

## Appendix 4E – Preliminary Final Report

Year ended 30 June 2020

### Results for Announcement to the Market

This Appendix 4E and the accompanying Preliminary Consolidated Financial Report comprise the year end financial information given to the ASX under Listing Rule 4.3A. The financial information compares the unaudited consolidated financial results for the ended 30 June 2020 with the results for the year ended 30 June 2019.

Revenue and Net Profit	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000	Change \$'000	Change %
Revenue from ordinary activities	415,104	386,031	29,073	8%
Profit/(loss) from ordinary activities after tax attributable to members	10,870	12,713	(1,843)	(14%)
Net profit/(loss) for the full year attributable to members	10,870	12,713	(1,843)	(14%)

Commentary on the results for the year can be found in the Managing Director's Review in the accompanying Preliminary Consolidated Financial Report.

Dividends	Amount per security	Franked amount per security
Interim dividend for 2020	-	-
Final dividend for 2020	3.0 cents	3.0 cents
Record date for determining entitlements to the final dividend		8 October 2020
Date the final dividend is payable		22 October 2020

The Company's Dividend Reinvestment Plan will apply to the 2020 final dividend. The last date for lodgement of election notices to participate in the Dividend Reinvestment Plan for the 2020 dividend is 5pm WST on Friday 9 October 2020.

NTA Backing	Year ended 30 June 2020	Year ended 30 June 2019
Net tangible asset backing per security (cents per share)	34.2 cps	31.6 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 25 to the Preliminary Consolidated Financial Report.

### **Status of Audit**

The 30 June 2020 Consolidated Financial Report is in the process of being audited.

### **Annual General Meeting**

The Company's Annual General Meeting (AGM) will be held on 24 November 2020 at 9am WST as a virtual meeting with shareholders participating via online facilities. Further details regarding the AGM will be made available in due course.

**Authorised for release by Graeme Dunn – SCEE Managing Director**

Southern Cross Electrical Engineering Limited  
ABN 92 009 307 046

Preliminary Consolidated Financial Report  
30 June 2020  
(Unaudited)

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## Managing Director's Review

The second half of FY20 brought the challenge of having to adapt to operating in a global pandemic. Against this backdrop I am pleased to be able to report that SCEE has recorded its third successive year of record revenues, up 8% on the prior year to \$415.1m.

However, profitability was negatively impacted by the Coronavirus-related disruption, as well as experiencing lower average margins on now finished transport infrastructure projects and the delay of some project scope into FY21. These items are discussed further below. EBIT for the year of \$16.4m was down 16% on the prior year and net profit after tax of \$10.9m was down 14%.

### Impact of Coronavirus

SCEE's overarching policy since the commencement of the pandemic has been to follow government guidelines and react accordingly as and when they change. Consequently, measures to protect employee, and subcontractor, supplier and customer staff health and to reduce the likelihood of infection were implemented including various changes to working practices and roster and shift changes. Inter-state and intra-state travel restrictions had some initial impact on remote projects but have since been managed.

Construction work was designated early on as an essential service and has remained so throughout. As a result, SCEE's operations and activities have continued largely as planned. However, the second half result has been affected by the following items which, whilst individually not material, have had a significant impact on profitability in combination:

- Substantial acquisition costs were incurred in the year for which activity had to be suspended;
- The changes to working practices outlined above resulted in some loss of productivity, particularly at the early stages of the pandemic;
- Whilst no works were cancelled as a result of Coronavirus, some projects had mobilisation delayed at clients' request resulting in activity being deferred into the following FY21; and
- Levels of short-term "win and do" orders were lower than normal from March onwards.

The financial impact of the above has been partially offset by components of the Group qualifying for JobKeeper payments of \$4.1m.

The business development pipeline is currently not showing any material impact from Coronavirus.

As we have seen over recent months, the pandemic remains a highly volatile situation and conditions may change. The Board and management continue to monitor this closely.

### Financial Results

Revenue for the year was \$415.1m compared to \$386.0m in the prior year, an increase of 8%.

SCEE now operates across the three broad sectors of Infrastructure, Commercial and Resources. Infrastructure now also includes works that in previous years SCEE presented separately as "Telecommunications & Datacentres" and "Industrial, Energy & Utilities". Key revenue contributors in the year for each sector were as follows:

- Infrastructure – revenue for the year was \$196.0m compared to \$183.3m in the prior year and remained the Group's largest sector. In transport infrastructure, work finished on the WestConnex M5 motorway tunnel project in New South Wales and the Northlink Central Section Project in WA and is ongoing at the Forrestfield Airport Link project in WA. In the health sector, the Westmead Hospital project in New South Wales is nearing completion and work commenced under the recently awarded maintenance panel arrangements with a number of Metropolitan Health Services in WA. In defence, the RAAF Tindal project in the Northern Territory has now finished. In telecommunications, NBN and carrier network construction and maintenance works continued across Australia. In energy and utilities, work continued under the Ergon Energy Queensland service agreement and was completed on the Agnew Wind Farm project in WA.
- Commercial – revenue for the year was \$172.8m compared to \$114.5m in the prior year. The majority of revenue in the sector continues to be generated in the New South Wales market on a range of large construction and fit-out projects including Parramatta Square 3 and 4 which are nearing completion, Wynyard Place, 231 Elizabeth Street and the Edmondson Square Town Centre Development.
- Resources – revenue for the year was \$46.2m compared to \$88.2m in the prior year as a result of large scale construction projects demobilising in the prior year and significant new projects at the Albemarle Kemerton Lithium Project in WA and Rio Tinto's Gove Operations in the Northern Territory not commencing until late in the current year. In particular, the Kemerton project saw planned scope deferred into FY21 impacting on the current full year result. The business continued to win and perform minor works projects for Rio Tinto and BHP and secure work under its framework agreements on the Sino Iron and Boddington Gold projects.

Gross margins for the year fell to 10.7% compared to 12.3% in the prior year, primarily due to the Coronavirus impacts discussed above and experiencing lower average margins on finished transport infrastructure projects resulting from delays and disruptions experienced performing this work.

## Managing Director's Review (continued)

Overheads were \$23.4m, down 9% from \$25.7m in the prior year due to the impact of efficiency initiatives introduced in the prior year and no Executive STI or LTI awards in the current year.

EBIT for the year was \$16.4m, representing a 16% decrease on the EBIT of \$19.4m in the prior year. Net profit after tax was \$10.9m, down 14% compared to \$12.7m in the prior year.

The balance sheet remained strong throughout the period. Net cash at 30 June 2020 increased slightly to \$55.3m with no debt. The payment of the final \$6.5m tranche of deferred Heyday acquisition consideration was offset by positive operating cashflows whilst the payment of the FY19 dividend was funded by an underwritten Dividend Reinvestment Plan.

During the year SCEE continued to pursue commercial close out of various finished resources and infrastructure projects for which claims and variations have been recognised in contract assets. The Decmil arbitration process, previously disclosed to the ASX, is now at the pleadings stage.

Capital expenditure for the year was \$0.6m and is expected to remain at low levels.

The new leasing accounting standard AASB 16 Leases was adopted on 1 July 2019 and resulted in the recognition of \$5.6m of right of use assets and \$5.6m of lease liabilities in respect of operating leases. The impact that the new standard had on income statement was that EBITDA increased by \$2.2m, EBIT increased by \$0.1m and there was no change to NPAT.

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.

### **Outlook**

#### **Order Book**

The Group continues to win work across its core markets. Significant awards during the year included the Albemarle Kemerton Lithium project (\$65m), the Sydney Metro's Pitt Street Station integrated development (\$40m) and the renewal of the Ergon Energy Queensland service agreement for a further five years (\$40m).

The order book at 30 June 2020 was \$440m, a similar level to the start of the period despite delivering record full year revenues. Over \$330m of work is already secured for FY21 representing over 80% of the FY21 target of \$400m.

There are currently over \$900m of submitted tenders with clients pending decision.

#### **Markets**

##### **Infrastructure**

This market is primarily driven by government expenditure although some sectors have varying levels of private investment.

With significant investment sanctioned, peak activity is still to come with electrical work generally later in the cycle. Following the Coronavirus outbreak the Federal, NSW and WA governments have all announced the fast tracking of infrastructure projects which are expected to further grow the opportunity pipeline.

Having secured work on the Pitt Street Station during the year we see further opportunities presenting on Sydney Metro. There continues to be a significant pipeline of defence base and hospital work.

##### **Commercial**

Commercial remains the largest component of the order book with multiple base-builds and fit-outs in progress in Sydney and Canberra and activity is forecast to remain high in FY21. The current opportunity pipeline is not showing material impact from Coronavirus and significant commercial developments are expected around new infrastructure hubs including the Western Sydney Airport and new Sydney Metro stations. The Group is bidding its first commercial project in Brisbane.

##### **Resources**

As forecast, resources activity reached a low point in FY20. However, significant wins at the Kemerton Lithium Plant and Rio Tinto Gove have seen the order book almost double from a year ago. Mining commodity prices have held up well through the Coronavirus outbreak and the resources business development pipeline is increasingly strengthening. A number of tenders for significant iron ore and other opportunities have been submitted and are pending decisions.

#### **Strategy**

SCEE primarily sees itself as an electrical contractor. Historically focussed in resources, over the last five years we have implemented a strategy to diversify organically and acquisitively into a national Group operating across the three broad sectors of Infrastructure, Commercial and Resources.

Our growth strategy continues so as to deepen our presence in those sectors and broaden our geographic diversity. This includes particularly targeting maintenance and recurring earnings.

## Managing Director's Review (continued)

We are actively pursuing acquisition opportunities having suspended such activity at the start of the Coronavirus pandemic.

### **Conclusion**

FY20 saw SCEE deliver a third consecutive year of record revenues with growth of 8% on the prior year. While profit in the year was impacted by Coronavirus and other factors, the business remains in a strong position. The order book includes \$330m already secured for FY21 which underpins over 80% of our 2021 revenue target and we continue to see a significant pipeline of opportunities across our sectors.

The Board remains committed to our diversification strategy and with over \$55m of cash and no debt at 30 June 2020 we have funding available to progress this in the year ahead.

I would like to take this opportunity to thank SCEE's management and staff for their hard work and commitment during the year, particularly in facing the challenges posed by the Coronavirus pandemic. I would also like to thank our shareholders for their continued support.

**Graeme Dunn**

Managing Director

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Contract revenue	4	415,104	386,031
Contract expenses		(370,579)	(338,485)
<b>Gross profit</b>		<b>44,525</b>	<b>47,546</b>
Other income	5	492	353
Employee benefits expenses	6	(13,155)	(15,239)
Occupancy expenses		(1,235)	(2,308)
Administration expenses		(7,489)	(6,212)
Reduction in earn out payable	5	-	1,489
Amortisation expense	8	(2,153)	(797)
Depreciation expense	8	(3,001)	(3,496)
Other expenses from ordinary activities		(1,566)	(1,983)
<b>Profit from operations</b>		<b>16,418</b>	<b>19,353</b>
Finance income	7	310	530
Finance expenses	7	(1,259)	(1,703)
<b>Net finance expense</b>		<b>(949)</b>	<b>(1,173)</b>
<b>Profit before tax</b>		<b>15,469</b>	<b>18,180</b>
Income tax expense	9	(4,599)	(5,467)
<b>Profit from continuing operations</b>		<b>10,870</b>	<b>12,713</b>
<b>Other comprehensive income</b>			
Items that are or may be reclassified to the profit and loss:			
Foreign currency translation gain for foreign operations		-	-
<b>Other comprehensive income net of income tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>10,870</b>	<b>12,713</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<b>10,870</b>	<b>12,713</b>
<b>Earnings per share:</b>			
Basic earnings per share (cents)	10	<b>4.46</b>	<b>5.44</b>
Diluted earnings per share (cents)	10	<b>4.46</b>	<b>5.40</b>

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



# Consolidated Balance Sheet

For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	11	55,272	53,257
Trade and other receivables	12	113,073	103,950
Inventories	13	1,588	2,335
Prepayments		901	1,693
<b>Total current assets</b>		<b>170,834</b>	<b>161,235</b>
<b>Non-current assets</b>			
Property, plant and equipment	15	11,148	14,827
Right-of-use assets	16	5,967	-
Intangible assets	17	73,792	73,794
<b>Total non-current assets</b>		<b>90,907</b>	<b>88,621</b>
<b>Total assets</b>		<b>261,741</b>	<b>249,856</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	18	75,278	77,188
Provisions	20	9,114	9,762
Lease liability	19	1,749	-
Deferred acquisition consideration	21	-	6,500
Tax payable	9	4,031	-
<b>Total current liabilities</b>		<b>90,172</b>	<b>93,450</b>
<b>Non-current liabilities</b>			
Lease liability	19	4,218	-
Provisions	20	197	416
Deferred tax liability	9	8,781	8,282
<b>Total non-current liabilities</b>		<b>13,196</b>	<b>8,698</b>
<b>Total liabilities</b>		<b>103,368</b>	<b>102,148</b>
<b>Net assets</b>		<b>158,373</b>	<b>147,708</b>
<b>Equity</b>			
Share capital	22	109,767	102,873
Reserves	22	108	551
Retained earnings		48,498	44,284
<b>Total equity</b>		<b>158,373</b>	<b>147,708</b>

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 2020

	Share Capital \$'000	Retained Earnings \$'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
<b>Total comprehensive income for the year</b>					
Profit for the year	-	12,713	-	-	12,713
Total comprehensive income	-	12,713	-	-	12,713
<b>Transactions with owners, recorded directly in equity</b>					
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)
<b>Balance as at 30 June 2019</b>	<b>102,873</b>	<b>44,284</b>	<b>1,065</b>	<b>(514)</b>	<b>147,708</b>

	Share Capital \$'000	Retained Earnings \$'000	Share Based Payments Reserve \$'000	Translation Reserve \$'000	Total Equity \$'000
Balance as at 1 July 2019	102,873	44,284	1,065	(514)	147,708
<b>Total comprehensive income for the year</b>					
Profit for the year	-	10,870	-	-	10,870
Total comprehensive income	-	10,870	-	-	10,870
<b>Transactions with owners, recorded directly in equity</b>					
Dividends	-	(7,042)	-	-	(7,042)
Dividend re-investment and share placements, net	6,894	.	-	-	6,894
Performance rights (net of tax)	-	386	(1,013)	-	(627)
Equity-settled share-based payment	-	-	570	-	570
Total transactions with owners	6,894	(6,656)	(443)	-	(205)
<b>Balance as at 30 June 2020</b>	<b>109,767</b>	<b>48,498</b>	<b>622</b>	<b>(514)</b>	<b>158,373</b>

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 2020

	Note	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		424,081	366,904
Cash paid to suppliers and employees		(415,673)	(356,608)
Government grants (Job Keeper) received		2,655	-
Interest received		310	530
Interest paid		(1,259)	(1,291)
Income taxes received/(paid)		(5)	1,195
<b>Net cash from operating activities</b>	27	<b>10,109</b>	<b>10,730</b>
<b>Cash flows from investing activities</b>			
Payment of deferred acquisition consideration	21	(6,500)	(6,500)
Proceeds from the sale of assets		1,362	49
Acquisition of property, plant and equipment	15	(594)	(2,076)
<b>Net cash used in investing activities</b>		<b>(5,732)</b>	<b>(8,527)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		6,831	-
Dividends paid	22	(7,042)	(7,022)
Payment of lease liabilities principal		(2,151)	-
<b>Net cash used in financing activities</b>		<b>(2,362)</b>	<b>(7,022)</b>
Increase/(decrease) in cash and cash equivalents		2,015	(4,819)
Cash and cash equivalents at beginning of period		53,257	58,076
Effect of exchange rate fluctuations on cash held		-	-
<b>Cash and cash equivalents at 30 June</b>	11	<b>55,272</b>	<b>53,257</b>

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

## Notes to the financial statements

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# 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 Securities Exchange.

The consolidated financial statements for the year ended 30 June 2020 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 the provision of electrical, instrumentation, communication and maintenance services to a diverse range of sectors across Australia.

## 2. Basis of preparation

### (a) Statement of compliance

The consolidated financial report has been prepared in accordance with Australian Accounting Standards (“AASBs”) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB). 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(w).

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

### (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 Nevos Soles. Overseas functional currencies are translated to the presentation currency (see below).

#### (ii) *Transactions and balances*

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

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

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

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

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

### (d) Use of estimates and judgements

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

## Notes to the financial statements

### 2. Basis of preparation (continued)

#### (d) Use of estimates and judgements

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2019 except for the judgement management used for the initial recognition on 1 July 2019 and subsequent measurement of right-of-use asset and lease liability in accordance with the newly adopted AASB 16 Leases (see note 33).

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 these accounting estimates is included in the following notes:

- Note 4 and 33 (n) – estimation of total contract cost and measurement of variable consideration;
- Note 9 and 33 (p) and (k) – recognition and measurement of deferred tax asset;
- Note 15, 17 and 33 (k) – recoverable amount for testing property, plant and equipment and goodwill;
- Note 16, 19, 33 and (g) – initial and subsequent measurement of Right-of-use (ROU) assets and Lease liability;
- Note 21 and 33 (u) – measurement of deferred consideration;
- Note 23 – expected credit losses (“ECLs”) on trade receivables; and
- Note 26 – 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).

Estimates and judgements are made by management with due consideration for the historical and potential impacts of Coronavirus on the Group's operations and forecast cash flows based on best estimates and reasonably possible scenarios, and taking into account the evolving nature of Coronavirus which makes it inherently difficult to forecast outcomes with more certainty. The impacts of Coronavirus are included in the specific notes such as but not limited to impairment testing and impairment of financial instruments (note 23) and non-financial assets (note 17).

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 through construction and services contracts to customers in the following sectors: Commercial; Resources; and Infrastructure. During the year, the composition of the operating sectors was realigned to better reflect the Group's markets. As a result, the Public Infrastructure and Defence, Industrial, Utilities and Energy, and Telecommunications and Data Centres sectors were consolidated into the Infrastructure sector.

The Group identified its operating segments based on the internal reports that are reviewed and used by the Group Managing Director in assessing performance and in determining the allocation of resources, and on the nature of the services provided. Financial information about each of these operating segments is reported to the Group Managing Director on a recurring basis. The Group provides its services through 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.

In presenting information on the basis of geographical location, segment revenue, based on the geographical location of customers and segment assets, based on the geographical location of the assets are all located in Australia.

Revenues from the three largest customers of the Group's Australian segment generated \$169 million of the Group's total revenue (2019: \$64 million generated from the two largest customers).

## Notes to the financial statements

### 4. Contract revenue

#### Disaggregated revenue information

	Note	2020 \$'000	2019 \$'000
<b>Operating sectors</b>			
Commercial		172,755	114,469
Resources		46,209	88,207
Infrastructure		196,140	183,355
Total Revenue		415,104	386,031
<b>Revenue type</b>			
Construction revenue		341,856	297,782
Services revenue		73,248	88,249
Total revenue		415,104	386,031
<b>Timing of revenue recognition</b>			
Products and services transferred over time		415,104	386,031
Revenue from contracts with customers		415,104	386,031

Revenue from the Infrastructure sector amounting to \$196.1m (2019: \$183.4m) represents the revenues from sectors previously disclosed as three separate sectors namely; Public Infrastructure and Defence, Industrial, Utilities and Energy, and Telecommunications and Data Centres, in the annual report as at and for the year ended 30 June 2019.

#### Contract balances

Trade receivables	12	24,324	36,995
Contract assets	14	86,374	64,273
		110,698	101,268

Trade receivables are non-interest bearing and are generally on 30 to 45 days term. In 2020, an additional \$32,000 (2019: \$ nil) was recognised as provision for expected credit losses on trade receivables.

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.

The following amounts are included in revenue from contracts for the year ended 30 June 2020:

Revenue recognised as a contract liability in prior period	13,052	15,687
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#### Unsatisfied Performance Obligations

Transaction price expected to be recognised in future years for unsatisfied performance obligations at 30 June 2020:

Construction revenue	296,540	347,550
Services revenue	59,472	21,868
	356,012	369,418

In line with the Group's accounting policy described in Note 33 (n), the transaction price expected to be recognised in future years excludes variable consideration that is constrained.

The average duration of contracts is given below. However, some contracts will vary from these typical lengths. Revenue is typically earned over these varying timeframes:

Construction revenue	1 to 2 years
Services revenue	1 to 5 years

## Notes to the financial statements

### 5. Other income

	<i>Note</i>	<b>2020</b>	<b>2019</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Other income</b>			
Net gain on disposal of assets		90	23
Rebates received		10	36
Other		392	294
		<u>492</u>	<u>353</u>
<b>Reduction in earn out payable</b>			
Reduction in earn out payable	21	-	1,489

### 6. Employee benefits expenses

Remuneration, bonuses and on-costs		(12,035)	(12,573)
Superannuation contributions		(903)	(978)
Amounts provided for employee entitlements		(1,016)	(1,142)
Share-based payments expense	26	56	(546)
Government grant (Job Keeper) applied		743	-
		<u>(13,155)</u>	<u>(15,239)</u>

The above employee benefits expenses do not include employee benefits expenses recorded within contract expenses. Employee benefits included in contract expenses were \$76.3m (2019: \$115.8m), inclusive of Government grant (Job Keeper) applied amounting to \$3.3m. The total employee benefits expense is therefore \$89.5m (2019: \$131.0m).

### 7. Finance income and expenses

Interest income on bank deposits		310	530
Finance income		<u>310</u>	<u>530</u>
<b>Interest expense</b>			
Bank charges		(604)	(573)
Bank guarantee fees		(406)	(573)
Deferred consideration	21	-	(411)
Lease liability interest unwinding		(146)	-
Other		(103)	(146)
Finance expenses		<u>(1,259)</u>	<u>(1,703)</u>
Net finance expense		<u>(949)</u>	<u>(1,173)</u>

### 8. Depreciation and amortisation expenses

Buildings		(17)	(17)
Leasehold improvements		(196)	(195)
Plant and equipment		(1,115)	(1,358)
Motor vehicles		(768)	(1,015)
Office furniture and equipment		(905)	(911)
Total depreciation expense for the year	15	<u>(3,001)</u>	<u>(3,496)</u>
<b>Amortisation of ROU asset</b>			
Amortisation of ROU asset	16	(2,151)	-
Amortisation of customer contract intangibles	17	-	(795)
Other	17	(2)	(2)
Total amortisation expense for the year		<u>(2,153)</u>	<u>(797)</u>



## Notes to the financial statements

### 9. Income tax expense

	2020 \$'000	2019 \$'000
<b>(a) Income Statement</b>		
<b>Current tax expense</b>		
Current period	(4,037)	-
Under provision from prior year	-	(2)
	(4,037)	(2)
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(562)	(5,114)
Under provision from prior year	-	(351)
Income tax expense reported in the income statement	(4,599)	(5,467)
<b>(b) Amounts charged or credited directly to equity</b>		
Expenses in relation to capital raising	(63)	-
Income tax expense reported in the income statement	(63)	-
<b>(c) Reconciliation between tax expense and pre-tax accounting profit</b>		
Accounting profit before income tax	15,469	18,180
Income tax expense using the Company's domestic tax rate of 30%	(4,641)	(5,454)
Change in fair value of deferred consideration	-	447
Share based payments	126	419
Amortisation of intangibles	-	(239)
Non-deductible deferred consideration interest	-	(124)
Other	(84)	(516)
Income tax expense reported in the income statement	(4,599)	(5,467)
The applicable effective tax rates are:	29.7%	30.1%

#### Deferred tax assets and liabilities

	Balance Sheet		Income Statement		Equity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Deferred tax liabilities</b>						
Retentions receivable	(339)	(488)	(149)	172	-	-
Contract assets	(12,847)	(15,887)	(3,040)	5,326	-	-
Right-of-use assets	(1,790)	-	1,790	-	-	-
Long term contracts adopting estimated profits basis	-	-	-	(824)	-	-
Sundry debtors	(432)	-	432	-	-	-
Property, plant and equipment	(23)	(23)	-	-	-	-
	(15,431)	(16,398)	(967)	4,674	-	-
<b>Deferred tax assets</b>						
Provisions	73	63	(10)	71	-	-
Employee entitlements	3,203	3,470	267	409	-	-
Property, plant and equipment	19	19	-	-	-	-
Unearned revenue	550	125	(425)	215	-	-
Lease liability	1,790	-	(1,790)	-	-	-
Tax losses	-	3,747	3,747	(214)	-	-
Other	1,015	692	(260)	(41)	(63)	-
	6,650	8,116	1,529	440	(63)	-
Net deferred tax liabilities	8,781	(8,282)	562	5,114	(63)	-

## Notes to the financial statements

### 10. Earnings per share

#### Basic earnings per share

The calculation of basic earnings per share at 30 June 2020 was based on the profit attributable to ordinary shareholders of \$10,870,000 (2019: \$12,713,000) and a weighted average number of ordinary shares outstanding of 243,919,677 (2019: 233,583,111), calculated as follows:

#### Profit attributable to ordinary shareholders

	Note	2020 \$'000	2019 \$'000
Profit for the period		10,870	12,713

#### Weighted average number of ordinary shares

	Note	2020	2019
Issued ordinary shares at 1 July	22	234,067,408	231,389,097
Effective new balance resulting from issue of shares in the year		9,852,269	2,194,014
Weighted average number of ordinary shares at 30 June		243,919,677	233,583,111

#### Diluted earnings per share

Basic earnings per share and diluted earnings per share are the same at 30 June 2020 as there are no dilutive potential shares. In 2019, the calculation of diluted earnings per share was based on the profit attributable to ordinary shareholders of \$12,713,000 and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 235,364,018 as at 30 June 2019.

#### Profit attributable to ordinary shareholders (diluted)

	2020 \$'000	2019 \$'000
Profit for the period	10,870	12,713

#### Weighted average number of ordinary shares (diluted)

	2020	2019
Weighted average number of ordinary shares for basic earnings per share	243,919,677	233,583,111
Effect of dilution:		
Share options and performance rights on issue	-	1,780,907
Weighted average number of ordinary shares at 30 June	243,919,677	235,364,018

### 11. Cash and cash equivalents

	2020 \$'000	2019 \$'000
Bank balances	10,544	24,157
Short term deposits	44,728	29,100
Cash and cash equivalents in the statement of cash flows	55,272	53,257

The effective interest rate on cash and cash equivalents was 0.7% (2019: 1.2%); these deposits are either at call or on short term deposit.

### 12. Trade and other receivables

Trade receivables		24,324	36,995
Sundry debtors		1,358	237
Provision for impairment of trade receivables		(112)	(80)
Contract assets	14	86,374	64,273
Retentions		1,129	1,628
Loans to vendors		-	897
		113,073	103,950

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:

## Notes to the financial statements

### 12. Trade and other receivables (continued)

	2020 \$'000	2019 \$'000
Balance at start of year	80	317
Impairment losses recognised	502	-
Write-offs	(470)	-
Amounts recovered	-	(237)
Balance at 30 June	112	80

The ageing of trade receivables and the related provision for expected credit losses are detailed in note 23. All write-offs of bad debts are made when there is no reasonable expectation of recovering the contractual cash flows.

### 13. Inventories

Raw materials and consumables – cost	1,588	2,335
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### 14. Contract assets

Costs incurred to date	237,968	220,421
Recognised profit	70,701	50,178
Progress billings	(222,295)	(206,326)
	86,374	64,273

Contract assets 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.

The timing of cash inflows for contract assets is dependent on the status of processes underway to gain acceptance from customers as to the enforceability of recognised modifications resulting from contractual claims and variations. The Group pursues various options with customers to accelerate the inflow of cash including, but not limited to, negotiations, security of payment adjudications and arbitration involving the support of legal counsel and external consultants.

The period in which revenue has been earned and for which cash is yet to be received included in contract assets at 30 June 2020 is as follows:

2020	62,131
2019	20,253
2018	3,990
Total	86,374

On 11 June 2020, the Group announced that it was pursuing Decmil Australia Pty Ltd in relation to amounts it considers entitled pursuant to a contract for electrical services in which the Group had demobilised from site by the end of November 2018. In accordance with its accounting policies, the Group has previously recognised revenue in relation to this contract, applying constraint. The amount is included within contract assets.

## Notes to the financial statements

### 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
<b>Cost</b>						
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
Balance at 1 July 2019	916	2,813	20,924	14,200	11,149	50,002
Additions	-	12	66	149	367	594
Disposals	-	-	(2,704)	(2,480)	(166)	(5,350)
Balance at 30 June 2020	916	2,825	18,286	11,869	11,350	45,246
<b>Depreciation and impairment losses</b>						
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)
Balance at 1 July 2019	(184)	(1,036)	(15,964)	(10,173)	(7,818)	(35,175)
Depreciation for the year	(17)	(196)	(1,115)	(768)	(905)	(3,001)
Disposals	-	-	2,028	1,884	166	4,078
Balance at 30 June 2020	(201)	(1,232)	(15,051)	(9,057)	(8,557)	(34,098)
<b>Carrying amounts</b>						
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
At 1 July 2019	732	1,777	4,960	4,027	3,331	14,827
At 30 June 2020	715	1,593	3,235	2,812	2,793	11,148

### 16. Right-of-use assets

The Group leases assets including property, motor vehicles and office furniture and equipment. Information about leased assets for which the Group is a lessee is presented below:

	Note	Land and Buildings \$'000	Motor Vehicles \$'000	Office Furniture and Equipment \$'000	Total \$'000
Recognised on application of AASB 16	33	4,213	1,181	215	5,609
Additions		262	332	0	594
Remeasurement		1,671	244	0	1,915
Amortisation charged for the year	8	(1,238)	(836)	(77)	(2,151)
Derecognition during the year (net)		-	-	-	-
Closing carrying amount at 30 June 2020		4,908	921	138	5,967

## Notes to the financial statements

### 17. Intangible assets – goodwill and customer contracts

Reconciliation of carrying amount

Cost	Note	Goodwill \$'000	Customer Contracts \$'000	Other \$'000	Total \$'000
Balance as at 1 July 2018		82,169	7,491	19	89,679
Acquisitions		-	-	-	-
Balance as at 30 June 2019		82,169	7,491	19	89,679
Balance as at 1 July 2019		82,169	7,491	19	89,679
Acquisitions		-	-	-	-
Balance as at 30 June 2020		<b>82,169</b>	<b>7,491</b>	<b>19</b>	<b>89,679</b>
<b>Amortisation and impairment losses</b>					
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)
Balance as at 1 July 2019		(8,390)	(7,491)	(4)	(15,885)
Amortisation	8	-	-	(2)	(2)
Balance as at 30 June 2020		<b>(8,390)</b>	<b>(7,491)</b>	<b>(6)</b>	<b>(15,887)</b>
<b>Carrying amounts</b>					
At 30 June 2019		73,779	-	15	73,794
At 30 June 2020		<b>73,779</b>	<b>-</b>	<b>13</b>	<b>73,792</b>

#### 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:

	2020 \$'000	2019 \$'000
SCEE	8,784	8,784
Datatel	12,298	12,298
Heyday	52,697	52,697
	<b>73,779</b>	<b>73,779</b>

The recoverable amounts of the above segments were based on their value in use with the group performing its annual impairment test in June 2020. The carrying amount of the operating segments were determined to be lower than their recoverable amounts and therefore no impairment charge has been recognised.

The Group has paid particular attention to those indicators impacted by the Coronavirus pandemic. We have considered the effect of the pandemic on our clients' activities which may include resources commodity prices, commercial construction activity, awards of new contracts, deferrals of existing contracts, disruptions to supply chain and disruptions to existing operations. The Group's operations were classified as essential services and whilst experiencing some initial disruption have subsequently continued to operate materially unaffected. The management team continues to monitor and manage the impacts and risks arising from the global pandemic.

Value in use was determined by preparing five year discounted cash flow forecasts, and extrapolating the cash flows beyond the terminal year using a terminal growth-rate. 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.
- The five year cash flow estimates used in assessments for all CGU's were based on Board approved budgets for the year ending 30 June 2021. Growth assumptions thereafter are SCEE 0.0% (2019: 0.0%), Datatel 3.0% (2019: 4.7%) and Heyday -0.1% (2019: 3.6%) per annum for each future year. The terminal value assumes perpetual growth of 2.5% (2019: 2.5%).
- The margins included in the projected cash flow are the same rate that has been achieved by projects commencing in 2020.
- A pre-tax discount rate between 12.0% and 13.4% (2019: between 9.4% and 13.2%) was applied. This discount rate was estimated based on past experience and industry average weighted cost of capital.

## Notes to the financial statements

### 17. Intangible assets – goodwill and customer contracts (continued)

#### Sensitivity to changes in assumptions

The value in use assessment for SCEE estimates a recoverable amount \$3.2 million in excess of its carrying amount. This estimate is sensitive to the realisation of the budgeted and forecast overall net cash flows to 2025. These forecasts reflect Board and management's expectations for future growth. In the event that the overall net cash flows are 10% 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 \$1.9 million in excess of its carrying amount. This estimate is sensitive to the realisation of the budgeted and forecast overall net cash flows to 2025. These forecasts reflect the Board and management's expectations for future growth. Testing of sensitivities performed in isolation from one another showed that:

- In the event that the overall net cash flows are 12% 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.
- An increase in the discount rate of 1.2 percentage points would result in the value in use being less than the carrying value.
- A reduction in the long term growth rate for the terminal year of 1.5 percentage points would result in the value in use being less than the carrying value.

Management believes that any reasonable change in the key assumptions for the Heyday segment would not cause the carrying value to exceed its recoverable amount.

### 18. Trade and other payables

	2020 \$'000	2019 \$'000
Trade payables	27,990	45,186
Contract liabilities	34,158	13,367
Accrued expenses	11,417	17,436
Retentions payable	1,048	270
Goods and services tax payable	665	929
	<u>75,278</u>	<u>77,188</u>

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 23.

#### Contract liabilities

Current		
Unearned revenue	34,158	13,367

Unearned revenue arises when the Group has invoiced the client in advance of performing the contracted services. Contract liabilities fluctuate based on progress of completion of contracts.

### 19. Lease liability

Current portion	1,749	-
Non-current portion	4,218	-
	<u>5,967</u>	<u>-</u>

Expense relating to short-term and low value leases was \$0.1 million. The weighted average discount rate used for the leases is 4.5%. The average remaining lease term for the leased assets per underlying asset class as at 30 June 2020 are as follows:

	2020 (in years)
Land and building	2.43
Motor vehicles	1.37
Office equipment	2.04

The Group made its initial application of the new AASB 16 'Leases' on 1 July 2019 (note 33).

## Notes to the financial statements

### 20. Provisions

	2020 \$'000	2019 \$'000
<b>Current</b>		
Annual leave	6,635	7,021
Long service leave	1,434	1,054
Other employee leave	1,045	1,187
Bonus	-	500
	9,114	9,762
<b>Non-current</b>		
Long service leave	197	416
	197	416

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.

### 21. Deferred acquisition consideration

#### Deferred acquisition consideration movements

Balance at 1 July	6,500	14,078
Finance costs	-	411
Change in fair value of deferred consideration	-	(1,489)
Payments	(6,500)	(6,500)
Balance at 30 June	-	6,500

### 22. Capital and reserves

#### Share capital

	Note	2020		2019	
		Number	\$'000	Number	\$'000
<b>Ordinary shares</b>					
Issued and fully paid		247,614,481	109,767	234,067,408	102,873
<b>Movements in shares on issue</b>					
Balance at the beginning of the financial year		234,067,408	102,873	231,389,097	102,873
Exercise of Employee performance rights		655,034	-	2,678,311	-
Issue of ordinary shares under dividend reinvestment plan, net of transaction costs		12,892,039	6,894	-	-
Balance at the end of the financial year		247,614,481	109,767	234,067,408	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.

## Notes to the financial statements

### 22. Capital and reserves (continued)

#### Dividends

Dividends recognised in the current year by the Group are:

	Cents per share	Total amount \$'000	Franked	Date of payment
<b>2020</b>				
Final 2019 ordinary	3.00	7,042	Franked	10 October 2019
Total amount		7,042		
<b>2019</b>				
Final 2018 ordinary	3.00	7,022	Franked	11 October 2018
Total amount		7,022		

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

#### Declared after end of year

Subsequent to 30 June 2020, a dividend of 3.00 cents per share in the amount of \$7.4 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	
	2020 \$'000	2019 \$'000
Franking account balance	14,184	17,202

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

- franking credits that will arise from the payment of the current tax liabilities; and
- 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.

### 23. 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.

#### 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.



## Notes to the financial statements

### 23. Financial instruments (continued)

#### Credit risk (continued)

##### 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	
	2020 \$'000	2019 \$'000
Cash and cash equivalents	55,272	53,257
Trade receivables (net of provision for impairment)	26,699	38,780
Contract assets	86,374	64,273
Loans to vendors	-	897
	<b>168,345</b>	<b>157,207</b>

#### 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. 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:

	Carrying amount	
	2020 \$'000	2019 \$'000
Australia	113,073	103,053
	<b>113,073</b>	<b>103,053</b>

#### Impairment losses

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

	Note	Gross		Allowance for Impairment	
		2020 \$'000	2020 \$'000	2019 \$'000	2019 \$'000
Contract assets – not past due	14	86,374	-	64,273	-
Trade Receivables:					
Not past due		19,138	(2)	27,081	-
Past due 0-30 days		3,394	(3)	5,775	-
Past due 30-60 days		602	(0)	2,187	-
Past due 60 days and less than 1 year		1,531	(1)	3,600	-
More than 1 year		2,146	(106)	217	(80)
		<b>26,811</b>	<b>(112)</b>	<b>38,860</b>	<b>(80)</b>
		<b>113,185</b>	<b>(112)</b>	<b>103,133</b>	<b>(80)</b>

The provision of \$112,000 relates to expected credit losses. Impairment provision related to specific debts that are more than one year overdue pertains to a small number of customers with the 2020 amount owing mostly paid subsequent to 30 June. The Group continues to strongly pursue all debts provided for.

## Notes to the financial statements

### 23. Financial instruments (continued)

#### Credit risk (continued)

##### Impairment losses (continued)

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 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. To date, the Group has not observed or expects to see material decline in its customers’ abilities to pay as a result of the Coronavirus pandemic due in part to the nature of those customers, which mainly includes large private sector corporations and government organisations, meaning the risk of default of receivables is low. Accordingly, no additional expected credit loss allowance pertaining to the Coronavirus pandemic have been included.

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 Group considers a financial asset’s potential for default when contractual payments are more than 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. Cash flow is monitored by management using rolling forecasts and annual budgets that are reviewed monthly at the Board level.

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

	Carrying amount	Contractual cash flows	6 mths or less	More than 6 mths up to 1 year	More than 1 year up to 2 years	More than 2 years up to 5 years	More than 5 years
	\$’000	\$’000	\$’000	\$’000	\$’000	\$’000	\$’000
<b>30 June 2020</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables	41,120	41,120	40,905	145	70	-	-
Lease liability	5,967	6,765	1,039	856	1,407	2,436	1,027
	47,087	47,885	41,944	1,001	1,477	2,436	1,027
<b>30 June 2019</b>							
<b>Non-derivative financial liabilities</b>							
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	-	-

#### 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.

## Notes to the financial statements

### 23. Financial instruments (continued)

#### 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 2020 or 30 June 2019.

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.

#### 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	
	2020 \$'000	2019 \$'000
<b>Variable rate instruments</b>		
Financial assets	55,272	54,154

##### 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 2020.

	Profit or loss		Equity	
	100bp increase \$'000	100bp decrease \$'000	100bp increase \$'000	100bp decrease \$'000
<b>30 June 2020</b>				
Variable rate instruments	1,093	(1,093)	-	-
Cash flow sensitivity (net)	1,093	(1,093)	-	-
<b>30 June 2019</b>				
Variable rate instruments	1,001	(1,001)	-	-
Cash flow sensitivity (net)	1,001	(1,001)	-	-

#### 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 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.

## Notes to the financial statements

### 24. 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 (%)	
		2020	2019
Cruz Del Sur Ingeniería Elctra (Peru) S.A	Peru	100	100
Southern Cross Electrical Engineering (WA) Pty Ltd (i)	Australia	100	100
Southern Cross Electrical Engineering Tanzania Pty Ltd	Tanzania	100	100
Southern Cross Electrical Engineering Ghana Pty Ltd	Ghana	100	100
S&DH Enterprises Pty Ltd (i)	Australia	100	100
FMC Corporation Pty Ltd (i)	Australia	100	100
Southern Cross Electrical Engineering (Australia) Pty Ltd (i)	Australia	100	100
Hazquip Industries Pty Ltd (i)	Australia	100	100
Datatel Communications Pty Ltd (i)	Australia	100	100
Heyday5 Pty Ltd (i)	Australia	100	100
Electrical Data Projects Pty Ltd (i)	Australia	100	100

- (i) These wholly-owned subsidiaries have entered into a deed of cross guarantee with Southern Cross Electrical Engineering Limited pursuant to ASIC Corporations (wholly-owned companies) Instrument 2016/785 (Instrument) and are relieved of the requirement to prepare and lodge an audited financial and Directors' report.

#### (a) Deed of cross guarantee

The parties to a deed of cross guarantee for the Group as listed in note 24 represent a 'majority group' for the purposes of the Instrument, as the parties not subject to the Instrument are non-trading entities. A separate consolidated statement of comprehensive income and consolidated balance sheet of the parties to the deed of cross guarantee have not been disclosed separately as it is not materially different to those of the Group.

### 25. 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 2020 and 2019 and revenues and expenses of the joint operations for the year 30 June 2020 and 2019, which are proportionally consolidated in the consolidated financial statements, is as follows:

	2020 \$'000	2019 \$'000
Share of the joint operations' statement of financial position:		
Current assets	592	705
Current liabilities	(5)	(9)
Equity	587	696
Share of the joint operations' revenue and profit:		
Revenue	-	12,606
Contract expenses	-	(11,750)
Other expenses	(9)	(297)
Profit/(loss) before tax	(9)	559
Income tax expense	-	-
<b>Profit/(loss) for the year from continuing operations</b>	<b>(9)</b>	<b>559</b>

The joint operations have no contingent liabilities or capital commitments as at 30 June 2020 and 30 June 2019.

## Notes to the financial statements

### 26. Share-based payments

#### (a) Expense recognised in profit or loss

Share based payments expenses for the year comprises:

		2020 \$'000	2019 \$'000
2020 Performance Rights	(i)	195	-
2019 Performance Rights	(ii)	(50)	153
2018 Performance Rights	(iii)	(201)	265
2017 Performance Rights		-	128
		(56)	546

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

#### (i) 2020 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 8 November 2019	395,645	Employed on 30 June 2022 and exceed performance hurdle	31 months
Performance rights issued to key management on 8 November 2019	1,106,684	Employed on 30 June 2022 and exceed performance hurdle	31 months
Total /performance rights	1,502,329		

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

- Performance testing over a three-year period from 1 July 2019 to 30 June 2022 ("Performance Period");
- No performance rights will vest until 30 June 2022;
- 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:

$$((\text{Share Price at Test Date} - \text{Share Price at Start Date}) + (\text{Dividends Reinvested})) / \text{Share Price at Start Date}$$

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 performance will be measured in the 2022 financial year. For the purposes of performance testing the Performance Rights, EPS in the 2022 financial year will be the Basic EPS for the year, as prescribed by the accounting standards and set out in the Company's Financial Reports, adjusted to remove the following non-cash items from the calculation of profit or loss attributable to ordinary shareholders in the year, in order to reflect the companies underlying profitability:

- amortisation of acquired intangibles;
- unwinding of interest on deferred acquisition consideration payments;
- adjustments to the assessment of deferred consideration payable; and
- acquisition costs.

## Notes to the financial statements

### 26. Share-based payments (continued)

#### (a) Expense recognised in profit or loss (continued)

##### (i) 2020 Performance Rights (continued)

EPS, as described above, will be assessed against targets for threshold performance of 6.8 cents per share in the 2022 financial year and for stretch performance of 7.6 cents per share in the 2022 financial year. The vesting schedule is as follows for EPS performance in the 2022 financial year:

Less than 6.8 cents per share	0% vesting
6.8 cents per share	50% vesting
Between 6.8 and 7.6 cents per share	Pro-rata vesting between 50% and 100%
At or above 7.6 cents per share	100% vesting

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

Where a participant ceases employment prior to the vesting of their share options or performance rights, the share options or performance rights are forfeited unless in the event of retirement, permanent disablement or death the Board, at their 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.

##### (ii) 2019 Performance Rights

There were 1,010,625 financial year 2019 Performance Rights on issue at 1 July 2019. No 2019 Performance Rights were granted, none vested and none were forfeited during the year.

The 2019 Performance Rights will be performance tested over a three-year period from 1 July 2018 to 30 June 2021. The hurdles used to determine performance are Absolute Total Shareholder Return (TSR) and Earnings per Share (EPS) performance.

##### (iii) 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.

The 2018 Performance Rights will be performance tested over a three-year period from 1 July 2017 to 30 June 2020. The hurdles used to determine performance are Absolute Total Shareholder Return (TSR) and Earnings per Share (EPS) performance.

#### (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:

	2020	2019
Grant date	8 November 2019	9 November 2018
Vesting date	30 June 2022	30 June 2021
Share price at grant date	\$0.56	\$0.67
Expected life	2.6 years	2.6 years
Volatility	37%	40%
Risk free interest rate	0.88%	2.12%
Dividend yield	4.9%	4.4%
Fair value of TSR component	\$0.29	\$0.29
Fair value of EPS component	\$0.49	\$0.59

## Notes to the financial statements

### 26. Share-based payments (continued)

#### (c) Reconciliation of outstanding performance rights

The number of performance rights under the programmes were as follows:

	2020 Number of rights	2019 Number of rights
Outstanding at 1 July	3,561,812	5,229,498
Granted during the year	1,502,329	1,010,625
Exercised during the year	(655,034)	(2,678,311)
Forfeited or withdrawn during the year	(655,035)	-
Outstanding at 30 June	3,754,072	3,561,812
Vested and exercisable at 30 June	-	-

Subsequent to 30 June 2020 the vesting conditions in respect of the 2018 performance rights have been performance tested and it has been determined that no performance rights have vested and that 620,560 have been forfeited.

### 27. Reconciliation of cash flows from operating activities

	2020 \$'000	2019 \$'000
<b>Profit for the year</b>	<b>10,870</b>	<b>12,713</b>
Adjustments for:		
Depreciation and amortisation	5,154	4,293
Profit on sale of property, plant and equipment	(90)	(23)
Expense recognised in respect of capital raising	63	-
Equity-settled share-based payment transactions	(56)	907
<b>(Increase)/decrease in assets:</b>		
Trade and other receivables	(9,123)	(26,948)
Income tax receivable	-	1,188
Inventories	746	(165)
Prepayments	792	(1,105)
<b>Increase/(decrease) in liabilities:</b>		
Trade and other payables	(1,910)	17,277
Provisions and employee benefits	(867)	(1,443)
Deferred acquisition consideration	-	(1,078)
Income tax payable	4,463	-
Deferred income tax	67	5,114
<b>Net cash from operating activities</b>	<b>10,109</b>	<b>10,730</b>

### 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.

Bank Guarantees	20,559	37,536
Surety Bonds	37,355	28,475

Bank Guarantees and Surety Bonds are provided to customers for satisfactory contract performance. Total bank guarantee facilities at 30 June 2020 were \$51.0 million (2019: \$48.1 million) and the unused portion was \$30.4 million (2019: \$10.6 million). These facilities are subject to annual review. Total surety bonds facilities at 30 June 2020 were \$85.0 million (2019: \$69.5 million) and the unused portion was \$47.6 million (2019: \$41 million). These facilities are subject to annual review. All facilities are set to mature during the 2020/21 year. It is management's intention to review these facilities at maturity to a level appropriate to support the ongoing business of the Group.

## Notes to the financial statements

### 28. Contingencies (continued)

#### Other contingent liabilities

The Group is currently managing a number of claims, security of payment adjudication and arbitration processes in relation to construction contracts. The Directors are of the opinion that disclosure of any further information relating to these claims, adjudication and arbitration processes would be prejudicial to the interests 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.

Since 30 June 2020, the Group has not had a significant adverse operational or financial impact as a result of the Coronavirus pandemic. The Group's operations have been classified as essential services and are continuing to run in line with the required safety and health guidelines. The extent of any future impact of the pandemic on the Group's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulations imposed by governments with respect to the outbreak response and impacts on customers, employees and vendors—all of which are uncertain and cannot be predicted at this time.

### 30. Auditor's remuneration

Remuneration of KPMG Australia as the auditor of the parent entity for:

- Auditing or reviewing the financial report

	2020 \$'000	2019 \$'000
	358	342
	<u>358</u>	<u>342</u>

### 31. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2020 the parent company of the Consolidated entity was Southern Cross Electrical Engineering Limited.

#### Result of the parent entity

##### Loss for the period

(9,764) (2,839)

##### Total comprehensive loss for the period

(9,764) (2,839)

#### Financial position of parent entity at year end

##### Current assets

76,690 78,200

##### Total assets

177,492 184,782

##### Current liabilities

(61,256) (55,628)

##### Total liabilities

(73,534) (70,856)

#### Total equity of the parent entity comprising:

##### Share capital

109,767 102,873

##### Reserves

288 731

##### Retained earnings

(6,097) 10,322

##### Total Equity

103,958 113,926

Parent entity contingencies:

The parent entity has contingent liabilities which are included in note 28. At 30 June 2020, there were in existence guarantees of performance of a subsidiary.



## Notes to the financial statements

### 32. Related parties

#### Transactions with key management personnel

##### (i) Key management personnel compensation

Key management personnel compensation comprised the following:

	2020 \$'000	2019 \$'000
Short-term employee benefits	1,575	1,995
Post-employment benefits	96	78
Share-based payments	(63)	397
	<u>1,608</u>	<u>2,470</u>

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 26 (a)(i)).

##### (ii) Key management personnel transactions

Directors of the Company control 3% of the voting shares of the Company.

The Group has entered into rental agreements over properties in which Gianfranco Tomasi has an ownership interest. During the prior year, Mr Tomasi ceased to be a key management personnel for the Group.

### 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 2019.

The Group has adopted the following new standard and amendments to standards, including any consequential amendments to other standards, with a date of initial application 1 July 2019:

#### AASB 16 Leases

##### Impact of transition to AASB 16 Leases

AASB 16 Leases 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 arising from lease contract and a right-of-use (ROU) asset representing the right to use the underlying asset during the lease term. Lessees are required to separately recognise the interest expense on the lease liability and depreciation expense on the ROU asset.

##### Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under the related interpretations of AASB 117. The Group now assess whether a contract is or contains a lease based on the definition of a lease in AASB 16 Leases (see note 33(g)).

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The AASB 16 Leases definition of a lease is applied only to contracts that were previously identified as leases at the date of initial application. Contracts that were not identified as leases under AASB 117 were not reassessed for whether there is a lease under AASB 16. From the date of initial application, lease accounting under AASB 16 is applied to all leases, including those identified in accordance with the requirements of AASB 117.

The Group leases assets including property, motor vehicles and office equipment. The Group previously classifies leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises ROU assets and lease liabilities on most of these leases. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments discounted at the Group's incremental borrowing rate as at 1 July 2019. ROU assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, if any.

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of the initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented in the previous financial year 2019 is not restated – i.e. it is presented as previously reported, under AASB 117 and related interpretations. Additionally, the disclosure requirements of AASB 16 have not generally been applied to comparative information.

## Notes to the financial statements

### 33. Significant accounting policies (continued)

#### AASB 16 Leases (continued)

##### Impact of transition to AASB 16 Leases (continued)

The Group has applied a number of practical expedients upon the initial application of AASB 16 to leases previously classified as operating leases under AASB 117. In particular, the Group applied:

- Recognition exemptions for short-term leases, i.e. twelve (12) months or less, and/or low-value items, i.e. less than \$7,000, on a lease-by-lease basis, in general, hence, the related lease payments are outright recognised in the statement of income as occupancy expenses. This recognition exemption was not applied on the Group's lease contracts and arrangements wherein motor vehicles are the underlying assets;
- Used a single discount rate of 4.5% to a portfolio of leases with reasonably similar characteristics
- Exclusion of initial direct costs from the measurement of the ROU asset at the date of initial application; and
- The use of hindsight when determining the lease term.

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised at 1 July 2019:

	<b>\$'000</b>
Total operating lease commitments disclosed as at 30 June 2019	<b>6,692</b>
Recognition exemptions:	
Leases of low value assets	(16)
Leases with lease term of 12 months or less	(599)
Low-value and short-term leases with motor vehicles as underlying asset	365
	<b>(250)</b>
Variable lease payments not recognised	-
Other minor adjustments relating to commitment disclosures	(190)
	<b>(440)</b>
Operating lease liabilities before discounting	6,252
Discount using incremental borrowing rate	(692)
Operating lease liabilities	5,560
Reasonably certain extension options	49
<b>Total lease liabilities recognised under AASB 16 at 1 July 2019</b>	<b>5,609</b>

As at 30 June 2020, the Group has minimal low-value and short-term lease commitments related to leases of office furniture and equipment.

The following tables summarise the impact of adopting AASB 16 on affected line items, as lessee, in the Group's consolidated financial statements as at and for the year ended 30 June 2020:

#### Consolidated Statement of Comprehensive Income for the year ended 30 June 2020

	Before application of AASB 16 \$'000	Impact of AASB 16 (as lessee) \$'000	Reported \$'000
Contract expenses	(371,760)	1,181	(370,579)
Occupancy expenses	(2,351)	1,116	(1,235)
Amortisation	(2)	(2,151)	(2,153)
Finance expenses	(1,113)	(146)	(1,259)

#### Consolidated Balance Sheet as at 30 June 2020

Right-of-use asset	-	5,967	5,967
Lease liability – current portion	-	1,749	1,749
Lease liability – non-current portion	-	4,218	4,218

## Notes to the financial statements

### 33. Significant accounting policies (continued)

#### AASB 16 Leases (continued)

#### Impact of transition to AASB 16 Leases (continued)

#### Consolidated Statement of Cash Flows for the year ended 30 June 2020

	Before application of AASB 16 \$'000	Impact of AASB 16 (as lessee) \$'000	Reported \$'000
<b>Cash flows from operating activities</b>			
Interest paid	(1,113)	(146)	(1,259)
<b>Net cash from/(used in) operating activities</b>	10,255	(146)	10,109
<b>Cash flows from financing activities</b>			
Payment of lease liabilities principal	-	(2,151)	(2,151)
<b>Net cash used in financing activities</b>	(211)	(2,151)	(2,362)

#### (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 arrangement

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 right to the underlying assets and obligations for liabilities and are accounted for by recognising the share of those assets and liabilities. 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 arrangement 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.

## Notes to the financial statements

### 33. Significant accounting policies (continued)

#### (b) Foreign currency (continued)

##### (ii) Foreign operations (continued)

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.

#### (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 non-derivative financial assets 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:

- Financial assets at amortised cost
- Cash and cash equivalents

Financial assets at amortised cost

- Financial assets at amortised cost are receivables 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, these financial assets are measured at amortised cost using the effective interest method, less any impairment losses.
- Financial assets at amortised cost 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 Lease liability, Deferred acquisition consideration and Trade and other payables.

## Notes to the financial statements

### 33. Significant accounting policies (continued)

#### (d) Financial instruments (continued)

##### (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.

#### (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.

Leasehold 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	1 – 6 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.

## Notes to the financial statements

### 33. Significant accounting policies (continued)

#### (f) Intangible assets (continued)

##### (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.

##### (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:

	2020	2019
• 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) Leases

Until 30 June 2019, leases in terms of which the Group assumes substantially all the risks and rewards of ownership were 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. Effective from 1 July 2019 the Group adopted AASB 16 recognising lease assets and lease liabilities for those leases previously classified as operating leases.

##### *Leased assets*

The right-of-use asset recognised by the Group comprise the initial measurement of the related lease liability, any lease payments made at or before the commencement of the contract, less any lease incentives received and any direct costs. Costs incurred by the Group to dismantle the asset, restore the site or restore the asset are included in the cost of the right-of-use asset.

Subsequently, right-of-use asset is measured at cost less any accumulated amortisation and impairment losses and adjusted for certain remeasurements of the lease liability. The Group amortises the right-of-use assets on a straight-line basis from the lease commencement date to the end of the useful life of the underlying asset or the end of the lease term, whichever is earlier.

If the recoverable amount of a right-of-use asset is less than its carrying value, an impairment charge is recognised in the profit or loss and the carrying value of the asset is written down to its recoverable amount.

Short-term or low-value operating leases subject to recognition exemption under AASB 16 are not recognised in the Balance Sheet. The costs incurred during the period related to these leases are recognised in the profit or loss.

##### *Lease liabilities*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is separately disclosed on the statement of financial position. The liabilities which will be repaid within twelve months are recognised as current and the liabilities which will be repaid in excess of twelve months are recognised as non-current. The lease liability is subsequently measured by reducing the balance to reflect the principal lease repayments made and increasing the carrying amount by the interest on the lease liability.

## Notes to the financial statements

### 33. Significant accounting policies (continued)

#### (g) Leases (continued)

The Group remeasures the lease liability and make an adjustment to the right-of-use asset in the following instances:

- The term of the lease has been modified or there has been a change in the Group's assessment of the purchase option being exercised, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; and
- The lease payments are adjusted due to changes in the index or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

However, if a change in lease payments is due to a change in a floating interest rate, a revised discount rate is used.

Lease and non-lease components of a contract are accounted for separately. Non-lease components of the lease payments are expensed as incurred and are not included in determining the present value.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional periods. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew and considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

#### (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 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 contract liabilities under Trade and other payables in the balance sheet.

Payments from customers are received based on a billing schedule or milestone basis, as established in our contracts.

#### (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.

## Notes to the financial statements

### 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 (see note 23). 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 forward-looking economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends (see note 23).

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.



## Notes to the financial statements

### 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. The discount rate is the yield at the reporting date on high quality corporate bonds or government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the Projected Unit Credit method.

##### (ii) Termination benefits

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

##### (iii) Short-term benefits

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

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

##### (iv) Share-based payment transactions

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

#### (m) Provisions

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

#### (n) Revenue

##### *Revenue recognition accounting policy*

The Group applies two approaches to recognising revenue to contracts with customers: either at a point in time or over time, depending on the manner the customer obtains control of the goods or services. Revenue is recognised over time if one of the following is met:

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

## Notes to the financial statements

### 33. Significant accounting policies (continued)

#### (n) Revenue (continued)

##### *Revenue recognition accounting policy (continued)*

Revenue from 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. The following are the steps in determining revenue from contracts as prescribed by Five (5) Step Revenue Recognition Model introduced by AASB 15:

- 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

Judgement is required in determining the timing of the transfer of control, at a point in time or over time, as well as in each of the five enumerated steps in the revenue recognition model above.

#### (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, are to 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, assessments by independent experts and the historical outcome of similar claims to determine whether the enforceable and "highly probable" thresholds have been met.

#### (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 detailed and technical approach to identify the different revenue streams (i.e. performance obligations) in a contract. This is done 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 is to be continuously 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.

The term over which revenue may be recognised 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.

## Notes to the financial statements

### 33. Significant accounting policies (continued)

#### (n) Revenue (continued)

##### (v) Variable consideration

Variable consideration includes performance or other incentive fees or penalties associated with contracts. 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) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

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

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

#### (p) Income tax

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

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

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

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

#### (q) Goods and services tax

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

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

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

## Notes to the financial statements

### 33. Significant accounting policies (continued)

#### (r) Earnings per share

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

#### (s) Segment reporting

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

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

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

#### (t) Financial guarantees

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

- the loss allowance determined in accordance with AASB 9 Financial Instruments; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with AASB 15 Revenue from Contracts with Customer.

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

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

#### (u) Business combinations

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

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

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

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

## Notes to the financial statements

### 33. Significant accounting policies (continued)

#### (u) Business combinations (continued)

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

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

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 9 'Financial Instruments', or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

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

#### (v) Government grants

Government grants are recognised only when there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

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

The new standards and amendments to standards and interpretations effective for annual reporting periods beginning after 30 June 2020, such as those disclosed below, have not been applied in preparing these consolidated financial statements. The Group intends to adopt these new standards and amendment to standards and interpretations, if applicable, when they become effective:

**AASB 2018-6** *Amendments to Australian Accounting Standards – Definition of a Business*

**AASB 2018-7** *Amendment to Australian Accounting Standards – Definition of Material*

**AASB 2019-3** *Amendment to Australian Accounting Standards – Interest Rate Benchmark Reform*

**AASB 2019-5** *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards not yet issued in Australia*

**AASB 2020-1** *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*

**AASB 2020-3** *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and other Amendments*

**AASB 2019-1** *Amendments to References to the Conceptual Framework in AASB Standard – Conceptual Framework for Financial Reporting*

The Group has yet to determine the likely impact of these new standards.

## Notes to the financial statements

### 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 are determined using market comparison technique and cost technique – the valuation model considers quoted market prices for similar items when available and depreciated replacement cost when appropriate.

#### (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, including contract asset as well as 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.