u>8,013</u>

Total intangible assets and goodwill

Opening net book amount	8,016	7,578
Additions - JSW goodwill	-	5,892
Adjustment - REICHdrill Inc. goodwill	-	(1,449)
Impairment - EDMSL goodwill	-	(4,005)
Closing net book value	<u>8,016</u>	<u>8,016</u>

Goodwill arose on the acquisition of Every Day Mine Services Limited (EDMSL) by Hughes Drilling Pty Limited during the year ended 30th June 2012; REICHdrill Inc during the year ended 30th June 2013 and JSW Australia Pty Limited (JSW) during the year ended 30th June 2014.

As at 30th June 2014, goodwill amounting to \$4,005,000 in relation to the acquisition of EDMSL has been fully impaired and a measurement period adjustment of \$1,449,000 was made to the goodwill on acquisition of REICHdrill Inc. due to a revision to the provisional net assets position as a result of recognizing a deferred tax asset.

An impairment assessment was performed on the goodwill existing from previous business combinations as at 31st December 2014. There have been no changes to the annual impairment assessment performed at 31st December 2013.

NOTES TO THE FINANCIAL STATEMENTS

8. CONTRIBUTED EQUITY

	Number of shares 000's	Value \$'000s	Attributable Costs \$'000s	Net \$'000s
Balance 1 July 2013	181,752	30,935	(1,152)	29,783
Shares issued as consideration for purchase of JSW Australia at \$0.32/share (refer to business combination note 10)	26,918	8,614	(170)	8,444
On issue at 30 June 2014	208,670	39,549	(1,322)	38,227
Balance 1 July 2014	208,670	39,549	(1,322)	38,227
On issue at 31 December 2014	208,670	39,549	(1,322)	38,227

9. EARNINGS PER SHARE

No shares have been excluded from the calculation of diluted earnings per share that could potentially dilute the earnings per share in the future because they are anti-dilutive.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

Earnings per share are calculated based on the following:

	Consolidated 31 Dec 2014 \$ '000	Consolidated 31 Dec 2013 \$ '000
Profit for period	6,543	4,521
	No's: '000	No's: '000
Weighted average shares	211,570	199,387
Diluted EPS (cents per share)	3.09c	2.27c

NOTES TO THE FINANCIAL STATEMENTS

10 RELATED PARTIES

i) Transactions with related parties

	Consolidated 31 Dec 2014 \$'000	Consolidated 31 Dec 2013 \$'000
Purchases of goods and services	24	77
Other transactions		
- Net Director Related Loans	-	494

ii) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties

Current payables (purchases of goods and services):

Other related parties	13	61
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iii) Loan to/from related parties

Loan from related parties:

Beginning of the year	3,673	-
Net loan balances at acquisition of JSW Australia Pty Limited	-	2,971
Net director related loans	-	494
Loan repayments made	-	-
Interest charged	151	61
Interest paid	(84)	(31)
End of year	<u>3,740</u>	<u>3,495</u>

iv) Terms and conditions

All related party transactions were made on normal commercial terms and conditions and at market rates except there are no fixed terms for the repayment of loans between parties. The average interest rates on loans during the six months period was 8% (2013-8%)

11. EVENTS OCCURRING AFTER THE REPORTING DATE

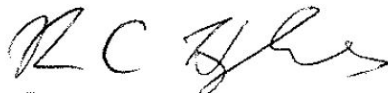
Since reporting date, there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Directors' Declaration

The directors of Hughes Drilling Limited declare that:

- (a) in the directors' opinion the financial statements and notes set out on pages eleven (11) to twenty three (23), are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2014 and of their performance, for the financial half-year ended on that date, and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *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.

Signed in accordance with a resolution of the directors.



Robert (Bob) Hughes
Managing Director

Brisbane, Queensland
27th February 2015

Independent auditor's review report to the members of Hughes Drilling Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Hughes Drilling Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Hughes Drilling Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hughes Drilling Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hughes Drilling Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;

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- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the company for the half-year ended 31 December 2014 included on Hughes Drilling Limited's web site. The company's directors are responsible for the integrity of the Hughes Drilling Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PRICewaterhouse COOPERS

PricewaterhouseCoopers

D A Turner

Darren Turner
Partner

Newcastle
27 February 2015