



ABN 35 111 210 390

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2013

**DECMIL GROUP LIMITED ABN 35 111 210 390
AND CONTROLLED ENTITIES**

31 December 2013 Interim Financial Report

CORPORATE DIRECTORY

Directors Giles Everist, Non-Executive Chairman Scott Criddle, Managing Director Denis Criddle, Non-Executive Director Trevor Davies, Non-Executive Director William Healy, Non-Executive Director Lee Verios, Non-Executive Director Executive Team Scott Criddle, Chief Executive Officer Jon Holmes, Executive General Manager - Construction Pamela Rosenthal, General Manager - Accommodation Craig Amos, Interim Chief Financial Officer Company Secretary Alison Thompson Australian Business Number 35 111 210 390 Principal Registered Address 20 Parkland Road Osborne Park WA 6017 Telephone: 08 9368 8877 Facsimile: 08 9368 8878 Postal Address PO Box 1233 Osborne Park WA 6916 Operational Offices Decmil Australia Pty Ltd 20 Parkland Road Osborne Park WA 6017 Telephone: 08 9368 8877 Facsimile: 08 9386 8878 Decmil Australia Pty Ltd Level 5, 60 Edward Street Brisbane QLD 4000 Telephone: 07 3640 4600 Facsimile: 07 3640 4690	Auditor RSM Bird Cameron Partners 8 St Georges Terrace Perth WA 6000 Telephone: 08 9261 9100 Facsimile: 08 9261 9111 Share Registry Computershare Investor Services Pty Limited Level 2, 45 St Georges Terrace Perth WA 6000 Telephone: 08 9323 2000 Facsimile: 08 9323 2033 Email: web.queries@computershare.com.au Website: www-au.computershare.com Financiers National Australia Bank Limited 100 St Georges Terrace Perth WA 6000 Telephone: 13 10 12 Controlled Entities Decmil Australia Pty Ltd Decmil Engineering Pty Ltd Decmil PNG Limited Eastcoast Development Engineering Pty Ltd Homeground Villages Pty Ltd Homeground Gladstone Pty Ltd ATF Homeground Gladstone Unit Trust Decmil Properties Pty Ltd ASX Code DCG
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**DECMIL GROUP LIMITED ABN 35 111 210 390
AND CONTROLLED ENTITIES**

31 December 2013 Interim Financial Report

DIRECTORS' REPORT

Your directors submit the financial report of Decmil Group Limited for the half-year ended 31 December 2013.

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

Mr Giles Everist (Chairman)

Mr William Healy

Mr Lee Verios

Review of Operations

Overview

Decmil Group Limited has maintained its strong financial position and continues to focus on margin, profitability and operating cash generation as the key features driving Group financial performance.

The Group has delivered a strong financial performance for the half year, reporting a consolidated operating profit before tax of \$38.0m (2012: \$63.3m). The prior year operating profit before tax comparative includes a gain arising from the business combination of Homeground Villages of \$29.8m. Excluding this amount, the Group has grown operating profit before tax by \$4.5m (13.4%) over the comparative period.

Net profit after tax for the half year ended 31 December 2013 was \$25.7m (2012: \$44.1m) with earnings per share of 15.28 cents (2012: 26.30 cents). Excluding the comparative period gain arising from the business combination of Homeground Villages, net profit after tax has grown by \$2.4m (10.3%) and earnings per share by 1.4 cents (10.1%).

Improved profitability has been driven by an increased margin contribution from Homeground Villages to the Group results and, notwithstanding weakness in the broader construction and engineering sector, a focus on productivity within the Group's construction and engineering division to maintain margins. This has resulted in a consolidated net profit after tax margin of 9.8% (2012: 7.0% excluding the comparative period gain arising from the business combination of Homeground Villages).

Operations

Revenue within the Construction and Engineering division decreased to \$231.9m (2013: \$317.1m), however entering the second half of the 2014 financial year the group has \$313.6m of secured work in hand to 30 June 2014. During the period the Group has been appointed by Queensland Gas Corporation (QGC) as contractor for the remainder of its phase 1 wellsite installation which involves a scope of approximately 800 wells. Initial minor delays mobilising on the Manus Island project have now been resolved and the project is progressing strongly.

The integration of Eastcoast Development Engineering Pty Ltd was a focal point for the half year ended 31 December 2013, with the business now operating under Decmil Australia's management and operational structure. Safety performance continues to be a focus with a total reportable injury frequency rate of 3.01 for the division, which is a pleasing result.

Homeground Villages experienced strong occupancy for the six months to 31 December 2013, with contributions from contracted and non-contracted tenancies. The village now enjoys a diversified customer base across the resource and construction sectors and is the preferred accommodation provider for major projects (WICET cornerstone tenant) and Tier 1 contractors operating in the Gladstone region. Homeground Villages contributed

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DIRECTORS' REPORT

strongly to the overall improvement in Group profitability for the half year ended 31 December 2013.

Construction capital expenditure of \$1.7m was spent on the village in the half year and is now complete, with any future expenditure likely to be of a sustaining capital nature. The Group still holds options to expand the capacity of the village, should customer demand warrant such a decision.

Financial Position

Operating cash flow for the six months ending 31 December 2013 was \$40.5m, which was better than the previous corresponding period. The group maintained a strong net cash position with cash on hand of \$56.5m at the end of the period (\$43.7m at 30 June 2013). The Group has significantly reduced the amount of debt within the business and is forecasting to have fully repaid all senior debt by March 2014. During the period net assets increased to \$283.8m from \$271.2m at 30 June 2013.

Strategy and Outlook

The value of new construction and engineering projects secured during the period was approximately \$400m. The Group's Construction and Engineering division enters the second half of the 2014 financial year with work in hand of \$313.6m to 30 June 2014 and a further \$283.1m extending into the 2015 financial year.

Within the Construction and Engineering division, Decmil continues to seek new markets and adjacent capabilities and services that achieve operating efficiencies for the Group and our customers. Over the past year Decmil has successfully executed a diversification strategy securing work in new regions (Northern Territory and Papua New Guinea); in new sectors (Government) and with new service offerings (structural mechanical piping and R4/B2 Main Roads accreditation to extend the Group's civil offering).

Material risks facing the Construction and Engineering division includes continued weakness in the broader construction and engineering sector and a reduction in growth capital expenditure across major new natural resource projects. The Group is responding to this risk with diversification into new sectors (Government) and an increasing focus on winning work in the sustaining capital, non-process infrastructure and operating cycle of major resource projects.

The Accommodation division has solidified its long term position, with key existing tenants extending accommodation agreements and new opportunities arising as the LNG sector in the Gladstone area moves into the operating and maintenance cycle. The Accommodation division continues to focus on operating efficiency as its key customer value proposition, whilst seeking capital efficient Tier 1 assets in new markets and geographies.

The Group's medium to long term strategy continues to be focused on seeking further diversification of risk and a focus on macroeconomic drivers. Attention is prioritised to predictable, recurring revenues in niche pockets of the economy, which utilise the Group's platform of excellence in project management and delivery, customer relationships and cash generation / capital efficiency. The Group continues to seek opportunities to expand its existing construction and engineering capability, through the execution of both organic and inorganic strategies.

The Group will continue to pursue Build Own Operate (BOO) opportunities, including new asset classes that meet the Group's financial and strategic thresholds.

Decmil enters the second half of the 2014 financial year with a healthy order book and a solid net cash position. This provides the Group with a solid platform for growth entering into the 2015 financial year.

Dividend

The Board has declared an interim dividend of 4.5 cents per share (fully franked). The half year dividend payout represents a 29% payout ratio which is consistent with the H1FY13 payout ratio (excluding the gain arising from the business combination of Homeground Gladstone of \$29.8m) and in line with the Board's dividend payout policy. This policy will continue to be reviewed in line with trading conditions.

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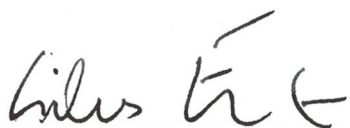
Rounding of Amounts

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.

A handwritten signature in black ink, appearing to read 'Giles Everist', with a stylized flourish at the end.

Giles Everist

Chairman

Dated this 19th day of February 2014

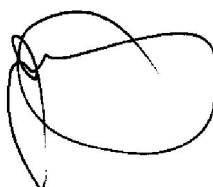
RSM Bird Cameron Partners
8 St Georges Terrace Perth WA 6000
GPO Box R1253 Perth WA 6844
T +61 8 9261 9100 F +61 8 9261 9101
www.rsmi.com.au

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 2013, 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 Bird Cameron Partners
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J A KOMNINOS
Partner

Perth, WA
Dated: 19 February 2014

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2013**

		Consolidated Entity	
		31.12.2013	31.12.2012
	Note	\$000	\$000
Revenue	2	263,420	332,938
Cost of sales		(198,611)	(274,326)
Administration expenses		(22,566)	(20,542)
Borrowing expenses		(692)	(1,225)
Depreciation and amortisation expense		(3,314)	(3,097)
Equity based payments		(469)	(525)
Share of profit or (loss) in joint venture		-	372
Gain arising from business combination	5	207	29,752
Profit before income tax		37,975	63,347
Income tax expense		(12,227)	(19,236)
Net profit after income tax expense		25,748	44,111
Other Comprehensive Income			
Other comprehensive income		-	-
Total comprehensive income for the period		25,748	44,111
Overall Operations			
Basic earnings per share (cents per share)		15.28	26.30
Diluted earnings per share (cents per share)		15.28	26.30

The accompanying notes form part of the interim financial report

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013**

	Consolidated Entity	
	31.12.2013	30.06.2013
	\$000	\$000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	56,529	43,712
Trade and other receivables	44,129	62,819
Work in progress	18,542	14,975
Other current assets	10,125	7,962
TOTAL CURRENT ASSETS	129,325	129,468
NON-CURRENT ASSETS		
Investment property	193,784	192,923
Property, plant and equipment	42,729	42,477
Deferred tax assets	3,802	5,730
Intangible assets	68,613	68,613
TOTAL NON-CURRENT ASSETS	308,928	309,743
TOTAL ASSETS	438,253	439,211
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	118,317	123,236
Current tax payable	5,571	5,842
Borrowings	11,689	21,661
Provisions	6,858	5,874
TOTAL CURRENT LIABILITIES	142,435	156,613
NON-CURRENT LIABILITIES		
Deferred Tax Liabilities	10,845	10,313
Borrowings	1,154	1,089
TOTAL NON-CURRENT LIABILITIES	11,999	11,402
TOTAL LIABILITIES	154,434	168,015
NET ASSETS	283,819	271,196
EQUITY		
Issued capital	163,818	163,451
Retained earnings	120,001	107,745
TOTAL EQUITY	283,819	271,196

The accompanying notes form part of the interim financial report

**DECMIL GROUP LIMITED ABN 35 111 210 390
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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2013**

	Issued Capital \$000	Retained Earnings \$000	Total \$000
Balance at 1 July 2012	162,787	62,674	225,461
Net profit for the period	-	44,111	44,111
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	162,787	106,785	269,572
Shares issued for the period	405	-	405
Transaction costs net of tax benefit	(192)	-	(192)
Equity based payments	525	-	525
Dividends recognised for the period	-	(12,567)	(12,567)
Balance at 31 December 2012	163,525	94,218	257,743
Balance at 1 July 2013	163,451	107,745	271,196
Net profit for the period	-	25,748	25,748
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	163,451	133,493	296,944
Shares issued for the period	399	-	399
Transaction costs net of tax benefit	(102)	-	(102)
Equity based payments	469	-	469
Performance rights converted to shares	(399)	-	(399)
Dividends recognised for the period	-	(13,492)	(13,492)
Balance at 31 December 2013	163,818	120,001	283,819

The accompanying notes form part of the interim financial report

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2013**

	Consolidated Entity	
	31.12.2013	31.12.2012
	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	287,213	386,520
Payments to suppliers and employees	(236,403)	(340,023)
Interest received	344	1,959
Finance costs	(692)	(1,225)
Income tax paid	(9,991)	(10,161)
Net cash provided by operating activities	<u>40,471</u>	<u>37,070</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,888)	(53,733)
Purchase of investments, net of cash acquired	915	(7,601)
Proceeds from sale of non-current assets	272	369
Net cash (used in) investing activities	<u>(1,701)</u>	<u>(60,965)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from/(repayment of) borrowings	(12,456)	(8,971)
Proceeds from issue of shares and conversion of options	-	405
Costs of issuing shares	(5)	(13)
Dividends paid by parent entity	(13,492)	(12,567)
Net cash provided by (used in) financing activities	<u>(25,953)</u>	<u>(21,146)</u>
Net increase/(decrease) in cash held	12,817	(45,041)
Cash at beginning of period	<u>43,712</u>	<u>141,352</u>
Cash at end of period	<u><u>56,529</u></u>	<u><u>96,311</u></u>

The accompanying notes form part of the interim financial report

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

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 2013 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	
	31.12.2013	31.12.2012
	\$000	\$000
NOTE 2: REVENUE		
Revenue from operating activities:		
- sale of goods and services	262,891	330,570
Revenue from non-operating activities:		
- other non-operating income	529	2,368
Total revenue	<u>263,420</u>	<u>332,938</u>

NOTE 3: ISSUED CAPITAL

a)	Paid up capital		
	Fully paid ordinary shares	<u>163,818</u>	<u>163,525</u>
b)	Movements		
		No of Shares	Paid Up Capital
		'000	\$000
	Balance 1 July 2013	168,203	163,451
	Performance rights converted to shares	<u>455</u>	<u>-</u>
		<u>168,658</u>	<u>163,451</u>
	Add: Equity based payments		469
	Less: Transaction costs net of tax benefit		<u>(102)</u>
			<u>163,818</u>

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NOTE 4: DIVIDENDS

The 2013 final dividend of 8.0 cents per share franked at the rate of 30% was paid on 27 September 2013. The dividend paid totalled \$13.492 million.

On 19 February 2014, the company proposed a fully franked 4.5 cent per share interim dividend with a record date of 4 March 2014 and payment date of 27 March 2014. The total amount of this dividend payment will be \$7.590 million.

NOTE 5: BUSINESS COMBINATIONS

On 1 October 2013, the Group acquired 100% of the issued capital of VDM Construction (Eastern Operations) Pty Ltd for a purchase consideration of \$2,750,000. The company's activities include civil construction specialising in roads for the Government sector. The company has been renamed Decmil Engineering Pty Ltd.

The acquisition is part of the Group's overall strategy to diversify its civil engineering capability and continue to expand into new Government sectors.

Through acquiring 100% of the issued capital of VDM Construction (Eastern Operations) Pty Ltd, the Group has obtained control of the company.

	Fair Value \$000
Purchase consideration consisting of:	
Cash consideration	2,750
Less: cash acquired	<u>(3,665)</u>
Cash outflow/(inflow) on acquisition	<u>(915)</u>
Assets and liabilities held at acquisition date:	
Cash	3,665
Receivables	171
Work in progress	6,693
Other assets	840
Plant and equipment	2,087
Payables	(9,947)
Deferred tax assets (net)	144
Provisions	(537)
Hire purchase liabilities	<u>(159)</u>
Identifiable assets acquired and liabilities assumed	2,957
Bargain purchase on consolidation	<u>(207)</u>
Purchase consideration settled in cash	<u>2,750</u>

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NOTE 6: 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 two segments.

1. Construction & Engineering

- Decmil Australia Pty Ltd – multi-discipline design, civil engineering and construction services;
- Decmil Engineering Pty Ltd – civil construction specialising in roads;
- Decmil PNG Limited – construction arm of Decmil located in Papua New Guinea; and
- Eastcoast Development Engineering Pty Ltd – fabrication and installation of high pressure pipes, vessels and tanks.

2. Accommodation

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

All the assets are located in Australia.

(a) Segment performance	Construction	Accommodation	Total
31.12.2013	\$000	\$000	\$000
REVENUE			
External sales	231,942	31,134	263,076
Interest revenue	276	68	344
Total segment revenue	232,218	31,202	263,420
Segment net profit before tax	21,119	16,856	37,975

Segment performance

31.12.2012

REVENUE

External sales	317,138	13,841	330,979
Interest revenue	1,424	535	1,959
Total segment revenue	318,562	14,376	332,938

Segment net profit before tax	30,017	[#] 33,330	[#] 63,347
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[#] Includes gain on business combination

(b) Segment assets	Construction	Accommodation	Total
31.12.2013	\$000	\$000	\$000
Current assets	118,127	11,198	129,325
Non-current assets	109,794	199,134	308,928
Total segment assets	227,921	210,332	438,253

Segment assets	Construction	Accommodation	Total
31.12.2012	\$000	\$000	\$000
Current assets	176,044	17,066	193,110
Non-current assets	88,277	188,366	276,643
Total segment assets	264,321	205,432	469,753

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NOTE 6: SEGMENT INFORMATION

(c) Segment liabilities	Construction	Accommodation	Total
31.12.2013	\$000	\$000	\$000
Current liabilities	113,049	29,386	142,435
Non-current liabilities	919	11,080	11,999
Total segment liabilities	113,968	40,466	154,434

Segment liabilities	Construction	Accommodation	Total
31.12.2012	\$000	\$000	\$000
Current liabilities	157,604	35,425	193,029
Non-current liabilities	2,411	16,570	18,981
Total segment liabilities	160,015	51,995	212,010

NOTE 7: CONTINGENT LIABILITIES

As at 31 December 2013, the guarantees given to various customers for satisfactory contract performance amounted to \$88.1 million.

NOTE 8: EVENTS SUBSEQUENT TO REPORTING DATE

On 19 February 2014, the company proposed a fully franked 4.5 cent per share interim dividend with a record date of 4 March 2014 and payment date of 27 March 2014. The total amount of this dividend payment will be \$7.590 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.

**DECMIL GROUP LIMITED ABN 35 111 210 390
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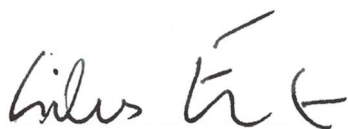
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DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out within this financial report:
 - a. comply with Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001; and
 - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Giles Everist

Chairman

Dated this 19th day of February 2014

**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 condensed consolidated statement of financial position as at 31 December 2013, and the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed 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 2013 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.

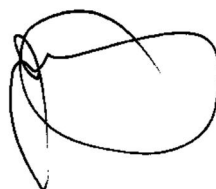
Conclusion

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 2013 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 Bird Cameron Partners

RSM BIRD CAMERON PARTNERS



Perth, WA
Dated: 19 February 2014

J A KOMNINOS
Partner