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CELEBRATING
40 YEARS
1978 - 2018




Southern Cross Electrical Engineering Limited
ABN: 92 009 307 046
Established 1978

2018 **Annual Report**

CONTENTS

2018 HIGHLIGHTS

Transformational growth and diversification of revenue and profitability

RECORD REVENUE	UNDERLYING EBITDA*	FULLY FRANKED DIVIDEND OF
$347.9m	**$19.0m**	**3.0 cents**
UP 74%	UP 179%	PER SHARE

Strong balance sheet
cash of $58.1m and no debt

Order book over $450m
and opportunity pipeline over $2bn

Growth strategy reaffirmed
to achieve further sector and geographic diversity

* - a reconciliation of statutory to underlying EBITDA is provided in the Managing Directors Review on pages 16-19

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.

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

SCEE has a deep understanding of electrical engineering and communications technology solutions. We continuously look for new ways to bring value to our clients – by understanding their needs, drawing on our knowledge and expertise, and tailoring our commercial models to meet their requirements.

The company's growth has been built on the foundations of strong client relationships and unwavering dedication to delivering on our commitments.

This corporate growth has been measured and strategic, including the acquisition of major subsidiaries Heyday and Datatel. SCEE now operates in five key market sectors, Resources – Mining and Oil & Gas, Industrial, Utilities and Energy Infrastructure, Telecommunications and Data Centres, Commercial Developments and Public Infrastructure and Defence, offering the full range of capabilities including E&I Construction, E&I Services and Maintenance, and Communications.

SCEE is headquartered in Perth with additional offices across Australia and has talented and committed staff delivering projects and services throughout Australia.

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Heyday Group
ELECTRICAL | COMMUNICATIONS | SERVICE

DATATEL
ELECTRICAL & COMMUNICATIONS

SCEE BUSINESS MODEL

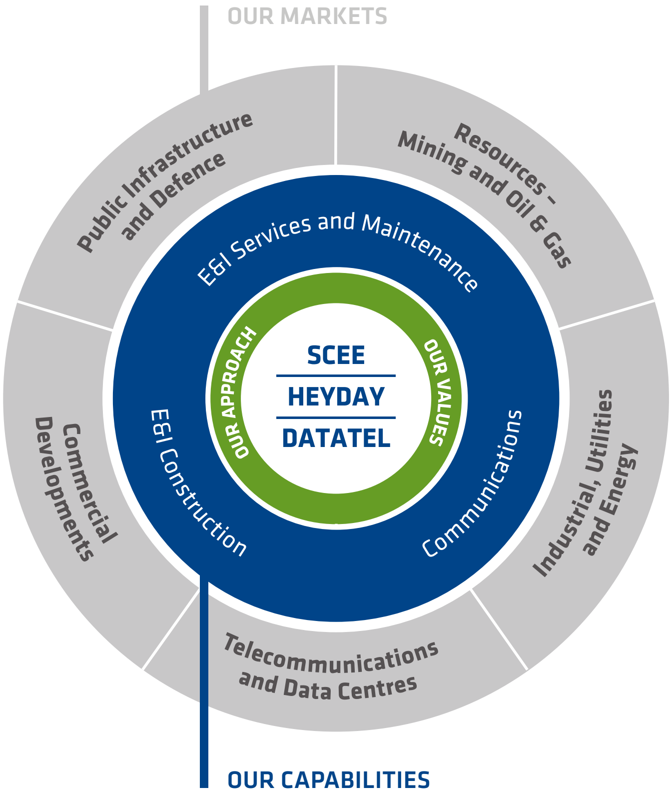
SCEE has a deep understanding of electrical and communications contracting. We are an adaptive business that can tailor our services to meet our clients' needs. We pride ourselves on designing and delivering intelligent, economic and pragmatic solutions that work.

We support our clients through the life of their assets – from design and construction through to production and operations and eventual decommissioning. SCEE can engage with clients under a variety of commercial contracts. We adopt a flexible, best-for-project approach to delivery, with the ability to both subcontract and self-perform works.

With 40 years knowledge and experience in the electrical and communications industry we aim to bring thought, leadership and innovative solutions to each stage of the asset life cycle.

We work alongside some of Australia's leading contractors in the construction and maintenance of private and publicly funded infrastructure and assets.

We have a breadth of specialist capabilities which are applied across three core disciplines: E&I Construction, E&I Services & Maintenance and Communications.



OUR
MARKETS

PUBLIC INFRASTRUCTURE AND DEFENCE

SCEE is well qualified and certified to undertake major and minor works in:

- Transport including road, rail, air and port facilities
- Defence facilities and installations
- Social infrastructure including hospitals, medical clinics, aged care and recreation
- Education including universities, technical colleges, schools and community learning centres
- We are members of various major works panels in these sectors.

We understand government procurement models and the changing funding arrangements now being used to develop new infrastructure.

Our flexibility, low-cost base and adaptive commercial approach enables us to competitively bid and deliver these critical works.

COMMERCIAL DEVELOPMENTS

SCEE has the expertise required in designing, supplying, installing and maintaining a wide range of building electrical and utility services.

Our services cover a comprehensive range of electrical infrastructure, building controls, energy management systems, security, communications networking and structured cabling systems.

We work closely with leading property developers and construction companies on new builds, and with interior design and fit-out specialists on refurbishments and upgrades.

Our focus in the commercial property market is non-residential buildings including:

- Offices
- Shopping centres
- Retail
- Hotels
- Stadia
- Airport terminals
- Factories and Warehouses

We also provide expanded electrical and communication services to multi-storey residential developments, student accommodation, aged care and mixed commercial / residential developments.

We remain abreast of the latest technologies and industry standards and pride ourselves on developing and installing smart and energy efficient solutions.

OUR MARKETS

RESOURCES MINING, OIL AND GAS

SCEE provides electrical, instrumentation and communication services to the construction of mining, LNG upstream and downstream projects and petrochemical refineries.

In the mining sector, we have extensive experience in the delivery of electrical projects at some of Australia's largest mining and mineral processing sites.

Our construction experience extends from establishing first power sources at greenfield sites, through to constructing major ore handling, process and transport infrastructure.

We also specialise in designing and installing electrical and communications services to operational centres, mine and camp utilities and administrative buildings, and telecommunication services that support the control and management of mine and transport operations.

SCEE has broad exposure to projects for many commodities including iron-ore, coal, gold, uranium, zinc, chemicals, alumina, coal, diamonds, ceramics, salt and grain.

In the oil and gas sector, we offer complete electrical, instrumentation and communication solutions for:

- Onshore – CSG upstream facilities, including well heads, trunk lines, field compression stations and compressor processing plants
- Offshore – mobile offshore drilling units, jack up drilling rigs, semi submersibles, tender assist rigs, drill ships, production platforms, FPSO's and fuel tankers
- ISBL and OSBL facilities
- Petrochemical refineries

OUR MARKETS (CONTINUED)

TELECOMMUNICATIONS AND DATA CENTRES

SCEE is a key construction partner for Australia's Telecommunication Infrastructure industry. We currently provide surveys, civil works, fibre optic, copper, power and integration activities for many of Australia's leading carriers.

SCEE has completed a large variety of Telecommunications infrastructure projects including:

- Passive Optical Networks (PON)
- Data Centres
- Mining Communications Backbone
- Rail Signalling
- Roadside communications
- Campus Distribution networks
- NBN Construction (FTTN, FTTC, HFC)

We are competent in the installation of technologically advanced products, such as electronic communication equipment, data cabling and fibre optics. Furthermore, we have the knowledge and skills to design and deliver energy conservation technologies.

OUR MARKETS

INDUSTRIAL, UTILITIES AND ENERGY

SCEE has established a strong position in the industrial, utility and energy market space on the back of our technical know-how and many years of experience in complex infrastructure projects.

Our broad range of services extends to processing plants and manufacturing and fabrication facilities, light / heavy industrial operations and transport hubs.

SCEE is a leading provider of electrical, instrumental and communication services to:

- Processing plants, manufacturing and fabrication facilities
- Light / heavy industrial operations and transport hubs
- Energy generation, storage and transmission
- Powerlines for utilities
- Water and wastewater treatment, transport and recycling
- Renewable energy – wind farms, solar generation and waste to energy plants

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.

SCEE CELEBRATES 40 YEARS

CELEBRATING 40 YEARS 1978 - 2018

2018 marks forty years since Southern Cross Electrical Engineering was founded by Frank Tomasi. The new business quickly established a reputation for quality work, bringing repeat business from many of the mining industry's key players, and during the 1980's growth was built on the back of the booming Western Australian gold sector.

In 1987 the company secured its first overseas contract in Ghana and over the years this was followed with work in a variety of international locations in Africa, South America and Asia. Growth remained strong throughout the 1990's and early 2000's, both at home and abroad, and in 2007 the Company was listed on the Australian Stock Exchange.

With a wealth of experience in mining construction works SCEE was well placed to capitalise as global demand for iron ore drove an unprecedented period of capital expenditure in Western Australia while also expanding its service offering into other markets, including oil and gas, industrial and utilities.

Recent years have seen SCEE use acquisitions to further broaden the scope of its operations. The acquisition of Datatel in 2016 brought with it access to the telecommunications sector and the following year the purchase of Heyday, a leading Sydney based electrical contractor, established a significant footprint in the commercial and public infrastructure sectors on the east coast.

With a national presence across a broad range of markets SCEE is well placed to continue its growth story over the years ahead.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SOUTHERN CROSS ELECTRIC
ENGINEERING TANZANIA LTD.

HEYDAY CELEBRATES 40 YEARS

CELEBRATING 40 YEARS

Heyday was established in New South Wales by Tony Borg in 1978. Riding the construction boom of the 1980's expansion of the business was rapid.

During the 1990's the Company continued to grow and a number of significant projects associated with the Sydney 2000 Olympics enhanced Heyday's reputation for successfully delivering large, complex projects and established the Company as one of the east coast's leading electrical contractors with a portfolio of clients that includes some of the biggest construction and infrastructure contractors in Australia.

In 2017 SCEE acquired Heyday to broaden the Group's geographic footprint and to access the buoyant public infrastructure and commercial markets. The acquisition has combined two well established, culturally aligned electrical contractors operating in complementary sectors and geographies creating a much broader platform for sustainable future growth.

DATATEL CELEBRATES 20 YEARS

20 YEAR ANNIVERSARY
DATATEL
ELECTRICAL & COMMUNICATIONS

Founded by Paul Johnson and Wayne Hogan in 1998, Datatel began life as a small electrical contractor servicing businesses and schools in Perth.

By remaining agile and resourceful the business was able to compete successfully against much bigger operators establishing long-term relationships in the health, commercial, government and education sectors through a commitment to completing work safely, efficiently and effectively. In recent years the roll-out of the National Broadband Network saw the company grow significantly as it added telecommunications providers to its existing client base.

For SCEE, the acquisition of Datatel in 2016 provided a platform to enter the telecommunications sector while also widening its service offering to its existing clients. Since the acquisition Datatel has continued to diversify both geographically across Australia and into new lines of work including mobile network construction.

CHAIRMAN'S REPORT

Derek Parkin - **Chairman**

DEAR SHAREHOLDERS,

2018 has been a milestone year for SCEE as it marked not only the fortieth anniversary of the founding of Southern Cross Electrical Engineering Limited by Frank Tomasi, but also forty years and twenty years, respectively, since Heyday and Datatel commenced operations - a collective century of electrical experience within the Group.

CHAIRMAN'S REPORT (CONTINUED)

I am delighted to report that we have been able to commemorate the occasion by delivering a record revenue for the Group of $347.9m, an increase of 74% on the prior year. We have also seen underlying EBITDA increase by 179% to $19.0m. A more detailed discussion of the results for the year is contained in the Managing Director's Review on the following pages.

Whilst the growth in 2018 has been driven in large part by the success of the prior year acquisition of Heyday, we have also continued our organic expansion across sectors and geographies and have secured a number of significant awards of health, utilities, transport and commercial projects as well as commencing work in defence and completing our first renewables projects. We continue to expand our existing capabilities into new geographies and are currently working in the majority of Australia's states and territories.

We ended the financial year with an order book over $450m of which $300m is expected to be delivered in the 2019 financial year and underpins our expectations of further revenue growth to over $400m in the year ahead.

It was with this future growth in mind that the Board decided in November 2017 to raise over $30m, via a share placement, in order to augment our balance sheet to ensure we have the flexibility to capitalise on further growth opportunities.

With national exposure to our five core markets, including the buoyant east coast public infrastructure and commercial sectors, tendering remains at a very high level and we continue to see addressable opportunities of over $2bn. We enter 2019 in a position to further progress our strategy of growth through sector and geographic diversification, both from continued organic expansion and potential further acquisitions.

Having paused our dividend in 2017, I am pleased to announce that the Board has resolved to pay a 2018 full year dividend of 3 cents per share.

We are extremely proud of SCEE's achievements over our first forty years and are excited about the next chapter in our history. We remain focussed on continuing to provide first class service to our customers, whilst growing value for our shareholders.

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

D Parkin

Derek Parkin
Chairman

MANAGING DIRECTOR'S REVIEW

The 2018 financial year was the first full year consolidating the results of Heyday, acquired in March 2017, and has seen the Group achieve transformational growth and diversification of revenue and profitability while maintaining the balance sheet strength to allow us to continue to deliver our growth strategy.

Graeme Dunn - **Managing Director**

OPERATING AND FINANCIAL REVIEW

Revenue for the year was $347.9m, the highest in the Group's forty year history, which represented a 74% increase on the prior year revenue of $199.9m.

The growth in revenues was generated across a range of markets and geographies highlighting the increased breadth and diversity of the Group. Significant revenue contributors in the year by market sector included:

- Public infrastructure and defence – in the health sector work continued throughout the year on the University of Canberra Hospital in the ACT and commenced on the Westmead Hospital in NSW. In transport we commenced work on the Northlink Central Section project in WA and on the Westconnex M5 road project in NSW and in defence we continue to work on RAAF Tindal in the Northern Territory.
- Commercial – work was predominantly in New South Wales on a range of large construction and fit-out projects including the Duo Central Park tower development in Chippendale, the Insurance Australia Group office fit-out at Darling Park, ATP Building 1 at Eveleigh and Stockland's Greenhills Shopping Centre.
- Resources – in LNG work continues on the Wheatstone LNG project. In mining we performed work under our framework agreements with key iron ore clients in WA and in Queensland activity was at a high level on Rio Tinto's Amrun Bauxite project.
- Telecommunications and data centres – NBN construction activity continued across Australia with an increase in east coast activity in the second half of the year. The business commenced its first construction projects in the mobile sector in both WA and NT. The Airtrunk and Global Switch data centre projects in Sydney were completed during the year.
- Industrial, energy and utilities – SCEE's first solar power projects were completed in New South Wales and the three year Ergon Energy Service Agreement commenced in northern Queensland.

I am pleased to report that the Group completed its 2018 operations without suffering a Lost Time Injury (LTI). This marked the fourteenth consecutive year LTI free in Australia for the original SCEE business.

Gross margins increased from 11.1% in the first half to 12.8% in the second half giving full year gross margins of 11.9% compared to 12.0% in the prior year.

Overheads in the year were $24.1m compared to underlying overheads of $17.8m [1] in the prior year with the increase from the inclusion of a full year of the Heyday business partly offset by cost saving initiatives implemented in the prior year. Overheads as a percentage of revenues reduced from 8.9% in 2017 to 6.9% in the current year.

Underlying EBITDA for the year, after adjusting for the $1.9m write back of deferred consideration relating to the acquisition of Datatel, was $19.0m representing a 179% increase on the underlying EBITDA of $6.8m [2] in the prior year.

Depreciation expense decreased from $4.3m in the prior year to $3.8m as a result of lower capital expenditure in recent years.

The underlying net profit after tax for the year was $10.1m after adjusting for the write back of Datatel deferred consideration, $2.9m of amortisation of acquired Heyday customer contract intangibles and $0.7m of finance expenses arising from the unwinding of deferred consideration interest discounts. The underlying NPAT in the prior year was $1.4m [3].

The Directors have declared a fully franked dividend for the year ended 30 June 2018 of 3.0 cents per share.

The balance sheet is strong with net cash at 30 June 2018 of $58.1m compared to $40.3m at the start of the year.

During the year $9.25m of consideration was paid to the vendors of Heyday. In November the Group completed a share placement which raised $31.9m after transaction costs to support SCEE's growth strategy by providing balance sheet strength to service the significant pipeline of work and flexibility to capitalise on potential growth opportunities.

Working capital requirements were highest at the end of the year as certain projects reached peak levels of activity. This has resulted in an increase in work in progress from $21.9m in the prior year to $39.8m at 30 June 2018.

Capital expenditure in the year was $1.5m and is expected to remain low for the time being.

OUTLOOK

Order Book

The Group continues to secure work across its core markets with significant awards including over $65m on Westmead Hospital in Sydney, over $55m on the Westconnex M5 road project in NSW and over $50m of contracts recently announced in the commercial sector in ACT and NSW. We also continue to secure regular work under our framework agreements in the resources and telecommunications sectors in a number of states and territories.

The order book at 30 June 18 was over $450m with over $300m of work in hand for the 2019 financial and over $150m already secured for the 2020 financial year.

The business development pipeline remains strong with identified opportunities continuing to be over $2bn including nearly $900m of submitted tenders with clients pending decision.

Markets

In the public infrastructure and defence sector we had approximately $150m work in hand at 30 June 2018 including the Westmead Hosptial and Westconnex M5 projects in NSW and the continuation of work on the Northlink Central Section road project in WA and at RAAF Tindal in the Northern Territory. Investment in road, rail, education, health and aged care and defence remains strong with longevity to the pipeline, particularly in NSW and VIC where government expenditure has been committed to address population growth and congestion.

The commercial sector represents the largest component of the order book at 30 June 2018 with over $200m of work in hand, primarily in NSW where we expect the pipeline to remain strong as a result of office, multi-storey and retail investment and refurbishments of existing facilities to meet high demand. We anticipate that the current high level of public infrastructure spend will lead to a further wave of commercial developments once completed. Current works include the Duo Central Park tower development, the Insurance Australia Group fit-out, ATP Building 1 and multiple projects at Parramatta Square.

In resources we have ongoing work at Rio Tinto's Amrun project in QLD, early works for BHP's South Flank project and continue commissioning works for Bechtel at Chevron's Wheatstone LNG Project. In iron ore we are positioning for the upcoming large scale replacement tonnage projects and are seeing increasing investment in sustaining capital and have framework agreements in place with Rio Tinto, BHP and Sino Iron. We are actively pursuing opportunities in bauxite, gold, lithium and other metals. Spend in oil and gas is expected to decline in the current year as large scale LNG construction projects complete.

In the telecommunications sector the NBN roll-out is peaking and the technology mix has stabilised while the mobile network providers are upgrading capacity and coverage of their existing 4G networks and preparing for the commercial deployment of 5G which is expected from FY20 onwards. Datatel has multiple framework agreements with Telcos and Tier 1 contractors for both the NBN and wireless works. Growth in data demand is driving data centre construction and having successfully completed large scale projects including Air Trunk and Global Switch we are well placed to secure further work in this area.

Energy generation and distribution to meet demand remains a challenge for the east coast of Australia and investment in renewables continues with a focus on solar where we completed our first projects in NSW during the year. We continue to perform work under our three year Ergon Energy Service Agreement in QLD. The industrial sector remains stable providing a flow of opportunities.

Strategy

The Board has reaffirmed its strategy of growth from further sector and geographic diversity. SCEE's expansion will be undertaken through a combination of organic and acquisition activity. Organic growth will primarily be achieved through:

- pursuing upcoming large scale infrastructure projects;
- leveraging the combined Group's customer relationships and skills into new states; and
- rising activity levels in certain sectors, particularly resources.

Conclusion

2018 saw SCEE deliver record revenues and increased profitability as we continued to progress our growth strategy.

The prior year acquisition of Heyday has significantly strengthened the Group and with a strong balance sheet, healthy order book and large opportunity pipeline across our markets we are well placed to deliver further growth in the year ahead.

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 ongoing support.

Graeme Dunn
Managing Director

NOTES

[1] Underlying overheads in FY17 excluded $1.7m of restructuring costs and $3.9m relating to Heyday acquisition costs and investments in expansion and diversification initiatives.

[2] Underlying EBITDA in FY17 excluded the amounts noted in point 1 above and the $5.4m write back of deferred consideration relating to the acquisition of Datatel.

[3] Underlying NPAT in FY17 excluded the amounts noted in points 1 and 2 above, $2.0m of amortisation of acquired Heyday customer contract intangibles, $0.4m of finance expenses arising from the unwinding of deferred consideration interest discounts and the tax benefit from the items in point 1.

DIRECTORS' REPORT

Your Directors submit their report for Southern Cross Electrical Engineering Limited ("SCEE" or "the Company") for the year ended 30 June 2018.

David Hammond, Karl Paganin, Simon Buchhorn, Derek Parkin, Gianfranco Tomasi, Graeme Dunn, Chris Douglass and Colin Harper.

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.

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 over 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.
David Hammond **Executive Director**	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 of Heyday by SCEE in March 2017. 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 Officers 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 [1]	177,287	2,255,360	-
Gianfranco Tomasi	65,227,131	-	-
Simon Buchhorn	800,000	-	-
Karl Paganin	822,668	-	-
David Hammond [2]	6,870,040	-	-

[1] Included in the Performance Rights held by Graeme Dunn are 1,083,333 2016 Performance Rights which have been performance tested on finalising the 2018 results and have vested in full and are now exercisable.

[2] 3,435,020 Ordinary Shares are subject to voluntary escrow until 1 November 2018 and 3,435,020 Ordinary Shares are subject to voluntary escrow until 1 November 2019.

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	10	10	4	4	3	3
Graeme Dunn	10	10	-	-	-	-
Gianfranco Tomasi	10	8	-	-	3	2
Simon Buchhorn	10	9	4	4	-	-
Karl Paganin	10	10	4	4	3	3
David Hammond	10	10	-	-	-	-

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

There have been no significant changes in the state of affairs of the company or consolidated group during this financial year.

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 16.

Operating results for the year were:	2018	2017
	$'000	$'000
Contract revenue	347,874	199,915
Profit/(loss) after income tax from continuing operations	8,406	(369)

Dividends

	Cents per share	Total amount $'000
Declared and paid during the period (fully franked at 30%)		
Final franked dividend for 2017	-	-
Declared after balance date and not recognised as a liability (fully franked at 30%)		
Final franked dividend for 2018	3.0	7,022 [1]

[1] The amount payable is based on the shares on issue at the date of this report plus vested and exercisable performance rights that are anticipated to be converted into shares prior to the payment date.

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 2018 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, 232,879 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 $86,910 (2017: $91,509).

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 83 and forms part of the Directors' report for the financial year ended 30 June 2018.

Remuneration Report

The Remuneration Report is set out on pages 25 to 33 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.

Derek Parkin
Chairman

28 August 2018

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 2018, the financial KPIs accounted for 70% of the executive team's STI and set specific profit and order book targets.

The non-financial KPIs accounted for 30% 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.

REMUNERATION REPORT – AUDITED (continued)

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:

	2018 $'000	2017 $'000	2016 $'000	2015 $'000	2014 $'000
Profit/(loss) attributable to owners of the company	8,406	(369)	5,051	(9,801)	7,723
Dividends declared and paid during the year	-	2,152	6,408	4,361	4,361
Change in share price	23%	4%	87%	(38%)	(42%)
Return on capital employed	9%	0%	7%	(10%)	10%

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	Total $	% of remuneration that is performance related
			Salary & fees $	STI cash bonus (A) $	Non-monetary benefits $	Total $	Superannuation \ benefits $	Options and rights (B) $		
Non-Executive Directors										
Derek Parkin, Chairman		2018	110,000	-	-	110,000	10,450	-	120,450	-
		2017	110,000	-	-	110,000	10,500	-	120,500	-
Gianfranco Tomasi		2018	80,000	-	-	80,000	7,600	-	87,600	-
		2017	80,000	-	-	80,000	7,600	-	87,600	-
Simon Buchhorn		2018	80,000	-	-	80,000	7,600	-	87,600	-
		2017	80,000	-	-	80,000	7,600	-	87,600	-
Karl Paganin		2018	80,000	-	-	80,000	7,600	-	87,600	-
		2017	80,000	-	-	80,000	7,600	-	87,600	-
Executive Directors										
Graeme Dunn		2018	625,000	130,000	-	755,000	25,000	307,208	1,087,208	40%
		2017	620,000	91,446	-	711,446	30,000	311,959	1,053,405	38%
David Hammond		2018	241,836	-	-	241,836	-	-	241,836	-
	1	2017	66,736	-	2,253	68,989	-	-	68,989	-
Executives										
Chris Douglass – Chief Financial Officer		2018	360,000	77,000	-	437,000	25,000	180,226	642,226	40%
		2017	355,000	94,260	-	449,260	32,006	74,566	555,832	30%
Andy Ozolins – Chief Operating Officer		2018	-	-	-	-	-	-	-	-
	2	2017	400,000	67,530	-	467,530	33,686	28,413	529,629	18%
Total 2018			**1,576,836**	**207,000**	**-**	**1,783,836**	**83,250**	**487,434**	**2,354,520**	**29%**
Total 2017			1,791,736	253,236	2,253	2,047,225	128,992	414,938	2,591,155	26%

[1] Appointed 9 March 2017

[2] A Ozolins is Chief Operating Officer of the original SCEE business and is not deemed to be a group level KMP in 2018 following the expansion of the group from the acquisition of Heyday 5 Pty Ltd in March 2017.

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

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:

Performance Rights over equity instruments

Executive	Held at 30 June 2017	Granted as remuneration	Exercised	Forfeited	Held at 30 June 2018	Vested during the year	Vested and exercisable at 30 June 2018
Graeme Dunn	1,685,185	570,175	-	-	2,255,360	-	-
Chris Douglass	1,673,318	337,719	110,348	(231,489)	1,889,896	110,348	-
	4,268,707	**907,894**	**110,348**	**(231,489)**	**4,145,256**	**110,348**	-

Performance rights granted as remuneration in 2018

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]	2018 Rights	285,088	7/11/17	0.75	0.00	30/6/19	7/11/20
Graeme Dunn[2]	2018 Rights	285,087	7/11/17	0.53	0.00	30/6/19	7/11/20
Chris Douglass[1]	2018 Rights	168,860	7/11/17	0.75	0.00	30/6/19	7/11/20
Chris Douglass[2]	2018 Rights	168,859	7/11/17	0.53	0.00	30/6/19	7/11/20
		907,894					

[1] *Performance rights granted with EPS growth as the vesting condition*
[2] *Performance rights granted with Absolute TSR as the vesting condition*

2018 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 2017 to 30 June 2020 (“Performance Period”);
- No performance rights will vest until 30 June 2020;
- 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 12% 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 12% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 12% per annum compounded	100% vesting

EPS will be assessed against targets for threshold performance of 5.7 cents per share in the 2020 financial year and for stretch performance of 6.1 cents per share in the 2020 financial year. The vesting schedule is as follows for EPS performance in the 2020 financial year:

Less than 5.7 cents per share	0% vesting
5.7 cents per share	50% vesting
Between 5.7 and 6.1 cents per share	Pro-rata vesting between 50% and 100%
At or above 6.1 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.

REMUNERATION REPORT – AUDITED (continued)

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	18/11/16	-	-	30/6/18	18/11/20
	2017 Rights	601,852	18/11/16	-	-	30/6/19	18/11/20
	2018 Rights	570,175	7/11/17	-	-	30/6/20	7/11/21
Chris Douglass	2015 Rights	341,837	4/11/14	32%	68%	30/6/17	4/11/18
	2016 Rights	975,000	16/11/15	-	-	30/6/18	16/11/19
	2017 Rights	356,481	18/11/16	-	-	30/6/19	18/11/20
	2018 Rights	337,719	7/11/17	-	-	30/6/20	7/11/21

A. Performance rights are performance tested following completion of the performance period. Subsequent to 30 June 2018 the vesting conditions in respect of the 2016 performance rights have been performance tested and it has been determined that all 2016 performance right held by Mr Dunn and Mr Douglass have vested and are now exercisable.

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 2017	Purchases	Net change other	Held at 30 June 2018
Directors				
Derek Parkin	100,000	-	-	100,000
Graeme Dunn	101,000	76,287	-	177,287
Gianfranco Tomasi	65,227,131	-	-	65,227,131
Simon Buchhorn	800,000	-	-	800,000
Karl Paganin	822,668	-	-	822,668
David Hammond[1]	-	-	6,870,040	6,870,040
Executives				
Chris Douglass[2]	95,395	-	110,348	205,743

[1] David Hammond received 6,870,040 ordinary shares as part consideration for the acquisition of Heyday5 Pty Limited following approval by shareholders at the 2017 Annual General Meeting. 3,435,020 ordinary shares are subject to voluntary escrow until 1 November 2018 and 3,435,020 ordinary shares are subject to voluntary escrow until 1 November 2019.

[2] Chris Douglass received 110,348 share on the exercise of vested 2015 Performance Rights issued under the company's senior management long term incentive scheme

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 with the lease being surrendered on 30 June 2018.

The Group had entered into a rental agreement for Level 1, 3 Apollo Place, Lane Cove West NSW in which David Hammond had a partial ownership interest prior to being disposed of during the financial year.

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 2018 year.

Total rent paid by SCEE in the 2018 financial year in respect of the above agreements was $711,000.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Contract revenue	4	347,874	199,915
Contract expenses		(306,319)	(176,011)
Gross profit		**41,555**	**23,904**
Other income	5	1,584	300
Employee benefits expenses	6	(14,982)	(12,900)
Occupancy expenses		(2,405)	(3,348)
Administration expenses		(5,580)	(6,336)
Other expenses		(1,149)	(688)
Reduction in earn out payable	5	1,883	5,411
Depreciation expense	8	(3,779)	(4,254)
Amortisation	8	(2,907)	(2,045)
Profit from operations		**14,220**	**44**
Finance income	7	531	463
Finance expenses	7	(1,948)	(1,090)
Net finance expense		**(1,417)**	**(627)**
Profit/(loss) before tax		**12,803**	**(583)**
Income tax (expense)/benefit	9	(4,397)	214
Profit/(loss) from continuing operations		**8,406**	**(369)**
Other comprehensive income			
Items that are or may be reclassified to the profit and loss:			
Foreign currency translation gain for foreign operations		101	305
Other comprehensive income net of income tax		**101**	**305**
Total comprehensive income/(loss)		**8,507**	**(64)**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**8,507**	**(64)**
Earnings per share:			
Basic earnings/(loss) per share (cents)	10	**4.05**	**(0.23)**
Diluted earnings/(loss) per share (cents)	10	**3.96**	**(0.23)**

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

CONSOLIDATED BALANCE SHEET

For the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Assets			
Current assets			
Cash and cash equivalents	11	58,076	40,553
Trade and other receivables	12	37,209	33,316
Inventories	13	2,170	2,328
Work in progress	14	39,793	21,890
Prepayments		588	898
Assets held for sale		-	155
Tax receivable		1,188	-
Total current assets		**139,024**	**99,140**
Non-current assets			
Trade and other receivables	12	-	1,358
Property, plant and equipment	15	16,274	19,416
Deferred tax assets	9	-	734
Intangible assets	16	74,591	77,433
Total non-current assets		**90,865**	**98,941**
Total assets		**229,889**	**198,081**
Liabilities			
Current liabilities			
Trade and other payables	17	43,392	49,697
Unearned revenue	18	16,519	12,899
Provisions	19	10,664	8,882
Loans and borrowings		-	59
Deferred acquisition consideration	20	6,452	9,180
Tax payable		-	723
Total current liabilities		**77,027**	**81,440**
Non-current liabilities			
Deferred acquisition consideration	20	7,626	15,321
Provisions	19	958	1,377
Loans and borrowings		-	187
Deferred tax liability	9	3,168	-
Total non-current liabilities		**11,752**	**16,885**
Total liabilities		**88,779**	**98,325**
Net assets		**141,110**	**99,756**
Equity			
Share capital	21	102,873	56,656
Reserves	21	1,749	15,018
Retained earnings		36,488	28,082
Total equity		**141,110**	**99,756**

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 2018

	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 loss for the period							
Loss for the period		-	(369)	-	-	-	(369)
Foreign currency translation gain		-	-	-	-	305	305
Total comprehensive loss		-	(369)	-	-	305	(64)
Transactions with owners, recorded directly in equity							
Dividends to equity holders		-	(2,152)	-	-	-	(2,152)
Deferred share consideration		-	-	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**

	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 2017	56,656	28,082	13,850	1,783	(615)	99,756
Total comprehensive income for the period						
Profit for the period	-	8,406	-	-	-	8,406
Foreign currency translation gain	-	-	-	-	101	101
Total comprehensive income	-	8,406	-	-	101	8,507
Transactions with owners, recorded directly in equity						
Issue of ordinary shares net of transaction costs and tax	32,222	-	-	-	-	32,222
Equity-settled deferred acquisition consideration	13,850	-	(13,850)	-	-	-
Equity-settled share-based payment	145	-	-	(145)	-	-
Cost of share-based payments	-	-	-	625	-	625
Total transactions with owners	46,217	-	(13,850)	480	-	32,847
Balance as at 30 June 2018	**102,873**	**36,488**	**-**	**2,263**	**(514)**	**141,110**

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 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Cash receipts from customers		372,423	216,243
Cash paid to suppliers and employees		(374,858)	(221,184)
Interest received		531	463
Interest paid		(1,239)	(733)
Income taxes received/(paid)		(2,008)	2,238
Net cash (used in)/from operating activities	**26**	**(5,151)**	**(2,973)**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		-	5,537
Payment of deferred acquisition consideration	20	(9,250)	-
Proceeds from the sale of assets		1,816	80
Acquisition of property, plant and equipment	15	(1,516)	(2,062)
Net cash from/(used in) investing activities		**(8,950)**	**3,555**
Cash flows from financing activities			
Repayment of borrowings		(233)	(15)
Proceeds from issue of shares		31,857	-
Dividends paid	21	-	(2,152)
Net cash from/(used in) financing activities		**31,624**	**(2,167)**
Increase/(decrease) in cash and cash equivalents		17,523	(1,585)
Cash and cash equivalents at beginning of period		40,553	41,833
Effect of exchange rate fluctuations on cash held		-	305
Cash and cash equivalents at 30 June	11	**58,076**	**40,553**

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

INDEX TO 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 2018 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 28 August 2018.

(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.

2. Basis of preparation (continued)

(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; and
- Note 20 - measurement of deferred consideration.

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 following sectors: Commercial developments; public infrastructure and defence; resources – mining, oil and gas; industrial, utilities and energy; telecommunications and data centres. The Group provides its services through the three key segments of SCEE, Datatel and Heyday.

The directors believe that the aggregation of the operating segments is appropriate as to differing extents 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.

3. Segment reporting (continued)

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.

	2018		2017	
	Revenue $'000	Non-current assets $'000	Revenue $'000	Non-current assets $'000
Australia	347,874	90,865	199,674	98,941
South America and Caribbean	-	-	241	-
	347,874	90,865	199,915	98,941

Revenues from the two largest customers of the Group's Australian segment generated respectively $50 million and $48 million of the Group's total revenue (2017: $94 million generated from the four largest customers).

4. Contract revenue

	Note	2018 $'000	2017 $'000
Contract revenue		347,874	199,915

5. Income

	Note	2018 $'000	2017 $'000
Other income			
Net gain on disposal of assets held for sale		687	-
Gain on sale of sundry equipment		352	6
Rebates received		331	239
Other		214	55
		1,584	300
Reduction in earn out payable			
Reduction in earn out payable		1,883	5,411

The reduction in earn out payable relates to the 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 2018 and 2019 financial years.

6. Employee benefits expenses

	Note	2018 $'000	2017 $'000
Remuneration, bonuses and on-costs		(12,174)	(10,641)
Superannuation contributions		(1,007)	(1,007)
Amounts provided for employee entitlements		(1,176)	(811)
Share-based payments expense	25	(625)	(441)
		(14,982)	(12,900)

The above employee benefits expenses do not include employee benefits expenses recorded within contract expenses. Employee benefits included in contract expenses were $104.9m (2017: $83.7m).

7. Finance income and expenses

	Note	2018 $'000	2017 $'000
Interest income on bank deposits		531	463
Finance income		531	463
Deferred consideration		(710)	(357)
Bank charges		(531)	(455)
Bank guarantee fees		(612)	(233)
Other		(95)	(45)
Finance expenses		(1,948)	(1,090)
Net finance expense		(1,417)	(627)

8. Depreciation and amortisation expenses

	Note	2018 $'000	2017 $'000
Buildings		(17)	(17)
Leasehold improvements		(251)	(176)
Plant and equipment		(1,553)	(2,259)
Motor vehicles		(1,087)	(1,042)
Office furniture and equipment		(871)	(760)
		(3,779)	(4,254)
Amortisation of customer contract intangibles		(2,840)	(2,045)
Other		(67)	-
		(2,907)	(2,045)

9. Income tax expense

(a) Income Statement	Notes	2018 $'000	2017 $'000
Current tax expense			
Current period		(83)	-
(Under)/over provision from prior year		(93)	2
		(176)	2
Deferred tax expense			
Origination and reversal of temporary differences		(4,221)	212
Income tax expense reported in the income statement		(4,397)	214
(b) Amounts charged or credited directly to equity			
Expenses in relation to capital raising		(319)	-
Income tax expense reported in the income statement		(319)	-

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

	Notes	2018 $'000	2017 $'000
Accounting profit/(loss) before income tax		12,803	(583)
Income tax (expense)/credit using the Company's domestic tax rate of 30% (2016: 30%)		(3,841)	175
Change in fair value of deferred consideration		565	1,623
Acquisition costs included in cost base		-	(489)
Non-deductible deferred consideration interest		(213)	(107)
Share based payments		(144)	(132)
Amortisation of intangibles		(853)	(614)
Tax losses of foreign operations not recognised		-	(83)
Other		89	(159)
Income tax expense reported in the income statement		(4,397)	214
The applicable effective tax rates are:		34.4%	(36.9%)

9. Income tax expense (continued)

Deferred tax assets and liabilities

	Balance Sheet		Income Statement		Equity		Acquisition of Subsidiary	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Deferred tax liabilities								
Retentions receivable	(316)	(274)	42	170	-	-	-	-
Work in progress	(10,561)	(4,850)	5,711	2,081	-	-	-	-
Long term contracts adopting estimated profits basis	(824)	-	824		-	-	-	-
Property, plant and equipment	(23)	(23)	-	-	-	-	-	-
	(11,724)	(5,147)	6,577	2,251	-	-	-	-
Deferred tax assets								
Provision for onerous lease	-	103	103	(54)	-	-	-	-
Provision assets held for sale value	39	39	-	(39)	-	-	-	-
Provision for doubtful debt	95	97	2	(84)	-	-	-	-
Retentions payable	113	63	(50)	(2)	-	-	-	61
Unearned revenue	340	-	(340)	-	-	-	-	-
Accruals	183	197	14	36	-	-	-	152
Employee benefits	3,879	3,265	(614)	(474)	-	-	-	993
Property, plant and equipment	19	19	-	40	-	-	-	-
Other	355	64	28	148	(319)	-	-	-
Tax losses	3,533	2,034	(1,499)	(2,034)	-	-	-	-
	8,556	5,881	(2,356)	(2,463)	(319)	-	-	1,206
Net deferred tax assets/(liabilities)	(3,168)	734	4,221	(212)	(319)		-	1,206

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2018 was based on the profit attributable to ordinary shareholders of $8,406,000 (2017: $369,000 loss) and a weighted average number of ordinary shares outstanding of 207,472,086 (2017: 159,426,058), calculated as follows:

Profit/(loss) attributable to ordinary shareholders

	Note	2018 $'000	2017 $'000
Profit/(loss) for the period		8,406	(369)

Weighted average number of ordinary shares

	Note	2018	2017
Issued ordinary shares at 1 July	21	159,426,058	159,426,058
Effective new balance resulting from issue of shares in the year		48,046,028	-
Weighted average number of ordinary shares at 30 June		207,472,086	159,426,058

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2018 was based on the profit attributable to ordinary shareholders of $8,406,000 (2017: $369,000 loss) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 212,143,181 (2017: 159,426,058), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

	Note	Consolidated	
		2018	2017
		$'000	$'000
Profit/(loss) for the period		8,406	(369)

Weighted average number of ordinary shares (diluted)

	Note	2018	2017
Weighted average number of ordinary shares for basic earnings per share		207,472,086	159,426,058
Effect of dilution:			
Share options and performance rights on issue		4,671,095	-
Weighted average number of ordinary shares at 30 June		212,143,181	159,426,058

NOTES TO THE FINANCIAL STATEMENTS

11. Cash and cash equivalents

	Notes	2018 $'000	2017 $'000
Bank balances		39,268	39,791
Short term deposits		18,808	762
Cash and cash equivalents in the statement of cash flows		58,076	40,553

The effective interest rate on cash and cash equivalents was 1.1% (2017: 1.4%); these deposits are either at call or on short term deposit.

12. Trade and other receivables

	Notes	2018	2017
Current		$'000	$'000
Trade receivables		35,115	32,727
Provision for impairment of trade receivables		(317)	(324)
Retentions		1,053	913
Loans to vendors		1,358	-
		37,209	33,316
Non-current			
Loans to vendors		-	1,358

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.

Loans to vendors represents loans made in relation to the acquisition in Datatel Communications Pty Ltd, repayable from future earn out payment.

13. Inventories

	Notes	2018	2017
Raw materials and consumables – cost		2,170	2,328

14. Work in progress

	Notes	2018	2017
Costs incurred to date		181,290	130,362
Recognised profit		29,013	26,267
Progress billings		(170,510)	(134,739)
Construction work in progress		39,793	21,890

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 Improvements $'000	Plant and equipment $'000	Motor Vehicles $'000	Office Furniture and Equipment $'000	Total $'000
Cost						
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
Balance at 1 July 2017	916	3,712	21,125	14,710	10,231	50,694
Additions	-	52	631	598	235	1,516
Disposals	-	(980)	(1,329)	(1,704)	(84)	(4,097)
Balance at 30 June 2018	916	2,784	20,427	13,604	10,382	48,113
Depreciation and impairment losses						
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)
Balance at 1 July 2017	(150)	(1,256)	(14,267)	(9,494)	(6,111)	(31,278)
Depreciation for the year	(17)	(251)	(1,553)	(1,087)	(871)	(3,779)
Disposals	-	666	1,084	1,393	75	3,218
Balance at 30 June 2018	(167)	(841)	(14,736)	(9,188)	(6,907)	(31,839)
Carrying amounts						
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
At 1 July 2017	766	2,456	6,858	5,216	4,120	19,416
At 30 June 2018	749	1,943	5,691	4,416	3,475	16,274

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 2016		29,472	1,811	-	31,283
Acquisitions through business combinations		52,697	5,680	19	58,396
Balance as at 30 June 2017		82,169	7,491	19	89,679
Balance as at 1 July 2017		82,169	7,491	19	89,679
Balance as at 30 June 2018		82,169	7,491	19	89,679
Amortisation and impairment losses					
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)
Balance as at 1 July 2017		(8,390)	(3,856)	-	(12,246)
Amortisation		-	(2,840)	(2)	(2,842)
Balance as at 30 June 2018		(8,390)	(6,696)	(2)	(15,088)
Carrying amounts					
At 1 July 2016		21,082	-	-	21,082
At 30 June 2017		73,779	3,635	19	77,433
At 1 July 2017		73,779	3,635	19	77,433
At 30 June 2018		73,779	795	17	74,591

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.

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

	2018 $'000	2017 $'000
SCEE	8,784	8,784
Datatel	12,298	12,298
Heyday	52,697	52,697
	73,779	73,779

The recoverable amount of the above segments were based on their value in use with the group performing its annual impairment test in June 2018. 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% (2017: 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 2019 is based on the board approved budget with EBITDA for 2020 – 2023 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 2018.
- A pre-tax discount rate between 11.7% and 14.3% (2017: 16.83%) 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 $22.5 million in excess of its carrying amount. This estimate is sensitive to the realisation of the budgeted and forecast overall net cash flows to 2023. These forecasts reflect Board and management's expectations for future growth. In the event that the overall net cash flows are 31% 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 $7.5 million in excess of its carrying amount.
This estimate is sensitive to the realisation of the budgeted and forecast overall net cash flows to 2023. These forecasts reflect the Board and management's expectations for future growth. In the event that the overall net cash flows are 36% 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

	2018 $'000	2017 $'000
Current		
Trade payables	26,092	30,868
Retentions payable	378	210
Accrued expenses	15,451	16,154
Goods and services tax payable	1,471	2,465
	43,392	49,697

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 22.

18. Unearned revenue

	2018 $'000	2017 $'000
Current		
Unearned revenue	16,519	12,899

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

19. Provisions

	2018 $'000	2017 $'000
Current		
Annual leave	6,868	6,996
Long service leave	892	672
Other employee leave	2,404	871
Bonus	500	-
Onerous Lease	-	343
	10,664	8,882
Non-current		
Long service leave	458	377
Bonus	500	1,000
	958	1,377

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. Deferred acquisition consideration

	2018 $'000	2017 $'000
Current	6,452	9,180
Non-current	7,626	15,321
	14,078	24,501

Deferred acquisition consideration movements		
Balance at 1 July	24,501	8,659
Additional deferred consideration from acquisitions	-	20,896
Finance costs	710	357
Change in fair value of deferred consideration	(1,883)	(5,411)
Payments	(9,250)	-
Balance at 30 June	14,078	24,501

21. Capital and reserves

Share capital

	Note	2018		2017	
		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	159,426,058	56,656
Exercise of Employee performance rights		232,879	145	-	-
Shares issued for Acquisition of Heyday5 Pty Ltd		27,480,160	13,850	-	-
Issue of ordinary shares net of transaction costs		44,250,000	32,222	-	-
Balance at the end of the financial year		231,389,097	102,873	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.

Dividends

Dividends recognised in the current year by the Group are:

	Cents per share	Total amount $'000	Franked	Date of payment
2018				
Final 2017 ordinary	-	-	-	-
Total amount		-		
2017				
Final 2016 ordinary	1.35	2,152	Franked	13 October 2016
Total amount		2,152		

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

21. Capital and reserves (continued)

Declared after end of year

Subsequent to 30 June 2018 a dividend of 3.00 cents per share in the amount of $7.022 million, including dividends paid to shares anticipated to be issued in respect of vested and exercisable performance rights, was proposed by the directors. The dividend has not been provided in the financial statements.

	Company	
	2018 $'000	2017 $'000
Franking account balance	21,472	20,815

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.

22. 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.

22. 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	
	2018 $'000	2017 $'000
Cash and cash equivalents	58,076	40,553
Trade and other receivables (net of provision for impairment)	35,851	33,316
Loans to vendors	1,358	1,358
	95,285	75,227

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 57 percent (2017: 59 percent) of the Group's trade receivables are attributable to transactions with seven 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.

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

22. Financial instruments (continued)

	Carrying amount	
	2018 $'000	2017 $'000
Australia	35,851	33,280
South America and Caribbean	-	36
	35,851	33,316

Impairment losses

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

	Gross 2018 $'000	Impairment 2018 $'000	Gross 2017 $'000	Impairment 2017 $'000
Not past due	29,271	-	27,539	-
Past due 0-30 days	3,608	-	3,654	-
Past due 30-60 days	1,975	-	743	-
Past due 60 days and less than 1 year	370	(4)	319	(11)
More than 1 year	944	(313)	1,385	(313)
	36,168	(317)	33,640	(324)

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

	2018 $'000	2017 $'000
Balance at start of year	324	-
Impairment losses recognised	-	324
Amounts recovered	(7)	-
Balance at 30 June	317	324

The impairment loss at 30 June 2018 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.

22. 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 2018							
Non-derivative financial liabilities							
Trade and other payables	43,392	43,392	43,002	390	-	-	-
Loans and borrowings	-	-	-	-	-	-	-
Deferred consideration	14,078	14,078	6,452	-	7,626	-	-
	57,470	57,470	49,454	390	7,626	-	-
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	-

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 2018 or 30 June 2017.

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.

22. 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	
	2018 $'000	2017 $'000
Variable rate instruments		
Financial assets	59,434	41,911

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 2018.

	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
30 June 2018	$'000	$'000	$'000	$'000
Variable rate instruments	944	(944)	-	-
Cash flow sensitivity (net)	944	(944)	-	-
30 June 2017				
Variable rate instruments	641	(641)	-	-
Cash flow sensitivity (net)	641	(641)	-	-

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.

22. 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.

23. 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	2018	2017
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	100
Electrical Data Projects Pty Ltd	Australia	100	100

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 2018 and 2017 and revenues and expenses of the joint operations for the year 30 June 2018 and 2017, which are proportionally consolidated in the consolidated financial statements, is as follows:

	2018 $'000	2017 $'000
Share of the joint operations' statement of financial position:		
Current assets	10,716	12,643
Current liabilities	(4,676)	(6,683)
Non-current liabilities	(2)	(2)
Equity	6,038	5,958
Share of the joint operations' revenue and profit:		
Revenue	47,067	42,346
Contract expenses	(43,957)	(37,534)
Other expenses	(404)	(593)
Profit before tax	2,706	4,219
Income tax expense	(972)	(1,124)
Profit for the year from continuing operations	1,734	3,095

The joint operations have no contingent liabilities or capital commitments as at 30 June 2018 and 30 June 2017.

25. Share-based payments

(a) Expense recognised in profit or loss

Share based payments expenses for the year comprises:

		2018 $'000	2017 $'000
2018 Performance Rights	(i)	265	-
2017 Performance Rights	(ii)	114	139
2016 Performance Rights	(iii)	246	372
2015 Performance Rights		-	(70)
		625	441

25. Share-based payments (continued)

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.

2018 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 7 November 2017	120,066	Employed on 30 June 2020 and exceed performance hurdle	31 months
Performance rights issued to key management on 7 November 2017	1,121,052	Employed on 30 June 2020 and exceed performance hurdle	31 months
Total /performance rights	1,241,118		

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 2017 to 30 June 2020 ("Performance Period");
- No performance rights will vest until 30 June 2020;
- 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 12% 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 12% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 12% per annum compounded	100% vesting

25. Share-based payments (continued)

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 6.1 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 6.1 cents per share	Pro-rata vesting between 50% and 100%
At or above 6.1 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 2018 performance rights were forfeited.

2017 Performance Rights

There were 1,310,069 2017 Performance Rights on issue at 1 July 2017. No 2017 Performance Rights were granted, none vested and none were forfeited during the year.

The 2017 Performance Rights will be performance tested over a three-year period from 1 July 2016 to 30 June 2019. 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 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

25. Share-based payments (continued)

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)

(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 as follows:

	2018	2017
Grant date	7 November 2017	18 November 2016
Vesting date	30 June 2020	30 June 2019
Share price at grant date	$0.80	$0.46
Expected life	2.6 years	2.6 years
Volatility	47%	50%
Risk free interest rate	1.87%	1.82%
Dividend yield	2.5%	5.1%
Fair value of TSR component	$0.53	$0.19
Fair value of EPS component	$0.75	$0.40

(c) Reconciliation of outstanding performance rights

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

	2018 Number of rights	2017 Number of rights
Outstanding at 1 July	4,818,116	2,635,612
Granted during the year	1,241,118	2,501,723
Exercised during the year	(232,879)	-
Forfeited or withdrawn during the year	(596,857)	(319,219)
Outstanding at 30 June	5,229,498	4,818,116
Vested and exercisable at 30 June	-	-

Subsequent to 30 June 2018 the vesting conditions in respect of the 2016 performance rights have been performance tested and it has been determined that 2,678,311 performance rights have vested and are now exercisable and that nil have been forfeited.

26. Reconciliation of cash flows from operating activities

	2018 $'000	2017 $'000
Profit/(loss) for the year	8,406	(369)
Adjustments for:		
Depreciation and amortisation	6,686	6,298
(Profit) on sale of assets held for sale	(687)	-
(Profit)/Loss on sale of property, plant and equipment	(106)	156
Expense recognised in respect of capital raising	399	-
Equity-settled share-based payment transactions	625	441
(Increase)/decrease in assets:		
Trade and other receivables	(2,535)	(7,357)
Income tax receivable	(1,188)	3,267
Work in progress	(17,903)	(12,661)
Inventories	158	51
Prepayments	310	127
Increase/(decrease) in liabilities:		
Trade and other payables	(6,305)	8,711
Unearned revenue	3,620	3,146
Loans and borrowings		
Provisions and employee benefits	1,363	1,514
Deferred acquisition consideration	(1,173)	(5,054)
Income tax payable	(723)	(993)
Deferred income tax	3,902	(250)
Net cash (used in)/from operating activities	(5,151)	(2,973)

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 2018 are:

	2018 $'000	2017 $'000
Within one year	2,336	2,588
After one but no more than five years	3,805	5,022
After more than five years	2,431	2,339
Total minimum lease payments	8,572	9,949

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.

	2018 $'000	2017 $'000
Bank Guarantees	35,928	39,089
Surety Bonds	11,715	3,107

Total bank guarantee facilities at 30 June 2018 were $46 million and the unused portion was $10.1 million. These facilities are subject to annual review. Total surety bonds facilities at 30 June 2018 were $26.8 million and the unused portion was $15.0 million. These facilities are subject to annual review. All facilities are set to mature during the 2018/19 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

	2018 $'000	2017 $'000
Remuneration of KPMG Australia as the auditor of the parent entity for:		
- Auditing or reviewing the financial report	298,000	298,000
- All other services	-	-
	298,000	298,000

31. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2018 the parent company of the Consolidated entity was Southern Cross Electrical Engineering Limited.

	Company	
	2018 $'000	2017 $'000
Result of the parent entity		
Profit/(loss) for the period	(4,138)	(4,317)
Total comprehensive income/(loss) for the period	(4,138)	(4,317)
Financial position of parent entity at year end		
Current assets	72,444	31,820
Total assets	182,594	148,112
Current liabilities	(45,774)	38,994
Total liabilities	(64,719)	58,947
Total equity of the parent entity comprising:		
Share capital	102,873	56,656
Reserves	1,841	15,210
Retained earnings	13,161	17,299
Total Equity	117,875	89,165

Parent entity contingencies:

The parent entity has commitments and contingent liabilities which are included in note 27 and 28. At 30 June 2018 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:

	2018 $'000	2017 $'000
Short-term employee benefits	1,784	2,047
Post-employment benefits	83	129
Share-based payments	487	415
	2,354	2,591

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)).

32. Related parties (Continued)

Key management personnel transactions

Directors of the Company control 32% 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	
		2018 $'000	2017 $'000
Other related parties			
Gianfranco Tomasi	Rental expense	689	868
David Hammond	Rental expense	22	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 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 with the lease being surrendered on 30 June 2018.

The Group has entered into a rental agreement in Level 1, 3 Apollo Place, Lane Cove West NSW in which David Hammond had a partial ownership interest prior to being disposed of during the financial year.

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 2018 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 2017.

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 2017.

AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2016-2016 Cycle

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.

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 fores eeable 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.

33. Significant accounting policies (continued)

(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:

- Cash and cash equivalents.
- Loans and receivables

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:

	2018	2017
Customer contracts 1-5 years	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)

(j) Impairment

(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)

(k) 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.

(l) 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.

(m) 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).

(n) 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.

(o) 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.

(p) 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.

(q) 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.

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.

33. Significant accounting policies (continued)

(r) 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.

(s) 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.

(t) 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.

(u) 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)

(u) 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.

(v) 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 2018, 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 2019 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

AASB 15 Revenue from Contracts with Customers will become mandatory for the Group's 2019 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. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identity the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group has determined that the likely impact will not be material.

33. Significant accounting policies (continued)

AASB 16 Leases, will become mandatory for the Group's 2020 consolidated financial statements and will require entities to recognise all leases except those that are short term (<12 Months) or 'low-value' (e.g., personal computers) on the balance sheet. At commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and depreciation expense on the right-of-use asset. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

AASB 2016-5 amends AASB 2 Share-based Payment, clarifying how to account for certain types of transactions. The Group does not plan to adopt this standard 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.

DIRECTORS' DECLARATION

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 2018 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 2018.

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
28 August 2018

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 2018 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 balance sheet as at 30 June 2018
- 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

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 $347.9 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 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 each contract and associated activities, consistent with planned timelines; and • the accuracy of unapproved contract variations and claims.	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 the approval of progress claim submissions; and • 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, (3) test a sample of committed expenditure to supporting documentation, and (4) 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 and claims 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 in 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 32% of total assets. We focused on the significant forward-looking assumptions the Group applied in their value in use models for the Heyday, SCEE and Datatel segments, including: • forecast cash flows and terminal values for Datatel, which has experienced lower than forecast profitability due to challenging conditions in certain market sectors. 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.	Our procedures included: • challenging the Group's growth assumptions within the forecast cash flows in light of varying competitive conditions in the markets in which the Group operates. We compared forecast growth rates to published studies of industry trends and expectations, and considered differences for the Group's segments, including Datatel. 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; and • 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 also 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.

KPMG

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 and will 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.

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_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

INDEPENDENT AUDIT REPORT

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Southern Cross Electrical Engineering Limited for the year ended 30 June 2018 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 the Directors' Report for the year ended 30 June 2018.

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

28 August 2018

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, to the best of my knowledge and belief, in relation to the audit of Southern Cross Electrical Engineering Limited for the financial year ended 30 June 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Trevor Hart
Partner

Perth

28 August 2018

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 20 August 2018.

Distribution of equity security holders

Category	Number of equity security holders	
	Ordinary shares	Options/Performance rights
1 - 1,000	173	-
1,001 - 5,000	345	-
5,001 - 10,000	250	-
10,001 - 100,000	509	-
100,001 and over	84	4
	1,361	4

The number of shareholders holding less than a marketable parcel of ordinary shares is 133.

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	26.65
CITICORP NOMINEES PTY LIMITED	23,589,280	10.19
UBS NOMINEES PTY LTD	17,016,223	7.35
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,924,374	6.88
ZERO NOMINEES PTY LTD	13,830,000	5.98
J P MORGAN NOMINEES AUSTRALIA LIMITED	11,950,436	5.16
PERSHING AUSTRALIA NOMINEES PTY LTD <YNOMINEE A/C>	7,095,000	3.07
DHHD5 PTY LTD	6,870,040	2.97
RLHD5 PTY LTD	6,870,040	2.97
TBHD5 PTY LTD	6,870,040	2.97
SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA A/C>	4,684,417	2.02
JWHD5 PTY LTD	4,122,024	1.78
NATIONAL NOMINEES LIMITED	3,141,227	1.36
DPHD5 PTY LTD	2,748,016	1.19
GHISA PTY LTD	2,063,104	0.89
CHEMCO SUPERANNUATION FUND PTY LTD <CHEMCO SUPER FUND NO 2 A/C>	2,030,000	0.88
CARMAN SUPER PTY LTD <M & B CARMAN SUPER FUND A/C>	2,000,000	0.86
OFFSHORE ELECTRICAL SERVICES PTY LTD	1,500,000	0.65
MR ANDREW MCKENZIE + MRS CATHERINE MCKENZIE <A W MCKENZIE SUPER FUND A/C>	1,300,000	0.56
BNP PARIBAS NOMS PTY LTD <DRP>	1,082,542	0.47
	196,350,790	84.86

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	28.2%
TIGA Trading Pty Ltd	21,016,223	9.1%
Colonial First State	18,607,582	8.0%
Westoz Funds Management Pty Ltd	12,384,040	5.4%

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

SCEE Perth Office (Head Office)
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PERTH | BRISBANE | DARWIN | ADELAIDE
KARRATHA | NEWMAN | TOWNSVILLE
CANBERRA | SYDNEY

scee.com.au

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ISO 14001
AS 4801
BUREAU VERITAS Certification

SCEE
WA EC 001681
QLD 12707
NSW 17066C
NT C 0977
SA PGE 262507
TAS 930255

ABN: 92 009 307 046
Established 1978

Heyday
NSW 249908C
ACT 2012817

ABN: 85 158 865 091
Established 1978

Datatel
WA EC6606

ABN: 24 082 372 834
Established 1998

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