



**Interim Financial Report for the
Half-Year Ended 31 December 2016**

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Directors

Mr Stephen Zurhaar
Non-Executive Chairman

Mr Steve Dropulich
Managing Director

Mr Vincent Goss
Executive Director

Mr Stephen Lazarakis
Non-Executive Director

Mr Ranko Matic
Non-Executive Director

Mr Peter Iancov
Non-Executive Director

Company Secretary

Mr Harveer Singh

Registered Office

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VMX

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Facsimile: +61 2 9287 0309

Auditor

RSM Australia Partners
8 St Georges Terrace
Perth WA 6000

Telephone: +61 8 9261 9100

The directors of Valmec Limited submit herewith the financial report of the consolidated entity for the half-year ended 31 December 2016.

Directors

The names and particulars of the directors of the Company during or since the end of the financial period are:

Name	Status
Steve Dropulich	Managing Director
Stephen Zurhaar	Non-Executive Chairman
Vincent Goss	Executive Director
Ranko Matic	Non-Executive Director
Peter Iancov	Non-Executive Director
Stephen Lazarakis	Non-Executive Director (appointed 25 th October 2016)

Principal Activities

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

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

- Process Services Engineering, Procurement and Construction;
- Mining Services Multi-Discipline Construction;
- Gas Turbine Compression and Metering;
- Petrochemical and Mining Fabrication;
- Electrical and underground services;
- Earthworks and civil engineering;
- Asset Preservation, Service and Maintenance

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

Review of operations for the period

Revenues

Sales revenue for the period was \$29.9 million, an increase of 10.9% on the previous corresponding period, reflecting increased works on Infrastructure projects and further growth in our Gas Services markets. Gas Services revenues of \$15.8m for HY17 represented an increase of over 65% on the previous corresponding period and is expected to be maintained for the second half.

The expected slow ramp-up in our Gas construction projects during HY17 through client delays in award and then execution, impacted revenues in the period and corresponding gross margins. Mobilisation of all construction projects has now commenced, and with a Group order book of circa \$55 million entering the second half, Valmec expects second half revenues to exceed \$40 million.

Whilst sales margins remain competitive in all sectors, tendering activity on new infrastructure services and construction packages remains robust. With clients experiencing a cautious recovery in oil, gas and resource markets, tender to award timelines are shortening which will drive further growth and increased visibility in future revenues.

Recurring revenues through long term gas service contracts are also now expected to account for more than 40% of Valmec total revenues, capitalising on the change within our industry sectors from their construction phase to the operations phase of the cycle.

Earnings

Reported earnings before interest, tax, depreciation and amortisation (EBITDA) for the period was \$1.1 million which is down on the previous corresponding period. (HY16: \$1.7 million - underlying).

As noted above, the delayed execution of our Gas construction projects during HY17 coupled with reduced margins on our current infrastructure works, impacted total gross margins in the period. Significant revenue growth in H2 is also expected to drive EBITDA returns to more acceptable levels.

Group Overheads (excluding finance costs and depreciation) for the period were \$3.2 million which reflected a reduction of over 29% over HY16.

Net profit before tax is down on the previous year, predominantly as a result of the expected delays in project commencements.

Balance Sheet

Notwithstanding the forecasted disappointing first half, Valmec's balance sheet remains resilient with net assets of the consolidated group being retained at \$15.7m.

With increased growth in Gas Services, Valmec also increased its investment in Inventories during HY17 by \$1.7 million or over 37% compared to June 2016.

Cashflow from operations saw an improvement on the comparative reporting period (+\$1.9 million) whilst gearing levels (net debt to equity) remain at 24% (HY16: 24%).

Net Tangible Asset backing remains at 12c per share.

Projects & Tenders

During the period, the Group experienced a significant recovery in its tender pipeline, as clients across all sectors gained an improved outlook for their development projects.

The Group is now experiencing strong tendering activity across all of its disciplines, including larger construction projects, government infrastructure services and gas operations and maintenance contracts throughout Australia.

During the period, the Group was awarded the following strategic projects;

1. Infrastructure works on the Northlink WA Southern Section for John Holland Group Pty Ltd (\$13.3 million);
2. Supply, installation and commissioning of water pipeline and facilities for Saracen Mineral Holdings Ltd (\$6.6 million); and
3. Construction services on DBP Development Group's Tubridgi gas storage facility project (\$5.4 million).

Valmec enters the 2017 year with an increased Order Book of circa \$55 million with approximately 75% of these works due for execution in FY17. With mobilisation of all construction projects now having been achieved, H2 revenue activity is expected to deliver significantly improved gross margins compared to HY17.

Safety

Valmec continued to achieve significant safety performance milestones during the period. As testament to its safety leadership and ongoing focus on improvement in safety management and reporting systems, December 2016 saw the Company record over 1,178,007 hours being worked without a lost time injury (LTI).

The Group also finished the year with a total recordable injury frequency rate (TRIFR) of 0.74

Significant changes in the state of affairs

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

Auditor's Independence Declaration

The auditor's independence declaration under s 307C of the *Corporations Act 2001* has been received and is included within this half-year financial report.

Rounding of Amounts

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

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Steve Dropulich
Managing Director
Dated: 28th February 2017

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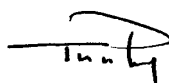
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Valmec Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.



RSM AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 28 February 2017

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Consolidated statement of comprehensive income for the half-year ended 31 December 2016

	Half-year ended 31 December 2016	Half-year ended 31 December 2015
	\$000	\$000
Revenue	29,959	26,996
Cost of sales	(25,625)	(20,770)
Gross profit	4,334	6,226
Other income	88	125
Depreciation and amortisation expenses	(580)	(720)
Employee benefits expenses	(2,381)	(2,953)
Finance costs	(404)	(389)
Occupancy expenses	(272)	(691)
Professional fees	(221)	(188)
Other expenses	(414)	(812)
Profit before income tax expense	150	598
Income tax expense	(67)	(245)
Profit after income tax expense for the half-year	83	353
Other comprehensive income	-	-
Total comprehensive income for the half-year	83	353
Earnings per share		
Basic and diluted (cents per share)	0.10	0.43

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of financial position as at 31 December 2016

	Note	31 December 2016	30 June 2016
Current assets		\$000	\$000
Cash and cash equivalents		742	611
Trade and other receivables		13,139	13,258
Inventories		6,533	4,768
Non-current assets held for sale		2,807	2,807
Other current assets		728	544
Total current assets		23,949	21,988
Non-current assets			
Property, plant and equipment		5,444	5,888
Deferred tax assets		4,125	4,193
Intangible assets		1,861	1,865
Other non-current assets		-	38
Total non-current assets		11,430	11,984
Total assets		35,379	33,972
Current liabilities			
Trade and other payables		13,944	10,466
Borrowings		4,052	5,881
Provisions		1,056	1,041
Total current liabilities		19,052	17,388
Non-current liabilities			
Trade and other payables		55	-
Borrowings		545	1,008
Other provisions		12	3
Total non-current liabilities		612	1,011
Total liabilities		19,664	18,399
Net assets		15,715	15,573
Equity			
Issued capital	3	6,184	6,184
Reserve		285	226
Retained earnings		9,246	9,163
Total equity		15,715	15,573

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity for the half-year ended 31 December 2016

	Issued capital	Share base payment reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000
Balance as at 1 July 2015	6,184	118	9,386	15,688
Profit after income tax for the half-year	-	-	353	353
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	353	353
<i>Transactions with owners in their capacity as owners:</i>				
Share based payments		64		64
Dividends paid	-	-	(409)	(409)
Balance as at 31 December 2015	6,184	182	9,330	15,696
Balance as at 1 July 2016	6,184	226	9,163	15,573
Profit after income tax for the half-year	-	-	83	83
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	83	83
<i>Transactions with owners in their capacity as owners:</i>				
Share based payments	-	59	-	59
Balance as at 31 December 2016	6,184	285	9,246	15,715

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows for the half-year ended 31 December 2016

	Half-year ended 31 December 2016	Half-year ended 31 December 2015
	\$000	\$000
Cash flows from operating activities		
Receipts from customers	30,156	28,353
Payments to suppliers and employees	(27,203)	(27,513)
Interest received	2	20
Borrowing costs paid	(404)	(380)
Income tax refund	-	203
Net cash outflow provided by operating activities	2,551	683
Cash flows from investing activities		
Payments for plant and equipment	(137)	(152)
Proceeds from disposal of plant and equipment	9	46
Net cash (used in) investing activities	(128)	(106)
Cash flows from financing activities		
Proceeds/(Repayments) from borrowings, net	(175)	(1,261)
Payment of dividends	-	(409)
Net cash (used in) financing activities	(175)	(1,670)
Net increase/ (decrease) in cash held	2,248	(1,093)
Cash and cash equivalents at the beginning of the half-year	(1,506)	2,909
Cash and cash equivalents at the end of the half-year	742	1,816

The above statement should be read in conjunction with the accompanying notes.

1. Significant Accounting Policies

This general purpose financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This interim financial report does not include full disclosures of the type normally included in an annual report. It is recommended that this financial report to be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by Valmec Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

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

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

2. Segment information

Description of segments

Management has determined the operating segments based on reports reviewed by the Board of Directors for making strategic decisions. The current Board of Directors monitors the business based on operational and geographic factors, and has determined that there is only one relevant business segment.

The consolidated entity is domiciled in Australia. All revenue from external customers is generated from Australia only. Segment revenues are allocated based on the country in which the customer is located.

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

3. Equity – issued capital

	31 Dec 2016	30 June 2016	31 Dec 2016	30 June 2016
	Shares	Shares	\$000	\$000
Ordinary Shares- fully paid	81,834,017	81,834,017	6,184	6,184

Movements in ordinary share capital

	31 Dec 2016	31 Dec 2016
	Shares	\$000
At the beginning of the half-year	81,834,017	6,184
Shares issued during the half-year	-	-
Total issued at end of half-year	81,834,017	6,184

4. Contingent liabilities and assets

The consolidated entity has given bank guarantees as at 31 December 2016 of \$3,727,647 (30 June 2016: \$2,035,393) to various customers.

Other than the above, there were no material changes to contingent liabilities or assets since 30 June 2016.

5. Events after the reporting period

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

6. Dividends

The directors do not recommend the payment of a dividend in respect of the half-year ended 31 December 2016.

DIRECTORS' DECLARATION

The directors of Valmec Limited declare that:

1. The financial statements and notes, as set out in this half-year financial report, are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date.
2. In the director's opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The declaration is made in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Steve Dropulich
Managing Director

Dated: 28th February 2017

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

We have reviewed the accompanying half-year financial report of Valmec Limited which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Valmec Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Valmec Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

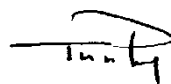
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Valmec Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



RSM AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 28 February 2017



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