



**VALMEC**



**ANNUAL  
REPORT  
2018**

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**Valmec Limited**

ABN 94 003 607 074

Appendix 4E &  
Financial Report  
for the Year Ended 30 June 2018

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# CORPORATE DIRECTORY

## DIRECTORS

Mr Stephen Zurhaar  
*Non-Executive Chairman*

Mr Steve Dropulich  
*Managing Director*

Mr Vincent Goss  
*Non-Executive Director*

Mr Stephen Lazarakis  
*Non-Executive Director*

Mr Peter Iancov  
*Non-Executive Director*

## COMPANY SECRETARY

Mr Harveer Singh

## REGISTERED OFFICE

17-19 Ballantyne Road  
Kewdale WA 6105

Telephone: +61 8 9266 8888  
Facsimile: +61 8 9493 2787

## ASX CODE

ASX: VMX

## LEGAL ADVISERS

HWL Ebsworth  
Level 1, Westralia Plaza  
167 St Georges Terrace  
PERTH WA 6000

Telephone: +61 8 9420 1535  
Facsimile: 1300 704 211

## SHARE REGISTRY

Automic Pty Ltd  
Level 29, 201 Elizabeth Street  
Sydney NSW 2000

Telephone: 1300 288 664

## AUDITOR

RSM Australia Partners  
Level 32, Exchange Tower,  
2 The Esplanade  
Perth WA 6000  
Telephone: +61 8 9261 9100

# FINANCIAL REPORT

## FOR THE YEAR ENDED 30 JUNE 2018

### Appendix 4E – Preliminary Final Report For The Year Ended 30 June 2018

Results for Announcement to Market

	2018	2017	
Key Information	\$000	\$000	% Change
Revenue from ordinary activities	103,197	72,895	41.6%
Profit after tax from ordinary activities attributable to members	3,777	1,551	143.5%
Net profit attributable to members	3,777	1,551	143.5%

	Amount per Security	Franked Amount per Security at 30% of Tax
<b>Dividends Paid and Proposed</b>		
<b>Ordinary shares:</b>		
2017 final – nil	0.000	-

#### Record date for determining entitlements to the final dividend:

Ordinary shares

#### Explanation of Key Information and Dividends

Refer to the accompanying directors' report.

#### Statement of Profit or Loss and Other Comprehensive Income with Notes to the Statement

Refer to pages 36 to 84 of the 30 June 2018 financial report and accompanying notes for Valmec Limited.

#### Statement of Financial Position with Notes to the Statement

Refer to pages 37 to 84 of the 30 June 2018 financial report and accompanying notes for Valmec Limited.

#### Statement of Cash Flows with Notes to the Statement

Refer to pages 39 to 84 of the 30 June 2018 financial report and accompanying notes for Valmec Limited.

#### Dividend Details

There was no dividends paid during the current or prior year.

#### Dividend Reinvestment Plan

There was no dividend reinvestment plan in operation which occurred during the financial year.

Statement of Retained Earnings Showing Movements	2018	2017
	\$000	\$000
Balance at the beginning of the year	10,714	9,163
Net profit attributable to members of the parent entity	3,777	1,551
Dividends	-	-
Balance at the end of the year	14,491	10,714

Net Tangible Assets per Share	2018	2017
	\$	\$
Net tangible assets per share	0.22	0.19

### **Investment in Associates and Joint Ventures**

There are no associates or joint venture entities.

### **Commentary on the Results for the Period**

Refer to the commentary on the results for the period contained in the “Review of Operations” included within the operating and financial review section of the annual report.

### **Status of Audit**

The 30 June 2018 financial report and accompanying notes for Valmec Limited have been audited and are not subject to any disputes or qualifications. Refer to page 64 of the 30 June 2018 financial report for a copy of the auditor’s report.

### **Principal Activities**

VALMEC Limited is a diversified energy and infrastructure services group providing equipment, construction, commissioning and maintenance services to the oil and gas, resources and infrastructure sectors throughout Australia.

The principal activities of the consolidated group during the financial year were:

- Gas Compression and Processing;
- Process Services Engineering, Procurement and Construction;
- Infrastructure Service Construction;
- Petrochemical and Mining Fabrication;
- Electrical and underground services;
- Asset Preservation, Service and Maintenance
- Asset Integrity and Inspection Services.

Valmec operates from offices in Perth, Adelaide and Brisbane with regional workshop facilities in Dalby (QLD).

### **Significant Changes to Activities**

No significant changes in the nature of the consolidated group’s principal activities occurred during the financial year.

### **Significant Events after the Reporting Date**

The consolidated group commenced legal proceedings against John Holland Pty Ltd on the 9th August 2018 in the Supreme Court of Western Australia to recover payments associated with claims in relation to the Northlink WA – Southern Section Project. The value of the summons is approximately \$11.6 million, plus interest and costs.

# CHAIRMAN'S REPORT

## From Strength to Strength

Dear Valued Shareholders,

It is my pleasure to present our annual report for the 2018 financial year, reflecting on an important and successful year for Valmec. Implementing a mix of strategies throughout the past year has again delivered sustainable organic growth and capital growth for our shareholders.

### Financial Highlights

It is pleasing to report significant growth in 2018, a year that saw Valmec increase its revenues by 41%, and an increase in EBITDA by 40%.

This brings us to highlight the exciting potential that over \$120 million in Gas Infrastructure and Services work under tender brings. With good reason to believe that we will be ultimately successful in securing a large portion of this work, we look forward to FY19 with confidence of another successful year of growth.

In a snapshot:

- Revenue growth of 41% to \$103m
- EBITDA increase of 40% to \$7.5m
- Entering 2018 Financial Year with over \$61m in order book and expected extensions on service contracts
- Well positioned on over \$120 million Gas Infrastructure and Services work under tender
- Total Construction and Services pipeline of over \$300 million.

### Strategic Performance

Valmec has continued to grow revenue and increase revenue streams, whilst further de-risking its delivery models through diversifying across multiple sectors, locations and projects.

The acquisition of APTS Pty Ltd and our continued expansion on the East Coast, has allowed us to build on our growth strategy, diversify our business, offer a comprehensive suite of services to our clients and increase revenue opportunities. It is encouraging to see that this has been an effective strategy validated by the company's financial results this year and expected improvement in 2019.

The 2018 fiscal year has been an exciting period to be part of the business and indeed the industry. Valmec is proud to have been able to capitalise on a successful 2017 and be able to continue to create positive outcomes for clients and shareholders alike.

### Stronger Balance Sheet

Strengthening the balance sheet was a significant focus for the organisation in 2018, placing Valmec in an opportune position to capitalise on further organic growth and lower capital constraints.

The support of Valmec's shareholders, coupled with the positive share price performance in FY18 saw Option Holders convert a large number of options at 25c in January 2018, generating \$5.6 million in additional cash

We also completed a supplementary raise of \$5.1 million dollars to sophisticated investors, introducing additional institutions to our share register.



### Health, Environment and Safety

In health, environment and safety for 2018, Valmec achieved and maintained industry-leading personal safety rates with a lost time injury frequency rate (LTIFR) of Zero (2500 + days). This achievement has been long standing since November 2011 and could only be attained by having a workforce committed to zero harm and supported by robust HSE systems and procedures. This further re-affirms our dedication to our Core Value of Safety = No Compromise.

### A Positive Outlook

Shareholder return remains a priority for the Board and I would like to thank our investors for their support throughout the year. We are excited about Valmec's future growth underpinned by a large and robust work pipeline and, as revenue grows and the transactional vs. recurring revenue dynamic changes, we expect EBITDA margins to improve with increased revenue.

The East Coast gas thematic continues to thrive, and the company continues to be well placed to leverage its best of breed reputation and high value work opportunities in this sector, to take the company forward.

Valmec's improvement in both financial performance and position is the result of the operational discipline and efforts applied by our employees through the leadership of the Board and Senior Management Team. We would like to acknowledge the contribution of our employees during the past 12 months for their dedication and tireless effort. We will continue to build from this powerful base, facing challenges as they arise and taking advantage of suitable opportunities to expand.

On behalf of the Board, I would like to thank our staff, suppliers, clients and our shareholders for the continued support and look forward to another successful year ahead.



**Stephen Zurhaar**  
Non-Executive Chairman

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# MANAGING DIRECTOR'S REPORT

## Review of Operations

- Strengthening gas thematic
- Revenue growth of more than 41% to \$103M
- Increased market capitalisation by 3x since June 2017
- Expansion of diversified and recurring revenue streams through acquisition APTS

During the year, Valmec experienced significant growth in its gas construction activities, allowing it to expand its total FY18 revenues by more 40% over the prior year and more than double its revenues over the last 24 months.

A strengthening gas thematic predominantly driven by;

- supply imbalance within Australian east coast gas market driving strong demand and pricing,
- strength in oil pricing,
- strengthening global LNG demand, and
- improvements in commodity pricing coupled with a period of underinvestment in project development by explorers since a peak in investment in 2012-2013, is also delivering Valmec larger and more robust pipelines of work than twelve months ago, with a significant increase in tender volumes, budget pricing and expressions of interest (EOI) registrations.

Building on the strong foundations established in FY2018, Valmec enters FY2019 with over \$48 million of contracts and \$13 million in expected extensions on current long term service contracts with the majority of these secured works expected to be completed within the next 12 months. Complimenting this order book is a construction and services tender pipeline is valued at over \$300 million.

Most importantly, Valmec's significant growth during the year was delivered whilst also maintaining its satisfactory HSE performance to date. Valmec finishes the financial year with a recorded TRIFR (total recordable injury frequency rate) of 0.76 and we have continued to preserve our recorded LTIFR (lost time injury frequency rate) of zero after nearly 2,500 days without a lost time injury. Whilst such performance compares very favourably with our industry in general, Valmec will continue to focus its efforts on our HSE systems and processes to reinforce its "no compromise" strong safety culture.

### Revenue

Sales revenue for the year was \$103 million, an increase of 41% on the previous corresponding period, underpinned by the significant growth experienced in our core gas construction markets.

With the gas sector experiencing the supportive market dynamics noted above, Valmec expects these levels of revenues to be improved upon during FY19.

During the year, Valmec also expanded the diversity of its total Services revenues with the introduction of the new APTS asset testing and integrity services business into the Group. With the APTS acquisition and its subsequent integration being completed by April 2018, Valmec's growing project and service footprint enabled APTS to quickly re-establish its market positioning in the gas sector, delivering new technology and tender pipeline opportunities to the Group.

For FY19 and with the ongoing development of APTS's capabilities and tender pipeline, Valmec expects its total Service revenues to also further grow, maintaining total Service revenues at its benchmark 35% to 40% of total Group revenues.

### Earnings

With some delays in Services revenue generation being experienced by Valmec during Q3 FY2018 due to Client operational restructuring, and an additional cost provision being made to a current road infrastructure project, Valmec's total gross margins were impacted during the year.



As a result, gross margins of 14% on revenues are down from the previous year (FY2017: 16%) however are expected to improve in FY19 with the increase in recurring service revenues and improved visibility of tender pipeline.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year was \$7.5 million significantly up from the previous year (FY2017: \$4.1 million).

Group Overheads (excluding finance costs and depreciation) for the year were \$9.7 million or 9.4% of revenues. Group Overheads were up from prior year totals by approximately \$2.1 million, due to the introduction of new overheads of APTS, introduced to the Group from 1 February 2018 (acquisition date) and the significant growth of operations from FY2017. This level of overheads is expected to remain steady and as a % of revenue, expected to reduce in line with increased revenues.

Reported net profit after tax (NPAT) for the year, was \$3.7 million up from the previous year (FY2017: \$1.551 million).

Earnings per share for the reporting period was 3.7 cents. (FY2017: 1.9 cents).

### Balance Sheet

Stronger revenues during the period have again translated into balance sheet growth and together with a successful capital raising during January 2018, net assets of the consolidated group have increased to \$31.6 million, representing an increase of 83% on the prior year.

During the year, Valmec also completed the acquisition of the APTS business for a total consideration of \$2.63 million with the transaction delivering over \$6 million of assets and \$1.5 million of assumed liabilities comprising employee leave liabilities and deferred tax liabilities.

Valmec also retired over \$4 million of both short-term and long-term borrowing commitments during FY2018 and coupled with its expanded project facilities provided by its financiers, Valmec remains well placed to service its project revenue expectations for FY2019.

Negative cash flow used in operations of \$2.7 million, whilst attributed in part to timing differences on larger projects, has predominantly increased due to amounts unpaid from John Holland Pty Ltd in relation to Valmec's claims on the NorthLink WA Project. On 9 August 2018, Valmec commenced proceedings in the Supreme Court of Western Australia against John Holland Pty Ltd to recover these amounts unpaid.

Net Tangible Asset backing is at 22c per share.

### Operations and Outlook

During the period, Valmec continued to strengthen its position as a provider of both construction and maintenance services within its core sectors, capitalising on its extensive early contractor involvement (ECI) and client budgeting activities performed up to 24 months earlier.

Upstream Gas projects which until recently had been constrained by clients due to lower commodity pricing and allocation of capital into larger downstream LNG projects, are now being sanctioned to support LNG export markets on the East Coast whilst on the West Coast, Resource sector investment started to drive new Gas infrastructure spending. Amongst this backdrop, it was therefore pleasing to witness the growth in Gas projects being tendered and executed during the year, with a significant increase in revenues being delivered compared to FY2017. Valmec expects this level of ECI and tendering activity to continue and grow even further over the short-medium term, further strengthening the quality of the Valmec projects pipeline.

Key construction projects delivered during the period included:

- APA Group – WA Resource sector led expansion of GGP [\$19.1M];
- Jemena – ML1A DDP brownfields and NGP MT. Isa Compression [\$15.2M];
- DBP- Turbidge / Pluto Compression in Western Australia [\$2.3M].
- Arrow- Daandine compression, construction and installation works [\$12M].
- Water infrastructure projects with Water Corporation (WA) headlined by turnkey construction works at the client's Stirling Dam facility [\$6.5m];
- Saracen Metals water supply and infrastructure project Saracen Metals [\$7.5m];
- Further extensions to the long term services contract with Australian Pacific LNG Joint Venture [\$15m p.a]

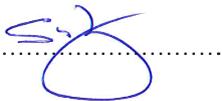
Whilst service revenues suffered some delays during Q3 as a result of client re-structuring of operations, Valmec finishes the financial year with increased service programmes for FY19 and new service and supply contracts with additional Tier 1 gas explorers and LNG providers. As LNG proponents all turn their attention to thoughts on how to maximise the value of their existing investments, Valmec remains very well placed to participate in their new upstream development projects as well as refurbishment and re-engineering of existing field assets.

On February 1 2018, Valmec finalised the acquisition of the operations of APTS Pty Ltd introducing 55 new employees, over \$5m of long term service contracts and new pipeline and structural testing capabilities to the Group. With the business now successfully integrated into the Group, APTS enters FY2019 with a new management team, new technology and accreditations and an improved tender pipeline. APTS will now focus on growth by leveraging its existing service capabilities to secure longer term operation and shutdown opportunities through new asset integrity and inspection services and through joint integrated delivery models with the Valmec Projects and Services teams.

The East Coast gas market is experiencing arguably the most disruptive structural change since its inception, with the ongoing moratorium on onshore gas exploration in New South Wales and Victoria, shut-down of coal fired generation and increasing LNG demand. During FY2019, Valmec remains very well placed to benefit from this disruption – continuing to leverage its end to end capabilities in Gas project development to participate in the significant upstream spending expected to come on line.

During a year of significant growth, our employees have continued to remain focused on continuing to deliver safe, efficient and quality solutions to our clients at all times. We finish FY18 having established a strong market presence and foundation for Valmec's future.

Thank you to all our staff, executive leadership team and the Board for your ongoing dedication and hard work during the year.



**Steve Dropulich**  
Managing Director

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# CORPORATE GOVERNANCE STATEMENT

The Company has considered and set up a framework for embracing the ASX Corporate Governance Principles and Recommendations (3<sup>rd</sup> Edition) ("Recommendations"). The Company has followed each of the Recommendations where the Board has considered the practices appropriate, taking into account factors such as size of the Company and the Board, the resources available to the Company and the activities of the Company. Where, after due consideration the Company's corporate governance policies depart from the Recommendations, the Board has outlined the nature of, and reason for, the adoption of its own practice.

Further information about the Company's corporate governance practices, charters and policies are available on the Company's website at [www.valmec.com.au](http://www.valmec.com.au)

The Board sets out below its "if not why not" report in relation to those matters of corporate governance where the Company's practices depart from the Recommendations. As the Company's activities develop in size, nature and scope, further consideration will be given by the Board to the implementation of additional corporate governance structures.

## PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation	Valmec Limited Current Practice
<p>▶ 1.1 A listed entity should disclose:</p> <p>a. respective roles and responsibilities of its board and management; and</p> <p>b. those matters expressly reserved to the board and those delegated to management</p>	<p><b>Adopted</b></p> <p>The Directors have adopted a Board Charter which outlines the role of the Board. Executive Service Agreements outline functions of the executive directors. Non-executive Director appointment letters outline the terms and conditions of non-executive director appointments. As the Company recruits additional management, the roles and responsibilities of these persons will be considered and documented.</p>
<p>▶ 1.2 A listed entity should:</p> <p>a. undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a director: and</p> <p>b. provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director</p>	<p><b>Adopted</b></p> <p>The Company has a Remunerations and Nominations Committee which is responsible for assisting and overseeing the responsibilities in relation to nominating new Board Members and undertaking the appropriate checks before nominating a person for appointment to the Board.</p> <p>The re-election of Vince Goss at 2017 AGM Notice of meeting included the required information on his background and other material directorships, term and the Board's consideration of him as a non-independent director.</p>
<p>▶ 1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.</p>	<p><b>Adopted</b></p> <p>All directors, including Non-Executives have a written agreement with the Company setting out the terms of their appointments.</p>
<p>▶ 1.4 The Company Secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the Board.</p>	<p><b>Adopted</b></p> <p>The responsibilities of the Company Secretary are contained within the Board Structure Document.</p>

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<p>▶ 1.5 A listed entity should disclose:</p> <p>a. Have a diversity Policy which includes requirements for Board/Committee to set measurable objectives for achieving gender diversity and assess them and achieving them annually</p> <p>b. disclose that policy</p> <p>c. disclose at end of reporting period how objectives are being achieved via:</p> <p>(i) respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how senior exec is defined); or</p> <p>(ii) if entity is a “relevant employer” under the Workplace Gender Equality Act, the entities most recent “Gender Equality</p>	<p><b>Part Adopted</b></p> <p>The Company does have a diversity policy which is included on the Valmec Corporate Governance web page.</p> <p>The Company makes the following disclosures regarding the proportion of women employed in the organisation:</p> <ul style="list-style-type: none"> <li>- Women on Board: 0%</li> <li>- Women in Senior Management: 0%</li> <li>- Women in whole organisation: 15%</li> </ul> <p>The Diversity policy currently only has general objectives and not measurable objectives (e.g. the number of women/indigenous etc. on the board, in senior management).</p>
<p>▶ 1.6 A listed entity should:</p> <p>a. have and disclose a process for periodically evaluating the performance of the Board, its committees and individual directors; and</p> <p>b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process</p>	<p><b>Adopted</b></p> <p>The Company has established a Directors and Board Performance Review Charter. The charter empowers the Remuneration and Nominations committee to regularly review the effectiveness and performance of the Board.</p> <p>A performance evaluation was undertaken during the reporting period by the Committee in accordance with the process..</p>
<p>▶ 1.7 A listed entity should:</p> <p>a. have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p><b>Adopted</b></p> <p>The Company has established a Senior Executives Performance Review charter. The charter empowers the Remuneration and Nominations committee to regularly review the effectiveness and performance of the senior executives. The Managing Director, under the delegated authority of the Board, determines the KPI’s of the senior executive members. The Managing Director, with the Remuneration and Nominations Committee, formally reviews the performance of senior executives annually.</p> <p>The performance evaluation of the senior executives is undertaken annually in the first quarter of each financial year and the Company confirms that this has been done in the reporting period in accordance with that process.</p>

**PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE**

Recommendation	Valmec Limited Current Practice
<p>▶ 2.1 The board of a listed entity should:</p> <p>a. Have a nomination committee which:</p> <p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director;</p> <p>and disclose:</p> <p>(i) the charter of the committee;</p> <p>(ii) the members of the committee; and</p> <p>(iii) as at the end of each reporting period, the number of times the committee met through the period and the individual attendances of the members at those meetings; or</p> <p>b. If it does not have a nomination committee disclose that fact and the processes it employs to address board succession issue and to ensure that the board has the appropriate balance of skills, knowledge experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p>	<p><b>Part Adopted</b></p> <p>The Company has a Remuneration and Nomination Committee. During the year the Company had three members in the committee;</p> <ul style="list-style-type: none"> <li>- Peter Iancov (Chair-Independent)</li> <li>- Stephen Zurhaar (not- independent)</li> <li>- Stephen Lazarakis (not – independent)</li> </ul> <p>The Remuneration and Nomination Committee Charter is on the company website – refer <a href="http://www.valmec.com.au">www.valmec.com.au</a>.</p> <p>The Committee has met twice in the year ended 30/6/18 with Stephen Zurhaar, Stephen Lazarakis and Peter Iancov attending both meetings.</p>
<p>▶ 2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p>	<p><b>Adopted</b></p> <p>The Company has a skills matrix setting out the mix of skills and diversity that the board currently has and what the board would like to achieve. Further information on each director including their independence, education, experience and tenure is available in the Directors Report.</p>
<p>▶ 2.3 A listed entity should disclose:</p> <p>a. the names of the directors considered by the board to be independent directors</p> <p>b. if a director has an interest, position, association or relationship as described in Box 2.3 (Factors relevant to assessing independence) but the board is of the opinion that it doesn't compromise the independence of the director, nature of the interest, position, association or relationship and an explanation as to why the board is of that opinion; and</p> <p>c. the length of service of each director.</p>	<p><b>Adopted</b></p> <p>a. Peter Iancov – Independent,</p> <p>b. n/a</p> <p>c. Appointment 23 October 2015</p>

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<p>▶ 2.4 A majority of the Board of a listed entity should be independent directors.</p>	<p>Not Adopted</p>	<p>Only 20% of the Board (1 member, Peter Iancov) is considered independent as per box 2.3 of the ASX Corporate Governance Principles and Recommendations.</p>
<p>▶ 2.5 The Chair of a Board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.</p>	<p>Not Adopted</p>	<p>The Chairman Stephen Zurhaar is in a non-executive role, and is separate from the role of CEO/MD. However Mr Zurhaar is not considered to be an independent director upon reference to box 2.3 of ASX Corporate Governance Principles and Recommendations as he is a substantial security holder (holds greater than 5% of company security).</p>
<p>▶ 2.6 A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.</p>	<p>Adopted</p>	<p>The induction of new directors is currently completed by the Company Secretary. All Directors have access to professional development opportunities to improve on their skills and knowledge to assist in their roles as directors.</p>

**PRINCIPLE 3 - PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

Recommendation	Valmec Limited Current Practice
<p>▶ 3.1 A listed entity should:</p> <ul style="list-style-type: none"> <li>a. Have a code of conduct for its directors, senior executives and employees; and</li> <li>b. disclose that code of conduct or a summary of it.</li> </ul>	<p>Adopted</p> <p>Copy of Code of Conduct published on the Company's website and available at <a href="http://www.valmec.com.au">www.valmec.com.au</a>.</p>

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**PRINCIPLE 4 - SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

Recommendation	Valmec Limited Current Practice
<p>▶ 4.1 The board of a listed entity should:</p> <p>a. have an audit committee which:</p> <ul style="list-style-type: none"> <li>(i) has at least 3 members, all of whom are non-executive directors and a majority of whom are independent directors; and</li> <li>(ii) is chaired by an independent director, who is not the chair of the board; and disclose:</li> <li>(iii) the charter of the committee;</li> <li>(iv) the relevant qualifications and experience of the member of the committee; and</li> <li>(v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the member at those meetings; or</li> </ul> <p>b. if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	<p>Part Adopted</p> <p>The Company currently has a Risk and Audit Committee.</p> <p>The committee has only 2 members, due to the size of the board and all members are non-executives, with 1 member considered independent.</p> <p>The Committee is chaired by Mr Peter Iancov who is the independent member of the Committee. He has over 24 years' expertise gained in the energy infrastructure, mining, commercial construction, contracting and defence sectors.</p> <p>Mr Stephen Zurhaar is other member of the committee. He is a CPA with relevant experience from his finance and executive roles over the past 25 years.</p> <p>The Audit and Risk Committee Charter is published on the Company website – refer <a href="http://www.valmec.com.au">www.valmec.com.au</a>.</p> <p>The Risk and Audit Committee has met twice in the financial period ending 30 June 2018.</p>
<p>▶ 4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	<p>Adopted</p>
<p>▶ 4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>	<p>Adopted</p>

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**PRINCIPLE 5 - MAKE TIMELY AND BALANCED DISCLOSURE**

Recommendation	Valmec Limited Current Practice
<p>▶ 5.1 A listed entity should:</p> <p>a. Have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</p> <p>b. disclose that policy or a summary of it.</p>	<p>Adopted</p> <p>The Company has a Continuous Disclosure Policy which is published on the Company website. Refer <a href="http://www.valmec.com.au">www.valmec.com.au</a>.</p>

**PRINCIPLE 6 - RESPECT THE RIGHTS OF SHAREHOLDERS**

Recommendation	Valmec Limited Current Practice
<p>▶ 6.1 A listed entity should provide information about itself and its governance to investors via its website.</p>	<p>Adopted</p> <p>Refer to the Company’s Corporate Governance page on its website – <a href="http://www.valmec.com.au">www.valmec.com.au</a>.</p>
<p>▶ 6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.</p>	<p>Adopted</p> <p>The Company has a Shareholder Communication Policy which is published on its website – <a href="http://www.valmec.com.au">www.valmec.com.au</a>.</p>
<p>▶ 6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.</p>	<p>Adopted</p> <p>The Company encourages participation at General Meetings upon the dispatch of its Notice of Meeting and advises security holders that they may submit questions they would like to be asked at the meeting to the Board and to the Company’s auditors.</p>
<p>▶ 6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.</p>	<p>Adopted</p>

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**PRINCIPLE 7 - RECOGNISE AND MANAGE RISK**

Recommendation	Valmec Limited Current Practice
<p>▶ 7.1 The board of a listed entity should:</p> <p>a. Have a committee or committees to oversee risk, each of which:</p> <p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director, and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>b. if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p>	<p><b>Part Adopted</b></p> <p>The Risk Committee is contained within the Audit and Risk Committee as detailed above in Audit Committee recommendation (4.1).</p>
<p>▶ 7.2 The board or a committee of the board should:</p> <p>a. review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>b. disclose, in relation to each reporting period, whether such a review has taken place.</p>	<p><b>Adopted</b></p> <p>The Board reviews risk on a regular basis, with an annual review as a minimum. The following policies and procedures form part of the Company's Risk Management Framework:</p> <ul style="list-style-type: none"> <li>• Audit and Risk Committee Charter</li> <li>• Strategy Planning Committee Charter</li> <li>• Risk Management Policy</li> <li>• Business Insurance Program</li> <li>• Company Business Plan</li> <li>• Procedures to review and approve strategic plans</li> <li>• Controls to manage financial exposures and operational risks</li> </ul> <p>The Company also has a Risk and Audit Committee that oversees the review of the Risk Management Framework on an Annual Basis.</p> <p>A review of all policies and procedures associated with Risk and Risk Management has been completed in December 2017.</p>
<p>▶ 7.3 A listed entity should disclose:</p> <p>a. if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>b. if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p><b>Not Adopted</b></p> <p>The Company does not have a structured formalised internal audit function, however historically the Board has reviewed the internal control systems and risk management policies on an annual basis.</p> <p>The Risk and Audit Committee has the responsibility to oversee the internal Control and Risk Management of the Company, as detailed in its charter.</p>

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<p>▶ 7.4 A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	<p><b>Adopted</b></p> <p>The Company has a sustainability policy.</p> <p>A copy of this policy can be found on the Company's website – <a href="http://www.valmec.com.au">www.valmec.com.au</a>.</p>
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**PRINCIPLE 8 - REMUNERATE FAIRLY AND RESPONSIBLY**

Recommendation	Valmec Limited Current Practice
<p>▶ 8.1 The board of a listed entity should:</p> <p>a. have a remuneration committee which:</p> <p style="margin-left: 20px;">(i) has at least three members, a majority of whom are independent directors; and</p> <p style="margin-left: 20px;">(ii) is chaired by an independent director, and disclose:</p> <p style="margin-left: 20px;">(iii) the charter of the committee;</p> <p style="margin-left: 20px;">(iv) the members of the committee; and</p> <p style="margin-left: 20px;">(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>b. if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	<p><b>Part Adopted</b></p> <p>Company has a Nomination and Remuneration Committee. Refer information as provided under recommendation 2.1 for Remuneration and Nomination Committee.</p>
<p>▶ 8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p>	<p><b>Adopted</b></p> <p>The Company has a Remuneration Policy which separately addresses the remuneration of Executive Directors and Senior Managers, and Non-Executive Directors.</p> <p>A copy of the policy is available on the Company website – <a href="http://www.valmec.com.au">www.valmec.com.au</a>.</p>
<p>▶ 8.3 A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme;</p> <p>and</p> <p>(b) disclose that policy or a summary of it.</p>	<p><b>Adopted</b></p> <p>The Company has a Remuneration Policy in place (as advised above) which covers the equity-based remuneration scheme.</p> <p>A copy of this policy is available on the Company website – <a href="http://www.valmec.com.au">www.valmec.com.au</a>.</p>

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# DIRECTORS' REPORT

## Definitions

For the purposes of this report:

Valmec Limited or Listed Entity or the Company means only the legal entity of Valmec Limited, which is listed on the Australian Stock Exchange (ASX: VMX).

Valmec Group means Valmec Limited and all its subsidiaries. The Consolidated group or Group means the Valmec Group.

Your directors present their report on the consolidated group (referred to herein as the Group) consisting of Valmec Limited (referred to hereafter as the "company" or "parent entity") and its controlled entities for the financial year ended 30 June 2018. The information in the preceding operating and financial review forms part of this directors' report for the financial year ended 30 June 2018 and is to be read in conjunction with the following information:

## General Information

### Directors

The following persons were directors of Valmec Limited during or since the end of the financial year up to the date of this report:

- Stephen Zurhaar – Non-executive Chairman
- Steve Dropulich – Managing Director
- Vincent Goss – Non-executive Director
- Stephen Lazarakis – Non-executive Director
- Peter Iancov – Non-executive Director

Particulars of each director's experience and qualifications are set out later in this report.

### Dividends Paid or Recommended

In respect of the financial year end 30 June 2018, no dividend has been paid (2017: \$Nil).

### Indemnifying Officers or Auditor

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

### Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

### Non-audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 8 to the financial statements.

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services outlined in Note 8 do not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

### Auditor

RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

### Performance rights

At the date of this report, the unissued ordinary shares of Valmec Limited under performance rights are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
28/11/2014	30/06/2019	\$nil	345,357
30/11/2015	30/06/2020	\$nil	244,237
30/08/2017	31/08/2022	\$nil	222,750
			<b>812,344</b>

Performance rights holders do not have any rights to participate in any issues of shares or other interests in the company or any other entity.

There have been no performance rights granted over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

For details of performance rights issued to directors and executives as remuneration, refer to the remuneration report.

### Options

At the date of this report, the unissued ordinary shares of Valmec Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
28/11/2014	30/09/2019	\$0.30	1,410,167
01/06/2015	31/12/2018	\$0.25	250,000
30/11/2015	30/09/2020	\$0.30	661,723
31/08/2017	31/08/2022	\$0.30	544,500
			<b>2,866,390</b>

Option holders do not have any rights to participate in any issues of shares or other interests in the company or any other entity.

There have been no options granted over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

For details of options issued to directors and executives as remuneration, refer to the remuneration report.

### Shares issued on the exercise of options

The following ordinary shares of Valmec Limited were issued during the year ended 30 June 2018 and up to the date of this report on the exercise of options granted:

Date options exercised	Exercise Price	Number of shares issued
08/01/2018	\$0.25	22,522,083

### Rounding of Amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### Events after the Reporting Period

The consolidated group commenced legal proceedings against John Holland on the 9th August 2018 in the Supreme Court of Western Australia to recover payments associated with claims in relation to the Northlink WA – Southern Section Project. The value of the summons is approximately \$11.6 million, plus interest and cost.

Other than the above, there have been no other matters or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

### Environmental Issues

The Group's operations are subject to a range of environmental regulations. During the financial year, Valmec Limited and its subsidiaries met all reporting requirements under any relevant legislation. There were no incidents which required reporting.

### Future Developments, Prospects and Business Strategies

Other than as referred to in this report, further information as to likely developments in the operations of the consolidated group would, in the opinion of the directors, be likely to result in unreasonable prejudice to the consolidated group.

### Officers of the company who are former partners of RSM Australia Partners

There are no officers of the company who are former partners of RSM Australia Partners.

## Information Relating to Directors and Company Secretary

<b>Stephen Zurhaar</b>		<b>Non-Executive Chairman</b>	
Qualifications		Fellow of the Australian Institute of Company Directors and a Certified Practising Accountant.	
Experience		<p>Stephen Zurhaar is the Chairman and founder of the Z Corp Group of Businesses and Executive Director of Core Equities Pty Ltd.</p> <p>Stephen was also one of the Founders of the HVAC/HPS Group of Companies and from the Group's inception up to its sale to Enerflex Ltd (a TSX listed Public Company) in 2005, was actively involved in its executive management, holding different key roles such as Finance Director, CEO and ultimately Chairman.</p> <p>Stephen was pivotal in negotiating the successful transactions with Enerflex Ltd and with ANZ Private Equity in their purchase of HVAC Construction QLD Pty Ltd.</p> <p>He now consults on strategic and change management for SMEs and Private Equity Groups.</p>	
Interest in Shares and Options		17,969,571 ordinary shares.	
Special Responsibilities		Member of remuneration committee, nomination committee, audit and risk committee and mergers and acquisition committee.	
Directorships held in other listed entities during the three years prior to the current year		None.	
<b>Steve Dropulich</b>		<b>Managing Director</b>	
Qualifications		Steve is a Chartered Accountant and member of the Australian Institute of Company Directors.	
Experience		Steve most recently held the role of Managing Director/ Vice President of the Enerflex Australasia Group, a multi-discipline Engineering, Construction, Supply and Service organisation servicing the Oil, Gas and Mining Sectors. The Enerflex Australasia Group grew to over 500 employees and annual revenues of over \$300m during Steve's tenure; making it the second largest Regional operation for a TSX listed Company, Enerflex Limited, outside North America.	
Interest in Shares and Options		5,874,389 ordinary shares and 1,962,223 options.	
Interest in performance rights		731,987 performance rights.	
Special Responsibilities		Member of mergers and acquisition committee and strategic planning committee.	
Directorships held in other listed entities during the three years prior to the current year		None.	
<b>Vincent Goss</b>		<b>Non-Executive Director</b>	
Qualifications		Officer Fellow of the Institution of Engineers Australia and also holds a Builders Registration accreditation in Western Australia.	
Experience		Vincent Goss was one of the founders of the HVAC/HPS Groups of Companies in 1988 originally holding the role of Construction Director through to his latest role as Group Managing Director during the group's transaction with the Enerflex Australasia Group. A Civil Engineer with over 35 years' experience in multidiscipline services, Vincent is able to provide businesses with specialist skills in tender design, quality assurance/quality control, safety and environmental systems.	
Interest in Shares and Options		15,486,126 ordinary shares and 425,000 options.	
Special Responsibilities		Member of strategic planning committee.	
Directorships held in other listed entities during the three years prior to the current year		None.	

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<b>Peter Iancov</b>	<b>Non-Executive Chairman</b>
Qualifications	Masters of Engineering, Electrical/Mechanical.
Experience	<p>Mr Iancov is a highly experienced executive with over 24 years' expertise gained in the energy infrastructure, mining, commercial construction, contracting and defence sectors.</p> <p>Most recently having served as the Group Chief Executive Officer of Doric Group, Mr Iancov has previously held senior positions with responsibility for building business partnerships across Australian and multinational organisations.</p> <p>In his previous executive roles, Mr Iancov has been instrumental in securing and delivering major contracting projects and was responsible for the management, construction and operation of critical energy infrastructure assets in excess of \$4.3 billion.</p>
Interest in Shares and Options	432,656 ordinary shares.
Special Responsibilities	Member of strategic planning committee, audit, finance and risk committee and remuneration and nomination committee.
Directorships held in other listed entities during the three years prior to the current year	None.

<b>Stephen Lazarakis</b>	<b>Non-Executive Director</b>
Qualifications	Bachelor of Mechanical Engineering.
Experience	<p>Mr Lazarakis brings over 30 years of experience in the Heavy Engineering Industry. He was also the Founder and Managing Director of HVAC Queensland Pty Ltd, a company specialising in Complex Industrial and Mechanical contracting services to the Queensland market, until the company's acquisition by ANZ Capital in 2010.</p> <p>Having resided in Queensland for over twenty years, Mr Lazarakis has developed a strong track record in the local engineering industry within its Gas, Resources, Infrastructure and Commercial sectors. Stephen retains a commitment to working with Queensland based organisations by providing the guidance and support required to ensure the development of business principles which incorporate a high level of corporate governance and ethical standards</p>
Interest in Shares and Options	16,502,444 ordinary shares.
Special Responsibilities	Member of strategic planning committee, audit, finance and risk committee and remuneration and nomination committee.
Directorships held in other listed entities during the three years prior to the current year	None.

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Harveer Singh	Company Secretary and Chief Financial Officer
Qualifications	Certified Practising Accountant.
Experience	Over 18 years of experience in the areas of financial and commercial management gained over various industries ranging from mining services, logistics & manufacturing. He has combined his financial ability with strong sense of commercial acumen to provide businesses with commercial guidance and financial stewardship. Qualified as a Certified Practising Accountant (CPA) and he holds a Bachelor of Commerce degree.
Interest in Shares and Options	70,000 ordinary shares & 229,166 options.
Interest in Performance Rights	80,357 performance rights.
Special Responsibilities	Nil.
Directorships held in other listed entities during the three years prior to the current year	None.

#### Meetings of Directors

During the financial year, five meetings of directors, two remuneration and nominations meetings were held. Attendances by each director during the year were as follows:

	Full meetings of directors		Meets of Committee			
	Held	Attended	Audit & Risk		Remuneration	
			Held	Attended	Held	Attended
Stephen Zurhaar	5	5	2	2	2	2
Steve Dropulich	5	5	-	-	-	-
Vincent Goss	5	4	-	-	-	-
Peter Iancov	5	4	2	2	2	2
Stephen Lazarakis	5	5	-	-	2	2

# REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly, or indirectly, including all directors.

## Remuneration Policy

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Valmec Limited's directors and its senior management for the financial year ended 30 June 2018.

The prescribed details for each person covered by this report are detailed below under the following headings.

- Remuneration policy for directors and senior executives
- Performance based remuneration
- Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration
- Employment Contracts of Directors and Senior Executives
- Elements of Directors and executive remuneration

## Remuneration Policy for Directors and Senior Executives

The remuneration policy of Valmec Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The board of Valmec Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated group is as follows:

All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, and performance incentives.

The remuneration committee reviews directors and executives packages annually and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. All bonuses and incentives are linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives and bonuses and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Participants in the company's equity based remuneration schemes are not permitted to enter into transactions which limit the economic risk of participating in the scheme.

The executives receive a superannuation guarantee contribution required by the government, which is currently 9.50% of base salary up to a legislated maximum, and do not receive any other retirement benefits. Individuals can choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration and nominations committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is presently set at an aggregate of \$300,000 per annum. Fees for non-executive directors are not linked to the performance of the consolidated group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

#### *Voting and comments made at the company's 2017 Annual General Meeting ('AGM')*

At the 2017 AGM, 97.3% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

#### **Performance Based Remuneration**

The Company has two types of Performance Based Remuneration – Short Term Incentives (STI) and Long Term Incentives (LTI). STIs are payable in cash. Outcomes are based on Valmec's financial and operational performance over the financial period, in addition to individual performance measures. Part of the Company's LTIs which may form part of an Executive's package includes the issue of Performance Rights and Share Options that are subject to the satisfaction of performance hurdles. These LTI instruments are issued to Management for the purposes of aligning their interests with those of shareholders by rewarding long term sustainable shareholder value creation. For the LTI plan, outcomes are based on Relative Total Shareholder Return (RTSR) measures.

#### **Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration**

The remuneration policy has been tailored to increase goal alignment between shareholders and directors and executives. The total remuneration packages for Directors and Executives may include a combination of the following:

- (i) Fixed component** – Base salary including superannuation. This is expressed as a specific amount that the executive may take in a form agreed with the Company and is determined based on market reference, the scope and nature of the individual's role, their performance and experience.
- (ii) At risk components** – The Board considers that the financial and operational performance and prospects of the Company are strongly linked to creating shareholder wealth. Accordingly, the Board has put in place at-risk components to remuneration based on success in delivering on pre-defined targets. At-risk components are in the form of:
  - a. Short Term Incentive (STI)** – payable in cash. Outcomes are based on Valmec's financial and operational performance over the financial period, in addition to individual performance measures;
  - b. Long Term Incentives (LTI)** – includes the issue of Performance Rights and Share Options that are subject to the satisfaction of performance hurdles. These LTI instruments are issued to Management for the purposes of aligning their interests with those of shareholders by rewarding long term sustainable shareholder value creation. For the LTI plan, outcomes are based on Relative Total Shareholder Return (RTSR) and Earnings Per Share (EPS) measures.

The Company believes this policy will be effective in increasing shareholder wealth over the coming years.

#### **Employment Contracts of Directors and Senior Executives**

The employment contracts typically stipulate 1 month resignation periods other than the Managing Director. The Company may terminate the Managing Director's employment contract without cause by providing 3 months written notice, and at the end of that notice period, make a payment equal to the salary payable over a 3 month period. The Company may also at its sole discretion terminate an employment contract immediately by making a payment equal to the salary for the relevant period of notice. There are no employment contracts relating to Non-Executive Directors or the Company Secretary other than those outlined above.

#### **Performance Income as a Proportion of Total Remuneration**

The Company issued equity securities as part of performance income during the year, as detailed in the tables below for certain Directors and Specified Executives.

#### **Employment Details of Members of Key Management Personnel**

The following table provides employment details of persons who were, during the financial year, members of KMP of the consolidated group. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options, performance rights and SARs.

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30 June 2018	Position Held and Change during the Year	Contract Details (Duration & Termination)	LTI			Fixed remuneration	
			Proportions of Elements of Remuneration Related to Performance			Proportions of Elements of Remuneration Not Related to Performance	
			Non-salary cash-based incentives	Shares/Units	SARs/Options/Rights	Fixed Salary/Fees	Total
			%	%	%	%	%
<b>Group KMP</b>							
Stephen Zurhaar	Non-Executive Chairman	N/A	-	-	-	100%	100%
Steve Dropulich	Managing Director	N/A	-	-	16%	84%	100%
Vincent Goss	Non-Executive Director	N/A	-	-	-	100%	100%
Peter Iancov	Non-Executive Director	N/A	-	-	-	100%	100%
Stephen Lazarakis	Non-Executive Director	N/A	-	-	-	100%	100%
Harveer Singh	Chief Financial Officer & Company Secretary	N/A	2%	-	6%	92%	100%
<b>30 June 2017</b>							
			%	%	%	%	%
<b>Group KMP</b>							
Stephen Zurhaar	Non-Executive Chairman	N/A	-	-	-	100%	100%
Steve Dropulich	Managing Director	N/A	-	-	12%	88%	100%
Vincent Goss	Non-Executive Director	N/A	1%	-	10%	89%	100%
Ranko Matic	Non-Executive Director	N/A	-	-	-	100%	100%
Peter Iancov	Non-Executive Director	N/A	-	-	-	100%	100%
Stephen Lazarakis	Non-Executive Director	N/A	-	-	-	100%	100%
Kelvin Andrijich	Executive – Oil & Gas	N/A	-	-	-	100%	100%
Harveer Singh	Chief Financial Officer & Company Secretary	N/A	1%	-	4%	95%	100%

## Remuneration Expense Details for the Year Ended 30 June 2018

The following table of benefits and payments represents the components of the current year and comparative year remuneration expenses for each member of KMP of the consolidated group. Such amounts have been calculated in accordance with Australian Accounting Standards.

Table of Benefits and Payments for the Year Ended 30 June 2018 and 2017:

30 June 2018		Short-term Benefits				Post-employment Benefits		Long-term Benefits		Equity-settled Share-based Payments		Cash-settled Share-based Payments <sup>^^#</sup>	Term Benefits	Total
		Salary, Fees and Leave	Profit Share and Bonus	Non-monetary	Other	Super	Other	Incentive Plans	LSL	Shares /Units	Options/ Performance rights <sup>^#</sup>			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Group KMP</b>														
	Stephen Zurhaar	2018	60,000	-	-	-	-	-	-	-	-	-	-	60,000
		2017	60,000	-	-	-	-	-	-	-	-	-	-	60,000
	Steve Dropulich	2018	373,693	-	-	-	-	-	-	-	68,061	10,501	-	477,255
		2017	360,000	-	-	-	-	-	-	-	47,197	8,242	-	445,439
	Vincent Goss***	2018	160,410	-	-	-	-	-	-	-	(13,196)	(6,880)	-	140,334
		2017	170,077	-	2,290	-	-	-	-	-	17,076	2,663	-	206,838
	Peter Iancov	2018	120,000	-	-	-	-	-	-	-	-	-	-	120,000
		2017	60,000	-	-	-	-	-	-	-	-	-	-	60,000
	Ranko Matic**	2017	21,000	-	-	-	-	-	-	-	-	-	-	21,000
	Stephen Lazarakis	2018	70,838	-	-	-	-	-	-	-	-	-	-	70,838
		2017	65,004	-	-	-	-	-	-	-	-	-	-	65,004
	Harveer Singh	2018	272,155	-	2,696	-	-	-	-	-	5,178	12,965	-	317,961
		2017	250,000	-	2,514	-	-	-	-	-	9,208	1,436	-	286,908
	Kelvin Andrijich*	2017	358,422	-	1,260	-	-	-	-	-	-	-	-	389,682
	Total KMP	2018	1,057,096	-	2,696	-	-	-	-	-	60,043	16,586	-	1,186,388
		2017	1,344,503	-	6,064	-	-	-	-	-	73,481	12,341	-	1,534,871

<sup>^</sup>Options and performance rights granted are expensed over the performance period.

<sup>^^</sup>SARs granted are expensed over the performance period.

<sup>#</sup>Equity/cash settled share-based payments as per Corporations Regulation 2M.3.03 (1) item 11. These include negative amounts for SARs, options and performance rights forfeited during the year (if any).

\*Ceased employment 31 May 2017.

\*\*Resigned as Non-Executive Director on the 7 March 2017.

\*\*\* Fees comprise of Non-director fees of \$45,000 & \$115,410 consultancy fees.

## Share-based Compensation

There were no share-based compensation granted as remuneration during the year to KMP.

### Cash Bonuses, Performance-related Bonuses and Share-based Payments

The terms and conditions relating to options and bonuses granted as remuneration during the year to KMP are as follows:

#### Share appreciation rights (SARs):

	Remuneration Type	Grant Date	Grant Value \$	Reason for Grant (Note 1)	Percentage Vested/Paid during Year % (Note 2)	Percentage Forfeited during Year %	Percentage Remaining as Unvested %	Expiry Date for Vesting or Payment	Range of Possible Values Relating to Future Payments 30 June 2018 (Note 3)	
<b>Group KMP</b>										
	Steve Dropulich	SARs	31/08/2017	19,006	1	0%	-	100%	31/08/2022	14,673
	Harveer Singh	SARs	31/08/2017	4,872	1	0%	-	100%	31/08/2022	41,170

Note 1: The SARs have been granted as part of performance incentive.

Note 2: The dollar value of the percentage vested/paid during the period has been reflected in the Table of Benefits and Payments. All SARs were issued by Valmec Limited and entitle the holder to cash payment after meeting the vesting conditions. There have not been any alterations to the terms or conditions of any grants since grant date.

Note 3: The fair value of SARs is remeasured at each reporting date. The amount represents SARs yet to be expensed. The performance conditions of SARs that will vest depends on:

- Valmec Limited's relative total return to shareholders (RTSR) measured against S&P small ordinaries index for the relevant performance period. 50% shall vest at the 50th percentile and 100% shall vest at or above the 85th percentile.
- earning per share (EPS) measured by absolute EPS compounded growth of 10% or greater per annum.

The fair value of SARs using the following inputs:

At grant date:

2018	SARs (TSR)* Granted 31/08/2017	SARs (EPS) Granted 31/08/2017
Expected volatility (%)	92.8	92.8
Risk free interest rate (%)	2.47	2.47
Weighted average expected life (years)	4.83	4.83
Expected dividends	Nil	Nil
Exercise price (cents)	20	20
Share price at grant date (cents)	22.5	22.5
Fair value (cents)	13	14.73
Number of SARs	260,846	260,846
Expiry date	5 years from grant date	5 years from grant date

Note 1: The fair value of SARs granted as remuneration and as shown in the above table has been determined in accordance with Australian Accounting Standards and will be recognised as an expense over the relevant vesting period to the extent that conditions necessary for vesting are satisfied. The fair value of SARs is remeasured at each reporting date.

## Cash Bonuses, Performance-related Bonuses and Share-based Payments (Cont.)

## Performance rights (PR):

	Remuneration Type	Grant Date	Grant Value \$	Reason for Grant (Note 1)	Percentage Vested/Paid during Year % (Note 2)	Percentage Forfeited during Year %	Percentage Remaining as Unvested %	Expiry Date for Vesting or Payment	Range of Possible Values Relating to Future Payments 30 June 2018 (Note 3)	
<b>Group KMP</b>										
	Steve Dropulich	PR	31/08/2017	40,095	1	0%	-	100%	31/08/2022	30,954

Note 1: The PR have been granted as part of performance incentive.

Note 2: The dollar value of the percentage vested/paid during the period has been reflected in the Table of Benefits and Payments.

All PR were issued by Valmec Limited and entitle the holder to one ordinary share in Valmec Limited for each PR exercised.

There have not been any alterations to the terms or conditions of any grants since grant date.

Note 3: The amount has been determined as the amount of the grant date fair value of the PR that is yet to be expensed.

The performance conditions of PR that will vest depends on:

- Valmec Limited's relative total return to shareholders (RTSR) measured against S&P small ordinaries index for the relevant performance period. 50% shall vest at the 50th percentile and 100% shall vest at or above the 85th percentile.
- earning per share (EPS) measured by absolute EPS compounded growth of 10% or greater per annum.

The following table sets out the assumptions made in determining the fair value of the PR granted during the financial year:

2018	Performance rights (TSR)* Granted 31/08/2017	Performance rights (EPS) Granted 31/08/2017
Expected volatility (%)	92.8	92.8
Risk free interest rate (%)	2.47	2.47
Weighted average expected life (years)	4.83	4.83
Expected dividends	Nil	Nil
Exercise price (cents)	-	-
Share price at grant date (cents)	22.5	22.5
Fair value (cents)	16	20
Number of performance rights	111,275	111,275
Expiry date	31 August 2022	31 August 2022

\* The fair value includes Valmec Limited's RTSR.

Note 1: The fair value of PR granted as remuneration and as shown in the above table has been determined in accordance with Australian Accounting Standards and will be recognised as an expense over the relevant vesting period to the extent that conditions necessary for vesting are satisfied.

## Cash Bonuses, Performance-related Bonuses and Share-based Payments (Cont.)

## Options:

Remuneration Type	Grant Date	Grant Value \$	Reason for Grant (Note 1)	Percentage Vested/Paid during Year % (Note 2)	Percentage Forfeited during Year %	Percentage Remaining as Unvested %	Expiry Date for Vesting or Payment	Range of Possible Values Relating to Future Payments 30 June 2018 (Note 3)	
<b>Group KMP</b>									
Performance based:									
Steve Dropulich	Options	31/08/2017	69,424	1	0%	-	100%	31/08/2022	53,597

Note 1: The options have been granted as part of performance incentive..

Note 2: The dollar value of the percentage vested/paid during the period has been reflected in the Table of Benefits and Payments.

All options were issued by Valmec Limited and entitle the holder to one ordinary share in Valmec Limited for each option exercised.

There have not been any alterations to the terms or conditions of any grants since grant date..

Note 3: The amount has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

The performance conditions of options that will vest depends on:

- Valmec Limited's relative total return to shareholders (RTSR) measured against S&P small ordinaries index for the relevant performance period. 50% shall vest at the 50th percentile and 100% shall vest at or above the 85th percentile.
- Earning per share (EPS) measured by absolute EPS compounded growth of 10% or greater per annum.

The following table sets out the assumptions made in determining the fair value of the options granted during the financial year:

2018	Options (TSR)* Granted 31/08/2017	Options (EPS) Granted 31/08/2017
Expected volatility (%)	92.8	92.8
Risk free interest rate (%)	2.47	2.47
Weighted average expected life of options (years)	4.83	4.83
Expected dividends	Nil	Nil
Option Exercise price (cents)	30	30
Share price at grant date (cents)	22.5	22.5
Fair value (cents)	12	13.51
Number of options	272,250	272,250
Expiry date	31 August 2022	31 August 2022

Note 1: The fair value of options granted as remuneration and as shown in the above table has been determined in accordance with Australian Accounting Standards and will be recognised as an expense over the relevant vesting period to the extent that conditions necessary for vesting are satisfied.

## Additional disclosures relating to key management personnel

## KMP Options:

Details of options held by directors and key management personnel:

2018	Balance 1/07/2017	Received as remuneration	Acquired During Year	Expired During Year	Exercised During Year	Balance 30/06/2018
<b>Directors</b>	No.	No.	No.	No.	No.	No.
Steve Dropulich	2,942,723	544,500	-	(1,425,000)	(100,000)	1,962,223
Stephen Zurhaar	3,000,000	-	300,000	-	(3,300,000)	-
Vincent Goss	3,450,000	-	-	(2,825,000)	(200,000)	425,000
Peter Iancov	-	-	-	-	-	-
Stephen Lazarakis	3,050,000	-	-	(50,000)	(3,000,000)	-
<b>Executives</b>						
Harveer Singh	241,666	-	-	(12,500)	-	229,166
<b>Total</b>	<b>12,684,389</b>	<b>544,500</b>	<b>300,000</b>	<b>(4,312,500)</b>	<b>(6,600,000)</b>	<b>2,616,389</b>

\*At date of appointment or resignation.

## KMP Shareholdings

Number of shares held by Company directors and key management personnel

2018	Balance 1/07/2017	A date of appointment	Received as remuneration	Option Exercised	Acquired during the year	Balance 30/06/2018
<b>Directors</b>	No.	No.	No.	No.	No.	No.
Steve Dropulich	5,739,389	-	-	100,000	35,000	5,874,389
Stephen Zurhaar	14,582,873	-	-	3,300,000	86,698	17,969,571
Vincent Goss	13,746,539	-	-	200,000	1,539,587	15,486,126
Peter Iancov	232,656	-	-	-	200,000	432,656
Stephen Lazarakis	13,502,444	-	-	3,000,000	-	16,502,444
<b>Executives</b>						
Harveer Singh	12,500	-	-	-	47,500	70,000
<b>Total</b>	<b>47,826,401</b>	<b>-</b>	<b>-</b>	<b>6,600,000</b>	<b>1,908,785</b>	<b>56,335,186</b>

\*At date of appointment or resignation.

**KMP Share appreciation rights (SARs)**

Details of SARs held by directors and key management personnel

2018	Balance 1/07/2017	Received as Remuneration	Others*	Acquired during the year	Balance 30/06/2018
	No.	No.	No.	No.	No.
<b>Directors</b>					
Steve Dropulich	292,050	137,077	-	-	429,127
Stephen Zurhaar	-	-	-	-	-
Vincent Goss	-	-	-	-	-
Peter Iancov	-	-	-	-	-
Stephen Lazarakis	-	-	-	-	-
<b>Executives</b>					
Harveer Singh	51,230	384,615	-	-	435,845
<b>Total</b>	<b>343,280</b>	<b>521,692</b>	<b>-</b>	<b>-</b>	<b>864,972</b>

\*At date of appointment or resignation.

**KMP Performance rights (PRs)**

Details of performance rights held by directors and key management personnel

2018	Balance 1/07/2017	Received as Remuneration	Others*	Acquired during the year	Balance 30/06/2018
	No.	No.	No.	No.	No.
<b>Directors</b>					
Steve Dropulich	509,237	222,750	-	-	731,987
Stephen Zurhaar	-	-	-	-	-
Vincent Goss	-	-	-	-	-
Peter Iancov	-	-	-	-	-
Stephen Lazarakis	-	-	-	-	-
<b>Executives</b>					
Harveer Singh	80,357	-	-	-	80,357
<b>Total</b>	<b>589,594</b>	<b>222,750</b>	<b>-</b>	<b>-</b>	<b>812,344</b>

\*At date of appointment or resignation.

### Other Transactions with KMP and/or their Related Parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The following transactions occurred with related parties:

	2018
<b>(i) Transactions with related parties:</b>	<b>\$000</b>
<b>Other related parties:</b>	
Interest expense – Z Corp Holdings Pty Ltd	114
Interest expense – Mecon (WA) Pty Ltd	57
Rent and outgoings – Tag Pty Ltd	796

### Additional Information

The earnings of the consolidated entity for the five years to 30 June 2018 are summarised below:

	2018	2017	2016	2015	2014
<b>Steve Dropulich</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Managing Director					
Sales revenue	103,197	72,895	50,963	55,748	50,567
EBITDA	7,502	4,104	3,032	6,588	3,668
EBIT	5,440	3,007	1,692	5,228	2,128
Profit/(loss) after income tax	3,777	1,551	186	5,751	5,048

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2018	2017	2016	2015	2014
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Share price at financial year end (\$)	0.31	0.13	0.11	0.19	0.18
Total dividends declared (cents per share)	-	-	0.005	0.005	-
Basic earnings/(loss) per share (cents per share)	3.72	1.90	0.23	8.26	16.41

### [End of Remuneration Report]

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



**Steve Dropulich, Managing Director**

Dated: 28 August 2018

**RSM Australia Partners**

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Valmec Limited for the year ended 30 June 2018, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM  
RSM AUSTRALIA PARTNERS

  
ALASDAIR WHYTE  
Partner

Perth, WA  
Dated: 28 August 2018

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# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated	
		2018	2017
		\$000	\$000
<b>Continuing operations</b>			
Revenue	3	103,197	72,895
Cost of sales		(88,768)	(61,141)
<b>Gross profit</b>		14,429	11,754
Other income	3	2,950	-
Depreciation and amortisation expense		(2,062)	(1,097)
Employee benefits expense	4	(6,647)	(5,377)
Finance costs		(965)	(791)
Occupancy expenses		(989)	(625)
Professional fees		(729)	(601)
Other expenses	5	(1,512)	(1,047)
<b>Profit before income tax from continuing operations</b>		4,475	2,216
Income tax expense	6	(698)	(665)
<b>Profit after income tax from continuing operations</b>		3,777	1,551
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the year</b>		3,777	1,551
<b>Earnings per share</b>			
Basic earnings per share (cents)	9	3.72	1.90
Diluted earnings per share (cents)	9	3.71	1.90

The accompanying notes form part of these financial statements.

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# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	Consolidated	
		2018	2017
		\$000	\$000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	10	2,747	2,282
Trade and other receivables	11	29,014	19,417
Inventories	12	7,129	7,020
Other assets	13	601	339
<b>TOTAL CURRENT ASSETS</b>		<b>39,491</b>	<b>29,058</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	10,606	7,019
Deferred tax assets	6	1,637	3,528
Intangible assets	17	3,510	1,857
<b>TOTAL NON-CURRENT ASSETS</b>		<b>15,753</b>	<b>12,404</b>
<b>TOTAL ASSETS</b>		<b>55,244</b>	<b>41,462</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	19,001	15,702
Borrowings	19	1,105	4,422
Provisions	21	1,649	1,395
<b>TOTAL CURRENT LIABILITIES</b>		<b>21,755</b>	<b>21,519</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	19	1,765	2,718
Provisions	21	234	19
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,999</b>	<b>2,737</b>
<b>TOTAL LIABILITIES</b>		<b>23,754</b>	<b>24,256</b>
<b>NET ASSETS</b>		<b>31,490</b>	<b>17,206</b>
<b>EQUITY</b>			
Issued capital	22	16,627	6,184
Reserve	31	372	308
Retained earnings	32	14,491	10,714
<b>TOTAL EQUITY</b>		<b>31,490</b>	<b>17,206</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

Consolidated	Note	Issued Capital	Reserve	Retained Earnings	Total
		\$000	\$000	\$000	\$000
<b>Balance at 1 July 2016</b>		6,184	226	9,163	15,573
Profit after income tax expense for the year		-	-	1,551	1,551
Other comprehensive income for the year, net of tax		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	1,551	1,551
<b>Transactions with owners, in their capacity as owners:</b>					
Share based payment		-	82	-	82
<b>Balance at 30 June 2017</b>		6,184	308	10,714	17,206
<b>Balance at 1 July 2017</b>		6,184	308	10,714	17,206
Profit after income tax expense for the year		-	-	3,777	3,777
Other comprehensive income for the year, net of tax		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	3,777	3,777
<b>Transactions with owners, in their capacity as owners:</b>					
Shares issued during the year		10,731			10,731
Transaction costs		(255)			(255)
Share buy back		(33)			(33)
Share based payment		-	64	-	64
<b>Balance at 30 June 2018</b>		16,627	372	14,491	31,490

The accompanying notes form part of these financial statements.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated	
		2018	2017
		\$000	\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		93,475	66,742
Payments to suppliers and employees		(95,283)	(65,110)
Interest received		12	4
Finance costs		(964)	(791)
<b>Net cash provided by / (used in) operating activities</b>	26a	<b>(2,760)</b>	<b>845</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(509)	(445)
Proceeds from sale of property, plant and equipment		195	1,021
Payment for acquisition of subsidiary	14b	(2,634)	-
<b>Net cash provided by / (used in) investing activities</b>		<b>(2,948)</b>	<b>576</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of borrowings, net		(994)	(908)
Proceeds from issue of shares	22	10,442	-
<b>Net cash (used in) financing activities</b>		<b>9,448</b>	<b>(908)</b>
Net increase/(decrease) in cash held		3,740	513
Cash and cash equivalents at beginning of financial year		(993)	(1,506)
Cash and cash equivalents at end of financial year	10	<b>2,747</b>	<b>(993)</b>

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## Note 1: Summary of Significant Accounting Policies

### General

The financial report consists of consolidated financial statements for Valmec Limited ("the company") and its subsidiaries ("group" or "consolidated group"). Valmec Limited is a company limited by shares incorporated in Australia, whose shares are publicly traded on the Australian Stock Exchange.

### Basis of Preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

### Parent Information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated group only. Supplementary information about the parent entity is disclosed in note 2.

#### a. Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent, Valmec Limited and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of profit or loss and other comprehensive income.

#### Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

**Note 1: Summary of Significant Accounting Policies****a. Principles of Consolidation (cont.)****Goodwill**

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
- (iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value re-measurements in any pre-existing equity holdings are recognised in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interests is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored being not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

**b. Income Tax**

The income tax expense/(income) for the year comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Valmec Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

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**Note 1: Summary of Significant Accounting Policies****b. Income Tax (cont.)**

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

**c. Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**d. Fair Value of Assets and Liabilities**

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period.

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

**e. Inventories**

Inventories are measured at the lower of cost and net realisable value on weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**f. Construction Contracts and Work in Progress**

Construction work in progress is measured at cost, plus profit recognised to date less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts, and those costs that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

Construction profits are recognised on the stage of completion basis and measured using the proportion of costs incurred to date compared to expected actual costs. Where losses are anticipated they are provided for in full.

Construction revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

**g. Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

**Plant and equipment**

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

**Note 1: Summary of Significant Accounting Policies****g. Property, Plant and Equipment****Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised lease assets, is depreciated on a straight-line basis over the asset's useful life to the group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Plant and equipment- 2.5 to 20 years  
 Leasehold improvements- 2.5 to 10 years  
 Motor vehicles – 4 to 5 years  
 Office equipment – 3 to 10 years

**h. Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

**Goodwill**

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

**Research and development**

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

**Patents and trademarks**

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

**Customer contracts**

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 17 months.

**Software**

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

**Impairment of non-financial assets**

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

**Note 1: Summary of Significant Accounting Policies****i. Financial Instruments****Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

**Classification and subsequent measurement**

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

**(i) Financial assets at fair value through profit or loss**

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

**(ii) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

**(iii) Financial liabilities**

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**Impairment**

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

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**Note 1: Summary of Significant Accounting Policies****i. Financial Instruments (cont.)****De-recognition**

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**j. Impairment of Assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Accounting Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Accounting Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

**k. Employee Benefits****Short-term employee benefits**

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

**Other long-term employee benefits**

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any re-measurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

**Retirement benefit obligations****Defined contribution superannuation benefits**

All employees of the Group other than those that receive defined benefit entitlements receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the statement of financial position.

**Termination benefits**

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of: (a) the date when the Group can no longer withdraw the offer for termination benefits; and (b) when the Group recognises costs for restructuring pursuant to AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

**Note 1: Summary of Significant Accounting Policies****k. Employee Benefits (cont.)****Equity-settled compensation**

The company operates an employee option plan. The fair value of options is determined using an appropriate pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

**l. Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**m. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

**n. Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest method.

Revenue relating to construction activities is detailed at Note 1(f).

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period, where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax.

**o. Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(h) for further discussion on the determination of impairment losses.

**p. Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

**q. Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

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**Note 1: Summary of Significant Accounting Policies****r. Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**s. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

**t. Leases**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset – but not the legal ownership – are transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

**u. Rounding of Amounts**

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**v. New and revised AASB's affecting amounts reported and/or disclosures in the financial statements**

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in a significant or material change to the Group's accounting policies.

**w. Critical Accounting Estimates and Judgments**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgments and estimates will seldom equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

**Share-based payment transactions**

The consolidated group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

**Estimation of useful lives of assets**

The consolidated group determines the estimated useful lives and related depreciation charges for its plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

**Note 1: Summary of Significant Accounting Policies****w. Critical Accounting Estimates and Judgments (cont.)****Goodwill and other indefinite life intangible assets**

The consolidated group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

**Recovery of deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

**Construction contracts**

When accounting for construction contracts, the contracts are either combined or segmented if this is deemed necessary to reflect the substance of the agreement. Revenue arising from fixed price contracts is recognised in accordance with the percentage of completion method. Stage of completion is agreed with the customer on a work certified to date basis, as a percentage of overall contract. Where a loss is expected to occur from a construction contract, the excess of the total expected contract costs over expected contract revenue is recognised as an expense immediately.

**Business combinations**

The fair value of assets acquired, liabilities and contingent liabilities assumed are subject to estimates and judgments by the consolidated group taking into consideration all available information at each reporting date (where provisional) and on the finalisation of the business combination.

**x. Dividends**

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

**y. Earnings per share****Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

**Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**z. Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

**aa. Foreign currency translation**

**The financial statements are presented in Australian dollars, which is Valmec Limited's functional and presentation currency.**

**Foreign currency transactions**

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

**ab. Issued capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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**Note 1: Summary of Significant Accounting Policies****ac. Non-current assets or disposal groups classified as held for sale**

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

**ad. New Accounting Standards for Application in Future Periods**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated group for the annual reporting period ended 30 June 2018. The consolidated group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the group, are set out below.

**AASB 9 Financial Instruments**

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is currently being assessed by the consolidated entity and yet to be finalised.

**ae. New Accounting Standards for Application in Future Periods****AASB 15 Revenue from Contracts with Customers**

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is currently being assessed by the consolidated entity and yet to be finalised.

**AASB 16 Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the group.

**Note 2: Parent Information**

	2018	2017
	\$000	\$000
The following information has been extracted from the books and records of the parent entity- Valmec Limited		
<b>Statement of Financial Position:</b>		
<b>ASSETS</b>		
Current assets	98	111
Non-current assets	11,077	6,973
<b>TOTAL ASSETS</b>	<b>11,175</b>	<b>7,084</b>
<b>LIABILITIES</b>		
Current liabilities	574	2,673
Non-current liabilities	83	2,700
<b>TOTAL LIABILITIES</b>	<b>657</b>	<b>5,373</b>
<b>EQUITY</b>		
Issued capital	18,531	8,088
Reserve	424	360
Accumulated losses	(8,437)	(6,737)
<b>TOTAL EQUITY</b>	<b>10,518</b>	<b>1,711</b>
<b>Statement of Comprehensive Income:</b>		
(Loss) for the year	(1,806)	(2,065)
Other Comprehensive income for the year	-	-
<b>Total comprehensive loss for the year</b>	<b>(1,806)</b>	<b>(2,065)</b>

**Contingent Liabilities and Capital expenditure**

There are no contingent liabilities for the parent entity for both financial years ended 30 June 2018 and 30 June 2017 apart from those already disclosed in Note 24.

The parent entity did not have capital expenditure commitments for the acquisition of property, plant and equipment contracted but not provided for both financial years 30 June 2018 and 30 June 2017.

**Guarantees**

Valmec Limited has entered into a deed of cross guarantee with its subsidiaries, Valmec Australia Pty Ltd, Valmec Services Pty Ltd, APTS Pty Ltd and Core Plant and Equipment Pty Ltd. Refer to Note 14c for further details.

**Note 3: Revenue and Other Income**

	2018	2017
	\$000	\$000
<b>Revenue from continuing operations</b>		
Sales revenue:		
• Provision of services	103,197	72,895
	<u>103,197</u>	<u>72,895</u>
Other revenue:		
• Interest received	12	4
• Gain on disposal of plant and equipment	163	(11)
• Gain on remeasurement of equity investment due to business combination (Note 14b)	2,613	-
• Other revenue	162	7
Total other income	<u>2,950</u>	<u>-</u>

**Note 4: Employee benefits expenses**

	2018	2017
	\$000	\$000
Salaries and wages	5,335	4,517
Superannuation	412	349
Other employee benefits	900	511
	<u>6,647</u>	<u>5,377</u>

**Note 5: Other expenses**

	2018	2017
	\$000	\$000
Other expenses mainly comprises of the following:		
• Insurance expenses	421	306
• Office and computer software	352	203
• Telephone expenses	128	86
• Travel and accommodation	359	225
	<u>1,260</u>	<u>820</u>

**Note 6: Tax Expense****a. Income tax recognised in statement of comprehensive income**

	2018	2017
	\$000	\$000
Tax (income) / expense comprises:		
• Current tax expense	-	-
• Deferred tax-origination and reversal of temporary differences	630	665
• Adjustment recognised for prior periods	68	-
Total income tax (benefit) /expense	<u>698</u>	<u>665</u>

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**Note 6: Tax Expense (Cont'd)****b. Recognition of income tax expense to prima facie tax payable**

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2018	2017
	\$000	\$000
Profit from operations	4,475	2,216
Income tax expense calculated at 30% (2017: 30%)	1,343	665
Add: tax effect of:		
• Non-deductible / Non-allowable items	(713)	-
• Adjustment to prior year deferred tax asset	68	-
Total income tax (benefit) /expense recognised	698	665
The applicable weighted average effective tax rates (payable)	%	-%

The tax rate used for the 2018 and 2017 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

**c. Recognised deferred tax assets and liabilities**

	2018	2018	2017	2017
	\$000	\$000	\$000	\$000
	Deferred tax liabilities	Deferred tax liabilities	Deferred tax liabilities	Deferred tax liabilities
Opening balance	(1,606)	5,134	(1,606)	5,799
Charged to profit and loss	144	(842)	-	(665)
Other/payments	(1,193)	-	-	-
Closing balance	(2,655)	4,292	(1,606)	5,134

	2018	2017
	\$000	\$000
	Deferred tax liabilities	Deferred tax liabilities
Amounts recognised on the consolidated statement of financial position:		
	4,292	5,134
Profit from operations	(2,655)	(1,606)
Total income tax (benefit) /expense recognised	1,637	3,528

**(i) Deferred tax assets**

Provisions	566	424
Income tax losses	3,441	4,009
Trade creditors	259	243
Others	26	458
Gross deferred tax assets	4,292	5,134

**(ii) Deferred tax liabilities**

Inventories	(971)	(541)
Property, plant and equipment	(1,180)	(822)
Intangibles	(486)	-
Others	(18)	(243)
Set-off of deferred tax liabilities	(2,655)	(1,606)
Net deferred tax assets	1,637	3,528

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**Note 7: Key Management Personnel Compensation**

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2018 and 30 June 2017.

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

	2018	2017
	\$000	\$000
Short-term employee benefits	1,060	1,351
Post-employment benefits	50	98
Share-based payments	76	86
Total KMP compensation	1,186	1,535

**Short-term employee benefits**

These amounts include fees and benefits paid to the non-executive Chair and non-executive directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.

**Post-employment benefits**

These amounts are the current-year's estimated cost of providing for the Group's defined benefits scheme post-retirement, superannuation contributions made during the year and post-employment life insurance benefits.

**Share-based payments benefits**

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date.

Further information in relation to KMP remuneration can be found in the directors' report.

**Note 8: Auditors' Remuneration**

	2018	2017
	\$000	\$000
Remuneration of the auditor for:		
• Auditing or reviewing the financial statements	96	85
• Taxation services	45	39
	141	124

**Note 9: Earnings per Share (EPS)**

	2018	2017
	\$000	\$000
a. Reconciliation of earnings to profit or loss:		
Profit	3,777	1,551
Earnings used to calculate basic EPS	3,777	1,551
Earnings used in the calculation of dilutive EPS	3,777	1,551
	<b>No.</b>	<b>No.</b>
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	101,392,551	81,834,017
Weighted average number of dilutive options/performance rights outstanding	400,993	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	101,793,544	81,834,017

**Note 10: Cash and Cash Equivalents**

	Note	2018	2017
		\$000	\$000
Cash at bank and on hand		2,747	2,282
<b>Reconciliation of cash</b>			
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:			
Cash at bank and on hand		2,747	2,282
Bank overdraft	19	-	(3,275)
Cash and cash equivalents		2,747	(993)

**Note 11: Trade and Other Receivables**

CURRENT		16,044	10,614
Trade receivables			(40)
Provision for impairment		16,044	10,574
Amounts due from customers for construction contracts	11a	12,970	8,843
Provision for impairment		-	-
		12,970	8,843
Total current trade and other receivables		29,014	19,417

**a. Construction Contracts**

Contract costs incurred		69,057	42,164
Recognised profits		5,417	4,771
		74,474	46,935
Progress billings		(61,678)	(38,349)
		12,796	8,586
Amounts due from customers for contract work		12,796	8,586
Amounts due to customers for contract work		-	-
		12,796	8,586
Retentions on construction contracts in progress		174	257
Progress billings and advances received and receivable on construction contracts in progress			
		12,970	8,843

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**Note 11: Trade and Other Receivables (Cont.)****b. Provision for Impairment of Receivables**

Movement in the provision for impairment of receivables is as follows:

	Note	Opening Balance 01/07/2016	Charge for the Year	Amounts Written Off	Closing Balance 30/06/2017
		\$000	\$000	\$000	\$000
(i) Current trade receivables		40	-	-	40
		40	-	-	40

	Note	Opening Balance 01/07/2017	Charge for the Year	Amounts Written Off	Closing Balance 30/06/2018
		\$000	\$000	\$000	\$000
(ii) Current trade receivables		40	-	40	-
		40	-	40	-

**Credit risk**

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within this note. The class of assets described as "trade and other receivables" is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group has no credit risk exposures outside of Australia given that there are no operations outside of this region.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as "past due" when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

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## Note 11: Trade and Other Receivables (Cont.)

	Gross Amount	Past Due & Impaired	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms
			< 30	31-60	61-90	> 90	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>2018</b>							
Trade and other receivables	16,044	-	3,363	780	14	77	11,810
Amounts due from customers for construction contracts	12,970	-	-	-	-	-	12,970
	29,014	-	3,363	780	14	77	24,780
<b>2017</b>							
Trade and other receivables	10,614	40	2,041	30	61	181	8,261
Amounts due from customers for construction contracts	8,843	-	-	-	-	-	8,843
	19,457	40	2,041	30	61	181	17,104

## c. Financial Assets Classified as Loans and Receivables

	2018	2017
	\$000	\$000
Trade and other receivables:		
- Total current	29,014	19,417
- Total non-current	-	-
	29,014	19,417
Less construction contracts in progress	(12,970)	(8,843)
	16,044	10,574

## Note 12: Inventories

CURRENT		
At cost:		
Raw materials and stores	3,452	3,711
Work in progress	3,677	3,309
	7,129	7,020

## Note 13: Other Assets

CURRENT		
Prepayments	595	288
Deposits	6	51
	601	339

**Note 14: Interests in Subsidiaries****a. Information about Principal Subsidiaries**

The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

Name of Subsidiary	Principal Place of Business	Ownership Interest Held by the Group	
		2018 %	2017 %
Valmec Australia Pty Ltd	Australia	100	100
Core Plant and Equipment Pty Ltd	Australia	100	100
Valmec Services Pty Ltd	Australia	100	100
APTS Pty Ltd (formerly known as Valmec Holdings Pty Ltd)	Australia	100	100
Connexion Networks Limited	Hong Kong – dormant	100	100

Subsidiary financial statements used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

**b. Acquisition of Controlled Entities**

On the 1st of February 2018 the consolidated group completed the acquisition of the business of APTS Pty Ltd. The company provides pressure testing and related activities. The consideration transferred for this acquisition was \$2.63 million in cash.

The fair value of the assets and liabilities of APTS Pty Ltd acquired at acquisition date are as follows:

	Fair value
<b>Consideration transferred</b>	<b>\$000</b>
Purchase Price	2,888
Less: Employee entitlements	(254)
	2,634
<b>Less:</b>	
Plant and equipment	4,492
Intangible asset – Customer contracts	2,333
Provisions	(385)
Deferred tax liability	(1,193)
	5,247
<b>Gain on bargain purchase on acquisition of subsidiary</b>	
Consideration transferred	2,634
Less fair value of identifiable tangible net assets acquired	(5,247)
Net gain on bargain purchase	(2,613)
<b>Net cash outflow on acquisition of subsidiaries</b>	
Consideration paid in cash	2,634
Less cash and cash equivalent balances acquired	-
	2,634

The acquired business contributed revenues of \$4,525,000 and loss after tax of \$109,000 to the consolidated entity for the period from 1 February to 30 June 2018.

**c. Deed of Cross Guarantee**

Valmec Limited has entered into a deed of cross guarantee with its subsidiaries Valmec Australia Pty Ltd, Valmec Services Pty Ltd, Core Plant & Equipment Pty Ltd and APTS Pty Ltd and relief was obtained from preparing financial statements for Valmec Australia Pty Ltd, Valmec Services Pty Ltd, Core Plant & Equipment Pty Ltd and APTS Pty Ltd under ASIC Class Order 98/1418. Due to the other entities in the Group being dormant, the financial information required (being the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of financial position) for the Deed of Cross Guarantee note are materially the same as the information contained in this consolidated financial report.

## Note 15: Property, Plant and Equipment

	2018	2017
	\$000	\$000
Leasehold improvement		
At cost	617	617
Accumulated depreciation	(273)	(205)
Total	344	412
Plant and equipment		
At cost		
Accumulated depreciation	20,648	16,079
Total	(10,929)	(9,928)
	9,539	6,151
Motor vehicles		
At cost	1,037	1,374
Accumulated depreciation	(712)	(1,286)
Total	325	88
Office equipment		
At cost	1,450	1,323
Accumulated depreciation	(1,052)	(955)
Total	398	368
Total property, plant and equipment, at net book value	10,606	7,019
Add: Work-in-progress, at cost		-
Total property, plant and equipment	10,606	7,019

## (i) Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Leasehold improvement	Plant and Equipment	Motor Vehicles	Office Equipment	Work-in-progress	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Consolidated Group:</b>						
Balance at 1 July 2016	476	3,287	230	448	1,447	5,888
Additions	4	360	30	51	-	445
Disposals	-	(74)	(4)	-	-	(78)
Transfer from assets held for sale and work in progress	-	3,300	-	-	(1,447)	1,853
Transfer of assets between classes	-	20	-	(20)	-	-
Depreciation expense	(68)	(742)	(168)	(111)	-	(1,089)
Balance at 30 June 2017	412	6,151	88	368	-	7,019
Additions	-	462	-	35	-	497
Disposals	-	(29)	(3)	-	-	(32)
Additions through business combinations	-	4,097	303	91	-	4,492
Depreciation expense	(68)	(1,142)	(63)	(96)	-	(1,369)
Balance at 30 June 2018	344	9,539	325	398	-	10,606

## Note 17: Intangible Assets

	2018	2017
	\$000	\$000
Goodwill:		
Cost	1,829	1,829
Accumulated impairment losses	-	-
Net carrying amount	1,829	1,829
Computer software:		
Cost		
Accumulated amortisation	59	46
Net carrying amount	(25)	(18)
	34	28
Customer contracts:		
Cost	2,333	-
Accumulated amortisation	(686)	-
Net carrying amount	1,647	-
Total	3,510	1,857
<b>Computer software</b>		<b>\$000</b>
<b>30 June 2017</b>		
Balance at the beginning of the year		36
Amortisation		(8)
Balance at the end of the year		28
<b>30 June 2018</b>		
Balance at the beginning of the year		28
Addition		13
Amortisation		(7)
Balance at the end of the year		34
<b>Goodwill</b>		<b>\$000</b>
<b>30 June 2017</b>		
Balance at the beginning of the year		1,829
Impairment losses		-
Balance at the end of the year		1,829
<b>30 June 2018</b>		
Balance at the beginning of the year		1,829
Impairment losses		-
Balance at the end of the year		1,829
<b>Customer contracts</b>		
<b>30 June 2017</b>		
Balance at the beginning of the year		-
Amortisation		-
Balance at the end of the year		-
<b>30 June 2018</b>		
Balance at the beginning of the year		-
Additions through business combinations		2,333
Amortisation		(686)
Balance at the end of the year		1,647

**Note 17: Intangible Assets (Cont.)****Impairment disclosures**

Goodwill is allocated to cash-generating units which are based on the Group's reporting segments:

	2018	2017
	\$000	\$000
Services to the oil, gas and resources sectors segment	1,829	1,829
Total	1,829	1,829

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period with the period.

The following key assumptions were used in the value-in-use calculations:

	Growth Rate	Pre-tax discount Rate
Services to the oil, gas and resources sectors segment	1%	15.30%

Management has based the value-in-use calculations on budgets for reporting segment, inclusive of a terminal value. These budgets use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period, which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

No reasonable change in any of the key assumptions would result in an impairment.

**Sensitivity**

As disclosed in note 1(v), the directors have made judgments and estimates in respect of impairment testing of goodwill. Should these judgments and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:

- (a) EBITDA would need to decrease by more than \$0.25 million before goodwill would need to be impaired, with all other assumptions remaining constant.
- (b) The discount rate would be required to increase by 5% before goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

If there are any negative changes in the key assumptions on which the recoverable amount of goodwill is based, this would result in a further impairment charge for the goodwill.

**Note 18: Trade and Other Payables**

	Note	2018	2017
		\$000	\$000
<b>CURRENT</b>			
Unsecured liabilities:			
Trade payables		8,484	8,861
Import trade amount payable *	19	6,807	2,849
Sundry payables and accrued expenses		3,710	3,992
		19,001	15,702
<b>Financial liabilities at amortised cost classified as trade and other payables</b>			
Trade and other payables:			
- total current		19,001	15,702
- total non-current		-	-
		19,001	15,702
Less: construction contract advances and payables		-	-
Less: other payables (net amount of GST payable)		-	-
Financial liabilities as trade and other payables		19,001	15,702

\* Import trade amount payable attracts an interest charge of BBSY plus 1.5% margin.

**Note 19: Borrowings**

	2018	2017
	\$000	\$000
CURRENT		
Bank overdraft – secured (iv)	-	3,275
Lease liability- secured (iii)	908	491
Business loan – secured (i)	-	544
Other borrowings (ii)- unsecured	196	112
<b>Total current borrowings</b>	<b>1,105</b>	<b>4,422</b>
NON-CURRENT		
Lease liability – secured (iii)	1,765	18
Related party loan – Unsecured	-	2,700
<b>Total non-current borrowings</b>	<b>1,765</b>	<b>2,718</b>
<b>Total borrowings</b>	<b>2,870</b>	<b>7,140</b>

- (i) Bankwest loan to fund the acquisition of Valmec Services Pty Ltd and working capital. The interest rate was based on BBSY at margin of 2.25% p.a.
- (ii) Relates to credit card balances and insurance premium funding.
- (iii) Hire purchase agreements have an average term of 3 to 4 years. The hire purchase liability is secured by a charge over the underlying hire purchase assets. The interest rate is 5.53% (2017: 8% to 16%)
- (iv) Bankwest overdraft facility. The interest rate is 7.70%. (2017: 7.70%).
- (v) Related party loans with Z Corp Holdings Pty Ltd and Mecon (WA) Pty Ltd were unsecured and had an interest rate of 10% p.a (2017: 10%).

**Collateral provided:**

The facilities are secured over the first registered general securities interest over the Group's assets. Covenants imposed by the bank require the following (calculated on quarterly basis):

- All debts does not exceed 60% of the aggregate value of stock on hand and an amount equal to all accounts receivable which at that time have been outstanding less than 90 days.
- At all times the Cumulative Debt Service Cover Ratio is to be greater than or equal to 1.30 times.

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## Note 19: Borrowings (cont'd)

Financing agreement	Note	2018	2017
		\$000	\$000
<b>Total facilities</b>			
Bank Overdraft		8,636	7,380
Bank Guarantee		15,364	11,145
Import Trade Facility		7,000	2,976
Asset Finance facility		3,300	500
Credit Cards		200	200
		<u>34,500</u>	<u>22,201</u>
<b>Used at reporting date</b>			
Bank Overdraft		-	3,275
Bank Guarantee		7,810	4,481
Import Trade Facility	18	6,807	2,849
Asset Finance facility		2,892	54
Credit Cards		140	139
		<u>17,649</u>	<u>10,798</u>
<b>Unused at reporting date</b>			
Bank Overdraft		8,636	4,105
Bank Guarantee		7,554	6,664
Import Trade Facility	18	193	127
Asset Finance facility		406	446
Credit Cards		60	61
		<u>16,849</u>	<u>11,403</u>

## Note 20: Dividends

No Dividends were paid/payable during the financial year.

Franking credits			
Franking credits available for subsequent financial years based on a tax rate of 30%		<u>658</u>	<u>658</u>

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date.
- Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date.
- Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

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**Note 21: Provisions**

	Note	2018	2017
		\$000	\$000
Employees benefits		1,842	1,337
Others		41	77
		<u>1,883</u>	<u>1,414</u>

**Employee benefits***Amounts not expected to be settled within the next 12 months*

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months:

Employee benefits obligation expected to be settled after 12 months		234	19
---	--	-----	----

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been discussed in Note 1(j).

**Others**

Opening balance at July		77	(27)
Additional provisions		938	851
Amounts used		(936)	(747)
Unused amounts reversed		(37)	-
Balance at June		<u>41</u>	<u>77</u>

**Analysis of total provisions**

Current		1,649	1,395
Non-current		234	19
		<u>1,883</u>	<u>1,414</u>

**Note 22: Issued Capital**

	2018	2017	2018	2017
	No.	No.	\$000	\$000
Ordinary shares- fully paid	124,598,708	81,834,017	16,627	6,184

	Date	Shares	Issue price	\$000
Balance	1 July 2016	81,834,017		6,184
Balance	1 July 2017	81,834,017		6,184
Share buy back	30 November 2017	(157,392)	\$0.21	(33)
Issue of shares	12 January 2018	22,522,083	\$0.25	5,631
Issue of shares	16 January 2018	20,400,000	\$0.25	5,100
Share issue transaction costs, net of tax		-	-	(255)
Balance	30 June 2018	124,598,708		16,627

Ordinary shares participate in dividends and the proceeds on winding-up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**a. Options**

For information relating to share options issued to key management personnel during the financial year, refer to the Remuneration Report.

**b. Capital Management**

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions.

The capital risk management policy remains unchanged from the 30 June 2017 Annual Report.

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**Note 22: Issued Capital (Cont'd.)**

	Note	2018	2017
		\$000	\$000
Total borrowings	18,19	21,871	22,842
Less cash and cash equivalents	10	(2,747)	(2,282)
Net debt		19,124	20,560
Total equity		31,609	17,206
Total capital		50,733	37,766
Gearing ratio		38%	54%

**Note 23: Commitments****a. Finance Lease Commitments**

Payable – minimum lease payments:

– not later than 1 year	1,032	493
– between 2 and 5 years	1,860	18
Minimum lease payments	2,892	511
Less future finance charges	(218)	(2)
Present value of minimum lease payments	2,674	509

**b. Operating Lease Commitments**

Non-cancellable operating leases contracted for but not recognised in the financial statements

Payable – minimum lease payments:

– not later than 1 year	738	883
– between 2 and 5 years	1,931	2,785
– later than 5 years	-	(2)
	2,669	3,668

Operating lease commitments includes contracted amounts for various warehouses and offices under non-cancellable operating leases expiring within one to seven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various plant and equipment secured under finance leases expiring within one to five years. Under the terms of the leases, the Group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

**Note 24: Contingent Liabilities and Contingent Assets**

The Group has given bank guarantees/insurance bonds as at 30 June 2018 of \$7,810,000 (2017: \$4,481,000) to various customers.

As disclosed in Note 14c, Valmec Limited entered into a deed of cross guarantee with its subsidiaries - Valmec Australia Pty Ltd, Valmec Services Pty Ltd, APTS Pty Ltd and Core Plant & Equipment Pty Ltd.

Other than the above, there were no material contingent liabilities or assets as at 30 June 2018 and 30 June 2017.

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**Note 25: Operating Segments**

Management has determined the operating segments based on reports reviewed by the Board of Directors for making strategic decisions. The current Board of Directors monitors the business based on operational and geographic factors and have determined that there is only one relevant business segment being, Valmec Limited, which provides services to the oil, gas and resources sectors in Australia.

The Group is domiciled in Australia. All revenue from external customers is generated from Australia only. Segment revenues are allocated based on the country in which the customer is located. Operating revenues of approximately \$71,633,000 (2017: \$58,664,000) are derived from major external customers.

All the assets are located in Australia only. Segment assets are allocated to countries based on where the assets are located.

**Note 26: Cash Flow Information**

	Note	2018	2017
		\$000	\$000
<b>a. Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>			
<b>Profit after Income Tax</b>		3,777	1,551
Non-cash flows in profit:			
– share based payment		64	83
– depreciation and amortisation		2,062	1,097
– gain on acquisition		(2,613)	-
– impairment of assets		288	-
– net gain on disposal of plant and equipment		(163)	11
– Bad debts written off		70	-
<i>Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:</i>			
– trade and term receivables		(9,955)	(6,159)
– inventories		(108)	(2,252)
– other assets		(263)	244
– trade payables and accruals		3,299	5,236
– provisions		83	369
– deferred tax assets		699	665
Cash flow provided by/ (used in) operating activities		(2,760)	845
<b>b. Non-cash Financing and Investing Activities</b>			
Acquisition of plant and equipment by means of finance leases		2,800	-
<b>c. Acquisition/disposal of Entities</b>			
On the 1st of February 2018 the consolidated group completed the acquisition of the business of APTS Pty Ltd as disclosed in note 14b. There was no disposal of entities during the year.			

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**Note 27: Share-based Payments****Share appreciation rights (SARs)**

	2018	2017
	\$000	\$000
Employees benefit expense	34	37
Reversal of forfeited rights	(18)	(9)
	<u>16</u>	<u>28</u>
Carrying amount of liabilities:		
At grant date	<u>98</u>	<u>83</u>
At 30 June	<u>98</u>	<u>83</u>

During the year, the board decided to reward the executives for their contribution to the performance of the Group by granting 937,077 (2017:nil) share appreciation rights (SARs). The right entitle the employees to cash payment after meeting the vesting conditions.

The amount of SARs that will vest depends on:

- Valmec Limited's relative total return to shareholders (RTSR) measured against S&P small ordinaries index for the relevant performance period. 50% shall vest at the 50th percentile and 100% shall vest at or above the 85th percentile.

- earning per share (EPS) measured by absolute EPS compounded growth of 10% or greater per annum.

The SARs only vested and be capable of being exercised at the following rate:

2018:	
Date of vesting	Rate of vesting
30 June 2020	1/3
30 June 2021	1/3
30 June 2022	1/3

2016:	
Date of vesting	Rate of vesting
30 June 2018	1/3
30 June 2019	1/3
30 June 2020	1/3

The fair value of SARs using the following inputs:

At grant date:

2018	SARs (TSR)* Granted 31/08/2017	SARs (TSR)* Granted 31/08/2017
Expected volatility (%)	92.8	92.8
Risk free interest rate (%)	2.47	2.47
Weighted average expected life (years)	4.83	4.83
Expected dividends	Nil	Nil
Exercise price (cents)	20	20
Share price at grant date (cents)	22.5	22.5
Fair value (cents)	13	14.73
Number of SARs	260,846	260,846
Expiry date	5 years from grant date	5 years from grant date

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**Note 27: Share-based Payments (Cont'd.)****Share appreciation rights (SARs)**

The re-measurement of SARs at each reporting date:

Fair value at 30 June 2018	SARs (TSR)* 30 Jun 2018	SARs (EPS) 30 Jun 2018	SARs (TSR)* 30 Jun 2018	SARs (EPS) 30 Jun 2018	SARs (TSR)* 30 Jun 2018	SARs (EPS) 30 Nov 2018
Expected volatility (%)	82.2	82.2	82.2	82.2	82.2	82.2
Risk free interest rate (%)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Weighted average expected life (years)	4.83	4.83	1.25	1.25	2.25	2.25
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil
Exercise price (cents)	20	20	20	20	30	30
Share price at grant date (cents)	30.5	30.5	30.5	30.5	30.5	30.5
Fair value (cents)	15.2	11.2	15.2	11.2	16.4	15.3
Number of SARs	468,539	468,539	349,186	349,186	61,525	61,525
Expiry date	5 Years from grant date	5 Years from grant date	5 Years from grant date	5 Years from grant date	5 Years from grant date	5 Years from grant date

\*The fair value includes Valmec Limited's RTSR.

At 30 June 2017	SARs (TSR)* 30 Jun 2017	SARs (EPS) 30 Jun 2017	SARs (TSR)* 30 Jun 2017	SARs (EPS) 30 Nov 2017
Expected volatility (%)	82.2	82.2	82.2	82.2
Risk free interest rate (%)	1.55%	1.55%	1.55%	1.55%
Weighted average expected life (years)	3	3	2.25	2.25
Expected dividends	Nil	Nil	Nil	Nil
Exercise price (cents)	20	20	20	20
Share price at grant date (cents)	13	13	13	13
Fair value (cents)	4.18	4.68	5.12	5.93
Number of SARs	496,868	496,868	61,525	61,525
Expiry date	5 Years from grant date	5 Years from grant date	5 Years from grant date	5 Years from grant date

\*The fair value includes Valmec Limited's RTSR.

**Performance rights (PRs)**

	2018	2017
	\$000	\$000
Employee benefit expense	18	33
Reversal of forfeited rights	(5)	-
	13	33

The establishment of the Valmec Limited Employee Performance Rights Plan was approved by shareholders at the 2014 annual general meeting. The Employee Option Plan is designed to provide long-term incentives for senior management and above (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of PRs that will vest depends on:

- Valmec Limited's relative total return to shareholders (RTSR) measured against S&P small ordinaries index for the relevant performance period. 50% shall vest at the 50th percentile and 100% shall vest at or above the 85th percentile.
- earning per share (EPS) measured by absolute EPS compounded growth of 10% or greater per annum.

**Note 27: Share-based Payments (Cont'd.)**

Performance rights are granted under the plan for no consideration and carry no dividend or voting rights.

The PRs only vested and be capable of being exercised at the following rate:

Date of vesting (granted on 31/08/2017):		Date of vesting (granted on 30 November 2015):		Date of vesting (granted on 28 November 2014):	
Date of vesting	Rate of vesting	Date of vesting	Rate of vesting	Date of vesting	Rate of vesting
30 June 2020	1/3	30 June 2018	1/3	30 June 2017	1/3
30 June 2021	1/3	30 June 2019	1/3	30 June 2018	1/3
30 June 2022	1/3	30 June 2020	1/3	30 June 2019	1/3

Below are summaries of PRs granted under the plan.

	2018		2017	
	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number
At beginning of year	-	738,594	-	738,594
Granted during the year	-	222,750	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	-	(149,000)	-	-
At end of year	-	812,344	-	738,594
Vested and exercisable	-	311,650	-	-

PRs outstanding at the end of the year have the following expiry date and exercise prices.

Grant date	Expiry date	Exercise price	Performance rights 30 June 2018
28 November 2014	30 June 2019	Nil	345,357
30 November 2015	30 June 2020	Nil	244,237
31 August 2017	31 August 2022	Nil	222,750

The following table sets out the assumptions made in determining the fair value of the PRs granted during the previous financial year:

2018	Performance rights (TSR)* Granted 31/08/2017	Performance rights (EPS) Granted 31/08/2017
Expected volatility (%)	92.8	92.8
Risk free interest rate (%)	2.47	2.47
Weighted average expected life (years)	4.83	4.83
Expected dividends	Nil	Nil
Exercise price (cents)	-	-
Share price at grant date (cents)	22.5	22.5
Fair value (cents)	16	20
Number of performance rights	111,275	111,275
Expiry date	31 August 2022	31 August 2022

\*The fair value includes Valmec Limited's RTSR.

**Employee Option Plan - Performance Based**

	2018	2017
	\$000	\$000
Employee benefit expense	51	49
Reversal of forfeited rights	-	-
	51	49

**Note 27: Share-based Payments (Cont'd.)**

The establishment of the Valmec Limited Employee Option Plan was approved by shareholders at the 2014 annual general meeting. The Employee Option Plan is designed to provide long-term incentives for senior management and above (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options that will vest depends on:

- Valmec Limited's relative total return to shareholders (RTSR) measured against S&P small ordinaries index for the relevant performance period. 50% shall vest at the 50th percentile and 100% shall vest at or above the 85th percentile.

- earning per share (EPS) measured by absolute EPS compounded growth of 10% or greater per annum.

Options are granted under the plan for no consideration and carry no dividend or voting rights.

The option only vested and be capable of being exercised at the following rate:

(Granted on 31/08/2017)		(Granted on 30/11/2015)		(Granted on 28/11/2014)	
Date of vesting	Rate of vesting	Date of vesting	Rate of vesting	Date of vesting	Rate of vesting
30 June 2020	1/3	30 June 2018	1/3	30 June 2017	1/3
30 June 2021	1/3	30 June 2019	1/3	30 June 2018	1/3
30 June 2022	1/3	30 June 2020	1/3	30 June 2019	1/3

Below are summaries of options granted under the plan.

	2018		2017	
	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number
At beginning of year	\$0.30	2,071,890	\$0.30	2,071,890
Granted during the year	\$0.30	544,500	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	-	-	-	-
At end of year	\$0.30	2,616,390	\$0.30	2,071,890
Vested and exercisable	\$0.30	1,160,685	-	-

Share option outstanding at the end of the year have the following expiry date and exercise prices.

Grant date	Expiry date	Exercise price	Share options 30 June 2018
28 November 2014	30 September 2019	\$0.30	1,410,167
30 November 2015	30 September 2020	\$0.30	661,723
31 August 2017	31 August 2022	\$0.30	544,500

The following table sets out the assumptions made in determining the fair value of the options granted during the previous financial year:

2018	Options (TSR)* Granted 31/08/2017	Options (EPS) Granted 31/08/2017
Expected volatility (%)	92.8	92.8
Risk free interest rate (%)	2.47	2.47
Weighted average expected life of options (years)	4.83	4.83
Expected dividends	Nil	Nil
Option exercise price (cents)	30	30
Share price at grant date (cents)	22.5	22.5
Fair value of option (cents)	12	13.51
Number of options	272,250	272,250
Expiry date	31 August 2022	31 August 2022

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**Note 27: Share-based Payments (Cont'd.)***Employee Option Plan - Performance Based*

	2018	2017
	\$000	\$000
Employee benefit expense	-	-

30 June 2018:

No options issued during the year.

30 June 2017:

No options issued during the year.

The options hold no voting or dividend rights and are not transferable. The company established the Valmec Limited Employee Option Plan on 3 October 2013 as an employee incentive scheme. The options are issued for no consideration and carry no entitlements to voting rights or dividends of the Group.

The number available to be granted is determined by the Board.

A summary of the movements of all company employee options issues is as follows:

	Number	Weighted Average Exercise Price
<b>Options outstanding as at 1 July 2016</b>	1,750,000	0.25
Granted	-	-
Forfeited	(1,000,000)	0.25
Exercised	-	-
Expired	-	-
<b>Options outstanding as at 30 June 2017</b>	750,000	0.25
<b>Options outstanding as at 1 July 2017</b>	750,000	0.25
Granted	-	-
Forfeited	(500,000)	0.25
Exercised	-	-
Expired	-	-
<b>Options outstanding as at 1 July 2018</b>	250,000	0.25
<b>Options exercisable as at 30 June 2018</b>	250,000	0.25
<b>Options exercisable as at 30 June 2017</b>	750,000	0.25

**Note 28: Events after the Reporting Period**

The directors are not aware of any other significant events since the end of the reporting period.

**Note 29: Related Party Transactions****Related Parties****a. The Group's main related parties are as follows:****(i) Entities exercising control over the Group:**

The ultimate parent entity that exercises control over the Group is Valmec Limited, which is incorporated in Australia.

**(ii) Key management personnel:**

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 7.

**(iii) Entities subject to significant influence by the Group:**

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

For the years ended 30 June 2018 and 30 June 2017, there are no entities which are subject to significant influence by the Group.

**(iv) Other related parties:**

Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel have joint control.

**b. Transactions with related parties:**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The following transactions occurred with related parties:

	2018	2017
<b>(ii) Transactions with related parties:</b>	<b>\$000</b>	<b>\$000</b>
<b>Other related parties:</b>		
Interest expense – Z Corp Holdings Pty Ltd <sup>[1]</sup>	114	17
Interest expense – Mecon (WA) Pty Ltd <sup>[2]</sup>	57	8
Rent and outgoings – Tag Pty Ltd <sup>[1]</sup>	796	734
Other fees- Capital and Corporate Advisors Pty Ltd <sup>[3]</sup>	-	2
<b>(iii) Amounts payable to related parties:</b>		
<b>Loans due to other related parties:</b>		
Z Corp Holdings Pty Ltd <sup>[1]</sup> – Unsecured loan	-	1,800
Mecon (WA) Pty Ltd <sup>[4]</sup> – Unsecured loan	-	900

<sup>[1]</sup> Stephen Zurhaar and Stephen Lazarakis is a director and a shareholder of Z Corp Holdings Pty Ltd, Tag Pty Ltd and Z Corp Property Group Pty Ltd.

<sup>[2]</sup> Vincent Goss is the director and beneficiary of Mecon (WA) Pty Ltd.

<sup>[3]</sup> Ranko Matic is a director and shareholder of Capital and Corporate Advisors Pty Ltd.

**Note 30: Financial Risk Management**

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases, preference shares and derivatives.

The totals for each category of financial instruments, measured in accordance with AASB 139: Financial Instruments: Recognition and Measurement as detailed in the accounting policies to these financial statements, are as follows:

	Note	2018	2017
		\$000	\$000
<b>Financial Assets</b>			
Cash and cash equivalents	10	2,747	2,282
Trade and other receivables	11	29,014	19,417
<b>Total Financial Assets</b>		<b>31,761</b>	<b>21,699</b>
<b>Financial Liabilities</b>			
Financial liabilities at amortised cost:			
– trade and other payables	18	19,001	15,702
– borrowings	19	2,870	7,140
<b>Total Financial Liabilities</b>		<b>21,871</b>	<b>22,842</b>

**Significant accounting policies**

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instruments are disclosed in Note 1.

**Financial risk management objectives**

The Board of Directors has responsibility for, amongst other issues, monitoring and managing financial risk exposures of the Group. The Board monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to currency risk, financing risk and interest rate risk.

The Board's overall risk management strategy seeks to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

**a. Credit risk**

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligations resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group.

There is no concentration of credit risk with respect to current and non-current receivables as the Group has a number of large customers which are Australian listed as well as internationally dispersed. Group policy is that sales are only made to customers that are credit worthy. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Credit risk related to balances with banks and other financial institutions is managed by the Board in accordance with approved board policy. Such policy requires that surplus funds are only invested with counterparties with a Standard & Poor's rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard & Poor's counterparty credit ratings.

	Note	2018	2017
		\$000	\$000
Cash and cash equivalents			
- AA rated	10	2,747	2,282
		<b>2,747</b>	<b>2,282</b>

**b. Liquidity risk**

A liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, investing surplus cash with major financial institutions and by matching the maturity profiles of financial assets and liabilities.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

**Note 30: Financial Risk Management (Cont.)**

Financial liability and financial asset maturity analysis:

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Consolidated Group</b>								
<b>Financial liabilities due for payment</b>								
Redeemable preference shares	-	-	-	-	-	-	-	-
Business loans	-	544	-	-	-	-	-	544
Others	196	112	-	-	-	-	196	112
Trade and other payables	19,001	15,702	-	-	-	-	19,001	15,702
Amounts payable to related parties	-	-	-	2,700	-	-	-	2,700
Finance lease liabilities	908	491	1,765	18	-	-	2,674	509
<b>Total contractual outflows</b>	<b>20,105</b>	<b>16,849</b>	<b>1,765</b>	<b>2,718</b>	<b>-</b>	<b>-</b>	<b>21,871</b>	<b>19,567</b>
Add bank overdrafts	-	3,275	-	-	-	-	-	3,275
<b>Total expected outflows</b>	<b>20,105</b>	<b>20,124</b>	<b>1,765</b>	<b>2,718</b>	<b>-</b>	<b>-</b>	<b>21,871</b>	<b>22,842</b>
<b>Financial assets - cash flows realisable</b>								
Cash and cash equivalents	2,747	2,282	-	-	-	-	2,747	2,282
Trade, term and loan receivables							-	
- contractual inflows	<b>29,014</b>	<b>19,417</b>	-	-	-	-	<b>29,014</b>	<b>19,417</b>
<b>Total anticipated inflows</b>	<b>31,761</b>	<b>21,699</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,761</b>	<b>21,699</b>
<b>Net (outflow)/ inflow on financial instruments</b>	<b>11,656</b>	<b>1,575</b>	<b>(1,765)</b>	<b>(2,718)</b>	<b>-</b>	<b>-</b>	<b>9,890</b>	<b>(1,143)</b>

**c. Market risk**

Market risk arises from the use of interest bearing, tradeable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

**d. Interest rate risk**

Exposure to interest rate risk arises on financial assets and liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect cash flows or the fair value of fixed rate financial instruments.

The net effective variable interest rate borrowings (i.e. Unhedged debt) exposes the Group to interest rate risk which will impact future cash flows and interest charges and is indicated by the following floating interest rate financial liabilities.

**Note 30: Financial Risk Management (Cont.)**

The Group monitors its interest rate exposure continuously.

**Interest rate risk Analysis**

	Weighted average effective interest rate	Less than 1 year	1 - 5 years	Over 5 years	Total
	%	\$000	\$000	\$000	\$000
<b>30 June 2018</b>					
<b>Financial assets</b>					
Cash and cash equivalents	1.5%	2,747			2,747
Non-interest bearing- trade and other receivables	-	29,014			29,014
		31,761			31,761
<b>Financial liabilities</b>					
Non-interest bearing- trade and other payables	-	19,001			19,001
Interest bearing- trade and other payables	3.63%	6,807			6,807
Borrowings	5.28%	2,870			2,870
		28,678			28,678
<b>30 June 2017</b>					
<b>Financial assets</b>					
Cash and cash equivalents	2.5%	2,282	-	-	2,282
Non-interest bearing- trade and other receivables	-	19,417	-	-	19,417
		21,699			21,699
<b>Financial liabilities</b>					
Non-interest bearing- trade and other payables	-	12,852	-	-	12,852
Interest bearing- trade and other payables	3.97%	2,849	-	-	2,849
Borrowings	8.0%	4,422	2,718	-	7,140
		20,123	2,718	-	22,841

**The interest rate sensitivity**

The effect on profit and equity as a result of changes in interest rates on net financial assets is immaterial.

**Fair Values**

The fair values of financial assets and financial liabilities are equal to their carrying amounts as presented in the statement of financial position.

**Note 31: Equity- Reserve**

	Note	2018	2017
		\$000	\$000
Reserve		372	308

**Reserve:**

The reserve is used to accumulate amounts received on the issue of options/performance rights and records items recognised as expenses on valuation of incentive based share options/performance rights.

**Note 32: Equity- Retained earnings**

	Note	2018	2017
		\$000	\$000
Balance at beginning of the year		10,714	9,163
Profit after income tax for the year		3,777	1,551
Dividends		-	-
Balance at end of the year		14,491	10,714

**Note 33: Events after the Reporting Period**

The consolidated group commenced legal proceedings against John Holland on the 9th August 2018 in the Supreme Court of Western Australia to recover payments associated with claims in relation to the Northlink WA – Southern Section Project. The value of the summons is approximately \$11.6 million, plus interest and cost.

Other than the above, there have been no other matters or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

**Note 34: Company Details**

The registered office of the company is:

17 Ballantyne Road  
Kewdale WA 6105

The principal place of business is:

17 Ballantyne Road  
Kewdale WA 6105

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# DIRECTOR'S DECLARATION

In accordance with a resolution of the directors of Valmec Limited, the directors of the company declare that:

1. the financial statements and notes are in accordance with the Corporations Act 2001 and:
  - a. comply with Australian Accounting Standards, which, as stated in Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
  - b. give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the Group;
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;
3. the directors have been given the declarations required by s295A of the Corporations Act 2001; and
4. at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 14c to the financial statements.

Director .....

  
Steve Dröbulich

Dated this 28 day of August 2018

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**RSM Australia Partners**

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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
VALMEC LIMITED**

**Opinion**

We have audited the financial report of Valmec Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

**Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed this matter
<p><b>Recognition of Revenue</b></p> <p>Refer to Note 3 in the financial statements</p>	
<p>The Group's primary source of revenue is construction contracts. This was considered a key audit matter due to the high degree of judgment and estimation uncertainty involved in recognising construction contract revenue.</p> <p>Revenue recognition in relation to construction contracts is complex because it is based on management estimates of:</p> <ul style="list-style-type: none"> <li>• The stage of completion of the contract;</li> <li>• Total contract revenue;</li> <li>• The estimated cost to complete and profit margin associated with each contract; and</li> <li>• The likelihood of customer approval of variations and claims.</li> </ul>	<p>Our audit procedures in relation to the recognition of revenue included:</p> <ul style="list-style-type: none"> <li>• Assessing management's estimates of total contract revenue and contract costs and recalculating the stage of completion based on actual costs incurred to date for a sample of contracts currently in progress;</li> <li>• Performing sample testing of the contract sum and any contract variations and claims to supporting documentation;</li> <li>• Performing sample testing of project costs incurred to supporting documents;</li> <li>• Evaluating management's assessment of any expected losses for contracts in progress at the reporting date; and</li> <li>• Evaluating the effectiveness of management's processes for estimating the cost to complete projects by comparing a sample of contracts completed during the year to the estimated result for the previous period.</li> </ul>

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Key Audit Matter	How our audit addressed this matter
<b>Impairment of Goodwill</b>	
Refer to Note 17 in the financial statements	
<p>The Group has consolidated goodwill of \$1.829 million relating to its acquisition of its subsidiaries in prior years.</p> <p>Management performs an annual impairment test on the recoverability of the goodwill as required by Australian Accounting Standards.</p> <p>We determined this area to be a key audit matter due to the size of the goodwill balance and because the directors' assessment of the 'value in use' of the cash generating unit ("CGU") involves judgement about the probability of future contracts to be secured, their profit margin and the discount rates applied to them.</p>	<p>Our audit procedures in relation to management's impairment assessment included:</p> <ul style="list-style-type: none"> <li>• Assessing management's determination that the goodwill should be allocated to a single CGU based on the nature of the Group's business and the manner in which results are monitored and reported;</li> <li>• Assessing the valuation methodology used;</li> <li>• Challenging the reasonableness of key assumptions, including the cash flow projections, expected revenue growth rates, the discount rate, and sensitivities used;</li> <li>• Reviewing management's sensitivity analysis over the key assumptions used in the model; and</li> <li>• Checking the mathematical accuracy of the cash flow model and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.</li> </ul>

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Key Audit Matter	How our audit addressed this matter
<p><b>Acquisition of APTS</b></p> <p>Refer to Note 14b in the financial statements</p>	
<p>During the year, the Group acquired the business of APTS for the purchase consideration of \$2.63 million.</p> <p>The accounting for this acquisition is considered to be a Key Audit Matter because it involved the exercise of judgment in relation to the fair value of acquired assets and liabilities. The accounting for the acquisition is significant to our audit as APTS is a material acquisition to the Group.</p>	<p>Our audit procedures in relation to the acquisition included:</p> <ul style="list-style-type: none"> <li>• Reviewing the business sale agreement to understand key terms and conditions;</li> <li>• Evaluating management’s determination that the acquisition met the definition of a business within AASB 3 Business Combinations and therefore was a business combination and not an asset acquisition;</li> <li>• Assessing management’s determination of the fair value of consideration paid;</li> <li>• Obtained the valuation models used by the client to support the fair values of the assets and liabilities acquired, tested the appropriateness of the valuation methodology applied and the reasonableness of assumptions; and</li> <li>• Assessing the appropriateness of the Group’s disclosures in respect of the acquisition.</li> </ul>

**Other Information**

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Directors for the Financial Report**

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our auditor's report.

## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Valmec Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

RSM  
RSM AUSTRALIA PARTNERS

*ALwhite*  
ALASDAIR WHYTE  
Partner

Perth, WA  
Dated: 28 August 2018

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# ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is current as at 27 August 2018:

## 1. Shareholding

### a. Distribution of Shareholders

	Number
<b>Category (size of holding)</b>	Ordinary
1- 1,000	6,286
1,001 - 5,000	374,651
5,001 - 10,000	837,436
10,001 - 100,000	11,345,316
100,001 and over	112,035,019
	124,598,708

b. The number of shareholdings held in less than marketable parcels is 46.

c. The names of the substantial shareholders listed in the holding company's register are:

	Number
<b>Shareholder:</b>	Ordinary
1. Steve Dropulich & associated entities	5,874,389
2. Stephen Zurhaar & associated entities	17,969,571
3. Vincent Goss & associated entities	15,486,126
4. Stephen Lazarakis & associated entities	16,502,444
5. Annash Pty Ltd	10,259,375
6. Troy Harry & associated entities	7,092,567

### d. Voting Rights

The voting rights attached to ordinary shares are governed by the Constitution of the Company. On a show of hands every person present who is a Member or representative of a Member shall have one vote on a poll, every Member present in person or by proxy or by attorney or duly authorised representative shall have one vote for each share held. None of the options have any voting rights.

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**e. 20 Largest Shareholders – Ordinary Shares**

		Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	STELDAN INVESTMENTS PTY LTD	16,036,251	12.87%
2	Z CORP PROPERTY GROUP PTY LTD	15,311,251	12.29%
3	MECON (WA) PTY LTD	13,368,131	10.73%
4	ANNASH PTY LTD	10,259,375	8.23%
5	J P MORGAN NOMINEES AUSTRALIA LIMITED	4,596,342	3.69%
6	CORTINA HOLDINGS PTY LTD	4,543,130	3.65%
7	ROCKET SCIENCE PTY LTD	3,976,500	3.19%
8	UBS NOMINEES PTY LTD	3,837,010	3.08%
9	JH NOMINEES AUSTRALIA PTY LTD	3,116,067	2.50%
10	NATIONAL NOMINEES LIMITED	2,775,331	2.23%
11	CORE EQUITIES PTY LTD	2,318,320	1.86%
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED- A/C 2	2,159,374	1.73%
13	MOAT INVESTMENTS PTY LTD	2,140,000	1.72%
14	BAILUP PASTORAL CO PTY LTD	1,539,587	1.24%
15	JANT NOMINEES PTY LTD	1,156,259	0.93%
16	MR SIMON ROBERT EVANS & MRS KATHRYN MARGARET EVANS	1,040,000	0.83%
17	B F A PTY LTD	1,000,053	0.80%
18	JET INVEST PTY LTD	1,000,000	0.80%
19	MAST FINANCIAL PTY LTD	985,000	0.79%
20	MR EDWARD SHANN	816,459	0.66%
		<b>91,974,440</b>	<b>73.82%</b>

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