Results for announcement to the market

Appendix 4D

Half year ended 31 December 2017

The current reporting period is the half year ended 31 December 2017. The previous corresponding period is the half year ended 31 December 2016.

Revenue and Net Profit	Half Year Ended 31 Dec 2017 $'000	Half Year Ended 31 Dec 2016 $'000	Change $'000	Change %
Revenue from ordinary activities	176,156	61,482	114,674	187%
Profit/(Loss) from ordinary activities after tax attributable to members	2,677	(2,896)	5,573	N/a
Net profit/(loss) attributable to members	2,677	(2,896)	5,573	N/a

Dividends	Amount per security	Franked amount per security
Interim dividend	Nil	Nil
Record date for determining entitlements to the dividend		N/a
Date the interim dividend is payable		N/a
The Company does not operate a dividend re-investment plan		

NTA Backing	Half Year Ended 31 Dec 2017	Half Year Ended 31 Dec 2016
Net tangible asset backing per security (cents per share)	25.3 cps	38.8 cps

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

During the period there was no change to controlled entities of Southern Cross Electrical Engineering Ltd ("the Group" or "SCEE").

Details of associates and joint venture entities

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

- KSJV
- KSJV Australia Pty Ltd

Commentary on the Results for the Period

Commentary on the results for the period is contained in the Interim Financial Report.

Interim Financial Report

for the half year ended 31 December 2017

Contents

Directors' report

The directors present their report together with the Consolidated Interim Financial Report for the six months ended 31 December 2017 and the Independent Review Report thereon.

Directors

The Directors of Southern Cross Electrical Engineering Limited ("SCEE" or "the Company") during the interim period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Non-executive Directors

Professor Derek Parkin (Chairman)

Mr Gianfranco Tomasi

Mr Simon Buchhorn

Mr Karl Paganin

Executive Directors

Mr Graeme Dunn (Managing Director)

Mr David Hammond

Review of operations

The six months ended 31 December 2017 was the first full period consolidating the results of Heyday, acquired in March 2017, and has therefore seen the Group deliver significant growth and diversification of revenue and profitability compared to the prior corresponding period.

Revenue for the half-year was $176.2m, which represented a 187% increase on the prior corresponding period revenue of $61.5m.

The increased volume was generated from a wider range of sectors and geographies with key contributors in the period including:

- Commercial – Work was predominantly in the buoyant New South Wales market on a range of large construction and fit-out projects including the Duo Central Park tower development in Chippendale, the Insurance Australia Group office fit-out at Darling Park and at Stockland's Greenhills Shopping Centre.
- Resources – In Western Australia the business continued to win and perform work for the major iron ore producers and on the Wheatstone LNG project. In Queensland activity ramped up on Rio Tinto's Amrun Bauxite project.
- Public infrastructure and defence – Work continued throughout the period on the University of Canberra Hospital in the ACT and at RAAF Tindal in the Northern Territory.
- Telecommunications – NBN construction activity continued across Australia and the business commenced its first construction projects in the mobile sector. Significant activity at datacentres included the Airtrunk and Global Switch projects in Sydney.
- Industrials, energy and utilities – SCEE's first solar power projects were completed in New South Wales and

the three year Ergon Energy Service Agreement commenced in northern Queensland.

Gross margins for the half-year were 11.1% compared to 11.9% in the prior corresponding period.

Overheads in the half-year were $12.3m compared to overheads of $10.9m in the prior corresponding period with the increase attributable to the inclusion of the Heyday business offset in part by cost saving initiatives implemented in the prior corresponding period. Overheads as a percentage of revenues reduced significantly from 17.7% in H1 2017 to 7.0% in the current period.

EBITDA for the six months ended 31 December 2017 was $8.6m compared to an EBITDA loss of $1.8m in the prior corresponding period.

The underlying net profit after tax for the half-year was $4.6m after adjusting for $1.4m of amortisation of acquired Heyday customer contract intangibles and $0.5m of finance expenses arising from the unwinding of deferred consideration interest discounts. The underlying NPAT loss in the prior corresponding period was $4.3m after adjusting for $1.6m for the write back of deferred consideration relating to the acquisition of Datatel and $0.2m of finance expenses arising from the unwinding of deferred consideration interest discounts.

Net cash at 31 December 2017 was $63.0m compared to $40.3m at the start of the half-year period. During the period $9.25m of consideration was paid to the vendors of Heyday. In November the Group completed a share placement which raised $31.9m after transaction costs to support SCEE’s growth strategy by providing balance sheet strength to service the significant pipeline of work and flexibility to capitalise on potential growth opportunities.

The Group has an order book over $450m including estimates of work to be performed under framework, reimbursable and panel agreements and continues to secure new work across all sectors. Recent wins include the award of over $66m of work at the Westmead Hospital in NSW following the completion of an Early Contractor Involvement process and approximately $20m on the NorthLink Central Section road project in WA.

The order book supports anticipated full year revenues of over $350m and includes over $250m of orders for work to be performed in the 2019 financial year.

As the Group progresses its growth strategy it does so with four out of the five sectors in which it operates being in or entering a growth phase and a current opportunity pipeline of over $2bn.

Dividend

The Directors have not declared an interim dividend for the six months ended 31 December 2017 (31 December 2016: no dividend).

Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the consolidated interim financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 17 and forms part of the directors' report for the six months ended 31 December 2017.

Signed in accordance with a resolution of the directors:

D Parkin.

Derek Parkin
Chairman
Perth
26 February 2018

Consolidated Statement of Comprehensive Income

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Contract revenue		176,156	61,482
Contract expenses		(156,536)	(54,138)
Gross profit		**19,620**	**7,344**
Other income	10	1,319	1,795
Employee benefits expenses		(7,619)	(6,366)
Occupancy expenses		(1,151)	(1,239)
Administration expenses		(2,896)	(2,875)
Other expenses		(642)	(430)
Depreciation expense		(1,874)	(2,139)
Amortisation of acquired customer contract intangibles		(1,420)	-
Profit/(loss) from operating activities		**5,337**	**(3,910)**
Finance income	11	130	265
Finance expense	11	(1,072)	(440)
Net finance expense	**11**	**(942)**	**(175)**
Profit/(loss) before income tax		**4,395**	**(4,085)**
Income tax (expense)/benefit		(1,718)	1,189
Profit/(loss) after income tax for the period		**2,677**	**(2,896)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation gain for foreign operations		63	-
Other comprehensive income net of income tax		**63**	**-**
Total comprehensive income/(loss) for the period		**2,740**	**(2,896)**
Attributable to			
Owners of the Company		**2,740**	**(2,896)**
Earnings per share			
- Basic earnings /(loss) per share (cents per share)		1.45	(1.82)
- Diluted earnings /(loss) per share (cents per share)		1.42	(1.82)

Consolidated Statement of Financial Position

	Note	31 Dec 2017 $'000	30 Jun 2017 $'000
Assets			
Current Assets			
Cash and cash equivalents		63,261	40,553
Trade and other receivables		29,620	33,316
Inventories		2,307	2,328
Work in progress		30,316	21,890
Prepayments		1,410	898
Assets held for sale		-	155
Tax receivable		1,727	-
Total current assets		**128,641**	**99,140**
Non-current assets			
Trade and other receivables		1,358	1,358
Property, plant and equipment		17,689	19,416
Deferred tax assets		-	734
Intangible assets		76,012	77,433
Total non-current assets		**95,059**	**98,941**
Total assets		**223,700**	**198,081**
Liabilities			
Current liabilities			
Trade and other payables		38,650	49,697
Unearned revenue		21,589	12,899
Provisions		10,570	8,882
Loans and borrowings		76	59
Deferred acquisition consideration	14	7,735	9,180
Tax payable		-	723
Total current liabilities		**78,620**	**81,440**
Non-current liabilities			
Deferred acquisition consideration	14	7,988	15,321
Provisions		1,375	1,377
Loans and borrowings		173	187
Deferred tax liability		889	-
Total non-current liabilities		**10,425**	**16,885**
Total liabilities		**89,045**	**98,325**
Net assets		**134,655**	**99,756**
Equity			
Share capital		102,340	56,656
Reserves		1,556	15,018
Retained earnings		30,759	28,082
Total equity		**134,655**	**99,756**

Consolidated Statement of Changes in Equity

	Share Capital $'000	Retained Earnings $'000	Deferred Payments Reserve $'000	Share Based Payments Reserve $'000	Translation Reserve $'000	Total Equity $'000
Balance as at 1 July 2017	56,656	28,082	13,850	1,783	(615)	99,756
Total comprehensive income for the period						
Profit for the period	-	2,677	-	-	-	2,677
Foreign currency translation gain	-	-	-	-	63	63
Total comprehensive income	-	**2,677**	**-**	**-**	**63**	**2,740**
Transactions with owners, recorded directly in equity						
Issue of ordinary shares net of transaction costs	31,834	-	-	-	-	31,834
Equity-settled deferred acquisition consideration	13,850	-	(13,850)	-	-	-
Cost of share based payments	-	-	-	325	-	325
Total transactions with owners	**45,684**	**-**	**(13,850)**	**325**	**-**	**32,159**
Balance as at 31 December 2017	102,340	**30,759**	**-**	**2,108**	**(552)**	**134,655**

	Share Capital $'000	Retained Earnings $'000	Deferred Payments Reserve $'000	Share Based Payments Reserve $'000	Translation Reserve $'000	Total Equity $'000
Balance as at 1 July 2016	56,656	30,603	-	1,342	(920)	87,681
Total comprehensive loss for the period						
Loss for the period	-	(2,896)	-	-	-	(2,896)
Total comprehensive loss	-	**(2,896)**	**-**	**-**	**-**	**(2,896)**
Transactions with owners, recorded directly in equity						
Cost of share based payments	-	-	-	233	-	233
Dividends	-	(2,152)	-	-	-	(2,152)
Total transactions with owners	-	**(2,152)**	-	**233**	**-**	**(1,919)**
Balance as at 31 December 2016	56,656	**25,555**	-	**1,575**	**(920)**	**82,866**

Consolidated Statement of Cash Flows

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Cash flows from operating activities			
Cash receipts from customers		202,349	71,440
Cash paid to suppliers and employees		(199,187)	(81,300)
Interest received		130	265
Interest paid		(599)	(31)
Income taxes paid		(2,546)	(1,265)
Net cash from/(used in) operating activities	7	**147**	**(10,891)**
Cash flows from investing activities			
Payment of deferred acquisition consideration		(9,250)	-
Acquisition of property, plant and equipment		(880)	(393)
Proceeds from the sale of assets		872	61
Net cash used in investing activities		**(9,258)**	**(332)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares net of transaction costs		31,867	-
Repayment of borrowings		(48)	-
Dividends paid		-	(2,152)
Net cash from/(used in) financing activities		**31,819**	**(2,152)**
Net increase/(decrease) in cash and cash equivalents		**22,708**	**(13,375)**
Cash and cash equivalents at 1 July		40,553	41,833
Effect of exchange rate fluctuations on cash held		-	-
Cash and cash equivalents at 31 December		**63,261**	**28,458**

Notes to the consolidated interim financial statements

1. Reporting entity

Southern Cross Electrical Engineering Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 30 June 2017 is available upon request from the Company's registered office at 41 Macedonia Street, Naval Base, Western Australia 6165 or at www.scee.com.au.

2. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2017.

The consolidated interim financial report was approved by the Board of Directors on 26 February 2018.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the consolidated interim financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. Estimates

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2017. This includes judgments in relation to the measurement and disclosure of fair values under the fair value hierarchy applied to the consolidated financial statements as at and for the year ended 30 June 2017.

4. Significant accounting policies

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2017. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group did not adopt any new and or revised standards, amendments or interpretations from 1 July 2017 which had any effect on the financial position or performance of the Group.

5. Financial risk management

During the six months ended 31 December 2017 the Group's financial risk management objectives and policies were consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2017.

6. Segment reporting

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

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

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

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

7. Reconciliation of cash flows from operating activities

	31 Dec 2017 $'000	31 Dec 2016 $'000
Cash flows from operating activities		
Profit/(Loss) after income tax for the period	**2,677**	**(2,896)**
Adjustments for:		
Depreciation and amortisation	3,294	2,139
Profit on sale of assets	(699)	(22)
Equity-settled share-based payment transactions	325	233
(Increase)/decrease in assets:		
Change in trade and other receivables	4,482	1,398
Change in work in progress	(8,426)	(864)
Change in inventories	21	(65)
Change in prepayments	(512)	(572)
Change in income tax receivable	(1,727)	(1,265)
Increase/(decrease) in liabilities:		
Change in trade and other payables	(11,035)	(3,554)
Change in unearned revenue	8,690	(1,201)
Change in provisions and employee benefits	1,686	(1,666)
Change in deferred consideration	471	(1,367)
Change in income tax payable	(723)	-
Change in deferred income tax	1,623	(1,189)
Net cash from operating activities	**147**	**(10,891)**

8. Share based payments

During the six months ended 31 December 2017 the Company issued 1,241,118 Performance Rights in respect of the 2018 financial year. The Performance Rights issued, under the Company's Senior Management Long Term Incentive Plan, vest over the period to 30 June 2020 and have a fair value at grant date of $0.53 (TSR Component) and $0.75 (EPS Component). The fair value of the TSR Performance Rights has been measured using the Monte-Carlo simulation. The EPS Performance Rights has been measured using the Binomial tree methodology.

The movement in the share based payments reserve reflects the amounts expensed in regard to the FY2018 grant of $325,134.

9. Related parties – Key management personnel

The share based payments disclosed in note 8 included the following issues to key management personnel during the six months ended 31 December 2017. Graeme Dunn was issued 570,175 Performance Rights, Chris Douglass was issued 337,719 Performance Rights and Andy Ozolins was issued 213,158 Performance Rights.

The Performance Rights issued to Graeme Dunn were approved by shareholders at the Company's Annual General Meeting on 31 October 2017.

Other arrangements with related parties continue to be in place on the same basis as at 30 June 2017. For full disclosure on these transactions refer to the 30 June 2017 annual financial report.

10. Other income

	31 Dec 2017 $'000	31 Dec 2016 $'000
Reduction in deferred consideration payable	-	1,599
Net gain on disposal of assets held for sale	632	-
Gain on sale of sundry equipment	230	-
Other	457	196
	1,319	1,795

11. Finance income and expenses

	31 Dec 2017 $'000	31 Dec 2016 $'000
Interest income on bank deposits	130	265
Finance income	130	265
Interest expense on bank borrowings	(49)	(26)
Finance charges payable under finance lease	(6)	(1)
Unwinding of discount on deferred consideration	(473)	(177)
Bank charges	(304)	(196)
Bank guarantee fees	(240)	(40)
Finance expenses	(1072)	(440)
Net finance expense	(942)	(175)

12. Dividends

The following dividends were declared and paid by the Company:

	31 Dec 2017 $'000	31 Dec 2016 $'000
Final 2016 ordinary fully franked at 1.35 cents per share	-	2,152

13. 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.

	31 Dec 2017 $'000	30 Jun 2017 $'000
Bank Guarantees	38,498	39,089
Surety Bonds	6,615	3,107

14. Financial instruments

The group holds deferred acquisition consideration liabilities of $15,723,003 (30 June 2017: $24,500,376) which are classified as fair value hierarchy level 3, in which fair values are based on valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

The reduction in the period of $8,777,373 of deferred acquisition consideration liabilities included a reduction of $9,250,000 for the payment of deferred acquisition consideration and an increase of $472,626 for the unwinding of the deferred consideration interest discount.

The fair value of the deferred acquisition consideration liabilities is based on the expected payments to be made which are determined by the valuation technique of considering possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario for the acquired entities. For these scenarios the significant unobservable inputs include forecast annual revenue growth rate and forecast EBITDA margin.

There have been no transfers of fair value hierarchy levels during the period.

15. Events after the balance sheet date

There have been no events after the balance sheet date that have a material impact on the financial report.

Directors' declaration

In the opinion of the directors of Southern Cross Electrical Engineering Limited ("the Company"):

1. the financial statements and notes set out on pages 6 to 13, are in accordance with the Corporations Act 2001 including:

   a. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the six month period ended on that date; and

   b. complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors

D Parkin

Derek Parkin
Chairman
Perth
26 February 2018

Independent Auditor's Review Report

To the shareholders of Southern Cross Electrical Engineering Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Southern Cross Electrical Engineering Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Southern Cross Electrical Engineering Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2017
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Southern Cross Electrical Engineering Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim 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 Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Southern Cross Electrical Engineering Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

KPMG

KPMG

Trevor Hart

Partner

Perth

26 February 2018

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 review of Southern Cross Electrical Engineering for the half-year ended 31 December 2017 there have been:

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

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

KPMG

KPMG

Trevor Hart

Partner

Perth

26 February 2018