

# CAPRAL LIMITED 2018 ANNUAL REPORT

ABN 78 004 213 692



# CAPRAL'S VISION & VALUES

Our Vision is to be our customers first choice supplier of aluminium products and solutions.

We are committed to our Values:

## **CUSTOMER SUCCESS**

Customers determine our success.

Committed to service and quality.

Be responsive to customer needs.

## **OWN IT**

Be accountable.

Feel empowered.

Take pride in our work.

Act boldly.

## **PLAY FAIR**

Act with integrity.

Do the right thing.

Work as a team.

Be honest and respectful.

## **SAFETY FIRST**

Everyone is responsible.

Injuries can be prevented.

All jobs can be done safely.

## **BETTER EVERY DAY**

Continuous improvement.

Be innovative.

Embrace change.

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## KEY STATISTICS

FOR THE YEAR ENDED 31 DECEMBER	2018	2017	VARIANCE
Sales Volume - Tonnes	60,500	63,200	(2,700)
	\$m	\$m	\$m
Revenue	455.1	448.7	6.4
EBITDA	13.1	18.8	(5.7)
Trading EBITDA <sup>1</sup>	14.3	18.4	(4.1)
Profit after Tax	6.4	12.1	(5.7)
Operating Cash Flow <sup>2</sup>	12.0	13.1	(1.1)
Net Cash	27.6	34.4	(6.8)

<sup>1</sup> Please refer to note on page 4.

<sup>2</sup> Comparatives restated as per note 37.

# CHAIRMAN'S REPORT

## FINANCIAL RESULTS

The Company recorded a Net Profit After Tax of \$6.4 million for the year ended 31 December 2018 (2017: \$12.1 million).

Increased sales revenues of \$455 million (2017: \$448 million) were achieved on volumes which were 4% lower than in 2017 as a consequence of higher selling prices due to substantially higher LME prices.

Unfortunately, this increase in revenues did not translate into higher earnings than 2017. At the operating level Capral delivered a Trading EBITDA<sup>1</sup> of \$14.3 million for the year (2017: \$18.4 million). Operating profit in the second half of the year was negatively impacted by the Company's inability to fully recover the increases in LME cost of aluminium billet, combined with lower volumes and suppressed selling prices as a result of a spike in low-priced imports.

During the second quarter LME prices rose sharply as a result of sanctions announced by the US government on Russia's Rusal, the world's second largest aluminium producer. This turmoil in global aluminium prices resulted in Capral recording a positive LME revaluation of \$0.8 million in the first half. The uncertainty over the Rusal sanctions and its impact on LME prices continued for most of the second half of 2018 as aluminium cost unfavourably impacted operating margins. The LME price began to fall meaningfully in the final months of 2018. Lower aluminium prices at the end of the year resulted in a negative LME revaluation for 2018 of \$1.2 million.

The US government also imposed additional tariffs on aluminium imports which had the impact of substantially increasing low-priced imports into Australia from China during the second half of the year. This increase in imports, together with slowing capacity utilisation amongst Australian extruders, continued to suppress selling prices and margins.

Management delivered significant cost savings and efficiencies which helped offset the impact of inflation on costs. Positive net operating cash flows resulted in year-end net cash on hand at \$27.6 million after total dividend payments of \$8.4 million during 2018, which includes the special dividend of 0.5 cents per ordinary share paid to shareholders in September 2018. Capral has a strong balance sheet, supported by a \$50 million facility with the ANZ which was extended during the year through to January 2020.

The major portion of the Company's \$10.4 million cash expenditure on capital items in 2018 is directed at productivity improvements. These capital investment projects in new technology and automation to improve Capral's long-term competitive position are on track and were mostly completed by late 2018. The Company is confident of realising the planned productivity and efficiency improvements arising from these investments over the coming years.

The solid residential building market enjoyed in 2016 to 2018 is anticipated to slow in 2019, although the larger portion of the decline is expected to come from high density dwelling commencements. Capral expects the commercial and industrial markets to remain firm. The Company is forecasting 2019 earnings at similar levels to 2018. I refer shareholders to the Outlook section of the Managing Director's Operations and Financial Review.

Capral continues its efforts to prevent the dumping of extruded aluminium by overseas manufacturers. It is important that meaningful sanctions are imposed against suppliers breaking Australian laws. With our industry's support, the Company will continue to monitor and pursue anti-dumping and circumvention cases to ensure that Australian manufacturers are competing in a fair market.

## CHAIRMAN'S REPORT (CONTINUED)

### SAFETY

Capral has a strong focus on safety, and safety performance during 2018 was similar to last year. Capral continues to prioritise safety improvement through risk assessment, education and monitoring of the workplace.

### DIVIDENDS

The Company has declared a fully franked dividend of 1.0 cent per share, which represents 75% payout of Net Profit After Tax, to be paid on 22 March 2019 in respect of the financial year ended 31 December 2018. The dividend will be paid to all shareholders on the register of members as at the Record Date of 1 March 2019. This dividend is in addition to the special, fully franked dividend of 0.5 cents per share paid in September 2018.

I would like to thank all of Capral's employees, its customers, suppliers and other service providers, as well as our shareholders, for their commitment and support during the past year. I would also like to record my appreciation to my co-directors for their endeavours and continuing support.

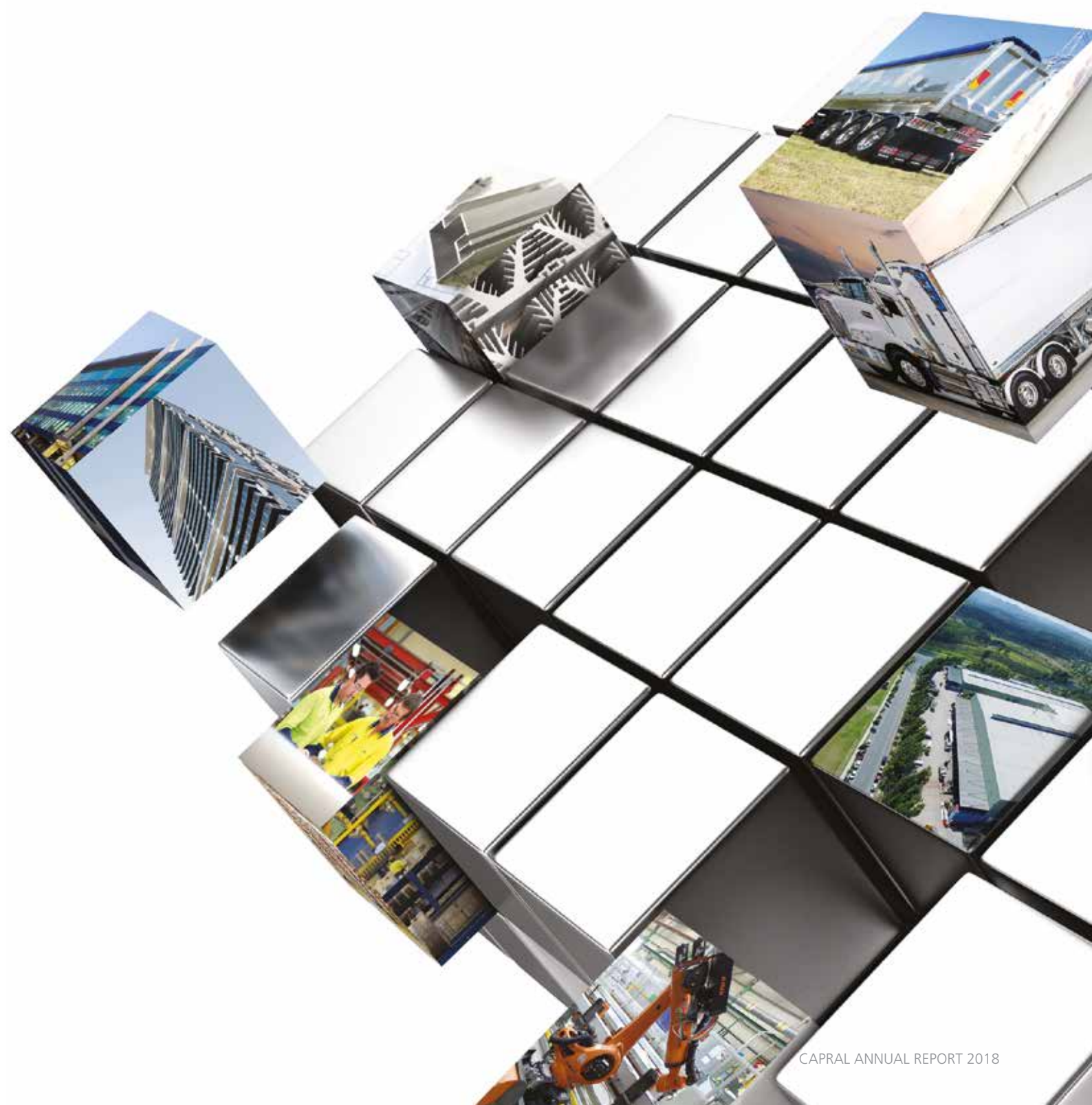


**Rex Wood-Ward**  
*Chairman*  
22 February 2019

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\* Trading EBITDA is the Statutory EBITDA adjusted for significant items that are material items of revenue or expense that are unrelated to the underlying performance of the business. Capral believes that Trading EBITDA provides a better understanding of its financial performance and allows for a more relevant comparison of financial performance between financial periods. These items are LME and Premium revaluation, and one-off costs relating to restructuring that are non-recurring in nature. Trading EBITDA is presented with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011.





# MANAGING DIRECTOR'S

## Operations and Financial Review

### OVERVIEW

- » Full Year result in line with latest guidance.
- » Volume at 60,500 tonnes was 4% below 2017.
- » Market conditions softer than expected in second half.
- » Margins adversely impacted by significant rise in LME, reaching 7 year highs.
- » Trading EBITDA<sup>1</sup> \$14.3 million, down \$4.1 million on 2017.
- » Balance sheet remains strong with net cash at \$27.6 million.
- » Fully franked final dividend of 1.0 cent per share declared, in addition to 0.5 cent special dividend paid in September 2018.
- » Key capital investment projects commenced in 2018 to improve long term competitive position.

### FINANCIAL REVIEW

After a reasonably strong first half, the second half of 2018 saw volume decline 9% compared to the second half of 2017. Full year volume was 4% below last year.

The residential market was steady at 217,800<sup>2</sup> starts. Commercial construction and key industrial markets (manufacturing, transport and marine) were reasonably strong.

During 2018 international markets saw unprecedented trade action taken by the US government with the imposition of unilateral tariffs on steel and aluminium into

the USA. This, combined with sanctions against Russia, created a volatile market for aluminium. The high LME had a material negative impact on margins as we were unable to fully recover the higher LME price from many customers in a timely manner. The high LME also weakened the impact of anti-dumping measures in place and we saw imports of extrusion rise substantially.

As a result, Capral delivered a lower profit in 2018, with a Trading EBITDA<sup>1</sup> of \$14.3 million (2017: \$18.4 million) on lower volumes. Statutory EBITDA of \$13.1 million (2017: \$18.8 million) included a negative LME revaluation of \$1.2 million, due to the fall in LME late in 2018. A net profit after tax of \$6.4 million (2017: \$12.1 million) was recorded and Capral will pay a fully franked final dividend of 1.0 cent per share.

### KEY INITIATIVES AND STRATEGIES

The plans and strategies implemented over recent years have lowered Capral's breakeven point. The key high level strategies remain consistent:

- » **Build** on our strengths; product offer, scale, capability and our people.
- » **Optimise** what we do; improve productivity in manufacturing and efficiencies in supply chain.
- » **Grow** for the future; innovative new products and value add services.





During 2018 we invested in automation projects at our Bremer Park and Penrith plants. At our Canning Vale operation, we installed a new technology paint line and commenced the consolidation of our distribution warehouses.

The focus in 2019 will be to deliver the benefits of our capital investment initiatives to improve our competitive position, and implement further cost improvement initiatives to offset inflation and rising energy costs. We will also continue to leverage our investment in system technology (CRM, E-Store, EDI) to improve our sales effectiveness.

### FAIR TRADE

Capral continues to initiate cases against dumping and circumvention activities. During 2018 we experienced mixed outcomes.

- » The case initiated against Thailand and two large Chinese exporters was terminated and no dumping measures were applied.
- » The case initiated against the circumvention of measures by the transshipment of Chinese extrusions through third party countries was successful. The Anti-Dumping Commission found evidence of transshipping and issued warning notices to multiple shipping agents and importers.

Imports continue to suppress selling prices and injure local industry. It is important that local manufacturing industries continue to fight for Fair Trade. As a result of increasing Chinese imports, Capral requested a Ministerial review of China's variable measures. The review was initiated in July and the final report is due in April 2019. If favourable, this should have a positive impact on local extrusion volumes during 2019.

### SAFETY

Capral continues to prioritise the safety of its people with an on-going focus on training, systems and culture and we remain committed to our **Safety First** Value: everyone is responsible, injuries can be prevented, and all jobs can be done safely. During 2018 Capral retained its AS4801 (Safety Management), ISO9001 (Quality Management), and ISO14001 (Environmental Management) accreditations. The total reportable injury frequency rate was 13.2 (2017: 13.1) and the lost time injury frequency rate fell to 2.2 (2017: 3.2).

In 2019, Capral has launched its Golden Safety Rules and will target improved safety outcomes. Further details are set out in the Sustainability Report (page 10).

### RISKS

Capral is exposed to a range of risks that could impact the achievement of Capral's strategies and financial prospects, and further details are outlined in the Sustainability Report (pages 10 to 12).

### OUTLOOK

External forecasts for the residential market point to a slowdown in activity in 2019, with total commencements falling 18% to 178,300<sup>2</sup>. The non-residential market is forecast to grow modestly in 2019. The industrial market is expected to remain at current levels as infrastructure and defence projects continue to progress.

LME is not easy to predict given the influence of external factors. LME has fallen back to levels prior to the announcement of US sanctions and external analysts forecast LME to remain within a downward trend during 2019. This should assist Capral's margins.

Overall market conditions for Capral's aluminium extrusion and rolled products are forecast to soften in 2019. Volumes will come under pressure but gross margins should improve to normal levels. Trading and Statutory EBITDA<sup>1</sup> is forecast, absent any unforeseen events, to be broadly in line with 2018 and, on this basis, Capral would again be in a position to consider a franked dividend.

The focus in 2019 will be to continue our business improvement journey, enhance our service and quality, and generate savings from our key capital projects. This will help strengthen customer relationships, secure the future of our employees, and deliver returns to shareholders.



**Tony Dragicevich**  
Managing Director  
22 February 2019

<sup>1</sup> Refer to Trading EBITDA explanation in footnote to Chairman's Report on page 4.

<sup>2</sup> BIS Oxford Economics December 2018 forecast.

# BOARD OF DIRECTORS

Directors in office at the date of this report

## Rex Wood-Ward

**Chairman of Board  
(Independent)**

**Appointed 6 November 2008**

Chairman of the Board and member of the Audit & Risk Committee and the Remuneration & Nomination Committee.

Mr Wood-Ward has over 40 years of international experience in general management, mergers and acquisitions, corporate strategy and structuring, including in manufacturing and distribution. Over his career he has been a director of over 10 publicly listed companies in Australia, the United Kingdom and South Africa.

*Directorships of other listed companies held in last 3 years before end of the Financial Year: None*

## Tony Dragicevich

B. Comm A.C.A

**Managing Director  
(Non-independent)**

**Appointed 15 April 2013**

Mr Dragicevich joined Capral in January 2013 and became the Managing Director and Chief Executive Officer on 15 April 2013. Mr Dragicevich is an experienced CEO and business leader who has been involved in the improvement of a number of businesses, having previously served as Managing Director of the Watty Group, and as Chief Executive of GWA Bathroom and Fittings, Managing Director of the Red Paper Group and General Manager of Tasman Insulation.

*Directorships of other listed companies held in last 3 years before end of the Financial Year: None*



## Philip Jobe

B. Comm

### Non-executive director (Independent)

**Appointed 24 April 2009**

Member of the Audit & Risk Committee and the Remuneration & Nomination Committee.

Mr Jobe became a non-executive director following the expiry of his term as Capral's Chief Executive Officer and Managing Director in April 2013. Before joining Capral, Mr Jobe was the Executive General Manager of Boral Limited's Cement Division, including Managing Director of Blue Circle Southern Cement Pty Limited. This also encompassed the role of Chairman of the Cement Industry Federation. He also had executive responsibility for Boral's expanding Asian construction materials businesses.

Mr Jobe was previously Managing Director of Stegbar Pty Limited from 1989 to 1994.

*Directorships of other listed companies held in last 3 years before end of the Financial Year:* None

## Ian Blair

M.Mgt, FCA

### Non-executive Director (Independent)

**Appointed 23 May 2006**

Chairman of the Audit & Risk Committee and member of the Remuneration & Nomination Committee.

Mr Blair is a Chartered Accountant and Company Director. He spent almost 20 years as a partner in major accounting firm Deloitte, and retired after 5 years as CEO of that firm. Mr Blair is currently Chairman of Bisley & Co Pty Ltd.

*Directorships of other listed companies held in last 3 years before end of the Financial Year:* None

## Graeme Pettigrew

FIPA, FAIM, FAICD

### Non-executive Director (Independent)

**Appointed 18 June 2010**

Chairman of the Remuneration & Nomination Committee and member of the Audit & Risk Committee.

Mr Pettigrew has held chief executive roles at CSR Building Products Pty Ltd and Chubb Australia Ltd and he recently retired as a non-executive director of Adelaide Brighton Ltd. He has relevant experience in the construction and building materials industry, as well as manufacturing and distribution businesses.

*Directorships of other listed companies held in last 3 years before end of the Financial Year:*

- » Non-executive director of Adelaide Brighton Ltd: 27 August 2004 to 17 May 2018.

# SUSTAINABILITY REPORT

## SCOPE

Capral's operations are affected by economic, environmental and social sustainability risks. These risks are managed within the internal controls framework described in Capral's Corporate Governance Statement (available on Capral's website). This report should be read with other sections of the Annual Report. The exposure to economic factors is outlined below and further information can be found in the Managing Director's Operations and Financial Review. Capral is committed to continuous improvements including programs that focus in the areas below:

## HEALTH AND SAFETY

Capral understands the necessity of providing a safe workplace and is committed to ensuring people return home safely through safe working conditions and behaviours. Our **Safety First** Value is at the core of this commitment; everyone is responsible, injuries can be prevented, and all jobs can be done safely. We aim to maximise our safety effectiveness and assurance through understanding, engagement and accountability. Capral recognises the value of a strong safety culture and run numerous safe work programs each year, to bring us closer to our goals.

Below is a summary of the safety outcomes from 2018 for the Capral Group:

- » There were 24 reportable injuries, 1 less than 2017. The LTI/MTI Frequency Rate increased marginally to 13.2.
- » **Safety First** Value was rolled out again via toolboxes across the business.
- » Retained AS4801 (Safety Management) accreditation across the group and Capral retained its ISO9001 (Quality Management) and ISO14001 (Environmental Management) accreditation for all sites against the newly revised standards.
- » The number of key lead indicator measures improved overall as against 2017.
- » Workers compensation is being well managed, with better than industry rates.
- » A number of safety improvement programs and reviews were conducted.
- » Manufacturing sites that achieved LTI free milestones: Canning Vale (9 years), Austex Dies (7 years), Campbellfield (3 years), and Angaston (1 year).
- » Distribution sites that remained LTI/MTI free: Hobart (22 years), Rockdale (20 years), Springwood, Cardiff and Kunda Park (13 years), Laverton (12 years), Darwin (9 years), Lynbrook and Welshpool (7 years) and Gold Coast (5 years).

In 2018, Capral developed its **Golden Safety Rules** to target high risk areas, specific rollout and training plans will continue into 2019. Capral's Letter of Assurance Audit program was further developed and various Group Reviews were conducted. A number of Health and Wellbeing initiatives and other training programs were continued plus Key Safety Systems undertook an upgrade to enhance functionality.

## PEOPLE

The Capral Group employs approximately 1000 people at 23 locations in Australia. Capral has a stable workforce and around half of our employees are covered by Enterprise Agreements. There are no material workplace issues.

Our Values underpin how our business is conducted and include:

- » **Safety First:** Everyone is responsible; Injuries can be prevented; All jobs can be done safely.
- » **Customer Success:** Customers determine our success; Committed to service and quality; Be responsive to customer needs.
- » **Play Fair:** Act with integrity; Do the right thing; Work as a team; Be honest and respectful.
- » **Better Every Day:** Continuous improvement; Be innovative; Embrace change.
- » **Own It:** Be accountable; Feel empowered; Take pride in our work; Act boldly.

Our Code of Conduct provides a set of guiding principles and our people receive regular Code of Conduct training.

Capral respects the benefits arising from workplace diversity. We strive to promote an environment conducive to the appointment of well qualified people so that there is appropriate diversity to maximise the achievement of our goals. Further details of Capral's objectives are contained in Capral's Corporate Governance Statement and Diversity Policy, both available on Capral's website.

## ENVIRONMENT

Capral's commitment towards environmental obligations continued to be a focus through 2018.

All environmental reporting obligations were met as per the legislation including the requirements of ISO 14001:2015, Environmental Management Standards audited by a third party certification body.

Capral continued to work with suppliers and customers to minimise environmental impacts associated with packing materials used for aluminium products. One of our unique initiatives being the use of recyclable plastic cleats replacing timber for packing. This is initially being rolled out to major customers.

Our main emissions are from electricity and gas consumption. Following energy audits for all manufacturing sites, a number of energy saving opportunities were identified, which are being progressively carried out across the group.

Capral has a clear strategy and focus for the year ahead to continue compliance with legislative requirements and review and adopt industry best practice in our processes.

## COMMUNITY INTERACTION

Capral's commitment to the communities where its facilities are located included the following initiatives in 2018:

- » R U OK Day: All sites participated in this important event in September. Capral conducted a silent auction in July with all funds raised donated to Beyondblue.
- » White Ribbon Day: Capral sites again participated in events in November. Capral continued its association with the Allison Baden-Clay Foundation by sponsoring its Strive to be Kind luncheon in Brisbane in July 2018. Funds raised from the luncheon fund education programs for the prevention of domestic and family violence.

- » Capral donated profits raised from the 6th Australasian Aluminium Extrusion Conference (AAEC) to 3 charities being Beyondblue, the Foundation for Rural and Regional Renewal (supporting Australian Farmers affected by drought); and Canteen NZ (assisting young people with cancer).
- » Capral's sites undertook numerous fundraising activities in support of local charities, such as the Lions Club; Share the Dignity; the Chloe Saxby Foundation, Variety Club Bash, Tracy Village Cricket Club, Special Children's Christmas Party, Disability Sport & Recreation Victoria; Parkinson's Association SA and the Newport Plus Board Riders.

## ECONOMIC SUSTAINABILITY

In addition to the information in the Managing Director's Operations and Financial Review, there are various risks that could impact the achievement of Capral's financial performance and strategies. Capral has a risk management and internal control system to identify, and implement mitigation plans in relation to, the key risks. Set out below are some of these key risks, some of which can be mitigated where not beyond Capral's control:

- » Aluminium Price: The market price of aluminium fluctuates. LME and billet premium price increases place upward pressure on working capital. To the extent that price variations cannot be passed on to customers, Capral is exposed to movements in the price of aluminium. This exposure is mitigated where extrusions are sold to customers with pricing arrangements linked to changes in the market price of aluminium.
- » Exchange rate and currency fluctuations: A strong Australian dollar makes imports less expensive to Australian customers, potentially impacting Capral's volume and margins. The price paid by Capral for some raw materials is in US dollars and therefore a higher US dollar could make the products more expensive. The impact is partially mitigated to the extent Capral is able to pass the increase on to the market in a timely manner.
- » Key customers: Capral's performance is impacted by the volume of sales to large customers. There is a risk to Capral that the requirements of one or more key customers may change.
- » Imports and local competitors: Capral is subject to pressures from import and domestic competition. Import extrusion market share is over 30% and there is excess domestic extrusion capacity.



- » Anti-dumping: To the extent duties are reduced or removed in relation to imports from China, this could have an adverse impact on Capral volume and margins.
- » Residential and Commercial markets: Capral is exposed to the cyclical nature of both residential and commercial building activity which is currently falling from the top of the cycle. As many of Capral's costs are fixed, it may not be easy to reduce its costs relative to the economic downturn and therefore any material and/or extended downturn may negatively affect Capral.
- » Industrial markets: Capral is also exposed to industrial markets driven by transport, marine and the general manufacturing sectors. These markets have been relatively soft in recent times.
- » Economic downturn: An economic downturn, like the global financial crisis in 2008, could have a material adverse effect on the demand for Capral's products and financial performance.
- » Carry forward of historical tax losses: a change in business may cause Capral to lose the future benefit of some (but not all) of its historical tax losses.
- » Other: other risks include an inability to maintain a competitive cost base, a major operational failure or disruption to Capral's facilities, and regulatory compliance and change.

# DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Capral Limited (**Capral**) and the entities it controlled at the end of, or during, the financial year ended 31 December 2018 (**Financial Year**).

## DIRECTORS

The following persons were directors of Capral during the Financial Year and up to the date of this report:

NAME	PERIOD OFFICE HELD
R. L. Wood-Ward	6 November 2008 - Date of this report
A. M. Dragicevich	15 April 2013 - Date of this report
P. J. Jobe	24 April 2009 - Date of this report
I. B. Blair	23 May 2006 - Date of this report
G. F. Pettigrew	18 June 2010 - Date of this report

Details of directors, their qualifications, experience, special responsibilities (including committee memberships) and directorships of other listed companies held in the last three years before end of the Financial Year are set out on pages 8 and 9.

## PRINCIPAL ACTIVITIES

During the Financial Year, the principal continuing activities of the consolidated entity consisted of the manufacturing, marketing and distribution of fabricated and semi-fabricated aluminium related products.

## DIVIDENDS

The Directors recommend that a final dividend of 1.0 cent per ordinary share (fully franked) be declared. The record date for the final ordinary dividend will be 1 March 2019, with payment being made on 22 March 2019. A final dividend of 1.25 cents per ordinary share (fully franked) was paid in March 2018; a special dividend of 0.5 cents per ordinary share (fully franked) was paid in September 2018; no other dividends or distributions have been paid during the Financial Year.

## REVIEW OF OPERATIONS AND FINANCIAL POSITION

A review of operations and financial position of the consolidated entity are referred to in the Managing Director's Operations and Financial Review on pages 6 and 7.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the year.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since the end of the Financial Year that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations or the consolidated entity's state of affairs in future financial years.

## LIKELY DEVELOPMENTS, BUSINESS STRATEGIES, PROSPECTS AND RISKS

Information on likely developments, business strategies, prospects and risks are detailed in the Managing Director's Operations and Financial Review on pages 6 and 7 and the Sustainability Report on pages 10 to 12. Whilst Capral continues to meet its continuous disclosure obligations, this report omits information where it would be likely to result in unreasonable prejudice to Capral. This includes information that is commercially sensitive, is confidential or could provide a third party with a commercial advantage (such as internal budgets and forecasts).

## OTHER INFORMATION FOR MEMBERS TO MAKE AN INFORMED ASSESSMENT

Other than information set out in this report, there is no information that members would reasonably require to make an informed assessment of the operations, financial position, business strategies and prospects for future financial years of the consolidated entity.

## COMPANY SECRETARY

Mr R Rolfe - General Counsel & Company Secretary, LLB (Hon) (University of Leicester, UK).

Mr Rolfe was appointed as General Counsel of Capral on 12 June 2006 and to the position of Company Secretary on 23 June 2006.

Mr Rolfe was admitted as a Solicitor of the Supreme Court of England and Wales in 1998 and New South Wales in 2002. Prior to joining Capral, Mr Rolfe was a senior corporate lawyer at Qantas Airways Limited from July 2002.

## DIRECTORS' MEETINGS

The numbers of directors' meetings (including meetings of committees) held, and the number of meetings attended, by each director during the Financial Year, are as follows:

DIRECTOR	BOARD		AUDIT & RISK COMMITTEE		REMUNERATION & NOMINATION COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
R. L. Wood-Ward	7	7	3	3	2	2
A. M. Dragicevich	7	7	3	3 <sup>1</sup>	2	2 <sup>1</sup>
P. J. Jobe	7	6	3	3	2	2
I. B. Blair	7	7	3	3	2	2
G. F. Pettigrew	7	7	3	3	2	2

<sup>1</sup> Attended meeting(s) in an ex-officio capacity.

## DIRECTORS' INTERESTS AND BENEFITS

### Ordinary Shares

Details of holdings of ordinary shares in Capral for the directors (including former directors who held office during the Financial Year) at the beginning and end of the Financial Year and at the date of this report are as follows:

DIRECTOR	POSITION	ORDINARY SHARES FULLY PAID IN THE COMPANY		
		BALANCE AT 1.1.2018	BALANCE AT 31.12.2018	BALANCE AT DATE OF THIS REPORT
R. L. Wood-Ward	Director and Chairman of the Board	-	-	-
A. M. Dragicevich	Managing Director	6,250,000	7,522,750 <sup>1</sup>	7,522,750
P. J. Jobe	Director	7,100,500	7,100,500	7,100,500
I. B. Blair	Director	227,348	227,348	227,348
G. F. Pettigrew	Director	-	-	-

<sup>1</sup> Acquired 1,272,750 shares on vesting of performance rights on 5 March 2018.

In addition to the interests shown above, indirect interests in Capral shares held by the Managing Director, Mr. Dragicevich are as follows:

MR A. M. DRAGICEVICH NATURE OF OTHER INTERESTS	BALANCE AT 1.1.2018	BALANCE AT 31.12.2018	BALANCE AT DATE OF THIS REPORT
Performance rights	6,583,250	6,700,000 <sup>1</sup>	6,700,000

<sup>1</sup> 810,500 performance rights lapsed on 1 March 2018; 1,272,750 performance rights vested and converted to ordinary shares on 5 March 2018; and 2.2 million performance rights were issued on 19 April 2018.

## UNISSUED SHARES OR INTERESTS UNDER OPTION

At the date of this report, there are 20,350,000 (2017: 18,458,123) unissued shares or interests under option. Refer to sections 1 to 3 of the Remuneration Report.



# REMUNERATION REPORT

## (AUDITED)

This report sets out Capral's remuneration of its directors and executives. It also details the actual remuneration of its key management personnel (including the directors) during the Financial Year.

### SECTION 1: THE REMUNERATION FRAMEWORK

#### (a) Key Principles

Capral's remuneration framework and practices are based on the principles that remuneration is performance driven, aligns with shareholder interests, provides market competitive remuneration that attracts qualified and experienced candidates, and retains and motivates employees.

The variable components of remuneration (short and long term) are driven by challenging targets focused on both external and internal measures of financial and non-financial performance. Details of performances measures are set out in sections 1(g) and 1(h) below. Executive remuneration is aligned with shareholder interests via an emphasis on variable (incentive) remuneration, the award of which is linked to performance benchmarks that support business strategies and future success. A significant proportion of executive remuneration is at-risk. Details of the link between performance and remuneration is set out in section 4.

#### (b) Role of Remuneration & Nomination Committee

The Remuneration & Nomination Committee is responsible for reviewing and making recommendations to the Board of Directors (**the Board**) on remuneration policies for Capral including, in particular, those governing the directors (including the Managing Director) and executive managers. The Committee operates in accordance with its Charter.

Remuneration of the Managing Director and certain executive managers is reviewed at least annually by the Remuneration & Nomination Committee and recommendations are put to the Board for its approval.

Short and long term incentives are linked to performance criteria. The Board can exercise its discretion in relation to approving bonuses and incentives. Changes must be justified by reference to measurable performance criteria and having regard to Capral's overall financial performance and other special circumstances.

The Remuneration & Nomination Committee may seek independent advice as appropriate in setting the structure and levels of remuneration based on the principle that the elements of remuneration should be set at an appropriate level having regard to market practice for roles of similar scope and skill. No remuneration recommendations have been made by remuneration consultants in relation to the Financial Year. Capral has reviewed generally available market information regarding remuneration, as outlined further below.

#### (c) Performance Planning and Review

Capral has a Performance Planning and Review (PPR) process to evaluate and discuss performance and development plans at least annually with salaried employees. This PPR process covers:

- » An agreement of objectives for the year ahead and the setting of key performance measures against which the achievement of those objectives will be assessed. These are set by reference to financial targets and key business strategies.
- » A review of performance against the previously agreed objectives for the period under review.
- » Employee comment and feedback.
- » Short and long term training and development needs and career aspirations.

The PPR process ensures that there is better understanding of Capral's objectives thereby increasing the likelihood of their achievement. It also enables managers to evaluate and develop employee skills and performance and identify future development needs.



#### (d) Non-executive Directors

The structure of Capral's non-executive director remuneration is distinct from that applicable to the Managing Director and other senior executives.

Remuneration of non-executive directors is established at a level that enables Capral to attract and retain high quality directors at a reasonable cost. Remuneration of non-executive directors and their terms of office are governed by Capral's constitution and not by contract.

Remuneration of non-executive directors is allocated out of the pool of funds, the limit of which is approved by shareholders in general meeting; the fee pool limit is currently \$500,000 per annum. Each non-executive director is entitled to the payment of an annual fee in cash and superannuation contributions for their services. Additional fees are not paid for sitting on Board committees, however the extra responsibility of the Chairman of the Board and committees is recognised by the payment of a higher fee. The fees for the non-executive directors are regularly reviewed having regard to generally available market information and are currently considered to be similar to those paid at comparable listed companies. Non-executive directors do not receive any shares, options or other securities as part of their remuneration however they are eligible to participate in Capral's equity incentive plans, although none currently participate. There are no schemes for retirement benefits (other than statutory superannuation payments).

#### (e) Senior Management Remuneration

The remuneration policy for the Managing Director and executives seeks to attract and retain people with the required capabilities to lead Capral in the achievement of business objectives and focus on delivering financial and non-financial measures.

Remuneration is reviewed annually and approved changes applied from 1 March.

The Remuneration & Nomination Committee reviews the remuneration arrangements of the Managing Director, his direct reports and certain other executive managers. The Managing Director reviews the remuneration arrangements of the other members of senior management, based on the recommendations of his direct reports.

For the Managing Director and other senior management, remuneration consists of a fixed annual salary and superannuation (refer to section 1(f) below) plus at-risk

components comprised of a short term incentive plan (**STIP**) (refer to section 1(g) below) and a long term incentive plan (**LTIP**) (refer to section 1(h) below).

The proportions of fixed and at-risk remuneration are established for the Managing Director and other senior management relative to their position in Capral. As a general guide, at-risk remuneration is 50% for the Managing Director, 25% for executive management and 10%-20% for other senior managers, for the achievement of 'target' goals.

#### (f) Fixed remuneration

The level of the total employment cost (being base salary plus superannuation) (**TEC**) is determined having regard to job responsibilities, skills, experience and performance. Salaries are reviewed annually, with any changes applied from 1 March. Fixed remuneration of executives is generally targeted at market median.

The fixed remuneration of the Managing Director was determined by the Board in 2012 having regard to other ASX listed companies in building product related industries, his particular skills and previous remuneration, experience and capability to lead Capral in delivering financial targets and executing key business strategies. It represented a significant reduction to the previous Managing Director's remuneration. It forms part of his executive employment contract and is subject to annual review.

The Board has reviewed generally available market information regarding fixed remuneration of the key management personnel for over 10 ASX listed companies in either building product related industries or with comparable revenues and market capitalisation. The fixed remuneration of Capral's key management personnel is generally in line with this group.

### (g) Short Term Incentives

Capral's short term incentive schemes are designed to encourage participants to assist Capral in achieving continuous improvement by aligning their interests with those of Capral and its stakeholders and rewarding them when key performance measures are achieved.

For the Financial Year, there were 3 short term incentive programs:

- (1) Short Term Incentive Plan (**STIP**): the Managing Director and senior employees have the opportunity to earn a cash and deferred equity incentive, based on a specified percentage of TEC dependent on each individual's level of responsibility. The actual incentive earned is based on the achievement of financial and non-financial objectives.
- (2) Bonus scheme: other salaried employees can earn fixed payments, as approved by the Managing Director, for achieving key performance measures set by their managers and outlined in the employee's individual PPR.
- (3) Sales incentives: Sales employees participate in quarterly sales incentive programs in relation to revenue, gross margin and debtor days targets.

STIP is weighted 70% to financial objectives and 30% non-financial objectives. A summary of STIP is set out in the table below:

<b>Frequency</b>	Awards determined annually with payment made in the March following the end of the performance year.
<b>Financial Measures</b>	<ul style="list-style-type: none"> <li>» Trading EBITDA for Capral and (for relevant General/Divisional Managers) Business Units (30%). Key financial threshold measure as reflects underlying earnings after excluding the impact of external economic factors such as the volatility of global aluminium prices and foreign exchange rates.</li> <li>» Net Profit Before Tax for Capral (15%). Aligned to ability to pay dividends.</li> <li>» Operating Cash Flow for Capral (15%). Selected to ensure effectiveness of cash management.</li> <li>» % Working Capital to Annualised Sales for Capral and (for relevant General/Divisional Managers) Business Units (10%). Selected to ensure effectiveness of capital management.</li> </ul>
<b>Non-financial Measures</b>	Specific individual objectives are set to reflect measurable and numeric (where possible) strategic initiatives and profit and safety improvement objectives. The key individual objectives include performance to customers, sales targets/growth, productivity and operational improvements, key projects and cost improvements. The weightings are generally 5% however may be higher or lower depending on importance to company performance.
<b>Assessment of performance against measures</b>	<p>Performance against financial measures is assessed after the end of each financial year based on Capral's financial results. The performance against non-financial measures is assessed as part of the PPR process.</p> <p>The Managing Director, in consultation with senior managers, is responsible for recommending to the Board the amount of STIP, if any, to be paid.</p> <p>Payments are subject to the achievement of applicable Capral, Divisional or Regional minimum annual Trading EBITDA targets. Stretch payments are not made where target financial metrics are not met.</p>

<b>Discretionary override</b>	The Board retains absolute discretion regarding payments having regard to Capral's overall financial position and other special circumstances that have arisen during the course of the year (ie normalisation or clawback). The intent however is to minimise the exercise of discretionary adjustments to the planned outcomes set at the start of the year. Material adjustments would be disclosed.
<b>Service condition</b>	The Managing Director is eligible to receive a pro-rata payment where his employment is terminated other than for cause. Other employees who leave Capral part way through a performance period are not eligible for a payment for that period.
<b>Clawback of awards</b>	In the event of fraud, misstatement or misrepresentation of the financials, the Board may exercise its discretion to withhold some or all of a payment before it is made or recover some or all of payments already made.
<b>Deferral</b>	Any 'Stretch' STIP payments (after tax) to the Managing Director and Executive Team is satisfied by Capral Shares held in escrow for 3 years. There is no deferred cash/equity component for other STIP participants. The Board introduced deferred equity in 2018 to further strengthen alignment of Capral's executive managers with shareholders.
<b>Plan review</b>	The STIP design is reviewed at least annually by the Remuneration & Nomination Committee, and approved by the Board. The Managing Director, in consultation with senior managers, is responsible for recommending to the Board the STIP financial targets. The non-financial objectives are approved by the Managing Director. The Managing Director's non-financial targets are established and approved by the Board.

The Managing Director and key management personnel are eligible for the following awards of STIP relative to TEC:

POSITION	% OF TEC		
	MINIMUM	TARGET	STRETCH
Managing Director	25%	50%	100%
Other KMP	12.5%	25%	50%

Where objectives can be financially measured, 'Minimum' is generally set around 15% below Board approved Budget. 'Target' is generally set around Board approved Budget and 'Stretch' is generally set 30% above Budget.

The Board has reviewed available market information regarding short term incentive schemes of the key management personnel for over 10 ASX listed companies in either building product related industries or with comparable revenues and market capitalisation. The Board considers that Capral's short term incentive scheme is generally in line with this group.

### (h) Long Term Incentives

Capral's long term incentive plan (**LTIP**) was designed to strengthen the alignment of the interests of senior managers with shareholders and support a culture of share ownership and shareholder wealth. It also aims to provide competitive remuneration for the retention of specifically targeted members of senior management.

#### LTIP - Managing Director

Mr Dragicevich was granted 2,500,000 performance rights following shareholder approval in April 2016 and 2,000,000 performance rights following shareholder approval in May 2017. During the Financial Year, an additional 2,200,000 performance rights were granted to Mr Dragicevich following shareholder approval in April 2018.

A summary of the Managing Director's LTIP is set out below:

<b>Frequency</b>	Awards determined annually.
<b>Type of award</b>	Performance rights subject to service requirements and vesting criteria. If the conditions are met, shares will be issued around the vesting date.
<b>Amount of award</b>	Eligible to receive additional annual issues of up to 50% of the value of TEC, subject to shareholder approval.
<b>Performance period &amp; vesting dates</b>	<p>2016 award: 3 year performance period with 31 December 2018 testing date. Vesting date of 1 March 2019.</p> <p>2017 award: 3 year performance period with 31 December 2019 testing date. Vesting date of 1 March 2020.</p> <p>2018 award: 3 year performance period with 31 December 2020 testing date. Vesting date of 1 March 2021.</p>
<b>Performance conditions</b>	<p>Performance rights are subject to Mr Dragicevich remaining employed by Capral at the vesting date and the achievement of the following performance conditions:</p> <ul style="list-style-type: none"> <li>» 50% of the rights are subject to a Total Shareholder Return (<b>TSR</b>) performance condition and;</li> <li>» 50% of the rights are subject to a Basic Earnings Per Share (<b>EPS</b>) performance condition.</li> </ul> <p>The EPS condition is calculated each year as follows: Net Profit Before Tax Target as specified by the Board for that year (adjusted for any extraordinary items approved by the Board) divided by number of securities on issue. The actual EPS performance over the 3 year period must meet, in aggregate, the 3 annual targets combined. The Net Profit Before Tax Target used for this condition is set at least at minimum Budget level. The Board may adjust EPS to normalise results and exclude the effects of material business acquisitions/divestments and certain one-off costs; any adjustments would be disclosed. The number of rights which may vest is set out in Table B below.</p> <p>The rights subject to the TSR condition are subject to Capral's performance as against the entities with ordinary shares and units (as the case may be) included in the S&amp;P/ASX All Ordinaries Index as at 1 January in the year of grant but excluding those companies who are classified in the Global Industry Classification Standard sector number 40. The number of rights which may vest is set out in Table A below.</p> <p>The Board has considered setting a rate of EPS growth over a 3 year performance period however determined that is more appropriate to set this performance measure every year because:</p> <ul style="list-style-type: none"> <li>» the EPS targets reward achievement of a Board approved Budget that generally requires growth against the prior year which is directly under the Managing Director's influence thus placing further focus on the key business drivers;</li> <li>» the outcomes may become distorted by building and commodity cycles that can vary materially over a longer term;</li> <li>» the relative nature of the starting level of earnings;</li> <li>» the TSR rewards performance that meets or exceeds the market and thereby directly linked to shareholder value; and</li> <li>» actual EPS performance is measured over a 3 year period and must meet, in aggregate, the 3 annual targets combined.</li> </ul>

<b>Performance conditions</b> <i>continued</i>	The use of EPS and TSR tests is consistent with market practice as it ensures alignment between comparative shareholder return and remuneration of executives. Different options regarding the TSR peer group have been considered (such as alternatives ASX indices, a selected peer group or index exclusions) however in the context of Capral's relative size and objectives it has been determined that the TSR peer group has been consistently applied and is appropriate. The EPS condition is also considered as appropriate as it assesses the success of Capral in achieving earnings growth.
<b>Assessment of performance against measures</b>	Performance against the EPS and TSR conditions are assessed at the end of the 3 year period (31 December testing date).  There is no re-testing of EPS or TSR conditions. Vested rights convert on the relevant vesting date on a one-for-one basis to ordinary shares. Unvested rights lapse.
<b>Treatment of awards on cessation of employment</b>	For the 2016 award, if employment is terminated by Capral, other than for cause, unvested rights will immediately vest. For the 2017 and 2018 awards, unvested rights lapse on termination of his employment except in special circumstances (such as death, permanent disability and redundancy) where the Board retains discretion, and then having regard to his performance until the termination date and the proportion of the unexpired performance period, when determining the number of rights that vest.
<b>Treatment of awards on change of control</b>	The Board has discretion to allow awards to vest on a change of control. In exercising this discretion, the Board is not bound to award all shares.
<b>Dividend/ participation rights</b>	There is no entitlement to dividends on performance rights during the vesting period or to participate in respect of issues of shares to shareholders.
<b>Clawback of awards</b>	In the event of fraud, misstatement or misrepresentation of the financials, the Board may exercise its discretion to forfeit some or all of the award prior to the issue of shares or recover some or all of the award already made.
<b>Plan review</b>	The LTIP design is reviewed at least annually by the Remuneration & Nomination Committee, and approved by the Board.



### LTIP – Other Executives

On the recommendation of the Managing Director to the Remuneration & Nomination Committee, selected senior executives participate in LTIP. A summary of LTIP for those senior executives is set out below:

<b>Frequency</b>	Awards determined annually.
<b>Type of award</b>	Performance rights subject to service requirements and vesting criteria. If the conditions are met, shares will be issued around the vesting date.
<b>Amount of award</b>	The value of individual awards is generally less than 30% of TEC. As a matter of practice, the aggregate amount of each annual award to all Other Executives is about 1% of issued capital.
<b>Performance period &amp; vesting dates</b>	3 years with 31 December testing dates. 2016 award: vesting date of 1 March 2019. 2017 award: vesting date of 1 March 2020. 2018 award: vesting date of 1 March 2021.
<b>Performance conditions</b>	<p>Performance rights granted under LTIP are subject to the participant remaining employed by Capral at the vesting date and the achievement of the following performance conditions:</p> <ul style="list-style-type: none"> <li>» 50% of rights are subject to an EPS performance condition. The actual EPS performance is measured over a 3 year period, must meet, in aggregate, the 3 annual targets combined. The EPS condition is calculated each year as follows: Net Profit Before Tax Target as specified by the Board for that year (adjusted for any extraordinary items approved by the Board) divided by weighted average number of securities on issue during the year. The Net Profit Before Tax Target used for this condition is set at least at minimum Budget level. The Board may adjust EPS to normalise results and exclude the effects of material business acquisitions/ divestments and certain one-off costs; any adjustments would be disclosed. The number of rights that may vest is set out in Table B below.</li> <li>» 50% of rights are subject to a TSR performance condition as against the entities with ordinary shares and units (as the case may be) included in the S&amp;P/ASX All Ordinaries Index as at 1 January in the year of grant but excluding those companies who are classified in the Global Industry Classification Standard sector number 40. The number of rights which may vest is set out in Table A below.</li> </ul> <p>Refer to the explanation above (LTIP- Managing Director) regarding the setting of the EPS condition and the use of EPS and TSR tests.</p>
<b>Assessment of performance against measures</b>	<p>Performance against the EPS and TSR conditions are assessed at the end of the 3 year period (31 December testing date).</p> <p>There is no re-testing of EPS or TSR conditions. Vested rights convert on the relevant vesting date a one-for-one basis to ordinary shares. Unvested rights lapse.</p>
<b>Treatment of awards on cessation of employment</b>	If employment ceases all unvested rights will immediately lapse. However, if the cessation relates to the redundancy or permanent disability/ death of the employee or other reason determined by the Board then the Board has absolute discretion to determine that some or all of the rights vest.
<b>Treatment of awards on change of control</b>	The Board has discretion to allow awards to vest on a change of control. In exercising this discretion, the Board is not bound to award all shares.

<b>Dividend/ participation rights</b>	There is no entitlement to dividends on performance rights during the vesting period or to participate in respect of issues of shares to shareholders.
<b>Clawback of awards</b>	In the event of fraud, misstatement or misrepresentation of the financials, the Board may exercise its discretion to forfeit some or all of the award prior to the issue of shares or recover some or all of the award already made.
<b>Plan review</b>	The LTIP design is reviewed at least annually by the Remuneration & Nomination Committee, and approved by the Board. The Managing Director makes recommendations to the Remuneration & Nomination Committee regarding the proposed LTIP award participants and the amount of the entitlements.

Vesting of rights subject to the TSR and EPS performance conditions at each testing date is determined in accordance with Tables A and B respectively below:

TABLE A	
PERCENTILE OF TSR	% RIGHTS VESTING
< 50th	None
50th	50
> 50th and < 75th	Between 50 and 100 (pro rata)
> 75th	100

TABLE B	
EPS TARGET	% RIGHTS VESTING
> 5% below target	None
5% below target	50
< 5% below target to 10% above target	Between 50 and 100 (pro rata)
> 10% above target	100

The Board has reviewed generally available market information regarding long term incentive schemes of the key management personnel (including the Managing Director) for over 10 ASX listed companies in either building product related industries or with comparable revenues and market capitalisation. The Board considers that Capral's long term incentive scheme is generally in line with this group.

#### (i) Anti-Hedging Policy

Capral's personnel are not permitted to enter into transactions with securities (or any derivative thereof) which limit the economic risk of any unvested entitlements awarded under any Capral equity-based remuneration scheme currently in operation or which will be offered by Capral in the future. As part of Capral's due diligence undertaken at the time of the financial results, participants in any Capral equity plan are required to confirm that they have not entered into any such prohibited transactions.

## SECTION 2: ACTUAL REMUNERATION OF KEY MANAGEMENT PERSONNEL

During the Financial Year there were a number of remuneration outcomes. The expensed remuneration is set out in detail in the remuneration table below however in summary the key outcomes were as follows:

### (a) Remuneration

Pay increases were implemented for executives. Total expensed remuneration for the key management personnel (including the directors) overall increased as compared to the prior year.

### (b) STIP

None of the key management personnel was eligible for any STIP payments in respect of the 2018 year. The STIP design was amended to include a component of deferred equity.

### (c) LTIP

- » 2,200,000 performance rights were granted to the Managing Director in April 2018 following shareholder approval (2017: 2,000,000) and 4,900,000 rights were granted under the 2018 LTIP award to executives in March 2018 (2017: 4,850,000).
- » 3,181,877 rights granted to executives under the 2015 LTIP award vested and converted into Capral shares on a 1 for 1 basis in March 2018. The 3,181,877 shares were delivered via a new issue of shares.

Performance rights granted to the Managing Director and executives under LTIP awards were tested after the year end with the outcomes detailed in section 3 below.

For the financial year ending 31 December 2019, Capral intends to:

- » increase the fixed remuneration of the Managing Director and executives; and
- » grant further performance rights under the LTIP to the Managing Director (subject to shareholder approval) and selected executives.



#### d) Remuneration Table - Key Management Personnel

The following table sets out the remuneration of the key management personnel (including the directors) during the Financial Year and the 2017 financial year.

The key management personnel of the consolidated entity are the non-executive directors, Managing Director, Chief Financial Officer, General Manager Operations and Company Secretary. These people have the authority and responsibility for planning, directing and controlling the day-to-day activities of Capral.

NAME	YEAR	TITLE	SHORT-TERM EMPLOYEE BENEFITS		
			SALARY AND FEES	BONUS <sup>1</sup>	NON - MONETARY BENEFITS
			\$	\$	\$
<b>DIRECTORS</b>					
<b>A.M. Dragicevich</b>	<b>2018</b>	<b>Managing Director</b>	<b>678,470</b>	-	-
	2017	Managing Director	665,000	168,900	-
<b>R.L. Wood-Ward</b>	<b>2018</b>	<b>Chairman</b>	<b>120,000</b>	-	-
	2017	Chairman	120,000	-	-
<b>P.J. Jobe</b>	<b>2018</b>	<b>Non-executive director</b>	<b>55,000</b>	-	-
	2017	Non-executive director	55,000	-	-
<b>I.B. Blair</b>	<b>2018</b>	<b>Non-executive director</b>	<b>70,000</b>	-	-
	2017	Non-executive director	70,000	-	-
<b>G.F. Pettigrew</b>	<b>2018</b>	<b>Non-executive director</b>	<b>70,000</b>	-	-
	2017	Non-executive director	70,000	-	-
<b>EXECUTIVES</b>					
<b>T. Campbell *</b>	<b>2018</b>	<b>Chief Financial Officer</b>	<b>356,783</b>	-	-
	2017	Chief Financial Officer	346,837	47,500	-
<b>R. Michael *</b>	<b>2018</b>	<b>GM Operations</b>	<b>336,006</b>	-	-
	2017	GM Operations	321,115	38,500	-
<b>R. Rolfe *</b>	<b>2018</b>	<b>Gen. Counsel/ Co. Sec.</b>	<b>281,809</b>	-	-
	2017	Gen. Counsel/ Co. Sec	278,192	33,900	-
<b>Total 2018</b>			<b>1,968,068</b>	-	-
<b>Total 2017</b>			<b>1,926,144</b>	<b>288,800</b>	-

<sup>1</sup> All bonus amounts are on an accrual basis.

<sup>2</sup> Termination benefits include leave accrued and payments made in lieu of notice at the end of employment with Capral.

<sup>3</sup> All LTIP performance rights listed are securities that have not yet vested. In relation to the performance rights of the key management personnel refer to Note 35 of the financial statements.

\* Capral's key management personnel (other than directors).



	POST - EMPLOYMENT BENEFITS	OTHER LONG-TERM BENEFITS	TERMINATION BENEFITS <sup>2</sup>	SHARE-BASED PAYMENTS	TOTAL	TOTAL PERFORMANCE RELATED
	SUPER- ANNUATION			PERFORMANCE RIGHTS <sup>3</sup>		
	\$	\$	\$	\$	\$	%
	<b>21,530</b>	-	-	<b>157,777</b>	<b>857,777</b>	<b>18</b>
	35,000	-	-	217,039	1,085,939	36
	<b>11,400</b>	-	-	-	<b>131,400</b>	-
	11,400	-	-	-	131,400	-
	<b>5,225</b>	-	-	-	<b>60,225</b>	-
	5,225	-	-	-	60,225	-
	<b>6,650</b>	-	-	-	<b>76,650</b>	-
	6,650	-	-	-	76,650	-
	<b>6,650</b>	-	-	-	<b>76,650</b>	-
	6,650	-	-	-	76,650	-
	<b>29,217</b>	-	-	<b>45,784</b>	<b>431,784</b>	<b>11</b>
	32,950	-	-	56,995	484,282	22
	<b>27,794</b>	-	-	<b>45,784</b>	<b>409,584</b>	<b>11</b>
	30,506	-	-	56,995	447,116	21
	<b>21,691</b>	-	-	<b>33,048</b>	<b>336,548</b>	<b>10</b>
	26,428	-	-	37,614	376,134	19
	<b>130,157</b>	-	-	<b>282,393</b>	<b>2,380,618</b>	
	<b>154,809</b>	-	-	<b>368,643</b>	<b>2,738,396</b>	

### SECTION 3: PERFORMANCE RIGHTS, OPTIONS AND BONUSES PROVIDED AS COMPENSATION

#### Performance rights - Managing Director

During the Financial Year and the financial year ended 31 December 2017, performance rights were granted as equity compensation benefits under the LTIP, to the Managing Director as disclosed as at balance date below. The performance rights were granted at no cost to him.

2,200,000 performance rights were granted to the Managing Director in April 2018 following shareholder approval. These rights have a vesting date of March 2021.

2,000,000 performance rights were granted to the Managing Director in May 2017 following shareholder approval. These rights have a vesting date of March 2020.

2,500,000 performance rights were granted to the Managing Director in April 2016 following shareholder approval. These rights have a vesting date of March 2019. The EPS condition (1,250,000 rights) was tested as at 31 December 2018. Capral achieved the EPS condition and consequently 1,250,000 of these rights will vest in March 2019. The TSR condition (1,250,000 rights) was also tested as at 31 December 2018. Capral's relative TSR performance over the period from January 2016 to December 2018 was in the 73th percentile and consequently 96.154% of the rights subject to the TSR condition (1,201,925 rights) will vest, and the balance (48,075 rights) will lapse, in March 2019. Consequently, a total of 2,451,925 rights will vest and convert into Capral shares on a 1 for 1 basis, and 48,075 rights will lapse, as at 1 March 2019.

2,500,000 performance rights were granted to the Managing Director in April 2015 following shareholder approval. A total of 1,272,750 rights vested and converted into Capral shares on a 1 for 1 basis, and 810,500 rights lapsed, as at 1 March 2018.

MANAGING DIRECTOR TRANCHE	GRANT NO.	GRANT DATE	FAIR VALUE PER RIGHT AT GRANT DATE (\$)	TEST DATE	LAPSED NO.	VESTED NO.
<b>2018 OFFER</b>						
<b>A. Dragicevich</b>		19/04/2018				
EPS 50%	1,100,000		\$0.12	31/12/2020	-	-
TSR 50%	1,100,000		\$0.10	31/12/2020	-	-
<b>Total 2018 Offer</b>	<b>2,200,000</b>				-	-
<b>2017 OFFER</b>						
<b>A. Dragicevich</b>		11/05/2017				
EPS 50%	1,000,000		\$0.11	31/12/2019	-	-
TSR 50%	1,000,000		\$0.07	31/12/2019	-	-
<b>Total 2017 Offer</b>	<b>2,000,000</b>				-	-

MANAGING DIRECTOR TRANCHE	GRANT NO.	GRANT DATE	FAIR VALUE PER RIGHT AT GRANT DATE (\$)	TEST DATE	LAPSED NO.	VESTED NO.
<b>2016 OFFER</b>						
<b>A. Dragicevich</b>		14/04/2016				
EPS 50%	1,250,000		\$0.11	31/12/2018	-	-
TSR 50%	1,250,000		\$0.08	31/12/2018	-	-
<b>Total 2016 Offer</b>	<b>2,500,000</b>				-	-
<b>2015 OFFER</b>						
<b>A. Dragicevich</b>		16/04/2015				
Tranche 1 - EPS 16.67%	416,750		\$0.16	31/12/2015	(416,750)	-
Tranche 2 - EPS 16.67%	416,750		\$0.16	31/12/2016	-	416,750
Tranche 3 - EPS 16.66%	416,500		\$0.16	31/12/2017	(416,500)	-
Tranche 4 - TSR 50%	1,250,000		\$0.132	31/12/2017	(394,000)	856,000
<b>Total 2015 Offer</b>	<b>2,500,000</b>				<b>(1,227,250)</b>	<b>1,272,750</b>

### Performance rights – other key management personnel

During the Financial Year and the financial year ended 31 December 2017, performance rights were granted as equity compensation benefits under the LTIP, to certain executives including key management personnel as disclosed as at balance date below. The performance rights were granted at no cost to the participants.

4,900,000 performance rights were granted under the 2018 LTIP award to executives in March 2018. These rights have a vesting date of March 2021.

4,850,000 performance rights were granted under the 2017 LTIP award to executives in March 2017. These rights have a vesting date of March 2020.

4,500,000 performance rights were granted under the 2016 LTIP award to executives in March 2016. These rights have a vesting date of March 2019. The EPS condition (2,125,000 rights) was tested as at 31 December 2018. Capral achieved the EPS condition and consequently 2,125,000 of these rights will vest in March 2019. The TSR condition (2,125,000 rights) was also tested as at 31 December 2018. Capral's relative TSR performance over the period from January 2016 to December 2018 was in the 73th percentile and consequently 96.154% of the rights subject to the TSR condition (2,043,277 rights) will vest, and the balance (81,723 rights) will lapse, in March 2019. Consequently, a total of 4,168,277 rights will vest and convert into Capral shares on a 1 for 1 basis, and 81,723 rights will lapse, as at 1 March 2019.

4,500,000 performance rights were granted under the 2015 LTIP award to executives in March 2015. A total of 1,909,127 rights vested and converted into Capral shares on a 1 for 1 basis, and 1,215,746 rights lapsed, as at 1 March 2018.

OTHER KEY MANAGEMENT PERSONNEL TRANCHE	GRANT NO.	GRANT DATE	FAIR VALUE PER RIGHT AT GRANT DATE (\$)	TEST DATE	LAPSED NO.	VESTED NO.
<b>2018 OFFER</b>						
<b>T. Campbell</b>	<b>500,000</b>	06/03/2018				
EPS 50%	250,000		\$0.13	31/12/2020	-	-
TSR 50%	250,000		\$0.12	31/12/2020	-	-
<b>R. Michael</b>	<b>500,000</b>	06/03/2018				
EPS 50%	250,000		\$0.13	31/12/2020	-	-
TSR 50%	250,000		\$0.12	31/12/2020	-	-
<b>R. Rolfe</b>	<b>350,000</b>	06/03/2018				
EPS 50%	175,000		\$0.13	31/12/2020	-	-
TSR 50%	175,000		\$0.12	31/12/2020	-	-
<b>Total 2018 Offer</b>	<b>1,350,000</b>				-	-
<b>2017 OFFER</b>						
<b>T. Campbell</b>	<b>500,000</b>	10/03/2017				
EPS 50%	250,000		\$0.15	31/12/2019	-	-
TSR 50%	250,000		\$0.13	31/12/2019	-	-
<b>R. Michael</b>	<b>500,000</b>	10/03/2017				
EPS 50%	250,000		\$0.15	31/12/2019	-	-
TSR 50%	250,000		\$0.13	31/12/2019	-	-
<b>R. Rolfe</b>	<b>350,000</b>	10/03/2017				
EPS 50%	175,000		\$0.15	31/12/2019	-	-
TSR 50%	175,000		\$0.13	31/12/2019	-	-
<b>Total 2017 Offer</b>	<b>1,350,000</b>				-	-

OTHER KEY MANAGEMENT PERSONNEL TRANCHE	GRANT NO.	GRANT DATE	FAIR VALUE PER RIGHT AT GRANT DATE (\$)	TEST DATE	LAPSED NO.	VESTED NO.
<b>2016 OFFER</b>						
<b>T. Campbell</b>	<b>500,000</b>	07/03/2016				
EPS 50%	250,000		\$0.10	31/12/2018	-	-
TSR 50%	250,000		\$0.08	31/12/2018	-	-
<b>R. Michael</b>	<b>500,000</b>	07/03/2016				
EPS 50%	250,000		\$0.10	31/12/2018	-	-
TSR 50%	250,000		\$0.08	31/12/2018	-	-
<b>R. Rolfe</b>	<b>350,000</b>	07/03/2016				
EPS 50%	175,000		\$0.10	31/12/2018	-	-
TSR 50%	175,000		\$0.08	31/12/2018	-	-
<b>Total 2016 Offer</b>	<b>1,350,000</b>				-	-
<b>2015 OFFER</b>						
<b>T. Campbell</b>	<b>500,000</b>	06/03/2015			<b>(245,450)</b>	<b>254,550</b>
Tranche 1 - EPS 16.67%	83,350		\$0.16	31/12/2015	(83,350)	-
Tranche 2 - EPS 16.67%	83,350		\$0.16	31/12/2016	-	83,350
Tranche 3 - EPS 16.66%	83,300		\$0.16	31/12/2017	(83,300)	-
Tranche 4 - TSR 50%	250,000		\$0.132	31/12/2017	(78,800)	171,200
<b>R. Michael</b>	<b>500,000</b>	06/03/2015			<b>(245,450)</b>	<b>254,550</b>
Tranche 1 - EPS 16.67%	83,350		\$0.16	31/12/2015	(83,350)	-
Tranche 2 - EPS 16.67%	83,350		\$0.16	31/12/2016	-	83,350
Tranche 3 - EPS 16.66%	83,300		\$0.16	31/12/2017	(83,300)	-
Tranche 4 - TSR 50%	250,000		\$0.132	31/12/2017	(78,800)	171,200
<b>R. Rolfe</b>	<b>300,000</b>	06/03/2015			<b>(147,270)</b>	<b>152,730</b>
Tranche 1 - EPS 16.67%	50,010		\$0.16	31/12/2015	(50,010)	-
Tranche 2 - EPS 16.67%	50,010		\$0.16	31/12/2016	-	50,010
Tranche 3 - EPS 16.66%	49,980		\$0.16	31/12/2017	(49,980)	-
Tranche 4 - TSR 50%	150,000		\$0.132	31/12/2017	(47,280)	102,720
<b>Total 2015 Offer</b>	<b>1,300,000</b>				<b>(638,170)</b>	<b>661,830</b>

## Options

No options were issued under the LTIP during the Financial Year and the financial year ended 31 December 2017.

## Equity grants and during the Financial Year

Details of the performance rights granted, as well as the movement during the Financial Year in rights previously granted, to Key Management Personnel are as follows:

2018 - PERFORMANCE SHARE RIGHTS	HELD AT START OF YEAR	GRANTED AS COMPENSATION	LAPSED	VESTED	HELD AT END OF YEAR
<b>A. Dragicevich</b>	6,583,250	2,200,000	(810,500)	(1,272,750)	6,700,000
<b>T. Campbell</b>	1,416,650	500,000	(162,100)	(254,550)	1,500,000
<b>R. Michael</b>	1,416,650	500,000	(162,100)	(254,550)	1,500,000
<b>R. Rolfe</b>	949,990	350,000	(97,260)	(152,730)	1,050,000
	<b>10,366,540</b>	<b>3,550,000</b>	<b>(1,231,960)</b>	<b>(1,934,580)</b>	<b>10,750,000</b>

The non-executive directors hold no performance rights.

## Bonuses

During the Financial Year, no STIP bonus payments were made to the Managing Director and key management personnel as Capral Trading EBITDA<sup>^</sup> was below the 'minimum' level detailed in section 1 above.

During the financial year ended 31 December 2017, STIP bonus payments were made to the Managing Director and key management personnel. The Managing Director's STIP payments for 2017 equated to 24% of his TEC (below the 'target' level detailed in section 1 above) and the Board considered it appropriate having regard to the achievement of certain key financial measures as well as critical non-financial measures regarding customers, automation projects, anti-dumping activities and other strategic plans. The other key management personnel's STIP payments were between 11% and 13% of TEC for 2017 (below the 'target' level detailed in section 1 above).

The percentages of bonus paid and forfeited (as a result of not meeting the performance criteria at 'target' level) during the Financial Year and the financial year ended 31 December 2017 are disclosed below:

2018	% OF BONUS PAID	% OF BONUS FORFEITED	% OF COMPENSATION FOR THE YEAR CONSISTING OF STIP BONUS <sup>1</sup>
<b>EXECUTIVES</b>			
<b>A. Dragicevich</b>	-	100	-
<b>T. Campbell</b>	-	100	-
<b>R. Michael</b>	-	100	-
<b>R. Rolfe</b>	-	100	-

<sup>1</sup> Total Compensation used for calculating % purposes excludes share based payments and termination benefits.

## Note

<sup>^</sup> Trading EBITDA (non-IFRS measure) is Statutory EBITDA adjusted for items assessed as unrelated to the underlying performance of the business and allows for a more relevant comparison between financial periods.



2017	% OF BONUS PAID	% OF BONUS FORFEITED	% OF COMPENSATION FOR THE YEAR CONSISTING OF STIP BONUS <sup>1</sup>
<b>EXECUTIVES</b>			
A. Dragicevich	48.3	51.7	19.4
T. Campbell	50.0	50.0	11.1
R. Michael	43.8	56.2	8.6
R. Rolfe	44.5	55.5	10.0

<sup>1</sup> Total compensation used for calculating % purposes excludes share based payments and termination benefits.

2017 financial year bonuses were paid in the 2018 financial year.

### Shareholdings of Key Management Personnel - fully paid ordinary shares of the Company

Details of the holdings of Capral's ordinary shares of key management personnel during the Financial Year are as follows:

2018	HELD AT START OF YEAR	GRANTED AS COMPENSATION	RECEIVED ON VESTING OF PERFORMANCE RIGHTS/ EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	HELD AT END OF YEAR
<b>DIRECTORS</b>					
R.L. Wood-Ward	-	-	-	-	-
A.M. Dragicevich	6,250,000	-	1,272,750 <sup>1</sup>	-	7,522,750
P.J. Jobe	7,100,500	-	-	-	7,100,500
I.B. Blair	227,348	-	-	-	227,348
G.F. Pettigrew	-	-	-	-	-
<b>EXECUTIVES</b>					
T. Campbell	3,654	-	254,550 <sup>1</sup>	-	258,204
R. Michael	461,221	-	254,550 <sup>1</sup>	-	715,771
R. Rolfe	324,477	-	152,730 <sup>1</sup>	(377,207) <sup>2</sup>	100,000
	<b>14,367,200</b>	<b>-</b>	<b>1,934,580</b>	<b>(377,207)</b>	<b>15,924,573</b>

<sup>1</sup> Acquired on vesting of performance rights in March 2018.

<sup>2</sup> Disposed on market in accordance with the Capral Securities Trading Policy.

#### SECTION 4: RELATIONSHIP BETWEEN REMUNERATION AND COMPANY PERFORMANCE

There is a link between company performance and executive reward. For the Financial Year and the previous 4 financial years, Capral has made STIP payments based upon the achievement of performance (financial and non-financial) measures.

Whilst continuing to ensure that Capral attracts and retains qualified, experienced and motivated employees in accordance with the remuneration policy by remunerating employees at a competitive level, Capral has placed more emphasis on at-risk remuneration in order to align remuneration of the employees to the performance of Capral and encourage shareholder wealth.

During the Financial Year and the previous 4 financial years (2014-2017), Capral's financial performance was as follows, with the minimum targets (MT) that were set for the 2018 STIP financial measures also shown:

YEAR ENDED 31 DEC	2018 (A)	2018 (MT)	2017 (A)	2016 (A)	2015 (A)	2014 (A)
Trading EBITDA \$'000 <sup>1</sup>	14,268	16,700	18,409	20,265	13,028	9,226
Operating Cash Flow \$'000	12,008	15,500	15,044	15,555	7,295	7,676
Net Profit/(Loss) \$'000	6,415	9,700	12,085	14,350	(2,511)	2,650
% Working Capital to Annualised Sales	13.92	14.35	13.89	13.87	16.24	17.97
Dividend - cents per share	1.75	-	1.25	-	-	-
Basic earnings / (loss) - cents per share	1.34	2.02	2.54	3.02	(0.5)	0.6
Share price (closing) \$	0.12	n/a	0.15	0.17	0.10	0.11

In the Financial Year, Capral's Trading EBITDA<sup>1</sup>, Operating Cash Flow and Net Profit Before Tax were below 2017 levels albeit significantly above 2014-2015 levels. The Trading EBITDA, Net Profit Before Tax and Operating Cash Flow minimum targets were not achieved. As a result, no STIP will be payable to Capral key management personnel and minimum STIP will be payable overall. At a divisional and Regional level minimum Trading EBITDA<sup>1</sup> measures were mostly not achieved, but there were mixed results relating to Working Capital and sales volume measures.

<sup>1</sup> Trading EBITDA (non-IFRS measure) is Statutory EBITDA adjusted for items assessed as unrelated to the underlying performance of the business and allows for a more relevant comparison between financial periods.

The following provides examples of other key measures (that are not commercially sensitive) used to assess executive performance:

PERFORMANCE AREA	MEASURE	OUTCOME
<b>Safety</b>	Reduction in total reportable injury frequency rate	Rate on par with 2017, however Group targets not met
	Hours lost & return to work hours lost from injuries	Performance worse than 2017 and targets not met
	Safety plan implementation	Plans were substantially implemented in 2018 and target was achieved
<b>Customers</b>	Volume retention/growth	Sales areas met some of the specific growth and revenue targets but not margin measures. Performance varied by region/division
<b>Production</b>	Operational efficiency	Manufacturing plants met some of their operational efficiency/improvement targets
<b>Supply Chain</b>	Supply chain and inventory reduction programs	Initiatives were generally not achieved
<b>People</b>	AL & LSL balance reduction	Overall leave balance reduction initiatives were achieved. Performance varied by region/division
<b>Anti-dumping</b>	Pursue anti-dumping campaign	Cases initiated against Thailand and 2 large Chinese exporters were terminated. The Chinese circumvention and transshipment case was successful. Overall the outcomes were mixed.
<b>Costs</b>	Cost reduction initiatives	Some of the specific cost and expense reduction initiatives were achieved. Performance varied by region/division

The 2018 STIP payments are significantly below those paid in 2017 in line with financial performance. There is a clear link between financial performance and the level of STIP awarded.

LTIP is linked to Capral's performance as the value of the performance rights awarded depends on Capral's share price and dividend payments, and whether the awards vest relate to earnings growth and Capral's relative TSR performance. There is a link between Capral's performance and the vesting of rights under LTIP awards. In this regard:

In 2017:

- » Capral's relative TSR performance over the period from January 2015 to December 2017 achieved the 59th percentile, above the minimum 50th percentile. Consequently, about 68.5% of the rights subject to the TSR condition that were awarded in 2015 to executives vested.
- » Given earnings in 2017, the EPS result for 2017 was 2.54 cents per share and therefore the EPS condition for Tranche 3 of the 2015 award was not met. Consequently, the rights subject to Tranche 3 of the 2015 award did not vest and convert into Capral shares during March 2018.

In 2018:

- » Capral's relative TSR performance over the period from January 2016 to December 2018 achieved the 73th percentile, above the minimum 50th percentile. Consequently, about 96.2% of the rights subject to the TSR condition that were awarded in 2016 to executives will vest.
- » Given earnings in 2016, 2017 and 2018, the aggregate EPS result for the 3 year period was 6.89 cents per share against an aggregate target of 5.81 cents per share and therefore the EPS condition of the 2016 award was achieved. Consequently, the rights subject to the EPS condition of the 2016 award will vest and convert into Capral shares during March 2019.

## SECTION 5: SUMMARY OF KEY EMPLOYMENT CONTRACTS

Details of the key contract terms for the Managing Director and other key management personnel as at the end of the Financial Year are as follows:

CONTRACT DETAILS	A. DRAGICEVICH	T. CAMPBELL	R. MICHAEL	R. ROLFE
<b>Expiry date</b>	No fixed end date	No fixed end date	No fixed end date	No fixed end date
<b>Notice of termination by Capral</b>	6 months	6 months	6 months	16 weeks
<b>Notice of termination by employee</b>	6 months	6 months	6 months	16 weeks
<b>Termination payments (in lieu of notice)</b>	6 months salary plus accrued but unpaid STIP (pro rata for incomplete financial year).  In addition, unvested LTIP rights may vest if employment is terminated by Capral other than for cause. From 1 March 2017, 6 weeks annual leave per annum. TEC unchanged since 2013 commencement	6 months salary. STIP entitlement for incomplete financial years is subject to Board discretion	6 months salary. STIP entitlement for incomplete financial years is subject to Board discretion	16 weeks salary. STIP entitlement for incomplete financial years is subject to Board discretion

## ENVIRONMENTAL REGULATIONS

Manufacturing licences and consents required by laws and regulations are held by the consolidated entity at each relevant site as advised by consulting with relevant environmental authorities. All applications for and renewals of licences have been granted and all consents have been given by all relevant authorities.

## DIRECTORS' AND OFFICERS' INDEMNITIES AND INSURANCE

Under Capral's constitution, Capral is required to indemnify, to the extent permitted by law, each director and secretary of Capral against any liability incurred by that person as an officer of Capral. The directors listed on pages 8 and 9 and the secretary listed on page 14 have the benefit of this indemnity. During the Financial Year, Capral paid a premium for directors' and officers' liability insurance policies which cover current and former directors, company secretaries and officers of the consolidated entity. Details of the nature of the liabilities covered and the amount of the premium paid in respect of the directors' and officers' insurance policies are not disclosed, as such disclosure is prohibited under the terms of the contracts.

## INDEMNITIES TO AUDITORS

In respect of non-audit services provided in relation to reviews of consulting and compliance advice during the Financial Year, Deloitte Touche Tohmatsu, Capral's auditor, has the benefit of an indemnity (including in respect of legal costs) for any third party claim in connection with the use, distribution or reliance on their work (except to the extent caused by the wilful misconduct or fraud of Deloitte Touche Tohmatsu, or where it has agreed that the third party may rely on the work or it may be used in a public document).

## PROCEEDINGS ON BEHALF OF CAPRAL

No person has applied to the Court under section 237 of the Corporations Act for leave to bring proceedings on behalf of Capral, or to intervene in any proceedings to which Capral is party, for the purpose of taking responsibility on behalf of Capral for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of Capral with leave of the Court under section 237 of the Corporations Act.

## NON-AUDIT SERVICES

Capral may decide to employ the auditor on assignments additional to their statutory audit services where the auditor's expertise and experience with the consolidated entity are important.

The Board has considered this position and in accordance with the advice received from the Audit & Risk Committee, it is satisfied that the provision of these services during the Financial Year by the auditor is compatible with, and did not compromise, the general standard of auditor independence imposed by the Corporations Act for the following reasons:

- (1) the non-audit services provided do not involve reviewing or auditing the auditor's own work and have not involved partners or staff acting in a management or decision-making capacity for Capral or in the processing or originating of transactions;
- (2) all non-audit services and the related fees have been reviewed by the Audit & Risk Committee to ensure complete transparency and that they do not affect the integrity and objectivity of Deloitte Touche Tohmatsu; and
- (3) the declaration required by section 307C of the Corporations Act 2001 confirming independence has been received from Deloitte Touche Tohmatsu.

Details of the amounts paid or payable to Capral's auditor (Deloitte Touche Tohmatsu) for audit and non-audit services provided during the Financial Year are set out in Note 31 of the financial statements.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditors' independence declaration as required under section 307C of the Corporations Act is set out on page 38.

## ROUNDING OF AMOUNTS

Capral is a company of the kind referred to in Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

On behalf of the directors



**R. L. Wood-Ward**  
Chairman

**Sydney**  
22 February 2019



**A. M. Dragicevich**  
Managing Director

## AUDITOR'S INDEPENDENCE DECLARATION



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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The Board of Directors  
Capral Limited  
Level 4  
60 Philip Street  
Parramatta NSW 2150

Dear Directors,

**Capral Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Capral Limited.

As lead audit partner for the audit of the financial statements of Capral Limited for the financial year ended 31 December 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
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "DR White", with a stylized flourish at the end.

**David White**  
Partner  
Chartered Accountants  
Parramatta, 22 February 2019





# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the financial year ended 31 December 2018

		2018	2017
	Note	\$'000	\$'000
<b>CONTINUING OPERATIONS</b>			
Sales revenue		421,576	415,268
Scrap and other revenue	3	33,531	33,412
<b>Revenue</b>		<b>455,107</b>	<b>448,680</b>
Other income	3	470	500
Raw materials and consumables used		(284,039)	(268,645)
Employee benefits expense	2	(89,833)	(90,867)
Depreciation and amortisation expense	2	(5,620)	(5,845)
Finance costs	2	(1,081)	(972)
Freight expense		(12,050)	(11,523)
Occupancy costs	2	(19,403)	(20,240)
Repairs and maintenance expense		(6,952)	(7,152)
Restructuring costs	2	(29)	(192)
Other expenses		(30,155)	(31,659)
<b>Profit before tax</b>		<b>6,415</b>	<b>12,085</b>
Income tax	4	-	-
<b>Profit for the year</b>		<b>6,415</b>	<b>12,085</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Gain on revaluation of properties		-	793
Other comprehensive income for the year		-	793
<b>Total comprehensive income for the year</b>		<b>6,415</b>	<b>12,878</b>
<b>Earnings per share</b>		(Cents per share)	(Cents per share)
Basic earnings per share	23	1.34	2.54
Diluted earnings per share	23	1.28	2.45

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

		2018	2017
	Note	\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	27,566	34,358
Trade and other receivables	8	65,403	67,959
Inventories	9	84,960	78,915
Other financial assets	29 (c)	561	32
Prepayments	10	1,197	729
<b>Total current assets</b>		<b>179,687</b>	181,993
<b>Non-current assets</b>			
Deferred tax assets	11	2,857	2,857
Property, plant and equipment	14	44,931	40,073
Other intangible assets	15	308	336
<b>Total non-current assets</b>		<b>48,096</b>	43,266
<b>Total assets</b>		<b>227,783</b>	225,259
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	78,398	74,033
Provisions	18	12,870	12,638
Other financial liabilities	29 (c)	169	644
Deferred income	19	147	100
<b>Total current liabilities</b>		<b>91,584</b>	87,415
<b>Non-current liabilities</b>			
Provisions	18	4,671	4,952
<b>Total non-current liabilities</b>		<b>4,671</b>	4,952
<b>Total liabilities</b>		<b>96,255</b>	92,367
<b>Net assets</b>		<b>131,528</b>	132,892
<b>EQUITY</b>			
Issued capital	20	425,744	425,744
Reserves	21 (a)	12,013	11,427
Accumulated losses	21 (b)	(306,229)	(304,279)
<b>Total equity</b>		<b>131,528</b>	132,892

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the financial year ended 31 December 2018

	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		503,174	488,699
Payments to suppliers and employees		(490,085)	(474,761)
		13,089	13,938
Interest and other costs of finance paid		(1,081)	(831)
<b>Net cash provided by operating activities</b>	33(ii)	12,008	13,107
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(10,389)	(3,808)
Payments for software assets		(65)	(431)
Interest received		18	15
Proceeds from sale of property, plant and equipment		1	-
<b>Net cash flows used in investing activities</b>		(10,435)	(4,224)
<b>Cash flows from financing activities</b>			
Payments of dividends		(8,365)	(5,934)
<b>Net cash flows used in financing activities</b>		(8,365)	(5,934)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(6,792)	2,949
Cash and cash equivalents at the beginning of the financial year		34,358	31,409
<b>Cash and cash equivalents at the end of the financial year</b>	33(i)	27,566	34,358

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	FULLY PAID ORDINARY SHARES	EQUITY-SETTLED COMPENSATION RESERVE	ASSET REVALUATION RESERVE	ACCUMULATED LOSSES	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January 2017	425,744	9,737	221	(310,430)	125,272
Profit for the year	-	-	-	12,085	12,085
Gain on revaluation of properties	-	-	793	-	793
Share-based payments expense	-	676	-	-	676
Dividends paid	-	-	-	(5,934)	(5,934)
<b>Balance as at 31 December 2017</b>	<b>425,744</b>	<b>10,413</b>	<b>1,014</b>	<b>(304,279)</b>	<b>132,892</b>
Balance as at 1 January 2018	425,744	10,413	1,014	(304,279)	132,892
Profit for the year	-	-	-	6,415	6,415
Gain on revaluation of properties	-	-	-	-	-
Share-based payments expense	-	586	-	-	586
Dividends paid	-	-	-	(8,365)	(8,365)
<b>Balance as at 31 December 2018</b>	<b>425,744</b>	<b>10,999</b>	<b>1,014</b>	<b>(306,229)</b>	<b>131,528</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

## 1A. GENERAL INFORMATION

Capral Limited (**the Company**) is a public listed company incorporated and operating in Australia. The Company's shares are quoted on the Australian Securities Exchange (ASX Code: CAA).

The Company's registered office and its principal place of business is as follows:

### Registered office & principal place of business

71 Ashburn Road  
Bundamba  
QLD 4304  
Tel: (07) 3816 7000

The principal continuing activities of the consolidated entity consist of the manufacturing, marketing and distribution of fabricated and semi-fabricated aluminium related products.

## 1B. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies, but did not have material impact on the Group's financial statements.

In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. AASB 15 introduced a 5 step approach to revenue recognition. The Group has applied AASB 15 in accordance with the transitional approach C3 (b) to retrospectively adjust the cumulative effect of initially applying this standard recognised at the date of initial application i.e. 01 January 2018 in the opening retained earnings. The Group's accounting policies for its revenue streams are disclosed in detail in note 1C (q) below. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of AASB 15 has not had a significant impact on the financial position and/or financial performance of the Group.

In the current year, the Group has applied AASB 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other AASB standards that are effective for annual period that begins on or after 01 January 2018. However, the application of AASB 9 has not had a significant impact on the financial position and/or financial performance of the Group. Refer to note 8 for further details.

Management is currently assessing the potential impact to the financial report of the consolidated entity and the Company from the application of the following Standard.

STANDARD	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
AASB 16 Leases	1 January 2019	31 December 2019



## ASSESSMENT OF THE IMPACT OF ADOPTING AASB 16 LEASES

### General impact of application of AASB 16 Leases

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of AASB 16 for the Group will be 1 January 2019. The Group has elected to apply AASB 16 in accordance with the transitional approach C5(b) to retrospectively adjust the cumulative effect of initially applying this standard recognised at the date of initial application i.e. 01 January 2019 in the opening retained earnings. Consequently, the Group will not restate the comparative information. In contrast to lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in AASB 117.

### IMPACT OF THE NEW DEFINITION OF A LEASE

AASB 16 provides a practical expedient method by which the reassessment of lease contracts is not required. The Group will not make use of the practical expedient available on transition to AASB 16 and have chosen to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 and IFRIC 4 will not continue to apply to those leases entered or modified before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. AASB 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the lessee. Control is considered to exist if the lessee has:

- » The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- » The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in AASB 16 to all lease contracts (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of AASB 16, the Group has carried out an implementation project. The project has shown that the new definition in AASB 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

AASB 16 will change how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet.

In accordance with the transition approach C5 (b), on initial application of AASB 16, for all leases (except as noted below), will result in the:

- a) Recognition of a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying AASB 117. The group shall choose, on a lease-by-lease basis, to measure that right-of-use asset at its carrying amount as if the Standard had been applied since the commencement date, but discounted using the Group's incremental borrowing rate at the date of initial application;
- b) Lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments on a prospective basis at the date of initial application (i.e. 01 January 2019);
- c) Recognition of depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- d) Separation of the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 Impairment of Assets. This will also replace the previous requirement to recognise a provision for onerous lease contracts. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will elect to recognise a lease expense on a straight-line basis as permitted by AASB 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of \$106,442,000.

The Group will recognise a right-of-use asset of \$59,676,000 and a corresponding lease liability of \$89,980,000 in respect of all these leases. Lease liability incentives with a carrying value of \$961,000 previously recognised in respect of the operating leases will be derecognised by an adjustment to retained earnings whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis. The low value assets aggregate to \$524,000 and will be recognised as a straight line expense over the remaining period of the lease.

## 1C. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report includes the financial statements of the Company and the financial statements of the Group. For the purpose of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 22 February 2019.

### Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is of a kind referred to in ASIC Class Order 2016/191, dated 24 March 2016, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar as indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### (A) BASIS OF CONSOLIDATION

The financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (and its subsidiaries) (referred to as 'the Group' in these financial statements).

Control is based on whether an investor has:

- » power over the investee

- » exposure, or rights, to variable returns from its involvement with the investee, and
- » the ability to use its power over the investee to affect the amount of the returns.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

#### (B) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### (C) BUSINESS COMBINATIONS

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- » deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;
- » liabilities or equity instruments related to the replacement by the Group of an acquiree's share based payment awards are measured in accordance with AASB 2 Share-based Payment; and
- » assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

#### (D) CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and have a maturity of three months or less at the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

#### (E) DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts.

Further details of derivative financial instruments are disclosed in Note 29 to the financial statements. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition of profit or loss depends on the nature of the hedge relationship. The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months, and as a current asset or current liability if the remaining maturity of the hedge relationship is less than 12 months. The Group's derivatives do not qualify for hedge accounting and are not

designated into an effective hedge relationship and are classified as a current asset and current liability.

#### Embedded Derivatives

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of AASB 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

#### (F) EMPLOYEE BENEFITS

##### (i) Salaries, wages and leave benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, including non-monetary benefits, annual leave and long service leave, when it is probable that settlement will be required, and they are capable of being measured reliably. Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

##### (ii) Share-based payments

Equity-settled share-based payments with employees are measured at the fair value of the equity instrument at the grant date.

The fair value of the performance rights is estimated at grant date using a Monte-Carlo Simulation analysis taking into account the terms and conditions upon which the securities are granted.

The fair value of the options is estimated at grant date using a binomial tree model taking into account the terms and conditions upon which the securities are granted.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Further details on how the fair value of equity-settled share-based transactions have been determined can be found in Note 35.

### (iii) Defined contribution plan

Contributions to defined contribution superannuation plans are expensed when incurred.

## (G) FINANCIAL ASSETS

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through the profit or loss which are initially measured at fair value. Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company's financial statements. Other financial assets are classified into the following specified categories: Financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'trade and other receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than financial assets 'at fair value through profit or loss'.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

The net gain or loss recognised in profit or loss on the financial assets is included in the other income or other expenses. Fair value is determined in the manner described in Note 29.

### Trade and other receivables

Trade other receivables that were measured at amortised cost under AASB 139 continue to be measured at amortised cost under AASB 9 as they are held within a business model to collect contractual cash flows. Trade and other receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

### Impairment of financial assets

Impairment of financial assets is based on an expected credit loss ("ECL") model under AASB 9 rather than incurred loss model. ECLs are a probability-weighted estimate of credit losses. The group calculated ECLs based on consideration of customer-specific factors and actual credit loss experience over the past two years. As a percentage of revenue, the Group's actual credit loss experience has not been material. There has been no material impact in adopting AASB 9.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the

transferred asset, the Group recognises its retained interest in the asset and an associated liability for the amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## **(H) FINANCIAL INSTRUMENTS ISSUED BY THE GROUP**

### **Debt and equity instruments**

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

### **Compound instruments**

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument.

This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or upon the instruments reaching maturity. The equity component initially brought to account is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects and is not subsequently remeasured.

### **Financial guarantee contract liabilities**

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation.

### **Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

### **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 29.

### **Other financial liabilities**

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. Refer note 1c (n).

## **(I) FOREIGN CURRENCY**

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings.

## **(J) IMPAIRMENT OF OTHER TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which that asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of



money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

## (K) INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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

The Company and its wholly-owned Australian entities have implemented the tax consolidation legislation.

The current and deferred tax amounts for the tax-consolidated group are allocated to the members of the tax-consolidated group (including the Company as the head entity) using the 'separate taxpayer within group' approach, with deferred taxes being allocated by reference to the carrying amounts in the financial statements of each member entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits arising from this allocation process are then accounted for as immediately assumed by the head entity, as under Australian taxation law the head entity has the legal obligation (or right) to these amounts.

## (L) INTANGIBLE ASSETS

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

### Patents, trademarks and licences

Patents, trademarks and licences are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives, which vary from 5 to 16 years.

The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes being recognised as a change in accounting estimate.

### Software

Software assets including system development costs have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost over the assets estimated useful lives, which vary from 3 to 5 years.

## (M) INVENTORIES

Inventories representing aluminium log, other supplies and finished goods are valued at the lower of cost and net realisable value.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

Aluminium log is valued at moving average of direct purchase cost. Cost of rolled product has been determined principally on moving average of direct purchase costs. Costs for finished and partly finished includes moving average metal cost, direct labour, and appropriate proportion of fixed and variable factory overhead.

## (N) LEASED ASSETS

### The Group as lessee:

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time

pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### **(O) PROPERTY, PLANT AND EQUIPMENT**

Land and buildings are measured at fair value less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Fair value is determined on the basis of a periodic, independent valuation by external valuation experts, based on discounted cash flows or capitalisation of net income, as appropriate.

Periodic reviews are conducted every three to five years. The fair values are recognised in the financial statements of the Group and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values. Any revaluation increase arising on revaluation of land and buildings are credited to the asset revaluation reserve except to the extent that the increase reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the profit and loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of revalued property, the attributable revaluation surplus remaining in the revaluation reserve, net of any related taxes, is transferred directly to retained earnings.

Plant and equipment, and leasehold improvements are stated at cost less accumulated depreciation and

impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value.

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

### **(P) PROVISIONS**

Provisions are recognised when the Group has a present, legal or constructive obligation as a result of past events, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

### **Onerous contracts**

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.



## Restructurings

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

## Provision for restoration and rehabilitation (provision for make good on leased assets)

A provision for restoration and rehabilitation (provision for make good on leased assets) is recognised when there is a present obligation as a result of production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the affecting areas.

## (Q) REVENUE RECOGNITION

Revenue is recognised when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customers.

The Group recognises revenue from the sale of products and when it transfers control of a product to a customer, which is the point in time that the customer obtains control of the goods being on acceptance of the goods by the customer.

Revenue is measured at the fair value of the consideration received or receivable. Sales revenue comprises sales of goods and services at net invoice values less returns, trade allowances and applicable rebates.

## Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Royalties are recognised on the subsequent sale or usage, and the performance obligation to which the royalty has been allocated has been satisfied.

## Rental income

The Group's policy for recognition of revenue from operating leases is described in note 1C (q).

## Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

## (R) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

## (S) EARNINGS PER SHARE

### (i) Basic earnings per share

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

### (ii) 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 weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## 1D. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 1, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying the Group's accounting policies

The following are the critical judgements (apart from those involving estimations which are dealt with above), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### Inventories

Note 9 sets out the categories of inventory carried. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell which approximates fair value less cost to sell. The key assumptions require the use of management judgement and are reviewed annually.

These key assumptions are the variables affecting the estimated costs to sell and the expected selling price. Any reassessment of cost to sell or selling price in a particular year will affect the cost of goods sold.

#### Indicators of impairment and reversal of impairment

Note 14 sets out the categories of property, plant and equipment held. In assessing whether there is any indication that property, plant and equipment may be impaired, or whether a reversal of previous impairment losses should be recognised, management has used, among others, the following key assumptions:

- (i) the cyclical nature of both residential and commercial building activity,
- (ii) aluminium prices which impact margins to the extent that price variations are passed on to customers or not, and
- (iii) anti-dumping outcomes in relation to import duties imposed on overseas suppliers.

The key assumptions required the use of management judgement and are reviewed biannually.

#### Employee benefits

Key assumptions used in the calculation of leave benefit provisions at balance date:

- (i) future on-cost rates,
- (ii) experience of employee departures and period of service, and
- (iii) future increase in wages and salaries.

#### Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, the directors determined that there were no revisions to the useful lives of property, plant and equipment.

#### Deferred taxation

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. Recognition of deferred tax assets therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

## 1E. COMPARATIVE INFORMATION

Where necessary, comparative amounts have been reclassified and repositioned for consistency with current period disclosures.

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>2. PROFIT FOR THE YEAR</b>		
<b>(a) Other expenses</b>		
Profit before tax includes the following specific net expenses:		
Inventory:		
Write-down of inventory to net realisable value	559	259
Reversal of write-down of inventory	(25)	(893)
Amortisation of software	93	180
Total amortisation	93	180
Depreciation:		
Buildings	176	141
Leasehold improvements	236	234
Plant and equipment	5,115	5,290
Total depreciation	5,527	5,665
Total depreciation and amortisation	5,620	5,845
Revaluation of properties, plant and equipment:		
Gain on revaluation of property	-	793
	-	793
Occupancy costs:		
Sublease income received	(1,796)	(1,711)
Minimum lease payments	17,856	18,551
Site costs	3,343	3,400
	19,403	20,240
Other charges against assets:		
Impairment of trade receivables	388	12
Employee benefit expense		
Post-employment benefits:		
- defined contribution plans	6,646	6,695
Equity-settled share-based payments	586	676
Termination benefits	43	33
Other employee benefits	82,558	83,537
	89,833	90,941
Restructuring costs		
Other site closure costs	29	192
	29	192
Finance costs		
Interest and finance charges paid/payable		
- third party financier	922	823
Net finance costs are comprised of:		
Interest on bank overdrafts and loans	922	823
Impact of discounting on long-term provisions	159	149
Total interest expense	1,081	972
<b>(b) Gains and Losses</b>		
Net gain/(loss) on foreign exchange	734	(494)
Net loss on disposal of property, plant and equipment	(3)	-

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>3. REVENUE AND OTHER INCOME</b>		
<b>Revenue from continuing operations</b>		
Sales revenue - sale of goods (i)	421,576	415,268
Other revenue		
Scrap revenue (i)	33,513	33,397
Interest - other	18	15
Total other revenue	33,531	33,412
<b>Other income</b>		
Royalties	468	498
Other miscellaneous income	2	2
	470	500
(i) Recognised at a point in time.		
<b>4. INCOME TAX EXPENSE</b>		
<b>(a) Reconciliation of income tax benefit to prima facie tax benefit</b>		
Profit from continuing operations before income tax expense	6,415	12,085
Income tax calculated @ 30% (2017:30%)	1,925	3,626
Tax effect of non-assessable / non-deductible items:		
Effect of items that are temporary differences for which decrease in deferred tax assets have not been previously recognised	(1,675)	(2,277)
Effect of items that are not deductible or taxable in determining taxable profit	184	262
Effect of tax losses utilised	(434)	(1,611)
Income tax benefit	-	-
<b>(b) Tax losses</b>		
Accumulated unused gross tax losses for which no deferred tax asset has been recognised	279,710 <sup>1</sup>	281,157
Potential tax benefit @ 30% (2017:30%)	83,913	84,347

All unused tax losses were incurred by Australian entities.

<sup>1</sup> Subject to income tax recoupment rules in subsequent years.

### 5. CHANGES IN ACCOUNTING ESTIMATES

There were no significant changes in accounting estimates during the Financial Year (2017: none).

## 6. SEGMENT INFORMATION

The information reported to the Managing Director, as the Group's chief operating decision maker, for the purposes of resource allocation and assessment of performance is focused on the type of goods supplied, being aluminium products. As such, in 2017 and 2018, the Group operated in one reportable segment under AASB 8 Operating Segment.

### Major Products and Services

The Group produces a wide range of extruded aluminium products and systems. It distributes those manufactured products in addition to a small amount of bought-in products through two distribution channels.

The Group supplies to three market segments through each of its distribution channels:

- » Residential - supply of aluminium and other components for windows and doors, showers and wardrobes and security products,
- » Commercial - supply of aluminium and other components for windows and doors, internal fit outs and other commercial building related products, and
- » Industrial - supply of aluminium extrusions and rolled products for industrial uses.

Management does not report on the revenues from external customers for each of the market segments.

### Geographic Information

The Group operates in one geographical area, Australia.

### Information About Major Customers

There are no individual major customers who contributed more than 10% of the Group's revenue in either the Financial Year or in 2017.

## 7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Cash at bank and cash in hand	27,566	34,358

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES</b>		
Trade receivables - at amortised cost	<b>65,461</b>	67,856
Loss allowance (i)	<b>(620)</b>	(325)
	<b>64,841</b>	67,531
Other receivables - at amortised cost	<b>562</b>	428
	<b>65,403</b>	67,959
Disclosed in the financial statements as:		
Current trade and other receivables	<b>65,403</b>	67,959
Non-current other receivables	-	-
	<b>65,403</b>	67,959

The average credit period on sales of goods is approximately 48 days (2017: 49 days). No interest is charged on trade receivables.

(i) Effective January 1, 2018, the group adopted AASB 9. Impairment of financial assets is based on an expected credit loss ("ECL") model under AASB 9, rather than the incurred loss model under AASB 139. ECLs are a probability-weighted estimate of credit losses. In accordance with AASB 9 para 7.2.20 the group will recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date. The group calculated ECLs based on consideration of customer-specific factors and actual credit loss experience over the past 2 years. As a percentage of revenue the group's actual credit loss experience has not been material. There was no material impact of transition to AASB 9 on the Group's statement of financial position.

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>(i) Movement in the loss allowance</b>		
Balance at beginning of the financial year	<b>(325)</b>	(400)
Amounts written off during the financial year	<b>93</b>	87
Increase in allowance recognised in profit or loss	<b>(388)</b>	(12)
Balance at end of the financial year	<b>(620)</b>	(325)

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Allowances are made for known doubtful debts at the time of appointment of administrators, liquidators or other formal insolvency events.

Included in the Group's trade receivables are debtors with balances in 61 days and over of \$1,145,000 (2017: \$475,000), refer note 29(h). No further amount has been provided for as the Group believes that this past due balance is still considered recoverable. In relation to some of the balances the Group holds personal property securities registrations and/or personal guarantees and/or trade indemnity insurance for 90% of the amount outstanding (after applying the deductible). The average age of these receivables is 71 days (2017: 49 days). Aging past due but not impaired was calculated based on agreed customers individual terms.

## 8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES CONTINUED

Aging past due but not impaired:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
1-30 days past due	13,867	14,249
31-60 days past due	1,641	1,289
61+ days past due	660	216
Total	16,168	15,754

Included in the loss allowance is the expected credit loss for those individually impaired trade receivables with a balance of \$485,000 (2017: \$259,000). The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds.

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
1-30 days past due	-	-
31-60 days past due	21	-
61+ days past due	464	259
Total	485	259

Major concentrations of credit risk are in the construction, transport, consumer durable and electrical industries in Australia. Furthermore, the Company has credit insurance cover which requires ongoing management of credit accounts with monthly reports provided to the Insurer. Accordingly, there is no further credit provision required in excess of the loss allowance. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.



	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>9. CURRENT ASSETS - INVENTORIES</b>		
Raw materials and stores	19,926	19,115
Work in progress	1,975	2,165
Finished goods	63,059	57,635
	<b>84,960</b>	78,915
All inventories are net of provision and are expected to be recovered within 12 months.		
<b>10. CURRENT ASSETS - PREPAYMENTS</b>		
Prepayments	1,197	729
<b>11. DEFERRED TAX ASSETS</b>		
Deferred tax assets	2,857	2,857

The Group has recognised deferred tax assets of \$2,857,000 (2017: \$2,857,000) (the Company \$2,650,000 - 2017: \$2,650,000) based upon the forecasted operational performance the recovery of these prior year losses in the short term is more than probable.

## 12. NON-CURRENT ASSETS - INVESTMENTS

### Details of subsidiaries

The financial statements incorporate the assets, liabilities and results of the following subsidiaries:

	EQUITY HOLDING		
ENTITY NAME	2018 %	2017 %	COUNTRY OF INCORPORATION
Aluminium Extrusion & Distribution Pty Limited <sup>1</sup>	100	100	Australia
Austex Dies Pty Limited	100	100	Australia

<sup>1</sup> Subsidiary has been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by ASIC. The Company and Aluminium Extrusion & Distribution Pty Limited have entered into a deed of cross guarantee (**Deed**). Refer to note 27.

### 13. RELATED PARTIES

#### Parent entities

The ultimate parent entity within the Group is Capral Limited.

#### Equity interests in controlled entities

Interests in controlled entities are set out in Note 12.

#### Transactions with key management personnel

Refer to Note 35 in relation to securities granted and forfeited during the Financial Year under the Long Term Incentive Plan that include rights granted and shares issued, to Capral's Managing Director, Chief Financial Officer, General Manager (Operations) and Company Secretary (who are key management personnel).

Details of the compensation of, and transactions with, each Director of the Company and key management personnel of the Group are set out in the Directors' Report and in particular, the Remuneration Report.

#### Transactions with other related parties

In 2018 as the parent entity in the consolidated entity, the Company has a non-interest bearing loan of \$4,150,000 (2017: \$3,650,000) advanced from a controlled entity, Austex Dies Pty Limited. The loan is payable on demand. The Company has entered into the following transactions with controlled entities:

- » Rental expense of \$69,749<sup>1</sup> (2017: \$152,000) – Aluminium Extrusion & Distribution Pty Limited
- » Purchase of dies of \$3,704,000 (2017: \$4,527,000) – Austex Dies Pty Limited

These transactions were conducted on arm's length commercial terms and conditions at market rates.

<sup>1</sup> All tangible and intangible assets of Aluminium Extrusion & Distribution Pty Limited were transferred to the parent entity on 13 June 2018.

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>14. PROPERTY, PLANT AND EQUIPMENT</b>		
Freehold land		
At valuation	1,200	1,200
Accumulated depreciation	-	-
Net book amount	1,200	1,200
Buildings		
At valuation	3,440	3,393
Accumulated depreciation	(427)	(250)
Net book amount	3,013	3,143
Leasehold improvements		
At cost	11,729	11,532
Accumulated depreciation	(7,552)	(7,318)
Accumulated impairment	(2,069)	(2,069)
Net book amount	2,108	2,145
Total land and buildings	6,321	6,488
Plant, machinery and equipment		
At cost	227,914	223,690
Accumulated depreciation	(149,147)	(144,746)
Accumulated impairment	(48,962)	(48,962)
Net book amount	29,805	29,982
Capital work in progress at cost	8,805	3,603
Net plant, machinery and equipment	38,610	33,585
Total property, plant and equipment - net book value	44,931	40,073

The following useful lives are used in the calculation of depreciation:

Buildings	20-33 Years
Leasehold improvements	5-25 Years
Plant and equipment	3-25 Years

#### (i) Valuations of land and building:

An independent valuation of the Group's land and buildings was performed in November 2017 using Capitalisation and Direct Comparison approaches to determine the fair value of the land and buildings. The valuations, which conform to International Valuation Standards, were determined by reference to recent market transactions on arm's length terms at the time. The fair value of the Land and Buildings is \$1,200,000 and \$2,950,000 respectively.

## 14. PROPERTY, PLANT AND EQUIPMENT CONTINUED

### Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and prior financial year are set out below:

	FREEHOLD LAND AT FAIR VALUE	BUILDINGS AT FAIR VALUE	LEASEHOLD IMPROVE- MENTS AT COST	PLANT AND EQUIPMENT AT COST	CAPITAL WORK IN PROGRESS AT COST	TOTAL
CONSOLIDATED	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2018</b>						
Opening net book amount	1,200	3,143	2,145	29,982	3,603	<b>40,073</b>
Additions	-	33	164	2,697	7,495	<b>10,389</b>
Disposals	-	-	-	(4)	-	<b>(4)</b>
Transfers	-	13	35	2,245	(2,293)	-
Revaluation	-	-	-	-	-	-
Depreciation charge (Note 2(a))	-	(176)	(236)	(5,115)	-	<b>(5,527)</b>
<b>Net book amount at 31 December 2018</b>	<b>1,200</b>	<b>3,013</b>	<b>2,108</b>	<b>29,805</b>	<b>8,805</b>	<b>44,931</b>
<b>2017</b>						
Opening net book amount	1,200	2,412	2,092	31,276	2,135	<b>39,115</b>
Additions	-	59	131	3,478	2,162	<b>5,830</b>
Disposals	-	-	-	-	-	-
Transfers	-	20	156	518	(694)	-
Revaluation	-	793	-	-	-	<b>793</b>
Depreciation charge (Note 2(a))	-	(141)	(234)	(5,290)	-	<b>(5,665)</b>
<b>Net book amount at 31 December 2017</b>	<b>1,200</b>	<b>3,143</b>	<b>2,145</b>	<b>29,982</b>	<b>3,603</b>	<b>40,073</b>

### Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which that asset belongs. Management views the Group as representing one CGU.

If there is an indication of impairment, the recoverable amount of property, plant & equipment and intangible assets will be determined by reference to a value in use discounted cash flow valuation of the Group, utilising financial forecasts and projections.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Cash flows that may result from prior period tax losses are not taken into account. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

#### 14. PROPERTY, PLANT AND EQUIPMENT CONTINUED

##### The result of Impairment assessment as at 31 December 2018

As a result of the non-current assets recoverable amount assessment performed, Capral has determined that no impairment write-down of non-current assets as at 31 December 2018 was necessary. The recoverable amount of the CGU estimated by management exceeded the carrying amount of assets by \$1,666,000.

##### The key assumptions used in preparing the value in use cash flow valuation as at 31 December 2018 are as follows:

The table below shows key assumptions in the value in use calculation as at 31 December 2018 and value of the input to which the key assumption must change in isolation for the estimated recoverable amount to be equal to its carrying value.

	INPUT TO THE MODEL	BREAKEVEN INPUT
WACC (Post-tax)	11.40%	11.70%
Average volumes increase 2020-23 p.a.	1.00%	0.96%
Long-term growth rate	1.00%	0.96%

The valuation is based on forecast and projected cash flows for a 5 year period commencing January 2019 with a terminal value being applied at the end of this period. The cash flow assumptions are based on management approved budgets for the period from January 2019 to December 2019. Beyond this date cash flow projections until 31 December 2023 are based on projected volume growth and expected improvements in EBITDA per tonne (refer below). Sales volumes are projected to grow at 1.0% per annum. This growth rate corresponds with the average long-term growth rate based on external economic sources.

##### Volumes

In determining assumptions in relation to sales volumes into the commercial and residential/domestic market, Capral have based these on reputable third party long term economic forecast reports with reference to historical performance and seasonal trends. The volume projections estimate the sales volumes at around 65,000 tonnes at the end of the 5 year period.

##### Margins

In setting price and margin assumptions, historical performance trends and the impact of previous price increases were reviewed in assessing the timing and quantum of future price increases.

Recent history in relation to direct costs and the impact of higher volumes on manufacturing variances were assessed in setting assumptions on absorbed conversion costs.

In forecasting the margin, Management has considered the production capacity of Capral compared to current volumes and concluded that increase in production volumes to satisfy demand expected by independent market predictions can be attained by predominately increasing variable cost with very limited additional fixed cost expenditure. This is reflected in the resultant average EBITDA per tonne increase of 2.7% per annum from 2020 to 2023.

##### Working Capital and Capital Expenditure

These assumptions were set in light of strategic initiatives and approved capital expenditure, with working capital flexed in relation to the assumed production capacity for volumes throughout the forecast period and historical performance and considering revisions to trading terms with key suppliers and customers.

##### Discount rate

A discount rate of 11.4%, representing the Company's post-tax weighted average cost of capital has been applied to the cash flow projections.

## 14. PROPERTY, PLANT AND EQUIPMENT CONTINUED

### Economic Factors

Assumptions including Gross Domestic Production (**GDP**), the Consumer Price Index (**CPI**), expected wage and salary increases, foreign exchange and the future impact of aluminium prices have been made with reference to third party economic forecasts and the Company's strategic plans and budgets.

### Prior Period Tax Losses

Cash flows that may result from prior period tax losses are not taken into account in determining the recoverable amount of assets.

## 15. INTANGIBLES

### CONSOLIDATED

#### 2018

	OTHER INTELLECTUAL PROPERTY	SOFTWARE	TOTAL
	\$'000	\$'000	\$'000
Cost	15,915	24,136	<b>40,051</b>
Accumulated amortisation	(8,353)	(21,358)	<b>(29,711)</b>
Accumulated impairment	(7,562)	(2,470)	<b>(10,032)</b>
<b>Net book value</b>	<b>-</b>	<b>308</b>	<b>308</b>

#### 2017

Cost	15,915	24,071	<b>39,986</b>
Accumulated amortisation	(8,353)	(21,265)	<b>(29,618)</b>
Accumulated impairment	(7,562)	(2,470)	<b>(10,032)</b>
<b>Net book value</b>	<b>-</b>	<b>336</b>	<b>336</b>

## 15. INTANGIBLES CONTINUED

### Reconciliations

Reconciliations of the carrying amounts of each class of intangibles at the beginning and end of the current Financial Year are set out below:

	OTHER INTELLECTUAL PROPERTY	SOFTWARE	TOTAL
	\$'000	\$'000	\$'000
<b>CONSOLIDATED</b>			
<b>2018</b>			
Opening net book amount	-	336	<b>336</b>
Additions	-	65	<b>65</b>
Amortisation	-	(93)	<b>(93)</b>
<b>Net book amount at 31 December 2018</b>	<b>-</b>	<b>308</b>	<b>308</b>
<b>2017</b>			
Opening net book amount	-	117	<b>117</b>
Additions	-	399	<b>399</b>
Amortisation	-	(180)	<b>(180)</b>
<b>Net book amount at 31 December 2017</b>	<b>-</b>	<b>336</b>	<b>336</b>

## 16. ASSETS PLEDGED AS SECURITY

In accordance with the security arrangements of liabilities disclosed in Note 24, all assets of the Group have been pledged as security. The holder of the security does not have the right to sell or repledge the assets other than in the event of default under the principal finance agreement where the security is enforced.

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>17. CURRENT LIABILITIES - PAYABLES</b>		
Trade payables (i)	<b>69,493</b>	65,711
Goods and services tax payable	<b>1,051</b>	126
Other payables	<b>7,854</b>	8,196
	<b>78,398</b>	74,033

(i) The average credit period on purchases is 81 days from the end of the month (2017: 73 days). No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>18. PROVISIONS</b>		
<b>Current</b>		
Employee benefits	11,777	11,732
Make good on leased assets <sup>1</sup>	819	782
Other <sup>2</sup>	274	124
	12,870	12,638
<b>Non-current</b>		
Employee benefits	1,591	1,420
Make good on leased assets <sup>1</sup>	2,119	1,887
Other <sup>3</sup>	961	1,645
	4,671	4,952

1 Provision for make good on leased assets comprises obligations relating to site closure and other costs associated with operating lease rental properties.

2 Other current provisions include provisions for insurance claims and provisions for customer claims including metal returns net of scrap and pricing adjustments.

3 Other non-current provisions include amounts relating the straight-lining of fixed rate increases in rental payments.

	MAKE GOOD ON LEASED ASSETS	OTHER	TOTAL
CONSOLIDATED	\$'000	\$'000	\$'000
<b>Movements in carrying amounts</b>			
Carrying value at the beginning of the financial year	2,669	1,769	4,438
Provision utilised in the year	(63)	(897)	(960)
Additional amounts provided	332	363	695
Carrying value at the end of the financial year	2,938	1,235	4,173

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>19. DEFERRED INCOME - CURRENT</b>		
Deferred income – other	147	100
	147	100



	2018	2017	2018	2017
	No. 000	No. 000	\$'000	\$'000
<b>20. ISSUED CAPITAL</b>				
<b>(a) Share capital</b>				
Ordinary shares: fully paid	<b>480,289</b>	477,107	<b>425,744</b>	425,744

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

**(b) Movement in ordinary share capital**

DATE	DETAILS	NUMBER OF SHARES	ISSUE PRICE	\$'000
January 2017	Balance at the beginning of the financial year	474,684,577	-	425,744
	Shares issued against performance rights	2,422,880	-	-
December 2017	Balance at the end of the financial year	477,107,457	-	425,744
January 2018	Balance at the beginning of the financial year	477,107,457	-	425,744
	Shares issued against performance rights	3,181,877	-	-
December 2018	Balance at the end of the financial year	480,289,334	-	425,744

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>21. RESERVES AND ACCUMULATED LOSSES</b>		
Asset revaluation reserve	1,014	1,014
Equity-settled compensation reserve	10,999	10,413
	12,013	11,427
Accumulated losses	(306,229)	(304,279)
	(294,216)	(292,852)
<b>(a) Movements in reserves were:</b>		
<b>Equity-settled compensation reserve</b>		
Balance at the beginning of the financial year	10,413	9,737
Expense recognised	586	676
Balance at the end of the financial year	10,999	10,413
<b>Asset revaluation reserve</b>		
Balance at the beginning of the financial year	1,014	221
Revaluation increase	-	793
Balance at the end of the financial year	1,014	1,014
<b>(b) Accumulated losses</b>		
Balance at the beginning of the financial year	(304,279)	(310,430)
Net profit attributable to members of Capral	6,415	12,085
Dividends paid	(8,365)	(5,934)
Balance at the end of the financial year	(306,229)	(304,279)
<b>22. DIVIDENDS</b>		
Ordinary shares:	8,365	5,934
<b>Franking credits</b>		
Franking credits available for subsequent financial years based on a tax rate of 30% (2017:30%)	21,048	24,633

	CONSOLIDATED	
	2018 Cents	2017 Cents
<b>23. EARNINGS PER SHARE</b>		
Basic earnings per share	1.34	2.54
Diluted earnings per share	1.28	2.45

## 23. EARNINGS PER SHARE CONTINUED

Profit used in the calculation of basic and diluted profit per share for 2018 was \$6,415,000 (2017: \$12,085,000). The weighted average numbers of ordinary shares on issue used in the calculation of basic and diluted earnings per share were 479,740,133 and 499,416,674 respectively (2017: 476,669,347 and 493,768,430 respectively).

There are 19,676,541 weighted average performance rights (2017: 18,458,123 rights) and Nil options (2017: Nil options), with the potential to dilute future earnings at the end of the Financial Year.

## 24. STAND BY ARRANGEMENT AND CREDIT FACILITIES

### Secured bank loan facilities

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Amount used	-	-
Amount unused	50,000	50,000
Total available facilities	50,000	50,000

The Revolver facility with Harrenvale Corporation (Australia) Pty Ltd (previously GE Commercial Corporation (Australia) Pty Ltd) was cancelled in January 2017, as the Company entered into a new facility arrangement with Australia and New Zealand Banking Group Limited (ANZ).

The ANZ facility is for a renewed term expiring on 31 January 2020 (originally 31 January 2019) and is fully secured against the Capral group, consisting of:

- » \$45 million Multi-option Facility which includes a Loan Facility, Trade Instruments and Trade Finance;
- » \$5 million Asset Finance Facility;
- » \$0.5 million Commercial Card Facility.

## 25. COMMITMENTS FOR EXPENDITURE CAPITAL

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities payable:

Within one year	1,521	3,813
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## 26. COMMITMENTS FOR EXPENDITURE OPERATING LEASES

Commitments for minimum lease payments in relation to non-cancellable operating leases for office and plant premises are payable as follows:

Within one year	18,290	18,186
Later than one year but not later than five years	60,731	40,509
Later than five years	27,421	15,314
	106,442	74,009

## 26. COMMITMENTS FOR EXPENDITURE OPERATING LEASES CONTINUED

Operating leases relate to office and plant premises with lease terms of between 2 to 20 years, with options to extend for a further 3 to 10 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>Non-cancellable operating lease receivable</b>		
Within one year	1,324	1,676
Later than one year but not later than five years	-	1,117
Later than five years	-	-
	<b>1,324</b>	<b>2,793</b>

Operating lease receivables relate to the sublease of office and plant premises with an original lease term of 5 years, with an option to extend for a further term of around 5 years.

## 27. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418, the wholly owned subsidiary, Aluminium Extrusion and Distribution Pty Limited (**AED**) is relieved from the Corporations Act 2001 requirement for the preparation, audit and lodgement of financial reports.

It is a condition of that class order that the Company and AED enter into a Deed of Cross Guarantee (**Deed**). Under the Deed the Company guarantees the payment of all debts of AED in full, in the event of a winding up. AED in turn has guaranteed the payment of the debts of the Company in full in the event that it is wound up.

For the 2018 and 2017 financial years, the closed group represents the Company and its wholly owned Australian subsidiaries (except for Austex Dies Pty Limited).

**27. DEED OF CROSS GUARANTEE CONTINUED**

	CLOSED GROUP	
<b>STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME</b>	<b>2018</b> \$'000	<b>2017</b> \$'000
Revenue	<b>454,150</b>	447,624
Other income	<b>470</b>	500
Raw materials and consumables used	<b>(286,838)</b>	(272,146)
Employee benefits expense	<b>(87,630)</b>	(88,555)
Depreciation and amortisation expense	<b>(5,523)</b>	(5,740)
Finance costs	<b>(1,081)</b>	(971)
Freight expense	<b>(11,959)</b>	(11,423)
Occupancy costs	<b>(19,129)</b>	(19,967)
Repairs and maintenance expense	<b>(6,719)</b>	(6,839)
Restructuring costs	<b>(29)</b>	(192)
Other expenses	<b>(29,818)</b>	(31,229)
Profit before income tax	<b>5,894</b>	11,062
Income tax expense	-	-
Profit for the year	<b>5,894</b>	11,062
Other comprehensive profit for the year (net of tax)		
Revaluation increase	-	-
Total comprehensive profit for the year	<b>5,894</b>	11,062
<b>Summary of movements in accumulated losses</b>		
Accumulated losses at the beginning of the year	<b>(308,886)</b>	(314,014)
Profit for the year	<b>5,894</b>	11,062
Payment of dividends	<b>(8,365)</b>	(5,934)
Accumulated losses at the end of the year	<b>(311,357)</b>	(308,886)

## 27. DEED OF CROSS GUARANTEE CONTINUED

	CLOSED GROUP	
	2018 \$'000	2017 \$'000
<b>STATEMENT OF FINANCIAL POSITION</b>		
<b>Current assets</b>		
Cash and cash equivalents	27,310	34,093
Trade and other receivables	65,195	67,624
Inventories	84,938	78,884
Other financial assets	561	32
Prepayments	1,271	916
<b>Total current assets</b>	<b>179,275</b>	<b>181,549</b>
<b>Non-current assets</b>		
Deferred tax assets	2,650	2,650
Investment in subsidiary	1,100	1,100
Property, plant and equipment	44,184	39,374
Other intangible assets	308	337
<b>Total non-current assets</b>	<b>48,242</b>	<b>43,461</b>
<b>Total assets</b>	<b>227,517</b>	<b>225,010</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	83,780	78,860
Provisions	12,447	12,245
Other financial liabilities	169	644
Deferred income	147	100
<b>Total current liabilities</b>	<b>96,543</b>	<b>91,849</b>
<b>Non-current liabilities</b>		
Provisions	4,574	4,876
<b>Total non-current liabilities</b>	<b>4,574</b>	<b>4,876</b>
<b>Total liabilities</b>	<b>101,117</b>	<b>96,725</b>
<b>NET ASSETS</b>	<b>126,400</b>	<b>128,285</b>
<b>EQUITY</b>		
Issued capital	425,744	425,744
Reserves	12,013	11,427
Accumulated losses	(311,357)	(308,886)
<b>TOTAL EQUITY</b>	<b>126,400</b>	<b>128,285</b>

## 28. FAIR VALUE MEASUREMENT

Some of the Group's assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these assets and liabilities are determined (in particular, valuation technique(s) and input(s) used).

ASSETS / LIABILITIES	FAIR VALUE AS AT		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP OF UNOBSERVABLE INPUT(S)
	31/12/18	31/12/17				
Foreign currency forward contracts (see note 29(f))	Assets – \$547,518 <sup>1</sup> Liabilities – nil	Assets – nil Liabilities – \$431,778 <sup>1</sup>	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rate (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risks of various counterparties.	n/a	n/a
Land and buildings	Land – \$1,200,000 Buildings – \$3,013,000	Land – \$1,200,000 Buildings – \$3,144,000	Level 3	Capitalisation and Direct Comparison approaches.	Comparable market net rental and comparable market sales transactions.	The higher/(lower) the comparable market net rental amount and the higher/(lower) the comparable market sales transactions, the higher the fair value.

<sup>1</sup> presented under Other Financial Assets (2017: presented under Other Financial Liabilities).

## 29. FINANCIAL INSTRUMENTS

### (a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2017.

The capital structure of the Group consists of debt, as disclosed in Note 24, cash and cash equivalents, and equity holders of the parent, comprising issued capital, reserves and accumulated losses, as disclosed in Notes 7, 20 and 21 respectively. The Directors review the capital structure on a regular basis, and at least annually. As a part of this review the Directors consider the cost of capital and the risks associated with each class of capital. Based on the determinations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The Group prepares monthly management accounts, comprising Balance Sheet, Profit and Loss Statement and Cash Flow Statement updates for the current financial year and the current year forecast. The forecast is used to monitor the Group's capital structure and future capital requirements, taking into account future capital requirements and market conditions.

## 29. FINANCIAL INSTRUMENTS CONTINUED

The Group complied with its borrowing financial covenants under its current facility detailed in Note 24 as at 31 December 2018 and 31 December 2017 as follows:

FINANCIAL COVENANT DESCRIPTION	REQUIRED VALUE	2018 ACTUAL VALUE	2017 ACTUAL VALUE
EBITDA Interest Cover Ratio	3.00:1	15.23:1	27.89:1
Minimum Tangible Net Worth	AUD 50.0m	AUD 129.5m	AUD 130.0m
Borrowing Base Ratio	0.80:1	0.42:1	0.34:1
Distributions	AUD 8.7M	AUD 8.4M	AUD 5.9M
Security Cover Ratio	1.00:1	0.41:1	0.33:1
Inventory Cover Ratio	0.80:1	0.90:1	0.89:1

### (b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1(c).

### (c) Categories of financial instruments

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>Financial Assets</b>		
Trade and other receivables	65,403	67,959
Cash and cash equivalents	27,566	34,358
Other financial assets <sup>1</sup>	561	32
<b>Financial Liabilities</b>		
Amortised cost	78,398	74,033
Other financial liabilities <sup>2</sup>	169	644

<sup>1</sup> capitalised borrowing costs \$13,000 and foreign exchange contract mark-to-market \$548,000 (2017: capitalised borrowing costs \$32,000).

<sup>2</sup> finance lease liabilities \$169,000 (2017: finance lease liabilities \$212,000 and foreign exchange contract mark-to-market \$432,000).

### (d) Financial risk management objectives

The Group's treasury function monitors and manages the financial risks relating to the operations of the Group through internal risk reports. These risks include market risk (including currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. These risks are analysed below.

### (e) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 29(f)) and interest rates (refer note 29(g)). From time to time, the Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including foreign exchange forward contracts to hedge the exchange rate risk arising on the purchase of aluminium log and rolled product from overseas in US dollars.



## 29. FINANCIAL INSTRUMENTS CONTINUED

At a Group and Company level, market risk exposures are measured using a sensitivity analysis. There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures the risk during the Financial Year.

### (f) Foreign currency risk management

The Group undertakes certain transactions in foreign currencies, resulting in exposures to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. It is the policy of the Group to enter into forward foreign exchange contracts from time to time to manage any material risk associated with anticipated foreign currency sales and purchase transactions.

The carrying amount of the Group's and Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
USD (cash)	6,928	7,235
EURO (cash)	1,295	-
USD (trade payables)	(17,760)	(12,428)
EURO (trade payables)	(320)	-
JPY (trade payables)	(56)	-
NZD (trade payables)	(1)	-
EURO (trade receivables)	-	214
USD (trade receivables)	1,776	2,238

### Foreign currency sensitivity

The Group is exposed to EUR, JPY, NZD and USD (2017: EUR and USD).

In order to mitigate foreign currency risk at reporting date, the Group entered into foreign exchange forward contracts. The Group's exposure to foreign exchange rate fluctuations was primarily limited to trade payables and trade receivables outstanding at reporting date denominated in currencies other than Australian dollar (**AUD**). The total value of trade payables denominated in currencies other than the AUD at reporting date was \$18,137,000 (2017: \$14,945,000). The total value of trade receivables denominated in currencies other than the AUD at reporting date was \$1,776,000 (2017: \$2,870,000).

The following table details the Group's sensitivity to a 10% increase and decrease in the AUD against the relevant unhedged foreign currency. 10% represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only foreign currency denominated monetary items outstanding at 31 December 2018 and 31 December 2017 and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit.

## 29. FINANCIAL INSTRUMENTS CONTINUED

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>Profit or loss (after tax)</b>		
AUD strengthens by 10% against USD	1,598	1,240
AUD weakens by 10% against USD	(1,598)	(1,240)
AUD strengthens by 10% against EUR	32	33
AUD weakens by 10% against EUR	(32)	(33)
AUD strengthens by 10% against JPY	6	-
AUD weakens by 10% against JPY	(6)	-
AUD strengthens by 10% against NZD	-	-
AUD weakens by 10% against NZD	-	-

**Forward foreign exchange contracts**

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific material foreign currency payments and receipts.

The following table details the forward foreign currency (FC) contracts outstanding at the end of the reporting period:

OUTSTANDING CONTRACTS	FOREIGN CURRENCY		FAIR VALUE	
	31/12/18 FC\$'000	31/12/17 FC\$'000	31/12/18 \$'000 GAIN/(LOSS)	31/12/17 \$'000 GAIN/(LOSS)
Buy EUR	724	2,659	(19)	(35)
Buy JPY	4,550	-	1	-
Buy USD	20,820	16,412	566	(397)

**(g) Interest rate risk management**

The Group interest rate risk arises from borrowings, cash and derivatives.

The Group is exposed to interest rate risk as the Group borrows funds at floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles. The Group's exposure to interest rate risk at the reporting date was considered insignificant and as a result the Group did not enter into interest rate options.

## 29. FINANCIAL INSTRUMENTS CONTINUED

The Group's exposures to interest rates on financial assets and financial liabilities are detailed below.

### Interest rate sensitivity

The sensitivity analysis below shows the effect on profit or loss after tax for the Financial Year if there is a change in interest rates with all other variables held constant. This is determined by applying the change in interest rates to both derivative and non-derivative instruments at the reporting date that have an exposure to interest rate changes. A 5 basis point (0.05%) increase and a 5 basis point (0.05%) decrease represents Management's assessment of the possible change in interest rates (2017: 3bp or 0.03% increase and 3bp or 0.03% decrease). A positive number indicates an increase in profit.

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>Profit or loss (after tax)</b>		
Impact of a 5bp (2017: 3bp) increase in AUD interest rates		
- Cash and cash equivalents	10	7
Impact of a 5bp (2017: 3bp) decrease in AUD interest rates		
- Cash and cash equivalents	(10)	(7)

### (h) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has exposures to credit risk on cash and cash equivalents, receivables and derivative financial assets. The credit risk on financial assets of the Group which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount, net of any allowances for doubtful debts.

The Group does not have any significant exposure to any individual customer or counterparty. Major concentrations of credit risk are in the construction, transport, consumer durable and electrical industries in Australia. The Company has credit insurance cover which requires ongoing management of credit accounts with monthly reports provided to the Insurer. Experienced credit management and associated internal policies ensure constant monitoring of the credit risk for the Company.

There is no concentration of credit risk with respect to receivables as the Group has a large number of customers.

The ageing of trade receivables is detailed below:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Current	48,808	51,843
1-30 days	13,867	14,249
31-60 days	1,641	1,289
60+ days	1,145	475
	65,461	67,856

## 29. FINANCIAL INSTRUMENTS CONTINUED

### (i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who ensure there is an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate banking facilities and reserve borrowing facilities, complying with covenants, monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Included in Note 24 is a list of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

#### Liquidity and interest risk tables

Financial assets are made up of cash of \$27,566,000 (2017: \$34,358,000) and trade and other receivables of \$65,403,000 (2017: \$67,959,000). Cash is liquid and trade and other receivables are expected to be realised on average within 48 days (2017: 56 days). Cash balances earn 0.03% interest per annum (2017: 0.1%). Trade and other receivables are interest-free.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is a fair representation of management's expectations of actual repayments.

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	GREATER THAN 5 YEARS
CONSOLIDATED	%	\$'000	\$'000	\$'000	\$'000
<b>2018</b>					
Trade and other payables	-	78,398	-	-	-
Floating rate debt	3.13%	-	-	-	-
		<b>78,398</b>	-	-	-
<b>2017</b>					
Trade and other payables	-	74,033	-	-	-
Floating rate debt	2.94%	-	-	-	-
		<b>74,033</b>	-	-	-

### (j) Fair value of financial instruments

The fair values of financial assets, financial liabilities and derivative instruments are determined as follows:

- the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on the discounted cash flow analysis using prices from observable market data; and
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, the discounted cash flow analysis is employed using observable market data for non-option derivatives. For option derivatives, option pricing models are used with key inputs sourced from observable market data.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

### 30. CONTINGENT LIABILITIES

Claims and possible claims, indeterminable in amount, have arisen in the ordinary course of business against entities in the consolidated entity. The Company has fully provided for all known and determinable claims. Based on legal advice obtained, the Directors believe that any resulting liability will not materially affect the financial position of the consolidated entity.

The Company's bankers have granted guarantees in respect of rental obligations on lease commitments, use of utilities infrastructure and international trade facilities. At 31 December 2018 these guarantees totalled \$3,897,087 (2017: \$3,782,684).

### 31. REMUNERATION OF AUDITORS

During the year the auditor of the parent entity and its related practices earned the following remuneration:

#### Auditor of the parent entity

Audit or review of financial reports of the entity or any entity in the consolidated entity

Other non-audit services

- tax compliance

Total remuneration

CONSOLIDATED	
2018 \$	2017 \$
285,200	285,000
104,398	52,430
389,598	337,430

It is the Group's policy to employ the Company's auditors, Deloitte Touche Tohmatsu, on assignments additional to their statutory duties where their expertise and experience is considered invaluable to the assignment.

### 32. EVENTS AFTER REPORTING DATE

No matter or circumstance has arisen since the end of the Financial Year that has significantly affected, or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

### 33. NOTES TO THE CASH FLOW STATEMENT

#### (i) Reconciliation of cash and cash equivalents

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>Reconciliation of cash and cash equivalents</b>		
For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank and short term deposits at call net of bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
Cash at bank and on hand	27,566	34,358
	<b>27,566</b>	<b>34,358</b>

#### (ii) Reconciliation of profit for the year to net cash flows from operating activities

Profit for the year	6,415	12,085
<b>Non-cash items:</b>		
Depreciation and amortisation of non-current assets	5,620	5,844
Loss on sale of property, plant and equipment	3	-
Share-based payments expense	586	676
Interest expense reversed but not paid	-	(50)
Interest income reclassified to investing activities	(18)	(15)
<b>Change in assets and liabilities:</b>		
Decrease/(increase) in current receivables	2,556	(4,849)
(Increase)/decrease in financial assets	(529)	465
Increase in inventories	(6,032)	(3,705)
(Increase)/decrease in prepayments	(468)	147
Increase in trade and other payables	4,351	897
Increase in employee benefit provisions	2,802	1,113
Decrease in other provisions	(2,850)	(144)
Increase/(decrease) in deferred income	47	(1)
(Decrease)/increase in other financial liabilities	(475)	644
<b>Net cash provided by operating activities</b>	<b>12,008</b>	<b>13,107</b>

#### (iii) Details of finance facilities are included in note 24 to the financial statements.

#### (iv) Non-cash financing activities

There were no non-cash financing activities during the Financial Year or the 2017 year.

**34. PARENT ENTITY DISCLOSURES**

	COMPANY	
	2018 \$'000	2017 \$'000
<b>FINANCIAL POSITION</b>		
<b>Assets</b>		
Current assets - third parties	180,377	182,637
Total assets	227,518	222,110
<b>Liabilities</b>		
Current liabilities - third parties	94,696	90,412
Total liabilities	103,415	98,938
<b>Equity</b>		
Issued capital	425,744	425,744
Accumulated losses	(312,640)	(312,985)
Equity-settled compensation reserve	10,999	10,413
Total Equity	124,103	123,172
<b>Financial Performance</b>		
Profit for the year	5,894	11,062
Other comprehensive income	-	-
Total comprehensive profit	5,894	11,062
<b>Guarantees entered into by the parent entity in relation to the debts of its subsidiaries</b>		
Deed of cross guarantee - refer Note 27	-	-
<b>Contingent liabilities of the parent entity</b>		
Refer note 30		
<b>Commitments for the acquisition of property, plant and equipment by the parent entity</b>		
Commitments for the acquisition of property, plant and equipment by the parent entity		
Within one year	1,521	3,813



### 35. SHARE-BASED PAYMENTS

#### Performance Share Rights

#### Executive and Senior Management

Refer to section 2 of the Remuneration Report for details of rights issued under the Long Term Incentive Plan.

The following share-based payment arrangements were in existence during the current reporting period:

PERFORMANCE RIGHT SERIES (LTIP)	NUMBER AS AT 31 DEC 18	GRANT DATE	LAST TESTING DATE	EXERCISE PRICE \$	FAIR VALUE AT GRANT DATE \$
Issued 7 March 2016 <sup>1</sup>	2,125,000	07/03/2016	31/12/2018	-	0.08
Issued 7 March 2016 <sup>1</sup>	2,125,000	07/03/2016	31/12/2018	-	0.10
Issued 10 March 2017 <sup>2</sup>	2,250,000	10/03/2017	31/12/2019	-	0.13
Issued 10 March 2017 <sup>2</sup>	2,250,000	10/03/2017	31/12/2019	-	0.15
Issued 6 March 2018 <sup>3</sup>	2,450,000	6/03/2018	31/12/2020	-	0.12
Issued 6 March 2018 <sup>3</sup>	2,450,000	6/03/2018	31/12/2020	-	0.10

<sup>1</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the financial year ended 31 December 2016 have an average vesting date of 1 March 2019.

<sup>2</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the financial year ended 31 December 2017 have an average vesting date of 1 March 2020.

<sup>3</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the financial year ended 31 December 2018 have an average vesting date of 1 March 2021.

The following share-based payment arrangements were in existence during the comparative reporting period:

	NUMBER AS AT 31 DEC 17	GRANT DATE	LAST TESTING DATE	EXERCISE PRICE \$	FAIR VALUE AT GRANT DATE \$
Issued 6 March 2015 <sup>1</sup>	1,875,000	06/03/2015	31/12/2017	-	0.13
Issued 6 March 2015 <sup>1</sup>	625,127	06/03/2015	31/12/2017	-	0.16
Issued 6 March 2015 <sup>1</sup>	624,746	06/03/2015	31/12/2017	-	0.16
Issued 7 March 2016 <sup>2</sup>	2,125,000	07/03/2016	31/12/2018	-	0.08
Issued 7 March 2016 <sup>2</sup>	2,125,000	07/03/2016	31/12/2018	-	0.10
Issued 10 March 2017 <sup>3</sup>	2,250,000	10/03/2017	31/12/2019	-	0.13
Issued 10 March 2017 <sup>3</sup>	2,250,000	10/03/2017	31/12/2019	-	0.15

<sup>1</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the financial year ended 31 December 2015 have an average vesting date of 1 March 2018.

<sup>2</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the financial year ended 31 December 2016 have an average vesting date of 1 March 2019.

<sup>3</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the financial year ended 31 December 2017 have an average vesting date of 1 March 2020.

### 35. SHARE-BASED PAYMENTS CONTINUED

Inputs into the model	PERFORMANCE RIGHTS (LTIP)			
	06 March 2018	10 March 2017	07 March 2016	06 March 2015
Grant date	<b>6/03/2018</b>	10/03/2017	7/03/2016	6/03/2015
Dividend yield	<b>6.3%</b>	5.7%	0%	0%
Risk free yield	<b>2.15%</b>	2.14%	1.90%	1.82%
Expected volatility	<b>55%</b>	60%	55%	55%
Last testing date	<b>31/12/2020</b>	31/12/2019	31/12/2018	31/12/2017
Exercise price	<b>n.a</b>	n.a	n.a	n.a
Share price at grant date	<b>\$0.16</b>	\$0.18	\$0.10	\$0.16
Performance right life	<b>3 years</b>	3 years	3 years	3 years

#### Managing Director

During the Financial Year, 2,200,000 rights were issued to Mr A. Dragicevich.

During the comparative financial year, 2,000,000 rights were issued to Mr A. Dragicevich.

The following rights were in existence during the current reporting period, subject to the achievement of performance conditions and have been independently valued as follows:

SHARE RIGHTS	NUMBER AS AT 31 DEC 18	GRANT DATE	LAST TESTING DATE	EXERCISE PRICE \$	FAIR VALUE AT GRANT DATE \$
Issued 14 April 2016 <sup>1</sup>	1,250,000	14/04/2016	31/12/2018	-	\$0.08
Issued 14 April 2016 <sup>1</sup>	1,250,000	14/04/2016	31/12/2018	-	\$0.11
Issued 11 May 2017 <sup>2</sup>	1,000,000	11/05/2017	31/12/2019	-	\$0.07
Issued 11 May 2017 <sup>2</sup>	1,000,000	11/05/2017	31/12/2019	-	\$0.11
Issued 19 April 2018 <sup>3</sup>	1,100,000	19/04/2018	31/12/2020	-	\$0.10
Issued 19 April 2018 <sup>3</sup>	1,100,000	19/04/2018	31/12/2020	-	\$0.12

<sup>1</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the Financial Year ended 31 December 2016 have an average vesting date of 1 March 2019.

<sup>2</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the Financial Year ended 31 December 2017 have an average vesting date of 1 March 2020.

<sup>3</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the Financial Year ended 31 December 2018 have an average vesting date of 1 March 2021.

### 35. SHARE-BASED PAYMENTS CONTINUED

The following rights were in existence during the comparative reporting period, subject to the achievement of performance conditions and have been independently valued as follows:

SHARE RIGHTS	NUMBER AS AT 31 DEC 17	GRANT DATE	LAST TESTING DATE	EXERCISE PRICE \$	FAIR VALUE AT GRANT DATE \$
Issued 16 April 2015 <sup>1</sup>	1,250,000	16/04/2015	31/12/2017	-	\$0.13
Issued 16 April 2015 <sup>1</sup>	416,750	16/04/2015	31/12/2017	-	\$0.16
Issued 16 April 2015 <sup>1</sup>	416,500	16/04/2015	31/12/2017	-	\$0.16
Issued 14 April 2016 <sup>2</sup>	1,250,000	14/04/2016	31/12/2018	-	\$0.08
Issued 14 April 2016 <sup>2</sup>	1,250,000	14/04/2016	31/12/2018	-	\$0.11
Issued 11 May 2017 <sup>3</sup>	1,000,000	11/05/2017	31/12/2019	-	\$0.07
Issued 11 May 2017 <sup>3</sup>	1,000,000	11/05/2017	31/12/2019	-	\$0.11

<sup>1</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the Financial Year ended 31 December 2015 have an average vesting date of 1 March 2018.

<sup>2</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the Financial Year ended 31 December 2016 have an average vesting date of 1 March 2019.

<sup>3</sup> In accordance with the terms of the LTIP arrangement, performance rights issued during the Financial Year ended 31 December 2017 have an average vesting date of 1 March 2020.

Inputs into the model	19 April 2018	11 May 2017	14 April 2016	16 April 2015
Grant date	<b>19/4/2018</b>	11/5/2017	14/4/2016	16/4/2015
Dividend yield	<b>6.7%</b>	7.4%	0%	0%
Risk free yield	<b>2.25%</b>	1.83%	1.90%	1.82%
Expected volatility	<b>55%</b>	60%	55%	55%
Last testing date	<b>31/12/2020</b>	31/12/2019	31/12/2018	31/12/2017
Share price at grant date	<b>\$0.150</b>	\$0.140	\$0.110	\$0.160
Performance right life	<b>3 years</b>	3 years	3 years	3 years

### 35. SHARE-BASED PAYMENTS CONTINUED

The following table reconciles the outstanding securities granted to the Managing Director and senior management at the beginning and end of the Financial Year:

Performance rights	2018	2017
Number of share performance rights:		
Balance at the beginning of the financial year	<b>18,458,123</b>	15,373,118
Granted during the financial year	<b>7,100,000</b>	6,850,000
Forfeited during the financial year	-	(724,995)
Vested during the financial year	<b>(3,181,877)</b>	(2,422,880)
Lapsed during the financial year	<b>(2,026,246)</b>	(617,120)
<b>Balance at the end of the financial year</b>	<b>20,350,000</b>	18,458,123

The performance rights outstanding at the end of the Financial Year were 20,350,000 (2017: 18,458,123), with a weighted average remaining contractual life of 1.0 year.

### 36. KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation made to directors and other members of key management personnel of the Company and the Group is set out below:

	CONSOLIDATED/COMPANY	
	2018 \$	2017 \$
Short-term benefits	<b>1,968,068</b>	2,214,944
Post-employment benefits	<b>130,157</b>	154,809
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	<b>282,393</b>	368,643
	<b>2,380,618</b>	2,738,396

### 37. COMPARATIVE FIGURES

Comparative figures have been reclassified as follows:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Inventories	-	1,937
Property, plant and equipment	-	(1,937)
	-	-

The above restatement was to correct the 2017 reclassification of the balance of un-amortised spare parts as property, plant and equipment, instead of previously inventories.

# DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that Capral will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of Capral and the consolidated entity;
- (c) in the directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; and
- (d) the directors have been given declarations required by section 295A of the Corporations Act 2001.

At the date of this declaration, Capral is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed, guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion there are reasonable grounds to believe that Capral and the companies to which the ASIC Class Order applies, as detailed in Note 27 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors



**R.L. WOOD-WARD**  
CHAIRMAN



**A. DRAGICEVICH**  
MANAGING DIRECTOR

**Sydney**

22 February 2019



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# Independent Auditor's Report to the Members of Capral Limited

## Report on the Audit of the Financial Report

We have audited the financial report of Capral Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 31 December 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 other explanatory information, 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 31 December 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.

### *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 for 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 the scope of our audit responded to the Key Audit Matter
<p><b>Carrying value of property, plant and equipment</b></p> <p>As disclosed in Note 14, the Group has property, plant and equipment held at a written down value of \$44,931,000 as at 31 December 2018, net of impairment losses of \$41,400,000 recognised in FY2013.</p> <p>Note 1c(j) outlines that the determination of the carrying value of the property, plant and equipment, which requires significant judgement by management in assessing for any indicators of impairment and preparing a value-in-use discounted cash flow model, in particular with reference to:</p> <ul style="list-style-type: none"> <li>• estimating future growth rates,</li> <li>• discount rates, and</li> <li>• the expected cash flows and capital expenditure.</li> </ul> <p>Management has assessed the recoverable amount of property plant and equipment by initially assessing for any indicators of impairment. A potential indicator of impairment was identified. Accordingly, management prepared a value-in-use discounted cash flow model ("impairment model") to assess whether the carrying value of property, plant and equipment exceeded their recoverable value.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>▪ Assessing the process undertaken and conclusions reached by management in assessing indicators of impairment.</li> <li>▪ Recalculating the mathematical accuracy and integrity of the impairment model.</li> <li>▪ Engaging our valuation specialists to assist with evaluating appropriateness of the discount rate used.</li> <li>▪ Reviewing the FY19 budget, the basis on which it has been prepared, and assessing the historical accuracy of forecasting by management.</li> <li>▪ Evaluating other key assumptions in the impairment model including: <ul style="list-style-type: none"> <li>○ discount rate;</li> <li>○ forecasted cash flows and capital expenditure;</li> <li>○ growth rates, in particular with reference to historic growth rates and forecast macro-economic conditions impacting demand in the industry; and</li> <li>○ terminal growth rate.</li> </ul> </li> <li>▪ Performing a sensitivity analysis on the key assumptions and inputs in the impairment model, to consider the extent of change in those assumptions that either individually or collectively would result in impairment or reversal of impairment.</li> <li>▪ Assessing the headroom in the impairment model and whether it is indicative of a need to reverse previously recorded impairment charges.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Notes 1c(j) and 14 to the financial statements.</p>

### Other Information

The directors are responsible for the other information. The other information comprises the Chairman's Report, Managing Director's Operations and Financial Review, Sustainability Report and Directors' Report, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): Members Details and Corporate Directory, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.



When we read the Members Details and Corporate Directory, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

#### *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 has no realistic alternative but to do so.

#### *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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on the Remuneration Report**

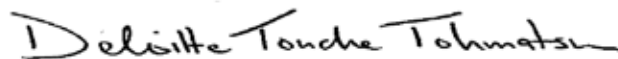
#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 16 to 36 of the Directors' Report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Capral Limited, for the year ended 31 December 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.



DELOITTE TOUCHE TOHMATSU



#### **David White**

Partner  
Chartered Accountants  
Parramatta, 22 February 2019

# MEMBER DETAILS

(IN ACCORDANCE WITH THE LISTING RULES)  
AS AT 28 FEBRUARY 2019

## 1. TWENTY LARGEST HOLDERS

Details of Capral's twenty largest shareholders were as follows:

NO.	NAME OF HOLDER	NO. OF SHARES HELD	ISSUED CAPITAL HELD (%)
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	92,753,265	19.31
2.	CITICORP NOMINEES PTY LIMITED	72,929,769	15.18
3.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	55,309,192	11.52
4.	PRUDENTIAL NOMINEES PTY LTD	15,000,000	3.12
5.	BNP PARIBAS NOMS PTY LTD <DRP>	12,292,686	2.56
6.	NATIONAL NOMINEES LIMITED	12,277,059	2.56
7.	BNP PARIBAS NOMS (NZ) LTD <DRP>	11,784,789	2.45
8.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	9,619,751	2.00
9.	BRAZIL FARMING PTY LTD	6,500,000	1.35
10.	MR ANTHONY MATTHEW DRAGICEVICH	5,522,750	1.15
11.	MR JOHN GEORGE WHITING + MRS DIANA PATRICIA WHITING <THE WHITING INVESTMENT A/C>	4,000,000	0.83
12.	LUTON PTY LTD	3,873,905	0.81
13.	AGO PTY LTD <SUPERANNUATION FUND A/C>	3,739,000	0.78
14.	MR ANDREW ROY NEWBERY SISSON	3,500,000	0.73
15.	RAVENS COURT PROPRIETARY LIMITED	3,000,000	0.62
16.	SOUTHERN STEEL INVESTMENTS PTY LIMITED	3,000,000	0.62
17.	MRS GLENDA CLAIRE ORGILL	2,822,280	0.59
18.	BAINPRO NOMINEES PTY LIMITED	2,632,898	0.55
19.	MR CHRISTIAN JAMES HAUSTEAD	2,550,000	0.53
20.	DEBUSCEY PTY LTD	2,540,604	0.53
<b>TOTAL</b>		<b>325,647,948</b>	<b>67.80</b>

## 2. SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as notified to Capral in accordance with the Corporations Act 2001:

NAME	NO. OF SHARES	% OF SHARES HELD	AS NOTIFIED ON
Allan Gray Australia	89,675,039	18.89	23/3/2015
Perpetual Limited	50,619,685	10.54	24/1/2019
Commonwealth Bank of Australia	42,522,525	8.91	7/7/2017
Schroder Investment Management Australia Limited	30,915,376	6.44	5/4/2018
<b>Total</b>	<b>213,732,625</b>	<b>44.78</b>	<b>-</b>

## 3. NUMBER OF HOLDERS

- (a) *Quoted equity securities*: There were 1,940 holders of ordinary shares.
- (b) *Unquoted equity securities - options*: There were Nil unquoted options.
- (c) *Unquoted equity securities - performance rights*: There were 20,350,000 unquoted performance rights issued to 18 holders under the Capral Long Term Incentive Plan. There is 1 holder who holds 20% or more performance rights under this plan.

## 4. VOTING RIGHTS

- (a) Voting rights attaching to the fully paid ordinary shares are, on a show of hands, one vote per person present as a member proxy, attorney, or representative thereof and on a poll, one vote per share for every member present in person or by proxy or by attorney or by representative.
- (b) Holders of options and performance rights do not have any voting rights on the equity securities held by them. Ordinary shares issued on exercise of options or vesting of performance rights will carry the same voting rights as all other fully paid ordinary shares of Capral.

## 5. DISTRIBUTION OF EQUITY SECURITIES

- (a) *Quoted ordinary shares*

RANGE OF SHARES	NUMBER OF HOLDERS
1 - 1,000	334
1,001 - 5,000	294
5,001 - 10,000	231
10,001 - 100,000	752
100,001 and over	329
<b>Total</b>	<b>1,940</b>

## 5. DISTRIBUTION OF EQUITY SECURITIES CONTINUED

### (b) *Unquoted performance rights*

Performance rights granted under the Capral Long Term Incentive Plan (including to the Managing Director) with various vesting and expiry dates and a nil exercise price:

RANGE OF SHARES	NUMBER OF HOLDERS
1 - 1,000	0
1,001 - 5,000	0
5,001 - 10,000	0
10,001 - 100,000	0
100,001 and over	18
<b>Total</b>	<b>18</b>

## 6. MARKETABLE PARCELS

The number of shareholders holding less than a marketable parcel\* of shares is 561 holders.

(\* Minimum parcel size of shares: 4,348)

## 7. ON-MARKET BUY BACK

There is no current on-market buy back.

# CORPORATE DIRECTORY

## Capral's Registered Office

71 Ashburn Road, Bundamba, QLD 4304  
Telephone: +61 (0)7 3816 7000

## Capral's Principal Administration Office / Investor enquiries

Level 4, 60 Phillip Street, Parramatta, NSW 2150  
Telephone: +61 (0)2 9682 0710  
Email: [InvestorRelations@capral.com.au](mailto:InvestorRelations@capral.com.au)

## Share Registry

### Computershare Investor Services Pty Limited

ABN 48 078 279 277  
Level 2, 60 Carrington Street, Sydney, NSW 2000  
Telephone: 1800 855 080  
Fax: +61 (0) 3 9473 2118

## Auditor

### Deloitte Touche Tohmatsu

ABN 74 490 121 060  
Eclipse Tower, Level 19, 60 Station Street, Parramatta, NSW 2150

## Securities Exchange Listing

Capral's shares are quoted on the  
Australian Securities Exchange (Code: CAA)

## Company Secretary

**Mr Richard Rolfe**

## Corporate Governance Statement

<http://www.capral.com.au/>  
– under Corporate / Investors / Corporate Governance



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