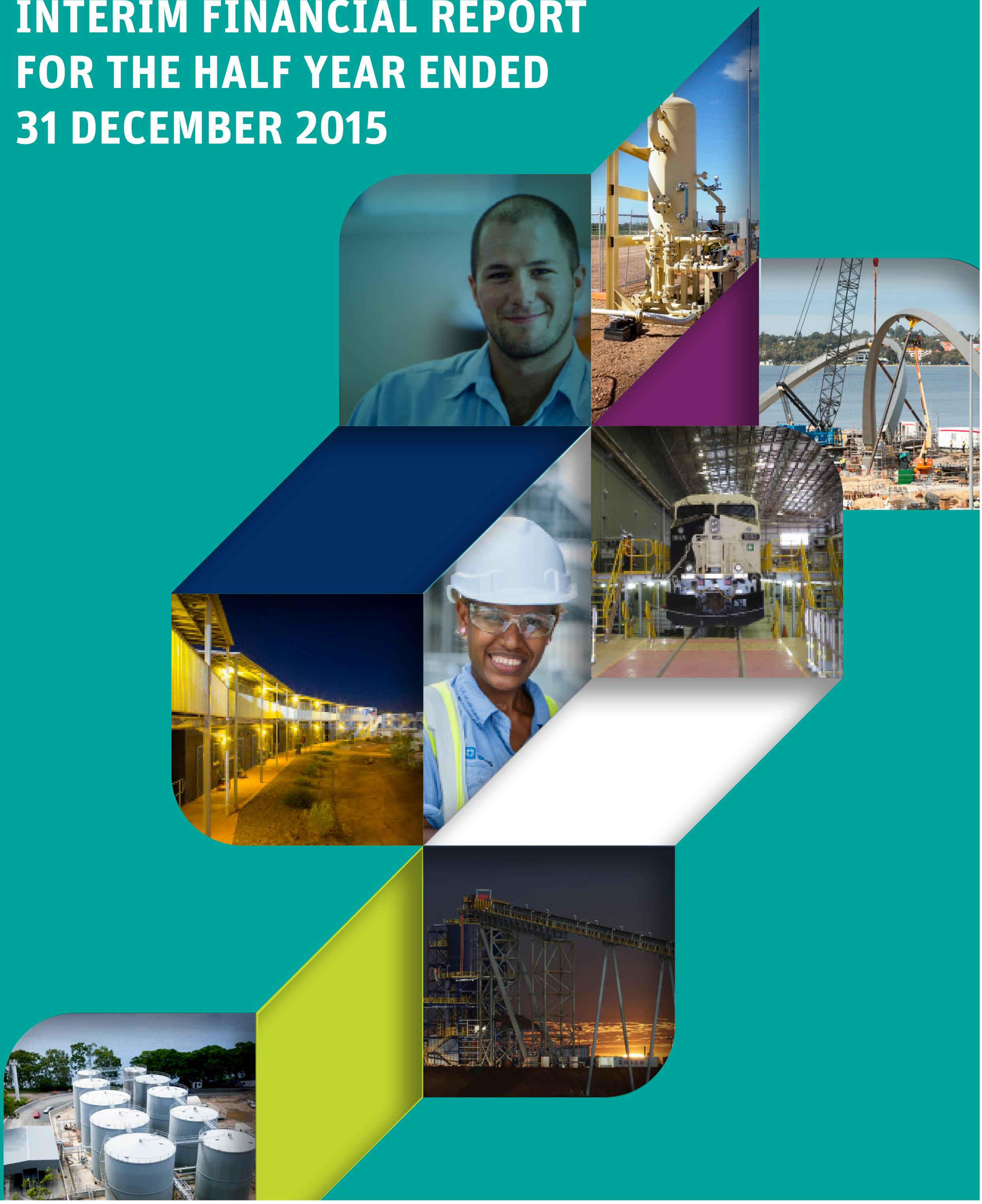
DECMIL

DECMIL GROUP LIMITED

2016

ABN 35 111 210 390

INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2015



CORPORATE DIRECTORY

Directors
Bill Healy, Non-Executive Chairman
Scott Criddle, Managing Director
Denis Criddle, Non-Executive Director
Giles Everist, Non-Executive Director
Lee Verios, Non-Executive Director

Executive Team
Scott Criddle, Group Chief Executive Officer
Ric Buratto, Chief Executive Officer – Construction & Engineering
Craig Amos, Chief Financial Officer

Company Secretary
Alison Thompson

Australian Business Number
35 111 210 390

Principal Registered Address
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Facsimile: 08 9368 8878

Postal Address
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Operational Offices
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20 Parkland Road
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Telephone: 08 9368 8877
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Decmil Australia Pty Ltd, Eastcoast Development Engineering Pty Ltd, Decmil Engineering Pty Ltd & Homeground Villages Pty Ltd
Level 5, 60 Edward Street
Brisbane QLD 4000
Telephone: 07 3640 4600
Facsimile: 07 3640 4690

SC Services Pty Ltd
34 Walters Drive
Osborne Park WA 6017
Telephone: 08 9208 5999
Facsimile: 08 9208 5959

Cut & Fill Pty Ltd
86 Denmark Street
Kew VIC 3101
Telephone: 03 8417 7800
Facsimile: 03 9852 7608

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RSM Australia Partners
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Controlled Entities
Decmil Australia Pty Ltd
Decmil Engineering Pty Ltd
Decmil PNG Limited
Decmil Construction NZ Limited
Cut & Fill Pty Ltd
Eastcoast Development Engineering Pty Ltd
Homeground Villages Pty Ltd
Homeground Gladstone Pty Ltd ATF Homeground Gladstone Unit Trust
Homeground Broome Pty Ltd
Decmil Properties Pty Ltd
Decmil Infrastructure Pty Ltd
Cornelisse Shoal Pty Ltd
Decmil Services Pty Ltd
Decmil Telecom Pty Ltd trading as SAS Telecom
SC Holdings Pty Ltd
SC Services Pty Ltd
SC Equipment Holdings Pty Ltd
Bluepoint Services Pty Ltd

ASX Code
DCG

DIRECTORS' REPORT

Your directors submit the financial report of Decmil Group Limited for the half-year ended 31 December 2015.

DIRECTORS

The names of directors who held office during or since the end of the half-year:

Mr Denis Criddle
Mr Scott Criddle
Mr Trevor Davies[1]
Mr Giles Everist
Mr Bill Healy (Chairman)
Mr Lee Verios

REVIEW OF OPERATIONS

Overview

Key features of the results for the six months to 31 December 2015 include:

- Revenue $166.9 million;
- EBITDA $8.3 million (excluding fair value adjustment on investment property of $78.1m and restructuring costs of $2.9m pre-tax);
- NPAT $5.0 million (excluding fair value adjustment on investment property of $57.8m and restructuring costs of $2.1m post-tax);
- Cash $42.6 million;
- Acquisition of SC Services, a leading national telecommunications services provider;
- Reducing Group overhead by $4.8 million or 22.2% on the same period last year.

Operations

During the period the Group continued with progress on a number of projects for the Department of Defence across Australia including key integrated engineering projects at Learmonth and at the Stirling naval base near Perth.

In the iron ore sector Decmil's project at Roy Hill for Samsung C&T continued to progress safely and productively towards commissioning. Work has also continued under the Group's contract with Queensland Gas Corporation ("QGC"). The latest $35 million extension in January 2016 will see Decmil continue in the operational phase of QGC's upstream coal seam gas assets, supporting with wellhead construction, logistics, material management and a range of construction services for the 2016 calendar year.

In the fuel sector work progressed on the expansion of the Hastings Fuel Terminal in Victoria for United Terminals (part of United Petroleum).

Decmil's first project in New Zealand at South Hornby Primary School is underway following its selection as a contractor for the NZ Government's CSR Innovation project.

On 1 December 2015 the Company announced it had acquired SC Services Pty Ltd. SC Services is a leading national telecommunications services provider which has capabilities in design, installation, commissioning and maintenance of wireless and fixed line infrastructure.

The business has demonstrated substantial growth over the past 2 years and will provide Decmil Group with scale and a national presence in the growing telecommunications services market.

[1] Trevor Davies resigned on 18 November 2015

Homeground Villages experienced low occupancy for the six months to 31 December 2015 as the major projects in the Gladstone region entered the commissioning phase. Despite the low occupancy, effective cost management by the Homeground team saw the business break-even at the EBITDA level.

During the six months ended 31 December 2015 the Group undertook further significant cost cutting initiatives targeting a reduction in overhead levels of $15 to $20 million by FY17. As part of this program the construction and engineering division management structure was simplified to cater for the reduced volumes of work. Other measures include voluntary salary reductions across the Group including 10 – 15% reductions for Senior Managers, Board and Executive personnel.

Financial Performance

During the six months ended 31 December 2015 the Group continued to transition from the recent natural resources construction boom by moving into new sectors of the economy and adapting to smaller sized projects, reduced volumes of work and more normal construction margins.

Due to this transition, revenue for the six months ended 31 December 2015 decreased by 57.2% to $166.9 million, EBITDA decreased by 78.3% to $8.3 million and net profit after tax reduced to $5.0 million, excluding the fair value adjustment on investment property of $57.8 million and restructuring costs of $2.1 million post tax.

The transition and adaptation described above will continue in the second half of the 2016 financial year.

Management and the Board are working towards transforming the business and to position it going into the 2017 financial year with:

- An overhead base that is appropriate for the volumes of work in the market;
- A diverse range of markets including natural resources, telecommunications, civil infrastructure and Defence; and
- A truly national presence across the Australasian region.

The above transformation, once successfully implemented, will result in a Group that is more diverse and able to produce better and more sustainable earnings from a range of markets.

Financial Position

The Group maintained a strong cash position with cash on hand of $42.6 million at the end of the period ($59.5 million at 30 June 2015).

The Group still has minimal core senior debt and recently renegotiated its principal banking facilities, retaining significant undrawn access to debt funding should it be required.

On 11 February 2016 Decmil announced that, as foreshadowed at the 2015 Annual General Meeting, due to ongoing challenging conditions in the Queensland natural resources sector the Group’s wholly owned Homeground Gladstone accommodation village has been materially devalued with an effective date of 31 December 2015.

Following an independent external valuation, Homeground Gladstone was revalued to $110.8m as at 31 December 2015. The devaluation resulted in a one off non-cash pre-tax charge of $78.1 million to the interim results for the half year ended 31 December 2015.

Strategy and Outlook

On 1 February 2016 Decmil acquired Cut & Fill Pty Ltd, a Melbourne based civil engineering company focused on civil infrastructure works across the South Eastern seaboard of Australia, particularly with the State Road Authorities in Victoria, the ACT and New South Wales. The business holds the highest available pre-qualification accreditation (R5/B4) with various State Government infrastructure bodies and has a long history of successful delivery of various road, rail, bridge and related infrastructure projects.

The acquisition expands Decmil's business through an established and direct local platform in the Victoria, ACT and New South Wales civil infrastructure markets.

On 29 January 2016 Decmil announced that Homeground had entered into an exclusive accommodation agreement with ConocoPhillips. ConocoPhillips is the downstream operator of the Australia Pacific LNG facility located on Curtis Island, near Gladstone. Under the agreement Homeground will provide ConocoPhillips with accommodation for all shutdown workforce requirements, including major plant shutdowns, under an exclusive agreement.

The agreement with ConcoPhillips is strategically important as it sees Homeground transition, in-line with the market, to the operational phase of the major LNG projects in the Gladstone region.

Other key strategic priorities for the Group as it enters the second half of the 2016 financial year include:

- Bedding down the acquisition of SC Services and the establishment of a dedicated national telecommunications division within the Group;
- Organic growth in the existing markets of Defence, civil infrastructure and in New Zealand;
- Development of new services offerings to the natural resources sector including an engineer-procure-construction (EPC) capability and an Asset Support division that focuses on specialist services to the oil and gas sector; and
- Consideration of new markets, in particular in the renewable energy sector.

Dividend

The Board has declared an interim dividend of 2.0 cents per share (fully franked) representing a 67.5% payout ratio based on NPAT of $5.0m excluding fair value adjustment on investment property of $57.8m and restructuring costs of $2.1m post-tax. The dividend reflects the policy the Board has adopted towards dividends, however it will continue to be reviewed in line with trading conditions in the sector and economy.

ROUNDING OF AMOUNTS

The consolidated entity has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the directors' report have been rounded off to the nearest $1,000, unless otherwise indicated.

AUDITOR'S DECLARATION

The auditor's independence declaration under section 307C of the Corporations Act 2001 is included within this financial report.

This report is signed in accordance with a resolution of the Board of Directors.

Bill Healy
Chairman
Dated this 24th day of February 2016

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Decmil Group 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:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

RSM AUSTRALIA PARTNERS

Perth, WA
Dated: 24 February 2016

J A KOMNINOS
Partner

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

		Consolidated Entity	
		31/12/2015	**31/12/2014**
	Note	**$000**	**$000**
Revenue	2	166,874	389,841
Cost of sales		(141,203)	(329,319)
Gross profit		25,671	60,522
Administration expenses		(16,767)	(21,560)
Borrowing expenses		(32)	(192)
Depreciation and amortisation expense		(3,407)	(3,423)
Equity based payments		(228)	(216)
Restructuring costs		(2,941)	-
Impairment of intangibles		(130)	
Investment property fair value adjustment	8	(78,069)	-
Profit/(loss) before income tax		(75,903)	35,131
Income tax expense		21,119	(10,831)
Net profit/(loss) after income tax expense		(54,784)	24,300
Other Comprehensive Income			
Other comprehensive income		-	-
Total comprehensive income for the period		(54,784)	24,300
Overall Operations			
Basic earnings per share (cents per share)		(32.66)	14.41
Diluted earnings per share (cents per share)		(32.66)	14.41

The accompanying notes form part of the interim financial report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

		Consolidated Entity	
		31/12/2015	30/06/2015
	Note	$000	$000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		42,602	59,548
Trade and other receivables		16,588	47,827
Work in progress		12,278	15,782
Current tax receivables		-	4,824
Other current assets		11,845	14,218
TOTAL CURRENT ASSETS		83,313	142,199
NON-CURRENT ASSETS			
Investment property	8	110,800	188,374
Property, plant and equipment		37,455	39,040
Deferred tax assets		13,808	4,235
Intangible assets		80,070	70,027
TOTAL NON-CURRENT ASSETS		242,133	301,676
TOTAL ASSETS		325,446	443,875
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		58,638	104,791
Current tax payable		12	-
Borrowings	3	2,419	739
Provisions		5,168	6,737
TOTAL CURRENT LIABILITIES		66,237	112,267
NON-CURRENT LIABILITIES			
Deferred Tax Liabilities		-	11,970
Borrowings	3	8,000	45
Provisions		685	242
TOTAL NON-CURRENT LIABILITIES		8,685	12,257
TOTAL LIABILITIES		74,922	124,524
NET ASSETS		250,524	319,351
EQUITY			
Issued capital	4	161,882	161,705
Retained earnings		88,642	157,646
TOTAL EQUITY		250,524	319,351

The accompanying notes form part of the interim financial report

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Issued Capital	Retained Earnings	Total
	$000	$000	$000
Balance at 1 July 2014	**163,517**	**139,290**	**302,807**
Net profit for the period	-	24,300	**24,300**
Other comprehensive income for the period	**-**	**-**	**-**
Total comprehensive income for the period	**163,517**	**163,590**	**327,107**
Shares issued for the period	-	-	**-**
Transaction costs net of tax benefit	(97)	-	**(97)**
Equity based payments	216	-	**216**
Dividends recognised for the period	-	(14,336)	**(14,336)**
Balance at 31 December 2014	**163,636**	**149,254**	**312,890**
Balance at 1 July 2015	**161,705**	**157,646**	**319,351**
Net loss for the period	-	(54,784)	**(54,784)**
Other comprehensive income for the period	-	-	**-**
Total comprehensive income for the period	**161,705**	**102,862**	**264,567**
Shares issued for the period	47	-	**47**
Transaction costs net of tax benefit	(98)	-	**(98)**
Equity based payments	228	-	**228**
Dividends recognised for the period	-	(14,220)	**(14,220)**
Balance at 31 December 2015	**161,882**	**88,642**	**250,524**

The accompanying notes form part of the interim financial report

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Consolidated Entity	
	31/12/2015	31/12/2014
	$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	209,763	449,320
Payments to suppliers and employees	(211,523)	(419,914)
Interest received	263	375
Finance costs	(32)	(192)
Income tax paid	4,129	(13,980)
Net cash provided by operating activities	2,600	15,609
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,387)	(982)
Purchase of investments, net of cash acquired	(14,000)	(925)
Proceeds from sale of non-current assets	380	331
Net cash used in investing activities	(15,007)	(1,576)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from/(repayment of) borrowings	9,635	(564)
Net proceeds from share issue	46	-
Dividends paid by parent entity	(14,220)	(14,336)
Net cash used in financing activities	(4,539)	(14,900)
Net decrease in cash held	(16,946)	(867)
Cash at beginning of period	59,548	59,308
Cash at end of period	42,602	58,441

The accompanying notes form part of the interim financial report

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 1: BASIS OF PREPARATION

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include full disclosures of the type normally included in an annual financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2015 and any public announcements made by Decmil Group Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets. The same accounting policies and methods of computation have been followed in this half-year financial report as were applied in the most recent annual financial report, except in relation to the matters disclosed below.

New and Revised Accounting Standards and Interpretations

The consolidated entity has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these new and revised Accounting Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted by the consolidated entity.

	Consolidated Entity	
	31/12/2015	**31/12/2014**
	$000	**$000**
NOTE 2: REVENUE		
Revenue from operating activities:		
- sale of goods and services	165,547	389,005
Revenue from non-operating activities:		
- other non-operating income	1,327	836
Total revenue	166,874	389,841

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015 (CONT'D)

	Consolidated Entity	
	31/12/2015	30/06/2014
	$000	$000
NOTE 3: BORROWINGS		
Current:		
- bank loans[1]	2,000	-
- lease liability	419	739
	2,419	739
Non-current:		
- bank loans[1]	8,000	-
- lease liability	-	45
	8,000	45

	Consolidated Entity	
	31/12/2015	30/06/2014
	$000	$000
NOTE 4: ISSUED CAPITAL		
a) Paid up capital		
Fully paid ordinary shares	161,882	161,705

	No of Shares '000	Paid Up Capital $000
b) Movements		
Balance 1 July 2015	167,294	161,705
Issue of employee shares	98	48
Issue of restricted shares	2,500	-
	169,892	161,753
Add: Equity based payments		228
Less: Transaction costs net of tax benefit		(99)
		161,882

[1] A $10 million bank loan was drawn down from the Group's principal banking facilities. The bank loan was used to partly finance the acquisition of SC Services. $500,000 is repayable every quarter until 31 January 2018 when the remaining $6 million is due to be fully repaid.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015 (CONT'D)

NOTE 5: DIVIDENDS

The 2015 final dividend of 8.5 cents per share franked at the rate of 30% was paid on 25 September 2015. The dividend paid totalled $14.220 million.

On 24 February 2015, the company proposed a fully franked 2.0 cent per share interim dividend with a record date of 8 March 2016 and payment date of 29 March 2016. The total amount of this dividend payment will be $3.398 million.

NOTE 6: BUSINESS COMBINATIONS

On 1 December 2015, the Group acquired 100% of the issued capital of SC Holdings Pty Ltd, SC Services Pty Ltd and SC Equipment Holdings Pty Ltd for an upfront purchase consideration of $14,000,000. The SC entities activities include design, installation and commissioning services to telecommunications network owners, manufacturers and NBN service providers.

The acquisition is part of the Group's overall strategy to diversify into the telecommunications service sector.

The Group has obtained control of the SC entities through acquiring 100% of the issued capital of the SC entities.

In addition to the upfront purchase consideration, the acquisition includes the potential for deferred consideration if certain financial targets are met for the financial year ended 30 June 2016. As at the date of this report the potential for deferred consideration was still being assessed and had not been determined.

	Fair Value $000
Purchase consideration consisting of:	
Cash consideration	14,000
Cash outflow/(inflow) on acquisition	14,000
Assets and liabilities held at acquisition date:	
Receivables	3,069
Work in progress	2,651
Other assets	370
Plant and equipment	947
Payables	(2,090)
Accruals	(912)
Provisions	(619)
Identifiable assets acquired and liabilities assumed	3,416
Goodwill on consolidation	10,268
Recoverable from vendor	316
Purchase consideration settled in cash	14,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015 (CONT'D)

NOTE 7: SEGMENT INFORMATION

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The consolidated entity operates as three segments.

1. Construction & Engineering
- Decmil Australia Pty Ltd – multi-discipline design, civil engineering and construction services;
- Eastcoast Development Engineering Pty Ltd – fabrication and installation of high pressure pipes, vessels and tanks;
- Decmil Engineering Pty Ltd – civil construction including roads and bridges primarily for the Government sector;
- Decmil Infrastructure - pursuing opportunities in build-own-operate (BOO) infrastructure assets and public-private-partnerships (PPP);
- Decmil PNG Limited – construction arm of Decmil located in Papua New Guinea; and
- Decmil Construction NZ Limited – construction arm of Decmil located in New Zealand.

2. Accommodation
- Homeground Villages Pty Ltd – build-own-operation of the Homeground Gladstone Accommodation Village located in Gladstone, Queensland.

3. Other
- Decmil Properties Pty Ltd – owner and manager of a commercial office building located at 20 Parkland Road, Osborne Park which derives internal and external revenue;
- Decmil Telecom Pty Ltd – telecommunications and managed services of communication systems; and
- SC Services Pty Ltd – design, installation and commissioning services to telecommunications network owners, manufacturers and NBN service providers.

All the assets are located in Australia.

(a)

Segment performance 31/12/2015	**Construction & Engineering $000**	**Accommodation $000**	**Other $000**	**Total $000**
External sales	158,704	4,786	3,122	**166,612**
Total segment revenue	158,704	4,786	3,122	**166,612**
Segment EBITDA	7,342	(78,208)	(1,478)	**(72,344)**
Depreciation & amortisation expense	(2,320)	(662)	(425)	**(3,407)**
Net interest	234	5	(8)	**231**
Segment result	5,256	(78,865)	(1,911)	**(75,520)**
Other unallocated expenses				**(383)**
Income tax expense				**21,119**
Profit for the period				**(54,784)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015 (CONT'D)

NOTE 7: SEGMENT INFORMATION (Continued)

Segment performance 31/12/2014	Construction & Engineering $000	Accommodation $000	Other $000	Total $000
External sales	357,307	31,615	543	**389,465**
Total segment revenue	357,307	31,615	543	**389,465**
Segment EBITDA	24,786	13,743	247	**38,776**
Depreciation & amortisation expense	(2,362)	(770)	(291)	**(3,423)**
Net interest	289	(109)	2	**182**
Segment result	22,713	12,864	(42)	**35,535**
Other unallocated expenses				**(404)**
Income tax expense				**(10,831)**
Profit for the period				**24,300**

(b)

Segment assets 31/12/2015	Construction & Engineering $000	Accommodation $000	Other $000	Total $000
Current assets	61,300	2,294	8,471	**72,065**
Non-current assets	77,407	113,052	35,814	**226,273**
Other unallocated assets	-	-	-	**27,108**
Total segment assets	138,707	115,346	44,285	**325,446**

Segment assets 31/12/2014	Construction & Engineering $000	Accommodation $000	Other $000	Total $000
Current assets	129,285	11,542	1,264	**142,091**
Non-current assets	76,953	191,840	25,354	**294,147**
Other unallocated assets	-	-	-	**6,981**
Total segment assets	206,238	203,382	26,618	**443,219**

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015 (CONT'D)

NOTE 7: SEGMENT INFORMATION (Continued)

(c)

Segment liabilities 31/12/2015	Construction & Engineering $000	Accommodation $000	Other $000	Total $000
Current liabilities	57,887	1,342	5,541	**64,770**
Non-current liabilities	267	-	8,000	**8,267**
Other unallocated liabilities				**1,885**
Total segment liabilities	58,154	1,342	13,541	**74,922**

Segment liabilities 31/12/2014	Construction & Engineering $000	Accommodation $000	Other $000	Total $000
Current liabilities	110,107	3,962	536	**114,605**
Non-current liabilities	401	-	-	**401**
Other unallocated liabilities	-	-	-	**15,323**
Total segment liabilities	110,508	3,962	536	**130,329**

NOTE 8: FAIR VALUE MEASUREMENT

Fair value hierarchy

The following tables detail the consolidated entity's assets measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets that the consolidated entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly

Level 3: Unobservable inputs for the asset

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Consolidated – 31 December 2015				
Assets				
Investment property	-	-	110,800	**110,800**
Total assets	-	-	110,800	**110,800**
Consolidated – 30 June 2015				
Assets				
Investment property	-	-	188,374	**188,374**
Total assets	-	-	188,374	**188,374**

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015 (CONT'D)

NOTE 8: FAIR VALUE MEASUREMENT (Continued)

Movements in level 3 assets during the current financial period and previous financial year are set out below:

	Investment Properties	Total
Consolidated	**$000**	**$000**
Balance at 30 June 2015	188,374	188,374
Additions	495	495
Fair value adjustment	(78,069)	(78,069)
Balance at 31 December 2015	110,800	110,800

During the reporting period the Group's investment property, being the Homeground accommodation village located near Gladstone, Queensland; was revalued by an independent valuer. Due to the nature of the asset, the primary valuation method utilised by the valuer was a discounted cash flow model.

Key assumptions utilised by the valuer in the preparation of its valuation included:

- Useful life of the asset in the range of 20 to 30 years with no terminal value;
- Various occupancy assumptions over the estimated useful life (low of 15% to high of 68%);
- Room rate growth in the range of 0% to 2.5%; and
- A nominal post-tax discount rate range of 11.0% to 12.5%.

As a result of the independent valuation, the Homeground Gladstone investment property was revalued to $110,800,000 as at 31 December 2015.

The fair value is sensitive to changes within the range of key assumptions disclosed above. Any material change within the range for any individual assumption or any combination of assumptions will likely have a material impact on the fair value as follows:

Assumption	Increase in Assumption	Decrease in Assumption
Useful life	Positive impact	Negative impact
Occupancy	Positive impact	Negative impact
Room rate growth	Positive impact	Negative impact
Discount rate	Negative impact	Positive impact

NOTE 9: CONTINGENT LIABILITIES

As at 31 December 2015, the guarantees given to various customers for satisfactory contract performance amounted to $33.7 million.

NOTE 10: EVENTS SUBSEQUENT TO REPORTING DATE

On 1 February 2016, the company announced the acquisition of Cut & Fill Pty Ltd, a Melbourne based civil engineering company that delivers road, rail, bridge and related infrastructure projects to the State Road Authorities in Victoria, the ACT and New South Wales. Decmil has acquired 100% of the shares of Cut & Fill for a cash consideration of approximately $9.5 million.

On 24 February 2016, the company proposed a fully franked 2.0 cent per share interim dividend with a record date of 8 March 2016 and payment date of 29 March 2016. The total amount of this dividend payment will be $3.398 million.

Except for the matter disclosed above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
2. The attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the financial half-year ended on that date; and
3. 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 directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

W.P. Healy

Bill Healy
Chairman
Dated this 24th day of February 2016

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INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
DECMIL GROUP LIMITED

We have reviewed the accompanying half-year financial report of Decmil Group Limited which comprises the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant 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 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 Decmil Group 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 Decmil Group 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 Decmil Group 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 the *Corporations Regulations 2001*.

RSM

RSM AUSTRALIA PARTNERS

Perth, WA
Dated: 24 February 2016

J A KOMNINOS
Partner