

## Appendix 4E and Annual Report

Year ended 30 June 2013

### Appendix 4E

The current reporting period is the financial year ended 30 June 2013. The previous corresponding period is the financial year ended 30 June 2012.

#### Results for Announcement to the Market:

Revenue and Net Profit	Year ended	Year ended	Change \$'000	Change %
	30 June 2013 \$'000	30 June 2012 \$'000		
Revenue from ordinary activities	277,979	219,983	57,996	26.4%
Profit from ordinary activities after tax attributable to members	17,341	13,708	3,633	26.5%
Net profit for the full year attributable to members	17,341	13,708	3,633	26.5%

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

Dividends	Amount per security	Franked amount per security
Interim dividend for 2013	0.0 cents	0.0 cents
Final dividend for 2013	2.70 cents	2.70 cents
Record date for determining entitlements to the dividend		23 September 2013
Date the final dividend is payable		17 October 2013
Details of dividend or distribution re-investment plan – The Company does not operate a dividend re-investment plan.		Not applicable

NTA Backing	Year ended	Year ended
	30 June 2013	30 June 2012
Net tangible asset backing per security (cents per share)	52.0 cps	42.9 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 within the consolidated group of Southern Cross Electrical Engineering Limited.

### **Details of associates and joint venture entities**

On 18 December 2012 SCEE entered into a Joint Venture Agreement with the Kentech group of companies to form KSJV, a 50:50 unincorporated joint venture. There were no transactions in KSJV in the year ended 30 June 2013.

On 17 June 2013 SCEE and Kentech incorporated a 50:50 owned company, KSJV Australia Pty Ltd, to act as a service entity to KSJV. There were no transactions in KSJV Australia Pty Ltd in the year ended 30 June 2013.

### **Audit**

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

### **Commentary on the Results for the Period**

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



# 2013

annual report

ABN: 92 009 307 046  
Established 1978





## corporate directory

### directors

**John Cooper**

Chairman

Independent Non-Executive Director

**Simon High**

Managing Director

**Gianfranco Tomasi**

Non-Executive Director

**Peter Forbes**

Independent Non-Executive Director

**Derek Parkin**

Independent Non-Executive Director

**John ('Jack') Hamilton**

Independent Non-Executive Director

### company secretaries

**Chris Douglass**

**Colin Harper**

### auditors

**KPMG**

235 St Georges Terrace

Perth WA 6000

### solicitors

**K & L Gates**

Level 32, 44 St Georges Terrace

Perth WA 6000 Australia

### share registry

**Computershare Limited**

31 Howe Street, Osborne Park

WA 6017 Australia

Tel: +618 9323 2000

### registered office

**Southern Cross Electrical**

**Engineering Limited**

41 Macedonia Street, Naval Base

WA 6165 Australia

Telephone: +618 9236 8300

Facsimile: +618 9410 2504

asx code: SXE

**scee.com.au**

scee is an emerging Tier One provider of specialised electrical and instrumentation services. We deliver life-of-project electrical infrastructure, construction and support services to large-scale resource projects across Australia and overseas.



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# who we are

**scee** was established as Southern Cross Electrical Engineering Limited in 1978. The company is a dedicated provider of large-scale specialised electrical, control and instrumentation services for major resources projects.

# what we do

⚡ **scee infrastructure**

⚡ **scee construction**

⚡ **scee services**



**scee** operates through three company divisions - **scee infrastructure**, **scee construction** and **scee services** - to facilitate the continuing growth of the company as well as to provide 'full life cycle of project' electrical services including:

- constructability reviews
- material procurement
- electrical and instrumentation installation
- installation pre-commissioning and commissioning
- shutdown maintenance and installations
- manufactureres' data & maintenance manuals.

# our vision

**scee's** vision statement communicates our future mid-to-long term aspirations for the business, it is a unified statement to our team and other stakeholders of both **scee's** intent and direction.

An emerging Tier One E&I contractor with first class systems, health and safety performance, a can-do culture and exceptional reputation.



# our values

At **scee**, our values are integral to the organisation and act as internal drivers. They shape how we conduct our business on a daily basis and ultimately drive our success.

## **safety**

It's in everything we do

## **loyalty**

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

## **trust**

We entrust and empower our team to take ownership

## **reliability**

We are dependable and consistently deliver high quality services

# signature performance



2013 marks our ninth consecutive LTI free year in Australia

## health & safety

We consider the wellbeing of our people to be of paramount importance and are committed to providing a workplace that achieves zero harm. We have developed a systematic approach to employee safety through procedures, policies and training and continually seek to review and improve these systems. We also place a priority on creating a pro-active safety culture across the whole of **scee**.



## environment

We seek to promote best environmental practices within our areas of operation through our policies and procedures. Our team seeks to preserve, respect and manage the environment as well as native flora and fauna. Through regular evaluation of our environmental practices we ensure our policies reflect the changing operational, environmental and political climate.

Our Environmental Management System is reviewed regularly to assess the adequacy and effectiveness of our systems to ensure we meet our legislative and best practice commitments.

minimising harmful impacts  
and reducing waste



## renowned for our world-class health and safety standards

### community

We engage with the communities where we operate and develop corporate social responsibility seeking to create a positive legacy through maximising local employment opportunities and taking an active social role.

By fostering a culture of active participation in our surrounding areas we aim to ensure the wider community benefits from our presence.

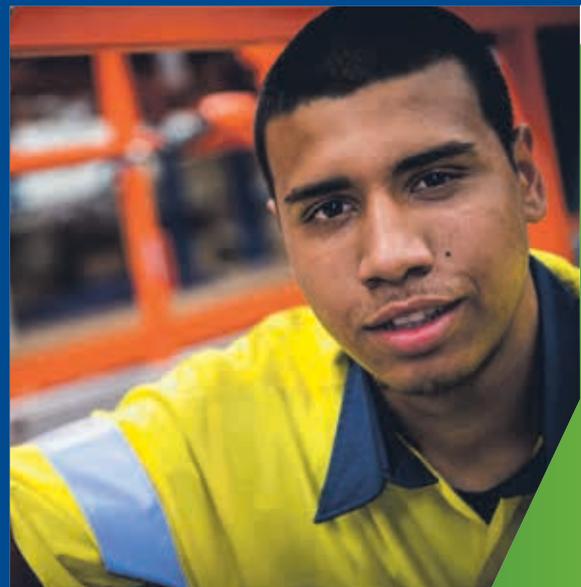
We are a proud supporter of numerous grassroots charities, sporting teams, initiatives and sponsored events and we encourage our people to get involved and help build strong, thriving communities.

### indigenous employment

We respect the culture, values and traditions of Indigenous communities and our indigenous employee strategy is designed to ensure that we are meeting and surpassing our commitments in this area.

Our Indigenous employment policy centres on providing support, training and sustainable employment opportunities. In 2010 we introduced an Indigenous Traineeship Scheme to further enhance long term career opportunities and stable work environments. Trainees have progressed to Electrical Apprenticeships, Trade Assistants and Business Administration.

Our unique program recognises the skills and attributes of the individual and identifies the most appropriate role within the company that suits the skill set. This approach supports the sustainability of the program and employment.



## built around loyalty and commitment to our local communities

# 2013 highlights

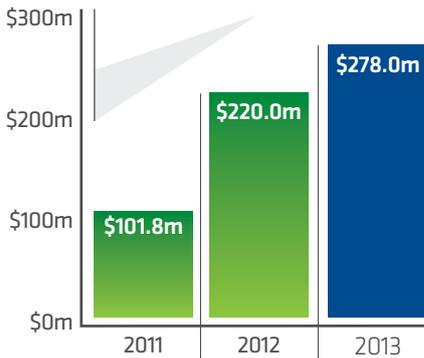
2013 has been a record-breaking year for scee.

Highlights have included:

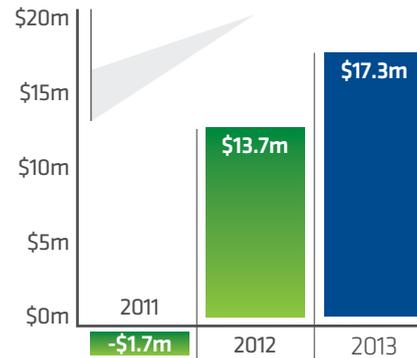
- Record revenue of \$278.0m, up 26% from 2012.
- Record NPAT of \$17.3m, up 27% from 2012.
- Earnings per share of 10.74 cents, up 26% from 2012.
- Dividend of 2.70 cents per share declared, up 20% from 2012.
- Strong balance sheet and cash of \$40.9m as at 30 June 2013.
- Secured largest contract in company's history.
- Record number of employees.
- LTI free in year. Ninth consecutive year in Australia.
- Investment in assets and the development of systems.
- Rebranding of the company and its divisions.
- KSJV formed to target LNG projects.

# our growth trend continues...

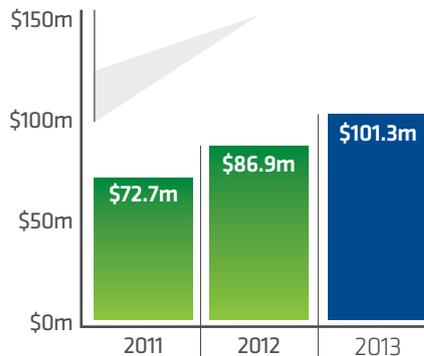
## revenue



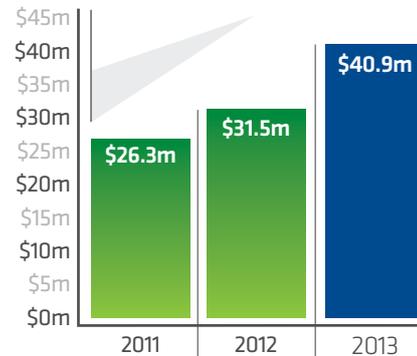
## net profit after tax



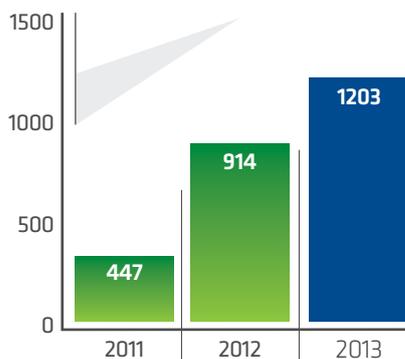
## net assets



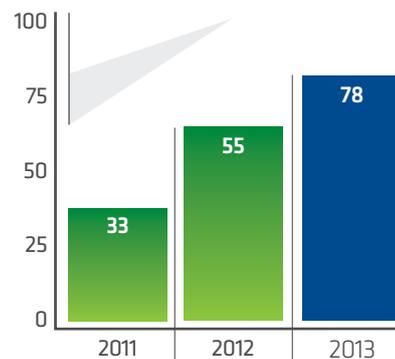
## cash



## employees



## apprentices



# our projects

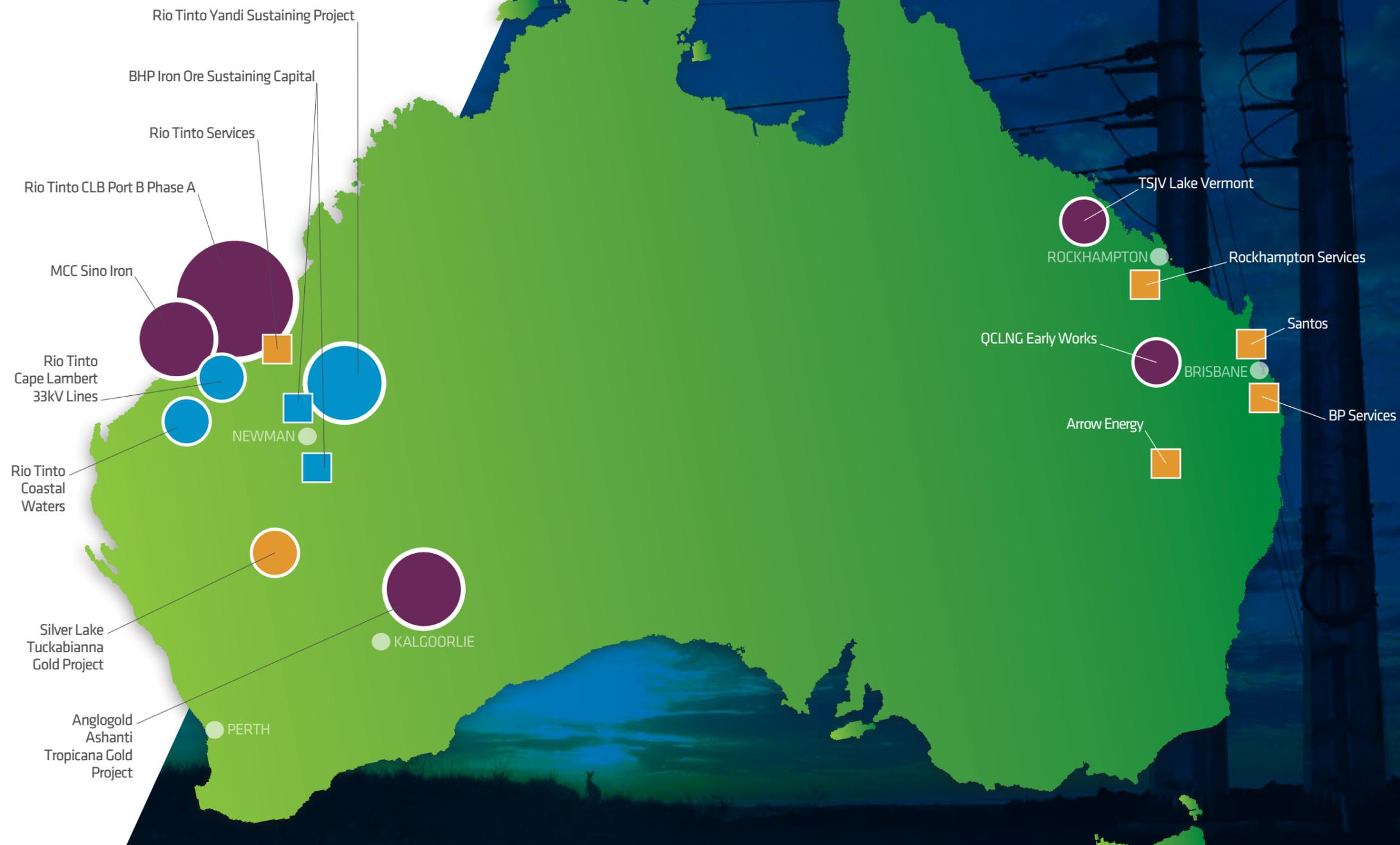
australian projects and operations in 2013.



scee infrastructure

scee construction

scee services



# project profiles

australian projects and operations in 2013.

## scee infrastructure



### Coastal Waters 33kv Overhead Lines

**client:** Rio Tinto  
**status:** ongoing

scee has been performing the design and construction of approximately 40km of 33kV overhead line in Pannawonica for Rio Tinto's Coastal Waters Project. The project forms part of Rio Tinto's infrastructure development to ensure a sustainable water supply for their operations.

### Yandi Sustaining Project

**client:** Rio Tinto  
**status:** ongoing

The Yandi Sustaining project is being undertaken by Rio Tinto to maintain and expand its Yandi mine. scee are installing 33kV overhead lines providing power to the mine facilities. At an award value in excess of \$29m, this is the largest contract ever performed by scee infrastructure.



### Cape Lambert 33kV Overhead Lines

**client:** Rio Tinto  
**status:** complete

The project was for the supply and installation of 33kV lines at Rio Tinto's Cape Lambert Port B project and was successfully completed by scee during the year.

## scee construction

### Cape Lambert Port B Phase A

**client:** Rio Tinto  
**status:** ongoing

scee are providing all electrical and instrumentation installation works for Phase A of Rio Tinto's new Port B at Cape Lambert in the Pilbara. The project is the largest in scee's history with a contract value in excess of \$100m and peaking at over 500 employees.





## Tropicana Gold Project

client: AngloGold Ashanti  
status: ongoing

scee has been constructing the electrical, instrumentation, communications and process control plant infrastructure for AngloGold Ashanti at their Tropicana gold mine, 330km north east of Kalgoorlie. The contract was awarded at a value in excess of \$40m. Manning on the job peaked at 210.

## Sino Iron Project

client: MCC Mining  
status: ongoing

During the year scee has continued to perform work for MCC Mining under a cost reimbursable contract at the Sino Iron mine. Work to date has been primarily focussed on the concentrator area of Trains 1 and 2 and the main conveyors to the primary crusher.



## Rio Tinto Operational Support

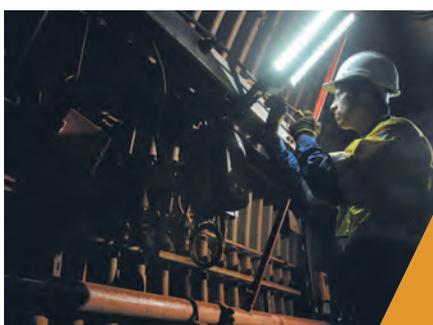
client: Rio Tinto  
status: ongoing

scee services has a national framework agreement with Rio Tinto to provide operational and support services across Rio Tinto operations in Australia. The scope of work includes both planned and unplanned maintenance on Rio Tinto's brownfield facilities.

## BP Framework Agreement

client: Rio Tinto  
status: ongoing

scee services has been the preferred E&I contractor to BP refinery at Bulwer Island in Queensland since 2005. Under the site-wide framework agreement scee provides a range of project services including site improvement and sustaining capital works.



## Tuckabianna Gold Project

client: Silver Lake Resources  
status: complete

scee services performed the E&I works on the refurbishment and relocation of the Tuckabianna gold plant in the Murchison Goldfield in WA. The project was completed in August 2013.



# chairman's message

John Cooper  
chairman, scee



Dear Shareholders

It gives me great pleasure to report on a successful year for **scee**. In 2013, all areas of the business have operated at historically high levels of activity which has driven us to a record financial result.

I am delighted to report that the increase in activity was achieved without a Lost Time Incident (LTI) and marks our ninth LTI free year in Australia.

We have also taken significant steps towards our goal of being recognised as a Tier One Electrical and Instrumentation contractor.

The increase in employees, the investment in systems and assets and the strengthening of our financial position are all excellent achievements and stand **scee** in good stead as we move into 2014.

## results

Revenue for the year is the highest in **scee's** history and represents a 26% increase from 2012. Gross profit of \$61.3m and net profit after tax from continuing operations of \$17.3m are record results.

I am pleased to advise that we enter 2014 with a strong balance sheet and cash of over \$40m.

In line with our policy, the Board has declared a dividend of 2.70 cents per share.

## outlook

Whilst the resources sector within which we operate has varied significantly during the course of the year, we continue to see substantial project opportunities.

LNG offers a pipeline of opportunities for E&I work that will help underpin our business for a number of years.

We continue to view iron ore as a core business sector for **scee** with our ability to achieve expansions on existing projects as well as new opportunities with existing clients.

While tendering becomes even more competitive and commercially focussed, our relationships with key clients, together with our reputation for quality and safety, sees us well positioned for future success.

## board of directors

The Board remains committed to the highest standards of corporate governance.

During the year we implemented a program of Board visits to our projects which have provided an opportunity for the Board to experience at first hand our project teams' commitment to providing exceptional client service in a safe environment.

As we continue to target growth in this changing environment I am confident that the Board has the operational, technical and financial expertise to guide **scee** through the economic, commercial and project challenges that lie ahead.

On behalf of the Board I thank all of our employees for their efforts throughout the year and congratulate them on achieving a record financial result. I also thank our shareholders for their continuing support.

John Cooper,  
Chairman



Revenue was \$278.0m representing a 26% increase from the prior year. Profit after tax from continuing operations increased by 27% to \$17.3m

# managing director's review

Simon High  
managing director





I am very pleased to report on a record result for **scee** with another year of growth.

### financial review

**scee's** 2013 financial result is the best in its 35 year history. Revenue was \$278.0m representing a 26% increase from the prior year. Profit after tax from continuing operations increased by 27% to \$17.3m.

The increase in revenue was driven by significant contract wins early in the year. Rio Tinto's Cape Lambert Port B Phase A project was the largest award in the Company's history at over \$100m, while the AngloGold Ashanti Tropicana Gold Project award was over \$40m and the second portion of the Rio Tinto Yandi Sustaining Project was over \$29m.

These projects ramped up in the second half and in the final quarter **scee** was operating at activity levels equating to over \$400m of revenue on an annualised basis.

A more detailed discussion of **scee's** FY13 projects is included in the Operations Review which follows.

Gross margin for the year was 22.1% compared to 19.7% in 2012. While the increase is primarily attributable to the project mix, the benefits of the plant and equipment investment program were realised by reducing the level of hired equipment utilised on projects.

Since the half year we have continued to progress the commercial close out of the Thiess QCLNG Early Works and TSJV Lake Vermont projects and expect to resolve these at levels equal to or better than provided. However, risk for our coming year result remains until close out is achieved.

Overheads as a percentage of revenue were 11.1% in 2013, up from 9.9% in the prior year. The overhead base was proactively increased in order to prepare and support the activity at Cape Lambert Port B Phase A and Tropicana. The later than anticipated award of these contracts resulted

in higher overhead levels than planned in the early part of the year but fell back in the second half as projects ramped up to 10.2% of revenue compared to 12.3% in the first half.

Profit after tax for the year of \$17.3m resulted in earnings per share of 10.74cps, an increase of 26% from the prior year. On this basis the Board has declared a dividend of 2.70 cents per share. This represents a 20% increase on the 2012 dividend of 2.25 cents per share.

We enter 2014 with a strong balance sheet. Cash at 30 June 2013 was \$40.9m. Debt, which primarily relates to asset finance, was minimal at \$4.6m.

There were fixed asset additions in the year of \$22.4m. This mostly reflects the culmination of a two year program to renew and expand our fleet of plant and equipment. We do not anticipate the need for significant further capital expenditure in the coming year.

Subsequent to the year end we have increased our bonding capacity from \$60m to \$90m, ensuring we have the financial capacity for continued growth.

# managing director's review continued

for the year ending 30 June 2013

## operations review

During the year **scee** continued to provide life of project electrical and instrumentation (E&I) services to large scale resource projects, primarily within Australia.

Our goal in recent years has been to become recognised as a Tier One E&I contractor. While Tier One is not a clearly defined term it implies having first class people, processes, systems, plant and equipment and financial capacity. I am extremely pleased at the progress we have made in each of these areas during the course of the year.

Effective from 1 July 2012, we rebranded K J Johnson as **scee infrastructure** and merged the Hindles and West Coast maintenance and support operations under the **scee services** brand. We also created the **scee construction** brand giving us distinct divisions for each stage of the project lifecycle. An overview of the operations of each division is provided below.

### scee infrastructure

**scee infrastructure** earned revenues of \$69.7m in 2013.

Key projects during the year were:

#### Rio Tinto Coastal Waters

This was a design and construct project for approximately 40km of 33kV overhead line in Pannawonica. The project formed part of Rio Tinto's infrastructure development to ensure a sustainable water supply for their operations.

Performance on the job was good and the project was physically complete at year end. Commercial close out is ongoing.

#### Rio Tinto Yandi Sustaining Project

**scee** has been installing 33kV overhead lines providing power to Rio Tinto's mine facilities from the Yandi 220kV switchyard. At an award value in excess of \$29m, this is the largest contract ever performed by **scee infrastructure**.

The project is progressing well and currently expected to run until December 2013.

#### Rio Tinto Cape Lambert 33kV Lines

The project for the supply and installation of 33kV lines at Rio Tinto's Cape Lambert Port B project was successfully completed during the year.

#### BHP Iron Ore Sustaining Capital

During the year **scee infrastructure** commenced work under the BHP Billiton Iron Ore Sustaining Capital framework agreement. The agreement is for a period of five years with **scee** one of a panel of five contractors selected to perform work across BHP's Australia wide iron ore operations.

Work under the agreement will be performed by both **scee infrastructure** and **scee services**.

### scee construction

**scee construction** earned revenues of \$185.8m in 2013.

Key projects during the year were:

#### Rio Tinto Cape Lambert Port B Phase A

**scee** are providing all electrical and instrumentation installation works for Phase A of Rio Tinto's new Port B at Cape Lambert in the Pilbara. The project is the largest in the Company's history with a contract value in excess of \$100m and peaking at over 500 employees.

We are extremely pleased with the way in which our project team and systems have handled a job of this scale. The project is progressing well and we expect our work to be substantially complete by October 2013.

#### Anglogold Ashanti Tropicana Gold Project

**scee** has been constructing the electrical, instrumentation, communications and process control plant infrastructure for Anglogold Ashanti at their Tropicana gold mine, 330km north east of Kalgoorlie.

At a contract value in excess of \$40m with peak manning of 210 employees this has been another significant job for **scee construction**. Performance to date has been to the expected high standard and to the client's satisfaction. Our work on the project will be completed over the coming months.

#### MCC Sino Iron

During the year we have continued to perform work for MCC Mining under a cost reimbursable contract at the Sino Iron mine at Cape Preston.

Activity slowed towards the end of the year with a decision pending from the client on proceeding with Trains 3 to 6. Having performed well on our original contract we remain optimistic about securing further work should the expansion go ahead.

### scee services

**scee services** earned revenues of \$22.5m in 2013.

During the year we completed nearly 200 jobs for clients including Rio Tinto, BP, Santos, Arrow Energy and Silver Lake Resources.

A large proportion of our work in 2013 was performed under existing framework agreements where we have forged strong client relationships.



### **international**

We successfully completed our work on the Pueblo Viejo Gold Project in the Dominican Republic and the Xstrata Antapaccay project in Peru. We continue to perform ongoing maintenance work in Peru.

### **KSJV**

In December 2012 **scee** entered into a Joint Venture Agreement with the highly regarded international E&I contractor Kentech to form KSJV, a 50:50 unincorporated joint venture. KSJV aims to capitalise on the unprecedented levels of demand in Australia for E&I construction works on large-scale LNG projects.

While KSJV has had no financial impact on **scee's** results in the current year we have established a KSJV management team and put in place systems and procedures that have leveraged off the strengths of both partners. At the date of this report we are actively tendering for work on a number of LNG projects.

### **performance recognition**

**scee** is committed to providing exceptional client service. During the year we received recognition that we had achieved these high standards when **scee** was named winner of the 2012 Construction Category in the Rio Tinto Iron Ore Supplier Recognition Program.

### **health & safety**

The safety of our people is of paramount importance and I am delighted to report that we completed our 2013 operations without suffering a Lost Time Injury (LTI). This is the ninth consecutive year LTI free in Australia and is reflective of the emphasis our project teams place on executing their work in a manner that achieves zero harm.

### **record employee numbers**

Our workforce peaked at approximately 1,200 employees in June 2013 which is another record for the Company and indicative of the high level of activity we are operating at as we enter 2014.

It is to the great credit of **scee's** recruitment team that we have been able to handle this growth in-house, particularly with two projects of the scale of Cape Lambert Port B Phase A and Tropicana running concurrently.

### **training**

At **scee** we recognise the importance of a skilled workforce. During the year we continued to expand our in-house Training Centre which provides a holistic on-boarding approach to all **scee** staff including company inductions, safety training and gap training.

The Training Centre has continued to exceed expectations in its ability to offer cost effective and flexible training

# managing director's review continued

for the year ending 30 June 2013

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schedules to ensure efficient mobilisation of our project teams.

As we ramped up activity on Cape Lambert Port B Phase A and Tropicana, the Training Centre successfully delivered more than 2,000 individual training events in a four month period.

## **apprenticeship program**

We are extremely proud of our apprenticeship program, and in particular the retention levels post qualification. The program has been running since 1979 and we currently have 78 apprentices enrolled.

## **indigenous participation**

We are also proud of our commitment to indigenous participation. During the year we employed an Indigenous Liaison Co-ordinator and continued to provide meaningful and long-term employment opportunities to indigenous Australians. I am pleased to report that on our Rio Tinto Cape Lambert Phase A project 6.5% of our total workforce were indigenous employees.

## **investment in systems and assets**

During the year we continued to invest in the infrastructure required to grow the Company.

As noted in the Finance Review we spent over \$20m on fixed asset additions, primarily to expand and renew our plant and equipment fleet.

We also progressed our systems upgrades during the year. Our new ERP and the **sceeTrak** suite of project management systems are both expected to be implemented by December 2013.

## **new office**

In September 2013 we will take tenancy of a second office building at our Naval Base premises to accommodate our increased workforce. This will be the third new office

that we have opened in recent years, following the Brisbane and Rockhampton offices, and further emphasises the growth phase **scee** has gone through.

## **rebranding**

2013 saw a rebranding of the Company which aligned with our strategic aim of becoming a recognised Tier One E&I contractor. In addition to the creation of the **infrastructure**, **construction** and **services** brands discussed above, we also launched our new logo and visual identity which can be seen throughout the Annual Report.





# managing director's review continued

for the year ending 30 June 2013

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## outlook

After a record year in 2013, we enter 2014 as a company of greater scale and operating capacity with a strong balance sheet to match.

We ended 2013 operating at historically high levels of activity and begin 2014 in similar fashion as we complete work on existing key projects.

## order book

Our order book at 30 June 2013 was \$91.5m. This excludes work under recurring framework agreements.

In addition to the order book we remain in an advanced state of negotiation on a number of high value contracts, including large scale LNG work being tendered by KSJV.

We also have framework agreements in place with both Rio Tinto and BHP Billiton.

## market outlook

The environment in which we operate has changed considerably during the year.

Falling commodity prices have resulted in a number of resource projects being put on hold or cancelled. We have also seen clients becoming more commercially focussed on existing projects.

While **scee's** business is susceptible to commodity price movements we have positioned ourselves to be exposed to five sectors and are protected to an extent against weakness in individual commodities.

The LNG sector presents a huge opportunity for growth with six Australian LNG plants having achieved Final

Investment Decision (FID) and scheduled to be completed over the next three to five years. With up to \$7 billion of E&I work to be performed on these plants, we are positioned to capitalise on this through KSJV.

The three East Coast LNG plants also have an upstream Coal Seam Gas (CSG) requirement in order to provide throughput for the plants. CSG offers a potential revenue stream for the duration of the plants' lives and not just for the construction phase. Having previously executed the QGC Early Works project we have demonstrated our capability and see significant opportunity in the sector.

Iron Ore remains a core business for **scee**. Despite the weakness in the sector we continue to see a pipeline of opportunities from the likely expansion of existing projects at Cape Lambert and Sino and potential new projects such as Roy Hill. Our sustaining capital framework agreement with BHP Iron Ore has the potential to become a significant revenue contributor for our **scee infrastructure** and **scee services** divisions.

We view metals, and gold in particular, as a spot market and will continue to tender for projects as and when they arise. At current gold prices we would expect expansion of existing projects to take priority over new projects.

We have seen the coal market slow considerably as a result of the collapse in the coal price. When activity returns to the sector we are well placed to secure future work having completed our first coal project in 2012.

With the recent deferrals and cancellations of resource projects in Australia there will be increased competition to secure the work that goes ahead. Scale will become



increasingly important with clients looking for contractors with sufficient operating and financial capacity. I am confident that our growth over the past two years has placed us firmly within this grouping.

We also anticipate a changing approach to the client contracting model. The EPCM model which has been the preferred approach on large scale resource projects is under challenge on its effectiveness and competitiveness for the client. **scee** is preparing itself for possible differing approaches, which may include use of Design and Construct or EPC models. These approaches are likely to require **scee** to be flexible in how it approaches this future in order to keep meeting the clients' needs, which sits at the core of **scee's** values.

Project execution and commercial management, particularly in respect of variations and claims, remain key to **scee** achieving a successful financial performance. We continue to ensure that each project is led by an appropriately qualified project management team and have added to our commercial management capability in light of the increased focus on this area by our clients.

### long-term outlook

While we continue to see a strong pipeline of construction work in Australia, particularly in the LNG sector, it is clear that we cannot rely solely on domestic construction as a long term growth strategy.

We see the growth of our recurring revenues as fundamental to the Company's future. We have established the **scee services** brand and will be looking to increase its revenues considerably over the next three to five years through organic growth and by exploring acquisition opportunities.

A return to large scale international work offers an opportunity to supplement Australian revenues. We will continue to evaluate our options in this area.

### conclusion

2013 was a very successful year for **scee**. Not only did we achieve a record financial result, but we also enter 2014 having made significant progress towards our goal of becoming recognised as a Tier One E&I contractor.

Despite the current uncertainty in the resources sector we continue to see opportunities for growth over the coming years.

Our achievements in 2013 would not have been possible without the hard work and dedication of our employees and I thank the entire **scee** team for their contribution.

I would also like to thank our shareholders for their continued support and I look forward to sharing further success in the future.



Simon High  
Managing Director





# directors' report

for the year ending 30 June 2013

your directors submit their report for Southern Cross  
Electrical Engineering Limited ('scee' or 'the Company')  
for the year ended 30 June 2013.

# directors' report continued

for the year ending 30 June 2013

# board profiles

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



## John Cooper Chairman, Independent Non-Executive Director

John has over 35 years experience in the Construction and Engineering sector in Australia and overseas. He has provided consulting services to major projects for a number of years. John has been Chairman since March 2011, having served on the Board since the Company listed on the ASX in 2007. John is also a Non-Executive Director of NRW Holdings and Aurizon Holdings Limited.

John was previously a member of the Murray and Roberts International Board, overseeing its operations globally and was a Non-Executive Director of Clough Engineering after having served in the role as Interim CEO during which time he successfully re-structured the Clough organisation.

John's experience includes five years as Managing Director and Chief Executive of CMPSGF and over twenty years with Concrete Constructions, where he held the position of General Manager and was on the Board. John was also previously a Non-Executive Director of Flinders Mines Limited and Neptune Marine Limited. He is a Fellow of The Institute of Company Directors, a Fellow of the Australian Institute of Management and a Fellow of the Institute of Engineers.



## Simon High Managing Director

Simon has more than 35 years experience in the global resource industry (oil & gas and mineral processing) having worked in Project Management/Project Director roles in the UK, Norway, Europe and South Africa. Simon has worked in a number of senior corporate management roles as Engineering Director, Managing Director, President and Chief Operating Officer with John Brown Engineers & Constructors, Aberdeen; Kvaerner Oil & Gas, Houston; United Construction, Australia; and Clough Limited, Western Australia.

He has a strong track record in executing world-class resource projects, both offshore and onshore in addition to growing new and existing businesses. Simon is experienced in developing strong customer relations based on industry knowledge, performance and trust. Simon has a Bachelor of Science in Civil Engineering, is a Fellow of the Institute of Engineers and a Fellow of the Australian Institute of Company Directors.

Simon is also Chairman of the Board of KSJV, **scee's** joint venture with Kentech.



## Gianfranco Tomasi Non-Executive Director

Frank is the founder of the Company. He was the Chairman of **scee** from 1978 until he retired from that role in March 2011. Frank has over 40 years experience in the electrical construction industry. Prior to founding **scee** he worked at Transfield (WA) Pty Ltd from 1968 - 1978, serving as the National Electrical Manager from 1971 - 1978.

Frank holds an Electrical Engineering Certificate (NSW) and is a Member of the Australian Institute of Company Directors. Frank is a member of the Nomination and Remuneration Committee.

Frank was awarded the Order of Australia in the 2013 Australia Day Honours list. The award recognised Frank's service to business through leadership roles in the electrical contracting industry and his contribution to the community.

# directors' report continued

for the year ending 30 June 2013

# board profiles continued



## **Peter Forbes** Independent Non-Executive Director

Peter is a Fellow of Certified Practising Accountants, a Fellow of Chartered Secretaries Australia, a Fellow of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute.

Peter is also a Non-Executive Director of QIC Private Capital Pty Ltd and a member of the Queensland Council of the Australian Institute of Company Directors. Previously, Peter was Deputy Chief Executive and Executive General Manager, Equities at Queensland Investment Corporation and has held a number of senior management positions across a broad range of industries including Non-Executive Director of Macarthur Coal Ltd. Peter is the Chairman of the Nomination and Remuneration Committee and a member of the Audit and Risk Management Committee.



## **Derek Parkin** Independent Non-Executive Director

Derek is a Fellow of the Institute of Chartered Accountants Australia (ICAA) and a Fellow of the Australian Institute of Company Directors.

He is currently Professor of Accounting at the University of Notre Dame, Australia, having previously been an assurance partner with Arthur Andersen and Ernst & Young. Derek's accounting experience has spanned some 40 years and four continents, primarily in the public company environment.

Derek is a past national Board member of the ICAA and has served on a number of the ICAA's national and state advisory committees. In 2011, he was a recipient of the ICAA's prestigious Meritorious Service Award.

Derek's non-executive directorships to date have been in the non-listed sphere, principally in the oil & gas and manufacturing sectors. He has also chaired a number of advisory committees in both the government and not-for-profit sectors. Derek is the Chairman of the Audit and Risk Management Committee.



## **John ('Jack') Hamilton** Independent Non-Executive Director

Jack has held a number of senior executive roles with international oil and gas exploration and production companies including Shell, Woodside and Liquid Niugini Gas. Whilst with Woodside, Jack was Director NW Shelf Ventures having overall responsibility for Woodside's NW Shelf Ventures Business Unit. Jack currently holds a Non-Executive Directorship with Geodynamics Ltd and Calix Ltd.

He holds a Bachelor of Chemical Engineering Degree and a Doctorate of Philosophy (Engineering) both from the University of Melbourne.

Jack is a member of both the Nomination and Remuneration Committee and the Audit and Risk Management Committee.

Jack is a Director of KSJV, **scee's** joint venture with Kentech.

# executive profiles

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

## executive team



**Simon Buchhorn**  
Chief Operating Officer

Simon has been with **scee** for over 30 years and has extensive experience through a number of roles in the business. He is responsible for the Company's operations, contract delivery, client negotiations and general business activities.

Simon is General Manager of KSJV, **scee's** joint venture with Kentech.



**Chris Douglass**  
Chief Financial Officer & Company Secretary

Chris is responsible for the preparation of the Company's financial records, financial planning, enterprise risk management, investor relations and company secretarial duties.

Chris was formerly the Chief Financial Officer at Pacific Energy Ltd and prior to that held a number of senior finance roles with Clough Ltd. Chris is a Chartered Accountant and member of Chartered Secretaries Australia who commenced his finance career with Deloitte. Prior to his time with Deloitte, Chris qualified and practiced as a solicitor in London.

Chris is a Director of KSJV, **scee's** joint venture with Kentech.

## company secretaries



**Colin Harper**  
Joint Company Secretary

Colin was appointed to the position of Company Secretary on 18 March 2013. Prior to joining **scee** Colin was the Chief Financial Officer and Company Secretary of FAR Limited and previously held a management position with Ernst & Young. Colin is a Chartered Accountant and a member of Chartered Secretaries Australia.

**Chris Douglass**  
Joint Company Secretary

Details provided above

# directors' report continued

for the year ending 30 June 2013

## interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of scee were:

Director	Number of ordinary shares	Number of options over ordinary shares
John Cooper	116,667	-
Simon High	400,000	-
Gianfranco Tomasi	65,227,131	-
Derek Parkin	20,000	-
Peter Forbes	50,000	-
Jack Hamilton	29,780	-

## directors' meetings

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

Director	Board Meetings		Audit & Risk Management Committee Meetings		Nomination & Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
John Cooper	14	13	N/A	N/A	N/A	N/A
Simon High	14	14	N/A	N/A	N/A	N/A
Gianfranco Tomasi	14	13	N/A	N/A	4	3
Derek Parkin	14	14	4	4	N/A	N/A
Peter Forbes	14	14	4	4	4	4
Jack Hamilton	14	14	4	4	4	4

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

## dividends

	Cents per share	Total amount \$'000
<b>Declared and paid during the period (fully franked at 30%)</b>		
Final franked dividend for 2012	2.25c	3,633
Interim franked dividend for 2013	-	-
<b>Declared after balance date and not recognised as a liability (fully franked at 30%)</b>		
Final franked dividend for 2013	2.70c	4,361



# directors' report continued

for the year ending 30 June 2013

## principal activities

The principal activities during the year of the entities within the consolidated group was the provision of large scale specialised electrical, control and instrumentation installation and testing services for the resources, infrastructure and heavy industrial sectors.

## operating and financial review

A review of operations of the consolidated group during the financial year, the results of those operations, the changes in the state of affairs and the likely developments in the operations of the consolidated entity are set out in the Managing Director's Review on page 14.

Operating results for the year were:	2013 \$'000	2012 \$'000
Contract revenue	277,979	219,983
Profit after income tax from continuing operations	17,341	13,708

## significant changes in the state of affairs

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

## significant events after sheet balance date

There are no matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

## likely developments and expected results

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

## environmental regulation and performance

The operations of the Group are subject to the environmental regulations that apply to our clients. During 2013 the Group complied with the regulations.

## share options and performance rights

During the reporting year, no shares were issued from the exercise of options previously granted as remuneration.

During the reporting year 961,050 performance rights were issued to senior management under the Senior Management Long Term Incentive Plan.

During the reporting year, 36,304 shares were issued from the vesting and exercise of performance rights previously granted as remuneration under the Senior Management Long Term Incentive Plan.

At the date of this report unissued ordinary shares of the Company under options are:

Expiry date	Exercise price	Number of shares
28 November 2013	\$1.15	166,667

All options expire on the earlier of their expiry date or termination of the employee's employment. All of the above options have vested. Further details are contained in note 31 to the accounts.

# directors' report continued

for the year ending 30 June 2013

## **indemnification and insurance of directors and officers**

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

- a) the liability arises out of conduct involving a wilful breach of duty; or
- b) there has been a contravention of Sections 182 or 183 of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$82,620 (2012: \$75,527).

## **proceedings on behalf of company**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## **non-audit services**

The board of directors, in accordance with advice from the Audit and Risk Management Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that such services will not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

## **rounding off**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## **auditor's independence declaration**

The lead auditor's independence declaration for the year ended 30 June 2013 has been received and can be found on page 102 of this Annual Report.



# remuneration report

audited for the year ending 30 June 2013

# remuneration report continued

audited for the year ending 30 June 2013

This Remuneration Report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company and any executive in the Parent and the Group that is a senior executive, general manager or secretary who meets the definition of an executive under the Corporations Act 2001.

Key Management Personnel in the period were:

## **non-executive director**

John Cooper	Independent Non-Executive Chairman
Gianfranco Tomasi	Non-Executive Director
Derek Parkin	Independent Non-Executive Director
Peter Forbes	Independent Non-Executive Director
Jack Hamilton	Independent Non-Executive Director

## **executive director**

Simon High	Managing Director
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## **executive**

Simon Buchhorn	Chief Operating Officer
Chris Douglass	Chief Financial Officer/Company Secretary

## **remuneration philosophy**

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives.

To this end the Group embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives;
- link executive rewards to shareholder value;
- have a significant portion of executive remuneration 'at risk'; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

## **nomination and remuneration committee**

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

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

For details of who are the members of the Nomination and Remuneration Committee, refer to the Corporate Governance statement on page 41 of this Annual Report.

## **remuneration structure**

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

# remuneration report continued

audited for the year ending 30 June 2013

## **executive remuneration**

### **Objective**

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

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

### **Structure**

In determining the level and make-up of executive remuneration, the Nomination and Remuneration Committee monitors published information on remuneration matters.

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

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

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

## **executive remuneration - fixed**

### **Objective**

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee. This process consists of a review of company, business and individual performance, relevant comparative remuneration externally and internally and monitoring published information on remuneration matters.

### **Structure**

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without undue cost for the Group. There are no guaranteed base pay increases for any executive.

## **executive remuneration - variable - short term incentive (STI)**

### **Objective**

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

### **Structure**

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

The financial KPIs used to assess performance are comparing to budget the following measures:

- Revenue;
- Net profit after tax; and
- Forward order book.

# remuneration report continued

audited for the year ending 30 June 2013

For the year ended 30 June 2013, the financial KPIs account for 80% of both the Managing Director's and the executive team's STI. The non-financial KPIs comprise systems and process developments. These KPIs account for 20% of both the Managing Director's and the executive team's STI. These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value. For each component of the STI against a KPI no award is made where performance falls below the minimum threshold for that KPI.

The assessment of KPIs for the year ended 30 June 2013 is based on the audited financial results for the company. The Nomination and Remuneration Committee recommends the STI to be paid to the individuals for approval by the Board. The method of assessment was chosen as it provides the Nomination and Remuneration Committee with an objective assessment of the individual's performance.

## **executive remuneration – variable – long term incentive (LTI)**

### **Objective**

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

### **Structure**

LTI grants to executives are delivered at the discretion of the Nomination and Remuneration Committee in the form of performance rights or share options under the Senior Management Long Term Incentive Plan. During the year ended 30 June 2013, there were 581,745 performance rights issued to key management personnel under the Senior Management Long Term Incentive Plan. The Key Performance Indicators ("KPIs") used to measure performance for these performance rights are earnings per share growth and absolute total shareholder return. These KPIs were chosen because they are aligned to shareholder wealth.

Under the Group's share trading policy, directors, employees and contractors of the Company must not engage in hedging arrangements, deal in derivatives or enter into other arrangements which limit the economic risk of any unvested entitlements under any equity based remuneration scheme, as such arrangements have been prohibited by law since 1 July 2011. The Group regularly reviews compliance with and effectiveness of its share trading policy. The Group considers contravention of the policy a serious matter and any contravention will be investigated.

On a change of control LTI grants fully vest with the executives.

## **non-executive director remuneration**

### **Objective**

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

### **Structure**

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

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually. The Board considers the findings from external market surveys as well as the fees paid to non-executive directors of comparable companies in our sector when undertaking the annual review process.

The Chairman of the Company's Board receives a base annual fee of \$130,000 for being the chairman of the Group. The other Non-Executive Directors receive a base annual fee of \$80,000. An additional fee of \$7,500 per annum is also paid for each Board Committee on which a Non-Executive Director sat or \$10,000 per annum if the Director was a Chair of that Board Committee. Directors also receive superannuation at the statutory rate in addition to their Director fees and Committee fees. The payment of additional fees for serving on a Committee recognises the additional time commitment required by the Non-Executive Directors who serve on one or more Sub-Committees.

# remuneration report continued

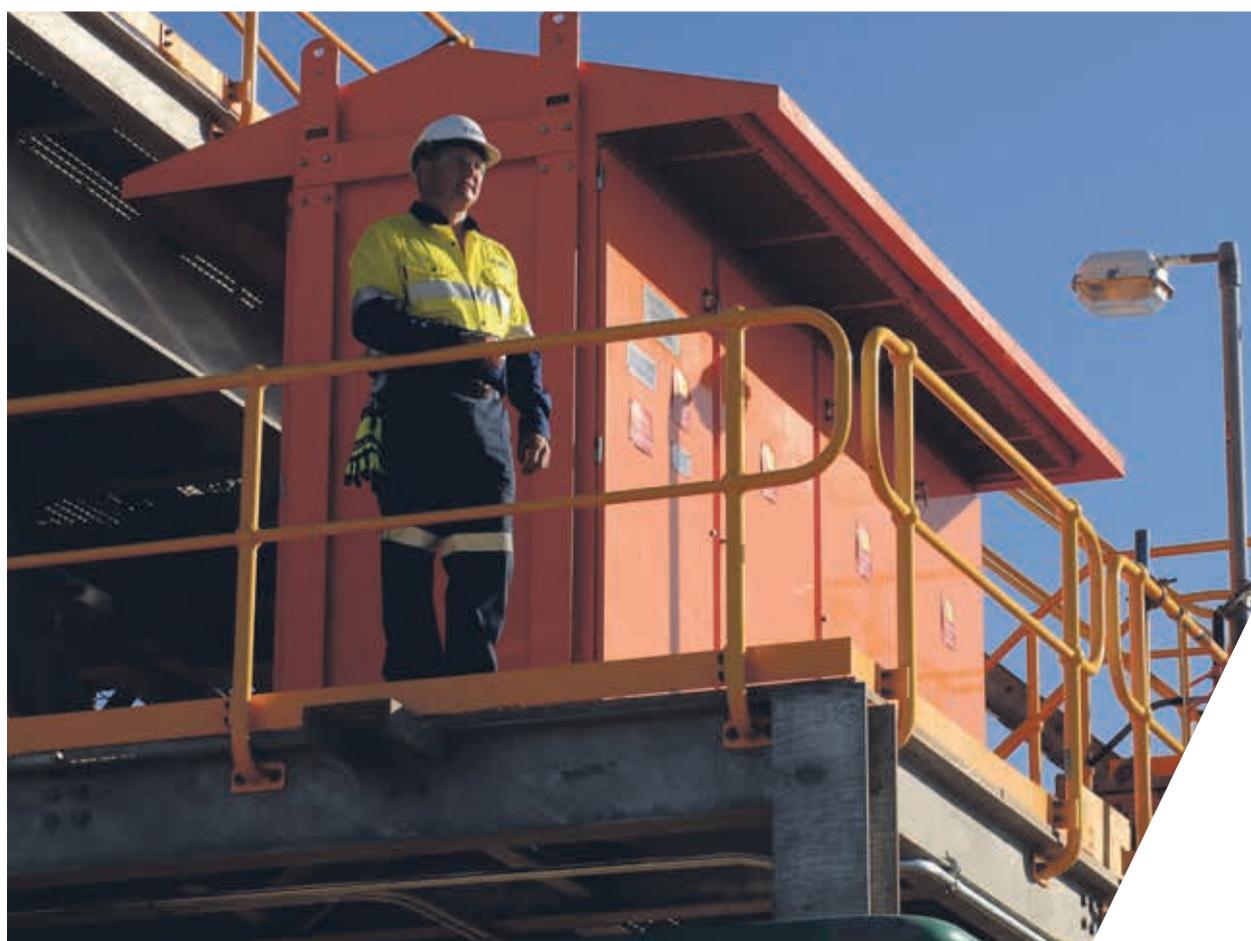
audited for the year ending 30 June 2013

The Non-Executive Directors do not receive retirement benefits, nor do they participate in any incentive programs. The remuneration of Non-Executive Directors for the periods ended 30 June 2013 and 30 June 2012 is detailed in Table 1 of this report.

## consequences of performance on shareholder wealth

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

	2013 \$000	2012 \$000	2011 \$000	2010 \$000	2009 \$000
Profit/(loss) attributable to owners of the company	17,341	13,708	(1,652)	8,675	15,464
Dividends paid	3,617	-	5,588	7,913	7,200
Change in share price	(31%)	43%	(20%)	13%	(22%)
Return on capital employed	25%	21%	(2%)	26%	62%



# remuneration report continued

audited for the year ending 30 June 2013

**Table 1: Remuneration of Key Management Personnel**

In AUD\$	Note	Year	Short-term			Post-employment Super-annuation benefits \$	Termination benefits \$	Share-based payments		Total \$	Proportion of remuneration performance related %	Value of options and rights as proportion of remuneration %
			Salary & Fees \$	STI cash bonus (A) \$	Non-monetary benefits \$			Total \$	Share issues (B) \$			
<b>Non-Executive Directors</b>												
		2013	130,000	-	-	11,700	-	-	-	141,700	-	-
		2012	132,500	-	-	11,925	-	-	-	144,425	-	-
		2013	87,500	-	-	7,875	-	-	-	95,375	-	-
		2012	74,000	-	-	6,660	-	-	-	80,660	-	-
		2013	90,000	-	-	8,100	-	-	-	98,100	-	-
		2012	84,000	-	-	7,560	-	-	-	91,560	-	-
		2013	97,500	-	-	8,775	-	-	-	106,275	-	-
	1	2012	69,250	-	-	6,233	-	-	-	75,483	-	-
	2	2013	98,333	-	-	8,217	-	-	-	106,550	-	-
	1	2012	66,084	-	-	5,948	-	-	-	72,032	-	-
		2013	-	-	-	-	-	-	-	-	-	-
	3	2012	1,582	-	-	142	-	-	-	1,724	-	-
<b>Executive Directors</b>												
		2013	799,900	356,250	-	25,000	-	-	226,154	1,407,304	41.4%	16.1%
		2012	711,625	105,000	-	50,000	-	-	570,000	1,587,704	16.1%	9.5%
<b>Executives</b>												
		2013	342,710	161,500	-	25,000	-	-	-	630,938	41.7%	16.1%
		2012	276,878	42,830	-	48,173	-	-	-	431,948	24.7%	14.8%
		2013	297,573	147,250	-	24,979	-	-	-	562,827	42.7%	16.5%
	4	2012	219,660	-	-	19,183	-	-	-	288,303	17.2%	17.2%
		2013	-	-	-	-	-	-	-	-	-	-
	5	2012	75,435	39,116	-	7,905	12,621	-	(21,462)	113,615	15.5%	(18.8%)
		<b>Total 2013</b>	<b>1,943,516</b>	<b>665,000</b>	<b>-</b>	<b>119,646</b>	<b>-</b>	<b>-</b>	<b>420,907</b>	<b>3,149,069</b>	<b>34.5%</b>	<b>13.4%</b>
		<b>Total 2012</b>	<b>1,711,014</b>	<b>186,946</b>	<b>-</b>	<b>163,729</b>	<b>12,621</b>	<b>-</b>	<b>243,144</b>	<b>2,887,454</b>	<b>14.9%</b>	<b>8.4%</b>

- Peter Forbes and Jack Hamilton were appointed as Non-Executive Directors on 1 October 2011.
- From 1 March 2013 Jack Hamilton received an additional \$10,000 per annum as a fee for his role as a **scee** representative on the KSJV Management Board.
- Brian Carman resigned as a Non-Executive Director on 30 June 2011.
- Chris Douglass was appointed Chief Financial Officer on 19 September 2011.
- Stephen Fewster resigned on 7 October 2011.

# remuneration report continued

audited for the year ending 30 June 2013

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

- A. The STI bonus is for the amount that vested in the 2013 financial year based on achievement of personal goals and satisfaction of specified performance criteria set for the 2012 financial year using the criteria set out on page 33. The amount was finally determined after performance reviews were completed and approved by the Nomination and Remuneration Committee.
- B. On 29 November 2011 750,000 ordinary shares were issued at nil consideration to Simon High as approved by shareholder resolution at the Company's Annual General Meeting on 28 November 2011. These shares were fair valued at \$570,000.
- C. The fair value of the options and performance rights with market related vesting conditions were valued using a Monte Carlo simulation model. The use of a Monte Carlo Simulation model simulates multiple future price projections for both scee shares and the shares of the peer group against which they are tested. The options and performance rights with non-market related vesting conditions were valued using the Black-Scholes option model. The values derived from these models are allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the fair value of the options and performance rights recognised in this reporting period.

## analysis of STI included in remuneration

Details of the vesting profile of the STI awarded as remuneration to the Managing Director and the named executives are below:

	Short term incentive		
	Included in remuneration \$	% vested in year	% forfeited in year
<b>Managing Director</b>			
Simon High	356,250	95%	5%
<b>Executives</b>			
Simon Buchhorn	161,500	95%	5%
Chris Douglass	147,250	95%	5%

Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria set for the 2012 financial year. No amounts vest in future financial years in respect of the STI schemes for the 2012 financial year. The 2013 financial year STI will be assessed by the Nomination and Remuneration Committee based on achievement of personal goals and satisfaction of specified performance criteria set for the 2013 financial year.

# remuneration report continued

audited for the year ending 30 June 2013

## Performance rights granted as remuneration in 2013

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

2013	No.	Grant Date	Terms and Conditions for each Grant				Vested As at 30 June 2013		Forfeited As at 30 June 2013	
			Fair value per performance right at grant date (\$)	Exercise price per performance right (\$)	Vesting Date	Expiry Date	No.	%	No.	%
<b>Executive Director</b>										
Simon High <sup>1,3</sup>	161,698	29/10/12	1.13	0.00	30 June 2015	30 June 2016	-	-	-	-
Simon High <sup>2,3</sup>	161,698	29/10/12	0.57	0.00	30 June 2015	30 June 2016	-	-	-	-
<b>Executives</b>										
Simon Buchhorn <sup>1</sup>	68,813	25/9/12	1.03	0.00	30 June 2015	30 June 2016	-	-	-	-
Simon Buchhorn <sup>2</sup>	68,812	25/9/12	0.48	0.00	30 June 2015	30 June 2016	-	-	-	-
Chris Douglass <sup>1</sup>	60,362	25/9/12	1.03	0.00	30 June 2015	30 June 2016	-	-	-	-
Chris Douglass <sup>2</sup>	60,362	25/9/12	0.48	0.00	30 June 2015	30 June 2016	-	-	-	-
	581,745						-	-	-	-

1. Performance rights granted with EPS growth as the vesting condition
2. Performance rights granted with Absolute TSR as the vesting condition
3. Performance rights allocated to Simon High were approved by Shareholders at the Company's AGM on 29 October 2012

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

- To be performance tested over a three year period from 1 July 2012 to 30 June 2015 ("Performance Period");
- No performance rights will vest until 30 June 2015;
- 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:

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

TSR will be assessed against targets for threshold performance of 12% per annum compounded over the Performance Period and for stretch performance of 15% per annum compounded over the Performance Period. The vesting schedule is as follows for TSR performance over the Performance Period:

Less than 12% per annum compounded	0% vesting
12% per annum compounded	50% vesting
Between 12% and 15% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 15% per annum compounded	100% vesting

# remuneration report continued

audited for the year ending 30 June 2013

EPS will be assessed against targets for threshold performance of 17 cents per share at the end of the Performance Period and for stretch performance of 22 cents per share at the end of the Performance Period. The vesting schedule is as follows for EPS performance at the end of the Performance Period:

Less than 17 cents per share	0% vesting
17 cents per share	50% vesting
Between 17 and 22 cents per share	Pro-rata vesting between 50% and 100%
At or above 22 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.

## Performance rights granted as remuneration in 2012

During the 2012 financial year performance rights over ordinary shares in the company were granted as remuneration to KMP. These performance rights will vest subject to the meeting of performance set out below. Details on performance rights that were granted during the 2012 financial year are as follows:

2012	No.	Grant Date	Terms and Conditions for each Grant				Vested As at 30 June 2013		Forfeited As at 30 June 2013	
			Fair value per performance right at grant date (\$)	Exercise price per performance right (\$)	Vesting Date	Expiry Date	No.	%	No.	%
<b>Executive Director</b>										
Simon High <sup>1,3</sup>	209,832	2/5/12	1.25	0.00	30 June 2014	30 June 2015	-	-	-	-
Simon High <sup>2,3</sup>	209,832	2/5/12	0.92	0.00	30 June 2014	30 June 2015	-	-	-	-
<b>Executives</b>										
Simon Buchhorn <sup>1</sup>	93,503	2/5/12	1.25	0.00	30 June 2014	30 June 2015	-	-	-	-
Simon Buchhorn <sup>2</sup>	93,503	2/5/12	0.92	0.00	30 June 2014	30 June 2015	-	-	-	-
Chris Douglass <sup>1</sup>	82,434	2/5/12	1.25	0.00	30 June 2014	30 June 2015	-	-	-	-
Chris Douglass <sup>2</sup>	82,434	2/5/12	0.92	0.00	30 June 2014	30 June 2015	-	-	-	-
	<b>771,538</b>						-	-	-	-

1. Performance rights granted with EPS growth as the vesting condition
2. Performance rights granted with Absolute TSR as the vesting condition
3. Performance rights allocated to Simon High in the 2012 financial year were approved by Shareholders at the Company's AGM on 29 October 2012. The fair value of the performance rights was recalculated at this date. Performance rights with EPS growth as the vesting condition had a revised fair value of \$1.17. Performance right with Absolute TSR as the vesting condition had a revised fair value of \$0.79. An adjustment to reflect the cumulative recalculated fair value at grant date was recognised in the share based payment expense in the 2013 financial year.

# remuneration report continued

audited for the year ending 30 June 2013

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

- To be performance tested over a three year period from 1 July 2011 to 30 June 2014 ("Performance Period");
- No performance rights will vest until 30 June 2014;
- 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:

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

TSR will be assessed against targets for threshold performance of 12% per annum compounded over the Performance Period and for stretch performance of 15% per annum compounded over the Performance Period. The vesting schedule is as follows for TSR performance over the Performance Period:

Less than 12% per annum compounded	0% vesting
12% per annum compounded	50% vesting
Between 12% and 15% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 15% per annum compounded	100% vesting

EPS will be assessed against targets for threshold performance of 12 cents per share at the end of the Performance Period and for stretch performance of 15 cents per share at the end of the Performance Period. The vesting schedule is as follows for EPS performance at the end of the Performance Period:

Less than 12 cents per share	0% vesting
12 cents per share	50% vesting
Between 12 and 15 cents per share	Pro-rata vesting between 50% and 100%
At or above 15 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.

## employment contracts

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

Executive	Notice Period
Simon High	12 months*
Simon Buchhorn	3 months
Chris Douglass	6 months

\* Simon High must provide six months notice to the Company prior to resignation. All other executives must provide notice as per above.

The Group retains the right to terminate a contract immediately by making a payment in lieu of the notice period. An executive may be terminated immediately for a breach of their employment conditions. Upon termination the executive is entitled to receive their accrued annual leave and long service leave together with any superannuation benefits. There are no other termination payment entitlements.

Where an executive holds performance rights under the Group's LTI Plan at the date of their retirement the Board may, 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. Where the Board does not exercise this discretion any unvested performance rights will lapse on retirement.



corporate  
governance  
**statement**

for the year ending 30 June 2013

# corporate governance statement continued

for the year ending 30 June 2013

The Board of Directors of Southern Cross Electrical Engineering Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of **scee** on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Group's compliance with the Corporate Governance Council's Recommendations.

Note	Recommendation	Comply Yes/No	Reference
<b>Principle 1 – Lay solid foundations for management and oversight</b>			
1.1	Companies should establish the functions reserved for the Board and those delegated to senior management and disclose those functions.	Yes	Page 44
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Pages 32-34
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Yes	Pages 44-48
<b>Principle 2 – Structure the Board to add value</b>			
2.1	A majority of the Board should be Independent Directors.	Yes	Pages 44-45
2.2	The Chairman should be an Independent Director.	Yes	Page 45
2.3	The roles of Chairman and Chief Executive Officer should not be exercised by the same individual.	Yes	Page 45
2.4	The Board should establish a Nomination Committee.	Yes	Pages 47-48
2.5	Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors.	Yes	Page 45
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Yes	Pages 44-48
<b>Principle 3 – Promote ethical and responsible decision making</b>			
3.1	Establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the Company's integrity;</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Yes	Website
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes	Page 46
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	No	Page 46
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes	Page 46
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes	Pages 44-48
<b>Principle 4 – Safeguard integrity in financial reporting</b>			
4.1	The Board should establish an Audit Committee.	Yes	Page 47
4.2	Structure the Audit Committee so that it consists of: <ul style="list-style-type: none"> <li>only Non-Executive Directors;</li> <li>a majority of Independent Directors;</li> <li>an Independent Chairman, who is not Chairman of the Board;</li> <li>at least three members.</li> </ul>	Yes	Page 47
4.3	The Audit Committee should have a formal charter.	Yes	Website
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Pages 44-48

# corporate governance statement continued

for the year ending 30 June 2013

Note	Recommendation	Comply Yes/No	Reference
<b>Principle 5 – Make timely and balanced disclosure</b>			
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies.	Yes	Website
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes	Pages 44-48
<b>Principle 6 – Respect the rights of shareholders</b>			
6.1	Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Yes	Website
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Yes	Pages 44-48
<b>Principle 7 – Recognise and manage risk</b>			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Pages 46-47
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risk.	Yes	Pages 46-47
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 259A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 47
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	Pages 44-48
<b>Principle 8 – Remuneration fairly and responsibly</b>			
8.1	The Board should establish a Remuneration Committee.	Yes	Pages 47-48
8.2	The Remuneration Committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of Independent Directors;</li> <li>• is chaired by an Independent Chair;</li> <li>• has at least three members.</li> </ul>	Yes	Pages 47-48
8.3	Clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives.	Yes	Pages 47-48
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Pages 44-48

scee's corporate governance practices were in place throughout the year ended 30 June 2013, unless otherwise stated. scee complies in all material respects with the Council's best practice recommendations.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by scee refer to our website:

[www.scee.com.au](http://www.scee.com.au)

# corporate governance statement continued

for the year ending 30 June 2013

## board functions

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established processes for the nomination and selection of Directors and for the operation of the Board.

The responsibility for the operation and administration of the Company is delegated by the Board to the Managing Director and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the company, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Audit and Risk Management Committee; and
- Nomination and Remuneration Committee.

The roles and responsibilities of these committees are discussed throughout this Corporate Governance Statement.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risk identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- ongoing development of the strategic plan and approving initiatives and strategies designed to ensure continued growth and success of the entity; and
- implementation of budgets by management and monitoring progress against budgets – via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- approval of the annual and half-yearly financial reports;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- reporting to shareholders.

## structure of the board

The skills, experience and expertise relevant to the position of director held by each Director in office at the date of the annual report is included in the Directors' Report on pages 24 and 25. Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

In the context of Director independence, 'materiality' is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is greater than 5% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the

# corporate governance statement continued

for the year ending 30 June 2013

nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, Mr J Cooper, Prof D Parkin, Mr P Forbes and Dr J Hamilton are considered to be Independent Directors. As a result, the Board has a majority of independent Non-Executive Directors with combined skills and capabilities which best serve the interests of shareholders.

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

The term in office held by each Director in office at the date of this report is as follows:

Director	Term in Office (Years)	Role
John Cooper	6	Chairman
Simon High	3	Managing Director
Gianfranco Tomasi	35	Non-Executive Director
Derek Parkin	2	Non-Executive Director
Peter Forbes	1	Non-Executive Director
Jack Hamilton	1	Non-Executive Director

## performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Nomination and Remuneration Committee conducted performance evaluations of the executive team which involved an assessment of each executive's performance against specific and measurable qualitative and quantitative performance criteria. It is the intention to conduct regular reviews of each Board member's performance. The performance criteria against which Directors and executives are assessed are aligned with the financial and non-financial objectives of **scee**.

## trading policy

Under the Company's Share Trading Policy, a Director, executive or other employee must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities. A Director or executive is not allowed to deal in Securities of the Company as a matter of course in the following periods:

- from balance date to the release of annual or half yearly results;
- within the period of 1 month prior to the issue of a prospectus; and
- where there is in existence price sensitive information that has not been disclosed because of an ASX Listing Rule exception.

Directors and executives should wait at least two hours after the relevant release before dealing in Securities so that the market has had time to absorb the information.

Before commencing to trade, a Director or any executive or other employee nominated by the Board must first notify the Company Secretary of their intention to do so. The notification must state that the proposed purchase or sale is not as a result of access to, or being in possession of, price sensitive information that is not currently in the public domain. As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by the Directors in the securities of the company.

Directors, executives and employees of the Company must not engage in hedging arrangements, deal in derivatives or enter into other arrangements which limit the economic risk of any unvested **scee** entitlements under any equity based remuneration scheme (such as an incentive or performance based scheme).

# corporate governance statement continued

for the year ending 30 June 2013

## diversity

The Company's Code of Conduct commits it as an equal opportunity employer, promoting and supporting a diverse workforce at all levels.

During the year the Company adopted a formal Diversity Policy which encompasses ethnicity, gender, language, age, religion, socio-economic status, physical and mental ability, experience and education.

The Policy recognises the Company's talented and diverse workforce as a key competitive advantage and that our business success is a reflection of the quality, dedication and skill of our people. The Company is an equal opportunity employer where employees are evaluated on their own merits. All employees are treated with respect and dignity and it is the Company's policy that they will not be subjected to any form of discrimination, harassment and other objectionable conduct in the workplace.

The Board is committed to setting measurable objectives for maintaining a broad culture of diversity in our workplace. In this context, the Board does not consider it appropriate to disclose these objectives in respect of gender diversity, in keeping with the broad ambit of our Diversity Policy. Nevertheless, gender representation statistics are provided, for information, in line with the Corporate Governance Council's Recommendations.

Gender representation in the Company is as follows:

	30 June 2013		30 June 2012	
	Female (%)	Male (%)	Female (%)	Male (%)
Board representation	0%	100%	0%	100%
Senior management representation	7%	93%	14%	86%
Group representation	11%	89%	10%	90%

During the year the Company received confirmation from the Workplace Gender Equality Agency that it is compliant with the Workplace Gender Equality Act 2012.

The Company also has a formal indigenous strategy in both our Australian and international operations to encourage community engagement. This strategy outlines the Company's commitment to providing Indigenous employment opportunities, ongoing support, training and career development.

## risk

The Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Company's process of risk management and internal compliance and control includes:

- establishing the Company's goals and objectives, and implementing and monitoring strategies and policies to achieve these goals and objectives;
- continuously identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls; and
- monitoring the performance of, and continuously improving the effectiveness of, risk management systems and internal compliance and controls, including an annual assessment of the effectiveness of risk management and internal compliance and control. To this end comprehensive practices are in place that are directed towards achieving the following objectives:

# corporate governance statement continued

for the year ending 30 June 2013

- effectiveness and efficiency in the use of the Company's resources;
- compliance with applicable laws and regulations; and
- preparation of reliable published financial information.

## **audit and risk management committee**

The Board has an Audit and Risk Management Committee which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity to manage its key inherent risks. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for the establishing and maintaining a framework of risk management, internal control and ethical standards to the Audit and Risk Management Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Risk Management Committee are independent Non-Executive Directors. The members of the Audit and Risk Management Committee during the year were:

Prof D Parkin (Chairman)

Mr P Forbes

Dr J Hamilton

### **Qualifications of Audit and Risk Management Committee members**

Prof D Parkin is currently Professor of Accounting at the University of Notre Dame Australia. Previously he was an assurance partner with Arthur Andersen and Ernst & Young. Derek is a Fellow of the Institute of Chartered Accountants Australia (ICAA) and a Fellow of the Australian Institute of Company Directors.

Mr P Forbes is a Fellow of Certified Practising Accountants and a Fellow of Chartered Secretaries Australia.

Dr J Hamilton has a Doctorate of Philosophy (Engineering) from the University of Melbourne and many years experience in the management of risks associated with the industry in which we operate.

For details on the number of meetings of the Audit and Risk Management Committee held during the year and the attendees at those meetings, refer to page 27 of the Directors' Report.

## **managing director and CFO Certification**

The Managing Director and Chief Financial Officer have provided a written statement to the Board that:

- their views provided on the Company's and Consolidated Entity's financial reports are founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- that the Company's and Consolidated Entity's risk management and internal compliance and control systems are operating effectively in all material respects.

## **nomination and remuneration committee**

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Nomination and Remuneration Committee links the nature and amount of Executive Directors' and officers' emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of quality management to the Company; and
- performance incentives which allow executives to share the rewards of the success of **scee**.

# corporate governance statement continued

for the year ending 30 June 2013

For full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.

In relation to the issuing of options and performance rights, discretion is exercised by the Board, having regard to the overall performance of **scee** and the performance of the individual during the period. The **scee** Senior Management Long Term Incentive Plan rules have been approved by shareholders.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves and the executive team. The Board has established a Nomination and Remuneration Committee, comprising three Non-Executive Directors including two independent Directors. Members of the Nomination and Remuneration Committee throughout the year were:

Mr P Forbes (Chairman)

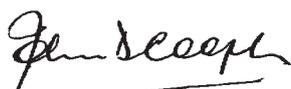
Mr F Tomasi

Dr J Hamilton

The Committee is also responsible for ensuring that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of Director.

For details of directors' attendance at Nomination and Remuneration Committee meetings, refer to page 27 of the Directors' Report.

Signed in accordance with a resolution of the Directors



**John Cooper**

Chairman

27 August 2013



# financial statements

for the year ending 30 June 2013

# consolidated statement of comprehensive income

for the year ending 30 June 2013

	Note	2013 \$000	2012 \$000
Contract revenue	6	277,979	219,983
Contract expenses		(216,656)	(176,568)
<b>Gross profit</b>		<b>61,323</b>	<b>43,415</b>
Other income	7	704	538
Employee benefits expenses	8	(20,384)	(14,805)
Occupancy expenses		(2,240)	(1,405)
Administration expenses		(6,401)	(4,507)
Other expenses	9	(1,757)	(1,050)
Depreciation expense	11	(5,811)	(2,669)
Amortisation of customer contract intangibles	34	(150)	(151)
<b>Results from operations</b>		<b>25,284</b>	<b>19,366</b>
Finance income	10	908	1,162
Finance expenses	10	(1,160)	(790)
<b>Net finance income/(expenses)</b>	10	<b>(252)</b>	<b>372</b>
<b>Profit before tax</b>		<b>25,032</b>	<b>19,738</b>
Income tax expense	12	(7,691)	(6,030)
<b>Profit from continuing operations</b>		<b>17,341</b>	<b>13,708</b>
<b>Other comprehensive income</b>			
Items that may be reclassified to the profit and loss:			
Foreign currency translation loss for foreign operations		(92)	(659)
Income tax on other comprehensive income		-	-
<b>Other comprehensive income, net of income tax</b>		<b>(92)</b>	<b>(659)</b>
<b>Total comprehensive income</b>		<b>17,249</b>	<b>13,049</b>
<b>Attributable to:</b>			
Owners of the Company		<b>17,249</b>	<b>13,049</b>
<b>Earnings per share:</b>			
Basic earnings per share (cents)	13	<b>10.74</b>	<b>8.50</b>
Diluted earnings per share (cents)	13	<b>10.70</b>	<b>8.50</b>

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

# consolidated balance sheet

as at 30 June 2013

## Assets

### Current assets

Cash and cash equivalents

Trade and other receivables

Tax receivable

Inventories

Construction work in progress

Prepayments

### Total current assets

### Non-current assets

Property, plant and equipment

Intangible assets

### Total non-current assets

### Total assets

## Liabilities

### Current liabilities

Trade and other payables

Unearned revenue

Loans and borrowings

Employee entitlements

Tax payable

### Total current liabilities

### Non-current liabilities

Loans and borrowings

Employee entitlements

Deferred tax liability

### Total non-current liabilities

### Total liabilities

### Net assets

## Equity

Share capital

Reserves

Retained earnings

### Total equity

Note	2013 \$'000	2012 \$'000
14	40,865	31,545
15	18,567	21,665
	2,632	1,558
16	2,316	1,166
17	41,709	35,751
18	564	262
	106,653	91,947
22	33,649	17,147
34	17,400	17,551
	51,049	34,698
	157,702	126,645
23	34,219	26,988
24	1,705	4
27	1,878	388
25	5,953	4,806
	-	1,192
	43,755	33,378
27	2,695	1,176
25	437	383
12	9,498	4,841
	12,630	6,400
	56,385	39,778
	101,317	86,867
28	57,578	57,554
28	979	261
	42,760	29,052
	101,317	86,867

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

# consolidated statement of changes in equity

as at 30 June 2013

	Share Capital \$'000	Retained Earnings \$'000	Share Based Payments Reserve \$'000	Translation Reserve \$'000	Total Equity \$'000
<b>Balance as at 1 July 2011</b>	56,984	15,344	432	(92)	72,668
Total comprehensive income for the period					
<b>Loss for the period</b>	-	13,708	-	-	13,708
Foreign currency translation gain	-	-	-	(659)	(659)
Total comprehensive income/(loss)	-	13,708	-	(659)	13,049
<b>Transactions with owners, recorded directly in equity</b>					
Cost of share-based payment	570	-	580	-	1,150
Total transactions with owners	570	-	580	-	1,150
<b>Balance as at 30 June 2012</b>	<b>57,554</b>	<b>29,052</b>	<b>1,012</b>	<b>(751)</b>	<b>86,867</b>

	Share Capital \$'000	Retained Earnings \$'000	Share Based Payments Reserve \$'000	Translation Reserve \$'000	Total Equity \$'000
<b>Balance as at 1 July 2012</b>	57,554	29,052	1,012	(751)	86,867
<b>Total comprehensive income for the period</b>					
Profit for the period	-	17,341	-	-	17,341
Foreign currency translation loss	-	-	-	(92)	(92)
Total comprehensive income/(loss)	-	17,341	-	(92)	17,249
<b>Transactions with owners, recorded directly in equity</b>					
Dividends to equity holders	-	(3,633)	-	-	(3,633)
Cost of share-based payment	24	-	810	-	834
Total transactions with owners	24	(3,633)	810	-	(2,799)
<b>Balance as at 30 June 2013</b>	<b>57,578</b>	<b>42,760</b>	<b>1,822</b>	<b>(843)</b>	<b>101,317</b>

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

# consolidated statement of cash flows

as at 30 June 2013

	Note	2013 \$000	2012 \$000
<b>Cash flows from/(used in) operating activities</b>			
Cash receipts from customers		277,464	185,859
Cash paid to suppliers and employees		(239,539)	(175,060)
Interest received		908	1,162
Interest paid		(1,160)	(790)
Income taxes paid		(5,296)	(1,192)
<b>Net cash from operating activities</b>	29	<b>32,377</b>	<b>9,979</b>
<b>Cash flows from/(used in) investing activities</b>			
Proceeds from the sale of assets		91	3,732
Acquisition of property, plant and equipment		(18,505)	(9,740)
<b>Net cash (used in) investing activities</b>		<b>(18,414)</b>	<b>(6,008)</b>
<b>Cash flows from/(used in) financing activities</b>			
Repayment of borrowings		(890)	(2,915)
Dividends paid	28	(3,633)	-
Proceeds/(Payment) for term deposits		-	5,000
<b>Net cash from/(used in) financing activities</b>		<b>(4,523)</b>	<b>2,085</b>
Net increase in cash and cash equivalents		9,440	6,056
Cash and cash equivalents at beginning of period		31,545	26,280
Effect of exchange rate fluctuations on cash held		(120)	(791)
<b>Cash and cash equivalents at 30 June</b>	14	<b>40,865</b>	<b>31,545</b>

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

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notes to the  
**financial  
statements**

for the year ending 30 June 2013

# notes to the financial statements continued

## for the year ending 30 June 2013

### 1. reporting entity

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

The consolidated financial statements for the year ended 30 June 2013 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The Group is a for-profit entity and the nature of the operations and principal activities of the Group are described in the Directors’ Report.

### 2. basis of preparation

#### (a) statement of compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (“AASBs”) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB). A listing of new standards and interpretations not yet adopted is included in note 3(u).

The consolidated financial statements were authorised for issue by the Board of Directors on 27 August 2013.

#### (b) basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Share-based payment arrangements are measured at fair value.

The methods used to measure fair values are discussed further in note 4.

#### (c) functional and presentation currency

##### (i) Functional and presentation currency

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

##### (ii) Transactions and balances

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

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

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

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

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

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

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

# notes to the financial statements continued

## for the year ending 30 June 2013

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

- Note 31 – measurement of share based payments; and
- Note 34 – recoverable amount for testing goodwill.

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 3(m)(i) and 6) and contract work in progress (note 3(h)(i) and 17).

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

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

### 3. significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

#### (a) basis of consolidation

##### (i) Subsidiaries

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

##### (ii) Interest in a joint venture

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

##### (iii) Transactions eliminated on consolidation

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

# notes to the financial statements continued

## for the year ending 30 June 2013

### **(b) foreign currency**

#### **(i) Foreign currency transactions**

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

#### **(ii) Foreign operations**

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

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

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

### **(c) cash and cash equivalents**

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

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

### **(d) financial instruments**

#### **(i) Non-derivative financial assets**

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

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

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

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

# notes to the financial statements continued

## for the year ending 30 June 2013

The Group has the following non-derivative financial assets:

- Loans and receivables (including restricted term deposits).
- Cash and cash equivalents.

### Loans and receivables

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

Loans and receivables comprise trade and other receivables (see note 15).

### (ii) Non-derivative financial liabilities

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

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

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

### (iii) Share capital

#### Ordinary shares

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

## (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.

# notes to the financial statements continued

## for the year ending 30 June 2013

### (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 straight-line basis over the estimated useful life of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

Buildings	40 years
Leasehold Improvements	6 – 38 years
Plant & Equipment	2 – 10 years
Motor Vehicles	2 – 10 years
Office Furniture & Fittings	2 – 10 years

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

### (f) intangible assets

#### (i) Goodwill

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

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

#### (ii) Other intangible assets

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

#### (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:

	2013	2012
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.

# notes to the financial statements continued

## for the year ending 30 June 2013

### **(g) leased assets**

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

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

### **(h) inventories**

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

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

### **(i) construction work in progress**

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date (see note 3(m)(i)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

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

### **(j) impairment**

#### **(i) Financial assets**

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

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

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

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

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

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

# notes to the financial statements continued

## for the year ending 30 June 2013

### (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.

### (k) employee benefits

#### (i) Long-term benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AAA credit-rated 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.

# notes to the financial statements continued

## for the year ending 30 June 2013

### (iv) Share-based payment transactions

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

### (l) provisions

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

### (m) revenue

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

#### (i) Construction contracts

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

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

#### (ii) Services

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

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

### (n) lease payments

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

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

# notes to the financial statements continued

## for the year ending 30 June 2013

### **(o) finance income and expenses**

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

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

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

### **(p) income tax**

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

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

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

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

### **(q) goods and services tax**

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

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

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

### **(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.

# notes to the financial statements continued

## for the year ending 30 June 2013

### **(s) segment reporting**

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

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

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

### **(t) financial guarantees**

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

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

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

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

### **(u) new standards and interpretations issued but not yet effective**

A number of new standards, amendments to standards and interpretations are effective for annual reporting periods beginning after 1 July 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

#### **(i) AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009)**

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting.

AASB 9(2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. Adoption of this standard is not expected to have a significant effect on the consolidated financial statements of the Group.

#### **(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities (2011)**

AASB 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of investees, which may lead to changes in the current accounting for these investees (see Note 3(a)(i)).

Under AASB 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.

# notes to the financial statements continued

## for the year ending 30 June 2013

- The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity accounted.

The Group may need to reclassify its joint arrangements, which may lead to changes in current accounting for these interests (see Note 3(a)(ii)).

AASB 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries and joint arrangements. The Group is currently assessing the disclosure requirements for interests in subsidiaries and interests in joint arrangements and associates in comparison with the existing disclosures. AASB 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. Adoption of these standards is expected to determine that the Group will account for its joint arrangements as joint operations and recognise the carrying amounts of the net assets and liabilities under proportionate consolidation.

No material impact is expected to result in the statement of comprehensive income or balance sheet leading up to the adoption of this standard.

### (iii) AASB 13 Fair Value Measurement (2011)

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other

AASBs. The Group is currently reviewing its methodologies in determining fair values (see Note 4). AASB 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. Adoption of this standard is not expected to have a significant effect on the consolidated financial statements of the Group.

### (iv) AASB 119 Employee Benefits (2011)

AASB 119 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses has not yet been assessed by the Group. AASB 119 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

## 4. determination of fair values

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

### (i) Property, plant and equipment

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

### (ii) Inventories

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

### (iii) Trade and other receivables

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

# notes to the financial statements continued

for the year ending 30 June 2013

## (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.

## 5. segment reporting

Revenue is principally derived by the Group from the provision of electrical and instrumentation services to the resources, energy and infrastructure sectors.

The Group has branded itself into the following three operating divisions: **scee construction**, **scee infrastructure** and **scee services**. For the year ended 30 June 2013, the Construction division contributed revenue of \$185.8 million, the Infrastructure division contributed revenue of \$69.7 million and the Services division contributed revenue of \$22.5 million. Included in these amounts is \$4.8 million of inter-entity revenue, which is eliminated on consolidation. The divisions are exposed to similar operational risks and rewards and are only divisions for the purposes of addressing target market opportunities and facilitating appropriate project management structures.

The directors believe that the aggregation of the operating divisions for segment reporting purposes is appropriate as they:

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

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

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

	2013		2012	
	Revenue	Non-current assets	Revenue	Non-current assets
Australia	275,550	50,756	198,469	34,396
South America and Caribbean	2,429	293	21,514	302
Eliminations	-	-	-	-
	277,979	51,049	219,983	34,698

Revenues from three customers of the Group's Australian segment generated respectively \$144 million, \$45 million and \$35 million of the Group's total revenue (2012: \$96 million generated from two customers).

# notes to the financial statements continued

for the year ending 30 June 2013

## 6. contract revenue

	2013 \$'000	2012 \$'000
Contract revenue	277,979	219,983
	277,979	219,983

The contract revenue has been determined based on the percentage of completion using the costs incurred to date and the total forecast contract costs. The amount of revenue recognised is based on the construction contract, variation notices and claims under negotiation between the Group and its customers.

## 7. other income/(loss)

	2013 \$'000	2012 \$'000
Net loss on sale of non-current assets	(33)	(221)
Apprenticeship incentive grants	147	124
Foreign exchange gains	420	213
Other	170	422
	704	538

## 8. employee benefits expenses

	2013 \$'000	2012 \$'000
Remuneration, bonuses and on-costs	(18,858)	(13,178)
Amounts provided for employee entitlements	(696)	(477)
Share-based payments expense	(830)	(1,150)
	(20,384)	(14,805)

The above employee benefits expenses do not include employee benefits expenses recorded within contract expenses. Employee benefits included in contract expenses were \$124.2m (2012: \$87.4m).

# notes to the financial statements continued

for the year ending 30 June 2013

## 9. other expenses

	2013 \$'000	2012 \$'000
Repairs and maintenance	(397)	(279)
Motor vehicles	(1,106)	(629)
Other	(254)	(142)
	(1,757)	(1,050)

## 10. finance income and expenses

	2013 \$'000	2012 \$'000
Interest income on bank deposits	908	1,162
Finance income	908	1,162
Interest expense on bank borrowings	(127)	(222)
Finance charges payable under finance lease	(239)	(99)
Bank charges	(574)	(359)
Bank guarantee fees	(220)	(110)
Finance expense	(1,160)	(790)
Net finance income/(expenses)	(252)	372

## 11. depreciation and amortisation expenses

	2013 \$'000	2012 \$'000
Buildings	(17)	(17)
Leasehold improvements	(162)	(173)
Plant and equipment	(2,598)	(1,193)
Motor vehicles	(1,987)	(826)
Office furniture and equipment	(1,047)	(460)
	(5,811)	(2,669)
Amortisation of customer contract intangibles	(150)	(151)

# notes to the financial statements continued

for the year ending 30 June 2013

## 12. income tax expense

	2013 \$'000	2012 \$'000
<b>(a) Income Statement</b>		
<b>Current tax expense</b>		
Current period	(2,714)	(1,192)
Under provision from prior year	(316)	-
	(3,030)	(1,192)
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(4,661)	(4,838)
Income tax expense reported in the income statement	(7,691)	(6,030)
<b>(b) Amounts charged or credited directly to equity</b>		
Share-based payments	(4)	-
Income tax expense reported in equity	(4)	-
<b>(c) Reconciliation between tax expense and pre-tax accounting profit</b>		
Accounting profit before income tax	25,032	19,738
Income tax using the Company's domestic tax rate of 30% (2012: 30%)	(7,510)	(5,921)
Tax effect of permanent differences	(245)	(405)
Tax losses of foreign operations not recognised	(195)	(150)
Adjustments for current tax of prior periods - Foreign	(316)	-
Research and development tax offsets	895	-
Other	12	-
Deferred tax assets/liabilities not previously recognised now brought to account	(341)	208
Effect of different tax rate applicable to foreign branches 29% (2012: 25%)	9	238
Income tax expense reported in the income statement	(7,691)	(6,030)
The applicable effective tax rates are:	30.7%	30.6%

# notes to the financial statements continued

for the year ending 30 June 2013

## 12. income tax expense (continued)

	Balance Sheet		Movement recognised in Income Statement		Movement recognised in Equity	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Deferred tax liabilities</b>						
Retentions	(36)	(31)	5	31	-	-
Work in progress	(12,512)	(8,968)	3,544	7,531	-	-
Property, plant and equipment	(23)	(23)	-	-	-	-
Prepayments		-	-	(52)	-	-
	(12,571)	(9,022)	3,549	7,510	-	-
<b>Deferred tax assets</b>						
Accruals	41	-	(41)	-	-	-
Employee benefits	2,432	1,998	(434)	(1,101)	-	-
Property, plant and equipment	31	19	(12)		-	-
Future IPO related tax benefits (Income statement)	31	46	15	169	-	-
Future IPO related tax benefits	151	227	76	151	-	-
Employee share trust LTI equity settlement	382	-	(378)	-	(4)	-
Borrowing costs	5	31	26	(31)	-	-
Tax losses	-	1,860	1,860	(1,860)	-	-
	3,073	4,181	1,112	(2,672)	(4)	-
<b>Net deferred tax assets/(liabilities)</b>	(9,498)	(4,841)	4,661	4,838	(4)	-

# notes to the financial statements continued

for the year ending 30 June 2013

## 13. earnings per share

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2013 was based on the profit attributable to ordinary shareholders of \$17,341,000 (2012: \$13,708,000) and a weighted average number of ordinary shares outstanding of 161,507,514 (2012: 161,176,552), calculated as follows:

#### Profit/(loss) attributable to ordinary shareholders

	Note	2013 \$'000	2012 \$'000
Profit for the period		17,341	13,708

#### Weighted average number of ordinary shares

Issued ordinary shares at 1 July	28	161,486,826	160,736,826
Effective new balance resulting from issue of shares in the year		20,688	439,726
Weighted average number of ordinary shares at 30 June		161,507,514	161,176,552

### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2013 was based on the profit attributable to ordinary shareholders of \$17,341,000 (2012: \$13,708,000) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 162,020,925 (2012: 161,229,800), calculated as follows:

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

	Consolidated		
	Note	2013 \$'000	2012 \$'000
Profit for the period		17,341	13,708

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

Weighted average number of ordinary shares for basic earnings per share		161,507,514	161,176,552
Effect of dilution:			
Share options and performance rights on issue		513,411	53,248
Weighted average number of ordinary shares at 30 June		162,020,925	161,229,800

# notes to the financial statements continued

for the year ending 30 June 2013

## 14. cash and cash equivalents

	2013 \$'000	2012 \$'000
Bank balances	1,855	15,452
Short term deposits	39,010	16,093
Cash and cash equivalents in the statement of cash flows	40,865	31,545

The effective interest rate on short-term bank deposits was 1.0% (2012: 1.5%); these deposits are all at call.

## 15. trade and other receivables

	2013 \$'000	2012 \$'000
Current		
Trade receivables	18,567	21,665
	18,567	21,665

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for impairment loss has not been recognised due to the collection record of the counterparties with whom the Group transacts.

## 16. inventories

	2013 \$'000	2012 \$'000
Raw materials and consumables – at cost	2,316	1,166
	2,316	1,166

## 17. construction work in progress

	2013 \$'000	2012 \$'000
Costs incurred to date	157,489	134,159
Recognised profit	39,856	30,035
Progress billings	(155,636)	(128,443)
Construction work in progress	41,709	35,751

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

# notes to the financial statements continued

for the year ending 30 June 2013

## 18. prepayments

	2013 \$'000	2012 \$'000
Prepayments	564	262
	564	262

## 19. investments in subsidiaries

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

	Equity Interest	
	2013 %	2012 %
Cruz Del Sur Ingeniería Electra (Peru) S.A	100	100
Southern Cross Electrical Engineering (WA) Pty Ltd	100	100
Southern Cross Electrical Engineering Tanzania Pty Ltd	100	100
Southern Cross Electrical Engineering Ghana Pty Ltd	100	100
KJ Johnson & Co. Pty Ltd	100	100
FMC Corporation Pty Ltd	100	100
Southern Cross Electrical Engineering (Australia) Pty Ltd	100	100
Hazquip Industries Pty Ltd	100	100

## 20. interest in joint ventures

A joint venture agreement establishing the Kentech Southern Cross Electrical Engineering joint venture was executed on the 18 December 2012, of which the Group has a 50% interest. The principal activity of the joint venture is to deliver electrical, instrument, telecommunication works to onshore processing elements of the region's LNG projects. The joint venture had nil contributions, no contingent liabilities or capital commitments as at 30 June 2013.

KSJV Australia Pty Ltd joint venture was established on the 17 June 2013, of which the Group has a 50% interest. The principal activity of the joint venture is an employment company servicing the Kentech Southern Cross Electrical Engineering joint venture. The joint venture had nil contributions, no contingent liabilities or capital commitments as at 30 June 2013.

# notes to the financial statements continued

for the year ending 30 June 2013

## 21. parent entity disclosures

As at, and throughout, the financial year ending 30 June 2013 the parent company of the Consolidated entity was Southern Cross Electrical Engineering Limited.

	Company	
	2013 \$'000	2012 \$'000
Result of the parent entity		
Profit for the period	14,584	5,521
Other comprehensive loss	(13)	(119)
Total comprehensive income for the period	14,571	5,402
Financial position of parent entity at year end		
Current assets	105,934	50,630
Total assets	143,986	90,716
Current liabilities	51,944	16,307
Total liabilities	55,204	17,737
Total equity of the parent entity comprising:		
Share capital	57,578	57,554
Reserves	1,399	603
Retained earnings	29,805	14,822
Total Equity	88,782	72,979

### Parent entity contingencies:

The parent entity has commitments and contingent liabilities which are included in note 32 and 33. At 30 June 2013 there were in existence guarantees of performance of a subsidiary.

# notes to the financial statements continued

for the year ending 30 June 2013

## 22. 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 2011	916	2,309	8,258	5,244	1,851	18,578
Additions	-	305	4,357	4,118	1,953	10,733
Disposals	-	-	-	(13)	-	(13)
Balance at 30 June 2012	916	2,614	12,615	9,349	3,804	29,298
Balance at 1 July 2012	916	2,614	12,615	9,349	3,804	29,298
Additions	-	328	10,590	6,966	4,523	22,407
Disposals	-	(2)	(579)	(897)	(258)	(1,736)
Exchange differences	-	-	84	-	-	84
Balance at 30 June 2013	916	2,940	22,710	15,418	8,069	50,053
<b>Depreciation &amp; impairment losses</b>						
Balance at 1 July 2011	(51)	(492)	(4,719)	(3,325)	(907)	(9,494)
Depreciation for the year	(17)	(173)	(1,193)	(826)	(460)	(2,669)
Disposals	-	-	-	12	-	12
Balance at 30 June 2012	(68)	(665)	(5,912)	(4,139)	(1,367)	(12,151)
Balance at 1 July 2012	(68)	(665)	(5,912)	(4,139)	(1,367)	(12,151)
Depreciation for the year	(17)	(162)	(2,598)	(1,987)	(1,047)	(5,811)
Disposals	-	1	565	809	241	1,616
Exchange differences	-	-	(58)	-	-	(58)
Balance at 30 June 2013	(85)	(826)	(8,003)	(5,317)	(2,173)	(16,404)
<b>Carrying amounts</b>						
At 1 July 2011	865	1,817	3,538	1,919	944	9,083
At 30 June 2012	848	1,949	6,703	5,210	2,437	17,147
At 1 July 2012	848	1,949	6,703	5,210	2,437	17,147
At 30 June 2013	831	2,114	14,707	10,101	5,896	33,649

# notes to the financial statements continued

for the year ending 30 June 2013

## 23. trade and other payables

	2013 \$'000	2012 \$'000
<b>Current</b>		
Trade payables	14,058	10,538
Accrued expenses	18,048	15,097
Goods and services tax payable	2,113	1,353
	34,219	26,988

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 26.

## 24. unearned revenue

	2013 \$'000	2012 \$'000
<b>Current</b>		
Unearned revenue	1,705	4
	1,705	4

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

## 25. employee entitlements

	2013 \$'000	2012 \$'000
<b>Current</b>		
Annual leave	5,059	3,987
Long service leave	894	819
	5,953	4,806
<b>Non-current</b>		
Long service leave	437	383

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 3(k) to this report.

# notes to the financial statements continued

for the year ending 30 June 2013

## 26. 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.

#### 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	
	2013 \$'000	2012 \$'000
Cash	40,865	31,545
Trade and other receivables	18,567	21,665
	59,432	53,210

# notes to the financial statements continued

for the year ending 30 June 2013

## 26. financial instruments (continued)

### cash

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

### trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Approximately 56 percent (2012: 40 percent) of the Group's trade receivables are attributable to transactions with two major customers. Geographically, the concentration of credit risk is within Australia and, by industry, the concentration is within the mining, and oil and gas industry.

When entering into new customer contracts for service, the Group only enters into contracts with reputable companies. Management monitors the Group's exposure on a monthly basis.

In the last five years no provision for impairment loss has been recognised against the customers with whom the Group transacts. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, aging profile, maturity and existence of previous financial difficulties.

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

The Group has not established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables as it not considered necessary based on the payment history of its client base.

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

	Carrying amount	
	2013 \$'000	2012 \$'000
Australia	18,422	18,386
South America and Caribbean	145	3,279
	18,567	21,665

# notes to the financial statements continued

for the year ending 30 June 2013

## 26. financial instruments (continued)

### impairment losses

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

	Gross 2013 \$'000	Impairment 2013 \$'000	Gross 2012 \$'000	Impairment 2012 \$'000
Not past due	15,513	-	17,274	-
Past due 0-30 days	2,461	-	3,432	-
Past due 30-60 days	427	-	113	-
Past due 60 days and over	166	-	846	-
More than one year	-	-	-	-
	18,567	-	21,665	-

Based on historic default rates, the Group believes no impairment allowance is necessary in respect of trade receivables as the customers have a good credit history with the Group.

There was no renegotiation in credit terms during the period.

### liquidity risk

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

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

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

	Carrying amount \$'000	Contractual cash flows \$'000	6 mths or less \$'000	6-12 mths \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000
<b>30 June 2013</b>							
<b>Non-derivative financial liabilities</b>							
Finance lease liabilities	4,573	4,996	1,084	1,063	2,006	843	-
Trade and other payables	34,219	34,219	34,219	-	-	-	-
	38,792	39,215	35,303	1,063	2,006	843	-
<b>30 June 2012</b>							
<b>Non-derivative financial liabilities</b>							
Finance lease liabilities	1,564	1,629	237	233	519	640	-
Trade and other payables	26,988	26,988	26,988	-	-	-	-
	28,552	28,617	27,225	233	519	640	-

# notes to the financial statements continued

for the year ending 30 June 2013

## 26. financial instruments (continued)

### market risk

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

### currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency in which they are measured. The Group has exposures to the United States Dollar (USD) and Peru Nuevo Sol (PEN).

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.

### exposure to currency risk

The Group's exposure to USD risk was as follows:

	AUD 2013 \$'000	AUD 2012 \$'000
Cash	43	207
Net balance sheet exposure	43	207

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
AUD:USD	1.03	1.03	0.91	1.02

# notes to the financial statements continued

for the year ending 30 June 2013

## 26. financial instruments (continued)

### sensitivity analysis

A 10 percent change of the Australian Dollar against the US Dollar at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

	Consolidated			
	Profit or loss		Equity	
	10% increase \$000	10% decrease \$000	10% increase \$000	10% decrease \$000
<b>30 June 2013</b>				
USD	(8)	8	-	-
<b>30 June 2012</b>				
USD	(25)	17	-	-

### 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	
	2013 \$'000	2012 \$'000
<b>Fixed rate instruments</b>		
Financial liabilities	4,573	1,564
<b>Variable rate instruments</b>		
Financial assets	40,865	31,545

# notes to the financial statements continued

for the year ending 30 June 2013

## 26. financial instruments (continued)

### 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 2013.

	Profit or loss		Equity	
	100bp increase \$000	100bp decrease \$000	100bp increase \$000	100bp decrease \$000
<b>30 June 2013</b>				
Variable rate instruments	551	(551)	-	-
Cash flow sensitivity (net)	551	(551)	-	-
<b>30 June 2012</b>				
Variable rate instruments	315	(315)	-	-
Cash flow sensitivity (net)	315	(315)	-	-

## fair values

### Fair values versus carrying amounts

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

### other price risk

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

### capital management

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

The Group intends to distribute to shareholders up to approximately 50% of net profit after tax in the form of fully franked dividends, subject to 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 continued

for the year ending 30 June 2013

## 27. loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings which are measured at amortised cost. For more information about the Group's exposure to interest rate, liquidity and risk, see note 26.

	2013 \$'000	2012 \$'000
<b>Current liabilities</b>		
Finance lease liabilities	1,878	388
	1,878	388
<b>Non-current liabilities</b>		
Finance lease liabilities	2,695	1,176
	2,695	1,176

The finance lease liabilities are carried in the accounts at their carrying value and are secured over the assets that are subject to the hire purchase agreement.

## 28. capital and reserves

### share capital

	Profit or loss		Equity	
	Number	\$000	Number	\$000
<b>Ordinary shares</b>				
Issued and fully paid	161,523,130	57,578	161,486,826	57,554
<b>Movements in shares on issue</b>				
Balance at the beginning of the financial year	161,486,826	57,554	160,736,826	56,984
Share based payments	(i) 36,304	24	750,000	570
Balance at the end of the financial year	161,523,130	57,578	161,486,826	57,554

(i) On 4 December 2012 36,304 shares were issued under the Senior Management Long Term Incentive Plan for nil consideration. On 30 November 2011 750,000 shares were issued to Simon High for nil consideration.

The Company does not have authorised capital or par value in respect of its issued shares.

# notes to the financial statements continued

for the year ending 30 June 2013

## 28. capital and reserves (continued)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

	2013 \$'000	2012 \$'000
<b>Reserves</b>		
Translation reserve	(843)	(751)
Share based payments reserve	1,822	1,012
	979	261

### translation reserve

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

### share based payments reserve

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

### dividends

Dividends recognised in the current year by the Group are:

	Cents per share	Total amount \$000	Franked	Date of payment
<b>2013</b>				
Final 2012 ordinary	2.25	3,633	Franked	18 October 2012
Interim 2013 ordinary		-		
Total amount		3,633		
<b>2012</b>				
Final 2011 ordinary	-	-	-	-
Interim 2012 ordinary	-	-	-	-
Total amount		-		

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

# notes to the financial statements continued

for the year ending 30 June 2013

## 28. capital and reserves (continued)

Declared after end of year

After the balance sheet date a dividend of 2.70 cents per share in the amount of \$4.361 million was proposed by the directors. The dividend has not been provided and there are no income tax consequences.

	Company	
	2013 \$'000	2012 \$'000
Franking account balance	9,305	6,299

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

- (a) franking credits that will arise from the payment of the current tax liabilities; and
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the year end.

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



# notes to the financial statements continued

for the year ending 30 June 2013

## 29. reconciliation of cash flows from operating activities

	2013 \$'000	2012 \$'000
Cash flows from operating activities		
<b>Profit/(loss) for the year</b>	<b>17,341</b>	<b>13,708</b>
Adjustments for:		
Depreciation and amortisation	5,961	2,820
Foreign exchange (gain)/loss	-	(213)
Loss on sale of property, plant and equipment	33	221
Equity-settled share-based payment transactions	830	1,150
<b>(Increase)/decrease in assets:</b>		
Trade and other receivables	3,097	(4,469)
Income tax receivable	(1,075)	(1,246)
Work in progress	(5,959)	(29,820)
Inventories	(1,150)	135
Prepayments	(302)	(89)
<b>Increase/(decrease) in liabilities:</b>		
Trade and other payables	7,230	19,987
Unearned revenue	1,701	(596)
Provisions and employee benefits	1,201	2,361
Income tax payable	(1,192)	1,192
Deferred income tax	4,661	4,838
<b>Net cash from operating activities</b>	<b>32,377</b>	<b>9,979</b>

# notes to the financial statements continued

for the year ending 30 June 2013

## 30. related parties

### details of key management personnel

Key Management Personnel in the period were:

#### Non-Executive Director

John Cooper	Independent Chairman
Gianfranco Tomasi	Non-Executive Director
Derek Parkin	Independent Non-Executive Director
Peter Forbes	Independent Non-Executive Director
Jack Hamilton	Independent Non-Executive Director

#### Executive Director

Simon High	Managing Director
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#### Executive

Simon Buchhorn	Chief Operating Officer
Chris Douglass	Chief Financial Officer/Company Secretary

There were no other changes of key management people after reporting date and before the date the financial report was authorised for issue.

### key management personnel compensation

The key management personnel compensation is as follows:

	2013 \$'000	2012 \$'000
Short-term employee benefits	2,608	1,898
Post-employment benefits	120	163
Termination benefits	-	13
Share-based payments	421	813
	3,149	2,887

### individual directors' and executives' compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report on pages 31 to 40.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

### other key management personnel transactions

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year. The terms and conditions of the transactions with the related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

# notes to the financial statements continued

for the year ending 30 June 2013

## 30. related parties (continued)

### other key management personnel transactions (continued)

		Transactions value year ended 30 June	
		2013 \$'000	2012 \$'000
		Note	
<b>Other related parties</b>			
F & A Tomasi Superannuation Fund	Rental income	(i)	256
G & A Tomasi	Rental income	(ii)	67
<b>Frank Tomasi Family Trust</b>	Rental income	(iii)	-
Frank Tomasi Nominees Pty Ltd	Rental income	(iv)	258

(i) F & A Tomasi Superannuation Fund owns the properties at 41 and 44 Macedonia St, Naval Base WA, which are leased to Southern Cross Electrical Engineering Limited.

(ii) G & A Tomasi own the properties at 45, 47, 49 & 51 Macedonia Street, Naval Base WA which are leased to Southern Cross Electrical Engineering Limited.

(iii) Frank Tomasi Family Trust owns the property which is leased to the Denver branch of Southern Cross Electrical Engineering Limited.

(iv) Frank Tomasi Nominees Pty Ltd owns the property at 43 Hope Valley Road, Naval Base WA, which was leased to Southern Cross Electrical Engineering Limited.

Gianfranco Tomasi and spouse are sole directors of Frank Tomasi Nominees Pty Ltd and are the sole shareholders. Frank Tomasi Nominees Pty Ltd as trustee for the Frank Tomasi Family Trust is a major shareholder of Southern Cross Electrical Engineering Ltd.

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

The rental payments made above are all at normal market rates and were reviewed by an independent valuer in June 2009 except for 44 Macedonia Street and 43 Hope Valley Road which were reviewed in June 2012.

# notes to the financial statements continued

for the year ending 30 June 2013

## 30. related parties (continued)

### options and rights over equity instruments

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

#### Options over equity instruments

	Held at 1 July 2012	Granted as compensation	Exercised	Forfeited	Held at 30 June 2013	Vested during the year	Vested and exercisable at 30 June 2013
<b>Executives</b>							
Simon Buchhorn	333,334	-	-	166,667	166,667	-	166,667
	333,334	-	-	166,667	166,667	-	166,667

	Held at 1 July 2011	Granted as compensation	Exercised	Forfeited	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
<b>Executives</b>							
Simon Buchhorn	333,334	-	-	-	333,334	-	333,334
Stephen Fewster	250,742	-	-	(250,742)	-	-	-
	584,076	-	-	(250,742)	333,334	-	333,334

#### 2011 Performance Rights over equity instruments

	Held at 1 July 2012	Granted as compensation	Exercised	Forfeited	Held at 30 June 2013	Vested during the year	Vested and exercisable at 30 June 2013
<b>Executives</b>							
Simon Buchhorn	15,108	-	(15,108)	-	-	-	-
	15,108	-	(15,108)	-	-	-	-

	Held at 1 July 2011	Granted as compensation	Exercised	Forfeited	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
<b>Executives</b>							
Simon Buchhorn	60,431	-	-	(45,323)	15,108	15,108	15,108
Stephen Fewster	55,191	-	-	(55,191)	-	-	-
	115,622	-	-	(100,514)	15,108	15,108	15,108

# notes to the financial statements continued

for the year ending 30 June 2013

## 30. related parties (continued)

### 2012 Performance Rights over equity instruments

	Held at 1 July 2012	Granted as compensation	Exercised	Forfeited	Held at 30 June 2013	Vested during the year	Vested and exercisable at 30 June 2013
<b>Executive</b>							
Simon High	419,664	-	-	-	419,664	-	-
<b>Executive</b>							
Simon Buchhorn	187,006	-	-	-	187,006	-	-
Chris Douglass	164,868	-	-	-	164,868	-	-
	771,538	-	-	-	771,538	-	-

	Held at 1 July 2011	Granted as compensation	Exercised	Forfeited	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
<b>Executive</b>							
Simon High	-	419,664	-	-	419,664	-	-
<b>Executive</b>							
Simon Buchhorn	-	187,006	-	-	187,006	-	-
Chris Douglass	-	164,868	-	-	164,868	-	-
	-	771,538	-	-	771,538	-	-

### 2013 Performance Rights over equity instruments

	Held at 1 July 2012	Granted as compensation	Exercised	Forfeited	Held at 30 June 2013	Vested during the year	Vested and exercisable at 30 June 2013
<b>Executive</b>							
Simon High	-	323,396	-	-	323,396	-	-
<b>Executive</b>							
Simon Buchhorn	-	137,625	-	-	137,625	-	-
Chris Douglass	-	120,724	-	-	120,724	-	-
	-	581,745	-	-	581,745	-	-

# notes to the financial statements continued

for the year ending 30 June 2013

## 30. related parties (continued)

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.

### movements in shares

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

	Held at 30 June 2012	Purchases	Received on exercise of options	Sales	Share based payment	Held at 30 June 2013
<b>Directors</b>						
Gianfranco Tomasi	65,227,131	-	-	-	-	65,227,131
Simon High	750,000	-	-	(350,000)	-	400,000
John Cooper	116,667	-	-	-	-	116,667
Derek Parkin	20,000	-	-	-	-	20,000
Peter Forbes	50,000	-	-	-	-	50,000
Jack Hamilton	29,780	-	-	-	-	29,780

#### Executives

Simon Buchhorn	727,778	-	15,108	-	-	742,886
Chris Douglass	-	-	-	-	-	-

	Held at 1 July 2011	Purchases	Received on exercise of options	Sales	Share based payment	Held at 30 June 2012
<b>Directors</b>						
Gianfranco Tomasi	65,227,131	-	-	-	-	65,227,131
Simon High	-	-	-	-	750,000	750,000
John Cooper	116,667	-	-	-	-	116,667
Derek Parkin	20,000	-	-	-	-	20,000
Peter Forbes	-	50,000	-	-	-	50,000
Jack Hamilton	-	29,780	-	-	-	29,780

#### Executives

Simon Buchhorn	727,778	-	-	-	-	727,778
Stephen Fewster	-	-	-	-	-	-
Chris Douglass	-	-	-	-	-	-

# notes to the financial statements continued

for the year ending 30 June 2013

## 31. share-based payments

Share based payments are as follows:

	Note	2013 \$'000	2012 \$'000
Issue of ordinary shares to key management		10	570
Issue of ordinary shares to senior management		14	-
2013 Performance Rights	(i)	252	-
2012 Performance Rights	(ii)	558	629
2011 Performance Rights		-	(49)
		834	1,150

### (i) 2013 performance rights

In the period 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 key management on 30 October 2012	323,396	Employed on 30 June 2015 and exceed performance hurdle	32 months
Performance rights issued to key management on 26 September 2012	258,349	Employed on 30 June 2015 and exceed performance hurdle	33 months
Performance rights issued to senior management on 26 September 2012	379,305	Employed on 30 June 2015 and exceed performance hurdle	33 months
Total share options	961,050		

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

- To be performance tested over a three year period from 1 July 2012 to 30 June 2015 ("Performance Period");
- No performance rights will vest until 30 June 2015;
- 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

# notes to the financial statements continued

## for the year ending 30 June 2013

### 31. share-based payments (continued)

The TSR formula is:

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

TSR will be assessed against targets for threshold performance of 12% per annum compounded over the Performance Period and for stretch performance of 15% per annum compounded over the Performance Period. The vesting schedule is as follows for TSR performance over the Performance Period:

Less than 12% per annum compounded	0% vesting
12% per annum compounded	50% vesting
Between 12% and 15% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 15% per annum compounded	100% vesting

EPS will be assessed against targets for threshold performance of 17 cents per share at the end of the Performance Period and for stretch performance of 22 cents per share at the end of the Performance Period. The vesting schedule is as follows for EPS performance at the end of the Performance Period:

Less than 17 cents per share	0% vesting
17 cents per share	50% vesting
Between 17 and 22 cents per share	Pro-rata vesting between 50% and 100%
At or above 22 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.

#### (ii) 2012 performance rights

There were 1,936,617 2012 Performance Rights on issue at 1 July 2012. No 2012 Performance Rights were granted, none vested and 115,000 were forfeited during the year.

The 2012 Performance Rights were performance tested over a three-year period from 1 July 2011 to 30 June 2014. The hurdles used to determine performance are Relative Total Shareholder Return (TSR) and Earnings per Share (EPS) performance.

TSR will be assessed against targets for threshold performance of 12% per annum compounded over the Performance Period and for stretch performance of 15% per annum compounded over the Performance Period. The vesting schedule is as follows for TSR performance over the Performance Period:

Less than 12% per annum compounded	0% vesting
12% per annum compounded	50% vesting
Between 12% and 15% per annum compounded	Pro-rata vesting between 50% and 100%
At or above 15% per annum compounded	100% vesting

EPS will be assessed against targets for threshold performance of 12 cents per share at the end of the Performance Period and for stretch performance of 15 cents per share at the end of the Performance Period. The vesting schedule is as follows for EPS performance at the end of the Performance Period:

Less than 12 cents per share	0% vesting
12 cents per share	50% vesting
Between 12 and 15 cents per share	Pro-rata vesting between 50% and 100%
At or above 15 cents per share	100% vesting

# notes to the financial statements continued

for the year ending 30 June 2013

## 31. share-based payments (continued)

### (iii) options

The options outstanding at 30 June 2013 all have an exercise price of \$1.15 and a weighted average contractual life of 5 years. No options were exercised and 166,667 were forfeited during the year.

	Weighted average exercise price 2013	Number of Options 2013	Weighted average exercise price 2012	Number of Options 2012
Outstanding at 1 July	\$1.15	333,334	\$1.15	584,076
Options exercised during the period	\$1.15	-	\$1.15	-
Options forfeited during the period	\$1.15	166,667	\$1.15	(250,742)
Outstanding at 30 June	\$1.15	166,667	\$1.15	333,334
Exercisable at 30 June	\$1.15	166,667	\$1.15	333,334

## 32. commitments

### leasing commitments

Operating lease commitments – as lessee

The Group has entered into commercial property leases. These leases have an average life of 5 years remaining with options to renew at the end of the initial term. Future minimum rentals payable under non-cancellable operating leases as at 30 June 2013 are:

	2013 \$'000	2012 \$'000
Within one year	850	776
After one but no more than five years	2,445	2,661
After more than five years	821	1,134
Total minimum lease payments	4,116	4,571

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

# notes to the financial statements continued

for the year ending 30 June 2013

## 33. 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.

	2013 \$'000	2012 \$'000
Bank Guarantees	19,751	14,915
Surety Bonds	14,060	907

Total bank guarantee facilities at 30 June 2013 were \$40,250,000 and the unused portion was \$20,498,922. This facility is subject to annual review. Total surety bonds facilities at 30 June 2013 were \$20,000,000 and the unused portion was \$5,939,550. This facility is subject to annual review. Subsequent to the year end the bank guarantee facility has been increased to \$60,000,000 and the surety bonds facility has been increased to \$30,000,000 with both facilities maturing on 31 August 2015.

## 34. intangible assets – goodwill and customer contracts

Reconciliation of carrying amount

	Goodwill \$'000	Customer Contracts \$'000	Total \$'000
<b>Cost</b>			
Balance as at 1 July 2011	17,174	1,811	18,985
Acquisitions through business combinations	-	-	-
Balance as at 30 June 2012	17,174	1,811	18,985
Balance as at 1 July 2012	17,174	1,811	18,985
Acquisitions through business combinations	-	-	-
Balance as at 30 June 2013	17,174	1,811	18,985
<b>Amortisation and impairment losses</b>			
Balance as at 1 July 2011	-	(1,284)	(1,284)
Impairment loss	-	-	-
Amortisation	-	(151)	(151)
Balance as at 30 June 2012	-	(1,435)	(1,435)
Balance as at 1 July 2012	-	(1,435)	(1,435)
Impairment loss	-	-	-
Amortisation	-	(150)	(150)
Balance as at 30 June 2013	-	(1,585)	(1,585)
<b>Carrying amounts</b>			
At 1 July 2011	17,174	527	17,701
At 30 June 2012	17,174	377	17,551
At 1 July 2012	17,174	377	17,551
At 30 June 2013	17,174	226	17,400

# notes to the financial statements continued

for the year ending 30 June 2013

## 34. intangible assets – goodwill and customer contracts (continued)

### Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which goodwill is monitored for internal management purpose. During the year a Group reorganisation into three operating divisions, Construction, Infrastructure and Services has resulted in goodwill being reallocated to these divisions.

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

	2013 \$'000	2012 \$'000
Construction	7,066	7,066
Infrastructure	3,616	3,616
Services	6,492	6,492
	17,174	17,174

The recoverable amount of the above cash generating units ("CGUs") was based on their value in use. The carrying amount of the CGUs was determined to be lower than their recoverable amounts and therefore no impairment charge has been recognised.

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU.

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 the CGUs operate.
- Revenue for 2014 is based on forecast results. The anticipated annual revenue growth included in the cash flow projections has been based on growth rates that have been estimated by management. The margins included in the projected cash flow are the same rate that has been achieved historically.
- A post-tax discount rate of 9.6% was applied. This discount rate was estimated based on past experience, and industry average weighted cost of capital, which was based on a gearing-ratio of 3% at a market debt rate of 5.1%.

## 35. 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.

## 36. auditor's remuneration

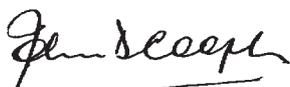
	2013 \$'000	2012 \$'000
Remuneration of KPMG Australia as the auditor of the parent entity for:		
- Auditing or reviewing the financial report	282,003	208,000
Other services		
- Accounting assistance	-	69,000
	282,003	277,000

# directors' declaration

1. In the opinion of the directors of Southern Cross Electrical Engineering Limited (the "Company"):
  - a. The consolidated financial statements and notes, and the Remuneration report in the Directors' report are in accordance with the Corporations Act 2001, including:
    - i. giving a true and fair view of the Group's financial position as at 30 June 2013 and of the performance, for the financial year ended on that date; and
    - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - b. the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a),
  - c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the managing director and chief financial officer for the financial year ended 30 June 2013.

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

Signed in accordance with a resolution of the directors:



**John Cooper,**

Chairman

Perth

27 August 2013



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## **Independent auditor's report to the members of Southern Cross Electrical Engineering Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Southern Cross Electrical Engineering Limited (the company), which comprises the consolidated balance sheet as at 30 June 2013, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.



*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

**Report on the remuneration report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Southern Cross Electrical Engineering Limited for the year ended 30 June 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG.

KPMG

R Gambitta  
*Partner*

Perth

27 August 2013



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

To: the directors of Southern Cross Electrical Engineering Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

*KPMG.*

KPMG

R Gambitta  
*Partner*

Perth

27 August 2013

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.



# asx additional information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

## shareholdings (as at 21 August 2013)

### Substantial shareholders

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

Shareholder	Number	Percentage
Gianfranco Tomasi	65,227,131	40.4%
Acorn Capital	12,018,795	7.4%
Celeste Funds Management	10,634,349	6.6%
Colonial First State	8,317,210	5.1%

## voting rights

### Ordinary shares

Refer to note 28 in the financial statements

### options

There are no voting rights attached to the options.

## distribution of equity security holders

Category	Number of equity security holders	
	Ordinary shares	Options/ Performance rights
1 - 1,000	145	-
1,001 - 5,000	235	-
5,001 - 10,000	138	-
10,001 - 100,000	241	21
100,001 and over	41	6
	800	27

The number of shareholders holding less than a marketable parcel of ordinary shares is 96.

## securities exchange

The Company is listed on the Australian Securities Exchange. The Home exchange is Perth.

## other information

Southern Cross Electrical Engineering Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

## twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
FRANK TOMASI NOMINEES PTY LTD <FRANK TOMASI FAMILY A/C>	65,227,131	40.38
J P MORGAN NOMINEES AUSTRALIA LIMITED	18,384,241	11.38
NATIONAL NOMINEES LIMITED	14,394,586	8.91
CITICORP NOMINEES PTY LIMITED	9,724,295	6.02
UBS NOMINEES PTY LTD	8,609,192	5.33
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,678,376	3.52
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	4,503,461	2.79
J P MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	2,999,558	1.86
BNP PARIBAS NOMS PTY LTD <DRP>	2,850,993	1.77
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	2,460,292	1.52
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	2,430,562	1.50
CARMAN SUPER PTY LTD <M & B CARMAN SUPER FUND A/C>	2,000,000	1.24
GWYNVILL TRADING PTY LTD	1,650,672	1.02
MR JORN WILLIAM HENRY GRANGER	1,398,293	0.87
MR RAYMOND JOHN WISE	1,398,293	0.87
ZERO NOMINEES PTY LTD	1,068,000	0.66
MR ANDREW WILLIAM MCKENZIE + MRS CATHERINE PATRICIA MCKENZIE <A W MCKENZIE SUPER FUND A/C>	1,025,052	0.63
CHEMCO SUPERANNUATION FUND PTY LTD <CHEMCO SUPER FUND NO 2 A/C>	900,000	0.56
CHEMCO SUPERANNUATION FUND PTY LTD <CHEMCO SUPER FUND NO 2 A/C>	830,000	0.51
MR SIMON BUCHHORN	515,108	0.32
	<b>148,048,105</b>	<b>91.66</b>

# glossary

CSG	Coal seam gas
E&I	Electrical and Instrumentation
EPC	Engineering, procurement and construction
EPCM	Engineering, procurement and construction management
JV	Joint venture
LNG	Liquefied natural gas
LTI	Lost time incident
NPAT	Net profit after tax





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ISO 9001  
ISO 14001  
AS 4801  
SOUTHERN CROSS  
Certification

WA EC: 001681  
QLD EC: 12707  
NSW EC: 17066C  
NT EC: C0977  
ABN: 92 009 307 046  
Established 1978



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