2017 ANNUAL REPORT

Southern Cross Electrical Engineering Limited

ABN: 92 009 307 046

Established 1978

CONTENTS

2017 IN SUMMARY

Diversified national electrical contractor

Net cash	Underlying NPAT	Revenue	Record order book
$40.3m	$1.4m*	$199.9m	$480m

Organic diversification

into defence, transport, renewable and utilities

Acquisition of Heyday

East Coast commercial and infrastructure markets

Growth of order book

Size and geography

* A discussion of the items excluded from Underlying NPAT can be found in the Managing Director's Review on pages 10-13.

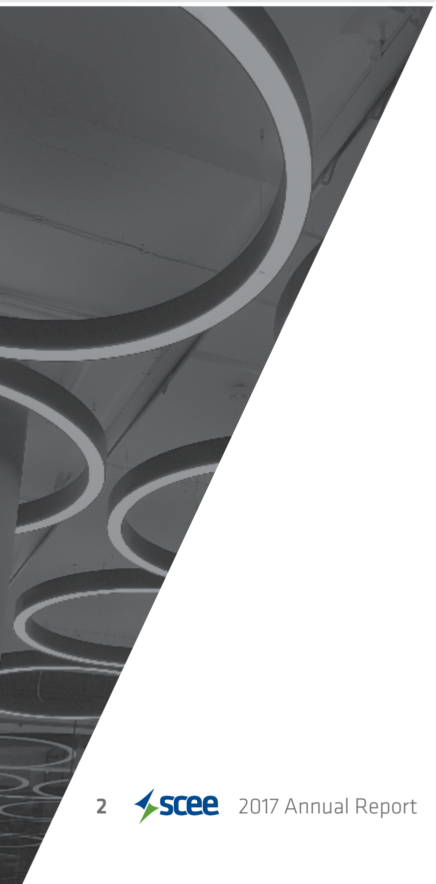
About
SCEE

Southern Cross Electrical Engineering (SCEE) is an ASX listed Australian-based electrical, instrumentation, communication and maintenance services company recognised for our industry leading capabilities.

SCEE's long-term success has resulted from combining knowledge and experience with talented and committed people, and adaptive commercial approaches that consistently deliver value for clients, and sustainable returns for our shareholders.

At the heart of our business are employees who are committed to living our values of safety, quality, reliability, trust and loyalty. Our operations are characterised by strong safety, technical and project delivery performance whether in capital and major cities, regional towns or remote and challenging locations or overseas.

We recognise that long-term meaningful relationships with clients, partners and suppliers are fundamental to our success, and we work to build mutually beneficial relationships in all locations where we operate.



scee

DATATEL
ELECTRICAL & COMMUNICATIONS

Heyday Group

SCEE
BUSINESS MODEL

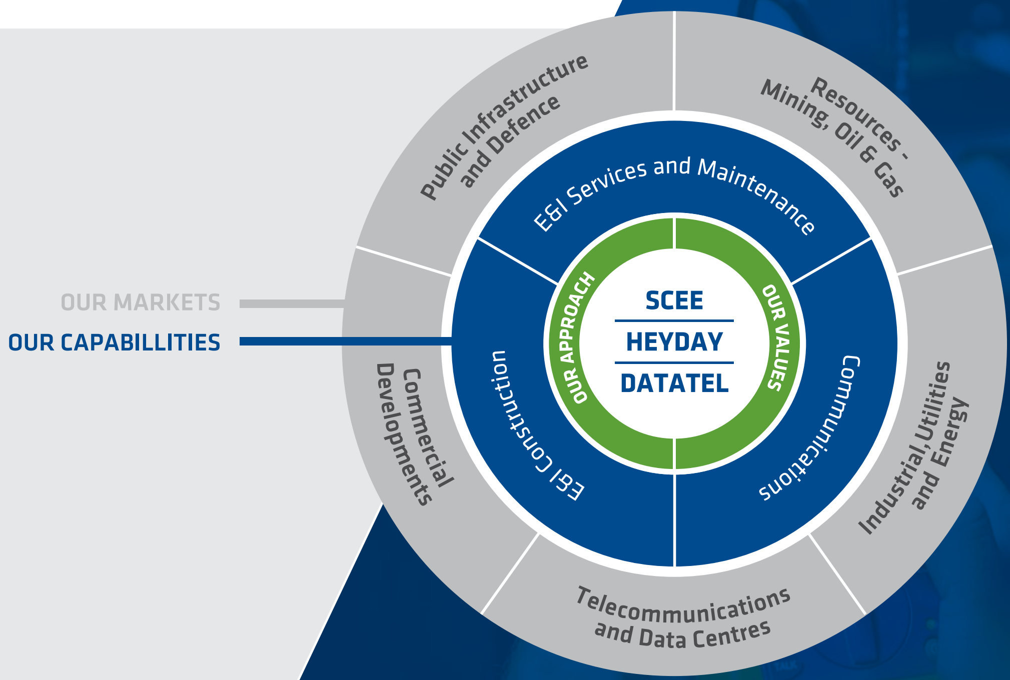
SCEE delivers life-of-project electrical, instrumentation and communications services to enterprises whose operations span several diverse markets.

In recent years we have successfully taken our delivery model to new markets and geographies. An integral component of our strategy has been the acquisition of Datatel and Heyday, bringing complementary capabilities, knowledge and experience.

The joining of Heyday's capability in the commercial and infrastructure market sectors, together with SCEE's resources and heavy industry capability, and Datatel's communications and technology expertise, has created a contractor capable of servicing diverse markets.

Our presence extends across projects ranging from Australia's largest infrastructure developments to technology centres, local schools and commercial developments. We are well positioned to support clients locally, nationally or globally, and able to bring experience gained in one region or discipline to the challenges faced in another.

The following diagram illustrates three core elements of our business model.



Our OPERATIONAL BUSINESSES

Our group combines the three operating businesses of Southern Cross Electrical Engineering, Datatel and the recently acquired Heyday.

SCEE

SCEE was founded in 1978, and has grown to become one of Australia's leading electrical, instrumentation, communication and maintenance services companies.

Traditionally, SCEE's primary business has centred on the successful delivery of electrical, instrumentation, communication and maintenance services to the mining, industrial, utilities and oil and gas markets.

As the resources market has transitioned from construction to operations and maintenance and sustaining capital, we have adapted our business model to meet our clients' changing needs. Our invaluable experience in the construction phase has positioned us to successfully transition to working in live operating environments, and supporting clients in the optimal operation and maintenance of their assets.

SCEE has a proven capability in delivering multi-disciplined brownfield operational support, programmed and breakdown maintenance, planned shutdown management, and sustaining capital projects throughout Australia and overseas.

SCEE continues to successfully expand into the transport, energy, utilities and defence markets, and increasing its experience in the water and waste water sectors. The renewables sector is an emerging market which is currently presenting SCEE with opportunities in solar and wind farms.

SCEE is proud to be an integral part of the Australian construction industry having strong relationships with many leading civil and specialist engineering construction and engineering companies.

OUR OPERATIONAL BUSINESSES (CONTINUED)

Heyday Group

HEYDAY

Heyday was established in 1978 specialising in electrical contracting and is a leading electrical contractor based in New South Wales and the ACT. Its core business is focused on providing a wide range of electrical design, construction and maintenance services within the infrastructure, commercial construction and fit-out sectors throughout Australia.

As a contracting and service enterprise, Heyday provides expertise in designing, supplying, installing and maintaining a wide range of electrical services. These services cover a comprehensive range of electrical infrastructure, building controls, energy management systems, security, communications networking and structured cabling systems.

Heyday has successfully developed its expertise through the provision of services encompassing commercial and industrial developments, office fit-out, data centres, hotel and residential properties, retail, health and education facilities.

Heyday is successful in delivering both small and large projects on time, within budget and with a high level of customer satisfaction. This commitment compels clients to repeat and refer further business, which continues to strengthen the company's reputation for its outstanding performance.

OUR OPERATIONAL BUSINESSES (CONTINUED)

DATATEL
ELECTRICAL & COMMUNICATIONS

DATATEL

Established in 1998, Datatel combines a specialist electrical and communications contracting capability with a national presence.

The company has grown steadily and operates in the telco, mining, commercial, health, education and aged care sectors providing a variety of specialist services and solutions.

Datatel is competent in the installation of technologically advanced products, such as electronic communication equipment, data cabling and fibre optics.

As part of the SCEE Group, Datatel is growing to become one of the largest Tier 2 telecommunications infrastructure construction partners in Australia providing survey, civil works, fibre optic, copper, power and integration activities for many of Australia's leading carriers, including NBN Co, Telstra, Optus, TPG and many others.

Datatel has completed a large variety of telecommunications infrastructure projects including Passive Optical Networks (PON), data centres, mining communications backbone, rail signalling, roadside communications, and campus distribution networks. Additionally, it continues to deliver outstanding specialist services involving technologies for fire detection, security, lighting, UPS and power and energy management.

Datatel strives to be at the cutting edge of industry knowledge and to be recognised as leaders in the integration and installation of electrical and communications technologies.

Our APPROACH

Building a High Performing and Collaborative Business

We continue to transform our business to find new ways to offer innovative solutions for our clients and deliver greater value to our stakeholders.

SCEE continues to integrate its three businesses to provide a consistent and seamless service to our clients.

Our integration plans focus on fostering a culture that brings together the high performing elements of each business into a common best practice approach. We start with strong cultural foundations and a positive attitude towards working together. Our challenge is to build a collaborative and cohesive organisation that is well respected by our clients, industry partners and our staff.

OUR VALUES

5 star commitment

Safety
It's in everything we do.

Quality
Exceeding customer expectations through continuous improvement.

Reliability
We are dependable and consistently deliver high quality services.

Trust
Entrust and empower our team to take ownership.

Loyalty
We believe in harmonious relationships and building these through integrity and mutual respect.

Chairman's MESSAGE

DEAR SHAREHOLDERS,

The 2017 financial year has seen SCEE achieve a number of key milestones which have transformed the business in response to changes in the resources sector, through progressing the delivery of the Board's strategy of growing by expansion into adjacent and complementary sectors.

In March we completed the acquisition of Heyday, a leading electrical contractor in the commercial and infrastructure sectors, based in New South Wales and the ACT. With a strong cultural alignment and buoyant markets in those states the acquisition is transformational for the group. This, together with the expansion of Datatel, our telecommunications focussed subsidiary, into the East Coast and organic initiatives to enter new sectors from the original SCEE business, has given us, at the start of 2018, the largest order book in the company's history at $480m.

We remain proud of our unrelenting focus on safety, with 2017 being SCEE's thirteenth consecutive LTI-free year in Australia.

RESULTS

After a slow first half I am pleased to report a turnaround in the second half, resulting in an underlying second half net profit after tax of $4.1m. For the full year, the Company's Statutory NPAT was a loss of $0.4m which included absorbing significant restructuring, M&A and investment costs through that period. The consequential underlying result for the year was a profit after tax of $1.4m.

The Company continues to maintain a strong balance sheet and ended fiscal 2017 with net cash of $40.3m. Additional discussion of the current year result is provided in the Managing Director's Review on the following pages.

Given the size of the order book the Board has decided not to declare a dividend for the year in order to fund anticipated working capital requirements.

OUTLOOK

SCEE's reach now straddles multiple sectors providing an effective strategic hedge to the ebb and flow of business cycles within our area of specialisation. Further, the transformed nature of the group creates the opportunity to pursue upcoming large scale infrastructure projects and bring our offerings into new states.

The telecommunications sector is constantly driven by change and innovation and we expect to further expand and grow our offerings and capability in this area. Our recent initial entries into the renewables sector with solar farm work in NSW and for utilities in WA and Queensland, positions us well with the emerging energy sector issues in Australia.

Whilst commodity prices currently are expected to remain relatively stable, the company is well positioned for the next turn of the resources cycle, for which there is now some visibility of more projects in the medium term.

THE BOARD OF DIRECTORS

In March 2017 we welcomed David Hammond, Executive Director and one of the vendors of Heyday, onto the Board as an Executive Director. David's extensive experience in the electrical contracting industry makes him an ideal addition and we particularly enjoyed our first Board meeting at Heyday's new offices in Sydney in July.

As we now build on these initiatives, the Board of Directors will continue to work closely with Graeme Dunn and his management team in progressing the implementation of our ongoing strategy.

On behalf of the Board I would like to thank our shareholders, clients and employees for their ongoing support.

Derek Parkin
Chairman

Managing DIRECTOR'S REVIEW

DEAR SHAREHOLDERS,

This has been a transformational year for SCEE in which a number of key milestones in our diversification and growth strategy have been achieved.

This was against a backdrop of the first year after the completion of the major iron ore expansion projects which had supported our historic resources business for some years.

Consequently, activity in the first half was slow, but in the second half there was a strong turnaround with contributions from organic diversification into projects in the transport, defence and renewables sectors, the expansion of Datatel into the East Coast and the impact of the acquisition of Heyday.

The Heyday acquisition is transformational for the business, combining two well-established, culturally aligned electrical contracting businesses operating in complementary sectors and geographies. It is pleasing Heyday has continued to win awards since the date of acquisition with $140m of new projects announced or in advanced stages of negotiations since March.

In the financial year we have also incurred significant costs to restructure sections of the business to generate future savings, absorbed the expense of the M&A activity and in turn, invested in various organic initiatives and Datatel's East Coast expansion to drive future growth.

OPERATING AND FINANCIAL REVIEW

Revenue for the year was $199.9m, down 3.7% on the prior year.
The Heyday acquisition was completed on 9 March 2017 and their results were consolidated from that date.

Activity in the first half of the year was slow due to delayed mobilization to projects, lower than anticipated release of sustaining capital work in the iron ore sector and NBN delays in WA. Throughout the year we continued to perform work on BHP Billiton Iron Ore Sustaining Capital projects, Rio Tinto Iron Ore Electrical Infrastructure Replacement and for Bechtel at Wheatstone.

In the second half there was a strong turnaround in activity with revenue in the half of $138.4m, up 125% on the prior half. Contributions came from increased activity for Bechtel on Wheatstone, on the Mitchell Freeway for CPB, the NSW Solar Farms for Bouygues and at RAAF Tindal for Lendlease. Further, the expansion of Datatel saw contributions on the NBN on the East Coast from Visionstream and from Baptistcare in WA. Heyday activity was strong at the Global Switch and Air Trunk data centres, St George and University of Canberra Hospitals and on various commercial building construction and fit-out projects.

I am pleased to report that we completed our 2017 operations without suffering a Lost Time Injury (LTI). This marks our thirteenth consecutive year LTI free in Australia.

Underlying gross margins for the year were 12.1%[1] compared to 16.1% in FY16. FY16 included significant contributions from large-scale iron ore construction projects which successfully closed out with strong gross margins.

Underlying overheads for the year were $17.8m after adjusting for $1.7m restructuring costs, $1.7m M&A costs and $2.2m expansion and diversification investments, down $3.6m against underlying overheads[2] in the prior year. These initiatives are expected to generate future savings and drive growth.

Underlying EBITDA for the year was $6.8m after adjusting for the above items and excluding the $5.4m gain from the reduction in earn out payable to the vendors of Datatel, down $5.4m against underlying EBITDA[2] in the prior year.

Depreciation expense decreased by 11% to $4.3m as a result of lower capex spend in more recent years.

Underlying NPAT for the year was $1.4m after adjusting for the items noted above. This represents a 74% decrease on FY16 underlying trading NPAT of $5.4m[2].

We maintained a strong balance sheet throughout the year and at 30 June 2017 we had net cash of $40.3m. This has been achieved after absorbing cash outflows of $18.0m to complete the Heyday acquisition.

The acquisition has resulted in the recognition of additional goodwill of $52.7m, a $9.2m current liability for the payment of subsequent cash, a $13.9m deferred share payments reserve and an $11.9m non-current liability for the payment of deferred consideration which represents our assessment of the fair value of future earn-out payments which will be paid under the terms of the Share Purchase Deed. Approximately $48,000 of net assets were acquired.

The Board has not declared a dividend for the year in order to fund working capital requirements servicing our increased order book. The franking account balance on hand at 30 June 2017 was $20.8m.

OUTLOOK

Current Activity and Order Book

SCEE entered FY17 at low activity levels as a result of successfully completing our large scale iron ore construction projects early in the second half of FY16. Consequently the order book at 30 June 2016 was $55m including near term growth visible on existing reimbursable contracts.

There has been transformational growth of 770% in the order book to over $480m at 30 June 2017. The order book has grown organically and by acquisition in all sectors in which we operate. Organically we have announced over $30m of defence work at RAAF Tindal, over $25m of resources work for Civmec and Decmil at Rio Tinto's Amrun project and further orders from Bechtel at Wheatstone.

The Company also continues to win work under its existing framework agreements with major iron ore clients, as well as securing a range of minor awards in the resources, infrastructure and industrial sectors on both the West Coast and East Coast.

The acquired order book of Heyday brought significant amounts of commercial, data centre, and infrastructure work and since the date of acquisition $140m of new projects have been announced or are in advanced stages of negotiations.

Tendering is at a high level with over $400m of submitted tenders with clients pending decision and the business development pipeline is strong with immediate prospects of a further $900m currently being estimated in our tendering departments.

MANAGING DIRECTOR'S REVIEW (CONTINUED)

Markets

Conditions in the resources sector are expected to remain stable in the near term. In certain commodities we have seen and are seeing some larger capital projects return. Whilst SCEE remains a major supplier, flow of work from iron ore clients is expected to be subdued in the short term but there is now visibility of upcoming replacement tonnage projects

We have ongoing LNG construction work which we expect to carry on through FY18 but there is low visibility of significant workflow in this sector in Australia thereafter. We retain the capability and capacity to return to large scale international work and will tender strategically appropriate opportunities as they arise.

Infrastructure is seeing strengthening growth driven by public and private sector investment in major road and rail infrastructure which the enhanced scale of the SCEE Group enables us to pursue primarily in WA and NSW. There is circa $80m of healthcare work in the order book and other East Coast hospital opportunities are being pursued. Having commenced our first project in the defence sector at RAAF Tindal we are positioning for significant defence opportunities in WA, NT and Victoria.

In the commercial sector strong growth is forecast over the next five years, particularly in NSW and ACT, with building developments and fit-outs and shopping centre refurbishments driven by population growth. There is the potential to leverage the combined Group's customer relationships and skills into new states.

In the telecommunications sector Datatel has twelve framework agreements with Telcos and Tier 1 contractors across five states in the NBN, wireless and telco infrastructure segments and we are expecting to further expand and grow offerings and capability. The data storage services industry is in a growth stage and further data centre work is in prospect.

In the year we entered the utilities market with first award from Western Power in WA and have now commenced for Ergon Energy in Queensland. Having started our first renewable energy project (130MW solar) in NSW there are further solar and wind farms in the pipeline and current energy sector critical issues are expected to present further opportunities.

Strategy

SCEE primarily sees itself as an electrical contractor. The Board's strategic objective is to create shareholder value and, recognising the cyclical nature of the resources construction market implemented a strategy, from early 2016 to:

- transition to a sustainable resources business through exposure to sustaining capital and maintenance markets; and
- grow through expansion into adjacent and complementary sectors and new geographies.

The acquisition of Datatel provided a direct and scalable entry into the telecommunications sector.

The Heyday acquisition was a transformational milestone combining two well-established, culturally aligned electrical contracting businesses operating in complementary sectors and geographies.

SCEE will continue to build on these initiatives to create depth and capability for the next growth period:

- the enhanced scale of the group unlocks the opportunity to pursue upcoming large scale infrastructure projects;
- leveraging the combined Group's customer relationships and skills into new states;
- responding to opportunities arising in telecommunications driven by continual technological innovation; and
- being positioned for the next turn of the resources cycle.

CONCLUSION

2017 has been a transformational year for SCEE in diversifying our business and undertaking significant restructuring and investment activities to set a platform for growth.

Activity in the first half was slow but a strong second half turnaround showed a return to profit.

The acquisition of Heyday and organic entry into new sectors were key milestones in the diversification and growth strategy and the order book has been transformed to a record $480m at 30 June 2017.

We enter 2018 maintaining a strong balance sheet and will continue to build depth and capability for the next growth period.

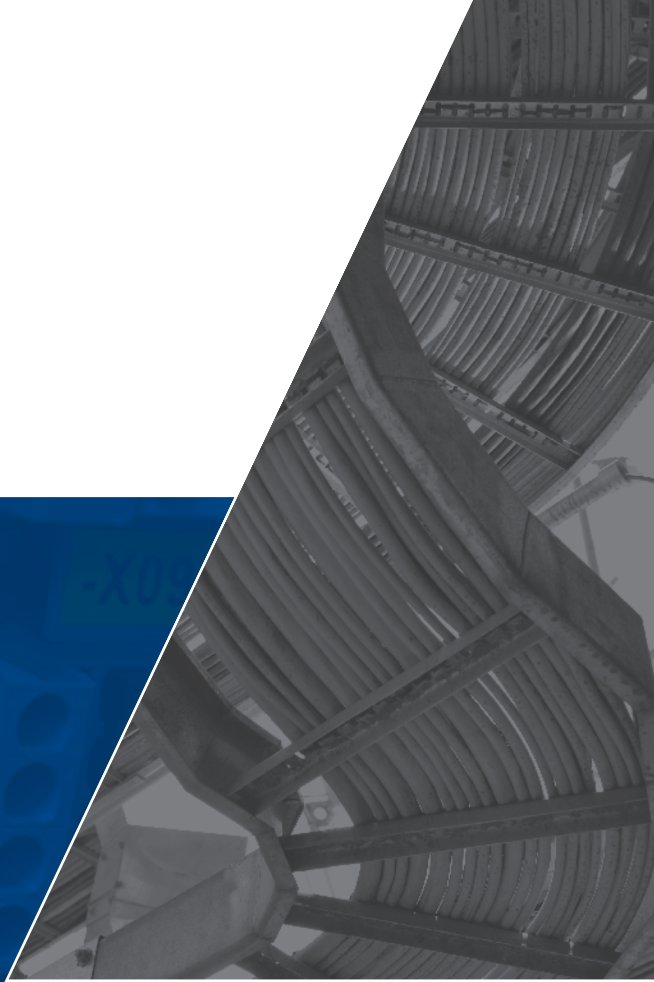
I would like to take this opportunity to thank SCEE's management and staff for their commitment and hard work during the year and our shareholders for their continued support.

Graeme Dunn
Managing Director

NOTES

[1] Statutory gross profit for the year ended 30 June 2017 of $23.9m included the $0.3m of redundancy costs incurred in restructuring the business which have been excluded from the calculation of underlying gross margin.

[2] Underlying overheads, EBITDA and NPAT for the year ended 30 June 2016 were after adjusting for $0.4m of M&A costs relating to the acquisition of Datatel.



DIRECTORS' REPORT

Your Directors submit their report for Southern Cross Electrical Engineering Limited ("SCEE" or "the Company") for the year ended 30 June 2017.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Back row: Colin Harper, Graeme Dunn, David Hammond, Simon Buchhorn, Karl Paganin and Chris Douglass
Front row: Derek Parkin and Gianfranco Tomasi

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Derek Parkin OAM Independent Chairman and Non-Executive Director	Derek is a Fellow of the Institute of Chartered Accountants Australia and New Zealand (CAANZ) and a Fellow of the Australian Institute of Company Directors. He is currently Professor of Accounting at the University of Notre Dame Australia, having previously been an assurance partner with Arthur Andersen and Ernst & Young. Derek's accounting experience has spanned some 40 years and four continents, primarily in the public company environment. Derek is a past national Board member of the Institute of Chartered Accountants Australia ("ICAA") and has served on a number of the ICAA's national and state advisory committees. In 2011, he was a recipient of the ICAA's prestigious Meritorious Service Award. Derek's non-executive directorships to date have been in the non-listed sphere, principally in the oil & gas and manufacturing sectors. He has also chaired a number of advisory committees in both the government and not-for-profit sectors. Derek is the Chairman of the Audit and Risk Management Committee and a member of the Nomination and Remuneration Committee. Derek was awarded the Medal of the Order of Australia in the 2015 Australia Day honours list. The award recognised Derek's service to accountancy through a range of professional, academic, business and advisory roles.
Graeme Dunn Managing Director and Chief Executive Officer	Graeme has over 25 years international experience in heavy civil infrastructure, mining, oil & gas and building projects. Graeme's strong technical knowledge, coupled with his extensive executive management experience, has seen him hold senior management positions throughout Australasia and the Middle East. Graeme has a Bachelor of Civil Engineering from the University of Sydney, an MBA from the University of Southern Queensland and has completed the Senior Executive Program from the London School of Business. He is also a graduate of the Australian Institute of Company Directors.

DIRECTORS' REPORT (continued)

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Gianfranco Tomasi AM Non-Executive Director	Frank is the founder of the Company. He was the Chairman of SCEE from 1978 until he retired from that role in March 2011. Frank has over 40 years experience in the electrical construction industry. Prior to founding SCEE he worked at Transfield from 1968 to 1978, serving as the National Manager Electrical Department from 1971 to 1978. Frank holds an Electrical Engineering Certificate (NSW) and is a Fellow of the Australian Institute of Company Directors. Frank is a member of the Nomination and Remuneration Committee. Frank was awarded the Order of Australia in the 2013 Australia Day Honours list. The award recognised Frank's service to business through leadership roles in the electrical contracting industry and his contribution to the community.
Simon Buchhorn Independent Non-Executive Director	Simon has a comprehensive understanding of SCEE's operations having been employed by the Company for over 30 years prior to retiring in 2014. During this time he worked in a number of key positions across the business including over 6 years as Chief Operating Officer and a period as interim Chief Executive Officer. He was also the General Manager of SCEE's LNG focussed Joint Venture KSJV. Simon brings to the Board significant experience in contract delivery and operational performance both domestically and internationally. He is also a graduate of the Australian Institute of Company Directors. Simon is a member of the Audit and Risk Management Committee.
Karl Paganin Independent Non-Executive Director	Karl has over 15 years of senior executive experience in Investment Banking, specialising in transaction structuring, equity capital markets, mergers and acquisitions and providing strategic management advice to listed public companies. Prior to that, Karl was Director of Major Projects and Senior Legal Counsel for Heytesbury Pty Ltd (the private company of the Holmes a Court family) which was the proprietor of John Holland Group Pty Ltd. Karl is the Chairman of the Nomination and Remuneration Committee and a member of the Audit and Risk Management Committee. Karl is also a Non-Executive Director of ASX listed Veris Limited and Vice Chairman of Autism West Support Inc. a not for profit charity supporting families affected by autism.
David Hammond Executive Director (appointed 9 March 2017)	David was a vending shareholder of Heyday5 Pty Ltd and was appointed to SCEE's Board as an Executive Director on completion of the acquisition by SCEE. David has more than 35 years' electrical contracting experience and has been involved in the Heyday business for over 20 years. During his tenure, David has held various positions up to and including his current role of Executive Director where his responsibilities include driving business development.

Executive Officers

The names and details of the Company's Executive Officers during the financial year and until the date of this report are as follows. Executive Offciers were in office for this entire period unless otherwise stated.

Name	Experience and qualifications
Chris Douglass Chief Financial Officer and Company Secretary	Prior to joining SCEE in 2011 Chris was the Chief Financial Officer at Pacific Energy Ltd and has previously held a number of senior finance roles with Clough Ltd. Chris, a Chartered Accountant and member of the Governance Institute of Australia, commenced his finance career with Deloitte. Prior to his time with Deloitte, Chris qualified and practiced as a solicitor in London.
Colin Harper Company Secretary	Colin is a Chartered Accountant with over 15 years experience in public company finance. Colin is also a member of the Governance Institute of Australia. Prior to joining SCEE in 2012 Colin was the Chief Financial Officer and Company Secretary of FAR Limited and previously worked for Ernst & Young in both Australia and the UK.

DIRECTORS' REPORT (continued)

Directors' Interests

As at the date of this report, the relevant interests of the directors in the shares and rights or options over shares issued by the Company are as follows:

Director	Ordinary shares	Rights over ordinary shares	Options over ordinary shares
Derek Parkin	100,000	-	-
Graeme Dunn	101,000	1,685,185	-
Gianfranco Tomasi	65,227,131	-	-
Simon Buchhorn	800,000	-	-
Karl Paganin	822,668	-	-
David Hammond[1]	-	-	-

[1] David Hammond has an entitlement to 6,870,040 ordinary shares as part consideration for the acquisition of Heyday5 Pty Ltd.

Directors' Meetings

The number of Directors' meetings and meetings of committees of Directors held and attended by each of the Directors of the Company during the financial year are:

Director	Board Meetings		Audit and Risk Management Committee Meetings		Nomination and Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Derek Parkin	15	15	4	4	3	3
Graeme Dunn	15	15	-	-	-	-
Gianfranco Tomasi	15	11	-	-	3	2
Simon Buchhorn	15	14	4	4	-	-
Karl Paganin	15	14	4	4	3	3
David Hammond	4	4	-	-	-	-

The number of meetings held represents the time the director held office or was a member of the committee during the year.

Principal Activities

The principal activities during the year of the entities within the consolidated group were the provision of electrical, instrumentation, communication and maintenance services to a diverse range of sectors across Australia.

Significant Changes in the State of Affairs

On 9 March 2017 the Company acquired 100% of the share capital of Heyday5 Pty Ltd, a leading Sydney-based specialist electrical contractor with a strong position in the east coast commercial and infrastructure markets. Further details are provided in note 23 to the accounts.

Operating and Financial Review

A review of operations of the consolidated group during the financial year, the results of those operations and the likely developments in the operations are set out in the Managing Director's Review on page 10.

Operating results for the year were:	2017 $'000	2016 $'000
Contract revenue	199,915	207,623
(Loss)/Profit after income tax from continuing operations	(369)	5,051

Dividends

Dividends for the year were

	Cents per share	Total amount $'000
Declared and paid during the period (fully franked at 30%)		
Final franked dividend for 2016	1.35c	2,152
Interim franked dividend for 2017	-	-
Declared after balance date and not recognised as a liability (fully franked at 30%)		
Final franked dividend for 2017	-	-

Significant Events after Balance Sheet Date

There are no matters or circumstances that have arisen since the end of the financial year which 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 subsequent financial years.

Likely Developments and Expected Results

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

Environmental Regulation

The operations of the Group are subject to the environmental regulations that apply to our clients. During 2017 the Group complied with the regulations.

Share Options and Performance Rights

At the date of this report there are no unissued ordinary shares of the Company under options.

During the reporting period, no shares were issued from the exercise of options or performance rights previously granted as remuneration.

Further details are contained in note 25 to the accounts.

Indemnification and Insurance of Directors and Officers

During or since the end of the financial year, the Company has paid premiums in respect of a contract insuring all the directors of the Company against a liability incurred in their role as directors of the Company, except where:

a) the liability arises out of conduct involving a wilful breach of duty; or

b) there has been a contravention of Sections 182 or 183 of the Corporations Act 2001.

The total amount of insurance contract premiums paid was $91,509 (2016: $71,016).

DIRECTORS' REPORT (continued)

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

There were no non-audit services provided by the external auditors during the year.

Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 76 and forms part of the Directors' report for the financial year ended 30 June 2017.

Remuneration Report

The Remuneration Report is set out on pages 19 to 27 and forms part of this report.

Rounding off

The Company is of a kind referred to in ASIC Instrument 2016/191 dated 24 March 2016 and in accordance with that Class Order, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors.

D Parkin

Derek Parkin
Chairman
29 August 2017

REMUNERATION REPORT – AUDITED

This Remuneration Report outlines the Director and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent Company.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors is responsible for determining and reviewing remuneration arrangements for the directors and executives.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing director and executive team.

Remuneration Structure

In accordance with best practice corporate governance, the structure of executive and non-executive remuneration is separate and distinct.

Executive Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- attract, motivate and retain highly skilled executives;
- reward executives for Group, business and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure remuneration is competitive by market standards.

Structure

The Company has entered into contracts of employment with the Managing Director and the executives.
These contracts contain the following key elements:

- Fixed remuneration;
- Variable remuneration - Short term incentive ("STI"); and
- Variable remuneration - Long term incentive ("LTI").

The nature, amount and proportion of remuneration that is performance related for each executive is set out in Table 1.

Fixed Remuneration

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without undue cost for the Group.

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee. There are no guaranteed base pay increases for any executive.

Variable Remuneration – Short Term Incentive (STI)

The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Actual STI payments granted to each executive depend on the extent to which specific targets as set at the beginning of the financial year are met. The targets consist of a number of Key Performance Indicators ("KPIs") covering both financial and non-financial measures of performance.

For the year ended 30 June 2017, the financial KPIs accounted for 60% of the executive team's STI and set specific profit and order book targets.

The non-financial KPIs accounted for 40% of the executive team's STI and comprised the achievement of strategic objectives. The strategic objectives were chosen to align with the key drivers for the short term success of the business and provide a framework for delivering long term value.

The assessment of performance against KPIs is based on the audited financial results for the company. For each component of the STI against a KPI no award is made where performance falls below the minimum threshold for that KPI. The Nomination and Remuneration Committee recommends the STI to be paid to the individuals for approval by the Board.

Variable Remuneration – Long Term Incentive (LTI)

The objective of the LTI plan is to retain and reward the members of the executive management team in a manner which aligns this element of remuneration with the creation of shareholder wealth.

LTI grants to executives are delivered at the discretion of the Nomination and Remuneration Committee in the form of performance rights or share options under the Senior Management Long Term Incentive Plan.

The Key Performance Indicators ("KPIs") used to measure performance for these incentives are earnings per share growth and absolute total shareholder return. These KPIs are measured over a three year performance period and were chosen because they are aligned to shareholder wealth creation.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain Non-Executive Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. The aggregate remuneration as approved by shareholders at the annual general meeting held on 26 November 2008 is $600,000 per year.

The Non-Executive Director fee structure is reviewed annually. The Board considers external market surveys as well as the fees paid to Non-Executive Directors of comparable companies in our sector when undertaking the annual review process.

The annual fee paid to the Chairman of the Board is $110,000. The fee paid to other Non-Executive Directors is $80,000 per annum. No additional fees are paid to Directors who sit on Board Committees.

Directors also receive superannuation at the statutory rate in addition to their Director and Committee fees.

The Non-Executive Directors do not receive retirement benefits, nor do they participate in any incentive programs.

The remuneration paid to Non-Executive Directors is detailed in Table 1 of this report.

Consequences of performance on shareholder wealth

In considering the impact of the Group's performance on shareholder wealth and the related rewards earned by executives, the Nomination and Remuneration Committee had regard to the following measures over the years below:

	2017 $'000	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Profit/(loss) attributable to owners of the company	(369)	5,051	(9,801)	7,723	17,341
Dividends declared and paid during the year	2,152	6,408	4,361	4,361	3,633
Change in share price	4%	87%	(38%)	(42%)	(31%)
Return on capital employed	0%	7%	(10%)	10%	24%

Table 1 Remuneration of Key Management Personnel

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the named Company executives who are key management personnel are

	Note	Year	Short-term				Post-employment	Share-based payments		
			Salary & fees $	STI cash bonus (A) $	Non-monetary benefits $	Total $	Superannuation benefits $	Options and rights (B) $	Total $	% of remuneration that is performance related
Non-Executive Directors										
Derek Parkin, Chairman		2017	110,000	-	-	110,000	10,500	-	120,500	-
		2016	110,000	-	-	110,000	10,500	-	120,500	-
Gianfranco Tomasi		2017	80,000	-	-	80,000	7,600	-	87,600	-
		2016	80,000	-	-	80,000	7,600	-	87,600	-
Simon Buchhorn		2017	80,000	-	-	80,000	7,600	-	87,600	-
		2016	80,000	-	-	80,000	7,600	-	87,600	-
Karl Paganin		2017	80,000	-	-	80,000	7,600	-	87,600	-
		2016	80,000	-	-	80,000	7,600	-	87,600	-
Executive Directors										
Graeme Dunn		2017	620,000	91,446	-	711,446	30,000	311,959	1,053,405	38%
	1	2016	262,307	-	-	262,307	12,692	-	274,999	-
David Hammond	2	2017	66,736	-	2,253	68,989	-	-	68,989	-
		2016	-	-	-	-	-	-	-	-
Executives										
Chris Douglass – Chief Financial Officer		2017	355,000	94,260	-	449,260	32,006	74,566	555,832	30%
	3	2016	473,269	-	-	473,269	30,000	135,920	639,189	21%
Andy Ozolins – Chief Operating Officer		2017	400,000	67,530	-	467,530	33,686	28,413	529,629	18%
		2016	414,423	-	-	414,423	35,000	60,932	510,355	12%
Total 2017			**1,791,736**	**253,236**	**2,253**	**2,047,225**	**128,992**	**414,938**	**2,591,155**	**26%**
Total 2016			1,499,999	-	-	1,499,999	110,992	196,852	1,807,843	11%

1. Appointed 18 January 2016.
2. Appointed 9 March 2017.
3. Served as interim CEO and Managing Director from 30 March 2015 to 18 January 2016.

REMUNERATION REPORT – AUDITED (continued)

Notes in relation to the table of directors' and executive officers' remuneration

A. The STI bonus is for the achievement of personal goals and satisfaction of specified performance criteria in respect of the previous financial year but which vested in the current financial year. The amount is finally determined after performance reviews are completed and approved by the Nomination and Remuneration Committee.

B. The fair value of the options and performance rights with market related vesting conditions were valued using a Monte Carlo simulation model. The use of a Monte Carlo Simulation model simulates multiple future price projections for both SCEE shares and the shares of the peer group against which they are tested. The options and performance rights with non-market related vesting conditions were valued using the Black-Scholes option model. The values derived from these models are allocated to each reporting period evenly over the period from grant date to vesting date. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. The value disclosed is the fair value of the options and performance rights recognised in this reporting period.

Employment Contracts

The following executives have non-fixed term employment contracts. The company may terminate the employment contract by providing the other party notice as follows:

Executive	Notice Period
Graeme Dunn	6 months
Chris Douglass	6 months
Andy Ozolins	6 months

The following executives have fixed term employment contracts. The company may terminate the employment contract by providing the other party notice as follows:

Executive	Fixed term end date	Notice Period
David Hammond	1 October 2019	3 months

The Group retains the right to terminate a contract immediately by making a payment in lieu of the notice period or where the executive is employed under a fixed term contract all remuneration that the executive would have earned during the balance of the fixed term. An executive may be terminated immediately for a breach of their employment conditions. Upon termination the executive is entitled to receive their accrued annual leave and long service leave together with any superannuation benefits. There are no other termination payment entitlements.

Options and rights over equity instruments

The movement during the reporting period in the number of options and rights over ordinary shares in Southern Cross Electrical Engineering Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Executive	Held at 1 July 2016	Granted as remuneration	Exercised	Forfeited	Held at 30 June 2017	Vested during the year	Vested and exercisable at 30 June 2017
Graeme Dunn	-	1,685,185	-	-	1,685,185	-	-
David Hammond	-	-	-	-	-	-	-
Chris Douglass	1,501,515	356,481	-	(184,678)	1,673,318	-	-
Andy Ozolins	685,204	225,000	-	-	910,204	-	-
	2,186,719	**2,266,666**	**-**	**(184,678)**	**4,268,707**	**-**	**-**

Performance rights granted as remuneration in 2017

During the period performance rights over ordinary shares in the company were granted as remuneration to KMP. These performance rights will vest subject to the meeting of performance set out below. Details on performance rights that were granted during the period are as follows:

Executive	Instrument	Number	Grant date	Fair value per performance right at grant date ($)	Exercise price per performance right ($)	Performance testing date	Expiry Date
Graeme Dunn[1]	2016 Rights	541,667	18/11/16	0.28	0.00	30 June 2018	30 June 2019
Graeme Dunn[2]	2016 Rights	541,666	18/11/16	0.43	0.00	30 June 2018	30 June 2019
Graeme Dunn[1]	2017 Rights	300,926	18/11/16	0.19	0.00	30 June 2019	30 June 2020
Graeme Dunn[2]	2017 Rights	300,926	18/11/16	0.40	0.00	30 June 2019	30 June 2020
Chris Douglass[1]	2017 Rights	178,241	18/11/16	0.19	0.00	30 June 2019	30 June 2020
Chris Douglass[2]	2017 Rights	178,240	18/11/16	0.40	0.00	30 June 2019	30 June 2020
Andy Ozolins[1]	2017 Rights	112,500	18/11/16	0.19	0.00	30 June 2019	30 June 2020
Andy Ozolins[2]	2017 Rights	112,500	18/11/16	0.40	0.00	30 June 2019	30 June 2020
		2,266,666					

1. Performance rights granted with EPS growth as the vesting condition
2. Performance rights granted with Absolute TSR as the vesting condition

2016 Financial Year Performance Rights

Up to 100% of the allocated performance rights may vest, subject to the achievement of the performance conditions as set out below. The key terms of the performance rights are:

- To be performance tested over a three year period from 1 July 2015 to 30 June 2018 ("Performance Period");
- No performance rights will vest until 30 June 2018;
- Performance testing criteria are 50% against Absolute Total Shareholder Return ("TSR") performance, and 50% against Earnings Per Share ("EPS") performance; and
- Expiry on the 4th anniversary of the grant date unless an earlier lapsing date applies

The TSR formula is:

((Share Price at Test Date – Share Price at Start Date) + (Dividends Reinvested))/Share Price at Start Date

TSR will be assessed against targets for threshold performance of 18.5% per annum compounded over the Performance Period and for stretch performance of 26.5% per annum compounded over the Performance Period. The vesting schedule is as follows for TSR performance over the Performance Period:

Less than 18.5% per annum compounded	0% vesting
18.5% per annum compounded	50% vesting
Between 18.5% and 26.5% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 26.5% per annum compounded	100% vesting

EPS will be assessed against targets for threshold performance of 2.8 cents per share in the 2018 financial year and for stretch performance of 3.6 cents per share in the 2018 financial year. The vesting schedule is as follows for EPS performance in the 2018 financial year:

Less than 2.8 cents per share	0% vesting
2.8 cents per share	50% vesting
Between 2.8 and 3.6 cents per share	Pro-rata vesting between 50% and 100%
At or above 3.6 cents per share	100% vesting

Once the performance measurement calculation has been finalised the company will allot and issue the equivalent number of shares at nil consideration on the basis of one ordinary share per vested performance right for all performance rights exercised.

Where a participant ceases employment prior to the vesting of their share options or performance rights, the share options or performance rights are forfeited unless in the event of retirement, permanent disablement or death the Board, at their at their absolute discretion, waive the exercise and vesting conditions associated with the performance rights or allow the performance rights to continue to be assessed over the original performance assessment period. In the event of a change of control of the Company, all options and performance rights that have not lapsed may be exercised.

2017 Financial Year Performance Rights

Up to 100% of the allocated performance rights may vest, subject to the achievement of the performance conditions as set out below. The key terms of the performance rights are:

- To be performance tested over a three year period from 1 July 2016 to 30 June 2019 ("Performance Period");
- No performance rights will vest until 30 June 2019;
- Performance testing criteria are 50% against Absolute Total Shareholder Return ("TSR") performance, and 50% against Earnings Per Share ("EPS") performance; and
- Expiry on the 4th anniversary of the grant date unless an earlier lapsing date applies.

The TSR formula is:

((Share Price at Test Date – Share Price at Start Date) + (Dividends Reinvested))/Share Price at Start Date

TSR will be assessed against targets for threshold performance of 8% per annum compounded over the Performance Period and for stretch performance of 15% per annum compounded over the Performance Period. The vesting schedule is as follows for TSR performance over the Performance Period:

Less than 8% per annum compounded	0% vesting
8% per annum compounded	50% vesting
Between 8% and 15% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 15% per annum compounded	100% vesting

EPS will be assessed against targets for threshold performance of 4.0 cents per share in the 2019 financial year and for stretch performance of 4.9 cents per share in the 2019 financial year. The vesting schedule is as follows for EPS performance in the 2019 financial year:

Less than 4.0 cents per share	0% vesting
4.0 cents per share	50% vesting
Between 4.0 and 4.9 cents per share	Pro-rata vesting between 50% and 100%
At or above 4.9 cents per share	100% vesting

Once the performance measurement calculation has been finalised the company will allot and issue the equivalent number of shares at nil consideration on the basis of one ordinary share per vested performance right for all performance rights exercised.

Where a participant ceases employment prior to the vesting of their share options or performance rights, the share options or performance rights are forfeited unless in the event of retirement, permanent disablement or death the Board, at their at their absolute discretion, waive the exercise and vesting conditions associated with the performance rights or allow the performance rights to continue to be assessed over the original performance assessment period. In the event of a change of control of the Company, all options and performance rights that have not lapsed may be exercised.

Details of equity incentives affecting current and future remuneration

Details of the vesting profiles of the rights and options held by each key management person are as follows:

Executive	Instrument	Number	Grant date	% vested in year	% forfeited in year	Performance testing date (A)	Expiry Date
Graeme Dunn	2016 Rights	1,083,333	18 November 2016	-	-	30 June 2018	30 June 2019
	2017 Rights	601,852	18 November 2016	-	-	30 June 2019	30 June 2020
Chris Douglass	2014 Rights	184,678	8 October 2013	-	100%	30 June 2016	30 June 2017
	2015 Rights	341,837	4 November 2014	-	-	30 June 2017	30 June 2018
	2016 Rights	975,000	16 November 2015	-	-	30 June 2018	30 June 2019
	2017 Rights	356,481	18 November 2016	-	-	30 June 2019	30 June 2020
Andy Ozolins	2015 Rights	260,204	4 November 2014	-	-	30 June 2017	30 June 2018
	2016 Rights	425,000	16 November 2015	-	-	30 June 2018	30 June 2019
	2017 Rights	225,000	18 November 2016	-	-	30 June 2019	30 June 2020

A. Performance rights are performance tested following completion of the performance period. Subsequent to 30 June 2017 the vesting conditions in respect of the 2015 performance rights have been performance tested and it has been determined that 110,348 performance rights held by Mr Douglass and 83,996 held by Mr Ozolins have vested and are now exercisable and that 231,489 performance rights held by Mr Douglass and 176,208 held by Mr Ozolins have not vested and have been forfeited.

Movements in shares

The movement during the reporting period in the number of ordinary shares in Southern Cross Electrical Engineering Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Ordinary shares

	Held at 30 June 2016	Purchases	Net change other	Held at 30 June 2017
Directors				
Derek Parkin	70,000	30,000	-	100,000
Graeme Dunn	-	101,000	-	101,000
Gianfranco Tomasi	65,227,131	-	-	65,227,131
Simon Buchhorn	765,108	34,892	-	800,000
Karl Paganin	330,168	492,500	-	822,668
David Hammond[1]	-	-	-	-
Executives				
Chris Douglass	-	95,395	-	95,395
Andy Ozolins	-	-	-	-

[1] David Hammond has an entitlement to 6,870,040 ordinary shares as part consideration for the acquisition of Heyday5 Pty Ltd.

Transactions with key management personnel

The Group has entered into rental agreements over the following properties in which Gianfranco Tomasi has an ownership interest:

- F & A Tomasi Superannuation Fund owns the properties at 41 and 44 Macedonia St, Naval Base WA.
- G & A Tomasi own the properties at 45, 47, 49 & 51 Macedonia Street, Naval Base WA.
- Frank Tomasi Nominees Pty Ltd owns the property at 43 Hope Valley Road, Naval Base WA.

The Group has entered into rental agreements over the following properties in which David Hammond has a partial ownership interest:

- David Hammond has a part ownership interest in 9-13 Waterloo Road, North Ryde NSW with the lease expiring on 30 June 2017.
- David Hammond has a part ownership interest in Level1, 3 Apollo Place, Lane Cove West NSW with the lease commencing 1 January 2017.

Under the terms of each of the above property leases, the rent payable is subject to an annual review. This review adjusts the annual rent by the movement in the consumer price index. At the completion of every third year the annual rent is subject to a market review.

The rental payments made above are all at normal market rates with no rent increases passed through during the 2017 year.

Total rent paid by SCEE in the 2017 financial year in respect of the above agreements was $974,000.

There are no loans between the company and Key Management Personnel.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Contract revenue	4	199,915	207,623
Contract expenses		(176,011)	(174,208)
Gross profit		**23,904**	**33,415**
Other income		300	146
Employee benefits expenses	6	(12,900)	(14,466)
Occupancy expenses		(3,348)	(1,826)
Administration expenses		(6,336)	(4,504)
Other expenses		(688)	(980)
Reduction in earn out payable	5	5,411	-
Depreciation expense	8	(4,254)	(4,798)
Amortisation of customer contract intangibles	8	(2,045)	-
Profit from operations		**44**	**6,987**
Finance income	7	463	791
Finance expenses	7	(1,090)	(582)
Net finance income/(expense)	7	**(627)**	**209**
Profit/(loss) before tax		**(583)**	**7,196**
Income tax benefit/(expense)	9	214	(2,145)
Profit/(loss) from continuing operations		**(369)**	**5,051**
Other comprehensive income/(loss)			
Items that are or may be reclassified to the profit and loss:			
Foreign currency translation gain/(loss) for foreign operations		305	(442)
Other comprehensive income/(loss) net of income tax		305	(442)
Total comprehensive income/(loss)		**(64)**	**4,609**
Total comprehensive income attributable to:			
Owners of the Company		**(64)**	**4,609**
Earnings per share:			
Basic earnings/(loss) per share (cents)	10	**(0.23)**	**3.19**
Diluted earnings/(loss) per share (cents)	10	**(0.23)**	**3.15**

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

CONSOLIDATED BALANCE SHEET
As at 30 June 2017

	Note	2017 $'000	2016 $'000
Assets			
Current assets			
Cash and cash equivalents	11	40,553	41,833
Trade and other receivables	12	33,316	21,550
Inventories	13	2,328	2,379
Construction work in progress	14	21,890	9,229
Prepayments		898	667
Assets held for sale		155	-
Tax receivable		-	3,267
Total current assets		**99,140**	**78,925**
Non-current assets			
Trade and other receivables	12	1,358	478
Property, plant and equipment	15	19,416	21,183
Deferred tax assets	9	734	-
Intangible assets	16	77,433	21,082
Total non-current assets		**98,941**	**42,743**
Total assets		**198,081**	**121,668**
Liabilities			
Current liabilities			
Trade and other payables	17	49,697	18,089
Unearned revenue	18	12,899	1,387
Provisions	19	8,882	4,844
Loans and borrowings		59	-
Deferred acquisition consideration	23	9,180	-
Tax payable		723	-
Total current liabilities		**81,440**	**24,320**
Non-current liabilities			
Deferred acquisition consideration	23	15,321	8,659
Provisions	19	1,377	324
Loans and borrowings		187	-
Deferred tax liability	9	-	684
Total non-current liabilities		**16,885**	**9,667**
Total liabilities		**98,325**	**33,987**
Net assets		**99,756**	**87,681**
Equity			
Share capital	20	56,656	56,656
Reserves	20	15,018	422
Retained earnings		28,082	30,603
Total equity		**99,756**	**87,681**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Note	Share Capital $'000	Retained Earnings $'000	Deferred Payments Reserve $'000	Share Based Payments Reserve $'000	Translation Reserve $'000	Total Equity $'000
Balance as at 1 July 2015		56,036	31,960	-	1,180	(478)	88,698
Total comprehensive income for the period							
Profit for the period		-	5,051	-	-	-	5,051
Foreign currency translation loss		-	-	-	-	(442)	(442)
Total comprehensive income		-	5,051	-	-	(442)	4,609
Transactions with owners, recorded directly in equity							
Dividends to equity holders		-	(6,408)	-	-	-	(6,408)
Issue of ordinary shares		620	-	-	-	-	620
Cost of share-based payments		-	-	-	162	-	162
Total transactions with owners		620	(6,408)	-	162	-	(5,626)
Balance as at 30 June 2016		**56,656**	**30,603**	-	**1,342**	**(920)**	**87,681**

	Note	Share Capital $'000	Retained Earnings $'000	Deferred Payments Reserve $'000	Share Based Payments Reserve $'000	Translation Reserve $'000	Total Equity $'000
Balance as at 1 July 2016		**56,656**	**30,603**	**-**	**1,342**	**(920)**	**87,681**
Total comprehensive income for the period							
Loss for the period		-	(369)	-	-	-	(369)
Foreign currency translation gain		-	-	-	-	305	305
Total comprehensive income		-	(369)	-	-	305	(64)
Transactions with owners, recorded directly in equity							
Dividends to equity holders		-	(2,152)	-	-	-	(2,152)
Deferred share consideration	23	-	-	13,850	-	-	13,850
Cost of share-based payments		-	-	-	441	-	441
Total transactions with owners		-	(2,152)	13,850	441	-	12,139
Balance as at 30 June 2017		**56,656**	**28,082**	**13,850**	**1,783**	**(615)**	**99,756**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Cash receipts from customers		216,243	238,872
Cash paid to suppliers and employees		(221,184)	(218,244)
Interest received		463	791
Interest paid		(733)	(582)
Income taxes received/(paid)		2,238	(8,538)
Net cash (used in)/from operating activities	**26**	**(2,973)**	**12,299**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	23	5,537	(5,577)
Loans to related parties		-	(981)
Proceeds from the sale of assets		80	518
Acquisition of property, plant and equipment	15	(2,062)	(2,125)
Net cash from/(used in) investing activities		**3,555**	**(8,165)**
Cash flows from financing activities			
Repayment of borrowings		(15)	-
Dividends paid	20	(2,152)	(6,408)
Net cash used in financing activities		**(2,167)**	**(6,408)**
Net decrease in cash and cash equivalents		(1,585)	(2,274)
Cash and cash equivalents at beginning of period		41,833	44,550
Effect of exchange rate fluctuations on cash held		305	(443)
Cash and cash equivalents at 30 June	11	**40,553**	**41,833**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

Southern Cross Electrical Engineering Limited ("the Company", "the parent") is a company incorporated and domiciled in Australia. The company's shares are publicly traded on the Australian Stock Exchange.

The consolidated financial statements for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is a for-profit entity and the nature of the operations and principal activities of the Group are described in the Directors' Report.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB). A listing of new standards and interpretations not yet adopted is included in note 33(v).

These financial statements have been rounded to the nearest thousand dollars where permitted by ASIC Instrument 2016/191 dated 24 March 2016.

The consolidated financial statements were authorised for issue by the Board of Directors on 29 August 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except as set out below:

- Share-based payment arrangements are measured at fair value.
- Assets and liabilities acquired in a business combination are initially recognised at fair value.

The methods used to measure fair values are discussed further in note 34.

(c) Functional and presentation currency

(i) Functional and presentation currency

Both the functional and presentation currency of Southern Cross Electrical Engineering Limited and its Australian subsidiaries are Australian dollars ($). The functional currency for the Peruvian subsidiary is Neuvos Soles. Overseas functional currencies are translated to the presentation currency (see below).

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Translation of Group Entities functional currency to presentation currency

The results of the overseas subsidiaries are translated into Australian Dollars as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at balance sheet date.

Exchange variations resulting from the translation are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about accounting estimates is included in the following notes:

- Note 25 – measurement of share based payments;
- Note 16 – recoverable amount for testing goodwill;
- Note 23 – measurement of deferred consideration; and
- Note 23 – measurement of customer intangibles

Critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relate to contract revenue (note 33(m)(i) and 4) and contract work in progress (note 33(i)) and 14).

Revenue from construction contracts is recognised using the percentage of completion method. Judgement is exercised in determining the stage of completion of the contract and in reliably estimating the total contract revenue and contract costs to completion. The stage of contract completion is generally measured by reference to physical completion. An assessment of total labour hours and other costs incurred to date as a percentage of estimated total costs for each contract is used if it is an appropriate proxy for physical completion. Task lists and milestones are also used to calculate or confirm the percentage of completion if appropriate.

The key judgement in determining revenue from construction contracts is estimating the unapproved variations and claims to be included in project forecast revenue. The Company uses its best estimate and its expertise to determine the value included supported by qualified external experts where necessary. The outcome of the events which are the subject of these judgements are by nature uncertain such that final positions resolved with clients can differ materially from original estimates.

Details of the Group's accounting policies are included in notes 33 and 34.

3. Segment reporting

Revenue is principally derived by the Group from the provision of electrical services to the commercial, infrastructure, resources and energy sectors. The Group provides its services through three key segments; SCEE, Datatel and Heyday. For the year ended 30 June 2017, the SCEE segment contributed revenue of $108 million (2016: $208 million), the Datatel segment contributed revenue of $30 million (2016: nil) and the Heyday segment contributed revenue of $62 million (2016: nil).

The directors believe that the aggregation of the operating segments is appropriate as they:

- have similar economic characteristics;
- perform similar services using similar business processes;
- provide their services to a similar client base;
- have a centralised pool of shared assets and services; and
- operate in similar regulatory environments.

All segments have therefore been aggregated to form one operating segment.

NOTES TO THE FINANCIAL STATEMENTS

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	2017		2016	
	Revenue $'000	Non-current assets $'000	Revenue $'000	Non-current assets $'000
Australia	199,674	98,941	207,509	42,450
South America and Caribbean	241	-	114	293
	199,915	**98,941**	**207,623**	**42,743**

Revenues from the four largest customers of the Group's Australian segment generated respectively $39 million, $21 million, $17 million and $17 million of the Group's total revenue (2016: $120 million generated from the three largest customers).

4. Contract revenue

	Note	2017 $'000	2016 $'000
Contract revenue		**199,915**	**207,623**

5. Reduction in earn out payable

	Note	2017 $'000	2016 $'000
Reduction in earn out payable		5,411	-

The reduction in earn out payable relates to the prior year acquisition of Datatel Communications Pty Ltd and represents a reduced assessment of the amount of deferred consideration that is expected to be payable on achievement of earnings targets in the 2017 to 2019 financial years.

6. Employee benefits expenses

	Note	2017 $'000	2016 $'000
Remuneration, bonuses and on-costs		(10,641)	(13,016)
Superannuation contributions		(1,007)	(879)
Amounts provided for employee entitlements		(811)	(409)
Share-based payments expense	25	(441)	(162)
		(12,900)	**(14,466)**

The above employee benefits expenses do not include employee benefits expenses recorded within contract expenses. Employee benefits included in contract expenses were $83.7m (2016: $143.0m).

NOTES TO THE FINANCIAL STATEMENTS

7. Finance income and expenses

	Note	2017 $'000	2016 $'000
Interest income on bank deposits		463	791
Finance income		463	791
Interest expense on bank borrowings		(39)	25
Finance charges payable under finance lease		(6)	-
Deferred consideration		(357)	-
Bank charges		(455)	(400)
Bank guarantee fees		(233)	(207)
Finance expenses		(1,090)	(582)
Net finance income/(expenses)		(627)	209

8. Depreciation and amortisation expenses

	Note	2017 $'000	2016 $'000
Buildings		(17)	(17)
Leasehold improvements		(176)	(178)
Plant and equipment		(2,259)	(2,288)
Motor vehicles		(1,042)	(1,250)
Office furniture and equipment		(760)	(1,065)
		(4,254)	(4,798)
Amortisation of customer contract intangibles		(2,045)	-

9. Income tax expense

(a) Income Statement

	Note	2017 $'000	2016 $'000
Current tax expense			
Current period		-	(2,098)
(Under)/over provision from prior year		2	331
		2	(1,767)
Deferred tax expense			
Origination and reversal of temporary differences		212	(378)
Income tax expense reported in the income statement		214	(2,145)

(b) Reconciliation between tax expense and pre-tax accounting profit

	Note	2017 $'000	2016 $'000
Accounting profit/(loss) before income tax		(583)	7,196
Income tax (expense)/credit using the Company's domestic tax rate of 30% (2016: 30%)		175	(2,159)
Change in fair value of deferred consideration		1,623	-
Acquisition costs included in cost base		(489)	-
Non-deductible deferred consideration interest		(107)	-
Share based payments		(132)	(49)
Amortisation of intangibles		(614)	-
Tax losses of foreign operations not recognised		(83)	(164)
Research and development		-	193
Other		(159)	34
Income tax expense reported in the income statement		214	(2,145)
The applicable effective tax rates are:		(36.9%)	29.8%

NOTES TO THE FINANCIAL STATEMENTS

Deferred tax assets and liabilities

	Balance Sheet		Movement recognised in Income Statement		Acquisition of Subsidiary	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Deferred tax liabilities						
Retentions receivable	(274)	(104)	170	2	-	(102)
Work in progress	(4,850)	(2,769)	2,081	(18)	-	(147)
Property, plant and equipment	(23)	(23)	-	-	-	-
	(5,147)	(2,896)	2,251	(16)	-	(249)
Deferred tax assets						
Provision for onerous lease	103	49	(54)	101	-	-
Provision assets held for sale value	39	-	(39)	134	-	-
Provision for doubtful debt	97	13	(84)	(1)	-	12
Retentions payable	63	-	(2)	-	61	-
Accruals	197	81	36	(23)	152	-
Employee benefits	3,265	1,798	(474)	290	993	154
Property, plant and equipment	19	59	40	(40)	-	-
Other	64	212	148	(68)	-	-
Tax losses	2,034	-	(2,034)	-	-	-
Borrowing costs	-	-	-	1	-	-
	5,881	2,212	(2,463)	394	1,206	166
Net deferred tax assets/(liabilities)	734	(684)	(212)	378	1,206	(83)

Unrecognised deferred tax assets

At 30 June 2017, there was a deferred tax benefit of $3.6 million for tax loss incurred in the Cruz Del Sur Ingenieria Electra (Peru) S.A. subsidiary which were not recognised because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom. These tax losses do not have an expiry date.

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2017 was based on the loss attributable to ordinary shareholders of $369,000 (2016: $5,051,000) and a weighted average number of ordinary shares outstanding of 159,426,058 (2016: 158,213,701), calculated as follows:

Profit/(loss) attributable to ordinary shareholders

	Note	2017 $'000	2016 $'000
Profit/(loss) for the period		(369)	5,051

Weighted average number of ordinary shares

	Note	2017 $'000	2016 $'000
Issued ordinary shares at 1 July	20	159,426,058	158,210,370
Effective new balance resulting from share issue		-	3,331
Weighted average number of ordinary shares at 30 June		159,426,058	158,213,701

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2017 was based on the loss attributable to ordinary shareholders of $369,000 (2016: $5,051,000) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 159,426,058 (2016: 158,213,701), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

	Note	Consolidated	
		2017 $'000	2016 $'000
Profit/(loss) for the period		(369)	5,051

Weighted average number of ordinary shares (diluted)

	Note	2017 $'000	2016 $'000
Weighted average number of ordinary shares for basic earnings per share		159,426,058	158,213,701
Effect of dilution:			
Contingently issuable shares – acquisition		-	14,039
Share options and performance rights on issue		-	2,174,804
Weighted average number of ordinary shares at 30 June		159,426,058	160,402,544

NOTES TO THE FINANCIAL STATEMENTS

11. Cash and cash equivalents

	Note	2017 $'000	2016 $'000
Bank balances		39,791	3,998
Short term deposits		762	37,835
Cash and cash equivalents in the statement of cash flows		40,553	41,833

The effective interest rate on cash and cash equivalents was 1.4% (2016: 1.8%); these deposits are either at call or on short term deposit.

12. Trade and other receivables

	Note	2017 $'000	2016 $'000
Current			
Trade receivables		32,727	21,203
Provision for impairment of trade receivables		(324)	-
Retentions		913	347
		33,316	21,550
Non-current			
Loans to vendors		1,358	478

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for impairment of trade receivables relates to specific invoices that the Group considers are at risk of being recovered. The provision account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point the amount is considered irrecoverable and is written off against the financial asset directly. The Group will continue to strongly pursue all debts provided for.

Non-current receivables represent loans made in relation to the acquisition in Datatel Communications Pty Ltd, repayable from future earn out payments.

13. Inventories

	Note	2017 $'000	2016 $'000
Raw materials and consumables		2,328	2,379

14. Construction work in progress

	Note	2017 $'000	2016 $'000
Costs incurred to date		130,362	156,262
Recognised profit		26,267	34,655
Progress billings		(134,739)	(181,688)
Construction work in progress		21,890	9,229

Work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. Cost includes all expenditure related directly to specific projects. Recognised profit is based on the percentage completion method and is determined using the costs incurred to date and the total forecast contract costs.

15. Property, plant and equipment

	Land and Buildings $'000	Leasehold Improve-ments $'000	Plant and equipment $'000	Motor Vehicles $'000	Office Furniture and Equipment $'000	Total $'000
Cost						
Balance at 1 July 2015	245	2,460	22,410	13,241	10,253	48,609
Additions	-	-	720	715	690	2,125
Disposals	-	(6)	(1,243)	(419)	(930)	(2,598)
Acquisitions	-	-	307	933	166	1,406
Reclassification from/(to)	671	-	(5)	-	-	666
Exchange differences	-	-	(79)	-	-	(79)
Balance at 30 June 2016	916	2,454	22,110	14,470	10,179	50,129
Balance at 1 July 2016	916	2,454	22,110	14,470	10,179	50,129
Additions	-	1,053	474	38	497	2,062
Disposals	-	-	(1,222)	(90)	(1,030)	(2,342)
Acquisitions	-	205	71	292	585	1,153
Reclassification from assets held for sale	-	-	(350)	-	-	(350)
Exchange differences	-	-	42	-	-	42
Balance at 30 June 2017	916	3,712	21,125	14,710	10,231	50,694
Depreciation and impairment losses						
Balance at 1 July 2015	(1)	(892)	(12,219)	(6,863)	(5,771)	(25,746)
Depreciation for the year	(17)	(178)	(2,288)	(1,250)	(1,065)	(4,798)
Disposals		2	1,228	310	930	2,470
Acquisitions	-	-	(113)	(508)	(105)	(726)
Reclassification to assets held for sale	(115)	-	(54)	-	-	(169)
Exchange differences	-	-	23	-	-	23
Balance at 30 June 2016	(133)	(1,068)	(13,423)	(8,311)	(6,011)	(28,946)
Balance at 1 July 2016	(133)	(1,068)	(13,423)	(8,311)	(6,011)	(28,946)
Depreciation for the year	(17)	(188)	(2,019)	(1,198)	(832)	(4,254)
Disposals	-	-	1,046	85	975	2,106
Acquisitions	-	-	(56)	(70)	(243)	(369)
Reclassification from assets held for sale	-	-	195	-	-	195
Exchange differences	-	-	(10)	-	-	(10)
Balance at 30 June 2017	(150)	(1,256)	(14,267)	(9,494)	(6,111)	(31,278)
Carrying amounts						
At 1 July 2015	244	1,568	10,191	6,378	4,482	22,863
At 30 June 2016	783	1,386	8,687	6,159	4,168	21,183
At 1 July 2016	783	1,386	8,687	6,159	4,168	21,183
At 30 June 2017	766	2,456	6,858	5,216	4,120	19,416

16. Intangible assets – goodwill and customer contracts

Reconciliation of carrying amount

	Note	Goodwill $'000	Customer Contracts $'000	Other $'000	Total $'000
Cost					
Balance as at 1 July 2015		17,174	1,811	-	18,985
Acquisitions through business combinations		12,298	-	-	12,298
Balance as at 30 June 2016		29,472	1,811	-	31,283
Balance as at 1 July 2016		29,472	1,811	-	31,283
Acquisitions through business combinations	23	52,697	5,680	19	58,396
Balance as at 30 June 2017		82,169	7,491	19	89,679
Amortisation and impairment losses					
Balance as at 1 July 2015		(8,390)	(1,811)	-	(10,201)
Amortisation		-	-	-	-
Balance as at 30 June 2016		(8,390)	(1,811)	-	(10,201)
Balance as at 1 July 2016		(8,390)	(1,811)	-	(10,201)
Amortisation		-	(2,045)	-	(2,045)
Balance as at 30 June 2017		(8,390)	(3,856)	-	(12,246)
Carrying amounts					
At 1 July 2015		8,784	-	-	8,784
At 30 June 2016		21,082	-	-	21,082
At 1 July 2016		21,082	-	-	21,082
At 30 June 2017		73,779	3,635	19	77,433

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating segments which represent the lowest level within the Group at which goodwill is monitored for internal management purposes. During the year a Group reorganisation into three operating segments, SCEE, Datatel and Heyday has resulted in goodwill being reallocated.

The aggregate carrying amounts of goodwill allocated to each segment are as follows:

	2017 $'000	2016 $'000
SCEE	8,784	8,784
Datatel	12,298	12,298
Heyday5	52,697	-
	73,779	21,082

The recoverable amount of the above segments were based on their value in use with the exception of Heyday in which the Group has applied the fair value less costs to sell method given the acquisition's close proximity to the reporting date. The group performed its annual impairment test in June 2017. The carrying amount of the operating segments were determined to be lower than their recoverable amounts and therefore no impairment charge has been recognised.

16. Intangible assets – goodwill and customer contracts (Continued)

Value in use was determined by discounting the future cash flows generated from the continuing operations of the segment. Five years of cash flows were included in the discounted cash flow models together with a terminal value reflecting a long term growth rate of 2.5% (2016: 2.5%). The calculation of value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and independent research on the markets in which the segments operate.
- EBITDA for 2018 is based on the board approved budget with EBITDA for 2019 – 2022 based on management forecasts. The anticipated annual revenue growth included in the cash flow projections has been based on growth rates that have been estimated by management. The margins included in the projected cash flow are the same rate that has been achieved by projects commencing in 2017.
- A pre-tax discount rate of 16.83% (2016: 11.58%) was applied. This discount rate was estimated based on past experience and industry average weighted cost of capital.

Sensitivity to changes in assumptions

The value in use assessment for SCEE estimates a recoverable amount $11.2million in excess of its carrying amount. This estimate is sensitive to the realisation of the budgeted and forecast overall net cash flows to 2022. These forecasts reflect Board and management's expectations for future growth. In the event that the overall net cash flows are 25% less, year on year, than those which have been assumed in calculating the value in use, then the value in use would be less than the carrying value.

The value in use assessment for Datatel estimates a recoverable amount $7.2million in excess of its carrying amount. This estimate is sensitive to the realisation of the budgeted and forecast overall net cash flows to 2022. These forcasts reflect the Board and management's expectations for future growth. In the event that the overall net cash flows are 37% less, year on year, than those which have been assumed in calculating the value in use, then the value in use would be less than the carrying value.

17. Trade and other payables

	2017 $'000	2016 $'000
Current		
Trade payables	30,868	5,896
Retentions payable	210	-
Accrued expenses	16,154	10,913
Goods and services tax payable	2,465	1,280
	49,697	18,089

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

18. Unearned revenue

	2017 $'000	2016 $'000
Current		
Unearned revenue	12,899	1,387

Unearned revenue arises when the Group has invoiced the client in advance of performing the contracted services.

19. Provisions

	2017 $'000	2016 $'000
Current		
Annual leave	6,996	4,053
Long service leave	672	629
Other employee leave	871	-
Onerous Lease	343	162
	8,882	4,844
Non-current		
Long service leave	377	324
Bonus	1,000	-
	1,377	324

A provision has been recognised for employee entitlements relating to long service leave. 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 accounting policy relating to employee benefits have been included in note 33(k) to this report.

A provision for bonus has been recognised following the acquisition of Heyday5 Pty Ltd for the 2018 and 2019 financial years.

20. Capital and reserves

Share capital

	Note	2017		2016	
		Number	$'000	Number	$'000
Ordinary shares					
Issued and fully paid		159,426,058	56,656	159,426,058	56,656
Movements in shares on issue					
Balance at the beginning of the financial year		159,426,058	56,656	158,210,370	56,036
Share issue/(buy-back)		-	-	1,215,688	620
Balance at the end of the financial year		159,426,058	56,656	159,426,058	56,656

The Company does not have authorised capital or par value in respect of its issued shares. All shares have voting rights and rights to dividends.

Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Share based payments reserve
The share based payments reserve records the fair value of share based payments provided to employees.

Deferred payments reserve
The deferred payments reserve records the expected future issue of shares in relation to the acquisition of Heyday5 Pty Ltd and Electrical Data Projects Pty Ltd (see note 23 (ii)).

Dividends

Dividends recognised in the current year by the Group are:

	Cents per share	Total amount	Franked	Date of payment
2017				
Final 2016 ordinary	1.35	2,152	Franked	13 October 2016
Total amount		2,152		
2016				
Final 2015 ordinary	2.70	4,272	Franked	13 October 2015
Interim 2016 ordinary	1.35	2,136	Franked	12 April 2016
Total amount		6,408		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

Declared after end of year

No dividends were declared after the balance sheet date. There are no events in the Directors' opinion subsequent to the balance sheet date that require disclosure.

	Company	
	2017 $'000	2016 $'000
Franking account balance	20,815	18,469

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liabilities; and

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year end.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

21. Financial instruments

Overview

The Group has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risks, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit and Risk Management Committee, which is responsible for overseeing how management monitors risk and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations in relation to the management and mitigation of these risks.

21. Financial instruments (Continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2017 $'000	2016 $'000
Cash and cash equivalents	40,553	41,833
Trade and other receivables (net of provision for impairment)	33,316	21,550
Loans to vendors	1,358	478
	75,227	63,861

Cash

The Group's cash and cash equivalents are held with major banks and financial institutions.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Approximately 59 percent (2016: 59 percent) of the Group's trade receivables are attributable to transactions with eight major customers. Geographically, the concentration of credit risk is within Australia and, by industry, the concentration is within the commercial, infrastructure and resources industries.

When entering into new customer contracts for service, the Group only enters into contracts with reputable companies. Management monitors the Group's exposure on a monthly basis. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, aging profile, maturity and existence of previous financial difficulties.

The Group does not require collateral in respect of trade and other receivables.

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables.

21. Financial instruments (Continued)

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was::

	Carrying amount	
	2017 $'000	2016 $'000
Australia	33,280	21,370
South America and Caribbean	36	180
	33,316	21,550

Impairment losses

The ageing of the Group's trade receivables at the reporting date was:

	Gross 2017 $'000	Impairment 2017 $'000	Gross 2016 $'000	Impairment 2016 $'000
Not past due	27,539	-	17,130	-
Past due 0-30 days	3,654	-	2,879	-
Past due 30-60 days	743	-	547	-
Past due 60 days and less than 1 year	319	(11)	933	-
More than 1 year	1,385	(313)	61	-
	33,640	(324)	21,550	-

The movement in the allowance for impairment in respect of Trade receivables during the year was as follows:

	2017 $'000	2016 $'000
Balance at start of year	-	-
Impairment losses recognised	324	-
Balance at 30 June	324	-

The impairment loss at 30 June 2017 relates to specific invoices that the Group considers are at risk of being recovered. The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

The impairment provision related to debts that are more than one year relates primarily to one customer. The Group will continue to strongly pursue all debts provided for.

21. Financial instruments (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses project costing to assess the cash flows required for each project currently underway and entered into. Management monitors cash flow using rolling forecasts and annual budgets that are monitored at a Board level on a monthly basis.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6-12 mths $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
30 June 2017							
Non-derivative financial liabilities							
Trade and other payables	49,697	49,697	49,697	-	-	-	-
Loans and borrowings	246	246	32	32	64	118	-
Deferred consideration	24,501	24,501	9,180	-	7,536	7,785	-
	74,444	74,444	58,909	32	7,600	7,903	-
30 June 2016							
Non-derivative financial liabilities							
Trade and other payables	18,089	18,089	18,089	-	-	-	-
Deferred consideration	8,659	8,659	-	-	2,374	3,212	3,073
	26,748	26,748	18,089	-	2,374	3,212	3,073

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency in which they are measured. The Group has no material currency risk exposures at 30 June 2017 or 30 June 2016.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

21. Financial instruments (Continued)

Interest rate risk

Profile

At the reporting date the interest rate profile of the Company's and the Group's interest-bearing financial instruments was:

	Carrying amount	
	2017 $'000	2016 $'000
Variable rate instruments		
Financial assets	41,911	42,311

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
30 June 2017				
Variable rate instruments	641	(641)	-	-
Cash flow sensitivity (net)	641	(641)	-	-
30 June 2016				
Variable rate instruments	708	(708)	-	-
Cash flow sensitivity (net)	708	(708)	-	-

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities materially equates to the carrying values shown in the balance sheet.

21. Financial instruments (Continued)

Other Price Risk

The Group is not directly exposed to any other price risk.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors has not implemented a formal capital management policy however they have implemented a dividend policy.

The Group intends to make an annual distribution to shareholders in the form of fully franked dividends, subject to the Group's financial results in a given year, general business and financial conditions, the Group's taxation position, its working capital and future capital expenditure requirements, the availability of sufficient franking credits and any other factors the Board considers relevant.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

22. Investments in subsidiaries

The consolidated financial statements include the financial statements of Southern Cross Electrical Engineering Ltd and the subsidiaries listed in the following table.

		Equity Interest (%)	
	Country of Incorporation	2017	2016
Cruz Del Sur Ingeniería Electra (Peru) S.A	Peru	100	100
Southern Cross Electrical Engineering (WA) Pty Ltd	Australia	100	100
Southern Cross Electrical Engineering Tanzania Pty Ltd	Tanzania	100	100
Southern Cross Electrical Engineering Ghana Pty Ltd	Ghana	100	100
K.J. Johnson & Co. Pty Ltd	Australia	100	100
FMC Corporation Pty Ltd	Australia	100	100
Southern Cross Electrical Engineering (Australia) Pty Ltd	Australia	100	100
Hazquip Industries Pty Ltd	Australia	100	100
Datatel Communications Pty Ltd	Australia	100	100
Heyday5 Pty Ltd	Australia	100	-
Electrical Data Projects Pty Ltd	Australia	100	-

23. Business combinations

On 9 March 2017 Southern Cross Electrical Engineering Ltd acquired 100% of Heyday5 Pty Ltd ("Heyday") and its subsidiary Electrical Data Projects Pty Ltd ("Electrical Data Projects"). Heyday is a leading east coast electrical contractor in the commercial and infrastructure markets. Electrical Data Projects is an electrical contracting business established specifically to focus on the installation of electrical data communication cabling to the building industry and major private clients throughout New South Wales. The acquisition forms part of SCEE's strategy of growth through expansion into adjacent and complementary sectors and new geographies and provides SCEE with a scalable platform to enter the commercial and infrastructure sectors.

23. Business combinations (Continued)

Consideration transferred

	$'000
Initial cash	18,000
Subsequent cash (i)	9,039
Deferred shares (ii)	13,850
Contingent consideration arrangement (iii)	11,856
	52,745

(i) Subsequent cash of $9,039,000 recognised at acquisition date represents the fair value of expected future payments based on the Directors' assessment of the expected achievement of 2017 earn out target of an EBIT equal to or greater than $9,800,000.

(ii) Deferred shares of $13,850,000 recognised at acquisition date represents expected future issue based on the Directors' assessment of the expected achievement of 2017 earn out target of an EBIT equal to or greater than $9,800,000.

(iii) The Group has agreed to pay the selling shareholders additional consideration of up to $13,000,000 subject to future earnings before interest and tax (EBIT) exceeding the following targets:

- $4,000,000 payable on achieving at least $9,800,000 EBIT in the financial year ended 30 June 2018;
- $4,000,000 payable on achieving at least $9,800,000 EBIT in the financial year ended 30 June 2019;
- 50% of EBIT above $9,800,000 in each of the financial years ended 30 June 2018 and 30 June 2019 capped at $2,500,000 in any individual financial year.

The contingent consideration of $11,856,000 recognised at acquisition date represents the fair value of expected future payments based on the Directors' assessment of the expected achievement of these earn out targets.

Acquisition-related costs amounting to $1,631,597 have been excluded from the consideration transferred and have been recognised as an expense in the year, within 'administration expenses' line item in the statement of comprehensive income.

Assets acquired and liabilities assumed at the date of acquisition

The provisional fair values of the identifiable assets and liabilities of Heyday and Electrical Data Projects as at the date of acquisition were:

	Fair value recognised $'000
Cash and cash equivalents	23,537
Trade and other receivables	5,290
Prepayments and other	377
Property, plant and equipment	784
Deferred tax assets	1,167
Intangible assets acquired (customer contracts)	5,680
Trade and other payables	(20,373)
Unearned revenue	(8,366)
Loans and borrowings	(231)
Provisions	(6,101)
Tax payable	(1,716)
Net identifiable assets / liabilities acquired	48

NOTES TO THE FINANCIAL STATEMENTS

23. Business combinations (Continued)

Goodwill arising on acquisition

	$'000
Consideration	52,745
Less: fair value of identifiable net assets / liabilities acquired	48
Goodwill arising on acquisition	52,697

Fair values measured on a provisional basis

The initial accounting for the acquisition of Heyday and Electrical Data Projects has only been provisionally determined at the end of the reporting period.

Net cash outflow on acquisition of subsidiary

	$'000
Consideration paid in cash	(18,000)
Less: cash and cash equivalents balances acquired	23,537
Net cash flow on acquisition	5,537

Impact of acquisition on the result of the Group

Included in the results for the period are revenues and net profit before tax of $62.5 million and $4.1 million respectively.

Had the business combination been effected at 1 July 2016, management estimates the revenue of the Group from continuing operations would have been $287.7 million and the net profit before tax for the year from continuing operations would have been $5.2 million.

24. Interest in joint operations

The Group has a 50% interest in KSJV Unincorporated and KSJV Australia Pty Ltd, of which the principal activity is to deliver electrical, instrumentation and telecommunication works to onshore processing elements of Australian LNG projects. These joint arrangements are accounted for as joint operations.

The Group's share of the underlying assets and liabilities as at 30 June 2017 and 2016 and revenues and expenses of the joint operations for the year 30 June 2017 and 2016, which are proportionally consolidated in the consolidated financial statements, is as follows:

	2017 $'000	2016 $'000
Share of the joint operations' statement of financial position:		
Current assets	12,643	2,669
Current liabilities	(6,683)	(631)
Non-current liabilities	(2)	(875)
Equity	5,958	1,163
Share of the joint operations' revenue and profit:		
Revenue	42,346	17,749
Contract expenses	(37,534)	(16,103)
Other expenses	(593)	(785)
Profit before tax	4,219	861
Income tax expense	(1,124)	(258)
Profit for the year from continuing operations	3,095	603

The joint operations have no contingent liabilities or capital commitments as at 30 June 2017 and 30 June 2016.

25. Share-based payments

(a) Expense recognised in profit or loss

Share based payments expenses for the year comprises:

		2017 $'000	2016 $'000
2017 Performance Rights 18 November 2016	(i)	139	-
2016 Performance Rights	(ii)	372	120
2015 Performance Rights	(iii)	(70)	51
2014 Performance Rights		-	(9)
		441	162

The amount recognised is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(i) 2017 Performance Rights

During the year Performance Rights were offered to key management personnel and senior management under the terms of the Senior Management Long Term Incentive Plan. The terms and conditions of the Performance Rights are as follows. All Performance Rights are to be settled by the physical delivery of shares.

Grant date / employees entitled	Number of instruments	Vesting conditions	Contractual life
Performance rights issued to senior management on 18 November 2016	235,057	Employed on 30 June 2019 and exceed performance hurdle	31 months
Performance rights issued to key management on 18 November 2016	1,183,333	Employed on 30 June 2019 and exceed performance hurdle	31 months
Total /performance rights	1,418,390		

Up to 100% of the allocated performance rights may vest, subject to the achievement of the performance conditions as set out below. The key terms of the performance rights are:

- To be performance tested over a three year period from 1 July 2016 to 30 June 2019 ("Performance Period");
- No performance rights will vest until 30 June 2019;
- Performance testing criteria are 50% against Absolute Total Shareholder Return ("TSR") performance, and 50% against Earnings Per Share ("EPS") performance; and
- Expiry on the 4th anniversary of the grant date unless an earlier lapsing date applies.

The TSR formula is:

((Share Price at Test Date – Share Price at Start Date) + (Dividends Reinvested))/Share Price at Start Date

TSR will be assessed against targets for threshold performance of 8% per annum compounded over the Performance Period and for stretch performance of 15% per annum compounded over the Performance Period. The vesting schedule is as follows for TSR performance over the Performance Period:

Less than 8% per annum compounded	0% vesting
8% per annum compounded	50% vesting
Between 8% and 15% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 15% per annum compounded	100% vesting

25. Share-based payments (Continued)

EPS will be assessed against targets for threshold performance of 4 cents per share at the end of the Performance Period and for stretch performance of 4.9 cents per share at the end of the Performance Period. The vesting schedule is as follows for EPS performance at the end of the Performance Period:

Less than 4 cents per share	0% vesting
4 cents per share	50% vesting
Between 4 and 4.9 cents per share	Pro-rata vesting between 50% and 100%
At or above 4.9 cents per share	100% vesting

Once the performance measurement calculation has been finalised the company will allot and issue the equivalent number of shares at nil consideration on the basis of one ordinary share per vested performance right for all performance rights exercised.

During the year nil 2017 performance rights were forfeited.

(ii) 2016 Performance Rights

There were 1,594,978 2016 Performance Rights on issue at 1 July 2016. There were 1,083,333 2016 Performance Rights granted, none vested and none were forfeited during the year.

The 2016 Performance Rights were performance tested over a three-year period from 1 July 2015 to 30 June 2018. The hurdles used to determine performance are Relative Total Shareholder Return (TSR) and Earnings per Share (EPS) performance.

TSR will be assessed against targets for threshold performance of 18.5% per annum compounded over the Performance Period and for stretch performance of 26.5% per annum compounded over the Performance Period. The vesting schedule is as follows for TSR performance over the Performance Period:

Less than 18.5% per annum compounded	0% vesting
18.5% per annum compounded	50% vesting
Between 18.5% and 26.5% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 26.5% per annum compounded	100% vesting

EPS will be assessed against targets for threshold performance of 2.8 cents per share at the end of the Performance Period and for stretch performance of 3.6 cents per share at the end of the Performance Period. The vesting schedule is as follows for EPS performance at the end of the Performance Period:

Less than 2.8 cents per share	0% vesting
2.8 cents per share	50% vesting
Between 2.8 and 3.6 cents per share	Pro-rata vesting between 50% and 100%
At or above 3.6 cents per share	100% vesting

25. Share-based payments (Continued)

(iii) 2015 Performance Rights

There were 985,701 2015 Performance Rights on issue at 1 July 2015. No 2015 Performance Rights were granted, none vested and 264,286 were forfeited during the year.

The 2015 Performance Rights were performance tested over a three-year period from 1 July 2014 to 30 June 2017. The hurdles used to determine performance are Relative Total Shareholder Return (TSR) and Earnings per Share (EPS) performance.

TSR will be assessed against targets for threshold performance of 8% per annum compounded over the Performance Period and for stretch performance of 15% per annum compounded over the Performance Period. The vesting schedule is as follows for TSR performance over the Performance Period:

Less than 8% per annum compounded	0% vesting
8% per annum compounded	50% vesting
Between 8% and 15% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 15% per annum compounded	100% vesting

EPS will be assessed against targets for threshold performance of 5.7 cents per share at the end of the Performance Period and for stretch performance of 7.3 cents per share at the end of the Performance Period. The vesting schedule is as follows for EPS performance at the end of the Performance Period:

Less than 5.7 cents per share	0% vesting
5.7 cents per share	50% vesting
Between 5.7 and 7.3 cents per share	Pro-rata vesting between 50% and 100%
At or above 7.3 cents per share	100% vesting

(b) Measurement of fair values

The fair value of the TSR Performance Rights has been measured using the Monte-Carlo simulation. The EPS Performance Rights has been measured using the Binomial tree methodology.

The inputs used in the measurement of the fair values at grant date were as follows:

The performance rights issued were granted in one tranche for the 2017 year and two tranches for the 2016 year as follows:

	2017	2016	2016
Grant date	18 November 2016	18 November 2016	16 November 2015
Vesting date	30 June 2019	30 June 2018	30 June 2018
Share price at grant date	$0.46	$0.46	$0.35
Expected life	2.6 years	1.6 years	2.6 years
Volatility	50%	50%	45%
Risk free interest rate	1.82%	1.72%	2.04%
Dividend yield	5.1%	5.1%	5.7%
Fair value of TSR component	$0.19	$0.275	$0.15
Fair value of EPS component	$0.40	$0.425	$0.30

25. Share-based payments (Continued)

(c) Reconciliation of outstanding performance rights

The number and weighted average exercise prices of performance rights under the programmes were as follows:

	2017 Number of rights	2016 Number of rights
Outstanding at 1 July	2,635,612	1,629,552
Granted during the year	2,501,723	1,594,978
Forfeited during the year	(319,219)	(588,918)
Outstanding at 30 June	4,818,116	2,635,612
Vested and exercisable at 30 June	-	-

Subsequent to 30 June 2017 the vesting conditions in respect of the 2015 performance rights have been performance tested and it has been determined that 232,879 performance rights have vested and are now exercisable and that 488,536 performance rights have not vested and have been forfeited.

26. Reconciliation of cash flows from operating activities

	2017 $'000	2016 $'000
(Loss)/profit for the year	**(369)**	**5,051**
Adjustments for:		
Depreciation and amortisation	6,298	4,798
Loss on sale of property, plant and equipment	156	77
Equity-settled share-based payment transactions	441	162
(Increase)/decrease in assets:		
Trade and other receivables	(7,357)	18,154
Income tax receivable	3,267	(3,267)
Work in progress	(12,661)	(185)
Inventories	51	568
Prepayments	127	320
Increase/(decrease) in liabilities:		
Trade and other payables	8,711	(6,846)
Unearned revenue	3,146	(1,776)
Provisions and employee benefits	1,514	(1,631)
Deferred acquisition consideration	(5,054)	-
Income tax payable	(993)	(3,504)
Deferred income tax	(250)	378
Net cash (used in)/from operating activities	**(2,973)**	**12,299**

NOTES TO THE FINANCIAL STATEMENTS

27. Commitments

Leasing commitments

Operating lease commitments – as lessee

The Group has entered into commercial property, motor vehicle and office equipment leases. These leases have an average life of 3-4 years remaining with the property leases containing options to renew at the end of the initial term. Future minimum rentals payable under non-cancellable operating leases as at 30 June 2017 are:

	2017 $'000	2016 $'000
Within one year	2,588	1,535
After one but no more than five years	5,022	2,778
After more than five years	2,339	1
Total minimum lease payments	9,949	4,314

Under the terms of the property leases, the rent payable is subject to annual review. This review adjusts the annual rent by either the movement in the consumer price index or at specified dates the annual rent is subject to a market review.

28. Contingencies

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	2017 $'000	2016 $'000
Bank Guarantees	39,089	11,919
Surety Bonds	3,107	7,544

Total bank guarantee facilities at 30 June 2017 were $46 million and the unused portion was $6.9 million. These facilities are subject to annual review. Total surety bonds facilities at 30 June 2017 were $29.5 million and the unused portion was $26.4 million. These facilities are subject to annual review. All facilities are set to mature during the 2017/18 year. It is management's intention to review these facilities at maturing to a level appropriate to support the ongoing business of the Group.

29. Subsequent events

There are no matters or circumstances that have arisen since the end of the financial year which 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 subsequent financial years.

30. Auditor's remuneration

	2017 $'000	2016 $'000
Remuneration of KPMG Australia as the auditor of the parent entity for:		
Auditing or reviewing the financial report	298,000	201,800
All other services	-	-
	298,000	201,800

31. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2017 the parent company of the Consolidated entity was Southern Cross Electrical Engineering Limited.

	Company	
	2017 $'000	2016 $'000
Result of the parent entity		
Profit/(loss) for the period	(4,317)	4,669
Total comprehensive income/(loss) for the period	(4,317)	4,669
Financial position of parent entity at year end		
Current assets	31,820	65,200
Total assets	148,112	119,697
Current liabilities	38,994	26,729
Total liabilities	58,947	38,354
Total equity of the parent entity comprising:		
Share capital	56,656	56,656
Reserves	15,210	919
Retained earnings	17,299	23,768
Total Equity	89,165	81,343

Parent entity contingencies:

The parent entity has commitments and contingent liabilities which are included in note 27 and 28. At 30 June 2017 there were in existence guarantees of performance of a subsidiary.

32. Related parties

Transactions with key management personnel

(i) Key management personnel compensation

Key management personnel compensation comprised the following:

	Company	
	2017 $'000	2016 $'000
Short-term employee benefits	2,047	1,500
Post-employment benefits	129	102
Termination benefits	-	-
Share-based payments	415	197
	2,591	1,799

Compensation of the Group's key management personnel includes salaries and non-cash benefits made up of a short term incentive and long term incentive scheme (see note 25 (i)).

NOTES TO THE FINANCIAL STATEMENTS

32. Related parties (Continued)

(ii) Key management personnel transactions

Directors of the Company control 42.1% of the voting shares of the Company.

The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows:

		Transactions value year ended 30 June	
		2017 $'000	2016 $'000
Other related parties			
Gianfranco Tomasi	Rental expense	868	828
David Hammond	Rental expense	106	-

The Group has entered into rental agreements over the following properties in which Gianfranco Tomasi has an ownership interest:

- F & A Tomasi Superannuation Fund owns the properties at 41 and 44 Macedonia St, Naval Base WA.
- G & A Tomasi own the properties at 45, 47, 49 & 51 Macedonia Street, Naval Base WA.
- Frank Tomasi Nominees Pty Ltd owns the property at 43 Hope Valley Road, Naval Base WA.

The Group has entered into rental agreements over the following properties in which David Hammond has a partial ownership interest:

- David Hammond has a part ownership interest in 9-13 Waterloo Road, North Ryde NSW with the lease expiring on 30 June 2017.
- David Hammond has a part ownership interest in Level1, 3 Apollo Place, Lane Cove West NSW with the lease commencing 1 January 2017.

Under the terms of each of the above property leases, the rent payable is subject to an annual review. This review adjusts the annual rent by the movement in the consumer price index or at specified dates the annual rent is subject to a market review.

The rental payments made above are all at normal market rates with no rent increases passed through during the 2017 year.

33. Significant accounting policies

Except as described below the accounting policies applied by the Group in this financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2016.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application 1 July 2016.

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

AASB 2015-1 Amendments to Australian Accounting Standards - Annual improvements 2012-2014 Cycle

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The group 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 these returns through power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Interest in a joint venture

The Group has interests in joint arrangements which are classified as joint operations, which are jointly controlled entities, whereby the ventures have a contractual arrangement that establishes joint control over the economic activity of the entities. The Group recognises its interest in the joint operations using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses which are accounted for by separately recognising the Group's share of underlying assets and liabilities of the joint venture with similar items, line by line, in its consolidated financial statements.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investments to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. Income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

33. Significant accounting policies (Continued)

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

(c) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and on hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in fair value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(d) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

The Group has the following non-derivative financial assets:

- Loans and receivables.
- Cash and cash equivalents.

Loans and receivables

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.
- Loans and receivables comprise trade and other receivables (see note 12).

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

The Group's non-derivative financial liabilities comprise Loans and borrowings and Trade and other payables.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

33. Significant accounting policies (Continued)

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised as part of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a diminishing value basis over the estimated useful life of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	40 years
Leasehold improvements	6 – 38 years
Plant and equipment	2 – 20 years
Motor vehicles	2 – 10 years
Office furniture and fittings	2 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Intangible assets

(i) Goodwill

Goodwill is measured at cost less accumulated impairment losses. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

33. Significant accounting policies (Continued)

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure including expenditure on internally generated goodwill and brands is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or another amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current period are as follows:

	2017	2016
Customer contracts	1-5 years	1-5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the net present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's Balance Sheet.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date (see note 33(m)(i)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

(j) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on re-measurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

33. Significant accounting policies (Continued)

(k) Impairment

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the net present value

(i) Financial assets

A financial asset not carried at fair value through the profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of the asset that can be estimated reliably.

Objective evidence that a financial asset (including equity securities) is impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset level and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

33. Significant accounting policies (Continued)

(l) Employee benefits

(i) Long-term benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on high quality corporate bonds or government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the Projected Unit Credit method.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The fair value of performance rights and share options granted to employees is recognised at grant date as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the performance rights and share options. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(n) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

33. Significant accounting policies (Continued)

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

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

(o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(p) Finance income and expenses

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, bank charges and lease payments. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest rate method.

Foreign currency gains and losses are reported on a net basis.

(q) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(r) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

33. Significant accounting policies (Continued)

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(s) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise performance rights and share options granted to employees.

(t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's components. All operating segments' operating results are reviewed regularly by the Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(u) Financial guarantees

Financial guarantee contracts are initially measured at their fair values and subsequently measured at the higher of:

- the amount of obligation under the contract, as determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount recognised initially less cumulative amortisation recognised in accordance with AASB 118 Revenue.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

(v) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

33. Significant accounting policies (Continued)

(v) Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139 'Financial Instruments: Recognition and Measurement', or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

(w) New standards and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual reporting periods beginning after 1 July 2017, and have not been applied in preparing these consolidated financial statements. There are a number which are expected to have a significant effect on the consolidated financial statements of the Group.

AASB 9 Financial Instruments will become mandatory for the Group's 2018 consolidated financial statements and could change the classification and measurement of financial assets.

AASB 15 Revenue from Contracts with Customers will become mandatory for the Group's 2018 consolidated financial statements and introduces a single revenue recognition model based on the transfer of good and services and the consideration expected to be received for that transfer.

AASB 16 Leases, will become mandatory for the Group's 2019 consolidated financial statements and will require entities to recognise all leases except those that are short term (<12 Months).

AASB 2016-5 amends AASB 2 Share-based Payment, clarifying how to account for certain types.

AASB 2016-2 amendments to AASB 107 Statement of Cash Flows, require entities to provide disclosures about changes in their liabilities arising from financiang activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Group does not plan to adopt any of these standards early and the extent of the impact has not been determined.

34. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iii) Trade and other receivables

The fair value of trade and other receivables acquired in a business combination, excluding construction work in progress, but including service concession receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iv) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(v) Share-based payment transactions

The fair value of employee performance rights and share options is measured using an appropriate pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

NOTES TO THE FINANCIAL STATEMENTS

1. In the opinion of the directors of Southern Cross Electrical Engineering Limited (the "Company"):
   a. The consolidated financial statements and notes, and the Remuneration report in the Directors' Report, are 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 2017 and of its performance for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
   b. the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a),
   c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the managing director and chief financial officer for the financial year ended 30 June 2017.

This declaration is made in accordance with a resolution of the Board of Directors.

Signed in accordance with a resolution of the directors:

D Parkin

Derek Parkin
Chairman
29 August 2017

KPMG

Independent Auditor's Report

To the shareholders of Southern Cross Electrical Engineering Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Southern Cross Electrical Engineering Limited (the Company).

In our opinion, the accompanying ***Financial Report*** of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 *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 fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Recognition of Revenue under the percentage of completion method
- Valuation of Goodwill
- Acquisition Accounting – Heyday5

Key Audit Matters are those matters that, in our professional judgment, 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.

KPMG

Recognition of revenue under the percentage of completion method (contained with contract revenue of $199.9 million)	
Refer to Note 4 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**

We focused on the Group's contract revenue recognised under the percentage of completion method as a key audit matter due to the degree of judgment involved in its estimation. The Group's policy for certain contracts is to record revenue over the course of an individual contract, using the percentage of completion method, which is estimated based on costs incurred compared to total expected costs for the individual contract.
 	
Auditing this revenue is challenging due to the heightened estimation uncertainty inherent in the Group's revenue policy for large-scale, complex projects or those subject to variability in scope. We focus on the availability of persuasive audit evidence to independently challenge the Group's key assumptions.
 	
The estimation uncertainty arises due to
• the forward looking nature of the remaining costs to complete the contract and associated activities;
• the accuracy of unapproved contract variations;
• the ability to deliver contracts to the cost expected and within the planned timelines.
	Our procedures included:
	• Evaluation of the Group's contract revenue accounting process. We tested a sample of the controls in this process including the monthly management review and approval of contract status and costs to complete as well as project manager approval of progress claim submissions;
	• For a sample of contracts:
	  • We read the contracts and other underlying formal documentation relating to inputs to the percentage of completion calculation.
	  • We assessed the cost to complete estimates by (1) understanding the activities required to complete the project from project teams, (2) analysing the costs of those activities compared to recent project cost trends and prices, and (3) using our knowledge of the contract characteristics to challenge the completeness of costs and activities.
	  • We challenged the status and progress of contracts and the percentage completion through discussion with project management. We compared the outcome of our discussions with the underlying records.
	  • We tested a sample of unapproved contract variations recognised by comparing to subsequent customer approvals or customer correspondence.
	  • We assessed the Group's ability to deliver contracts within budgeted costs, margins and timelines by evaluating the historical accuracy of these forecasting elements. We challenged management's current process based on any prior inaccuracy and using the knowledge from our procedures testing the costs to complete estimates.

KPMG

Valuation of Goodwill $73.8 million	
Refer to Note 16 to the financial report	
The key audit matter	**How the matter was addressed in our audit**
We focused on the Group's annual testing of goodwill for impairment as a key audit matter due to the size of the balance, being 37% of total assets. We specifically focused on the significant forward-looking assumptions the Group applied in their value in use models for the SCEE and Datatel segments, including: • forecast cash flows and terminal values. The Group has experienced competitive market conditions, incurring a loss during the current financial year. This impacted the Group through a reduction in revenue in the SCEE segment compared with those achieved in the prior year due to do a reduction in demand for services, particularly in the resources sector. Additionally the Group experienced lower than forecast profitability from the Datatel segment since its acquisition by the Group. These conditions increase the possibility of goodwill being impaired; • forecast growth rates and terminal values. The Group's models are highly sensitive to small changes in these assumptions, reducing available headroom. This drives additional audit effort specific to their feasibility within the Group's strategy; and; • discount rate - these are complicated in nature and vary according to the conditions and environment the specific segments are subject to from time to time. The Group's modelling is highly sensitive to changes in the discount rate. We involve our valuations specialists with the assessment. The Group has a number of operating businesses and service lines and has made a significant acquisition of Heyday 5 Pty Ltd during the year necessitating a reorganisation of its segments. This required our consideration of the Group's determination of the level at which goodwill is tested based on the requirements of accounting standards.	Our procedures included: • Challenging the Group's significant forecast cash flow and growth assumptions in light of the competitive market conditions and losses generated during the current financial year. We compared forecast growth rates to published studies of industry trends and expectations, and considered differences for the Group's SCEE and Datatel segments. We used our knowledge of the Group, their past performance, business and customers, and our industry experience. We also compared the forecast cash flows contained in the value in use models to Board approved forecasts. • Considering the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal values and discount rates, within a reasonably possible range, to identify where the highest risk of impairment resides within the value in use models and to focus our further procedures. • Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in. • We considered the Group's determination of the level at which goodwill is tested based on our understanding of the operations of the Group's business, the impact of the HeyDay 5 acquisition in the current year and the Datatel acquisition in the prior year, as well as recent Group restructuring activities against the requirements of the accounting standards.

KPMG

Acquisition Accounting – Heyday5 Pty Ltd	
Refer to Note 23 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
We focused on the Group's acquisition of HeyDay 5 Pty Ltd ("HeyDay") as a key audit matter due to the level of judgment required in evaluating the purchase price allocation ("PPA") against the criteria in the accounting standards. We specifically focused on the Group's identification and measurement of intangible assets which form part of the PPA, including: • the forecast revenues and margin assumptions of HeyDay underlying the cash flows used for measurement of the customer contract intangibles. • the discount rate assumptions with the measurement of customer contracts which are complicated in nature and vary according to the conditions and environment of HeyDay. We involved our valuations specialists with the assessment. We also considered the PPA for the inclusion of other intangible assets such as brand names and customer relationships, considering the nature of the HeyDay operations and industry.	Our procedures included: • Challenging the forecast revenue and margin assumptions used in the measurement of customer contract intangibles. We compared these forecasts to approved revenue forecasts, historically reported HeyDay results, as well as results during the remainder of the financial year. • Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to HeyDey and the industry it operates in. We also considered publically available information on recent transactions in the industry of comparable entities to challenge the Group's determination that no other intangible assets be recognised in the PPA.

Other Information

Other Information is financial and non-financial information in Southern Cross Electrical Engineering Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report

KPMG

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they 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 objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Southern Cross Electrical Engineering Limited for the year ended 30 June 2017 complies with *Section 300A* of the *Corporations Act 2001*.

Directors' 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 responsibilities

We have audited the Remuneration Report included in pages 19 to 27 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Trevor Hart
Partner

Perth
29 August 2017

LEAD AUDITOR'S INDEPENDENCE DECLARATION

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Southern Cross Electrical Engineering Limited

I declare that both KPMG and I are independent in accordance with professional rules and statutory requirements on auditor independence.

To the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2017, the only matter to declare in relation to auditor independence requirements, as set out in the Corporations Act 2001 or any applicable code of professional conduct, is described below:

- For a period of 47 days during the financial year, a partner of KPMG acquired, held and disposed of a parcel of 10,000 shares in Southern Cross Electrical Engineering Limited. The partner has provided no services to any entity of the Southern Cross Electrical Engineering Limited Group during this time, was operating from a different division to and was not part of the audit engagement team.

KPMG

KPMG

Trevor Hart
Partner

Perth
29 August 2017

ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is current at 21 August 2017.

Distribution of equity security holders

	Number of equity security holders	
Category	Ordinary shares	Options/ Performance rights
1 - 1,000	163	-
1,001 - 5,000	404	-
5,001 - 10,000	249	-
10,001 - 100,000	445	-
100,001 and over	62	4
	1,323	4

The number of shareholders holding less than a marketable parcel of ordinary shares is 131.

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
FRANK TOMASI NOMINEES PTY LTD <FRANK TOMASI FAMILY A/C>	61,664,027	38.68
CITICORP NOMINEES PTY LIMITED	24,731,159	15.51
UBS NOMINEES PTY LTD	11,166,833	7.00
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <VFA A/C>	7,929,663	4.97
ZERO NOMINEES PTY LTD	4,850,000	3.04
NATIONAL NOMINEES LIMITED	3,048,463	1.91
GHISA PTY LTD	2,063,104	1.29
CHEMCO SUPERANNUATION FUND PTY LTD <CHEMCO SUPER FUND NO 2 A/C>	2,030,000	1.27
CARMAN SUPER PTY LTD <M & B CARMAN SUPER FUND A/C>	2,000,000	1.25
SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA A/C>	1,810,902	1.14
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,686,143	1.06
OFFSHORE ELECTRICAL SERVICES PTY LTD	1,500,000	0.94
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,321,198	0.83
MR ANDREW MCKENZIE + MRS CATHERINE MCKENZIE <A W MCKENZIE SUPER FUND A/C>	1,252,634	0.79
BNP PARIBAS NOMS PTY LTD <DRP>	1,079,741	0.68
MR RAYMOND JOHN WISE	1,076,846	0.68
BOND STREET CUSTODIANS LIMITED <RSALTE - D44396 A/C>	800,000	0.50
BUCHHORN PTY LTD <S&K BUCHHORN FAMILY S/F A/C>	800,000	0.50
ICON HOLDINGS PTY LTD	800,000	0.50
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	759,710	0.48
	132,370,423	**83.03**

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number	Number
Gianfranco Tomasi	65,227,131	40.9%
Commonwealth Bank of Australia	22,838,922	14.3%
TIGA Trading Pty Ltd	10,166,833	6.4%

CORPORATE DIRECTORY

Directors

Derek Parkin
Chairman
Independent Non-Executive Director

Graeme Dunn
CEO and Managing Director

Gianfranco Tomasi
Non-Executive Director

Simon Buchhorn
Independent Non-Executive Director

Karl Paganin
Independent Non-Executive Director

David Hammond
Executive Director

Company Secretaries

Chris Douglass
Colin Harper

Auditors

KPMG
235 St Georges Terrace
Perth WA 6000

Solicitors

K & L Gates
Level 32, 44 St Georges Terrace
Perth WA 6000

Share Registry

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
Perth WA 6000
T: 1300 787 272
F: +618 9323 2033

Registered Office

Southern Cross Electrical Engineering Limited
41 Macedonia Street
Naval Base WA 6165
T: +618 9236 8300
F: +618 9410 2504

ASX code: SXE

scee.com.au

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