

3 December 2015

ASX Compliance Pty Ltd
Level 40, Central Park
152-158 St. George's Terrace
PERTH WA 6000

Via Email:

ben.secrett@asx.com.au

tradinghaltsperth@asx.com.au

Attention: Mr Ben Secrett

Dear Ben

VALMEC LIMITED "(Company)" – RESPONSE TO ASX AWARE LETTER

Thank you for your letter dated 1 December 2015.

In relation to your questions 1-5 referred to in the letter, we take this opportunity to respond as follows and for convenience, have used the same defined terms as you used in your letter.

1. Does the Entity consider the November Earnings Guidance, and in particular the Updated Earnings Guidance, to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

Valmec does not consider the Updated Earnings Guidance to be information that a reasonable person would expect to have a material effect on the price or value of its securities.

2. In respect of the answer to question 1, please advise the basis for that view.

- i. The Company's announcement entitled "Trading Update and Earnings Guidance" released on Monday, 10 September 2015 contained the following disclosures (together, the "September Earnings Guidance").
 - A. For the six months ended 31 December 2015 (1H 2016), Valmec forecast revenues of between \$30 and \$33 million with an Earnings before Interest, Tax and Depreciation and Amortisation (EBITDA) margin in the range of 6% to 8% (or forecast EBITDA of between \$1.8 and \$2.64 million).
 - B. For the six months ended 30 June 2016, Valmec forecast approximately 25% greater revenues than H1 2016 with an incremental increase to EBITDA. This % growth forecast is equivalent to revenues of between \$37.5 and \$41.25 million during this six month period.

By reference to the Company's disclosure "with an incremental increase to EBITDA as a result of increased scale and enhanced cost and productivity gains" (and adopting the stated EBITDA % margins of 6% - 8% in respect of 1H 2016), the Company has indicated that for the six months ended 30 June 2016, it would expect an EBITDA range of between of \$2.2 and \$3.3 million for the period.

- ii. The Company's announcement entitled "AGM 2015 Presentation" released on Monday, 30 November 2015 contained the following disclosures (together, the "November Earnings Guidance").
 - A. For the six months ended 31 December 2015, updated forecast revenues of between \$26 and \$28 million with EBITDA of between \$1.6 and \$1.82 million.
 - B. For the six months ended 30 June 2016, Valmec forecast approximately 25% greater revenues than H1 2016 thus anticipating full year FY16 forecast revenues of between \$58 and \$63 million.
- iii. For the six months ended 31 December 2015, the Company still expects that its forecast EBITDA will lie within the earnings range materially consistent with the September Earnings Guidance.

Given the current sentiment in our sector, the Company elected to reconfirm to the market that the forecast EBITDA for the relevant periods quoted in the September Earnings Guidance is still achievable albeit closer to the lower end of the range.

3. *When did the Entity first become aware of the November Earnings Guidance, and in particular the Updated Earnings Guidance?*

As is common within the Contracting Industry, both actual and projected earnings performance may be influenced by the Company's ability to mitigate any unforeseen Client delays preventing it to either complete current projects in accordance with their original programmes or commence new projects in accordance with their anticipated timeframes.

After Management completed its latest assessment of current and projected earnings performance for the Company for the six month periods ended 31 December 2015 and 30 June 2016, its assessment of forecast EBITDA for the relevant periods was still considered to be within an earnings range materially consistent with the September Earnings Guidance.

As part of this latest assessment, Management also developed revised Revenue and EBITDA forecast ranges for the six month period ended 31 December 2015 and a revised Revenue forecast range for the six month period ended 30 June 2016. Management then promptly updated the Board on these revised Revenue and EBITDA ranges during its AGM briefing, which was held immediately prior to the AGM on 30 November 2015.

Notwithstanding that Management have formed a view that forecast EBITDA earnings for the relevant periods will continue to lie within the earnings range consistent with the September Earnings Guidance, the Board elected to further highlight to the market that the Forecast EBITDA earnings for the relevant periods may lie within the lower end of the ranges as quoted in the September Earnings Guidance. Accordingly the Board elected to adopt a conservative

view in releasing the revised forecast ranges as included within the November Earnings Guidance.

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- 4. If the Entity first became aware of the November Earnings Guidance, and in particular the Updated Earnings Guidance, prior to issuing the AGM Presentation, did the Entity make any announcement prior to the relevant date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe the Entity was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps the Entity took to ensure that the information was released promptly and without delay.**

Not Applicable

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- 5. Please confirm that the Entity is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.**

The Company confirms it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Please do not hesitate to contact me should you have any further queries in relation to this matter.

Yours faithfully
VALMEC LIMITED



RANKO MATIĆ
Non-Executive Director
Company Secretary



1 December 2015

Ranko Matic
Non-Executive Director and Company Secretary
Valmec Limited
C/- Bentleys (WA) Pty Ltd
Level 1, 12 Kings Park Road
WEST PERTH WA 6005

By email

Dear Mr Matic

VALMEC LIMITED ("ENTITY"): ASX AWARE LETTER

ASX Limited ("ASX") refers to the following.

1. The Entity's announcement entitled "Trading Update and Earnings Guidance" lodged on the ASX Market Announcements Platform and released on Monday, 10 September 2015 (the "Earnings Guidance Announcement"), which contains the following disclosures (together, the "September Earnings Guidance").
 - 1.1. "Valmec expects 1H 2016 revenues of between \$30 and \$33 million with an Earnings before Interest, Tax and Depreciation and Amortisation (EBITDA) margin in the range of 6% to 8%."
 - 1.2. "Valmec expects the second half of 2016 to deliver approximately 25% greater revenues than H1 2016 with an incremental increase to EBITDA as a result of increased scale and enhanced cost and productivity gains."
2. The Entity's announcement entitled "AGM 2015 Presentation" lodged on the ASX Market Announcements Platform and released on Monday, 30 November 2015 (the "AGM Presentation"), which contains the following disclosures (together, the "November Earnings Guidance").
 - 2.1. Updated revenue and EBITDA guidance for the first half of financial year 2016 of revenues between \$26 and \$28 million and EBITDA between \$1.6 and \$1.82 million ("Updated Earnings Guidance").
 - 2.2. "Valmec re-affirms its expectation that 2H 2016 will deliver approximately 25% greater revenues than H1 2016."
 - 2.3. "Valmec therefore expects FY16 full year revenues of between \$58 and \$63 million."
3. Listing Rule 3.1, which requires a listed entity to give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, immediately the entity is or becomes aware of such information.



4. The definition of “aware” in Chapter 19 of the Listing Rules. This definition states that:

“an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity.”

Additionally, you should refer to section 4.4 in Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B “When does an entity become aware of information”*.

5. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

“3.1A Listing rule 3.1 does not apply to particular information while each of the following requirements is satisfied in relation to the information:

3.1A.1 One or more of the following applies:

- It would be a breach of a law to disclose the information;*
- The information concerns an incomplete proposal or negotiation;*
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- The information is generated for the internal management purposes of the entity; or*
- The information is a trade secret; and*

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and

3.1A.3 A reasonable person would not expect the information to be disclosed.”

6. The following extract from section 7.3 in Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B “Market sensitive earnings surprises”* (excluding footnotes).

“If an entity becomes aware that its earnings for the current reporting period will differ (downwards or upwards) from market expectations, it needs to consider carefully whether it has a legal obligation to notify the market of that fact. This obligation may arise under Listing Rule 3.1 and section 674, if the difference is of such magnitude that a reasonable person would expect it to have a material effect on the price or value of the entity’s securities – referred to below as a “market sensitive earnings surprise”. Alternatively, in the case of an entity which becomes aware that its earnings for a reporting period will differ from earnings guidance it has published to the market, it may arise under section 1041H, because failing to inform the market that its published guidance is no longer accurate could constitute misleading conduct on its part.”

7. ASX’s policy position on the concept of ‘materiality’ in respect of an entity considering whether a subsequent variation to previously published earnings guidance is market sensitive, which is detailed



in section 7.3 Question 2 of Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B “Market sensitive earnings surprises”*. In particular, the Guidance Note states (excluding footnotes) that:

“ASX would suggest that entities apply the guidance on materiality that formerly appeared in the Australian Accounting Standards, that is:

- *treat an expected variation in earnings compared to its published guidance equal to or greater than 10% as material and presume that its guidance needs updating; and*
- *treat an expected variation in earnings compared to its published guidance equal to or less than 5% as not being material and presume that its guidance therefore does not need updating,*

unless, in either case, there is evidence or convincing argument to the contrary.”

Having regard to the above, we ask that you answer the following questions in a format suitable for release to the market in accordance with Listing Rule 18.7A:

1. Does the Entity consider the November Earnings Guidance, and in particular the Updated Earnings Guidance, to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
2. In respect of the answer to question 1, please advise the basis for that view.
3. When did the Entity first become aware of the November Earnings Guidance, and in particular the Updated Earnings Guidance?
4. If the Entity first became aware of the November Earnings Guidance, and in particular the Updated Earnings Guidance, prior to issuing the AGM Presentation, did the Entity make any announcement prior to the relevant date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe the Entity was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps the Entity took to ensure that the information was released promptly and without delay.
5. Please confirm that the Entity is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, **by not later than 4.00pm AWST on Thursday, 3 December 2015**. If we do not have your response by then, ASX will have no choice but to consider suspending trading in the Entity’s securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, the Entity’s obligation is to disclose the information “immediately”. This may require the information to be disclosed before the deadline set out in the previous paragraph.



ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at tradinghaltsperth@asx.com.au and ben.secrett@asx.com.au. It should **not** be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rule 3.1

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A.

The obligation of the Entity to disclose information under Listing Rules 3.1 and 3.1A is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

In responding to this letter, you should have regard to the Entity's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in the Entity's securities under Listing Rule 17.1.

If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Please contact me if you have any queries or concerns about the above.

Yours sincerely

[sent electronically without signature]

Ben Secrett
Senior Adviser, ASX Listings Compliance