Interim Financial Report

for the half year ended 31 December 2015

Contents

Directors' report

The directors present their report together with the Consolidated Interim Financial Report for the six months ended 31 December 2015 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)	Appointed 18 January 2016
Mr Chris Douglass	Resigned 18 January 2016

Review of operations

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.

Revenue generated by each of SCEE's operating divisions was as follows: SCEE construction $109.5m, SCEE Services $23.1m and SCEE Infrastructure $4.5m.

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.

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 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 15 and forms part of the directors' report for the six months ended 31 December 2015.

Signed in accordance with a resolution of the directors:

D. Parkin.

Derek Parkin
Chairman
Perth
23 February 2016

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.

Consolidated Statement of Comprehensive Income

	31 Dec 2015 $'000	31 Dec 2014 $'000
Contract revenue	137,131	141,987
Contract expenses	(119,181)	(119,740)
Gross profit	**17,950**	**22,247**
Other income	97	257
Employee benefits expenses	(7,385)	(8,828)
Occupancy expenses	(873)	(834)
Administration expenses	(1,948)	(2,670)
Other expenses	(548)	(510)
Depreciation expense	(2,337)	(3,352)
Amortisation of customer contract intangibles	-	(75)
Profit from operating activities	**4,956**	**6,235**
Finance income	319	451
Finance expense	(287)	(505)
Net finance income/(expense)	**32**	**(54)**
Profit before income tax	**4,988**	**6,181**
Income tax expense	(1,236)	(2,075)
Profit after income tax for the period	**3,752**	**4,106**
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation (gain)/loss for foreign operations	(72)	40
Other comprehensive (income)/loss net of income tax	**(72)**	**40**
Total comprehensive income for the period	**3,680**	**4,146**
Attributable to		
Owners of the Company	**3,680**	**4,146**
Earnings per share		
- Basic earnings per share (cents per share)	2.37	2.54
- Diluted earnings per share (cents per share)	2.37	2.53

Consolidated Statement of Financial Position

	Note	31 Dec 2015 $'000	30 Jun 2015 $'000
Assets			
Current Assets			
Cash and cash equivalents		45,024	44,550
Trade and other receivables		34,683	34,064
Inventories		2,786	2,947
Construction work in progress		6,420	8,556
Prepayments		971	987
Assets held for sale		686	909
Total current assets		**90,570**	**92,013**
Non-current assets			
Property, plant and equipment		21,353	22,863
Deferred tax asset		760	-
Intangible assets		8,784	8,784
Total non-current assets		**30,897**	**31,647**
Total assets		**121,467**	**123,660**
Liabilities			
Current liabilities			
Trade and other payables		21,992	21,961
Unearned revenue		2,172	3,163
Employee entitlements		6,487	6,005
Tax payable		2,264	3,257
Total current liabilities		**32,915**	**34,386**
Non-current liabilities			
Employee entitlements		307	353
Deferred tax liability		-	223
Total non-current liabilities		**307**	**576**
Total liabilities		**33,222**	**34,962**
Net assets		**88,245**	**88,698**
Equity			
Share capital		56,036	56,036
Reserves		768	702
Retained earnings		31,441	31,960
Total equity		**88,245**	**88,698**

Consolidated Statement of Changes in Equity

	Share Capital	Retained Earnings	Options Reserve	Translation Reserve	Total Equity
Balance as at 1 July 2015	56,036	31,960	1,180	(478)	88,698
Total comprehensive income for the period					
Profit for the period	-	3,752	-	-	3,752
Foreign currency translation	-	-	-	(72)	(72)
Total comprehensive Income	**-**	**3,752**	**-**	**(72)**	**3,680**
Transactions with owners, recorded directly in equity					
Cost of share based payments	-	-	138	-	138
Dividends	-	(4,271)	-	-	(4,271)
Total transactions with owners	**-**	**(4,271)**	**138**	**-**	**(4,133)**
Balance as at 31 December 2015	**56,036**	**31,441**	**1,318**	**(550)**	**88,245**

	Share Capital	Retained Earnings	Options Reserve	Translation Reserve	Total Equity
Balance as at 1 July 2014	57,578	46,122	1,328	(775)	104,253
Total comprehensive income for the period					
Profit for the period	-	4,106	-	-	4,106
Foreign currency translation	-	-	-	40	40
Total comprehensive Income	**-**	**4,106**	**-**	**40**	**4,146**
Transactions with owners, recorded directly in equity					
Cost of share based payments	-	-	30	-	30
Dividends	-	(4,361)	-	-	(4,361)
Total transactions with owners	**-**	**(4,361)**	**30**	**-**	**(4,331)**
Balance as at 31 December 2014	**57,578**	**45,867**	**1,358**	**(735)**	**104,068**

Consolidated Statement of Cash Flows

	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Cash flows from operating activities			
Cash receipts from customers		146,617	143,903
Cash paid to suppliers and employees		(137,879)	(138,389)
Interest received		319	451
Interest paid		(287)	(505)
Income taxes received/(paid)		(3,212)	(2,951)
Net cash from operating activities	7	**5,558**	**2,509**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(960)	(1,225)
Disposal of property, plant and equipment		219	122
Net cash used in investing activities		**(741)**	**(1,103)**
Cash flows from financing activities			
Repayment of borrowings		-	(935)
Dividends paid		(4,271)	(4,361)
Net cash used in financing activities		**(4,271)**	**(5,296)**
Net increase / (decrease) in cash and cash equivalents		**546**	**(3,890)**
Cash and cash equivalents at 1 July		44,550	37,869
Effect of exchange rate fluctuations on cash held		(72)	40
Cash and cash equivalents at 31 December		**45,024**	**34,019**

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 2015 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 2015 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 2015.

The consolidated interim financial report was approved by the Board of Directors on 23 February 2016.

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 2015.

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 2015.

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 2015 which had any effect on the financial position or performance of the Group.

5. Financial risk management

During the six months ended 31 December 2015 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 2015.

6. Segment reporting

Revenue is 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. In the half-year ended 31 December 2015 the Group derived revenues of $109.5 million from SCEE Construction, $4.5 million from SCEE Infrastructure and $23.1 million from SCEE services. 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.

7. Reconciliation of cash flows from operating activities

	31 Dec 2015 $'000	31 Dec 2014 $'000
Cash flows from operating activities		
Profit after income tax for the period	**3,752**	**4,106**
Adjustments for:		
Depreciation and amortisation	2,337	3,427
Loss on sale of assets	137	-
Equity-settled share-based payment transactions	138	30
(Increase)/decrease in assets:		
Change in trade and other receivables	(619)	(485)
Change in work in progress	2,136	1,054
Change in inventories	161	(369)
Change in prepayments	16	(1,022)
Increase/(decrease) in liabilities:		
Change in trade and other payables	31	(4,728)
Change in unearned revenue	(991)	1,089
Change in provisions and employee benefits	436	283
Change in income tax payable	(993)	(351)
Change in deferred income tax	(983)	(525)
Net cash from operating activities	**5,558**	**2,509**

8. Share based payments

During the six months ended 31 December 2015 the Company issued 1,594,978 Performance Rights in respect of the 2016 financial year. The Performance Rights issued under the Company's Senior Management Long Term Incentive Plan, vest over the period to 30 June 2018 and have a fair value at grant date of $0.15 (TSR Component) and $0.30 (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 FY 2015 grant of $138,174.

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 2015. Chris Douglass was issued 975,000 Performance Rights and Andy Ozolins was issued 425,000 Performance Rights.

The Performance Rights issued to Chris Douglass were approved by shareholders at the Company's Annual General Meeting on 26 October 2015.

Other arrangements with related parties continue to be in place on the same basis as at 30 June 2015. For full disclosure on these transactions refer to the 30 June 2015 annual financial report.

10. 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 2015 $'000	30 Jun 2015 $'000
Bank Guarantees	20,998	20,143
Surety Bonds	3,871	8,493

11. Events after the balance sheet date

On the 28th January 2016, an announcement was made on the ASX, proposing an interim dividend of 1.35 cents per share.

Directors' declaration

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

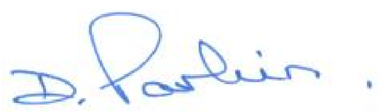
1. the financial statements and notes set out on pages 5 to 11, are in accordance with the Corporations Act 2001 including:

    a. giving a true and fair view of the Group's financial position as at 31 December 2015 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



Derek Parkin
Chairman
Perth
23 February 2016

KPMG

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

Report on the financial report

We have reviewed the accompanying interim financial report of Southern Cross Electrical Engineering Limited(the company), which comprises the consolidated statement of financial position as at 31 December 2015, the 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 11 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 half-year's end or from time to time during the half-year.

Directors' responsibility 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

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 2015 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 an 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.

Independence

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

Conclusion

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:

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

(b) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Trevor Hart
Partner

Perth

23 February 2016

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 for the half-year ended 31 December 2015 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

23 February 2016