



**Valmec Limited**

ABN 94 003 607 074

**Appendix 4E  
&  
Financial Report  
For the Year Ended 30 June 2019**

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## Corporate Directory

### Directors

Mr Stephen Zurhaar  
Non-Executive Chairman

Mr Steve Dropulich  
Managing Director

Mr Vincent Goss  
Non-Executive Director

Mr Stephen Lazarakis  
Non-Executive Director

### Company Secretary

Mr Harveer Singh

### Registered Office

17-19 Ballantyne Road  
Kewdale WA 6105

Telephone: +61 8 9266 8888

Facsimile: +61 8 9493 2787

### ASX Code

VMX

### Legal Advisers

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

Telephone: +61 8 9420 1535

Facsimile: 1300 704 211

### Share Registry

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

Telephone: 1300 288 664

### Auditor

RSM Australia Partners  
Level 32, Exchange Tower,  
2 The Esplanade  
Perth WA 6000

Telephone: +61 8 9261 9100

## Financial report for the Year ended 30 June 2019

### Appendix 4E – Preliminary Final Report For The Year Ended 30 June 2019

Results for Announcement to Market

	2019	2018	
Key Information	\$000	\$000	% Change
Revenue from ordinary activities	110,162	103,197	6.75%
Profit after tax from ordinary activities attributable to members	3,535	3,777	(6.40%)
Net profit attributable to members	3,535	3,777	(6.40%)

#### Dividends Paid and Proposed

	Amount per Security	Franked Amount per Security at 30% of Tax
Ordinary shares:		
2019 final – nil	0.000	-

#### Explanation of Key Information and Dividends

Refer to the accompanying directors' report.

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

Refer to pages 31 to 91 of the 30 June 2019 financial report and accompanying notes for Valmec Limited.

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

Refer to pages 32 to 91 of the 30 June 2019 financial report and accompanying notes for Valmec Limited.

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

Refer to pages 34 to 91 of the 30 June 2019 financial report and accompanying notes for Valmec Limited.

#### Dividend Details

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

#### Dividend Reinvestment Plan

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

#### Statement of Retained Earnings Showing Movements

	2019	2018
	\$000	\$000
Balance at the beginning of the year	14,491	10,714
Net profit attributable to members of the parent entity	3,535	3,777
Impact on adoption Australian Accounting Standard (AASB 15)	(5,378)	-
Balance at the end of the year	12,648	14,491

**Net Tangible Assets per Share**

	2019	2018
	\$	\$
Net tangible assets per share	0.21	0.22

**Investment in Associates and Joint Ventures**

There are no associates or joint venture entities.

**Commentary on the Results for the Period**

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

**Status of Audit**

The 30 June 2019 financial report and accompanying notes for Valmec Limited have been audited and are not subject to any disputes or qualifications. Refer to page 85 of the 30 June 2019 financial report for a copy of the auditor's report.

**Principal Activities**

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

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

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

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

**Significant Changes to Activities**

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

**Significant Events after the Reporting Date**

Nil.

## Managing Directors Report

### Review of Operations

- **Record EBITDA of \$8.06 million, up 64% on the prior year;**
- **Revenue growth of more than 6.3% to \$110 million;**
- **Stronger gross margins generated by growing Services segment;**
- **Expanded order book of \$80 million for FY2020;**
- **Diversified service and project works portfolio**

FY2019 saw Valmec continue to grow in its core markets, expanding its EBITDA to \$8.06 million, an increase of 64% on the previous year's underlying result. The strong EBITDA delivered on the back of revenue growth to \$110 million, was directly attributable to the growth in the Company's Service segments, delivering approximately 50% of Group earnings from 42% of the total revenues.

The strong gas thematic that Valmec is leveraged will continue into 2020 with East Coast gas supply-demand balance remaining tight, gas production in southern Australia continuing to decline, and supplies from Queensland limited by pipeline capacity;

In many ways 2019 was a "reset" year for many East Coast Gas producers with global LNG pricing influencing the rate of export growth and the Federal Government also introducing measures to drive greater availability of domestic gas into the market with the latter driving more investment capital into domestic production infrastructure. Valmec became a beneficiary of this Government initiative during the year by securing a major domestic gas project with Jemena in South West Queensland.

The "reset" whilst impacting revenues for the first half, more than compensated Valmec with increased activities during the 2<sup>nd</sup> half, driving approximately 57% of total FY19 revenues. Further, on the back of strong H2 FY19 tender activity across the energy segment, Valmec moves into FY2020 with an expanded order book of circa \$80 million with the majority of these secured works expected to be completed within FY20.

It was the Company's diversified service and project capabilities that mitigated the revenue delays experienced with larger gas projects during the first half. By being able to leverage alternative markets and its new APTS services offering, the Group was able to maintain a resilient and sustainable order book throughout the year and is now able to enter FY20 with a solid pipeline of energy, water and resource infrastructure opportunities throughout Australia.

Strengthening market conditions in the resources and energy sectors will continue to galvanise this pipeline, delivering opportunities where Valmec can add value. From gas infrastructure facilities powering new mining sector expansions, expanding water infrastructure and renewable energy sectors as well as expanding maintenance and integrity services markets, Valmec's specialised range of execution capabilities and industry experience are expected to continue to deliver ongoing growth for the Company.

#### SAFETY

Importantly, Valmec's growth during the year, which resulted in record revenues for the company, was also delivered on the back of improving HSE performance.

Valmec finishes the financial year with a recorded TRIFR (total recordable injury frequency rate) of 0.52 whilst also experiencing growth in total workforce numbers to 335 plus subcontractors as at 30 June 2019.

We have continued to preserve our recorded LTIFR (lost time injury frequency rate) of zero after circa 2,800 days or over 2.5 million hours without a lost time injury.

Whilst such performance compares very favourably with our industry in general, Valmec will remain vigilant in monitoring its delivery activities as well as continually improving its HSE systems and processes to ensure our "no compromise" strong safety culture continues to thrive.

#### REVENUE

Sales revenue for the year was \$110 million, an increase of 6.7% on the previous corresponding period.

Continued growth within our traditional service segments complemented by the first full year of trading by our testing services company, APTS, more than offset the reduction in energy construction activity during the year. Client delays in project awards eventually translated into expanded stronger order books during H1FY19 driving stronger project activity in H2 and into FY20. Strengthening market conditions in Valmec's core sectors are expected to translate into both increased scale of awarded projects as well as greater consistency of revenues.

Valmec also expects that asset integrity and larger service opportunities will continue to increase as producers return to the minimum maintenance requirements for their operations, sweating greater assets and driving more asset refurbishment and overhauls to keep reliability uptime high. Valmec's ability to deliver a broad range of production critical support services, should also see services segment revenues strengthen further during FY20.

For FY20, even allowing for the expected growth in Energy and Infrastructure construction activity, Valmec still expects to maintain total Service revenues at its benchmark 35% of total Group revenues.

## **EARNINGS**

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year was \$8.06 million, a substantial increase of 64.8% compared to the previous year.

The strong result reflecting an EBITDA recovery of 7.3% of revenues, was directly attributable to increased gross margins across the Group, generated from a sales mix comprising additional service segment revenues compared to the prior year.

Valmec expects EBITDA to strengthen during FY20 in line with increasing targeted revenues underpinned by an expanding pipeline of construction opportunities and further development of its asset service initiatives.

Reported net profit after tax (NPAT) for the year was \$3.5 million, substantially higher than underlying NPAT of the previous year (FY2018: \$1.164 million).

Growth in NPAT for the year also translated into a stronger earnings per share (EPS) for the reporting period of 2.82 cents. (FY2018: Underlying EPS of 1.2 cents).

## **BALANCE SHEET**

Increased service contracts as well as the ramp up in construction activity during H2 FY19 impacted short term working capital requirements during the year. Growth in larger project activity is expected to continue into FY20 with cash reserves gradually strengthening due to margin realization and recurring revenue contributions.

Save for the impact of adopting the new accounting standard, AASB 15 – "Revenue from Contracts with Customers" with effect from 1 July 2018, stronger revenues during the period have again translated into balance sheet growth. Net assets of the consolidated group are at \$29.8 million after an opening balance date adjustment of \$5.3 million.

Net Tangible Asset backing of 21c is consistent with prior years with the restatement of opening balances noted above resulting in a 4c reduction in NTA backing.

## **OPERATIONS AND OUTLOOK**

During the year, the Group continued to leverage its growing suite of execution capabilities to deliver value to its core sectors, energy and water infrastructure. It continued to experience growth in its tender pipeline as well as commence a larger number of diverse projects and service contracts across Australia. These included larger gas upstream construction projects, government infrastructure services, gas operations and maintenance contracts.

- With the company's APTS business integrated into the Group from 1 July, the testing services group delivered a solid first year of operations under Valmec, successfully executing on its long term service contracts and securing new pipeline testing projects across Australia whilst also generating circa 10% EBITDA returns as foreshadowed during acquisition.
- For FY20, Valmec will continue to focus on leveraging APTS and its own existing service capabilities to deliver a suite of integrated asset service capabilities to long-term operations and shutdown clients. The LNG industry (including surrounding production facilities) will now present as the major opportunity for Valmec in the short-term, sharing in a combined annual spend of >\$1B on inspection and testing services, industrial services and fabric maintenance activities to support 20 onshore LNG trains across Australia.
- Presenting a new targeted and integrated sales proposition incorporating Valmec construction, service and APTS capabilities, Valmec presents as a unique offering to the LNG sector as well as positioning itself for greater participation within the CSG production lifecycle.
- The Australian Government carbon emissions strategy continues to drive pursuit of 2020 and 2030 targets by both energy producers and users. With the potential to decarbonise a broad spectrum of industries, hydrogen as an alternative energy storage solution is currently receiving renewed attention.

- During the year, Valmec was selected by Australian Gas Infrastructure Group (AGIG) to deliver Australia's first hydrogen production facility and largest renewable gas project in South Australia. Valmec is excited to be an early player in what is considered an emerging industry driving Australia's future energy mix.
- In FY19, Valmec also established a strategic Alliance with MMC Australia in the Northern Territory to target new markets in LNG and Upstream Gas maintenance, to leverage new resource expansions and to establish early work positions on Beetaloo Basin shale gas. With new LNG CAPEX recently completed in the region, operations, maintenance and brownfields activities to support the NT LNG Hub will now present as the major opportunity for Valmec in the short-term, sharing in a combined annual spend of \$500 million to support four LNG trains.
- Current CAPEX activity in the Northern Territory over the short term will be dominated by the region's increasing resources industry – currently ten operating mines are producing gold, uranium, bauxite, manganese, silver, lead and zinc whilst 18 additional projects, with a combined potential capital expenditure of over \$5 billion, are in feasibility, construction or approval processes.
- Valmec secured an early position within this burgeoning sector by being awarded an early works infrastructure works contract with Newmont Mining Services Pty Ltd for their proposed Tanami Expansion 2 (TEP2) Project. Newmont is now expected to sign off on its TEP2 expansion project by the end of calendar year 2019.
- Key construction and service contracts awarded during the 2019 financial year include the following:
  - Facility Construction works for Jemena on its Atlas Gas Pipeline Project in South West Queensland [\$22.1 million];
  - Infrastructure construction and services works for Water Corporation's metropolitan and regional Western Australian facilities [\$21 million];
  - Renewal of Long term Services contract with Origin Energy Resources Limited for the APLNG Project [\$15 Million]
  - Multi-year contract with Sydney Water for major equipment maintenance and overhauls of their Renewable Energy Co-generation Plant assets [~\$4M];
  - APTS Testing and Inspection services on the Tanami Gas Pipeline for MPC Kinetic [ \$4.7M];
  - Compression equipment overhaul and maintenance services for APA Group on their Sole Orbost Project in Victoria [\$3M] ;
  - Engineering, procurement and construction (EPC) works for Australian Gas Infrastructure Group (AGIG) to deliver Australia's first hydrogen production facility in Tonsley, South Australia. [\$4.5 million];
  - Infrastructure construction and services works Newmont Mining Services Pty Ltd ("Newmont"), Newmont's proposed Tanami Expansion 2 (TEP2) Project in the Northern Territory. [\$6.1 million].

Valmec enters FY20 with an Order Book of circa \$80 million and a strong pipeline of construction and service opportunities worth over \$595 million.

During yet another year of revenue growth which has seen Valmec deliver a record EBITDA of \$8 million, it is most pleasing to witness a high level of repeat client activity which has contributed to the result.

It is a testament to our team of loyal and committed employees by continuing to deliver at high levels of client satisfaction whilst always remaining focused on safe, efficient and quality services. We finish FY19 having established market leading positions in our core sectors laying a foundation for future growth into 2020 and beyond.

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



Steve Dropulich  
**Managing Director**



## Corporate Governance Statement

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

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

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

	<b>PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT</b>	
	<b>Recommendation</b>	<b>Valmec Limited Current Practice</b>
1.1	A listed entity should disclose: (a) respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management	Adopted The Directors have adopted a Board Charter which outlines the role of the Board. Executive Service Agreements outline functions of the executive directors. Non-executive Director appointment letters outline the terms and conditions of non-executive director appointments. As the Company recruits additional management, the roles and responsibilities of these persons will be considered and documented.
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director	Adopted The Company has a Remunerations and Nominations Committee which is responsible for assisting and overseeing the responsibilities in relation to nominating new Board Members and undertaking the appropriate checks before nominating a person for appointment to the Board.  The re-election of Peter Iancov at 2018 AGM Notice of meeting included the required information on his background and other material directorships, term and the Board’s consideration of him as an independent director.
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Adopted All directors, including Non-Executives have a written agreement with the Company setting out the terms of their appointments.
1.4	The Company Secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the Board.	Adopted The responsibilities of the Company Secretary are contained within the Board Structure Document.
1.5	A listed entity should: (a) Have a diversity Policy which includes requirements for Board/Committee to set	Part Adopted The Company does have a diversity policy which is included on the Valmec Corporate Governance web page.

	<p>measurable objectives for achieving gender diversity and assess them and achieving them annually</p> <p>(b) disclose that policy</p> <p>(c) disclose at end of reporting period how objectives are being achieved via:</p> <p>(i) respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how senior exec is defined); or</p> <p>(ii) if entity is a “relevant employer” under the Workplace Gender Equality Act, the entities most recent “Gender Equality</p>	<p>The Company makes the following disclosures regarding the proportion of women employed in the organisation:</p> <ul style="list-style-type: none"> <li>- Women on Board: 0%</li> <li>- Women in Senior Management: 0%</li> <li>- Women in whole organisation: 18%</li> </ul> <p>The Diversity policy currently only has general objectives and not measurable objectives (e.g. the number of women/indigenous etc. on the board, in senior management).</p>
1.6	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>Adopted</p> <p>The Company has established a Directors and Board Performance Review Charter. The charter empowers the Remuneration and Nominations committee to regularly review the effectiveness and performance of the Board.</p> <p>A performance evaluation was undertaken during the reporting period by the Committee in accordance with the process.</p>
1.7	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>Adopted</p> <p>The Company has established a Senior Executives Performance Review charter. The charter empowers the Remuneration and Nominations committee to regularly review the effectiveness and performance of the senior executives. The Managing Director, under the delegated authority of the Board, determines the KPI's of the senior executive members. The Managing Director, formally reviews the performance of senior executives annually.</p> <p>The performance evaluation of the senior executives is undertaken annually in the first quarter of each financial year and the Company confirms that this has been done in the reporting period in accordance with that process.</p>
<b>PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE</b>		
	<b>Recommendation</b>	<b>Valmec Limited Current Practice</b>
2.1	<p>The board of a listed entity should:</p> <p>(a) Have a nomination committee which:</p> <p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director;</p> <p>and disclose:</p> <p>(i) the charter of the committee;</p> <p>(ii) the members of the committee; and</p> <p>(iii) as at the end of each reporting period, the number of times the committee met through the period and the individual</p>	<p>Part Adopted</p> <p>The Company has a Remuneration and Nomination Committee. During the year the Company had three members in the committee;</p> <ul style="list-style-type: none"> <li>- Peter Iancov (Chair -Independent)</li> <li>- Stephen Zurhaar ( not- independent)</li> <li>- Stephen Lazarakis (not – independent)</li> </ul> <p>The Remuneration and Nomination Committee Charter is on the company website – refer <a href="http://www.valmec.com.au">www.valmec.com.au</a> .</p>

	<p>attendances of the members at those meetings; or</p> <p>(b) If it does not have a nomination committee disclose that fact and the processes it employs to address board succession issue and to ensure that the board has the appropriate balance of skills, knowledge experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p>	<p>The Committee has met once in the year ended 30/6/19 with Stephen Zurhaar, Stephen Lazarakis and Peter Iancov attending meetings.</p>
2.2	<p>A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p>	<p>Adopted</p> <p>The Company has a skills matrix setting out the mix of skills and diversity that the board currently has and what the board would like to achieve. Further information on each director including their independence, education, experience and tenure is available in the Directors Report.</p>
2.3	<p>A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors</p> <p>(b) if a director has an interest, position, association or relationship as described in Box 2.3 (Factors relevant to assessing independence) but the board is of the opinion that it doesn't compromise the independence of the director, nature of the interest, position, association or relationship and an explanation as to why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p>	<p>Adopted.</p> <p>(a) Peter Iancov – Independent,</p> <p>(b) n/a</p> <p>(c) Appointment 23 October 2015, Retired 15<sup>th</sup> March 2019.</p>
2.4	<p>A majority of the Board of a listed entity should be independent directors.</p>	<p>Not Adopted.</p> <p>Only 20% of the Board (1 member, Peter Iancov) is considered independent as per box 2.3 of the ASX Corporate Governance Principles and Recommendations.</p>
2.5	<p>The Chair of a Board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.</p>	<p>Not Adopted.</p> <p>The Chairman Stephen Zurhaar is in a non-executive role, and is separate from the role of CEO/MD. However Mr Zurhaar is not considered to be an independent director upon reference to box 2.3 of ASX Corporate Governance Principles and Recommendations as he is a substantial security holder (holds greater than 5% of company security).</p>
2.6	<p>A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.</p>	<p>Adopted.</p> <p>The induction of new directors is currently completed by the Company Secretary. All Directors have access to professional development opportunities to improve on their skills and knowledge to assist in their roles as directors.</p>

<b>PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING</b>		
	<b>Recommendation</b>	<b>Valmec Limited Current Practice</b>
3.1	<p>A listed entity should:</p> <p>(a) Have a code of conduct for its directors, senior executives and employees; and</p> <p>(b) (b) disclose that code of conduct or a summary of it.</p>	<p>Adopted.</p> <p>Copy of Code of Conduct published on the Company's website and available at <a href="http://www.valmec.com.au">www.valmec.com.au</a></p>
<b>PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING</b>		
	<b>Recommendation</b>	<b>Valmec Limited Current Practice</b>
4.1	<p>The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <p>(i) has at least 3 members, all of whom are non-executive directors and a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director, who is not the chair of the board;</p> <p>And disclose:</p> <p>(iii) the charter of the committee</p> <p>(iv) the relevant qualifications and experience of the member of the committee; and</p> <p>(v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the member at those meetings; or</p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	<p>Part Adopted.</p> <p>The Company currently has a Risk and Audit Committee.</p> <p>The committee has only 2 members, due to the size of the board and all members are non-executives, with 1 member considered independent.</p> <p>The Committee is chaired by Mr Peter Iancov who is the independent member of the Committee. He has over 24 years' expertise gained in the energy infrastructure, mining, commercial construction, contracting and defence sectors.</p> <p>Mr Stephen Zurhaar is other member of the committee. He is a CPA with relevant experience from his finance and executive roles over the past 25 years</p> <p>The Audit and Risk Committee Charter is published on the Company website – refer <a href="http://www.valmec.com.au">www.valmec.com.au</a></p> <p>The Risk and Audit Committee has met twice in the financial period ending 30 June 2019.</p>
4.2	<p>The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	<p>Adopted</p>

4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit	Adopted
<b>PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE</b>		
	<b>Recommendation</b>	<b>Valmec Limited Current Practice</b>
5.1	<p>A listed entity should:</p> <p>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</p> <p>(b) disclose that policy or a summary of it</p>	<p>Adopted.</p> <p>The Company has a Continuous Disclosure Policy which is published on the Company website. Refer <a href="http://www.valmec.com.au">www.valmec.com.au</a></p>
<b>PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS</b>		
	<b>Recommendation</b>	<b>Valmec Limited Current Practice</b>
6.1	A listed entity should provide information about itself and its governance to investors via its website.	<p>Adopted</p> <p>Refer to the Company's Corporate Governance page on its website – <a href="http://www.valmec.com.au">www.valmec.com.au</a></p>
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	<p>Adopted</p> <p>The Company has a Shareholder Communication Policy which is published on its website – <a href="http://www.valmec.com.au">www.valmec.com.au</a></p>
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	<p>Adopted</p> <p>The Company encourages participation at General Meetings upon the dispatch of its Notice of Meeting and advises security holders that they may submit questions they would like to be asked at the meeting to the Board and to the Company's auditors.</p>
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Adopted
<b>PRINCIPLE 7 – RECOGNISE AND MANAGE RISK</b>		
	<b>Recommendation</b>	<b>Valmec Limited Current Practice</b>
7.1	<p>The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director,</p> <p>And disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p>	<p>Part Adopted</p> <p>The Risk Committee is contained within the Audit and Risk Committee as detailed above in Audit Committee recommendation (4.1)</p>

	(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	
7.2	<p>The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p>	<p>Adopted.</p> <p>The Board reviews risk on a regular basis, with an annual review as a minimum. The following policies and procedures form part of the Company's Risk Management Framework:</p> <ul style="list-style-type: none"> <li>• Audit and Risk Committee Charter</li> <li>• Strategy Planning Committee Charter</li> <li>• Risk Management Policy</li> <li>• Business Insurance Program</li> <li>• Company Business Plan</li> <li>• Procedures to review and approve strategic plans</li> <li>• Controls to manage financial exposures and operational risks</li> </ul> <p>The Company also has a Risk and Audit Committee that oversees the review of the Risk Management Framework on an Annual Basis.</p> <p>A review of all policies and procedures associated with Risk and Risk Management has been completed in December 2017.</p>
7.3	<p>A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p>Not Adopted</p> <p>The Company does not have a structured formalised internal audit function, however historically the Board has reviewed the internal control systems and risk management policies on an annual basis.</p> <p>The Risk and Audit Committee has the responsibility to oversee the internal Control and Risk Management of the Company, as detailed in its charter.</p>
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	<p>Adopted.</p> <p>The Company has a sustainability policy.</p> <p>A copy of this policy can be found on the Company's website – <a href="http://www.valmec.com.au">www.valmec.com.au</a></p>
<b>PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY</b>		
	<b>Recommendation</b>	<b>Valmec Limited Current Practice</b>
8.1	<p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <ul style="list-style-type: none"> <li>(i) has at least three members, a majority of whom are independent directors; and</li> <li>(ii) is chaired by an independent director, and disclose:</li> <li>(iii) the charter of the committee;</li> <li>(iv) the members of the committee; and</li> <li>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual</li> </ul>	<p>Part Adopted.</p> <p>Company has a Nomination and Remuneration Committee. Refer information as provided under recommendation 2.1 for Remuneration and Nomination Committee.</p>

	<p>attendances of the members at those meetings; or</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	
8.2	<p>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p>	<p>Adopted.</p> <p>The Company has a Remuneration Policy which separately addresses the remuneration of Executive Directors and Senior Managers, and Non-Executive Directors.</p> <p>A copy of the policy is available on the Company website – <a href="http://www.valmec.com.au">www.valmec.com.au</a></p>
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	<p>Adopted.</p> <p>The Company has a Remuneration Policy in place (as advised above) which covers the equity-based remuneration scheme.</p> <p>A copy of this policy is available on the Company website – <a href="http://www.valmec.com.au">www.valmec.com.au</a></p>

## Directors' Report

### Definitions

For the purposes of this report:

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

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

Your directors present their report on the consolidated group (referred to herein as the Group) consisting of Valmec Limited (referred to hereafter as the "company" or "parent entity") and its controlled entities for the financial year ended 30 June 2019. The information in the preceding operating and financial review forms part of this directors' report for the financial year ended 30 June 2019 and is to be read in conjunction with the following information:

### General Information

#### Directors

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

Stephen Zurhaar – Non-executive Chairman

Steve Dropulich – Managing Director

Vincent Goss – Non-executive Director

Stephen Lazarakis – Non-executive Director

Peter Iancov – Non-executive Director (resigned on 15 March 2019)

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

#### Dividends Paid or Recommended

In respect of the financial year end 30 June 2019, no dividend has been paid (2018: \$Nil).

#### Indemnifying Officers or Auditor

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

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

#### Proceedings on Behalf of Company

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

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



**Non-audit Services**

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

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

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

**Auditor's Independence Declaration**

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

**Auditor**

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

**Performance rights**

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

Grant Date	Date of Expiry	Exercise Price	Number of Performance Rights
30/11/2015	30/06/2020	\$nil	122,118
31/8/2017	31/08/2022	\$nil	222,750
			<hr/> 344,868 <hr/>

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

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

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

## Options

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

Grant Date	Date of Expiry	Exercise Price	Number under Option
30/11/2015	30/09/2020	\$0.30	330,861
31/8/2017	31/08/2022	\$0.30	544,500
			<hr/> 875,361 <hr/>

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

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

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

## Shares issued on the exercise of options

The following ordinary shares of Valmec Limited were issued during the year ended 30 June 2019 and up to the date of this report on the exercise of options granted:

Date options exercised	Exercise price	Number of shares issued
7/1/2019	\$0.25	1,120,000

## Rounding of Amounts

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

## Events after the Reporting Period

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

## Environmental Issues

The Group's operations are subject to a range of environmental regulations.

During the financial year, Valmec Limited and its subsidiaries met all reporting requirements under any relevant legislation. There were no incidents which required reporting.

## Future Developments, Prospects and Business Strategies

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

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

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

## Information Relating to Directors and Company Secretary

<b>Stephen Zurhaar</b>	–	Non-executive Chairman
Qualifications	–	Fellow of the Australian Institute of Company Directors and a Certified Practicing Accountant
Experience	–	<p>Stephen Zurhaar is the Chairman and founder of the Z Corp Group of Businesses and Executive Director of Core Equities Pty Ltd.</p> <p>Stephen was also one of the Founders of the HVAC/HPS Group of Companies and from the Group's inception up to its sale to Enerflex Ltd (a TSX listed Public Company) in 2005, was actively involved in its executive management, holding different key roles such as Finance Director, CEO and ultimately Chairman.</p> <p>Stephen was pivotal in negotiating the successful transactions with Enerflex Ltd and with ANZ Private Equity in their purchase of HVAC Construction QLD Pty Ltd.</p> <p>He now consults on strategic and change management for SMEs and Private Equity Groups.</p>
Interest in Shares and Options	–	19,830,000 ordinary shares
Special Responsibilities	–	Member of remuneration and nomination committee, audit and risk committee and mergers and acquisition committee.
Directorships held in other listed entities during the three years prior to the current year	–	None
<b>Steve Dropulich</b>	–	Managing Director
Qualifications	–	Steve is a Chartered Accountant and member of the Australian Institute of Company Directors
Experience	–	<p>Steve most recently held the role of Managing Director/ Vice President of the Enerflex Australasia Group, a multi-discipline Engineering, Construction, Supply and Service organisation servicing the Oil, Gas and Mining Sectors. The Enerflex Australasia Group grew to over 500 employees and annual revenues of over \$300m during Steve's tenure; making it the second largest Regional operation for a TSX listed Company, Enerflex Limited, outside North America.</p>
Interest in Shares and Options	–	6,404,390 ordinary shares and 875,361 options
Interest in performance rights	–	344,868 performance rights
Special Responsibilities	–	Member of mergers and acquisition committee
Directorships held in other listed entities during the three years prior to the current year	–	None

<b>Vincent Goss</b>	–	Non-executive Director
Qualifications	–	Officer Fellow of the Institution of Engineers Australia and also holds a Builders Registration accreditation in Western Australia
Experience	–	<p>Vincent Goss was one of the founders of the HVAC/HPS Groups of Companies in 1988 originally holding the role of Construction Director through to his latest role as Group Managing Director during the group's transaction with the Enerflex Australasia Group.</p> <p>A Civil Engineer with over 35 years' experience in multidiscipline services, Vincent is able to provide businesses with specialist skills in tender design, quality assurance/quality control, safety and environmental systems.</p>
Interest in Shares and Options	–	15,486,126 ordinary shares
Special Responsibilities	–	Nil
Directorships held in other listed entities during the three years prior to the current year	–	None
<b>Peter Iancov</b>	–	Non-executive Director (Resigned on 15 March 2019)
Qualifications	–	Masters of Engineering, Electrical/Mechanical
Experience	–	<p>Mr Iancov is a highly experienced executive with over 24 years' expertise gained in the energy infrastructure, mining, commercial construction, contracting and defence sectors.</p> <p>Most recently having served as the Group Chief Executive Officer of Doric Group, Mr Iancov has previously held senior positions with responsibility for building business partnerships across Australian and multinational organisations.</p> <p>In his previous executive roles, Mr Iancov has been instrumental in securing and delivering major contracting projects and was responsible for the management, construction and operation of critical energy infrastructure assets in excess of \$4.3 billion.</p>
Interest in Shares and Options	–	Not applicable as no longer a director
Special Responsibilities	–	Former Member of audit, finance and risk committee and remuneration and nomination committee.
Directorships held in other listed entities during the three years prior to the current year	–	None

<b>Stephen Lazarakis</b>	– Non-executive Director
Qualifications	– Bachelor of Mechanical Engineering
Experience	<p>– Mr Lazarakis brings over 30 years of experience in the Heavy Engineering Industry. He was also the Founder and Managing Director of HVAC Queensland Pty Ltd, a company specializing in Complex Industrial and Mechanical contracting services to the Queensland market, until the company's acquisition by ANZ Capital in 2010.</p> <p>Having resided in Queensland for over twenty years, Mr Lazarakis has developed a strong track record in the local engineering industry within its Gas, Resources, Infrastructure and Commercial sectors. Stephen retains a commitment to working with Queensland based organisations by providing the guidance and support required to ensure the development of business principles which incorporate a high level of corporate governance and ethical standards</p>
Interest in Shares and Options	– 17,036,444 ordinary shares.
Special Responsibilities	– Member of remuneration and nomination, audit and risk committee
Directorships held in other listed entities during the three years prior to the current year	– None
<b>Harveer Singh</b>	– Company Secretary and Chief Financial Officer
Qualifications	– Certified Practicing Accountant
Experience	<p>– Over 20 years of experience in the areas of financial and commercial management gained over various industries ranging from mining services, logistics &amp; manufacturing. He has combined his financial ability with strong sense of commercial acumen to provide businesses with commercial guidance and financial stewardship.</p> <p>Qualified as a Certified Practising Accountant (CPA) and he holds a Bachelor of Commerce degree.</p>
Interest in Shares and Options	– 87,829 ordinary shares
Special Responsibilities	– Member of mergers and acquisition committee
Directorships held in other listed entities during the three years prior to the current year	– None

**Meetings of Directors**

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

	Full meetings of directors		Meetings of Committee			
	Held	Attended	Audit & Risk		Remuneration	
			Held	Attended	Held	Attended
Stephen Zurhaar	6	6	2	2	1	1
Steve Dropulich	6	6	-	-	-	-
Vincent Goss	6	4	-	-	-	-
Peter Iancov	6	4	2	2	1	1
Stephen Lazarakis	6	6	2	2	1	1

## Remuneration Report (Audited)

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

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

### Remuneration Policy

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Valmec Limited's directors and its senior management for the financial year ended 30 June 2019.

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

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

### Remuneration Policy for Directors and Senior Executives

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

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

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

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

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

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

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

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

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

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

At the 2018 AGM, 99.57% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

**Performance Based Remuneration**

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

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

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

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

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



### Employment Contracts of Directors and Senior Executives

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

### Performance Income as a Proportion of Total Remuneration

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

### Employment Details of Members of Key Management Personnel

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

30 June 2019	Position Held and any Change during the Year	Contract Details (Duration and Termination)	LTI Proportions of Elements of Remuneration Related to Performance			Fixed remuneration Proportions of Elements of Remuneration Not Related to Performance	
			Non-salary			Fixed Salary/ Fees %	Total %
			Cash-based Incentives %	Shares/ Units %	SARs/Options/ Rights %		
<b>Group KMP</b>							
Stephen Zurhaar	Non-Executive Chairman	N/A	-	-	-	100%	100%
Steve Dropulich	Managing Director	N/A	-	-	10%	90%	100%
Vincent Goss	Non-Executive Director	N/A	-	-	-	100%	100%
Peter Iancov*	Non-Executive Director	N/A	-	-	-	100%	100%
Stephen Lazarakis	Non-Executive Director	N/A	-	-	-	100%	100%
Harveer Singh	Chief Financial Officer & Company Secretary	N/A	1%	-	-	99%	100%
* Resigned on 15 March 2019.							
30 June 2018							
			%	%	%	%	%
<b>Group KMP</b>							
Stephen Zurhaar	Non-Executive Chairman	N/A	-	-	-	100%	100%
Steve Dropulich	Managing Director	N/A	-	-	16%	84%	100%
Vincent Goss	Non-Executive Director	N/A	-	-	-	100%	100%
Peter Iancov	Non-Executive Director	N/A	-	-	-	100%	100%
Stephen Lazarakis	Non-Executive Director	N/A	-	-	-	100%	100%
Harveer Singh	Chief Financial Officer & Company Secretary	N/A	2%	-	6%	92%	100%

## Remuneration Expense Details for the Year Ended 30 June 2019

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

**Table of Benefits and Payments for the Year Ended 30 June 2019 and 2018:**

		Short-term Benefits				Post-employment Benefits		Long-term Benefits		Equity-settled Share-based Payments		Cash-settled Share-based Payments <sup>^</sup> #	Term Benefits	Total
		Salary, Fees and Leave	Profit Share and Bonus	Non-monetary	Other	Super	Other	Incentive Plans	LSL	Shares/Units	Options/Performance rights <sup>^</sup> #			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Group KMP</b>														
Stephen Zurhaar	2019	100,000	-	-	-	9,500	-	-	-	-	-	-	-	109,500
	2018	60,000	-	-	-	-	-	-	-	-	-	-	-	60,000
Steve Dropulich	2019	400,000	-	-	-	25,000	-	-	-	-	41,654	7,170	-	473,824
	2018	373,693	-	-	-	25,000	-	-	-	-	68,061	10,501	-	477,255
Vincent Goss	2019	60,000	-	-	-	5,700	-	-	-	-	-	-	-	65,700
	2018	160,410	-	-	-	-	-	-	-	-	(13,196)	(6,880)	-	140,334
Peter Iancov *	2019	72,500	-	-	-	4,038	-	-	-	-	-	-	-	76,538
	2018	120,000	-	-	-	-	-	-	-	-	-	-	-	120,000
Stephen Lazarakis	2019	60,000	-	-	-	5,700	-	-	-	-	-	-	-	65,700
	2018	70,838	-	-	-	-	-	-	-	-	-	-	-	70,838
Harveer Singh	2019	295,000	22,500	2,222	-	25,000	-	-	-	-	-	-	-	344,722
	2018	272,155	-	2,696	-	24,967	-	-	-	-	5,178	12,965	-	317,961
Total KMP	2019	987,500	22,500	2,222	-	74,938	-	-	-	-	41,654	7,170	-	1,135,984
	2018	1,057,096	-	2,696	-	49,967	-	-	-	-	60,043	16,586	-	1,186,388

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

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

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

\*Resigned as Non-Executive Director on the 15 March 2019.

## Share-based Compensation

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

## Additional disclosures relating to key management personnel

### KMP Options:

Details of options held by directors and key management personnel

	Balance	Received as	Acquired	Expired	Exercised	Balance
2019	1/07/2018	remuneration	During Year	During Year	During Year	30/06/2019
	No.	No.	No.	No.	No.	No.
<b>Directors</b>						
Steve Dropulich	1,962,223	-	-	(1,086,862)	-	875,361
Stephen Zurhaar	-	-	-	-	-	-
Vincent Goss	425,000	-	-	(425,000)	-	-
Peter Iancov	-	-	-	-	-	-
Stephen Lazarakis	-	-	-	-	-	-
<b>Executives</b>						
Harveer Singh	229,166	-	-	(229,166)	-	-
<b>Total</b>	<b>2,616,389</b>	<b>-</b>	<b>-</b>	<b>(1,741,028)</b>	<b>-</b>	<b>875,361</b>

### KMP Shareholdings

Number of shares held by Company directors and key management personnel

	Balance	Received as	Option		Acquired during	Balance
2019	1/07/2018	remuneration	Exercised	Others*	the year	30/06/2019
	No.	No.	No.	No.	No.	No.
<b>Directors</b>						
Steve Dropulich	5,874,389	-	-		530,001	6,404,390
Stephen Zurhaar	17,969,571	-	-		1,860,429	19,830,000
Vincent Goss	15,486,126	-	-		-	15,486,126
Peter Iancov	432,656	-	-	(432,656)	-	-
Stephen Lazarakis	16,502,444	-	-		534,000	17,036,444
<b>Executives</b>						
Harveer Singh	70,000	-	-		17,829	87,829
<b>Total</b>	<b>56,335,186</b>	<b>-</b>	<b>-</b>		<b>2,942,259</b>	<b>58,844,789</b>

\*At date of appointment or resignation.

### KMP Share appreciation rights (SARs)

Details of SARs held by directors and key management personnel

2019	Balance 1/07/2018	Received as Remuneration	Others*	Lapsed during the year	Balance 30/06/2019
<b>Directors</b>	No.	No.	No.	No.	No.
Steve Dropulich	429,127	-	-	(169,000)	260,127
Stephen Zurhaar	-	-	-	-	-
Vincent Goss	-	-	-	-	-
Peter Iancov	-	-	-	-	-
Stephen Lazarakis	-	-	-	-	-
<b>Executives</b>					
Harveer Singh	435,845	-	-	(435,845)	-
<b>Total</b>	<b>864,972</b>	<b>-</b>	<b>-</b>	<b>(604,845)</b>	<b>260,127</b>

\*At date of appointment or resignation.

### KMP Performance rights (PRs)

Details of performance rights held by directors and key management personnel

2019	Balance 1/07/2018	Received as Remuneration	Others*	Lapsed during the year	Balance 30/06/2019
<b>Directors</b>	No.	No.	No.	No.	No.
Steve Dropulich	731,987	-	-	(387,119)	344,868
Stephen Zurhaar	-	-	-	-	-
Vincent Goss	-	-	-	-	-
Peter Iancov	-	-	-	-	-
Stephen Lazarakis	-	-	-	-	-
<b>Executives</b>					
Harveer Singh	80,357	-	-	(80,357)	-
<b>Total</b>	<b>812,344</b>	<b>-</b>	<b>-</b>	<b>(467,476)</b>	<b>344,868</b>

\*At date of appointment or resignation.

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

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

	2019 \$000
<b>(i) Transactions with related parties:</b>	
<i>Other related parties:</i>	
Rent and outgoings – Tag Pty Ltd <sup>[1]</sup>	793

<sup>[1]</sup> Stephen Zurhaar and Stephen Lazarakis are directors and shareholders of Tag Pty Ltd.

**Additional information**

The earnings of the consolidated entity for the five years to 30 June 2019 are summarised below:

	2019	2018*	2017	2016	2015*
	\$000	\$000	\$000	\$000	\$000
Revenue	110,162	103,197	72,895	50,963	55,748
EBITDA	8,060	7,502	4,104	3,032	6,588
EBIT	6,004	5,440	3,007	1,692	5,228
Profit after income tax	3,535	3,777	1,551	186	5,751
<b>Underlying EBITDA</b>	<b>8,060</b>	<b>4,888</b>	<b>4,104</b>	<b>3,032</b>	<b>1,488</b>

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

	2019	2018*	2017	2016	2015*
Share price at financial year end (\$)	0.22	0.31	0.13	0.11	0.19
Total dividends declared (cents per share)	-	-	-	0.005	0.005
Basic earnings/(loss) per share (cents per share)	2.82	3.72	1.90	0.23	8.26
Underlying earnings/(loss) per share (cents per share)	2.82	1.20	1.90	0.23	0.93

*Note: Underlying FY18 excludes \$2.6M Gain on APTS acquisition, FY15 excludes \$5.1 Gain on Valmec Service acquisition.*

**[End of Remuneration Report]**

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

On behalf of the directors



**Steve Dropulich**  
**Managing Director**

Dated: 27 August 2019



**RSM Australia Partners**

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Valmec Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

**RSM**  
RSM AUSTRALIA PARTNERS

  
ALASDAIR WHYTE  
Partner

Perth, WA  
Dated: 27 August 2019

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RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

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**Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended 30 June 2019**

	Note	Consolidated	
		2019	2018
		\$000	\$000
<b>Continuing operations</b>			
Revenue	3	110,162	103,197
Cost of sales		(90,157)	(88,768)
<b>Gross profit</b>		20,005	14,429
Other income	3	258	2,950
Depreciation and amortisation expense		(2,056)	(2,062)
Employee benefits expense	4	(7,693)	(6,647)
Finance costs		(1,126)	(965)
Occupancy expenses		(1,908)	(989)
Professional fees		(671)	(729)
Other expenses	5	(1,931)	(1,512)
<b>Profit before income tax from continuing operations</b>		4,878	4,475
Income tax expense	6	(1,343)	(698)
<b>Profit after income tax from continuing operations</b>		3,535	3,777
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the year</b>		3,535	3,777
<b>Earnings per share</b>			
Basic earnings per share (cents)	9	2.82	3.72
Diluted earnings per share (cents)	9	2.82	3.71

The accompanying notes form part of these financial statements.

**Statement of Financial Position**  
**As at 30 June 2019**

	Note	Consolidated	
		2019	2018
		\$000	\$000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	10	3,815	2,747
Trade and other receivables	11	15,918	12,844
Contract assets	12	16,578	16,170
Inventories	13	7,133	7,129
Other assets	14	575	601
<b>TOTAL CURRENT ASSETS</b>		<b>44,019</b>	<b>39,491</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	16	10,359	10,606
Deferred tax assets	6	2,599	1,637
Intangible assets	17	3,052	3,510
<b>TOTAL NON-CURRENT ASSETS</b>		<b>16,010</b>	<b>15,753</b>
<b>TOTAL ASSETS</b>		<b>60,029</b>	<b>55,244</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	23,043	19,001
Borrowings	19	3,998	1,105
Provisions	21	2,232	1,649
<b>TOTAL CURRENT LIABILITIES</b>		<b>29,273</b>	<b>21,755</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	19	824	1,765
Provisions	21	55	234
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>879</b>	<b>1,999</b>
<b>TOTAL LIABILITIES</b>		<b>30,152</b>	<b>23,754</b>
<b>NET ASSETS</b>		<b>29,877</b>	<b>31,490</b>
<b>EQUITY</b>			
Issued capital	22	16,907	16,627
Reserve	31	322	372
Retained earnings	32	12,648	14,491
<b>TOTAL EQUITY</b>		<b>29,877</b>	<b>31,490</b>

The accompanying notes form part of these financial statements.



**Statement of Changes in Equity**  
**For the year ended 30 June 2019**

Consolidated	Note	Issued Capital \$000	Reserve \$000	Retained Earnings \$000	Total \$000
<b>Balance at 1 July 2017</b>		6,184	308	10,714	17,206
Profit after income tax expense for the year		-	-	3,777	3,777
Other comprehensive income for the year, not of tax		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	3,777	3,777
<b>Transactions with owners, in their capacity as owners:</b>					
Shares issued during the year		10,731	-	-	10,731
Transaction costs		(255)	-	-	(255)
Share buy back		(33)	-	-	(33)
Share based payment		-	64	-	64
<b>Balance at 30 June 2018</b>		16,627	372	14,491	31,490
<b>Balance at 1 July 2018</b>		16,627	372	14,491	31,490
Adjustment for change in accounting policy	1	-	-	(5,378)	(5,378)
Balance at 1 July 2018 - restated		16,627	372	9,113	26,112
Profit after income tax expense for the year		-	-	3,535	3,535
Other comprehensive income for the year, net of tax		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	3,535	3,535
<b>Transactions with owners, in their capacity as owners:</b>					
Options exercised during the year		280	-	-	280
Share based payment		-	(50)	-	(50)
<b>Balance at 30 June 2019</b>		16,907	322	12,648	29,877

The accompanying notes form part of these financial statements.

**Statement of Cash Flows**  
**For the Year Ended 30 June 2019**

	Note	Consolidated	
		2019	2018
		\$000	\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		99,237	93,475
Payments to suppliers and employees		(97,941)	(95,283)
Interest received		9	12
Finance costs		(1,126)	(964)
<b>Net cash provided by / (used in) operating activities</b>	26a	179	(2,760)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(1,443)	(509)
Proceeds from sale of property, plant and equipment		100	195
Payment for acquisition of subsidiary	15b	-	(2,634)
<b>Net cash (used in) investing activities</b>		(1,343)	(2,948)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of borrowings, net		(766)	(994)
Proceeds from issue of shares	22	280	10,442
<b>Net cash (used in)/provided by financing activities</b>		(486)	9,448
Net (decrease)/increase in cash held		(1,650)	3,740
Cash and cash equivalents at beginning of financial year		2,747	(993)
Cash and cash equivalents at end of financial year	10	1,097	2,747

The accompanying notes form part of these financial statements

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 1: Summary of Significant Accounting Policies

#### General

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

#### Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1.

#### Parent Information

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

#### Principles of Consolidation

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

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

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

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 1: Summary of Significant Accounting Policies (Continued)

#### Note 1: Summary of Significant Accounting Policies

shown separately within the equity section of the statement of financial position and statement of profit or loss and other comprehensive income.

#### Business combinations

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

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

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

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

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

#### Goodwill

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

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

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

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

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

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such

## **Notes to the Financial Statements for the Year Ended 30 June 2019**

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Note 1: Summary of Significant Accounting Policies**

circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

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

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

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

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

#### **Income Tax**

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

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

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

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

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

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

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

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

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities

## **Notes to the Financial Statements for the Year Ended 30 June 2019**

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Note 1: Summary of Significant Accounting Policies**

relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

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

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

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

#### **Current and non-current classification**

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

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

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

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

#### **Fair Value Measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

## **Notes to the Financial Statements for the Year Ended 30 June 2019**

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Note 1: Summary of Significant Accounting Policies**

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

#### **Inventories**

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

#### **Contract assets**

Contract assets are recognised when the consolidated entity has transferred goods or services to the customer but where the consolidated entity is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

#### **Customer acquisition costs**

Customer acquisition costs are capitalised as an asset where such costs are incremental to obtaining a contract with a customer and are expected to be recovered. Customer acquisition costs are amortised on a straight-line basis over the term of the contract.

Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained or which are not otherwise recoverable from a customer are expensed as incurred to profit or loss. Incremental costs of obtaining a contract where the contract term is less than one year is immediately expensed to profit or loss.

#### **Right of return assets**

Right of return assets represents the right to recover inventory sold to customers and is based on an estimate of customers who may exercise their right to return the goods and claim a refund. Such rights are measured at the value at which the inventory was previously carried prior to sale, less expected recovery costs and any impairment.

#### **Contract liabilities**

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

#### **Refund liabilities**

Refund liabilities are recognised where the consolidated entity receives consideration from a customer and expects to refund some, or all, of that consideration to the customer. A refund liability is measured at the amount of consideration received or receivable for which the consolidated entity does not expect to be entitled and is updated at the end of each

## **Notes to the Financial Statements for the Year Ended 30 June 2019**

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Note 1: Summary of Significant Accounting Policies**

reporting period for changes in circumstances. Historical data is used across product lines to estimate such returns at the time of sale based on an expected value methodology.

#### **Property, Plant and Equipment**

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

##### **Plant and equipment**

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

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

##### **Depreciation**

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

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

Plant and equipment - 2.5 to 20 years

Leasehold improvements - 2.5 to 10 years

Motor vehicles – 4 to 5 years

Office equipment – 3 to 10 years

##### **Intangible assets**

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



## **Notes to the Financial Statements for the Year Ended 30 June 2019**

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Note 1: Summary of Significant Accounting Policies**

##### *Goodwill*

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

##### *Research and development*

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

##### *Patents and trademarks*

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

##### *Customer contracts*

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 17 to 36 months.

##### *Software*

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

#### **Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

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

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

## **Notes to the Financial Statements for the Year Ended 30 June 2019**

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Note 1: Summary of Significant Accounting Policies**

##### *Financial assets at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

##### *Impairment of financial assets*

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 1: Summary of Significant Accounting Policies (Continued)

#### **Impairment of non-financial assets**

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

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

#### **Employee Benefits**

##### *Short-term employee benefits*

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

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

##### *Other long-term employee benefits*

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

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

##### *Retirement benefit obligations*

##### *Defined contribution superannuation benefits*

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

## **Notes to the Financial Statements for the Year Ended 30 June 2019**

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### *Termination benefits*

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

#### *Equity-settled compensation*

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

#### **Provisions**

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity 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 the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

#### **Cash and Cash Equivalents**

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

#### **Revenue Recognition**

##### *Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

## **Notes to the Financial Statements for the Year Ended 30 June 2019**

### **Note 1: Summary of Significant Accounting Policies (Continued)**

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

#### *Sale of goods*

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery

#### *Rendering of services*

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

#### *Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

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

#### **Trade and Other Receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue. Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

#### **Trade and Other Payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

#### **Borrowings**

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

## **Notes to the Financial Statements for the Year Ended 30 June 2019**

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Borrowing Costs**

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

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

#### **Goods and Services Tax (GST)**

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

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

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

#### **Leases**

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

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

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

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

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

#### **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.

#### **Critical Accounting Estimates and Judgments**

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

## **Notes to the Financial Statements for the Year Ended 30 June 2019**

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### *Share-based payment transactions*

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

#### *Estimation of useful lives of assets*

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

#### *Goodwill and other indefinite life intangible assets*

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

#### *Recovery of deferred tax assets*

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

#### *Revenue from contracts with customers involving sale of goods*

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

#### *Determination of variable consideration*

Judgement is exercised in estimating variable consideration which is determined having regard to past experience with respect to the goods returned to the consolidated entity where the customer maintains a right of return pursuant to the customer contract or where goods or services have a variable component. Revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

#### *Allowance for expected credit losses*

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

#### **Dividends**

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

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 1: Summary of Significant Accounting Policies (Continued)

#### **EARNINGS PER SHARE**

##### *Basic earnings per share*

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

##### *Diluted earnings per share*

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

#### **Operating segments**

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

#### **Foreign currency translation**

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

##### *Foreign currency transactions*

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

#### **Issued capital**

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

#### **Non-current assets or disposal groups classified as held for sale**

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

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

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

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



## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 1: Summary of Significant Accounting Policies (Continued)

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

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.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

#### *AASB 9 Financial Instruments*

The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

#### *AASB 15 Revenue from Contracts with Customers*

The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 1: Summary of Significant Accounting Policies (Continued)

#### *Impact of adoption*

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2018 was as follows:

	1 July 2018 \$'000
Contract assets (AASB 15)	(7,683)
Tax effect on the above adjustments	<u>2,305</u>
Impact on opening retained profits as at 1 July 2018	<u>(5,378)</u>

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 1: Summary of Significant Accounting Policies (Continued)

#### Note 1: Summary of Significant Accounting Policies

##### New Accounting Standards for Application in Future Periods

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

##### *AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 and its impact on adoption is expected to result in total assets increasing by \$2,907,000, total liabilities increasing by \$2,907,000.

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 2: Parent Information

	2019 \$000	2018 \$000
The following information has been extracted from the books and records of the parent entity - Valmec Limited		
<b>Statement of Financial Position:</b>		
<b>ASSETS</b>		
Current assets	156	98
Non-current assets	9,441	11,077
<b>TOTAL ASSETS</b>	<b>9,597</b>	<b>11,175</b>
<b>LIABILITIES</b>		
Current liabilities	595	574
Non-current liabilities	77	83
<b>TOTAL LIABILITIES</b>	<b>672</b>	<b>657</b>
<b>EQUITY</b>		
Issued capital	18,811	18,531
Reserve	375	424
(Accumulated losses)	(10,261)	(8,437)
<b>TOTAL EQUITY</b>	<b>8,925</b>	<b>10,518</b>
<b>Statement of Comprehensive Income:</b>		
(Loss) for the year	(1,823)	(1,806)
Other Comprehensive income for the year	-	-
<b>Total comprehensive loss for the year</b>	<b>(1,823)</b>	<b>(1,806)</b>

### Contingent Liabilities and Capital expenditure

There are no contingent liabilities for the parent entity for both financial years ended 30 June 2019 and 30 June 2018 apart from those already disclosed in Note 24.

The parent entity did not have capital expenditure commitments for the acquisition of property, plant and equipment contracted but not provided for both financial years 30 June 2019 and 30 June 2018.

### Guarantees

Valmec Limited has entered into a deed of cross guarantee with its subsidiaries, Valmec Australia Pty Ltd, Valmec Services Pty Ltd, APTS Pty Ltd and Valmec Plant and Equipment Pty Ltd. Refer to Note 15c for further details.

## Notes to the Financial Statements for the Year Ended 30 June 2019

	2019 \$000	2018 \$000
<b>Note 3: Revenue and Other Income</b>		
<i>Revenue from contracts with customers</i>		
Sale of goods	14,760	14,315
Rendering of services	95,402	88,882
	<u>110,162</u>	<u>103,197</u>
Other revenue:		
– Interest received	10	12
– Gain on disposal of plant and equipment	8	163
– Gain on re-measurement of equity investment due to business combination (Note 14b)	-	2,613
– Other revenue	240	162
Total other income	<u>258</u>	<u>2,950</u>

### Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Energy Construction \$000	Services \$000	Total \$000
Consolidated – 30 June 2019			
Sectors			
Oil and Gas	<u>64,199</u>	<u>45,963</u>	<u>110,162</u>
	<u>64,199</u>	<u>45,963</u>	<u>110,162</u>
Geographical regions			
Australia	<u>64,199</u>	<u>45,963</u>	<u>110,162</u>
	<u>64,199</u>	<u>45,963</u>	<u>110,162</u>
Timing of revenue recognition			
Goods transferred at a point in time	-	14,760	14,760
Services rendered over time	<u>64,199</u>	<u>31,203</u>	<u>95,402</u>
	<u>64,199</u>	<u>45,963</u>	<u>110,162</u>

AASB 15 was adopted using the modified retrospective approach and as such comparatives have not been provided for disaggregation of revenue.

**Notes to the Financial Statements for the Year Ended 30 June 2019**

2019	2018
\$000	\$000

**Note 4: Employee benefits expenses**

Salaries and wages	6,146	5,335
Superannuation	470	412
Other employee benefits & provisions	1,077	900
	<u>7,693</u>	<u>6,647</u>

**Note 5: Other expenses**

Other expenses mainly comprises of the following:

Insurance expenses	307	421
Office and computer software	392	352
Telephone expenses	11	128
Travel and accommodation	636	359
	<u>636</u>	<u>359</u>

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 6. Tax Expense

	2019 \$000	2018 \$000
<b>(a) Income tax recognised in statement of comprehensive income</b>		
Tax expense comprises:		
- Current tax expense	-	-
- Deferred tax - origination and reversal of temporary differences	1,439	630
- Adjustment recognised for prior periods	(96)	68
Total income tax expense	1,343	698

### (b) Recognition of income tax expense to prima facie tax payable

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

Profit from operations	4,878	4,475
Income tax expense calculated at 30% (2018: 30%)	1,463	1,343
Add: tax effect of:		
- Non-deductible / Non-allowable items	(24)	(713)
- Adjustment to prior year deferred tax asset	(96)	68
Total income tax expense recognised	1,343	698

### (c) Recognised deferred tax assets and liabilities

	2019 \$000	2019 \$000	2018 \$000	2018 \$000
	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets
Opening balance	(2,655)	4,292	(1,606)	5,134
Charged to profit and loss	324	(1,667)	144	(842)
Acquisition of APTS	-	-	(1,193)	-
Adjustment on adoption of AASB 15		2,305	-	-
Closing balance	(2,331)	4,930	(2,655)	4,292

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 6: Tax Expense (Cont.)

	2019 \$000	2018 \$000
	Deferred Income Tax	Deferred Income Tax
Amounts recognised on the consolidated statement of financial position:		
Deferred tax asset	4,930	4,292
Deferred tax liability	(2,331)	(2,655)
	<u>2,599</u>	<u>1,637</u>
<i>(i) Deferred tax assets</i>		
Provisions	693	566
Income tax losses	3,983	3,441
Trade creditors	254	259
Others	-	26
Gross deferred tax assets	<u>4,930</u>	<u>4,292</u>
<i>(ii) Deferred tax liabilities</i>		
Inventories	(1,031)	(971)
Property, plant and equipment	(960)	(1,180)
intangibles	(317)	(486)
Others	(23)	(18)
Set-off of deferred tax liabilities	<u>(2,331)</u>	<u>(2,655)</u>
Net deferred tax assets	<u>2,599</u>	<u>1,637</u>

### Note 7: Key Management Personnel Compensation

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2019 and 30 June 2018.

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

	2019 \$000	2018 \$000
Short-term employee benefits	1,012	1,060
Post-employment benefits	75	50
Share-based payments	49	76
Total KMP compensation	<u>1,136</u>	<u>1,186</u>



## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 7: Key Management Personnel Compensation (Cont.)

#### Short-term employee benefits

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

#### Post-employment benefits

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

#### Share-based payments

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

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

	2019 \$000	2018 \$000
<b>Note 8: Auditors' Remuneration</b>		
Remuneration of the auditor for:		
– auditing or reviewing the financial statements	90	96
– taxation services	31	45
	<u>121</u>	<u>141</u>

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

a.	Reconciliation of earnings to profit or loss:		
	Profit	3,535	3,777
	Earnings used to calculate basic EPS	<u>3,535</u>	<u>3,777</u>
	Earnings used in the calculation of dilutive EPS	<u>3,535</u>	<u>3,777</u>
		<b>No.</b>	<b>No.</b>
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	125,144,900	101,392,551
	Weighted average number of dilutive options/performance rights outstanding	<u>-</u>	<u>400,993</u>
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	<u>125,144,900</u>	<u>101,793,544</u>

## Notes to the Financial Statements for the Year Ended 30 June 2019

	Note	2019 \$000	2018 \$000
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### Note 10: Cash and Cash Equivalents

Cash at bank and on hand		3,815	2,747
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#### Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash at bank and on hand		3,815	2,747
Bank overdraft	19	(2,718)	-
Cash and cash equivalents		1,097	2,747

### Note 11: Trade and Other Receivables

Trade receivables		15,918	12,844
Less: Allowance for expected credit losses (2018: Provision for impairment of receivables)		-	-
		15,918	12,844

#### Allowance for expected credit losses

No expected credit losses have been recognised by the consolidated entity for the year ended 30 June 2019.

The ageing of the receivables for above are as follows:

	Gross Amount \$000	Past Due and Impaired \$000	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms \$000
			< 30 \$000	31–60 \$000	61–90 \$000	> 90 \$000	
<b>2019</b>							
Trade and other receivables	15,918	-	1,807	542	246	188	13,135
Total	15,918	-	1,807	542	246	188	13,135
<b>2018</b>							
Trade and other receivables	12,844	-	3,363	780	14	77	8,610
Total	12,844	-	3,363	780	14	77	8,610

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 12: Contract assets

	2019	2018
	\$000	\$000
Contract assets	16,578	16,170

#### Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

Opening balance	16,170	10,681
Additions	16,402	15,995
Impact on adoption of AASB 15	(7,683)	-
Transfer to trade receivables	(8,311)	(10,506)
Closing balance	16,578	16,170

### Note 13: Inventories

#### CURRENT

##### At cost:

Raw materials and stores	3,997	3,452
Work in progress	3,136	3,677
	7,133	7,129

2019	2018
\$000	\$000

### Note 14: Other Assets

#### CURRENT

Prepayments	492	595
Deposits	83	6
	575	601

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 15: Interests in Subsidiaries

#### a. Information about Principal Subsidiaries

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

Name of Subsidiary	Principal Place of Business	Ownership Interest Held by the Group	
		2019	2018
		%	%
Valmec Australia Pty Ltd	Australia	100	100
Valmec Plant and Equipment Pty Ltd (formerly Core Plant and Equipment Pty Ltd)	Australia	100	100
Valmec Services Pty Ltd	Australia	100	100
APTS Pty Ltd	Australia	100	100
Connexion Networks Limited	Hong Kong – dormant	100	100

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

#### b. Acquisition of Controlled Entities

In prior year, the consolidated group completed the acquisition of the business of APTS. The business provides pressure testing and related activities. The consideration transferred for this acquisition was \$2.63 million in cash.

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

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

## Notes to the Financial Statements for the Year Ended 30 June 2019

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2,634

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

### c. Deed of Cross Guarantee

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

### Note 16: Property, Plant and Equipment

	2019 \$000	2018 \$000
Leasehold improvement		
At cost	977	617
Accumulated depreciation	(330)	(273)
Total	647	344
Plant and equipment		
At cost	21,224	20,468
Accumulated depreciation	(12,126)	(10,929)
Total	9,098	9,539
Motor vehicles		
At cost	1,064	1,037
Accumulated depreciation	(812)	(712)
Total	252	325
Office equipment		
At cost	1,498	1,450
Accumulated depreciation	(1,136)	(1,052)
Total	362	398
Total property, plant and equipment	10,359	10,606

## Notes to the Financial Statements for the Year Ended 30 June 2019

### (i) Movements in Carrying Amounts

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

	Leasehold improvement \$000	Plant and Equipment \$000	Motor Vehicles \$000	Office Equipment \$000	Total \$000
<b>Consolidated Group:</b>					
Balance at 1 July 2017	412	6,151	88	368	7,019
Additions	-	462	-	35	497
Disposals	-	(29)	(3)	-	(32)
Additions through business combinations	-	4,097	303	91	4,491
Depreciation expense	(68)	(1,142)	(63)	(96)	(1,369)
Balance at 30 June 2018	344	9,539	325	398	10,606
Additions	368	921	-	49	1,338
Disposals	-	(93)	-	-	(93)
Depreciation expense	(66)	(1,269)	(72)	(85)	(1,492)
Balance at 30 June 2019	646	9,098	253	362	10,359

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 17: Intangible Assets

	2018 \$000	2017 \$000
<i>Goodwill:</i>		
Cost	1,829	1,829
Accumulated impairment losses	-	-
Net carrying amount	1,829	1,829
<i>Computer software:</i>		
Cost	165	59
Accumulated amortisation	(40)	(25)
Net carrying amount	125	34
<i>Customer contracts:</i>		
Cost	2,333	2,333
Accumulated amortisation	(1,235)	(686)
Net carrying amount	1,098	1,647
Total	3,052	3,510

### Movements in Carrying Amounts

Movements in the carrying amounts for each class of intangible assets between the beginning and the end of the current financial year:

	Computer software \$000	Goodwill \$000	Customer contracts \$000	Total \$000
<b>Consolidated Group:</b>				
Balance at 1 July 2017	28	1,829	-	1,859
Additions	13	-	-	13
Disposals	-	-	-	-
Additions through business combinations		-	2,333	2,333
Amortisation expense	(7)	-	(686)	(693)
Balance at 30 June 2018	34	1,829	1,647	3,510
Additions	107	-	-	107
Disposals	-	-	-	-
Amortisation expense	(15)	-	(549)	(564)
Balance at 30 June 2019	125	1,829	1,098	3,052

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Impairment disclosures

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

	<b>2019</b>	<b>2018</b>
	<b>\$000</b>	<b>\$000</b>
Services to the oil, gas and resources sectors segment	1,829	1,829
Total	1,829	1,829

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

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

	<b>Growth Rate</b>	<b>Pre-tax discount Rate</b>
Services to the oil, gas and resources sectors segment	1%	13.50%

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

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

### Sensitivity

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

(a) EBITDA would need to decrease by more than \$4.6 million before goodwill would need to be impaired, with all other assumptions remaining constant.

(b) The discount rate would be required to increase to 26% before goodwill would need to be impaired, with all other assumptions remaining constant.

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

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



## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 18: Trade and Other Payables

	Note	2019 \$000	2018 \$000
CURRENT			
Unsecured liabilities:			
Trade payables		10,836	8,484
Import trade amount payable *	19	6,874	6,807
Sundry payables and accrued expenses		5,333	3,710
		<u>23,043</u>	<u>19,001</u>

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

### Note 19: Borrowings

CURRENT			
Bank overdraft – secured (i)		2,718	-
Lease liability - secured (ii)		941	909
Other borrowings (iii) - unsecured		339	196
Total current borrowings		<u>3,998</u>	<u>1,105</u>
NON-CURRENT			
Lease liability – secured (ii)		824	1,765
Related party loan – unsecured		-	-
Total non-current borrowings		<u>824</u>	<u>1,765</u>
Total borrowings		<u>4,822</u>	<u>2,870</u>

- (i) Bankwest overdraft facility. The interest rate is 7.70%. (2018: 7.70%)
- (ii) Hire purchase agreements have an average term of 2 to 3 years. The hire purchase liability is secured by a charge over the underlying hire purchase assets. The interest rate is 5.49% (2018: 5.53%)
- (iii) Relates to credit card balances and insurance premium funding.

#### Collateral provided:

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

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

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 19: Borrowings (cont'd)

Financing agreement	Note	2019 \$000	2018 \$000
<b>Total facilities</b>			
Bank Overdraft		11,555	8,636
Bank Guarantee		15,435	15,364
Import Trade Facility		7,010	7,000
Asset Finance facility		3,300	3,300
Credit Cards		200	200
		<u>37,500</u>	<u>34,500</u>
<b>Used at reporting date</b>			
Bank Overdraft		2,717	-
Bank Guarantee		7,881	7,810
Import Trade Facility	18	6,874	6,807
Asset Finance facility		1,860	2,892
Credit Cards		174	140
		<u>19,506</u>	<u>17,649</u>
<b>Unused at reporting date</b>			
Bank Overdraft		8,838	8,636
Bank Guarantee		7,553	7,554
Import Trade Facility		136	193
Asset Finance facility		1,440	408
Credit Cards		26	60
		<u>17,993</u>	<u>16,851</u>

### Note 20: Dividends

No Dividends were paid/payable during the financial year.

#### Franking credits

Franking credits available for subsequent financial years based on a tax rate of 30%

658	658
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The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

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

## Notes to the Financial Statements for the Year Ended 30 June 2019

	2019 \$000	2019 \$000
<b>Note 21: Provisions</b>		
Employees benefits	2,203	1,842
Others	84	41
	<u>2,287</u>	<u>1,883</u>

### Employee benefits

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

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

The following amounts reflect leave that is not expected to be taken within the next 12 months:

Employee benefits obligation expected to be settled after 12 months	55	234
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Provision for employee benefits represents amounts accrued for annual leave and long service leave.

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

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

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

### Others

Opening balance at July	41	77
Additional provisions	84	938
Amounts used	(41)	(937)
Unused amounts reversed	-	(37)
Balance at June	<u>84</u>	<u>41</u>

### Analysis of total provisions

Current	2,232	1,649
Non-current	55	234
	<u>2,287</u>	<u>1,883</u>

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 22: Issued Capital

	2019 No.	2018 No.	2019 \$000	2018 \$000
Ordinary shares - fully paid	125,718,708	124,598,708	16,907	16,627

#### *Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$000
Balance	1 July 2017	81,834,017		6,184
Share buy back	30 November 2017	(157,392)	\$0.21	(33)
Issue of shares (exercise of options)	12 January 2018	22,522,083	\$0.25	5,631
Issue of shares	16 January 2018	20,400,000	\$0.25	5,100
Share issue transaction costs, net of tax		-	-	(255)
Balance	1 July 2018	124,598,708		16,627
Options exercised	7 January 2019	1,120,000	\$0.25	280
Balance	30 June 2019	125,718,708		16,907

#### *Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

#### *Share buy-back*

There is no current on-market share buy-back.

#### *Capital Risk Management*

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

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

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

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

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

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 23: Commitments

	Note	2018 \$000	2017 \$000
<b>a. Finance Lease Commitments</b>			
Payable – minimum lease payments:			
– not later than 1 year		1,014	1,032
– between 2 and 5 years		845	1,860
Minimum lease payments		1,859	2,892
Less future finance charges		(94)	(218)
Present value of minimum lease payments		1,765	2,674
<b>b. Operating Lease Commitments</b>			
Non-cancellable operating leases contracted for but not recognised in the financial statements			
Payable – minimum lease payments:			
– not later than 1 year		916	738
– between 2 and 5 years		2,374	1,931
– later than 5 years		-	-
		3,290	2,669

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

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

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 24: Contingent Liabilities and Contingent Assets

The Group has given bank guarantees/insurance bonds as at 30 June 2019 of \$7,881,000 (2018: \$7,810,000) to various customers.

Other than the above, there were no material contingent liabilities or assets as at 30 June 2019 and 30 June 2018.

### Note 25: Operating Segments

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

For the year ended 30 June 2019, the Energy Construction division contributed revenue of \$64.7 million (2018: \$75.8 million) and the Services division contributed revenue of \$46 million (2018: \$27.4 million). Included in these amounts is \$0.7 million (2018: \$0.9 million) of inter-entity revenue, which is eliminated on consolidation. The operating divisions are exposed to similar risks and rewards from operations and are only segmented to facilitate appropriate management structure.

The directors believe that the aggregation of the operating divisions is appropriate for segment reporting purposes as they:

- perform similar services for the same industry sector;
- provide a diversified range of similar services to a large number of common clients;
- utilise a centralised pool of assets and shared services in their service delivery models; and
- operate predominately in one geographical area, namely Australia

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.

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 26: Cash Flow Information

	Note	2019 \$000	2018 \$000	
<b>a. Reconciliation of profit after income tax to net cash from operating activities</b>				
Profit after income tax		3,535	3,777	
Non-cash flows in profit:				
– share based payment		(50)	64	
– depreciation and amortisation		2,056	2,062	
– gain on acquisition		-	(2,613)	
– impairment of assets		-	288	
– net gain on disposal of plant and equipment		(8)	(163)	
– Bad debts written off		-	70	
<i>Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:</i>				
– trade and other receivables		(3,074)	(4,109)	
– contract assets		(8,091)	(5,846)	
– inventories		(4)	(108)	
– other assets		27	(263)	
– trade payables and accruals		4,041	3,299	
– provisions		404	83	
– deferred tax assets		1,343	699	
Cash flow provided by / (used in) operating activities		179	(2,760)	
<b>b. Non-cash Financing and Investing Activities</b>				
Acquisition of plant and equipment by means of finance leases		-	2,800	
<b>c. Changes in liabilities arising from financing activities</b>				
		<b>Bank loans</b>	<b>Lease liability</b>	<b>Total</b>
<b>Consolidated</b>		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Balance at 1 July 2017		544	88	632
Net cash used in financing activities		(544)	(214)	(758)
Acquisition of plant and equipment by means of finance leases		-	2,800	2,800
Balance at 30 June 2018		-	2,674	2,674
Net cash used in financing activities		-	(909)	(909)
Balance at 30 June 2019		-	1,765	1,765

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 27: Share-based Payments

#### Share appreciation rights (SARs)

	2019 \$000	2018 \$000
Employee benefit expense	21	34
Reversal of forfeited rights expense	(61)	(18)
	(40)	16
Carrying amount of liabilities:		
At grant date	21	98
At 30 June	21	98

During the year, the board granted nil (2018: 937,077) share appreciation rights (SARs). The SARs entitle the employees to cash payment after meeting the vesting conditions.

The amount of SARs that will vest depends on:

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

The SARs only vest and are capable of being exercised at the following rate:

2018:

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

The fair value of SARs using the following inputs:

At grant date:

2018	SARs (TSR)*Granted 31/8/2017	SARs (EPS)Granted 31/8/2017
Expected volatility (%)	92.8	92.8
Risk free interest rate (%)	2.47	2.47
Weighted average expected life (years)	4.83	4.83
Expected dividends	Nil	Nil
Exercise price (cents)	20	20
Share price at grant date (cents)	22.5	22.5
Fair value (cents)	13	14.73
Number of SARs	468,539	468,539
Expiry date	5 years from grant date	5 years from grant date

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



## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 27: Share-based Payments (Cont.)

#### *Share appreciation rights (SARs) (cont.)*

*The re-measurement of SARs at each reporting date:*

	SARs (TSR)* 30 June 2019	SARs (EPS) 30 June 2019	SARs (TSR)* 30 June 2019	SARs (EPS) 30 June 2019
<b>Fair value at 30/6/19</b>				
Expected volatility (%)	82.2	82.2	82.2	82.2
Risk free interest rate (%)	2.0%	2.0%	2.0%	2.0%
Weighted average expected life (years)	3.83	3.83	1.25	1.25
Expected dividends	Nil	Nil	Nil	Nil
Exercise price (cents)	20	20	30	30
Share price at reporting date (cents)	22.5	22.5	22.5	22.5
Fair value (cents)	15.2	11.2	16.4	15.3
Number of SARs	111,375	111,375	61,525	61,525
Expiry date	5 Years from grant date	5 Years from grant date	4 Years from grant date	4 Years from grant date

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

	SARs (TSR)* 30 June 2018	SARs (EPS) 30 June 2018	SARs (TSR)* 30 June 2018	SARs (EPS) 30 June 2018	SARs (TSR)* 30 June 2018	SARs (EPS) 30 June 2018
<b>Fair value at 30/6/18</b>						
Expected volatility (%)	82.2	82.2	82.2	82.2	82.2	82.2
Risk free interest rate (%)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Weighted average expected life (years)	4.83	4.83	1.25	1.25	2.25	2.25
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil
Exercise price (cents)	20	20	20	20	30	30
Share price at reporting date (cents)	30.5	30.5	30.5	30.5	30.5	30.5
Fair value (cents)	15.2	11.2	15.2	11.2	16.4	15.3
Number of SARs	468,539	468,539	349,186	349,186	61,525	61,525
Expiry date	5 Years from grant date	5 Years from grant date	5 Years from grant date	5 Years from grant date	4 Years from grant date	4 Years from grant date

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

#### *Performance rights (PRs)*

	2019 \$000	2018 \$000
Employee benefit expense	13	18
Reversal of forfeited rights	(38)	(5)
	(25)	13

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 27: Share-based Payments (Cont.)

#### *Performance rights (PRs) (Cont.)*

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

The amount of PRs that will vest depends on:

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

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

30 June 2019:

No PRs granted during the year.

Below are details of PRs granted in previous financial year.

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

Date of vesting (granted on 31/8/2017)	Rate of vesting	Date of vesting (granted on 30 November 2015)	Rate of vesting
30 June 2020	1/3	30 June 2018	1/3
30 June 2021	1/3	30 June 2019	1/3
30 June 2022	1/3	30 June 2020	1/3

Below are summaries of PRs granted under the plan.

	2019		2018	
	Weighted Average		Weighted Average	
	Exercise Price	Number	Exercise Price	Number
At beginning of year	-	738,594	-	738,594
Granted during the year	-	-	-	222,750
Exercised during the year	-	-	-	-
Forfeited during the year	-	(393,726)	-	(149,000)
At end of year	-	344,868	-	812,344
Vested	-	122,118	-	311,650

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

Grant date	Expiry date	Exercise price	Performance rights 30 June 2019
30 November 2015	30 June 2020	Nil	122,118
31 August 2017	31 August 2022	Nil	222,750

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 27: Share-based Payments (Cont.)

#### *Performance rights (PRs) (Cont.)*

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

2018	Performance rights (TSR)* Granted 31/8/2017	Performance rights (EPS) Granted 31/8/2017
Expected volatility (%)	92.8	92.8
Risk free interest rate (%)	2.47	2.47
Weighted average expected life (years)	4.83	4.83
Expected dividends	Nil	Nil
Exercise price (cents)	-	-
Share price at grant date (cents)	22.5	22.5
Fair value (cents)	16	20
Number of performance rights	111,275	111,275
Expiry date	31 August 2022	31 August 2022

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

#### *Employee Option Plan- performance based*

	2019 \$000	2018 \$000
Employee benefit expense	28	51
Reversal of forfeited option expense	(53)	-
	(25)	51

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

The amount of options that will vest depends on:

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

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

30 June 2019:

No options issued during the year.

Below are details of options granted in previous financial year.

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 27: Share-based Payments (Cont.)

#### *Employee Option Plan- performance based*

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

Date of vesting (Granted on

31/8/2017)	Rate of vesting
30 June 2020	1/3
30 June 2021	1/3
30 June 2022	1/3

Date of vesting (Granted on

30/11/2015)	Rate of vesting
30 June 2018	1/3
30 June 2019	1/3
30 June 2020	1/3

Below are summaries of option granted under the plan.

	2019		2018	
	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number
At beginning of year	\$0.30	2,616,390	\$0.30	2,071,890
Granted during the year	-	-	\$0.30	544,500
Exercised during the year	-	-	-	-
Forfeited during the year	\$0.30	(1,741,029)	-	-
At end of year		875,361	\$0.30	2,616,390
Vested and exercisable	\$0.30	330,861	\$0.30	1,160,685

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

Grant date	Expiry date	Exercise price	Share options 30 June 2019
30 November 2015	30 September 2020	\$0.30	330,861
31 August 2017	31 August 2022	\$0.30	544,500

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 27: Share-based Payments (Cont.)

#### *Employee Option Plan- performance based (Cont.)*

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

<b>2018</b>	<b>Options (TSR)* Granted 31/8/2017</b>	<b>Options (EPS) Granted 31/8/2017</b>
Expected volatility (%)	92.8	92.8
Risk free interest rate (%)	2.47	2.47
Weighted average expected life of options (years)	4.83	4.83
Expected dividends	Nil	Nil
Option exercise price (cents)	30	30
Share price at grant date (cents)	22.5	22.5
Fair value of option (cents)	12	13.51
Number of options	272,250	272,250
Expiry date	31 August 2022	31 August 2022

#### *Employee Option Plan- non-performance based*

	<b>2019 \$000</b>	<b>2018 \$000</b>
Employee benefit expense	-	-

30 June 2019:  
No options issued during the year.

30 June 2018:  
No options issued during the year.

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

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 27: Share-based Payments (Cont.)

#### *Employee Option Plan- non-performance based*

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

	Number	Weighted Average Exercise Price
<b>Options outstanding as at 1 July 2017</b>	1,750,000	0.25
Granted	-	-
Forfeited	(500,000)	0.25
Exercised	-	-
Expired	-	-
<b>Options outstanding as at 30 June 2018</b>	1,250,000	0.25
<b>Options outstanding as at 1 July 2018</b>	1,250,000	0.25
Granted	-	-
Forfeited	(130,000)	0.25
Exercised	(1,120,000)	0.25
Expired	-	-
<b>Options outstanding as at 30 June 2019</b>	-	-
<b>Options exercisable as at 30 June 2019</b>	-	-
<b>Options exercisable as at 30 June 2018</b>	1,250,000	0.25

### Note 28: Events after the Reporting Period

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

### Note 29: Related Party Transactions

#### Related Parties

##### a. The Group's main related parties are as follows:

##### (i) *Entities exercising control over the Group:*

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

##### (ii) *Key management personnel:*

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

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

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

## Notes to the Financial Statements for the Year Ended 30 June 2019

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

### Note 29: Related Party Transactions (Cont.)

For the years ended 30 June 2019 and 30 June 2018, there are no entities which are subject to significant influence by the Group.

(v) *Other related parties:*

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

**b. Transactions with related parties:**

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

	<b>2019</b>	<b>2018</b>
	<b>\$000</b>	<b>\$000</b>
<b>(i) Transactions with related parties:</b>		
<i>Other related parties:</i>		
Interest expense – Z Corp Holdings Pty Ltd <sup>[1]</sup>	-	114
Interest expense – Mecon (WA) Pty Ltd <sup>[2]</sup>	-	57
Rent and outgoings – Tag Pty Ltd <sup>[1]</sup>	793	796

<sup>[1]</sup> Stephen Zurhaar and Stephen Lazarakis are directors and shareholders of Z Corp Holdings Pty Ltd and Tag Pty Ltd.

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

There were no balances outstanding at the reporting date in relation to transactions with related parties.

## Notes to the Financial Statements for the Year Ended 30 June 2019

### Note 30: Financial Risk Management

#### Financial risk management objectives

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

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

#### a. Credit risk

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

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

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

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

	Note	2019 \$000	2018 \$000
Cash and cash equivalents:			
– AA rated	10	3,815	2,747
		<u>3,815</u>	<u>2,747</u>

#### b. Liquidity risk

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

#### Financing arrangements

Refer to Note 19 for unused borrowing facilities at the reporting date.

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



## Notes to the Financial Statements for the Year Ended 30 June 2019

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

*Financial liability and financial asset maturity analysis:*

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Consolidated Group	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Financial liabilities due for payment</b>								
Others	339	196	-	-	-	-	339	196
Trade and other payables	23,043	19,001	-	-	-	-	23,043	19,001
Finance lease liabilities	941	908	824	1,765	-	-	1,765	2,674
Total contractual outflows	24,323	20,105	824	1,765	-	-	25,148	21,871
Add bank overdrafts	2,718	-	-	-	-	-	2,718	-
Total expected outflows	27,041	20,105	824	1,765	-	-	27,865	21,871
<b>Financial assets – cash flows realisable</b>								
Cash and cash equivalents	3,815	2,747	-	-	-	-	3,815	2,747
Trade, term and loan receivables							-	-
– contractual inflows	32,496	29,014	-	-	-	-	32,496	29,014
Total anticipated inflows	36,311	31,761	-	-	-	-	36,311	31,761
Net (outflow)/ inflow on financial instruments	9,270	11,656	(824)	(1,765)	-	-	8,446	9,890

#### c. Market risk

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

#### d. Price risk

The consolidated entity is not exposed to any significant price risk.

#### e. Interest rate risk

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

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

## Notes to the Financial Statements for the Year Ended 30 June 2019

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

The Group monitors its interest rate exposure continuously.

#### Interest rate risk Analysis

	Weighted average effective interest rate	Less than 1 year	1 – 5 years	Over 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000
<b>30 June 2019</b>					
<b>Financial assets</b>					
Cash and cash equivalents	1.5%	3,815	-	-	3,815
Non-interest bearing - trade and other receivables	-	32,496	-	-	32,496
		36,311	-	-	36,311
<b>Financial liabilities</b>					
Non-interest bearing - trade and other payables	-	16,169	-	-	16,169
Interest bearing - trade and other payables	3.20%	6,874	-	-	6,874
Borrowings	6.49%	3,998	824	-	4,822
		27,041	824	-	27,865
<b>30 June 2018</b>					
<b>Financial assets</b>					
Cash and cash equivalents	1.5%	2,747	-	-	2,747
Non-interest bearing - trade and other receivables	-	29,014	-	-	29,014
		31,761	-	-	31,761
<b>Financial liabilities</b>					
Non-interest bearing - trade and other payables	-	19,001	-	-	19,001
Interest bearing - trade and other payables	3.63%	6,807	-	-	6,807
Borrowings	5.28%	2,870	-	-	2,870
		28,678	-	-	28,678

#### The interest rate sensitivity

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

#### Fair Values

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

## Notes to the Financial Statements for the Year Ended 30 June 2019

	2019 \$000	2018 \$000
<b>Note 31: Equity- Reserve</b>		
Reserve	323	372

### Reserve:

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

## Note 32: Equity- Retained earnings

Balance at beginning of the year	14,491	10,714
Profit after income tax for the year	3,535	3,777
Impact on adoption Australian Accounting Standard (AASB 15)	(5,378)	-
Balance at end of the year	12,648	14,491

## Note 33: Company Details

The registered office of the company is:

17 Ballantyne Road  
Kewdale WA 6105

The principal place of business is:

17 Ballantyne Road  
Kewdale WA 6105

## Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 15(c) to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

Director

  
.....  
**Steve Dropulich**

Dated this 27 day of August 2019



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

**Opinion**

We have audited the financial report of Valmec Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 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.

**THE POWER OF BEING UNDERSTOOD**  
**AUDIT | TAX | CONSULTING**

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## Key Audit Matters

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

Key Audit Matter	How our audit addressed this matter
<b>Recognition of Revenue</b> Refer to Note 3 in the financial statements	
<p>The Group earns revenue by providing products and services to its customers. The primary revenue streams are:</p> <ul style="list-style-type: none"> <li>- Energy construction; and</li> <li>- Product and services.</li> </ul> <p>Revenue was considered a key audit matter because it is the most significant account balance in the consolidated statement of profit or loss and other comprehensive income and the process of revenue recognition is complex due to multiple revenue streams for services and products rendered. The revenue recognition of each revenue stream is subject to a high degree of management judgment and estimation including:</p> <ul style="list-style-type: none"> <li>• the determination of the Group's accounting policy in relation to each revenue stream; and</li> <li>• the determination that revenue is recognised at an amount reflecting the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer.</li> </ul>	<p>Our audit procedures in relation to the recognition of revenue included:</p> <ul style="list-style-type: none"> <li>• Obtaining a detailed understanding of each of the revenue streams and the process for calculating and recording revenue;</li> <li>• Assessing whether the Group's revenue recognition policies are in compliance with Australian Accounting Standards;</li> <li>• Performing substantive testing on each revenue stream on a sample basis. The substantive testing included agreeing transactions to approved pricing used by the Group, and agreeing the delivery of products and services to source documentation;</li> <li>• Reviewing the contract assets calculation for revenue that has not yet been invoiced by the Group;</li> <li>• Performing sample testing of the contract sum and any contract variations and claims to approved variation orders;</li> <li>• Performing sample testing of project costs incurred to supporting documents;</li> <li>• Evaluating management's assessment of any expected losses for contracts in progress at the reporting date;</li> <li>• Evaluating the effectiveness of management's processes for estimating the cost to complete projects by comparing a sample of contracts completed during the year to the estimated result for the previous period;</li> <li>• Reviewing the sales transactions before and after year-end to ensure that revenue is recognised in the correct financial period; and</li> <li>• Reviewing the appropriateness of disclosures in the financial statements.</li> </ul>

Key Audit Matter	How our audit addressed this matter
<b>Impact on adoption of AASB 15 – Revenue from Contracts with Customers</b> Refer to Note 1 in the financial statements	
<p>The Group has adopted AASB 15 – Revenue from Contracts with Customers for the reporting period.</p> <p>The impact on adoption of AASB 15 was considered a key audit matter because the process of revenue recognition is complex due to multiple revenue streams for products and services rendered. Furthermore, the revenue recognition of each revenue stream is also subject to management judgements.</p>	<p>Our audit procedures in relation to revenue recognition included:</p> <ul style="list-style-type: none"> <li>• Assessing the appropriateness of the adopted revenue recognition policy developed by management upon application of AASB 15;</li> <li>• Reviewing the impact on adoption of AASB 15 prepared by management with effect on 1 July 2018;</li> <li>• Discussing with management on their rationale and basis on the revenue recognition criteria adopted for each of the revenue streams; and</li> <li>• Reviewing the appropriateness of disclosures in the financial statements in relation to the adoption of AASB 15.</li> </ul>
<b>Impairment of Goodwill</b> Refer to Note 17 in the financial statements	
<p>The Group has consolidated goodwill of \$1.829 million relating to its acquisition of its subsidiaries in prior years.</p> <p>Management performs an annual impairment test on the recoverability of the goodwill as required by Australian Accounting Standards.</p> <p>We determined this area to be a key audit matter due to the size of the goodwill balance and because the directors' assessment of the 'value in use' of the cash generating unit ("CGU") involves judgement about the probability of future contracts to be secured, their profit margin and the discount rates applied to them.</p>	<p>Our audit procedures in relation to management's impairment assessment included:</p> <ul style="list-style-type: none"> <li>• Assessing management's determination that the goodwill should be allocated to a single CGU based on the nature of the Group's business and the manner in which results are monitored and reported;</li> <li>• Assessing the valuation methodology used;</li> <li>• Challenging the reasonableness of key assumptions, including the cash flow projections, expected revenue growth rates, the discount rate, and sensitivities used;</li> <li>• Reviewing management's sensitivity analysis over the key assumptions used in the model;</li> <li>• Checking the mathematical accuracy of the value in use model and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets; and</li> <li>• Reviewing the appropriateness of disclosure in the financial statements.</li> </ul>

## **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

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

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

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

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

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

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

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

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

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



**Report on the Remuneration Report***Opinion on the Remuneration Report*

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Valmec Limited, for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.


*Responsibilities*

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

**RSM**

RSM AUSTRALIA PARTNERS

Perth, WA  
Dated: 27 August 2019

  
ALASDAIR WHYTE  
Partner

## Additional Information for Listed Public Companies

The following information is current as at 27 August 2019:

### 1. Shareholding

a.	Distribution of Shareholders	Number
	Category (size of holding):	Ordinary
	1 – 1,000	4,744
	1,001 – 5,000	397,410
	5,001 – 10,000	794,750
	10,001 – 100,000	11,467,619
	100,001 and over	113,054,185
		<u>125,718,708</u>

b. The number of shareholdings held in less than marketable parcels is 54.

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

	Shareholder:	Number
		Ordinary
1.	Steve Dropulich & associated entities	6,404,390
2.	Stephen Zurhaar & associated entities	19,830,000
3.	Vincent Goss & associated entities	15,486,126
4.	Stephen Lazarakis & associated entities	17,036,444
5.	Annash Pty Ltd	10,259,375
6.	Rocket Science Pty Ltd & associated entities	6,916,067

### d. Voting Rights

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

### e. 20 Largest Shareholders – Ordinary Shares

		Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	STELDAN INVESTMENTS PTY LTD	16,036,251	12.76%
2	Z CORP PROPERTY GROUP PTY LTD	15,400,000	12.25%
3	MECON (WA) PTY LTD	13,368,131	10.63%
4	ANNASH PTY LTD	10,259,375	8.16%

5	CORTINA HOLDINGS PTY LTD	4,543,130	3.61%
6	NATIONAL NOMINEES LIMITED	4,118,896	3.28%
7	UBS NOMINEES PTY LTD	3,837,010	3.05%
8	ROCKET SCIENCE PTY LTD	3,800,000	3.02%
9	CORE EQUITIES PTY LTD	3,600,000	2.86%
10	JH NOMINEES AUSTRALIA PTY LTD	3,116,067	2.48%
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,964,408	2.36%
12	BNP PARIBAS NOMINEES PTY LTD	2,619,839	2.08%
13	MOAT INVESTMENTS PTY LTD	2,140,000	1.70%
14	JANT NOMINEES PTY LTD	1,686,260	1.34%
15	BAILUP PASTORAL CO PTY LTD	1,539,587	1.22%
16	MR SIMON ROBERT EVANS & MRS KATHRYN MARGARET EVANS	1,450,000	1.15%
17	ELLRI INVESTMENTS PTY LTD	1,250,000	0.99%
18	MAST FINANCIAL PTY LTD	1,209,132	0.96%
19	B F A PTY LTD	1,000,053	0.80%
20	JET INVEST PTY LTD	1,000,000	0.80%
		<b>94,938,139</b>	<b>75.52%</b>