Interim Financial Report

for the half year ended 31 December 2023

Contents

Directors' Report

The Directors present their report together with the Consolidated Interim Financial Report for the six months ended 31 December 2023 and the Independent Review Report thereon.

Directors

The Directors of Southern Cross Electrical Engineering Limited ("SCEE Group" 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

Mr Karl Paganin (Chairman)

Mr Derek Parkin

Mr Simon Buchhorn

Mr Paul Chisholm

Executive Directors

Mr Graeme Dunn (Managing Director)

Review of operations

Financial Results

Revenue for the half year of $255.6m matched the prior corresponding period revenue of $255.4m and is consistent with guidance of targeting full year revenue of over $500m.

Infrastructure sector revenue grew 50.8% on the prior corresponding period to cover for the lower resources activity following the completion of major projects in the sector in FY23.

Recurring revenues from services, maintenance and framework agreements contributed over 40% of activity in the period.

Revenue contribution by sector was as follows:

- Infrastructure – revenue for the period was $103.8m, up from $68.8m in the prior corresponding period and was the largest sector in the first half. Work on the Multiplex Western Sydney International Airport project ramped up during the period and is now at high levels of activity. There are ongoing works at the NEXTDC SYD03 data centre and the Pitt Street Sydney Metro station project in NSW and the Ergon Energy Queensland Service Agreement. The supply of the Westgate Tunnel switchboards in Victoria is nearing completion.
- Commercial – revenue for the period was $78.9m, compared to $82.5m in the prior corresponding period. Trivantage's national supermarket services business continues to deliver strong results. Heyday has various ongoing projects in NSW and the ACT including the Pitt Street Sydney Metro station commercial and residential towers.
- Resources – revenue for the period was $72.8m down from $104.1m in the prior corresponding period with the large-scale construction projects at Rio Tinto Gudai-Darri and the MARBL JV Kemerton lithium plant having successfully completed in FY23. Key projects in the period included the security upgrade works at the Dysart, Moranbah and Stayover Dysart accommodation villages in the Bowen Basin in Queensland, the CPB

Mount Keith debottlenecking project and various ongoing works for BHP, Rio Tinto and Sino Iron.

Gross profit for the period of $37.7m was down slightly by 3.3% on the prior corresponding period gross profit of $38.9m. Gross margins were 14.7% compared to the prior corresponding period gross margins of 15.3%.

The group continues to monitor and manage the broader economic environment. There have been no material impacts on our operations from inflationary cost pressures or labour market issues to date.

Overheads of $20.9m remained consistent with the prior corresponding year, both in absolute terms and as a percentage of revenue.

EBITDA for the half year of $17.1m was down 10.1% and EBIT of $13.3m was down 7.7% on the prior corresponding period.

Net profit after tax of $9.6m matched the group record H1 profit performance in the prior corresponding period of $9.7m and included $1.1m amortisation of intangibles relating to the FY21 acquisition of Trivantage (H1 FY23 amortisation was also $1.1m).

The Board has declared a fully franked interim dividend of 1.0 cent per share to be paid on 10 April 2024.

The cash balance at 31 December 2023 remained strong at $65.0m (30 June 2023: $77.7m). There were significant cash outflows in the period for the final Trivantage acquisition earn-out which was achieved in full ($7.3m), the final FY23 dividend ($10.2m) and income tax instalments ($13.6m) of which a significant portion related to the successful close out of the major FY23 resources projects.

The group remains debt free.

Outlook

The group is targeting FY24 revenue of over $500m and similar EBITDA to FY23 with growth anticipated in FY25 and beyond.

The order book at 31 December was $550m, up 4.8% on the prior corresponding period. Awards in the period included the NEXTDC SYD03 Data Centre, the Australian Border Force's integrated fit out at Western Sydney International Airport, the City Tattersall's Club redevelopment project in NSW, and the accommodation village security upgrade works in Queensland. We continue to secure regular works under our key framework agreements including various supermarket roll-outs.

The infrastructure sector contributes over half of the order book and is expected to remain the largest sector in the second half. The Western Sydney International Airport project is now at a high level of activity. The project has already seen significant scope increases with further growth anticipated. The Pitt Street Sydney Metro station and towers projects are ongoing with further opportunities on the Sydney Metro programme. The Shoalhaven Hospital redevelopment project will ramp up during the second half and we are targeting other hospital opportunities. There is a growing pipeline of over $500m of data centre developments that we are bidding already or positioning for in NSW where we have a strong track record of delivering such projects.

In the commercial sector ongoing projects include the Pitt Street station towers and the City Tattersall's Club redevelopment project. Activity on the Atlassian HQ Building electrical services contract secured in the prior year will start to ramp up in the second half.

Activity in the resources sector is expected to remain at similar levels in the second half in the absence of any large construction projects. A number of opportunities are emerging beyond FY24.

The electrification and decarbonisation of the Australian and global economies present the group with opportunities across all the markets in which it operates. The group is exposed to these opportunities through three avenues, being supporting the decarbonisation of resources operations, assisting in meeting the demand for commodities required for decarbonisation, and offering services across a diverse and growing range of initiatives including green buildings, solar farms, refrigeration power and electric vehicle charging systems.

Strategy

SCEE Group primarily sees itself as an electrical contractor diversified across the resources, commercial and infrastructure markets.

Our growth strategy continues to be to deepen our presence in those sectors and broaden our geographic diversity through expanding our core competencies and adding adjacent and complementary capabilities, either organically or by acquisition.

We have increasing exposure to service and maintenance style work with recurring revenues now over 40% of activity.

We are actively exploring a range of acquisition targets offering further geographic diversification and new capabilities.

We are positioned to service the decarbonisation and electrification initiatives shaping our markets.

Dividend

The Directors have declared a fully franked interim dividend for the six months ended 31 December 2023 of 1.0 cent per share (31 December 2022: 1.0 cent per share).

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 18 and forms part of the directors' report for the six months ended 31 December 2023.

Signed in accordance with a resolution of the directors:

Karl Paganin
Chairman
Perth
26 February 2024

Consolidated Statement of Comprehensive Income

	Note	31 Dec 2023 $'000	31 Dec 2022 $'000
Contract revenue		255,548	255,381
Contract expenses		(217,883)	(216,434)
Gross profit		**37,665**	38,947
Other income		322	892
Employee benefits expenses		(11,836)	(12,226)
Occupancy expenses		(1,578)	(1,275)
Administration expenses		(5,656)	(5,562)
Other expenses		(1,826)	(1,771)
Depreciation expense		(1,459)	(2,052)
Right-of-use asset amortisation expense		(1,243)	(1,450)
Other amortisation expenses		(1,057)	(1,056)
Profit from operating activities		**13,332**	**14,447**
Finance income	7	1,306	383
Finance expense	7	(774)	(681)
Net finance income/(expense)	**7**	**532**	**(298)**
Profit before income tax		**13,864**	**14,149**
Income tax expense		(4,220)	(4,404)
Profit after income tax for the period		**9,644**	**9,745**
Other comprehensive income		-	-
Other comprehensive income net of income tax		**-**	**-**
Total comprehensive income for the period		**9,644**	**9,745**
Attributable to			
Owners of the Company		**9,644**	**9,745**
Earnings per share			
- Basic earnings per share (cents per share)		3.67	3.85
- Diluted earnings per share (cents per share)		3.66	3.82

Consolidated Statement of Financial Position

	Note	31 Dec 2023 $'000	30 Jun 2023 $'000
Assets			
Current Assets			
Cash and cash equivalents		64,982	77,652
Trade and other receivables	8	107,041	103,906
Inventories		1,541	1,256
Prepayments		4,166	4,850
Total current assets		**177,730**	**187,664**
Non-current assets			
Property, plant and equipment		10,184	9,950
Right-of-use assets		8,640	10,096
Intangible assets		109,606	110,724
Total non-current assets		**128,430**	**130,770**
Total assets		**306,160**	**318,434**
Liabilities			
Current liabilities			
Trade and other payables	9	90,704	85,969
Provisions		19,511	18,239
Deferred acquisition consideration	15	-	7,305
Lease liability		3,145	2,626
Tax payable		2,123	10,349
Total current liabilities		**115,483**	**124,488**
Non-current liabilities			
Lease liability		6,009	7,792
Provisions		861	879
Deferred tax liability		2,069	3,176
Total non-current liabilities		**8,939**	**11,847**
Total liabilities		**124,422**	**136,335**
Net assets		**181,738**	**182,099**
Equity			
Share capital		117,449	116,651
Reserves		515	811
Retained earnings		63,774	64,637
Total equity		**181,738**	**182,099**

Consolidated Statement of Changes in Equity

	Note	Share Capital $'000	Retained Earnings $'000	Share Based Payments Reserve $'000	Translation Reserve $'000	Total Equity $'000
Balance as at 1 July 2023		116,651	64,637	1,325	(514)	182,099
Total comprehensive income for the period						
Profit for the period		-	9,644	-	-	9,644
Total comprehensive income		-	**9,644**	**-**	**-**	**9,644**
Equity transactions with owners:						
Dividends	13	-	(10,507)	-	-	(10,507)
Dividend re-investment and share placements, net	13	346	-	-	-	346
Performance rights exercised in shares (net of tax)		452	-	(458)	-	(6)
Performance rights for cash in lieu of shares (net of tax)		-	-	(213)	-	(213)
Equity-settled share based payments	11	-	-	375	-	375
Total transactions with owners		**798**	**(10,507)**	**(296)**	**-**	**(10,005)**
Balance as at 31 December 2023		**117,449**	**63,774**	**1,029**	**(514)**	**181,738**

	Note	Share Capital $'000	Retained Earnings $'000	Share Based Payments Reserve $'000	Translation Reserve $'000	Total Equity $'000
Balance as at 1 July 2022		115,953	57,592	1,257	(514)	174,288
Total comprehensive income for the period						
Profit for the period		-	9,745	-	-	9,745
Total comprehensive income		-	**9,745**	**-**	**-**	**9,745**
Equity transactions with owners:						
Dividends	13	-	(10,441)	-	-	(10,441)
Dividend re-investment and share placements, net	13	240	-	-	-	240
Performance rights exercised in shares (net of tax)		392	-	(396)	-	(4)
Performance rights for cash in lieu of shares (net of tax)		-	-	(181)	-	(181)
Equity-settled share based payments	11	-	-	382	-	382
Performance rights (net of tax)			8	(8)	-	-
Total transactions with owners		**632**	**(10,433)**	**(203)**	**-**	**(10,004)**
Balance as at 31 December 2022		**116,585**	**56,904**	**1,054**	**(514)**	**174,029**

Consolidated Statement of Cash Flows

	Note	31 Dec 2023 $'000	31 Dec 2022 $'000
Cash flows from operating activities			
Cash receipts from customers		278,984	296,752
Cash paid to suppliers and employees		(258,284)	(256,182)
Interest received		1,306	383
Interest paid		(746)	(559)
Income taxes paid		(13,552)	(4,057)
Net cash from operating activities	10	**7,708**	**36,336**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	15	(7,333)	(5,647)
Acquisition of property, plant and equipment		(1,535)	(2,109)
Proceeds from the sale of assets		76	449
Net cash used in investing activities		**(8,792)**	**(7,307)**
Cash flows from financing activities			
Dividends paid	13	(10,158)	(10,199)
Principal portion of lease liability payments		(1,215)	(1,449)
Performance rights exercised for cash in lieu of shares		(213)	(181)
Net cash used in financing activities		**(11,586)**	**(11,829)**
Net increase/(decrease) in cash and cash equivalents		(12,670)	17,200
Cash and cash equivalents at 1 July		**77,652**	53,083
Cash and cash equivalents at 31 December		**64,982**	**70,282**

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 2023 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 2023 is available upon request from the Company's registered office at 225 St Georges Terrace, Perth, Western Australia 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 2023.

The consolidated interim financial report was approved by the Board of Directors on 26 February 2024.

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 2023.

4. Significant accounting policies

The principal accounting policies adopted in the preparation of the interim financial report are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2023. 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 2023 which had a material effect on the financial position or performance of the Group.

5. Financial risk management

During the six months ended 31 December 2023 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 2023.

6. Segment reporting

Revenue is principally derived by the Group from the provision of electrical services through construction and services contracts to customers in the following sectors: Commercial, Resources and Infrastructure. The Group provides its services through the three key segments of SCEE, Heyday, and Trivantage.

The directors believe that the aggregation of the operating segments 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 segments have therefore been aggregated to form one operating segment.

7. Finance income and expenses

	31 Dec 2023 $'000	31 Dec 2022 $'000
Interest income on bank deposits	1,306	383
Finance income	1,306	383
Bank charges	(256)	(9)
Bank guarantee and surety bond fees	(240)	(228)
Interest expense on deferred consideration	(28)	(122)
Interest expense on borrowings	(31)	(51)
Lease liability interest	(219)	(271)
Finance expenses	(774)	(681)
Net finance income (expense)	532	(298)

8. Trade and other receivables

	31 Dec 2023 $'000	30 Jun 2023 $'000
Trade receivables	42,911	39,004
Sundry debtors	353	265
Provision for impairment of trade receivables	(520)	(414)
Contract assets (i)	64,234	65,010
Retentions	63	41
	107,041	103,906

(i) Contract assets represents the unbilled amount expected to be collected from customers for contract work performed to date. Cost includes all expenditure related directly to specific projects. Recognised profit is based on the percentage of completion method and is determined using the costs incurred to date and the total forecast contract costs.

8. Trade and other receivables (continued)

The timing of cash inflows for contract assets is dependent on the status of processes underway to gain acceptance from customers as to the enforceability of recognised modifications resulting from contractual claims and variations. The Group pursues various options with customers to accelerate the inflow of cash including, but not limited to, negotiations, security of payment adjudications and arbitration involving the support of legal counsel and external consultants. Accordingly, there remains a risk that settlement of contract assets takes longer than 12 months. In accordance with its accounting policies, the Group has previously recognised revenue in relation to such contracts, applying constraint, and the Group has reviewed the balance at 31 December 2023. The amount is included within contract assets.

9. Trade and other payables

	31 Dec 2023 $'000	30 Jun 2023 $'000
Trade payables	35,288	25,063
Contract liabilities (i)	34,328	36,867
Accrued expenses	17,724	20,726
Goods and services tax payable	2,678	2,416
Retentions payable	686	897
	90,704	85,969

(i) Contract liabilities represents unearned revenue which arises when the Group has invoiced the client in advance of performing the contracted services. Contract liabilities fluctuate based on progress of completion of contracts.

10. Reconciliation of cash flows from operating activities

	31 Dec 2023 $'000	31 Dec 2022 $'000
Profit after income tax for the period	**9,644**	9,745
Adjustments for:		
Depreciation and amortisation	3,759	4,558
Profit on sale of assets	(26)	(365)
Equity-settled share based payment transactions	375	382
Changes in assets and liabilities:		
Change in trade and other receivables	(3,135)	44,868
Change in inventories	(285)	(146)
Change in prepayments	684	(1,971)
Change in trade and other payables	4,743	(19,164)
Change in provisions and employee benefits	1,254	(2,039)
Change in deferred consideration	28	121
Change in income tax payable	(8,226)	4,868
Change in deferred income tax	(1,107)	(4,521)
Net cash from operating activities	7,708	36,336

11. Share based payments

During the six-month period ended 31 December 2023, the Company issued a total of 1,643,599 performance rights in respect of the 2024 financial year. The Performance Rights issued, under the Company's Senior Management Long Term Incentive Plan, vest over the period to 30 June 2026. 727,624 of the performance rights were issued on 25 August 2023 and have a fair value at grant date of $0.35 and $0.62 for the TSR and EPS components, respectively. 915,974 of the performance rights were issued on 1 November 2023 and have a fair value at grant date of $0.48 and $0.70 for the TSR and EPS components, respectively. The fair value of the TSR Performance rights has been measured using the Monte-Carlo simulation while the EPS Performance rights has been measured using the Binomial Tree methodology.

The movement in share based payments reserve during the period reflects the amounts expensed in respect of the FY2024 grant of $375,000 and exercised rights of $671,000.

12. Related parties – Key management personnel

The share based payments disclosed in note 11 included the share issues to key management personnel during the six months ended 31 December 2023. Graeme Dunn was issued 915,974 Performance Rights and Chris Douglass was issued 547,205 Performance Rights.

The Performance Rights issued to Graeme Dunn were approved by shareholders at the Company's Annual General Meeting on 31 October 2023.

Other arrangements with related parties continue to be in place on the same basis as at 30 June 2023. For full disclosure on these transactions, refer to the 30 June 2023 annual financial report.

13. Dividends

The following dividends were declared and paid by the Company:

	31 Dec 2023 $'000	31 Dec 2022 $'000
Final 2023 ordinary fully franked at 4.00 cents per share	10,507	-
Final 2022 ordinary fully franked at 4.00 cents per share	-	10,441

14. 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 2023 $'000	30 Jun 2023 $'000
Credit facilities utilised		
Bank Guarantees and surety bonds	61,062	56,583

15. Deferred acquisition consideration

The group holds deferred acquisition consideration liabilities of nil (30 June 2023: $7,305,000) relating to the acquisition of Trivantage Group in 2020.

The reduction in the period of $7,305,000 of deferred acquisition consideration liabilities included a reduction of $7,333,000 for the final payment of deferred acquisition consideration and an increase of $28,000 for the unwinding of the deferred consideration interest discount.

16. 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 14, 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 2023 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.

Karl Paganin
Chairman
Perth
26 February 2024

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 does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2023 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 2023.
- 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 16 comprising material 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 Period.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

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
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 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*.

A review of an Interim Period 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.

KPMG.

KPMG

R Gambitta
Partner

Perth

26 February 2024

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 Limited for the half-year ended 31 December 2023 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

R Gambitta
Partner

Perth

26 February 2024