VALMEC

VALMEC LIMITED
ABN 94 003 607 074

INTERIM FINANCIAL REPORT

Half-year ended
31 December 2017

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Directors

Mr Stephen Zurhaar
Non-Executive Chairman

Mr Steve Dropulich
Managing Director

Mr Vincent Goss
Non-Executive Director

Mr Stephen Lazarakis
Non-Executive Director

Mr Peter Iancov
Non-Executive Director

Company Secretary

Mr Harveer Singh

Share Registry

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Auditor

RSM Australia Partners

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VMX

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Facsimile: 1300 704 211

The directors of Valmec Limited submit herewith the financial report of the consolidated entity for the half-year ended 31 December 2017.

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	Non-Executive Director
Peter Iancov	Non-Executive Director
Stephen Lazarakis	Non-Executive Director

PRINCIPAL ACTIVITIES

Valmec Limited is a diversified energy and infrastructure services group providing compression and processing 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:

- Gas Compression and Metering;
- Process Services Engineering, Procurement and Construction;
- Mining Services Multi-Discipline Construction;
- Petrochemical and Mining Fabrication;
- Electrical and underground services;
- Earthworks and civil engineering;
- Gas Facility Operations and Maintenance Services;
- Supply of Packaged Equipment, Parts and Inventory services;
- Asset Preservation, Service and Maintenance

Valmec operates from major offices in Perth and Brisbane with regional offices and workshop facilities in Dalby (QLD), Port Hedland (WA), Sydney and Adelaide.

REVIEW OF OPERATIONS

	Dec-17 $	Dec-16 $
Revenue	**49,778,976**	**29,959,449**
EBITDA	**3,421,599**	**1,134,946**
Profit after Income Tax	**1,620,766**	**83,238**

Revenues

Valmec recorded sales revenues of $49.8 million for the six month period, a significant increase of 66.2% on the previous corresponding period.

The result reflects the expected ramp up in construction activity across all sectors. With the Group entering FY2018 with over $55 million of secured and preferred status contracts, unprecedented levels of project resourcing, mobilisation and execution activity for the Group was successfully implemented during the half. Valmec also experienced further growth in sustaining capital works within the gas sector which due to their shorter lead times to award and rapid programmes, were secured and also commenced during the half.

Whilst Gas Services recurring revenues for the period of circa $14 million were marginally lower than the previous corresponding period, (down 11%), due mainly to timing of new compression sales, construction revenues of $35.8 million were more than double that of the prior period.

Valmec expects to see growth in its recurring service revenues during the second half of FY2018 and into FY2019 due to expanded and more active long term service contracts with both existing and new clients. Increased activity levels in the sector continue to be indicative of the change within our industry sectors from their investment phase to the production and operations phase of the cycle.

Earnings

Reported earnings before interest, tax, depreciation and amortisation (EBITDA) for the period was $3.4 million substantially up on the previous corresponding period. (HY17: $1.1 million).

Whilst sales margins continue to remain competitive in all sectors, increased activity levels enabled Valmec to substantially improve its six month EBITDA performance compared to the corresponding period. With the increased sales revenue favouring construction activity, gross margins from a Group perspective are diluted as stronger margin service revenues as a percentage of total Group revenues is reduced. With a continued focus on recurring revenue and the expected growth in the existing gas services business, coupled with the recent acquisition of the APTS services business, Valmec expects to see improvement in total Group margins.

Group Overheads (excluding finance costs and depreciation) for the period were $4.3 million, in line with management expectations to service the increased level of operational activity for the half. Overhead spend for the six month period was consistent with the second half of FY2017 and as a percentage of revenues for the current period, was reduced to less than 9% (LY: 10.9%). As a result, Revenue growth of 66% for the period, delivered more than 3 times the EBITDA for the comparative period.

Net profit before tax increased by $2.1 million on the previous corresponding period, and as a percentage of revenues, is expected to grow in future periods, due to reduced interest expense after a reduction in Group debt levels during January 2018.

Earnings per share for the reporting period was 1.98 cents.

Balance Sheet

The Valmec balance sheet ended the six month period in a stronger position, with the improved trading performance translating into net assets growth of circa 10% over the June 2017 total, now at $18.8 million.

Debt levels at the reporting date whilst consistent with June 2017, reflect reduced gearing levels for the Group as it continues to improve its equity position. With the January 2018 capital raising and conversions of listed options by option holders during the same period, raising circa $10.7 million, Valmec debt and gearing levels will be materially reduced even further during the next six month period

Significant growth in the Valmec order book during the half was reflected in working capital balances as concurrent project resourcing and mobilisation activities occurred. Cashflow from operations is expected to grow in the second half as these projects realise their embedded margins during the project cycle and the positive impact of reduced debt is realised. Cashflow from operations excluded $1.7M in cash receipts from customers which were received after the 31st December 2017 cutoff and if received by cutoff would have resulted in a cash generation from operations of $1.8M.

Net Tangible Asset backing is at 21c per share.

Projects & Tenders

During the period, the Group continued to experience a significant growth in its tender pipeline as well as commence a larger number of diverse projects across Australia including larger construction projects, government infrastructure services and gas operations and maintenance contracts.

Gas sector clients also continued to develop their expansion projects as the much published gas shortages on the East Coast coupled with new mining project developments on the West Coast began to de-risk investment projects. Entering FY 2018 with an increased order book of circa $55 million, and with new tender to award timelines shortening in our sectors, Valmec has been able to leverage off its preferred contractor status and quickly establish increased market share during this new growth cycle.

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

1. Construction scope on the Mt. Isa Compressor Station as part of the Northern Gas Pipeline Project ("NGP") for Jemena. Valmec also signed a MOU with Mt. Isa based Kalkadoon Native Title Aboriginal Corporation ("Kalkadoon") to enable Valmec, Kalkadoon and Jemena to work collaboratively in delivering the project.
2. Construction of compressor station for APA Group at their Murrin Murrin facility on the Goldfields Gas Pipeline in Western Australia.
3. Construction of a 4km gas pipeline and facilities for APA Group on their Mount Morgan Gold gas project for Dacian Gold in Western Australia.
4. Construction, fabrication and installation of metering stations and delivery stations for APA Group at their Yamarna Gas Pipeline facility on the Eastern Goldfields Gas Pipeline in Western Australia.

5. Infrastructure services works for CBH Group at their Mirambeena development project as part of their extension programs.

Valmec enters the 2018 calendar year with an Order Book of circa $83 million (secured works of $53M and expected contract extensions $30M) and a tender pipeline of construction and service contracts worth over $300 million.

Safety

Valmec continued to achieve significant safety performance milestones during the period. With an ongoing focus on safety leadership, alignment of safety initiatives with an expanding workforce and a continual improvement mandate in safety management and reporting systems, Valmec has been able to continue to record industry leading safety performance.

December 2017 saw the Company record over 1,593,217 hours being worked without a lost time injury (LTI).

The Group also finished the year with a total recordable injury frequency rate (TRIFR) of 0.48

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.

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: 14th February 2018

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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 2017, 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
RSM AUSTRALIA PARTNERS

AWhyte
ALASDAIR WHYTE
Partner

Perth, WA
Dated: 14 February 2018

	Half-year ended 31 December 2017 $000	Half-year ended 31 December 2016 $000
Revenue	49,779	29,959
Cost of sales	(42,095)	(25,625)
Gross profit	7,684	4,334
Other income	125	88
Depreciation and amortisation expenses	(574)	(580)
Employee benefits expenses	(2,886)	(2,381)
Finance costs	(549)	(404)
Occupancy expenses	(454)	(272)
Professional fees	(380)	(221)
Other expenses	(668)	(414)
Profit before income tax expense	2,298	150
Income tax expense	(677)	(67)
Profit after income tax expense for the half-year	1,621	83
Other comprehensive income	-	-
Total comprehensive income for the half-year	1,621	83
Earnings per share		
Basic and diluted (cents per share)	1.98	0.10

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

	Note	31 December 2017	30 June 2017
Current assets		**$000**	**$000**
Cash and cash equivalents		2,164	2,282
Trade and other receivables		23,090	19,417
Inventories		6,852	7,020
Other current assets		668	339
Total current assets		32,774	29,058
Non-current assets			
Property, plant and equipment		6,710	7,019
Deferred tax assets		2,851	3,528
Intangible assets		1,853	1,857
Other non-current assets		344	-
Total non-current assets		11,758	12,404
Total assets		44,532	41,462
Current liabilities			
Trade and other payables		17,265	15,702
Borrowings		7,041	4,422
Provisions		1,342	1,395
Total current liabilities		25,648	21,519
Non-current liabilities			
Borrowings		-	2,718
Other provisions		61	19
Total non-current liabilities		61	2,737
Total liabilities		25,709	24,256
Net assets		**18,823**	**17,206**
Equity			
Issued capital	3	6,151	6,184
Reserve		337	308
Retained earnings		12,335	10,714
Total equity		**18,823**	**17,206**

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

	Issued capital	Share base payment reserve	Retained earnings	Total
	$000	**$000**	**$000**	**$000**
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
Transactions with owners in their capacity as owners:				
Share based payments	-	59	-	59
Balance as at 31 December 2016	**6,184**	**285**	**9,246**	**15,715**
Balance as at 1 July 2017	6,184	308	10,714	17,206
Profit after income tax for the half-year	-	-	1,621	1,621
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	1,621	1,621
Transactions with owners in their capacity as owners:				
Share based payments	-	29	-	29
Share buy back	(33)	-	-	(33)
Balance as at 31 December 2017	**6,151**	**337**	**12,335**	**18,823**

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

	Half-year ended 31 December 2017	Half-year ended 31 December 2016
	$000	**$000**
Cash flows from operating activities		
Receipts from customers	46,060	30,156
Payments to suppliers and employees	(45,356)	(27,203)
Interest received	4	2
Borrowing costs paid	(549)	(404)
Net cash provided by operating activities	159	2,551
Cash flows from investing activities		
Payments for plant and equipment	(295)	(137)
Proceeds from disposal of plant and equipment	150	9
Net cash (used in) investing activities	(145)	(128)
Cash flows from financing activities		
Proceeds/(Repayments) from borrowings, net	(269)	(175)
Net cash (used in) financing activities	(269)	(175)
Net (decrease) in cash held	**(255)**	**(2,248)**
Cash and cash equivalents at the beginning of the half-year	(993)	(1,506)
Cash and cash equivalents at the end of the half-year	**(1,248)**	**742**

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 2017 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 2017 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 2017 Shares	30 June 2017 Shares	31 Dec 2017 $000	30 June 2017 $000
Ordinary Shares- fully paid	81,676,625	81,834,017	6,151	6,184

Movements in ordinary share capital

	31 Dec 2017 Shares	31 Dec 2017 $000
At the beginning of the half-year	81,834,017	6,184
Share buy back during the half-year	(157,392)	(33)
Total issued at end of half-year	81,676,625	6,151

4. Contingent liabilities and assets

The consolidated entity has given bank guarantees as at 31 December 2017 of $4,915,330 (30 June 2017: $4,481,000) to various customers.

Other than the above, there were no material changes to contingent liabilities or assets since 30 June 2017.

5. Events after the reporting period

On 31 January 2018, the company finalized the acquisition of the business assets of APTS PTY LTD a specialist pipeline testing company.

On 12 January 2018, the company completed the issue on 22,522,083 fully paid ordinary shares upon the exercise of 22,522,083 listed options (ASX: VMXO) with an exercise price of $0.25 per option.

On 16 January 2018, the company completed the issue of 20,400,000 fully paid ordinary shares at an issue price of $0.25 per share under a placement to professional and sophisticated investors.

On 18 January 2018, the company repaid the $2,700,000 in loans to related parties.

Other than the above, 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 2017.

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 2017 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: 14th February 2018

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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 2017, 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 2017 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 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

RSM
RSM AUSTRALIA PARTNERS

A Whyte
ALASDAIR WHYTE
Partner

Perth, WA
Dated: 14 February 2018