Appendix 4E and Annual Report

Year ended 30 June 2019

Appendix 4E

The current reporting period is the financial year ended 30 June 2019. The previous corresponding period is the financial year ended 30 June 2018.

Results for Announcement to the Market:

Revenue and Net Profit	Year ended 30 June 2019 $'000	Year ended 30 June 2018 $'000	Change $'000	Change %
Revenue from ordinary activities	386,031	347,874	38,157	11.0%
Profit/(loss) from ordinary activities after tax attributable to members	12,713	8,406	4,307	51.2%
Net profit/(loss) for the full year attributable to members	12,713	8,406	4,307	51.2%

A description of the figures reported above is contained in the Annual Report.

Dividends	Amount per security	Franked amount per security
Interim dividend for 2019	-	-
Final dividend for 2019	3.0 cents	3.0 cents
Record date for determining entitlements to the final dividend		26 September 2019
Date the final dividend is payable		10 October 2019

The Company has established a Dividend Reinvestment Plan as announced to the ASX on 28 August 2019. The last date for lodgement of election notices to participate in the Dividend Reinvestment Plan for the 2019 dividend is 5pm WST on Friday 27 September 2019.

NTA Backing	Year ended 30 June 2019	Year ended 30 June 2018
Net tangible asset backing per security (cents per share)	31.6 cps	28.7 cps

Details of entities over which control has been gained or lost during the period

During the year there was no change of control of any entities with the consolidated group.

Details of associates and joint venture entities

The Company has a 50% interest in the following joint venture entities:

- KSJV
- KSJV Australia Pty Ltd

Further information can be found in note 24 to the audited financial statements in the Annual Report.

Audit

The results are based on accounts which have been audited and the audit report contains no qualifications.

Commentary on the Results for the Period

This report should be read in conjunction with the Directors' report, audited financial statements and notes contained in the Annual Report.

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

2019 **ANNUAL REPORT**

CONTENTS

2019 HIGHLIGHTS

GROWTH IN REVENUE AND PROFITABILITY

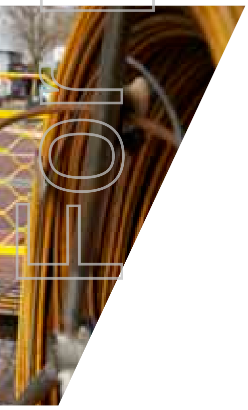
REVENUE	EBITDA	NPAT
$386.0m	**$23.6m**	**$12.7m**
UP 11%	UP 13%	UP 51%

Fully franked dividend
3.0 cents per share

Strong balance sheet
cash of $53.3m and no debt

Order book $450m
and opportunity pipeline over $2.7bn

Diversification strategy continues
public infrastructure & defence the largest sector in FY19



ABOUT SCEE

OUR VALUES

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.

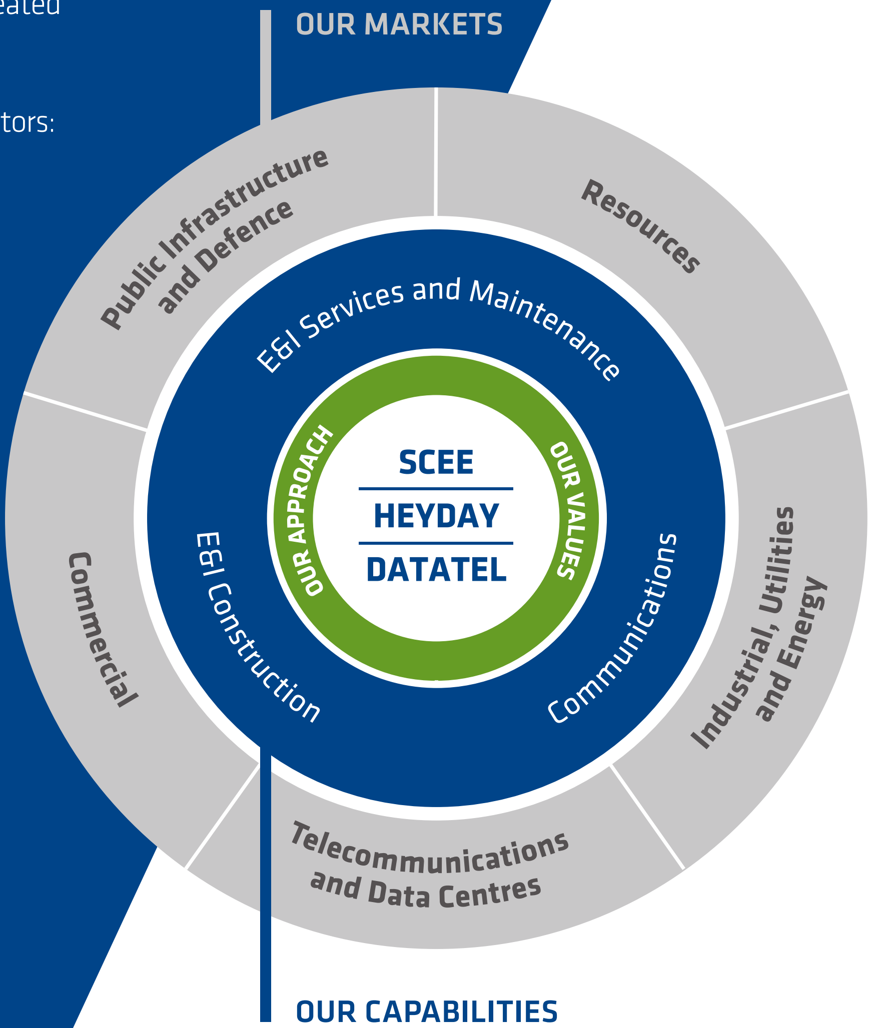
Southern Cross Electrical Engineering (SCEE) is an ASX listed electrical, instrumentation, communication and maintenance services company recognised for our industry leading capabilities.

Established in 1978 in WA, the combination in 2016 with Datatel Communications (established 1998) and in 2017 with East Coast-based Heyday5 (business established 1978) has created a national group.

SCEE now operates across five sectors:

- Resources
- Commercial
- Public infrastructure & defence
- Telecommunications & data centres
- Industrial, energy & utilities

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



OUR MARKETS

COMMERCIAL

PUBLIC INFRASTRUCTURE AND DEFENCE

RESOURCES

TELECOMMUNICATIONS AND DATA CENTRES

INDUSTRIAL, ENERGY AND UTILITIES

LEADING NATIONAL DIVERSIFIED ELECTRICAL CONTRACTOR

- COMMERCIAL
- RESOURCES
- PUBLIC INFRASTRUCTURE AND DEFENCE
- TELECOMMUNICATIONS AND DATA CENTRES
- INDUSTRIALS, ENERGY & UTILITIES

WA

Rio Tinto - Cape Lambert, Dampier EIR, Tom Price, Paraburdoo, Brockman 2, Yandi

BHP – Newman, Port Hedland, Mt Whaleback, South Flank

Sino Iron

Wheatstone LNG

Boddington Gold

Mineral Resources Wodgina

NorthLink Central Section

UWA, City of Belmont, Casuarina Prison maintenance

NBN construction

Wireless networks construction

Carrier networks construction

Minor commercial works and services

Woodman Point Waste Water Treatment

NT

Wireless networks construction

RAAF Tindal

QLD

Rio Tinto Amrun Bauxite Project

Arrow MSA

NBN construction

Carrier networks construction

Ergon Energy Service Agreement

RAAF Townsville

NSW & ACT

Parramatta Square 3 & 4 and fit-outs

Australian Technology Park Building 1

Duo Central Park

Insurance Australia Group

151 Clarence Street

ISKIA

Sovereign Resort Expansion

Edmonson Park

Wynyard Place

100 Mount Street

32 Smith Street

Bank of China

Westmead Hospital

Westconnex M4 and M5

Metronode Unanderra

RU Data Centre

VIC & TAS

NBN construction

COMMERCIAL

AUSTRALIA TECHNOLOGY PARK BUILDING 1

32 SMITH STREET

WYNYARD PLACE

PUBLIC INFRASTRUCTURE AND DEFENCE

WESTCONNEX M5

WESTMEAD HOSPITAL

THE UNIVERSITY OF WESTERN AUSTRALIA

RESOURCES

RIO TINTO

BHP

WHEATSTONE LNG

TELECOMMUNICATIONS AND DATA CENTRES

INDUSTRIALS, ENERGY & UTILITIES

NBN CONSTRUCTION

RU DATA CENTRE

ERGON ENERGY

CHAIRMAN'S REPORT

DEAR SHAREHOLDERS,

I am pleased to report to you at the end of a year that has seen SCEE continue to grow revenues, improve profitability and further progress our diversification strategy.

Derek Parkin - **Chairman**

CHAIRMAN'S REPORT (CONTINUED)

In 2019 the group delivered revenues of $386.0m, an increase of 11% on the prior year, and EBITDA of $23.6m, up 13% on 2018. Net profit after tax increased 51% to $12.7m. We maintained a strong balance sheet throughout the year and ended 2019 with net cash of $53.3m and no debt. A more detailed discussion of the results for the year is contained in the Managing Director's Review on the following pages.

For the past four years we have been progressing our strategy of growth through diversification of sectors and geographies. The successful implementation of this strategy has seen the revenue profile of the group change significantly. In 2019 our work in the public infrastructure and defence sector grew by nearly $100m to become our largest sector, more than offsetting the reduction in resources revenues as key projects completed. Historically SCEE's core sector, resources is now our third largest revenue generator with commercial works continuing to deliver high volumes, particularly on the east coast.

We expect this strategy to continue to deliver growth and we are forecasting revenues in the 2020 financial year of over $420m. We enter the year with $360m of this forecast already secured within our order book of $450m.

We continue to see a strong pipeline of work nationally across our five sectors with visibility of over $2.7bn of projects including in excess of $600m submitted tenders. Whilst a significant part of this pipeline is attributable to the high levels of infrastructure spend committed by government and the strong east coast commercial sector, we are also experiencing an increased level of tendering activity on resource projects across a number of commodities.

Further acquisitions remain a core component of our growth strategy and we foresee significant opportunities presenting in the near to medium term.

I am pleased to announce that the Board has resolved to pay a fully franked 2019 full year dividend of 3 cents per share. The Board has also resolved to adopt a Dividend Reinvestment Plan to provide shareholders with the opportunity to increase their investment in SCEE in a cost effective manner.

Over forty years after he founded SCEE, Frank Tomasi retired from the Board at our Annual General Meeting in October, 2018. On behalf of everyone at SCEE I would like to take this opportunity to, once more, acknowledge the huge contribution Frank made to the success of SCEE and wish him the very best in his well-earned retirement.

I would also 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 2019 financial year saw SCEE deliver improved results compared to the prior year including an 11% increase in revenue, 13% increase in EBITDA and 51% increase in net profit after tax.

Graeme Dunn - **Managing Director**

MANAGING DIRECTOR'S REVIEW (CONTINUED)

OPERATING AND FINANCIAL REVIEW

Revenue for the year was $386.0m which represented an 11% increase on the prior year revenue of $347.84m. Revenues in the second half of the year were $204.2m compared to $181.8m in the first half.

Revenue was generated from a broad range of sectors and geographies as the Group's diversification strategy continued to progress. Key revenue contributors in the year by market sector included:

- Public infrastructure and defence – revenues increased significantly from $44.1m in the prior year to $143.4m and became the group's largest sector in FY19. In transport infrastructure work was completed on the Westconnex M4 in NSW with ongoing works on the Westconnex M5 project and the Northlink road project in WA. In the health sector activity ramped up on the Westmead Hospital project in NSW and work was completed at the University of Canberra Hospital in the ACT. In defence there is ongoing work at the RAAF Tindal project in the Northern Territory and RAAF Townsville in QLD. Minor works were completed at Campbell Barracks and HMAS Stirling in WA.
- Commercial – revenue for the year was $114.5m compared to $111.9m in the prior year. The majority of work in the sector was performed in the buoyant New South Wales market on a range of large construction and fit-out projects including Parramatta Square 3 and 4, the ATP Building 1 in Eveleigh, the Duo Central Park tower development in Chippendale, the Wynyard Place redevelopment in the Sydney CBD and 100 Mount Street in North Sydney.
- Resources – revenues decreased from $125.3m in the prior year to $88.2m with work on the Wheatstone LNG project completing early in the second half of the year. In Western Australia the business continued to win and perform sustaining capital works at multiple Rio Tinto and BHP Billiton facilities and through its framework agreements at the Sino Iron and Boddington gold mines. Work at the Rio Tinto Amrun Bauxite project in Queensland and the Mineral Resources Wodgina Lithium project in WA demobilised during the year.
- Telecommunications and data centres – revenues were $27.0m compared to $49.2m in FY18 with no significant data centre contribution in the current year. NBN and carrier network construction continued across Australia including the group's first mobile tower builds in WA and NT. Work commenced under recently secured equipment upgrade and minor works contracts direct to NBN.
- Industrial, energy and utilities – revenue was $12.9m compared to $17.4m in the prior year. Work continued under the three year Ergon Energy Service Agreement in northern Queensland and the Woodman Point Wastewater Treatment Plant in WA.

Full year revenue was slightly behind the forecast of over $400m due to the earlier than anticipated demobilisation of the Westconnex M4 project.

Gross margins for the year were 12.3% compared to gross margins of 11.9% in the prior year. Second half gross margins were 12.5% compared to 11.7% in the first half of the year.

Overheads were $25.7m compared to $24.1m in the prior year, continuing to decrease as a percentage of revenue from 6.9% in 2018 to 6.7% in 2019.

EBITDA for the year was $23.6m representing a 13% increase on the EBITDA of $20.9m in the prior year. EBITDA in the second half of the year was $14.6m, a 62% increase on the first half EBITDA of $9.0m

Net profit after tax increased by 51% to $12.7m compared to the prior corresponding period with the increase due to the improved trading performance and reducing amortisation of acquired customer contract intangibles.

The Directors have declared a fully franked dividend for the year ended 30 June 2019 of 3.0 cents per share, consistent with the prior year and have established a dividend reinvestment plan.

The balance sheet remained strong throughout the period. Net cash at 30 June 2019 was $53.3m with no debt compared to $58.1m at the start of the year. The payment of $7m of FY18 dividends and $6.5m of deferred Heyday acquisition consideration during the period was offset by an operating cash inflow of $10.7m. Significant cash inflows are anticipated as resources projects completed during the year are closed out.

Capital expenditure for the year was $2.1m and is expected to remain at similarly low levels.

OUTLOOK

Order Book

The Group continues to secure work across its core markets and had an order book at 30 June 2019 of $450m, a similar level to the prior year, with over $360m of work secured for the FY20 year. This represents more than 80% of the forecast FY20 revenue of over $420m.

The business development pipeline remains strong with identified opportunities exceeding $2.7bn including over $600m of submitted tenders with clients pending decision.

Markets

The commercial sector remains the largest component of the order book with over $250m of work in hand at 30 June 2019, primarily in NSW including works ongoing at Parramatta Square 3 and 4, Wynyard Place and 32 Smith Street. The pipeline is expected to remain strong as a result of office, multi-storey and retail investment and refurbishments of existing facilities to meet high demand. The current high level of public infrastructure spend is expected to lead to a further wave of commercial developments once completed.

In the public infrastructure and defence sector we had nearly $100m of work in hand at 30 June 2019 including the Westmead Hospital 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. SCEE recently secured its first project on the Metronet program in WA with work on the Forrestfield Airport Link and there are multiple opportunities presenting on the Sydney Metro project. The Federal budget in March 2019 committed over $100 billion to land transport projects over the next 10 years and there is significant other federal, state and private infrastructure investment planned in defence, airports, ports, education, health and aged care.

In resources there is ongoing work for Rio Tinto, BHP Billiton, Sino Iron and at Boddington Gold mine. There is over $20bn of committed capital expenditure on WA resources projects in the period to 2021 and SCEE is actively pursuing opportunities in iron ore, zinc, bauxite and lithium construction. There is no foreseeable LNG construction work in the near term but there is ongoing coal seam gas work in QLD that provides opportunities and visibility of LNG developments in the medium term.

In the telecommunications sector the NBN construction roll-out is completing and will transition to the maintenance phase. Contracts are in place with the NBN that can facilitate this work nationally. Opportunities with other network carriers continue to be actively pursued. The commercial deployment of 5G is commencing but the delivery model and scale remains uncertain. The first two stages of the RUData SYD53 Data Centre project in NSW was recently secured and a range of new data centres is currently being tendered.

The industrial, energy and utilities sector remains stable and provides a steady flow of opportunities. Current tenders include fuel terminal, power station and brickworks projects. The renewable energy project pipeline is subdued compared to prior periods but there is still a pipeline of opportunities for SCEE for the electrical construction portion of renewables projects. Work is ongoing on the Ergon Energy Service Agreement in northern QLD and SCEE was recently awarded Agnew wind farm electrical works in WA.

Strategy

SCEE primarily sees itself as an electrical contractor. Historically focussed in resources, over the last four years we implemented a strategy to diversify organically and acquisitively into commercial, infrastructure, defence, telecommunications, industrial, energy and utilities work.

- This successful diversification has meant the resources sector is now the third largest revenue generator after infrastructure and commercial and over 70% of revenues originate from the East Coast.
- Our growth strategy continues so as to realise further sector and geographic diversity through a combination of organic and acquisition activities.
- Organic growth will be achieved through our strong commercial and infrastructure pipelines and resources activity is increasing across multiple commodities
- We foresee significant acquisition opportunities presenting in the short to medium term which offer both sector and geographic diversity.

Conclusion

2019 saw SCEE continue to improve its financial performance with record revenues and increased profitability.

We continue to see the benefits of our diversification strategy with significant projects being performed across Australia in our five sectors. We expect a continuation of this strategy to lead to further growth in FY20. Our healthy balance sheet and order book of $450m including over $360m of work to be performed in FY20 puts us in a strong position to achieve this.

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

Graeme Dunn

Graeme Dunn
Managing Director

DIRECTORS' REPORT

Your Directors submit their report for Southern Cross Electrical Engineering Limited ("SCEE" or "the Company") for the year ended 30 June 2019.

Graeme Dunn, Chris Douglass, David Hammond, Simon Buchhorn, Derek Parkin, Karl Paganin 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.

Name and independence status	Experience, qualifications, special responsibilities and other directorships
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 and the Nomination and Remuneration Committee.
Karl Paganin **Independent Non-Executive Director**	Karl has over 15 years of senior executive experience in Investment Banking, specialising in transaction structuring, equity capital markets, mergers and acquisitions and providing strategic management advice to listed public companies. Prior to that, Karl was Director of Major Projects and Senior Legal Counsel for Heytesbury Pty Ltd (the private company of the Holmes a Court family) which was the proprietor of John Holland Group Pty Ltd. Karl is the Chairman of the Nomination and Remuneration Committee and a member of the Audit and Risk Management Committee. Karl is also a Non-Executive Director of ASX listed Veris Limited and Poseidon Nickel 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.
Gianfranco Tomasi AM **Non-Executive Director (retired 30th October 2018)**	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 retired from his role as non-executive director on 30 October 2018. 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 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. Frank was a member of the Nomination and Remuneration Committee until his retirement from the Board.

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' 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]	1,260,620	1,636,313	-
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 300,926 2017 Performance Rights which have been performance tested on finalising the 2019 results and have vested in full and are now exercisable and 300,926 2017 Performance Rights which did not vest.
2. 3,435,020 Ordinary Shares are subject to voluntary escrow until 5 September 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	13	12	4	4	2	2
Graeme Dunn	13	13	-	-	-	-
Simon Buchhorn	13	13	4	4	1	1
Karl Paganin	13	13	4	4	2	2
David Hammond	13	13	-	-	-	-
Gianfranco Tomasi	3	3	-	-	1	-

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 10.

Operating results for the year were:	2019	2018
	$'000	$'000
Contract revenue	386,031	347,874
Profit/(loss) after income tax from continuing operations	12,713	8,406

Dividends

	Cents per share	Total amount $'000
Declared and paid during the period (fully franked at 30%)		
Final franked dividend for 2018	3.0	7,022
Declared after balance date and not recognised as a liability (fully franked at 30%)		
Final franked dividend for 2019	3.0	7,042

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 2019 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, 2,678,311 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 $174,963 (2018: $86,910).

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 80 and forms part of the Directors' report for the financial year ended 30 June 2019.

Remuneration Report

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

Rounding off

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

Signed in accordance with a resolution of the directors.

Derek Parkin

Chairman

27 August 2019

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 some or all of 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 2019, 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 fees.

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

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

Consequences of performance on shareholder wealth

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

	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Profit/(loss) attributable to owners of the company	12,713	8,406	(369)	5,051	(9,801)
Dividends declared and paid during the year	7,022	-	2,152	6,408	4,361
Change in share price	(24%)	23%	4%	87%	(38%)
Return on capital employed	12%	9%	0%	7%	(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		2019	110,000	-	-	110,000	10,450	-	120,450	-
		2018	110,000	-	-	110,000	10,450	-	120,450	-
Simon Buchhorn		2019	80,000	-	-	80,000	7,600	-	87,600	-
		2018	80,000	-	-	80,000	7,600	-	87,600	-
Karl Paganin		2019	80,000	-	-	80,000	7,600	-	87,600	-
		2018	80,000	-	-	80,000	7,600	-	87,600	-
Gianfranco Tomasi	1	2019	29,846	-	-	29,846	2,835	-	32,681	-
		2018	80,000	-	-	80,000	7,600	-	87,600	-
Executive Directors										
Graeme Dunn		2019	625,000	288,971	-	913,971	25,000	249,303	1,188,274	45%
		2018	625,000	130,000	-	755,000	25,000	307,208	1,087,208	40%
David Hammond		2019	241,836	-	-	241,836	-	-	241,836	-
		2018	241,836	-	-	241,836	-	-	241,836	-
Executives										
Chris Douglass – Chief Financial Officer		2019	367,685	171,160	-	538,845	25,000	147,663	711,508	45%
		2018	360,000	77,000	-	437,000	25,000	180,226	642,226	40%
Total 2019			**1,534,367**	**460,131**	**-**	**1,994,498**	**78,485**	**396,966**	**2,469,949**	**35%**
Total 2018			**1,576,836**	**207,000**	**-**	**1,783,836**	**83,250**	**487,434**	**2,354,520**	**29%**

1. Retired 30 October 2018.

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 2018	Granted as remuneration	Exercised	Forfeited	Held at 30 June 2019	Vested during the year	Vested and exercisable at 30 June 2019
Graeme Dunn	2,255,360	464,286	1,083,333	-	1,636,313	1,083,333	-
Chris Douglass	1,669,200	275,000	975,000	-	969,200	975,000	-
	3,924,560	**739,286**	**2,058,333**	**-**	**2,605,513**	**2,058,333**	**-**

Performance rights granted as remuneration in 2019

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]	2019 Rights	232,143	9/11/18	0.59	0.00	30/6/21	9/11/22
Graeme Dunn[2]	2019 Rights	232,143	9/11/18	0.29	0.00	30/6/21	9/11/22
Chris Douglass[1]	2019 Rights	137,500	9/11/18	0.59	0.00	30/6/21	9/11/22
Chris Douglass[2]	2019 Rights	137,500	9/11/18	0.29	0.00	30/6/21	9/11/22
		739,286					

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

2019 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 2018 to 30 June 2021 ("Performance Period");
- No performance rights will vest until 30 June 2021;
- 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 6.1 cents per share in the 2021 financial year and for stretch performance of 6.8 cents per share in the 2021 financial year. The vesting schedule is as follows for EPS performance in the 2021 financial year:

Less than 6.1 cents per share	0% vesting
6.1 cents per share	50% vesting
Between 6.1 and 6.8 cents per share	Pro-rata vesting between 50% and 100%
At or above 6.8 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 absolute discretion, waive the exercise and vesting conditions associated with the performance rights or allow the performance rights to continue to be assessed over the original performance assessment period. In the event of a change of control of the Company, all options and performance rights that have not lapsed may be exercised.

Details of equity incentives affecting current and future remuneration

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

Executive	Instrument	Number	Grant Date	% vested in year	% forfeited in year	Performance testing date (A)	Expiry Date
Graeme Dunn	2016 Rights	1,083,333	18/11/16	100%	-	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
	2019 Rights	464,286	9/11/18	-	-	30/6/21	9/11/22
Chris Douglass	2016 Rights	975,000	16/11/15	100%	-	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
	2019 Rights	275,000	9/11/18	-	-	30/6/21	9/11/22

A. Performance rights are performance tested following completion of the performance period. Subsequent to 30 June 2019 the vesting conditions in respect of the 2017 performance rights have been performance tested and it has been determined that 300,926 performance rights held by Mr Dunn and 178,240 performance rights held by Mr Douglass have vested and are now exercisable and 300,926 performance rights held by Mr Dunn and 178,241 performance rights held by Mr Douglass have not vested.

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 2018	Purchases	Sales	Exercise of Performance Rights	Director Retirement	Held at 30 June 2019
Directors						
Derek Parkin	100,000	-	-	-	-	100,000
Graeme Dunn[1]	177,287	-	-	1,083,333	-	1,260,620
Simon Buchhorn	800,000	-	-	-	-	800,000
Karl Paganin	822,668	-	-	-	-	822,668
David Hammond[2]	6,870,040	-	-	-	-	6,870,040
Gianfranco Tomasi[3]	65,227,131	-	(18,413,649)	-	(46,813,482)	-
Executives						
Chris Douglass[1]	205,743	-	-	975,000		1,180,743

[1] Shares were received during the year on the exercise of vested 2016 Performance Rights issued under the company's senior management long term incentive scheme as discussed above.

[2] 3,435,020 ordinary shares are subject to voluntary escrow until 5 September 2019.

[3] Retired as a Director on 30 October 2018.

Transactions with key management personnel

The Group has entered into rental agreements over the following properties in which Gianfranco Tomasi, who retired as a Director on 30 October 2018, 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.

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 2019 year.

Total rent paid by SCEE in the 2019 financial year in respect of the above agreements was $265,000.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	2019 $'000	2018 $'000
Contract revenue	4	386,031	347,874
Contract expenses		(338,485)	(306,319)
Gross profit		**47,546**	**41,555**
Other income	5	353	1,584
Employee benefits expenses	6	(15,239)	(14,982)
Occupancy expenses		(2,308)	(2,405)
Administration expenses		(6,212)	(5,580)
Other expenses		(1,983)	(1,149)
Reduction in earn out payable	5	1,489	1,883
Depreciation expense	8	(3,496)	(3,779)
Amortisation	8	(797)	(2,907)
Profit from operations		**19,353**	**14,220**
Finance income	7	530	531
Finance expenses	7	(1,703)	(1,948)
Net finance expense		**(1,173)**	**(1,417)**
Profit before tax		**18,180**	**12,803**
Income tax expense	9	(5,467)	(4,397)
Profit from continuing operations		**12,713**	**8,406**
Other comprehensive income			
Items that are or may be reclassified to the profit and loss:			
Foreign currency translation gain for foreign operations		-	101
Other comprehensive income net of income tax		**-**	**101**
Total comprehensive income		**12,713**	**8,507**
Total comprehensive income attributable to:			
Owners of the Company		**12,713**	**8,507**
Earnings per share:			
Basic earnings per share (cents)	10	**5.44**	**4.05**
Diluted earnings per share (cents)	10	**5.40**	**3.96**

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

CONSOLIDATED BALANCE SHEET

For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Assets			
Current assets			
Cash and cash equivalents	*11*	53,257	58,076
Trade and other receivables	*12*	103,950	77,002
Inventories	*13*	2,335	2,170
Prepayments		1,693	588
Tax receivable		-	1,188
Total current assets		**161,235**	**139,024**
Non-current assets			
Property, plant and equipment	*15*	14,827	16,274
Intangible assets	*16*	73,794	74,591
Total non-current assets		**88,621**	**90,865**
Total assets		**249,856**	**229,889**
Liabilities			
Current liabilities			
Trade and other payables	*17*	77,188	59,911
Provisions	*19*	9,762	10,664
Deferred acquisition consideration	*20*	6,500	6,452
Total current liabilities		**93,450**	**77,027**
Non-current liabilities			
Deferred acquisition consideration	*20*	-	7,626
Provisions	*19*	416	958
Deferred tax liability	*9*	8,282	3,168
Total non-current liabilities		**8,698**	**11,752**
Total liabilities		**102,148**	**88,779**
Net assets		**147,708**	**141,110**
Equity			
Share capital	*21*	102,873	102,873
Reserves	21	551	1,749
Retained earnings		44,284	36,488
Total equity		**147,708**	**141,110**

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 2019

	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 year	-	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**

	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 2018	102,873	36,488	-	2,263	(514)	141,110
Total comprehensive income for the year						
Profit for the year	-	12,713	-	-	-	12,713
Total comprehensive income	-	12,713	-	-	-	12,713
Transactions with owners, recorded directly in equity						
Dividends	-	(7,022)	-	-	-	(7,022)
Performance rights (net of tax)	-	2,105	-	(1,744)	-	361
Equity-settled share-based payment	-	-	-	546	-	546
Total transactions with owners	-	(4,917)	-	(1,198)	-	(6,115)
Balance as at 30 June 2019	**102,873**	**44,284**	**-**	**1,065**	**(514)**	**147,708**

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 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Cash receipts from customers		366,904	372,423
Cash paid to suppliers and employees		(356,608)	(374,858)
Interest received		530	531
Interest paid		(1,291)	(1,239)
Income taxes received/(paid)		1,195	(2,008)
Net cash from/(used in) operating activities	**26**	**10,730**	**(5,151)**
Cash flows from investing activities			
Payment of deferred acquisition consideration	*20*	(6,500)	(9,250)
Proceeds from the sale of assets		49	1,816
Acquisition of property, plant and equipment	*15*	(2,076)	(1,516)
Net cash used in investing activities		**(8,527)**	**(8,950)**
Cash flows from financing activities			
Repayment of borrowings		-	(233)
Proceeds from issue of shares		-	31,857
Dividends paid	*21*	(7,022)	-
Net cash (used in)/from financing activities		**(7,022)**	**31,624**
(Decrease)/Increase in cash and cash equivalents		(4,819)	17,523
Cash and cash equivalents at beginning of period		58,076	40,553
Effect of exchange rate fluctuations on cash held		-	-
Cash and cash equivalents at 30 June	*11*	**53,257**	**58,076**

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 2019 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(x).

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 27 August 2019.

(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 4 – measurement of variable consideration;
- Note 16 – recoverable amount for testing goodwill;
- Note 20 – measurement of deferred consideration;
- Note 22 – expected credit losses ("ECLs") on trade receivables; and
- Note 25 – measurement of share-based payments.

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(n) and 4) and contract assets (note 33(i) and 14).

Revenue from construction contracts is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the group expects to be entitled in exchange for the goods or services. Judgement is exercised in each of the following steps in determining revenue from construction contracts as prescribed by Five (5) Step Revenue Recognition Model introduced by AASB 15 Revenue from Contracts with Customers:

i. Identify the contract(s) with a customer
ii. Identify the performance obligations in the contract
iii. Determine the transaction price
iv. Allocate the transaction price to the performance obligations in the contract
v. Recognise revenue when (or as) the entity satisfies a performance obligation

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.

		2019		2018	
		Revenue $'000	Non-current assets $'000	Revenue $'000	Non-current assets $'000
Australia		386,031	88,621	347,874	90,865
		386,031	88,621	347,874	90,865

Revenues from the two largest customers of the Group's Australian segment generated $64 million of the Group's total revenue (2018: $98 million generated from the two largest customers).

4. Contract revenue

Disaggregated revenue information

	Note	2019 $'000	2018 $'000
Commercial		114,469	111,903
Resources		88,207	125,271
Public infrastructure and defence		143,428	44,131
Telecommunications and data centres		27,047	49,197
Industrials, energy and utilities		12,880	17,372
		386,031	347,874
Timing of revenue recognition			
Products and services transferred over time		386,031	347,874
Revenue from contracts with customers		386,031	347,874
Contract balances			
Trade receivables	*12*	36,995	34,865
Contract assets	*14*	64,273	39,793
		101,268	74,658

Contract assets and revenue includes contract modifications recognised in accordance with the Group's accounting policy (note 33(n)(iii)) for which amounts are not yet finalised with the customer. At 30 June 2019, the amount recognised for contract assets where contract modifications are material totals $44.1 million.

Trade receivables are non-interest bearing and are generally on 30 to 45 days term. In 2019, $ nil (2018: $ nil) was recognised as provision for expected credit losses on trade receivables.

Contract assets have increased as a result of the increase in ongoing construction activity as at the current report date. No provision for expected credit losses was recognised in 2019 (2018: $ nil).

NOTES TO THE FINANCIAL STATEMENTS

5. Income

Other income	Note	2019 $'000	2018 $'000
Net gain on disposal of assets held for sale		23	687
Gain on sale of sundry equipment		-	352
Rebates received		36	331
Other		294	214
		353	1,584
Reduction in earn out payable			
Reduction in earn out payable	*20*	1,489	1,883

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 2019 financial year.

6. Employee benefits expenses

	Note	2019 $'000	2018 $'000
Remuneration, bonuses and on-costs		(12,573)	(12,174)
Superannuation contributions		(978)	(1,007)
Amounts provided for employee entitlements		(1,142)	(1,176)
Share-based payments expense	*25*	(546)	(625)
		(15,239)	(14,982)

The above employee benefits expenses do not include employee benefits expenses recorded within contract expenses. Employee benefits included in contract expenses were $115.8m (2018: $104.9m).

7. Finance income and expenses

	Note	2019 $'000	2018 $'000
Interest income on bank deposits		530	531
Finance income		530	531
Deferred consideration	*20*	(411)	(710)
Bank charges		(573)	(531)
Bank guarantee fees		(573)	(612)
Other		(146)	(95)
Finance expenses		(1,703)	(1,948)
Net finance expense		(1,173)	(1,417)

8. Depreciation and amortisation expenses

	Note	2019 $'000	2018 $'000
Buildings		(17)	(17)
Leasehold improvements		(195)	(251)
Plant and equipment		(1,358)	(1,553)
Motor vehicles		(1,015)	(1,087)
Office furniture and equipment		(911)	(871)
	15	(3,496)	(3,779)
Amortisation of customer contract intangibles		(795)	(2,840)
Other		(2)	(67)
	16	(797)	(2,907)

9. Income tax expense

		2019 $'000	2018 $'000
(a) Income Statement			
Current tax expense			
Current period		-	(83)
(Under) provision from prior year		(2)	(93)
		(2)	(176)
Deferred tax expense			
Origination and reversal of temporary differences		(5,114)	(4,221)
Under provision from prior year		(351)	-
Income tax expense reported in the income statement		5,467	(4,397)
(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			
Accounting profit before income tax		18,180	12,803
Income tax expense using the Company's domestic tax rate of 30%		(5,454)	(3,841)
Change in fair value of deferred consideration		447	565
Share based payments		419	(144)
Amortisation of intangibles		(239)	(853)
Non-deductible deferred consideration interest		(124)	(213)
Other		(516)	89
Income tax expense reported in the income statement		5,467	(4,397)
The applicable effective tax rates are:		30.1%	34.4%

9. Income tax expense (continued)

Deferred tax assets and liabilities

	Balance Sheet		Income Statement		Equity	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Deferred tax liabilities						
Retentions receivable	(488)	(316)	172	42	-	-
Contract assets	(15,887)	(10,561)	5,326	5,711	-	-
Long term contracts adopting estimated profits basis	-	(824)	(824)	824	-	-
Property, plant and equipment	(23)	(23)	-	-	-	-
	(16,398)	(11,724)	4,674	6,577	-	-
Deferred tax assets						
Provisions	63	134	71	105	-	-
Employee entitlements	3,470	3,879	409	(614)	-	-
Property, plant and equipment	19	19	-	-	-	-
Unearned revenue	125	340	215	(340)	-	-
Tax losses	3,747	3,533	(214)	(1,499)	-	-
Other	692	651	(41)	(8)	-	-
	8,116	8,556	440	(2,356)	-	(319)
Net deferred tax assets/(liabilities)	(8,282)	(3,168)	5,114	4,221	-	(319)

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2019 was based on the profit attributable to ordinary shareholders of $12,713,000 (2018: $8,406,000) and a weighted average number of ordinary shares outstanding of 233,583,111 (2018: 207,472,086), calculated as follows:

Profit attributable to ordinary shareholders

	Note	2019 $'000	2018 $'000
Profit for the period		12,713	8,406

Weighted average number of ordinary shares

	Note	2019	2018
Issued ordinary shares at 1 July	*21*	231,389,097	159,426,058
Effective new balance resulting from issue of shares in the year		2,194,014	48,046,028
Weighted average number of ordinary shares at 30 June		233,583,111	207,472,086

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2019 was based on the profit attributable to ordinary shareholders of $12,713,000 (2018: $8,406,000) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 235,364,018 (2018: 212,143,181), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

		Consolidated	
	Note	2019 $'000	2018 $'000
Profit for the period		12,713	8,406

Weighted average number of ordinary shares (diluted)

	Note	2019	2018
Weighted average number of ordinary shares for basic earnings per share		233,583,111	207,472,086
Effect of dilution:			
Share options and performance rights on issue		1,780,907	4,671,095
Weighted average number of ordinary shares at 30 June		235,364,018	212,143,181

11. Cash and cash equivalents

	Notes	2019 $'000	2018 $'000
Bank balances		24,157	39,268
Short term deposits		29,100	18,808
Cash and cash equivalents in the statement of cash flows		53,257	58,076

The effective interest rate on cash and cash equivalents was 1.2% (2018: 1.1%); these deposits are either at call or on short term deposit.

12. Trade and other receivables

Trade receivables		36,995	34,865
Sundry debtors		237	250
Provision for impairment of trade receivables		(80)	(317)
Contract assets	*14*	64,273	39,793
Retentions		1,628	1,053
Loans to vendors		897	1,358
		103,950	77,002

Trade receivables are non-interest bearing and are generally on 30 to 45 day terms. The provision for impairment of trade receivables relates to expected credit losses and is used to record impairment losses. When the Group is reasonably certain that no recovery of the amount owing is possible, 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.

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

Balance at start of year		317	324
Amounts recovered		(237)	(7)
Balance at 30 June		80	317

The ageing of trade receivables and the related expected credit losses are detailed in note 22.

13. Inventories

Raw materials and consumables – cost		2,335	2,170

14. Contract assets

	Notes	2019 $'000	2018 $'000
Costs incurred to date		220,421	181,290
Recognised profit		50,178	29,013
Progress billings		(206,326)	(170,510)
Construction work in progress		64,273	39,793

Construction work in progress represents the 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 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
Balance at 1 July 2018	916	2,784	20,427	13,604	10,382	48,113
Additions	-	29	627	666	767	2,089
Disposals	-	-	(130)	(70)	-	(200)
Balance at 30 June 2019	916	2,813	20,924	14,200	11,149	50,002
Depreciation and impairment losses						
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)
Balance at 1 July 2018	(167)	(841)	(14,736)	(9,188)	(6,907)	(31,839)
Depreciation for the year	(17)	(195)	(1,358)	(1,015)	(911)	(3,496)
Disposals	-	-	130	30	-	160
Balance at 30 June 2019	(184)	(1,036)	(15,964)	(10,173)	(7,818)	(35,175)
Carrying amounts						
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
At 1 July 2018	749	1,943	5,691	4,416	3,475	16,274
At 30 June 2019	732	1,777	4,960	4,027	3,331	14,827

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 2017		82,169	7,491	19	89,679
Acquisitions		-	-	-	-
Balance as at 30 June 2018		82,169	7,491	19	89,679
Balance as at 1 July 2018		82,169	7,491	19	89,679
Balance as at 30 June 2019		82,169	7,491	19	89,679
Amortisation and impairment losses					
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)
Balance as at 1 July 2018		(8,390)	(6,696)	(2)	(15,088)
Amortisation		-	(795)	(2)	(797)
Balance as at 30 June 2019		(8,390)	(7,491)	(4)	(15,885)
Carrying amounts					
At 1 July 2017		73,779	3,635	19	77,433
At 30 June 2018		73,779	795	17	74,591
At 1 July 2018		73,779	795	17	74,591
At 30 June 2019		73,779	-	15	73,794

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:

	2019 $'000	2018 $'000
SCEE	8,784	8,784
Datatel	12,298	12,298
Heyday	52,697	52,697
	73,779	73,779

The recoverable amounts of the above segments were based on their value in use with the group performing its annual impairment test in June 2019. The carrying amount of the operating segments were determined to be lower than their recoverable amounts and therefore no impairment charge has been recognised.

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% (2018: 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 2020 is based on the board approved budget with EBITDA for 2021 – 2024 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 2019.
- A pre-tax discount rate between 9.4% and 13.2% (2018: between 11.7% and 14.3%) was applied. This discount rate was estimated based on past experience and industry average weighted cost of capital.

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

Sensitivity to changes in assumptions

The value in use assessment for SCEE estimates a recoverable amount $13.9 million in excess of its carrying amount. This estimate is sensitive to the realisation of the budgeted and forecast overall net cash flows to 2024. These forecasts reflect Board and management's expectations for future growth. In the event that the overall net cash flows are 20% 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 $6.6 million in excess of its carrying amount. This estimate is sensitive to the realisation of the budgeted and forecast overall net cash flows to 2024. These forecasts reflect the 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.

17. Trade and other payables

	Note	2019 $'000	2018 $'000
Trade payables		45,186	26,092
Accrued expenses		17,436	15,451
Contract liabilities	*18*	13,367	16,519
Goods and services tax payable		929	1,471
Retentions payable		270	378
		77,188	59,911

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. Contract liabilities

Current			
Unearned revenue		13,367	16,519

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

19. Provisions

	2019 $'000	2018 $'000
Current		
Annual leave	7,021	6,868
Long service leave	1,054	892
Other employee leave	1,187	2,404
Bonus	500	500
	9,762	10,664
Non-current		
Long service leave	416	458
Bonus	-	500
	416	958

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(l) to this report.

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

20. Deferred acquisition consideration

Current	6,500	6,452
Non-current	-	7,626
	6,500	14,078
Deferred acquisition consideration movements		
Balance at 1 July	14,078	24,501
Finance costs	411	710
Change in fair value of deferred consideration	(1,489)	(1,883)
Payments	(6,500)	(9,250)
Balance at 30 June	6,500	14,078

21. Capital and reserves

Share capital

	Note	2019		2018	
		Number	$'000	Number	$'000
Ordinary shares					
Issued and fully paid		234,067,408	102,873	231,389,097	102,873
Movements in shares on issue					
Balance at the beginning of the financial year		231,389,097	102,873	159,426,058	56,656
Exercise of Employee performance rights		2,678,311	-	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		234,067,408	102,873	231,389,097	102,873

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
2019				
Final 2018 ordinary	3.00	7,022	Franked	11 October 2018
Total amount		7,022		
2018				
Final 2017 ordinary		-	-	-
Total amount		-		

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 2019, a dividend of 3.00 cents per share in the amount of $7.042 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	
	2019 $'000	2018 $'000
Franking account balance	17,202	21,472

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 including contract assets.

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	
	2019 $'000	2018 $'000
Cash and cash equivalents	53,257	58,076
Trade receivables (net of provision for impairment)	38,780	35,851
Contract assets	64,273	39,793
Loans to vendors	897	1,358
	157,207	135,078

Cash

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

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and contract with 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 (2018: 57 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 credit-worthy 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 receivables and contract assets.

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

22. Financial instruments (continued)

	Carrying amount	
	2019 $'000	2018 $'000
Australia	103,053	75,644
	103,053	75,644

Impairment losses

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

	Gross 2019 $'000	Impairment 2019 $'000	Gross 2018 $'000	Impairment 2018 $'000
Contract assets – not past due	64,273	-	39,793	-
Trade Receivables:				
Not past due	27,081	-	29,271	-
Past due 0-30 days	5,775	-	3,608	-
Past due 30-60 days	2,187	-	1,975	-
Past due 60 days and less than 1 year	3,600	-	370	(4)
More than 1 year	217	(80)	944	(313)
	38,860	(80)	36,168	(317)
	103,133	(80)	75,961	(317)

The impairment provision related to debts that are more than one year relates to a small number of customers. The Group will continue to strongly pursue all debts provided for.

The Group has established an allowance for impairment that represents their expected credit losses in respect of trade receivables and contract assets.

The Group recognises a provision for impairment related to expected credit losses ("ECLs") for trade receivables, contract assets and other debt financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group uses a provision matrix to calculate the ECLs. The provision matrix is initially established based on Group's historically observed default rates. The Group calibrates the matrix to adjust historical credit loss experience with forward looking factors specific to debtors and the economic environment where appropriate. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

22. Financial instruments (continued)

Impairment losses (continued)

The assessment of the correlation between historical observed default rates, forecast of economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecasts in economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 12.

The Group considers a financial asset's potential for default when contractual payments are more than 90-120 days past due, factoring in other qualitative indicators where appropriate. Exception shall apply to financial assets that relate to entities under common controls or covered by letter of credit or credit insurance. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 2019							
Non-derivative financial liabilities							
Trade and other payables	63,821	63,821	63,753	59	9	-	-
Deferred consideration	6,500	6,500	6,500	-	-	-	-
	70,321	70,321	70,253	59	9	-	-
30 June 2018							
Non-derivative financial liabilities							
Trade and other payables	43,392	43,392	43,002	390	-	-	-
Deferred consideration	14,078	14,078	6,452	-	7,626	-	-
	57,470	57,470	49,454	390	7,626	-	-

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 2019 or 30 June 2018.

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	
	2019 $'000	2018 $'000
Variable rate instruments		
Financial assets	54,154	59,434

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 2019.

	Profit or loss		Equity	
30 June 2019	100bp increase $'000	100bp decrease $'000	100bp increase $'000	100bp decrease $'000
Variable rate instruments	1,001	(1,001)	-	-
Cash flow sensitivity (net)	1,001	(1,001)	-	-
30 June 2018				
Variable rate instruments	944	(944)	-	-
Cash flow sensitivity (net)	944	(944)	-	-

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.

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.

	Country of Incorporation	Equity Interest (%) 2019	Equity Interest (%) 2018
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 2019 and 2018 and revenues and expenses of the joint operations for the year 30 June 2019 and 2018, which are proportionally consolidated in the consolidated financial statements, is as follows:

	2019 $'000	2018 $'000
Share of the joint operations' statement of financial position:		
Current assets	705	10,716
Current liabilities	(9)	(4,676)
Non-current liabilities	-	(2)
Equity	696	6,038
Share of the joint operations' revenue and profit:		
Revenue	12,606	47,067
Contract expenses	(11,750)	(43,957)
Other expenses	(297)	(404)
Profit before tax	559	2,706
Income tax expense	-	(972)
Profit for the year from continuing operations	559	1,734

The joint operations have no contingent liabilities or capital commitments as at 30 June 2019 and 30 June 2018.

25. Share-based payments

(a) Expense recognised in profit or loss

Share based payments expenses for the year comprises:

		2019 $'000	2018 $'000
2019 Performance Rights	(i)	153	-
2018 Performance Rights	(ii)	265	265
2017 Performance Rights	(iii)	128	114
2016 Performance Rights		-	246
		546	625

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.

25. Share-based payments (continued)

2019 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 9 November 2018	271,339	Employed on 30 June 2021 and exceed performance hurdle	31 months
Performance rights issued to key management on 9 November 2018	739,286	Employed on 30 June 2021 and exceed performance hurdle	31 months
Total /performance rights	1,010,625		

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 2018 to 30 June 2021 ("Performance Period");
- No performance rights will vest until 30 June 2021;
- 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 6.1 cents per share at the end of the Performance Period and for stretch performance of 6.8 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 6.1 cents per share	0% vesting
6.1 cents per share	50% vesting
Between 6.1 and 6.8 cents per share	Pro-rata vesting between 50% and 100%
At or above 6.8 cents per share	100% vesting

(i) 2019 Performance Rights (continued)

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 2019 performance rights were forfeited.

(ii) 2018 Performance Rights

There were 1,241,118 financial year 2018 Performance Rights on issue at 1 July 2018. No 2018 Performance Rights were granted, none vested and none were forfeited during the year.

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

25. Share-based payments (continued)

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 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.

(iii) 2017 Performance Rights

There were 1,310,069 financial year 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 were 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

25. Share-based payments (continued)

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

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

(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:

	2019	2018
Grant date	9 November 2018	7 November 2017
Vesting date	30 June 2021	30 June 2020
Share price at grant date	$0.67	$0.80
Expected life	2.6 years	2.6 years
Volatility	40%	47%
Risk free interest rate	2.12%	1.87%
Dividend yield	4.4%	2.5%
Fair value of TSR component	$0.29	$0.53
Fair value of EPS component	$0.59	$0.75

(c) Reconciliation of outstanding performance rights

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

	2019 Number of rights	2018 Number of rights
Outstanding at 1 July	5,229,498	4,818,116
Granted during the year	1,010,625	1,241,118
Exercised during the year	(2,678,311)	(232,879)
Forfeited or withdrawn during the year	-	(596,857)
Outstanding at 30 June	3,561,812	5,229,498
Vested and exercisable at 30 June	-	-

Subsequent to 30 June 2019 the vesting conditions in respect of the 2017 performance rights have been performance tested and it has been determined that 655,034 performance rights have vested and are now exercisable and that 655,035 have been forfeited.

26. Reconciliation of cash flows from operating activities

	2019 $'000	2018 $'000
Profit for the year	12,713	8,406
Adjustments for:		
Depreciation and amortisation	4,293	6,686
Profit on sale of assets held for sale	-	(687)
Profit on sale of property, plant and equipment	(23)	(106)
Expense recognised in respect of capital raising	-	399
Equity-settled share-based payment transactions	907	625
(Increase)/decrease in assets:		
Trade and other receivables	(26,948)	(20,438)
Income tax receivable	1,188	(1,188)
Inventories	(165)	158
Prepayments	(1,105)	310
Increase/(decrease) in liabilities:		
Trade and other payables	17,277	(2,685)
Provisions and employee benefits	(1,443)	1,363
Deferred acquisition consideration	(1,078)	(1,173)
Income tax payable	-	(723)
Deferred income tax	5,114	3,902
Net cash from/(used in) operating activities	**10,730**	**(5,151)**

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 2019 are:

	2019 $'000	2018 $'000
Within one year	2,084	2,336
After one but no more than five years	3,361	3,805
After more than five years	1,247	2,431
Total minimum lease payments	6,692	8,572

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.

	2019 $'000	2018 $'000
Bank Guarantees	37,536	35,928
Surety Bonds	28,475	11,715

Total bank guarantee facilities at 30 June 2019 were $48.1 million (2018: $46 million) and the unused portion was $10.6 million (2018: $10.1 million). These facilities are subject to annual review. Total surety bonds facilities at 30 June 2019 were $69.5 million (2018: $26.8 million) and the unused portion was $41 million (2018: $15.0 million). These facilities are subject to annual review. All facilities are set to mature during the 2019/20 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

	2019 $'000	2018 $'000
Remuneration of KPMG Australia as the auditor of the parent entity for:		
- Auditing or reviewing the financial report	342	298
	342	298

31. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2019 the parent company of the Consolidated entity was Southern Cross Electrical Engineering Limited.

	Company	
	2019 $'000	2018 $'000
Result of the parent entity		
Loss for the period	(2,839)	(4,138)
Total comprehensive loss for the period	(2,839)	(4,138)
Financial position of parent entity at year end		
Current assets	78,200	72,444
Total assets	184,782	182,594
Current liabilities	(55,628)	(45,774)
Total liabilities	(70,856)	(64,719)
Total equity of the parent entity comprising:		
Share capital	102,873	102,873
Reserves	731	1,841
Retained earnings	10,322	13,161
Total Equity	113,926	117,875

Parent entity contingencies:
The parent entity has commitments and contingent liabilities which are included in notes 27 and 28. At 30 June 2019, 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:

	2019 $'000	2018 $'000
Short-term employee benefits	1,995	1,784
Post-employment benefits	78	83
Share-based payments	397	487
	2,470	2,354

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 4% 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	
			2019 $'000	2018 $'000
Other related parties				
Gianfranco Tomasi	Rental expense		265	689
David Hammond	Rental expense		-	22

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.

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 2019 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 2018.

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 2018:

AASB 2016-6 Amendments to Australian Accounting Standards arising from AASB 9 Financial Instruments

(i) Impairment of receivables

AASB 9 requires the Group to record expected credit losses ("ECL") on all of its financial assets measured at amortised cost or FVOCI and financial guarantees. The Group previously recorded impairment based on the incurred loss model when there is objective evidence that financial asset is impaired.

The ECL approach sets out a new impairment model incorporated with forward-looking factors. The Group applies the AASB 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables and contract assets. Refer to note 22 for details of the new methodology.

Upon adoption of AASB 9, no additional impairment was recognised.

AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 Revenue from Contracts with Customers

The Group adopted AASB 15 which is effective for annual periods beginning on or after 1 January 2018. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers, and introduces new

contract cost guidance. Under AASB 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. Refer to note 33(n) for the new accounting policy on revenue recognition.

The Group has elected the following practical expedients upon adoption of AASB 15:

(i) Completed contracts that begin and end within the same annual reporting period or completed at the beginning of the comparative period were not restated.

(ii) For completed contracts that have variable consideration, the Group used the transaction price at the completion date of the contract rather than estimating variable consideration amounts in the comparative period.

(iii) For contracts that were modified before the comparative period, the Group did not retrospectively restate the contract for those modifications.

(iv) For the comparative period, the Group did not disclose the amount of the transaction price allocated to the remaining performance obligations and any explanation of when the Group expects to recognise that amount as revenue.

The Group adopted AASB 15 using the full retrospective method of adoption. There is no material impact on the financial statements in the year of initial application. The comparative figures are not required to be restated. However, accrued revenue previously disclosed under AASB 118 has been reclassified as contract assets under AASB 15.

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.

33. Significant accounting policies (Continued)

(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 foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

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:

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

(ii) Non-derivative financial liabilities

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

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

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

(iii) Share capital

Ordinary shares

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

33. Significant accounting policies (Continued)

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

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

(f) Intangible assets

(i) Goodwill

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

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

(ii) Other intangible assets

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

33. Significant accounting policies (Continued)

(f) Intangible assets (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:

	2019	2018
Customer contracts	1 – 5 years	1 – 5 years

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

(g) Leased assets

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

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

(h) Inventories

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

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

(i) Contract assets

Contract assets represents construction work in progress equal to 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 (note 33(n)) less progress billings and recognised losses. Cost includes all expenditure related directly to projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

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

(j) Assets held for sale

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

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

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

33. Significant accounting policies (Continued)

(k) Impairment

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

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

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

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

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

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

33. Significant accounting policies (Continued)

(l) Employee benefits

(i) Long-term benefits

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

(ii) Termination benefits

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

(iii) Short-term benefits

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

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

(iv) Share-based payment transactions

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

(m) Provisions

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

33. Significant accounting policies (Continued)

(n) Revenue

AASB 15 applies to contracts with customers to deliver goods or services as part of the entity's ordinary course of business. It replaces existing revenue recognition guidance, including AASB 118 Revenue and AASB 111 Construction Contracts. AASB 15 contains a single model that applies to contracts with customers, with two approaches to recognising revenue: either at a point in time or over time. The model introduces a five-step assessment to determine whether, how much and when revenue is recognised.

Revenue is recognised over time if one of the following is met:

- The customer simultaneously receives and consumes the benefits as the entity performs;
- The customer controls the asset as the entity creates or enhances it; or
- The seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for the performance to date.

The Group adopted AASB 15 using the cumulative method and based on the Group's assessment there has been no impact on adoption in opening retained earnings or in the Group's financial statements other than disclosure and terminology.

In accordance with AASB 15, The Group will present its contract balances as a contract asset and contract liability that have previously been disclosed as work in progress and unearned revenue.

Revenue recognition accounting policy

Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

(i) Construction revenue

The benefits being provided by the Group's construction work transfer to the customer as the work is performed and as such revenue is recognised over the duration of the project based on percentage complete. Percentage complete is generally measured according to the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs (input method). If this would not be representative of the stage of completion then it is measured by reference to surveys of work performed (output method).

When it is probable that total contract costs will exceed total contract revenue, the unavoidable loss is recognised as an expense immediately.

(ii) Services revenue

The Group performs maintenance and other services for a variety of different sectors. Typically, under the performance obligations of a service contract, the customer consumes and receive the benefit of the service as it is provided. As such, service revenue is recognised over time as the services are provided.

(iii) Contract modifications

Revenue in relation to modifications, such as a change in the scope or price (or both) of the contract, will only be included in the contract price, when it is approved by the parties to the contract and the modification is enforceable. Approval of a contract modification can be in writing, by oral agreement or implied by customary business practices.

Revenue estimated and recognised in relation to claims and variations is only included in the contract price to the extent that it is highly probable that a significant reversal in the amount recognised will not occur.

In making this assessment the Group considers a number of factors, including the nature of the claim, formal or informal acceptance by the customer of the validity of the claim, the stage of negotiations, and the historical outcome of similar claims to determine whether the enforceable and "highly probable" thresholds have been met.

33. Significant accounting policies (Continued)

(n) Revenue (continued)

(iv) Performance obligations

Revenue is allocated to each performance obligation and recognised as the performance obligation is satisfied

which may be at a point in time or over time.

AASB 15 requires a granular approach to identify the different revenue streams (i.e. performance obligations) in a contract by identifying the different activities that are being undertaken and then aggregating only those where the different activities are significantly integrated or highly interdependent. Revenue will continue to be recognised, on certain contracts over time, as a single performance obligation when the services are part of a series of distinct goods and services that are substantially integrated with the same pattern of transfer.

AASB 15 provides guidance in respect of the term over which revenue may be recognised and is limited to the period for which the parties have enforceable rights and obligations. When the customer can terminate a contract for convenience (without a substantive penalty), the contract term and related revenue is limited to the termination period.

The Group has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less.

(v) Variable consideration

If the consideration in the contract includes a variable amount, the Group estimates the amount of the consideration to which it is entitled in exchange for transferring the goods and services to the customer. The variable consideration is estimated at contract inception and constrained to the extent that it is highly probable that a significant reversal in the amount recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. All revenue is stated net of the amount of goods and services tax (GST).

(o) Lease payments

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

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

(p) Finance income and expenses

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

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

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

33. Significant accounting policies (Continued)

(q) Income tax

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

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

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

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

(r) Goods and services tax

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

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

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)

(s) Earnings per share

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

(t) Segment reporting

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

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

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

(u) Financial guarantees

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

the amount of obligation under the contract, as determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets; and

the amount recognised initially less cumulative amortisation recognised in accordance with AASB 118 Revenue.

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

the likelihood of the guaranteed party defaulting in a year period;

the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and

the maximum loss exposed if the guaranteed party were to default.

(v) Business combinations

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

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

deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;

liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and

assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

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

33. Significant accounting policies (Continued)

(v) Business combinations (continued)

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

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

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

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

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

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

A number of new standards, amendments to standards and interpretations are effective for annual reporting periods beginning after 1 July 2019, 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 16 Leases, will become mandatory for the Group's 2020 consolidated financial statements. AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. At commencement date of a lease, lessees will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset (i.e. right-of-use 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. There are recognition exemptions for those that are short term leases and leases of low-value items. The Group has assessed the estimated impact that initial application of AASB 16 will have on its consolidated financial statements as described below:

- Total assets and total liabilities will increase, due to recognition of a "Right of Use Asset" and a "Lease Liability" grossing up the assets and liabilities in the balance sheet;
- Interest expense will increase due to the effective interest rate implicit in the lease, where the interest expense component is higher in early years on the lease;
- Amortisation charge will increase as the amortisation of the right-of-use assets is recognised;
- Management will no longer recognise provisions for operating leases assessed to be onerous as described under note 19 and will instead, include payments due under the lease in its liability and assess the right-of-use assets for impairment;
- Operating cash flows will be favourable as repayment of the principal portion of all lease liabilities will be classified as financing activities.

33. Significant accounting policies (Continued)

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

The actual impacts of adopting the standard on 1 July 2019 may change because:

- the Group has not finalised the testing and assessment of controls over its IT systems; and
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application

Other amendments to existing standards that are not yet effective are not expected to result in significant impact on the Group.

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 2019 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 2019.

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

Signed in accordance with a resolution of the directors:

Derek Parkin
Chairman

27 August 2019

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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 2019 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 2019
- 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
- Value 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.

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<table>
<tr><th colspan="2">Recognition of contract revenue</th></tr>
<tr><td colspan="2">Refer to Note 4 to the Financial Report – Contract revenue $386 million</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>
Recognition of revenue is a key audit matter due to the:

Significance of revenue to the financial statements;
Large number of contracts with numerous estimation events that may occur over the course of the contract's life. This results in complex and judgemental revenue recognition from rendering of services and construction contracts and therefore significant audit effort is required to gather sufficient appropriate audit evidence for revenue recognition; and
First time transition to AASB 15 Revenue from Contracts with Customers resulting in additional audit focus. This effort is due to the complex nature of the changes to the accounting standard and the financial impact on rendering of services and construction contract revenue, requiring senior team involvement.

We focused on the Group's assessment of the following elements of revenue recognition for rendering of services and construction contracts, as applicable:

The Group's determination of contractual entitlement and assessment of the probability of customer approval of changes in scope and/or price. The Group's consideration of the enforceability or approval of the modification of the terms of a contract may include evidence that is written, oral or implied by customary business practice and therefore requires a degree of judgement. The Group's determination of modifications can drive different accounting treatments, increasing the risk of inappropriately recognising revenue;
Estimating total expected costs to complete at initiation of the contract, including cost contingencies for contracting risks, which have a high level of estimation uncertainty; and
Revisions to total expected costs for certain events or conditions that occur during the performance of the contract, or are expected to occur to complete the contract, which is difficult to estimate.

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Our procedures included:

understanding the Group’s contract revenue accounting process. We tested a sample of the controls in this process including 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) testing 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 evaluated the Group's assessment of when a modification to the contract scope and/or price for variations and claims is approved and enforceable. This included assessing underlying records, legal documents and customer correspondence. We recalculated the amount of revenue including the modifications to the contract. We compared the recalculated amounts against the amounts recorded by the Group;
we assessed the Group's estimation of variations and claims by comparing underlying evidence such as customer correspondence and reports from objective time and cost claim experts (where applicable) for consistency with contract terms;
we evaluated the Group's legal and external experts' reports received on contentious matters to assess the recognition of variations and claims under the revenue accounting standard. We checked the consistency of this to the inclusion or not of an amount in the estimates used for revenue recognition; and
we assessed the scope, competency and objectivity of the legal and external experts engaged by the Group.

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Value of Goodwill	
Refer to Note 16 to the financial report – Intangible assets – goodwill and customer contracts $73.8 million	
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 30% 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 value for Datatel which has experienced lower than forecast profitability which increases the possibility of goodwill being impaired; • forecast growth rates and terminal values. The Group's models are sensitive to 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 sensitive to changes in the discount rate. We involve our valuations specialists with the assessment.	Our procedures included: • considering the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards. • 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. 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; • we assessed the accuracy of previous Group forecasting to inform our evaluation of forecasts included in the value in use models. For the Datatel CGU with a higher risk of impairment, we applied increased scepticism to current period forecasts in areas where previous forecasts were not achieved and/or where future uncertainty is greater or volatility is expected; • considering the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal values and discount rates, within a reasonably possible range, to identify where the highest risk of impairment resides within the value in use models and to focus our further procedures; • working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in; and • we assessed the Group's disclosures of the quantitative and qualitative considerations in relation to the valuation of goodwill, by comparing these disclosures to our understanding and the requirements of the accounting standards. 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.

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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 and the Company'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 and Company 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.

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Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Southern Cross Electrical Engineering Limited for the year ended 30 June 2019 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 2019.

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

27 August 2019

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 2019 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

27 August 2019

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 2019.

Distribution of equity security holders

	Number of equity security holders	
Category	Ordinary shares	Options/Performance rights
1 - 1,000	185	-
1,001 - 5,000	355	-
5,001 - 10,000	258	-
10,001 - 100,000	529	-
100,001 and over	87	4
	1,414	4

The number of shareholders holding less than a marketable parcel of ordinary shares is 156.

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
FRANK TOMASI NOMINEES PTY LTD <FRANK TOMASI FAMILY A/C>	46,813,482	20.00
UBS NOMINEES PTY LTD	30,932,981	13.22
CITICORP NOMINEES PTY LIMITED	25,619,596	10.95
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	21,772,073	9.30
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,145,646	7.33
ZERO NOMINEES PTY LTD	12,500,000	5.34
NATIONAL NOMINEES LIMITED	12,317,640	5.26
DHHD5 PTY LTD <THE DHDD5 A/C>	6,870,040	2.94
TBHD5 PTY LTD	6,870,040	2.94
RLHD5 PTY LTD	3,435,020	1.47
JWHD5 PTY LTD	2,061,012	0.88
CHEMCO SUPERANNUATION FUND PTY LTD <CHEMCO SUPER FUND NO 2 A/C>	2,030,000	0.87
CARMAN SUPER PTY LTD <M & B CARMAN SUPER FUND A/C>	2,000,000	0.85
DPHD5 PTY LTD	1,374,008	0.59
MR ANDREW MCKENZIE + MRS CATHERINE MCKENZIE <A W MCKENZIE SUPER FUND A/C>	1,300,000	0.56
ASGARD CAPITAL MANAGEMENT LTD <1109440 KALEIDOSCOPE A/C>	1,260,620	0.54
MR RAYMOND JOHN WISE	1,076,846	0.46
BNP PARIBAS NOMS PTY LTD <DRP>	1,064,656	0.45
ALFIEDOUG PTY LTD <CCALO A/C>	975,000	0.42
NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	837,141	0.36
	198,255,801	84.70

Substantial shareholders

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

Shareholder	Number	Number
Gianfranco Tomasi	46,813,482	20.0%
TIGA Trading Pty Ltd	36,646,377	15.7%
Mitsubishi UFJ Financial Group Inc	19,770,442	8.5%
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

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)
41 Macedonia Street, Naval Base
Western Australia, 6165
E scee@scee.com.au
T +61 (0)8 9236 8300
F +61 (0)8 9410 2504

PERTH | BRISBANE | DARWIN | ADELAIDE
KARRATHA | NEWMAN | TOWNSVILLE
CANBERRA | SYDNEY

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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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