



**HUGHES DRILLING LIMITED**

**ABN 12 124 279 750**



**APPENDIX 4D**

**FINANCIAL REPORT**

**HALF YEAR ENDED 31 DECEMBER 2015**

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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 2015 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 2015

Previous Corresponding Period 31 December 2014

A\$'000				
Revenue from Ordinary Activities	Down	17.2%	to	45,156
Net Profit / (Loss) After Tax from Ordinary Activities Attributable to Members	Down	60.7%	to	2,570
Net Profit / (Loss) After Tax Attributable to Members	Down	60.7%	to	2,570

### Dividends

There have been no dividends paid or proposed in the half-year ended 31 December 2015 (31 December 2014: Nil). As such a record date for determining entitlement to dividends is not applicable.

### Net Tangible asset backing per ordinary share

31 Dec 2015	31 Dec 2014
\$0.31	\$0.31

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 2015 to 31 December 2015.

### Directors

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

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

### Company Secretary

**Mr Paul Brenton** Appointed 09 August 2010

## 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 \$45.2m and a profit before tax of \$3.4m for the half year to 31 December 2015.

Table 1: Review & Results of Operations First Half FY2016

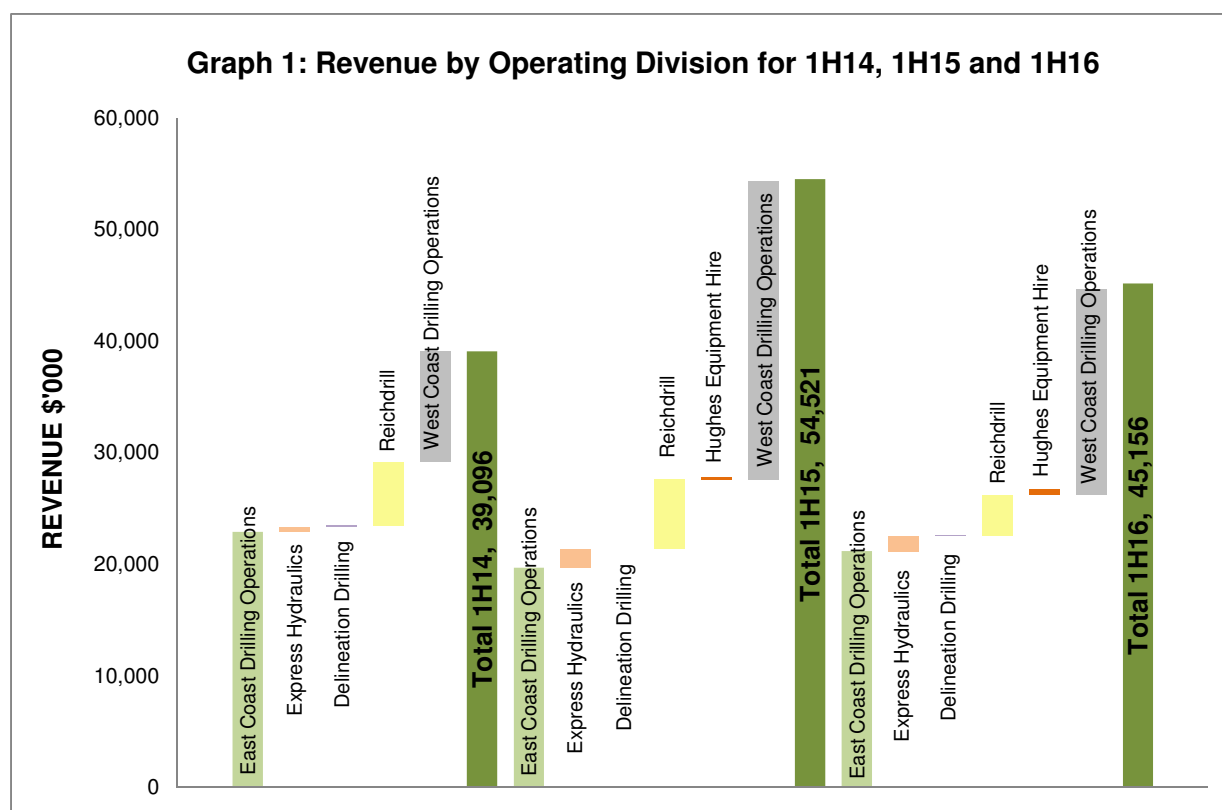
CONSOLIDATED FINANCIAL RESULTS	31 Dec 2015 A\$ '000	31 Dec 2014 A\$ '000	% Change
<b>Financial Performance</b>			
Revenue	45,156	54,521	(17.2%)
EBITDA	12,462	14,535	(14.3%)
<i>EBITDA Margin</i>	27.6%	26.7%	3.5%
Depreciation & amortization	7,360	5,469	34.6%
Finance Costs	1,686	1,662	1.4%
EBT	3,416	7,404	(53.8%)
Tax	846	861	(1.7%)
<b>NPAT</b>	<b>2,570</b>	<b>6,543</b>	<b>(60.7%)</b>
<i>NPAT Margin %</i>	5.7%	12.0%	(52.6%)
<b>Cash Flow</b>			
Net Cash from Operating Activities	19,147	11,458	67.1%
Net Cash used in Investing Activities	(20,776)	(11,873)	75.0%
<b>Free Cash Flow</b>	<b>(1,629)</b>	<b>(415)</b>	<b>292.5%</b>
<b>Debt</b>			
Cash	1,462	1,306	11.9%
Debt (including overdraft)	56,184	47,989	17.1%
<b>Net Debt</b>	<b>54,722</b>	<b>46,683</b>	<b>17.2%</b>
Debt / Debt + Equity	41.3%	39.3%	5.0%

## Directors' Report Continued

### Review of Operations - Revenue

Revenue for the 6 months ending December 2015 was \$45.2m; a decrease of 17.2% from \$54.5m for the corresponding 6 months to December 2014, the movement in revenue was driven by:

- **East Coast Drilling Operations (Production Blast Hole Drilling)** (46.9% of Group revenue): Revenue of \$21.2m was achieved for the 6 month period, an increase of 7.6% from the corresponding 6 month period to 31 December 2014. Rig numbers for East Coast Drilling have increased to 43, compared to 39 for the corresponding 6 month period, the increase of rigs has been driven by the new BMA Blackwater contract. Rig utilisation ended 1H15 at 86% and was relatively consistent for the last 6 months; however, certain mines have scaled back monthly drill metres which has led to some reduced revenue. The reduction in revenue has been offset by new contracts, such as Blackwater, and increased drill metres at other mines.
- **West Coast Drilling Operations (JSW Australia – Production Blast Hole, Water Well and Resource Definition Drilling)** (40.8% of Group revenue): Revenue of \$18.4m was achieved for the 6 month period, a decrease of 31.0% from \$26.7m for the corresponding 6 month period to 31 December 2014. Current owned rigs are 25, including 2 C700 REICHdrill production rigs and 1 Hydco 1200, transferred from QLD and NSW. Revenue for first half FY16 of \$18.4m was down from \$26.71m for the corresponding prior period. The reduction in WA revenue was from a slowdown in water services work related to the reduced volume of work available in the iron ore sector and deferral of a number of projects by Government instrumentalities due to budgetary constraints. The outlook for water services work is better in FY17 as a number of the deferred projects are expected to recommence. JSW has continued to rollover existing contracts and win new contracts during FY16 due to its focus on safety and cost effective execution of drilling contracts.



#### 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, and 2 months of Hughes Equipment Hire.
- 1H16 comprises six months of Hughes Drilling, REICHdrill, JSW Australia and Hughes Equipment Hire results.

## Directors' Report Continued

- **REICHdrill** (8.1% of Group revenue): Revenue of \$3.7m for 1H16 a decrease of \$2.5m on 1H14. REICHdrill spare part sales have remained strong for 1H16, 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 2 rigs sold in 1H15 (one production rig C-450-DII and one water well rig T-650W-L4, and there are 3 water well rigs under order in WIP at 31 December 2015. 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, despite this backdrop, REICHdrill has maintained 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** (3.0% of Group revenue): Express Hydraulics revenue has decreased 21.6% (\$0.4m) to \$1.3m for 1H16 from \$1.7m in 1H15. Revenue fluctuates month on month due to Tier 1 mines structuring their repairs and maintenance to suit the budget constraints.
- **Hughes Equipment Hire** (1.1% of Group revenue): Hughes Equipment Hire was established in 1H15; the equipment hire is focused on the hire of Sullivan Palatek compressors to the mining and construction industries. 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. Revenue for 1H16 has grown 145.7% to \$0.5m from \$0.2m in 1H15.
- **Delineation Drilling** (0.0% of Group revenue): This division has been absorbed by both the East Coast and West Coast Drilling Operations.

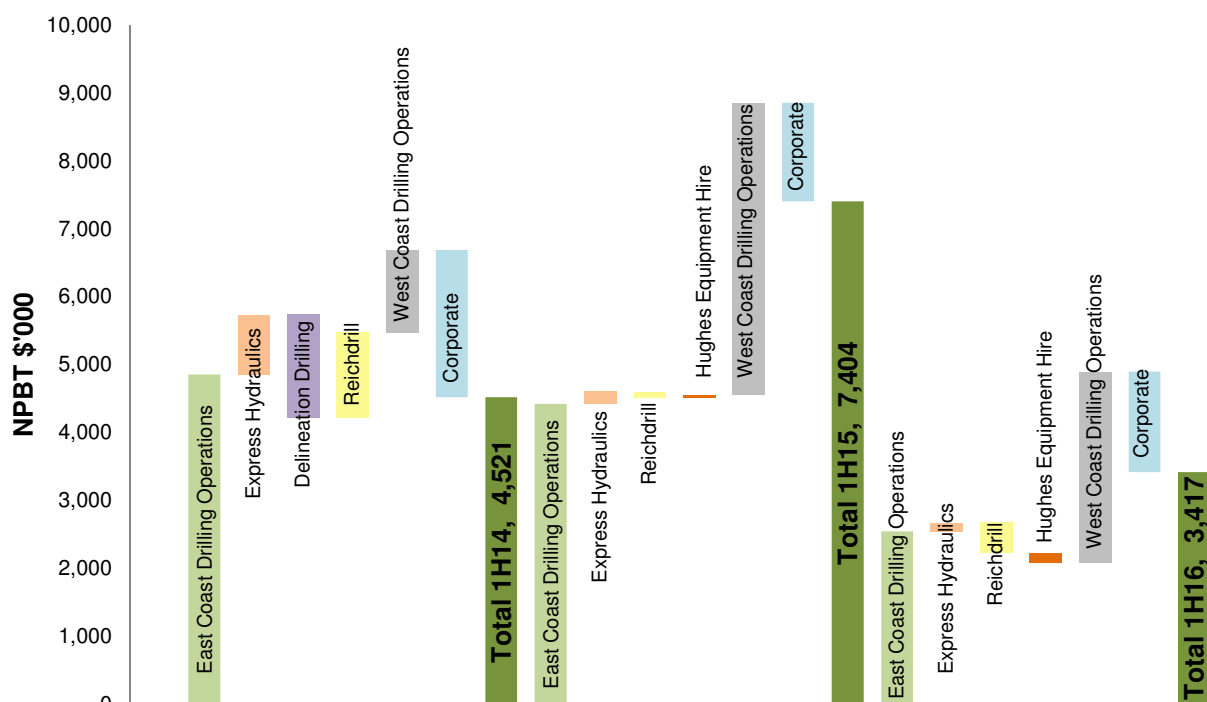
## Directors' Report Continued

### Review of Operations - Profitability

Earnings Before Tax (EBT) for the 6 months to December 2015 was \$3.4m, a decrease of 53.8% from the result of \$7.4m in the corresponding 6 months to December 2014. The underlying change in EBT was driven by:

- **East Coast Drilling Operations (Production Blast Hole Drilling):** EBT contribution of \$2.5m with a period to period decrease of \$1.9m or 42.4%, compared to \$4.4m for the same period. This is largely due to lower utilisation of rigs on site by some mines, i.e., less drill metres. The decline of the Australian dollar to the US dollar and the effect that this has had on the cost of imported drill consumables, in addition to this are one off costs which are expensed when setting up for major new contracts (i.e., Blackwater).
- **West Coast Drilling Operations (JSW Australia – Production Blast Hole, Water Well and Resource Definition Drilling):** EBT contribution for 1H16 of \$2.8m against the contribution of \$4.3m in the corresponding prior period. Although revenue decreased, the profit contribution level (% of revenue) was maintained on the lower revenue base. JSW are continuing to benefit from the Hughes Group increased purchasing power and corporate operating practices.
- **REICHdrill:** 1H15 operating loss of \$0.4m compared to a loss of \$0.1m for 1H15. The small increased loss is due to maintaining the labour force during the weaker sales period, based on the level of committed sales orders. Production at REICHdrill has commenced ramping up in the second half FY16.
- **Express Hydraulics:** Underlying profit of \$0.1m for the six month period ended 31 December 2015 is a decrease on the corresponding half year of \$0.2m. The drop in profit was affected by the decline in the Australian dollar to US dollar.
- **Hughes Equipment Hire:** First full period contribution for this business is a small loss of \$0.1m.
- **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:** Corporate overheads for the Group were \$1.5m, in line with 1H15.

**Graph 2: NPBT by Operating Division for 1H14, 1H15 and 1H16**



**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 continues as a focus of the Hughes Group wherever practical. New hire purchase debt was utilised to fund the expansion of the business for new contracts won as there were no available rigs to allocate to the contracts.

- Monthly repayment of hire purchase principle and interest was approximately \$1.6m at 31 December 2014, reducing to less than \$1.4m at 31 December 2015
- The new rig capital expenditure in 1H16 has been funded by Westpac Hire Purchase, with remainder funded through cash flow.

### Dividends

The directors recognise the long term advantages to the Company of paying dividends. Fleet growth is expected to moderate, improving net cash holdings coupled 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

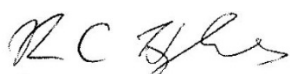
The amounts contained in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) in accordance with Australian Securities and Investment Commission Class Order 98/0100. The company is an entity to which the Class Order applies.

### 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 BDO. 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  
29 February 2016



## DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF HUGHES DRILLING LIMITED

As lead auditor for the review of Hughes Drilling Limited for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- 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.



**C R Jenkins**  
Director

**BDO Audit Pty Ltd**

Brisbane, 29 February 2016

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Note	Consolidated 31 Dec 2015 \$ '000	Consolidated 31 Dec 2014 \$ '000
<b>Continuing Operations</b>			
Revenue		45,156	54,521
Cost of goods sold		(35,517)	(40,541)
		<u>9,639</u>	<u>13,980</u>
Other income		(159)	177
General and administrative expenses		(4,162)	(4,543)
Selling and marketing expense		(215)	(548)
Operating Profit		<u>5,103</u>	<u>9,066</u>
Finance costs	3	(1,686)	(1,662)
Profit for the period before income tax		<u>3,416</u>	<u>7,404</u>
Income tax (expense)/benefit		(846)	(861)
<b>Profit/Loss for the period</b>		<u><b>2,570</b></u>	<u><b>6,543</b></u>
<b>Profit for the period attributable to:</b>			
- Owners of Hughes Drilling Limited		2,423	6,437
- Non controlling Interest		147	106
		<u><b>2,570</b></u>	<u><b>6,543</b></u>
<b>Earnings per share for profit attributable to ordinary equity holders of the company from continuing operations – cents/share</b>			
- Basic profit per share		1.23c	3.14c
- Diluted profit per share		1.22c	3.09c
<b>Profit for the period</b>		<b>2,570</b>	<b>6,543</b>
<b>Other comprehensive income</b>			
Items that may need to be reclassified to profit and loss			
- Exchange differences on translation of foreign operations		709	1,009
<b>Total comprehensive income for the period</b>		<u><b>3,279</b></u>	<u><b>7,552</b></u>
<b>Total comprehensive income for the period attributable to:</b>			
- Owners of Hughes Drilling Limited		3,103	7,406
- Non controlling Interest		176	146
		<u><b>3,279</b></u>	<u><b>7,552</b></u>

The accompanying notes form part of the financial statements

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2015**

	<b>Note</b>	<b>Consolidated 31 Dec 2015</b>	<b>Consolidated 30 Jun 2015</b>
		<b>\$ '000</b>	<b>\$ '000</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	1,462	1,704
Trade and other receivables		17,141	23,672
Inventories		48,442	43,487
Assets held for sale	5	1,629	1,629
<b>TOTAL CURRENT ASSETS</b>		<b>68,674</b>	<b>70,492</b>
<b>NON-CURRENT ASSETS</b>			
Deferred tax asset		1,872	2,559
Property, plant and equipment	6	84,761	73,110
Intangible assets	7	12,878	12,641
<b>TOTAL NON-CURRENT ASSETS</b>		<b>99,511</b>	<b>88,310</b>
<b>TOTAL ASSETS</b>		<b>168,185</b>	<b>158,802</b>
<b>CURRENT LIABILITIES</b>			
Bank overdraft	4	9,894	11,210
Trade and other payables		29,559	26,119
Provisions		3,994	2,792
Borrowings	8	25,808	20,376
<b>TOTAL CURRENT LIABILITIES</b>		<b>69,255</b>	<b>60,497</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		550	486
Borrowings	8	20,482	23,200
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>21,032</b>	<b>23,686</b>
<b>TOTAL LIABILITIES</b>		<b>90,287</b>	<b>84,183</b>
<b>NET ASSETS</b>		<b>77,898</b>	<b>74,619</b>
<b>EQUITY</b>			
Contributed equity	9	38,227	38,227
Other reserves		3,881	3,200
Retained Earnings		34,953	32,530
Capital and reserves attributable to Owners of Hughes Drilling Limited		77,062	73,957
Non-Controlling Interest		836	662
<b>TOTAL EQUITY</b>		<b>77,898</b>	<b>74,619</b>

The accompanying notes form part of the financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Contributed equity	Reserves	Retained earnings	Total	Non controlling Interest	Total
	\$ '000	\$ '000	\$ '000	\$'000	\$'000	\$ '000
<b>CONSOLIDATED</b>						
Balance 1 July 2014	38,227	1,385	24,511	64,123	416	64,539
Profit for the half 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
<b>Balance at 31 Dec 2014</b>	<b>38,227</b>	<b>2,354</b>	<b>30,948</b>	<b>71,529</b>	<b>562</b>	<b>72,091</b>
Balance 1 July 2015	38,227	3,200	32,530	73,957	662	74,619
Profit for the year	-	-	2,423	2,423	147	2,570
Other Comprehensive Income	-	681	-	681	27	709
<b>Total Comprehensive Income for the year</b>	<b>-</b>	<b>681</b>	<b>2,423</b>	<b>3,103</b>	<b>176</b>	<b>3,279</b>
<b>Balance at 31 Dec 2015</b>	<b>38,227</b>	<b>3,881</b>	<b>34,953</b>	<b>77,062</b>	<b>836</b>	<b>77,898</b>

The accompanying notes form part of the financial statements.

# **CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

	Note	Consolidated 31 Dec 2015 \$ '000	Consolidated 31 Dec 2014 \$ '000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Receipts from customers		59,816	54,886
Payments to suppliers and employees		(38,977)	(41,766)
		<u>20,839</u>	<u>13,120</u>
Interest paid		(1,691)	(1,662)
<b>Net cash (used in)/generated by operating activities</b>		<u>19,147</u>	<u>11,458</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment		(20,776)	(11,873)
<b>Net cash (used in)/generated by investing activities</b>		<u>(20,776)</u>	<u>(11,873)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		10,223	8,964
Repayment of borrowings		(7,537)	(9,290)
<b>Net cash (used in)/generated by financing activities</b>		<u>2,685</u>	<u>(326)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>1,057</b>	<b>(741)</b>
<b>CASH AT THE BEGINNING OF THE HALF YEAR</b>		<b>(9,506)</b>	<b>(3,862)</b>
Effects of exchange rate changes on cash and cash equivalents		17	(119)
<b>CASH AT THE END OF THE HALF YEAR</b>	4	<u><u>(8,432)</u></u>	<u><u>(4,722)</u></u>

The accompanying notes form part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION OF HALF-YEAR REPORT

These general purpose consolidated financial statements for the half-year reporting period ended 31 December 2015 have been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 134: Interim Financial Reporting.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2015 and any public announcements made by Hughes Drilling Ltd during the half-year reporting period in accordance with the continuous disclosure requirements of the Australian Securities Exchange and Corporations Act 2001.

The accounting policies and methods of computation applied in these half-year financial statements are the same as those applied by the company in the annual financial statements for the year ended 30 June 2015.

#### a) Going Concern

The consolidated financial statements of the Group have been prepared on a going concern basis, which indicates continuity of business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Group has recorded a profit of \$2.6m and generated an operating cash inflow of \$19.1m for the period ended 31 December 2015, and as of that date, the Group has a net current asset position of -\$0.6m and total asset position of \$168.2m. The net asset position is driven by the short term timing differences of incurring costs and liabilities whilst deploying and setting up for new contracts, and the invoicing and receipt for the work completed on the new contracts.

Should these circumstances continue, the directors have available to them a number of options to fund the working capital including, but not limited to amendment to and/or refinance of existing finance facilities.

The directors believe that at the date of signing the financial statements, there are reasonable and supportable grounds to believe the Group will have sufficient funds to meet their obligations as and when they fall due and are of the opinion that the use of the going concern basis remains appropriate.

#### b) New, revised or amending Accounting Standards and Interpretations adopted by the group

A number of amended standards became applicable for the current reporting period, however, the consolidated entity did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There will be some changes to the disclosures in the 30 June 2016 annual report as a consequence of these amendments.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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:

Half-Year ended 31 December 2015	Drilling \$'000	Non Drilling \$'000	Total \$'000
<b>Continuing operations</b>			
Sales to external customers	39,641	5,515	45,156
Other income/expenses	131	(315)	(184)
Inter-segment revenue	-	8,126	8,126
<b>Total revenue</b>	<b>39,772</b>	<b>13,325</b>	<b>53,097</b>
Cost of sales	(24,857)	(11,644)	(36,501)
Depreciation	(6,830)	(529)	(7,360)
Interest expense	(1,138)	(548)	(1,686)
Overheads	(2,812)	(1,321)	(4,134)
Profit/Loss on asset sales	-	-	-
<b>Total expenses</b>	<b>(35,638)</b>	<b>(14,043)</b>	<b>(49,681)</b>
Profit/Loss before income tax	4,134	(717)	3,416
Income tax (expense) / benefit	(873)	27	(846)
<b>Profit/Loss for the period</b>	<b>3,261</b>	<b>(690)</b>	<b>2,570</b>
<b>Assets</b>			
Total assets	132,309	35,875	168,184
<b>Liabilities</b>			
Total liabilities	(69,525)	(20,761)	(90,287)

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SEGMENT REPORTING (continued)

Half-Year ended 31 December 2014	Drilling \$'000	Non Drilling \$'000	Total \$'000
<b>Continuing operations</b>			
Sales to external customers	46,401	8,120	54,521
Other income/expenses	145	(351)	(206)
Inter-segment revenue	-	1,395	1,395
<b>Total revenue</b>	<b>46,546</b>	<b>9,164</b>	<b>55,710</b>
Cost of sales	(28,674)	(7,364)	(36,038)
Depreciation	(5,236)	(233)	(5,469)
Interest expense	(1,559)	(103)	(1,662)
Overheads	(3,592)	(1,545)	(5,137)
Profit/Loss on asset sales	-	-	-
<b>Total expenses</b>	<b>(39,061)</b>	<b>(9,245)</b>	<b>(48,306)</b>
Profit/Loss before income tax	7,485	(81)	7,404
Income tax (expense) / benefit	(1,589)	728	(861)
<b>Profit/Loss for the period</b>	<b>5,896</b>	<b>647</b>	<b>6,543</b>
<b>Assets</b>			
Total assets	118,883	26,644	145,527
<b>Liabilities</b>			
Total liabilities	(70,943)	(2,493)	(73,436)



## NOTES TO THE FINANCIAL STATEMENTS

### 3. EXPENSES

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

	Consolidated 31 Dec 2015 \$ '000	Consolidated 31 Dec 2014 \$ '000
<b>Depreciation</b>		
Land and buildings	44	43
Motor vehicles	298	424
Office equipment	144	127
Plant and equipment	6,771	4,875
	<b>7,257</b>	<b>5,469</b>
<b>Finance costs</b>		
Net interest expense – bank and other loans	878	205
Other finance charges - lease liability	808	1,457
	<b>1,686</b>	<b>1,662</b>
<b>Employee benefits expense</b>		
Non-executive Directors' remuneration	86	80
Salaries and wages	21,610	19,166
	<b>21,696</b>	<b>19,246</b>
<b>Rental – operating leases</b>		
Plant & Equipment	238	317
	<b>238</b>	<b>317</b>

### 4. CASH AND CASH EQUIVALENTS

	Consolidated 31 Dec 2015 \$'000	Consolidated 30 Jun 2015 \$'000
Cash at bank and on hand	1,462	1,704
Bank overdraft	(9,894)	(11,210)
<b>Balance as per statement of cash flows</b>	<b>(8,432)</b>	<b>(9,506)</b>

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

Property, plant and equipment	1,629	1,629
	<b>1,629</b>	<b>1,629</b>

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 2015 \$ '000	Consolidated 30 Jun 2015 \$ '000
<b>Freehold land and buildings</b>		
At cost	1,565	1,562
Accumulated depreciation	(326)	(282)
Net book amount	<u>1,240</u>	<u>1,280</u>
<b>Motor vehicles</b>		
At cost	5,872	5,848
Accumulated depreciation	(3,469)	(3,170)
Net book amount	<u>2,403</u>	<u>2,678</u>
<b>Office equipment</b>		
At cost	1,635	1,536
Accumulated depreciation	(991)	(847)
Net book amount	<u>644</u>	<u>689</u>
<b>Plant and equipment</b>		
At cost	134,157	115,650
Accumulated depreciation	(59,804)	(53,561)
Accumulated impairment losses	(295)	(295)
Net book amount	<u>74,058</u>	<u>61,794</u>
<b>Capital work in progress</b>		
At cost	<u>6,416</u>	<u>6,668</u>
<b>Total Property, plant and equipment</b>		
Cost	149,645	131,264
Accumulated depreciation	(64,589)	(57,860)
Accumulated impairment losses	(295)	(295)
Total net book amount	<u>84,761</u>	<u>73,109</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 6. PROPERTY, PLANT AND EQUIPMENT (continued)

#### Reconciliation

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

	Consolidated 31 Dec 2015 \$ '000	Consolidated 30 Jun 2015 \$ '000
<b>Freehold Land and Buildings</b>		
Opening carrying value	1,280	1,346
Exchange differences	3	13
Additions	-	6
Depreciation expense	(44)	(85)
Written down value at 31 December	<u>1,240</u>	<u>1,280</u>
<b>Motor Vehicles</b>		
Opening carrying value	2,678	3,436
Exchange differences	22	84
Additions	141	235
Transfers to other asset categories	-	(120)
Disposals	(139)	(127)
Depreciation expense	(298)	(830)
Written down value at 31 December	<u>2,403</u>	<u>2,678</u>
<b>Office Equipment</b>		
Opening carrying value	689	642
Exchange differences	3	13
Additions	89	354
Transfers from other asset categories	7	22
Depreciation expense	(144)	(342)
Written down value at 31 December	<u>644</u>	<u>689</u>
<b>Plant and Equipment</b>		
Opening carrying value	61,794	54,067
Exchange differences	44	174
Additions	11,083	14,330
Transfers from other asset categories	(7)	98
Transfer to non-current asset available for sale	-	(1,499)
Transfer from Capital work in progress	7,922	5,494
Disposals	(7)	(165)
Depreciation expense	(6,771)	(10,705)
Written down value at 31 December	<u>74,058</u>	<u>61,794</u>

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)

	Consolidated 31 Dec 2015 \$ '000	Consolidated 30 Jun 2015 \$ '000
<b>Capital Work in Progress</b>		
Opening carrying value	6,668	4,079
Additions	7,670	8,083
Disposal	-	-
Transfer to Property, plant and equipment	(7,922)	(5,494)
Written down value at 31 December	<u>6,416</u>	<u>6,668</u>
<b>Total Property, Plant and Equipment</b>	<u>84,761</u>	<u>73,109</u>

### 7. INTANGIBLE ASSETS AND GOODWILL

<b>Intellectual Property</b>		
At cost	5,059	4,822
Accumulated impairment	(197)	(197)
Total net book amount	<u>4,862</u>	<u>4,625</u>
<b>Trademarks</b>		
At cost	3	3
Total net book amount	<u>3</u>	<u>3</u>
<b>Goodwill</b>		
At cost	12,018	12,018
Accumulated impairment	(4,005)	(4,005)
Total net book amount	<u>8,013</u>	<u>8,013</u>
<b>Total Intangibles and Goodwill</b>		
At cost	17,080	16,843
Accumulated impairment	(4,203)	(4,202)
Total net book amount	<u>12,878</u>	<u>12,641</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 2015 \$ '000	Consolidated 30 Jun 2015 \$ '000
<b>Intellectual Property</b>		
Opening carrying value	4,625	-
Exchange differences	237	-
Additions	-	4,625
Closing net book value	4,862	4,625
<b>Trade marks</b>		
Opening carrying value	3	3
Closing net book value	3	3
<b>Goodwill</b>		
Opening net book amount	8,013	8,013
Closing net book value	8,013	8,013
<b>Total intangible assets and goodwill</b>		
Opening net book amount	12,641	8,016
Exchange differences	237	-
Additions	-	4,625
Closing net book value	12,878	12,641

## NOTES TO THE FINANCIAL STATEMENTS

### 8. BORROWINGS

	Consolidated 31 Dec 2015 \$ '000	Consolidated 30 Jun 2015 \$ '000
<b>CURRENT</b>		
- Hire purchase	13,188	13,659
- Commercial bill facility	8,750	2,750
- Other	3,871	3,967
	<u>25,808</u>	<u>20,376</u>
<b>NON-CURRENT</b>		
- Hire purchase	13,055	12,996
- Commercial bill facility	7,250	9,500
- Other	177	704
	<u>20,482</u>	<u>23,200</u>

Current Commercial Bill facility converts to equipment hire purchase when the rigs are delivered to Australia. REICHdrill are building 5 new rigs for JSW Australia to replace a number of rigs currently on dry hire.

### 9. CONTRIBUTED EQUITY

	Number of shares 000's	Value \$'000s	Attributable Costs \$'000s	Net \$'000s
Balance 1 July 2014	208,670	39,549	(1,322)	38,227
On issue at 30 June 2015	<u>208,670</u>	<u>39,549</u>	<u>(1,322)</u>	<u>38,227</u>
Balance 1 July 2015	208,670	39,549	(1,322)	38,227
On issue at 31 December 2015	<u>208,670</u>	<u>39,549</u>	<u>(1,322)</u>	<u>38,227</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 10. COMMITMENTS AND CONTINGENCIES

#### a) Finance lease and hire purchase commitments

	Consolidated	
	Minimum lease payments \$ '000	Present value of lease payments \$ '000
<b>AS AT 31 DECEMBER 2015</b>		
Within one year	14,430	13,188
> 1 year < 5 years	14,010	13,055
> 5 years	-	-
Total minimum lease payments	28,440	26,243
Less amounts representing finance charges	(2,197)	
Present value of minimum lease payments	26,243	26,243
<b>AS AT 30 JUNE 2015</b>		
Within one year	15,040	13,660
> 1 year < 5 years	13,762	12,996
> 5 years	-	-
Total minimum lease payments	28,802	26,656
Less amounts representing finance charges	(2,146)	
Present value of minimum lease payments	26,656	26,656

#### b) Operating lease commitments

	Consolidated	
	Minimum lease payments \$ '000	Present value of lease payments \$ '000
<b>AS AT 31 DECEMBER 2015</b>		
Within one year	476	476
> 1 year < 5 years	119	119
> 5 years	-	-
Total minimum lease payments	595	595
<b>AS AT 30 JUNE 2015</b>		
Within one year	448	448
> 1 year < 5 years	299	299
> 5 years	-	-
Total minimum lease payments	747	747

## NOTES TO THE FINANCIAL STATEMENTS

### 10. COMMITMENTS AND CONTINGENCIES (continued)

#### c) Contingent liabilities or assets

There have been no changes in contingent liabilities or contingent assets since the end of the previous annual reporting period, 30 June 2015.

### 11. 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:

	<b>Consolidated 31 Dec 2015 \$ '000</b>	<b>Consolidated 31 Dec 2014 \$ '000</b>
Profit for period	<b>2,570</b>	6,543
	No's: '000	No's: '000
Weighted average shares (diluted)	<b>211,470</b>	211,470
Diluted EPS (cents per share)	<b>1.22c</b>	3.09c

### 12. RELATED PARTIES

#### a) Ultimate parent

Hughes Drilling Limited is the ultimate parent of the Group.



## NOTES TO THE FINANCIAL STATEMENTS

### 12. RELATED PARTIES (continued)

#### b) Transactions with related parties

	Consolidated 31 Dec 2015 \$'000	Consolidated 31 Dec 2014 \$'000
<i>Purchases of goods and services</i>		
Purchase of consumables from entities controlled by key management personnel	13	24
<i>Other transactions</i>		
- Net Director Related Loans – Div. 7A loan Jeff Branson	146	146
- Payment of interest on loan funds to The Silverthorne Trust (John Silverthorne)	109	84

#### c) 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 trade payables (purchases of goods and services):*

Entities controlled by key management personnel	4	13
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#### d) Loans and borrowings to and (from) related parties

##### *Loan from related parties:*

Beginning of the year	(3,763)	(3,673)
Net director related loans	-	-
Loan repayments made	-	-
Interest charged	(165)	(151)
Interest paid	109	84
End of year	<u>(3,819)</u>	<u>(3,740)</u>

#### e) 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% (2014 - 8%)

### 13. 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.

### 14. ROUNDING OF AMOUNTS

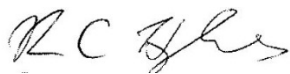
The company satisfies the requirements of Class Order 98/0100 issued by the Australian Securities and Investments Commission.

## Directors' Declaration

The directors of Hughes Drilling Limited declare that:

- (a) in the directors' opinion the financial statements and notes set out on pages four (4) to eight (8), are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of their performance, for the financial half-year ended on that date, and
  - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting 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  
29 February 2016

## 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, which comprises the consolidated balance sheet as at 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the 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 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 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 half-year 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 2015 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Hughes Drilling Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

### 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 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

**BDO Audit Pty Ltd**



**C R Jenkins**

Director

Brisbane, 29 February 2016