

Interim Financial Report

For the half-year ended 31 December 2019



Valmec Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Valmec Limited
ABN:	94 003 607 074
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	Up	47% to	70,186
Profit from ordinary activities after tax attributable to the owners of Valmec Limited	Up	69% to	2,272
Profit for the half-year attributable to the owners Valmec Limited	Up	69% to	2,272

Dividends

It is not proposed to pay a dividend.

Commentary

Refer to the "Review of Operations" section included within the directors' report of that attached financial report for the half year ended 31 December 2019.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>19</u>	<u>16</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Details of associates and joint venture entities

Not applicable.

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

8. Attachments

Details of attachments (if any):

The Interim Report of Valmec Limited for the half-year ended 31 December 2019 is attached.

9. Signed



Signed _____

Date: 25 February 2020

Steve Dropulich
Managing Director



Valmec Limited

ABN 94 003 607 074

Interim Financial Report for the half-year ended 31 December 2019

	Page
Corporate Directory	2
Directors' Report	3
Auditor's Independence Declaration	8
Consolidated Statement of Profit or Loss and Other Comprehensive Income	9
Consolidated Statement of Financial Position	10
Consolidated Statement of Changes in Equity	11
Consolidated Statement of Cash Flows	12
Notes to the Financial Statements	13
Directors' Declaration	19
Independent Auditor's Review Report	20

Directors

Mr Stephen Zurhaar
Non-Executive Chairman

Mr Steve Dropulich
Managing Director

Mr Stephen Lazarakis
Non-Executive Director

Mr Peter McMorro
(appointed 1 Nov 2019)
Non-Executive Director

Company Secretary

Mr Harveer Singh

Registered Office

17 Ballantyne Road
Kewdale WA 6105

Telephone: +61 8 9266 8888

Facsimile: +61 8 9266 8890

Share Registry

Automatic Registry Services
Level 2/267 St Georges Terrace
PERTH WA 6000
Telephone: 1300 288 664

Auditor

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade
Perth WA 6000

Telephone: +61 8 9261 9100

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

The directors of Valmec Limited submit herewith the financial report of the consolidated entity for the half-year ended 31 December 2019.

Directors

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

Name	Status
Steve Dropulich	Managing Director
Stephen Zurhaar	Non-Executive Chairman
Vincent Goss	Non-Executive Director (retired on 31 December 2019)
Peter McMorrow	Non-Executive Director (appointed on 1 November 2019)
Stephen Lazarakis	Non-Executive Director

PRINCIPAL ACTIVITIES

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

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

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

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

REVIEW OF OPERATIONS

Revenues

Valmec recorded sales revenues of \$70.1 million for the half year, reflecting our strongest ever revenue generation for a six month period since inception.

Revenues for the period represented a 47% increase on the previous corresponding period and were reflective of the stronger order book entering FY20. With the continued replenishment of order book levels during the period via secured and preferred status projects, Valmec remains strongly positioned to continue to deliver record revenues for the full year.

Revenue generated from the Energy Construction segment for the period was \$47.8 million, more than double that of the corresponding period whilst the Services division contributed revenues of \$22.3 million, down 8% over the corresponding period. The growth in the Energy construction division can be attributed to the strong order levels entering into FY20 with projects such as Jemena Atlas Pipeline, Water Corporation and Newmont Gold Corp Tanami expansion works.

With forecast 2nd half (H2 FY20) revenues underpinned by secured works, Valmec's growing pipeline of project tender and ECI prospects within its Energy and Infrastructure sectors, is able to provide increased visibility and confidence into FY21.

Indicative of the change within our industry sectors from their investment phase to the production and operations phase of the cycle, further development of the Valmec Asset Services strategy during H2 FY20 will generate larger scale integrated Service contracts and opportunities going forward. On this basis, FY21 is quickly shaping as a year of further revenue growth with a sales mix orientated more towards increased recurring service revenues.

Earnings

Reported earnings before interest, tax, depreciation and amortisation (EBITDA) for the period was \$5.4 million delivering an increase of 65% on the previous corresponding period.

Stronger revenue contributions from the Energy Construction Division during the half contributed to a diluted Gross Margin of 16.2%, compared to the corresponding period of 18.8%. This differential is a result of the larger mix of construction revenues as a percentage of total revenues generated in the current six month period.

Valmec expects gross margins to be maintained into the second half, with an orderbook currently dominated by construction works.

With revenue activity across all Valmec divisions forecasted to be along similar mix within the second half, earnings are also expected to maintain at current forecasted levels.

Earnings per share for the reporting period was 1.81 cents, a 66% increase from previous year of 1.09 cents.

Balance Sheet

During the financial period, the company adopted the new accounting AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees of property, plant and equipment, eliminates the classifications of operating leases and finance leases. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). Further detailed explanation of the impact of this new standard is provided within the notes to the financial statements.

Increasing service activity toward the second half of the period resulted in increased inventory requirement as demonstrated by growth within inventory holdings of circa \$1.4M. Valmec ended the half year with a cash balance of \$3M and cash generated from operations of \$1.7M, representing 146% increase on the previous corresponding period.

Projects and Tenders

During the period, the Group made solid progress in its markets and growth strategy, having successfully secured key construction and service contracts valued at approximately \$70M. These included both new contracts and securing contract extensions in the energy construction, infrastructure services, and gas operation and maintenance segments.

With strong tendering activity across its core markets and further development of its Asset Services strategy, Valmec continues to market its offerings, while leveraging the burgeoning East Coast gas market.

Key construction and service contracts awarded during the period included:

1. Gas and infrastructure construction contracts for Arrow Energy;
2. Mechanical, piping and civil works for AGIG's metering stations across WA;
3. Infrastructure construction and services works for Water Corporation's various Western Australian facilities
4. Various SMPE&I work fronts around Australia for Incitec Pivot;
5. Asset Services contracts with Tier 1 gas and resource producers in Western Australia and Queensland
6. Turnkey construction works on the Newmont Gold Corp Tanami Expansion Project including Haul Road infrastructure and accommodation camp underground services;
7. Infrastructure construction works for AGN/AGIG's HyP SA Facility;
8. Construction and asset integrity works for APA and ATCO gas pipelines;
9. Compression equipment overhaul and maintenance services for Santos in Queensland; and
10. Testing and Inspection Services works for BHP at their KNR facilities in Western Australia

Valmec enters the 2020 calendar year with an Order Book of circa \$80 million and a pipeline of construction and service opportunities, expected to generate increasing Project and Service revenue streams in FY20 and beyond.

Safety

The Valmec revenue growth achievements during the year, importantly were delivered on the back of consistent HSE performance.

Valmec finished the half year with a recorded TRIFR (total recordable injury frequency rate) of 0.78 whilst also experiencing growth in total workforce numbers to 350 plus subcontractors as at 31 December 2019

During the period, Valmec has also passed a key milestone of over 3,000 days (or over 2.9 million hours) Lost Time Injury (LTI) free.

As an affirmation of the Group's strong HSE systems and safety culture currently in place, Valmec also achieved Federal Safety Accreditation status during the period.

Outlook

With ongoing replenishment of order book levels during the period through secured and preferred status projects, Valmec remains strongly positioned to continue to deliver on its growth objectives for the full year in line with the previous guidance provided to the market.

Together with further advancement of its Asset Services opportunities during H2 FY20, Valmec's growing pipeline of project tender and ECI prospects within its Energy and Infrastructure sectors provides the Group with increased confidence into FY21.

Significant changes in the state of affairs

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

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

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.

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

On behalf of the directors



Steve Dropulich

Managing Director

Dated: 25th February 2020

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61(0) 8 9261 9100
F +61(0) 8 9261 9111

www.rsm.com.au

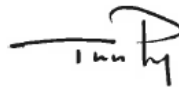
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Valmec Limited for the half-year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.



RSM AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 25 February 2020

Consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2019

		Half-year ended 31 December 2019	Half-year ended 31 December 2018
	Note	\$000	\$000
Revenue	2	70,186	47,475
Cost of sales		(58,826)	(38,543)
Gross profit		<u>11,360</u>	<u>8,932</u>
Other income		65	239
Depreciation and amortisation expenses		(1,461)	(777)
Employee benefits expenses		(4,093)	(3,543)
Finance costs		(603)	(619)
Occupancy expenses		(486)	(971)
Professional fees		(232)	(384)
Other expenses		(1,208)	(1,013)
Profit before income tax expense		<u>3,342</u>	<u>1,864</u>
Income tax expense		(1,070)	(522)
Profit after income tax expense for the half-year		<u>2,272</u>	<u>1,342</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the half-year		<u>2,272</u>	<u>1,342</u>
Earnings per share			
Basic and diluted (cents per share)		1.81	1.09

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

Consolidated statement of financial position as at 31 December 2019

	Note	31 December 2019	30 June 2019
Current assets		\$000	\$000
Cash and cash equivalents		3,015	3,815
Trade and other receivables		15,578	15,918
Contract assets		17,336	16,578
Inventories		8,521	7,133
Other current assets		1,252	575
Total current assets		45,702	44,019
Non-current assets			
Property, plant and equipment		9,844	10,359
Deferred tax assets		1,529	2,599
Intangible assets		2,819	3,052
Right-of-use assets	5	5,531	-
Total non-current assets		19,723	16,010
Total assets		65,425	60,029
Current liabilities			
Trade and other payables		22,644	23,043
Borrowings		2,438	3,998
Lease liability		758	-
Provisions		2,082	2,232
Total current liabilities		27,922	29,273
Non-current liabilities			
Borrowings		334	824
Lease liability		4,911	-
Other provisions		109	55
Total non-current liabilities		5,354	879
Total liabilities		33,276	30,152
Net assets		32,149	29,877
Equity			
Issued capital	4	16,907	16,907
Reserve		322	322
Retained earnings		14,920	12,648
Total equity		32,149	29,877

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

Consolidated statement of changes in equity for the half-year ended 31 December 2019

	Issued capital	Share base payment reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000
Balance as at 1 July 2018	16,627	372	9,113	26,112
Profit after income tax for the half-year	-	-	1,342	1,342
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	1,342	1,342
<i>Transactions with owners in their capacity as owners:</i>				
Share based payments	-	(71)	-	(71)
Balance as at 31 December 2018	16,627	301	10,455	27,383
Balance as at 1 July 2019	16,907	322	12,648	29,877
Profit after income tax for the half-year	-	-	2,272	2,272
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	2,272	2,272
Balance as at 31 December 2019	16,907	322	14,920	32,149

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

Consolidated statement of cash flows for the half-year ended 31 December 2019

	Half-year ended 31 December 2019	Half-year ended 31 December 2018
	\$000	\$000
Cash flows from operating activities		
Receipts from customers	69,775	46,525
Payments to suppliers and employees	(67,405)	(49,720)
Interest received	4	4
Borrowing costs paid	(603)	(619)
Net cash provided by/(used in) operating activities	1,771	(3,810)
Cash flows from investing activities		
Payments for plant and equipment	(239)	(1,062)
Proceeds from disposal of plant and equipment	73	40
Net cash (used in) investing activities	(166)	(1,022)
Cash flows from financing activities		
Proceeds/(Repayments) from borrowings, net	147	141
Repayment of lease liabilities	(355)	-
Cash received pending allotment of shares	-	280
Net cash (used in) financing activities	(208)	421
Net increase/(decrease) in cash held	1,397	(4,411)
Cash and cash equivalents at the beginning of the half-year	1,097	2,747
Cash and cash equivalents at the end of the half-year*	2,494	(1,664)

* Total Cash and cash equivalents as at 31 December 2019 includes \$521,000 bank overdraft that is classified under borrowings in the consolidated statement of financial position.

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

1. Significant Accounting Policies

This general purpose financial report for the half-year reporting period ended 31 December 2019 has been prepared in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This interim financial report does not include full disclosures of the type normally included in an annual report. It is recommended that this financial report to be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made by Valmec Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

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

AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (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 improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

1. Significant Accounting Policies (cont.)

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	1 July 2019 \$'000
Operating lease commitments as at 1 July 2019 (AASB 117)	3,290
Add: assessment to extend operating lease option	4,463
Finance lease commitments as at 1 July 2019 (AASB 117)	-
Operating lease commitments discount based on the weighted average incremental borrowing rate of 7.50% (AASB 16)	(1,729)
Short-term leases not recognised as a right-of-use asset (AASB 16)	-
Low-value assets leases not recognised as a right-of-use asset (AASB 16)	-
Accumulated depreciation as at 1 July 2019 (AASB 16)	-
Right-of-use assets (AASB 16)	<u>6,024</u>
Lease liabilities - current (AASB 16)	(721)
Lease liabilities - non-current (AASB 16)	(5,303)
Tax effect on the above adjustments	-
Reduction in opening retained profits as at 1 July 2019	<u>-</u>

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

1. Significant Accounting Policies (cont.)

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

2. Revenue

Disaggregation of revenue

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

	Energy		
	Construction	Service	Total
	\$'000	\$'000	\$'000
Consolidated - 31 Dec 2019			
<i>Sectors</i>			
Oil and Gas	47,836	22,350	70,186
	<u>47,836</u>	<u>22,350</u>	<u>70,186</u>
<i>Geographical regions</i>			
Australia	47,836	22,350	70,186
	<u>47,836</u>	<u>22,350</u>	<u>70,186</u>
<i>Timing of revenue recognition</i>			
Goods transferred at a point in time	-	8,454	8,454
Services transferred over time	47,836	13,896	61,732
	<u>47,836</u>	<u>22,350</u>	<u>70,186</u>

2. Revenue (cont.)

Disaggregation of revenue

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

	Energy		
	Construction	Service	Total
	\$'000	\$'000	\$'000
Consolidated - 31 Dec 2018			
<i>Sectors</i>			
Oil and Gas	23,090	24,385	47,475
	<u>23,090</u>	<u>24,385</u>	<u>47,475</u>
<i>Geographical regions</i>			
Australia	23,090	24,385	47,475
	<u>23,090</u>	<u>24,385</u>	<u>47,475</u>
<i>Timing of revenue recognition</i>			
Goods transferred at a point in time	-	6,518	6,518
Services transferred over time	23,090	17,867	40,957
	<u>23,090</u>	<u>24,385</u>	<u>47,475</u>

3. Segment information

Description of segments

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

For the half-year reporting period ended 31 December 2019, the Energy Construction division contributed revenue of \$47.8 million (2018: \$23.1 million) and the Services division contributed revenue of \$22.3 million (2018: \$24.4 million). The operating divisions are exposed to similar risks and rewards from operations and are only segmented to facilitate appropriate management structure.

3. Segment information (cont.)

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.

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

4. Equity – issued capital

	31 Dec 2019	30 June 2019	31 Dec 2019	30 June 2019
	Shares	Shares	\$000	\$000
Ordinary Shares- fully paid	125,718,708	125,718,708	16,907	16,907

Movements in ordinary share capital:

	31 Dec 2019	31 Dec 2019
	Shares	\$000
At the beginning of the half-year	125,718,708	16,907
At the end of the half-year	125,718,708	16,907

5. Right-of-use assets

	31 Dec 2019	30 Jun 2019
	\$000	\$000
Land and buildings - right-of-use	6,024	-
Less: Accumulated depreciation	(493)	-
	5,531	-

The consolidated entity leases land and buildings for its offices and warehouses under agreements of between three to twelve years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The consolidated entity leases office equipment under agreements which are either short-term or low-value. These costs of these leases have been expensed as incurred and not capitalised as right-of-use assets.

5. Contingent liabilities and assets

The consolidated entity has given bank guarantees as at 31 December 2019 of \$8,137,801 (30 June 2019: \$8,117,802) to various customers.

Other than the above, there were no material changes to contingent liabilities or assets since 30 June 2019.

7. Events after the reporting period

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

3. Dividends

The directors do not recommend the payment of a dividend in respect of the half-year ended 31 December 2019.

9. Commitments

There are no changes to operating lease commitments since 30 June 2019 other than the adoption of AASB 16 as noted in Note 1.

DIRECTORS' DECLARATION

The directors of Valmec Limited declare that:

1. The financial statements and notes, as set out in this half-year financial report, are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date.
2. In the director's opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Steve Dropulich

Managing Director

Dated: 25th February 2020

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61(0) 8 9261 9100
F +61(0) 8 9261 9111

www.rsm.com.au

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Valmec Limited which comprises the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Valmec Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

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

Liability limited by a scheme approved under Professional Standards Legislation

Independence

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

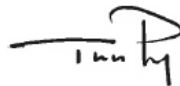
Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



RSM AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 25 February 2020