Interim Results Announcement

Half year ended 31 December 2015

24 February 2016

ASX & media announcement

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Highlights

- **Revenue of $137.1m and NPAT of $3.8m**
- **Cash of $45.0m and no debt at 31 December 2015**
- **Fully franked interim dividend of 1.35 cps**
- **Continuing to secure work in challenging market conditions**
- **Sustainable resources business**
- **Actively evaluating expansion opportunities**

Electrical and Instrumentation contractor Southern Cross Electrical Engineering Limited ("SCEE") today released its interim financial results for the half year ended 31 December 2015.

The table below sets out the key financial information for the period:

	Half year 31 Dec 2015 $m	Half year 31 Dec 2014 $m
Contract revenue	137.1	142.0
Gross profit	18.0	22.2
Gross margin %	13.1%	15.7%
Profit after income tax from continuing operations	3.8	4.1
Earnings per share	2.4 cps	2.5 cps
Interim dividend per share declared	1.35 cps	Nil

Interim Results Review

Conditions in the Company's core resources sector remain challenging. Low commodity prices continue to influence investment decisions and clients remain highly focussed on cost control. Despite these market conditions activity in the period was high as a result of strong performance on key projects.

For the six months ended 31 December 2015 the Company earned revenue of $137.1m. This represented a significant increase from the $98.6m of underlying trading revenue[1] in the preceding six month period to 30 June 2015. Revenues for the prior comparative period ended 31 December 2014 were $142.0m.

Key projects during the period included CITIC Pacific Sino Iron, Samsung Roy Hill, Technicas Reunidas TAN Burrup, BHP Billiton Iron Ore Sustaining Capital, Rio Tinto Iron Ore Electrical Infrastructure Replacement and Bechtel Australia Pacific LNG.

Gross margin for the period was 13.1% compared to underlying trading gross margin[2] of 13.6% in the second half of financial year 2015. Gross margins in the prior corresponding period were 15.7% with the reduction attributable to the increased competition to secure work in the sector.

Net profit after income tax for the period was $3.8m compared to $4.1m in the prior comparative period and underlying trading NPAT[3] of $0.1m in the second half of financial year 2015.

In response to market conditions, the Board undertook a restructuring exercise in the second half of financial year 2015 which resulted in a reduction in the Group's overhead base. This has seen overheads decrease by over 16% against the prior corresponding period from $12.8m to $10.7m.

Depreciation in the period was $2.4m compared to $3.4m in the prior comparative period as a result of asset write downs and disposal which formed part of the restructure.

The effective income tax rate in the period was 24.8% as a result of a receipt of an R&D tax rebate.

The balance sheet remained strong throughout the period. Cash on hand at 31 December 2015 was $45.0m with no debt.

Capital expenditure was low at $1.0m and is expected to remain at similar levels in the near term.

We are pleased to report that we continued to carry out our operations in the period without incurring a Lost Time Injury.

Dividend

In light of the strong first half performance and cash balance, the directors have declared a fully franked interim dividend for the six months ended 31 December 2015 of 1.35 cents per share (31 December 2014: no dividend). The Board anticipates maintaining the total dividend for the 2016 financial year at 2.7 cents per share, being the same absolute level as in the past three years.

Outlook and Strategy

Moving into the second half of the year key projects are progressing well and are profitable. The Company expects to deliver further profit in H2 but has not provided full year guidance at this point in time as the result is dependent on the timing of winning and performing new work.

The Company had an order book of $37m at 31 December 2015 and has secured approximately $20m of new orders in the first six weeks of 2016. In addition a further $20m is forecast to be performed in H2 from recurring framework agreement work and growth in existing reimbursable contracts.

The market has moved from large capital projects to smaller sustainable capital works with shorter project durations requiring that the order book is regularly replenished. Recent project wins demonstrate a continuing ability to convert opportunities into contracts and it is expected that further work will be won and performed in H2.

We continue to tender at high levels and have a near term pipeline of identified opportunities in our addressable resources markets of over $300m excluding sustaining capital and maintenance programs.

The construction phase on existing Australian LNG projects is expected to continue through 2017 and we are hopeful of securing further work via our LNG focussed joint venture KSJV.

The Company continues to target growth through expansion into new geographies and adjacent and complementary sectors. With significant near term construction spend forecast in Australian infrastructure projects in the utilities, transport, social and commercial sectors we have an opportunity to transfer our existing technical E&I and project delivery skills to these areas. There is also a significant pipeline of work in the telecommunications sector through the continued roll out of the NBN and expansion and upgrades of wireless networks. Entry to these markets may be organic or through acquisition and a number of options are under review.

CEO Comment

Commenting on the H1 results, SCEE's CEO Graeme Dunn said "I am pleased to be able to announce a strong first half performance.

The market remains highly competitive with a reduced pool of construction work in the resources sector. However, activity in sustaining capital and maintenance markets remain strong. With our long standing client relationships and brand recognition, I believe we will continue to secure regular work in this area. We now have facilities in Newman and Karratha and are considering further regional expansion to ensure that we are best placed to support our clients. We have also identified a number of opportunities to provide a wider services offering to the sector.

While we have a sustainable business in our traditional resources market the Board remains committed to delivering growth to our shareholders through diversification into new geographies and sectors. To that end we are currently in the process of evaluating a number of opportunities, both organic and acquisitive. Our strong balance sheet provides us with the capacity to execute these growth initiatives.

In the current market cost control remains at the forefront of management's mind. The restructuring which took place in the second half of financial year 2015 has delivered a lower overhead base and we continue to target further reductions through cost saving initiatives."

Notes

1 – Statutory revenue for the six months ended 30 June 2015 of $96.3m included $2.3m of claims write downs which have been excluded from underlying trading revenue.

2 – Statutory gross profit for the six months ended 30 June 2015 of $10.8m included the $2.3m of claims write downs noted above and $0.3m of inventory write downs which have both been excluded from the calculation of underlying trading gross margin.

3 – Statutory NPAT loss for the six months ended 30 June 2015 of $13.9m included the write downs noted above, $2.3m of organisational restructuring costs, $1.3m of lease provisions, $1.4m of asset write-downs, $8.4m of goodwill impairment and $2.0m tax benefit relating from these items. All of these have been excluded from underlying trading NPAT.

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