Southern Cross Electrical Engineering Limited

2011 Annual Report

As an electrical contractor we feature in the late stage of project development, and we are now seeing a number of major projects reaching the stage where our services and expertise are in demand.

Contents

Who we are, What we do

Southern Cross was established in 1978 and is a dedicated provider of large scale specialised electrical, control and instrumentation services for major construction projects. Southern Cross is committed to outstanding client service and as a result is proud to have fostered relationships with blue-chip customers including Woodside, BHP Billiton, Rio Tinto, Barrick Gold, Newmont, Origin and QGC.

The range of services and expertise we offer our clients through the project lifecycle includes:

- Constructability reviews;
- Material procurement, transport and logistics;
- Electrical and instrumentation installation ("E&I");
- Installation pre-commissioning and commissioning;
- Shutdown maintenance and installations;
- Installation contractual verification documentation; and
- Manufacturers' data and maintenance manuals.

With teams located across Australia and in Latin America, Southern Cross is well positioned to drive growth by providing highly skilled professionals for large scale projects in the following sectors:

- Minerals and Processing – Australia;
- Oil & Gas – Australia;
- Infrastructure – Australia;
- Minerals and Processing – International; and
- Operational Support and Maintenance

In the 2011 financial year Southern Cross maintained its focus on large scale minerals and metals construction projects and successfully re-entered the oil and gas market. Some of the highlights were:

- Continued delivery of expansion projects at Cape Lambert for Rio Tinto.
- Delivery of the electrical and instrumentation contract for the off-take and storage facilities at the Pluto LNG project.
- Near completion of the Mt Keith Talc Redesign project for BHP Billiton.
- Commencement of E&I works on the Sino Iron project for MCC Mining and the Cadia Expansion project for Cadia Holdings Pty Ltd.
- Ongoing works on the Pueblo Viejo Gold project in the Dominican Republic.

In addition, Southern Cross has increased its capacity in its key markets through the integration of the acquisitions it undertook in the previous financial year, including the rebranding of its Oceanic acquisition on the East Coast under the Southern Cross brand.

Southern Cross' ability to grow in its target markets is supported by the respect of our clients, our independence as an E&I contractor and further enhancements to our balance sheet, corporate team and project delivery capability.

Going forward the growth of Southern Cross is underpinned by the framework agreements it has entered into on the Sino Iron project and with Rio Tinto for its 333mtpa program in the Pilbara and is well placed for the upcoming LNG opportunities on the West Coast and CSG opportunities on the East Coast.

Safety

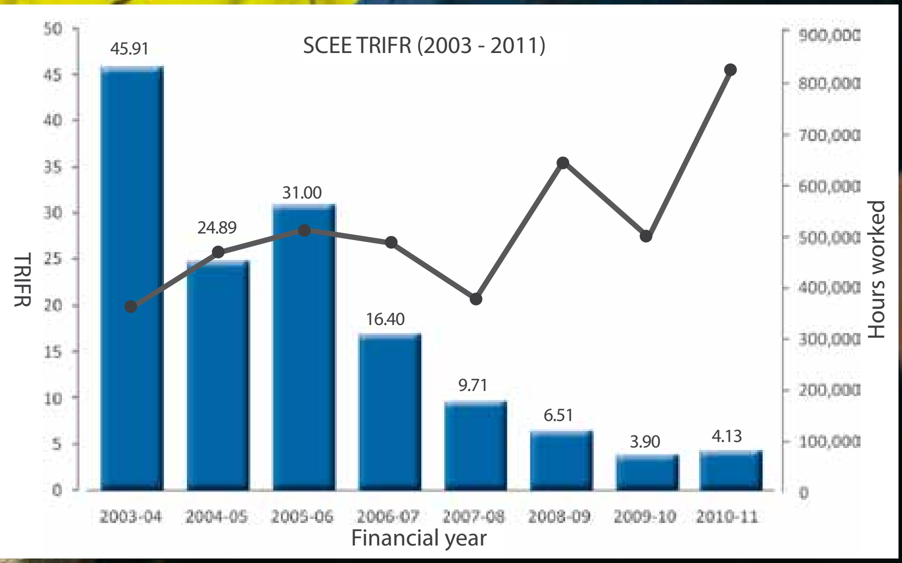
Southern Cross is committed to continual improvement of safety and environmental systems throughout the organisation and is pleased to report the following highlights for 2011:

- Implementation of an integrated web-based software package across the organisation, allowing tracking of HSE, training, and human resources data across all sites and departments
- Recertification to AS/NZS 4801 for the company's occupational health and safety systems through site and head office based surveillance audits
- Recertification to AS/NZS 14001 for the company's environmental management system
- Recertification to AS/NZS ISO 9001 for the company's quality management system

I am pleased to say that SCEE continues to maintain its exceptional safety track record, recording its seventh consecutive LTI-free year.

Southern Cross also received the 2011 National Electrical Contractors Association's Western Australian award for Safety Performance for the second year running for its performance on the Pluto project.

For the seventh year running Southern Cross had zero Lost Time Injuries and Medical Treatment Injuries reduced to an all-time low of three for the period, resulting in a Total Recordable Injury Frequency Rate of 4.13.



We were awarded the Regional Managing Director's Contractors HSE Excellence Award (Australia & New Zealand) by Worley Parsons.

Chairman's Review

John Cooper
Chairman

Dear shareholders

It is with pleasure that I report to you for the first time as Chairman of Southern Cross Electrical Engineering Ltd ("Southern Cross" or "the Company"). The 2011 financial year has been a challenging year, but it paves the way for what we believe to be an exciting future for Southern Cross.

Whilst we recorded an overall loss of $1.7 million for 2011, it was a year of two halves, with difficult trading conditions in the first half and a strong turnaround occurring in the second half year. Pleasingly we are now seeing earnings and revenue momentum growing strongly. This is evidenced by the Company's strong order book with some recent significant contract wins.

Our business is in a strong capital position following our $33 million capital raising we undertook in April 2011. In addition to the capital raising Southern Cross also negotiated a $30 million of banking facilities. This combination provides us with a strong balance sheet to fund future growth.

Southern Cross has continued to build on its strong relationships with established clients. We have recently announced two major contract wins. Our new Sino contract builds on an existing strong relationship as does our preferred contractor status with Rio Tinto for the 333 project which will continue for the next five years. We have and will continue to maintain these relationships through strong and efficient performance.

I thank all our staff for their contribution to maintaining our reputation for excellence with our clients and amongst our peers.

The Board of Directors

Earlier this year the Company announced a number of board changes. Southern Cross's longstanding Chairman and founder, Frank Tomasi, stood down as Chairman after some 33 years at the helm, during which time he has been an outstanding leader in building a strong and well-credentialed business. Importantly for the Company, Frank will continue to make a valuable contribution to the board in a non-executive capacity.

Southern Cross's new Managing Director, Simon High commenced his role in August 2010. He has over 30 years experience in many aspects of the oil and gas and resources industry. Simon's most recent role was Executive Vice President Projects at Clough where he was responsible for the procurement and execution of projects. His expertise and relationships within the industry have already been demonstrated at Southern Cross.

I very much look forward to continuing to work with Simon and have every confidence that Southern Cross will achieve its goals and aspirations under his leadership.

During the year the Company also announced the appointment of Professor Derek Parkin to the board. We are delighted to welcome Derek to Southern Cross and I personally look forward to Derek's contribution.

Pleasingly we are now seeing earnings and revenue momentum growing strongly. This is evidenced by the Company's strong order book with some recent significant contract wins.

In line with the Company's governance principles, we have announced the appointment of an additional two independent non-executive directors, Peter Forbes and Dr John (Jack) Hamilton. Both Jack and Peter will commence their roles as directors from 1 October 2011.

I must acknowledge the efforts and contribution of Douglas Fargher and Brian Carman, who both retired during the year. Brian has been with Southern Cross for over 20 years in a number of roles, including Managing Director, and finally as a non-executive director. Douglas was with Southern Cross since its listing in 2007 and has been a significant contributor at board level. We wish them well in future endeavours.

People and processes

It is important to comment on Southern Cross's people and processes. The Company made the decision during the downturn to retain key personnel, which has guaranteed that the Company is well resourced and capable of tendering and negotiating projects in what is becoming an increasingly resource constrained industry. While the industry is experiencing these capacity constraints, Southern Cross remains very well positioned to tender for large-scale projects as they arise.

The Company has made a considerable investment into training with 55 apprentices and trainees across Australia. Additionally, Southern Cross continues to work with indigenous communities to increase the number of skilled people entering the Company. Maintaining a safe workplace for our employees is of the utmost importance to the Company. I am pleased to report that Southern Cross continues to maintain its exceptional safety record having completed its seventh consecutive lost time injury free year. Southern Cross was awarded the Regional Managing Director's Contractors HSE Excellence Award (Australia & New Zealand) by Worley Parsons and the NECA Excellence award for safety for 2011 for the Company's safety performance at Pluto – a great result for all involved.

Outlook

In light of this year's financial result and the project opportunities that are emerging, the board considered it prudent not to declare a final dividend for FY11. The Board is very conscious of the importance of returning to dividend payments and will do so at the earliest possible time. We expect our earnings profile will continue to strengthen and this must be balanced with the need to retain capital for growth.

We are well placed to win further contracts across all of our five major business lines, and look forward to presenting a vastly improved financial performance for 2012 financial year. We thank our shareholders for your continued support of the business.

John Cooper
Chairman

Managing Director's Review

Simon High
Managing Director

My first year as Managing Director of Southern Cross Electrical Engineering Limited (SCEE) has been exciting and enjoyable, in what has proven to be a difficult financial year. Despite managing a 4.4% improvement in our operating revenue to $101.8 million, it was disappointing to record a loss of $1.7 million over the 12 months to 30 June 2011.

Our performance in 2011 was impacted by a number of factors, not least of which was a very limited and competitive market in which we were operating. We experienced delays in a number of projects we had been awarded and incurred increased interest expenses with our overdraft facilities. Our overheads were greater in percentage terms than our revenue would support, but we took the decision to maintain our current capacity based on our view of the marked in 2012 and beyond which we expect to be buoyant. We also carried more than $600K of one-off costs related to the Gorgon project which in the end we didn't conclude with Leighton Contractors.

We took a number of actions during the 2011 financial year to support our levels of future performance and profitability.

(i) We introduced a fifth business line - Operation, Support and Maintenance - which is focussed on producing recurrent revenues. This business line will help smooth out the troughs that we have experienced as a project capex contractor, and will make the business more resilient when the cycle turns.
(ii) We did not proceed with a major contract at Gorgon with Leighton. We could not come to commercial terms that were acceptable to both parties. From my view-point all contracts we enter into must reflect the risks inherent in the business that we undertake. Leighton understood our position, and we wish them well with the Gorgon project.
(iii) We also completed our first major oil and gas project at Pluto. This project was challenging, but was successfully completed and resulted in a financially acceptable outcome for Southern Cross. More importantly it established our credentials as a "tier 1" contractor in the oil and gas sector and leaves us well positioned for future work across Australia.
(iv) We strengthened our balance sheet through the successful capital raising of $33m, and also negotiated $30 million of banking facilities. These two actions ensure SCEE is very well positioned financially to participate in future large-scale projects as they arise.

Despite a difficult environment we invested in our employees, resulting in employee expenses increasing by $1.6 million. The increased employee expense takes into account an increase in staff numbers to support our growth plans, the inclusion of a full 12 months of salary expenses from SCEE East Coast, and general salary increases experienced across the engineering services industry.

We finalised the integration of our recent acquisitions including re-branding the Oceanic business as Southern Cross Electrical Engineering Ltd with all Oceanic employees becoming part of the SCEE team. We saw immediate benefits of this with the Brisbane branch of SCEE being invited to tender on a number of large-scale coal seam gas projects. Also as part of the integration process, SCEE's power line business - K.J. Johnson & Co - relocated to our main premises in Naval Base.

Whilst the group's financial performance was not acceptable, I have been delighted by what I have seen at an operational level in the business since taking on the role as Managing Director. The experience and skills of the team, the high quality of the work we produce, our safety culture and performance, all positions us strongly for the upswing that we anticipate will flow over the next few years, especially in the Resource sectors of Iron Ore; Onshore LNG, Coal Seam Gas and Coal projects.

As an electrical contractor we feature in the late stage of project development, and we are now seeing a number of major projects reaching the stage where our services and expertise are in demand.

Our financial performance in the second half of the year reflects our confidence that the upswing is materialising, showing a strong turnaround in operating performance, with earnings and revenue both growing. This momentum is continuing into the 2012 financial year and is reflected in our growing order book. Our order book of $75 million at the beginning of July 2012 is almost 3 times the level that we had at the start of the 2010 financial year.

Our margin performance is trending upwards as contracts are returning the more standard terms and conditions following the extremely competitive market during 2010.

Business Overview

Over the next three years the Australian operations will be the largest contributor to the business and the relative size of our international operations will decrease by virtue of the sheer size of the Australian market. This does not however mean international work is unimportant to our success. We have a permanent base in Lima, South America and we expect to undertake at least one project in South America per year, although our execution strategy for this work will change to reflect a more focused and cost effective approach.

In the 2011 Financial Year we were engaged in a number of major projects, and the most significant of these are shown in the table below.

Australian Minerals & Processing

PROJECT	CLIENT	COMPLETED /ONGOING
Pluto LNG Project	Woodside Burrup Pty Ltd	Complete
Mt Keith Talc Redesign Project	BHP Billiton Nickel West Pty Ltd	Ongoing
Pueblo Viejo Gold Project	Pueblo Viejo Dominicana Corporation	Ongoing
Sino Iron Project	MCC Mining (WA) Pty Ltd	Ongoing
Cadia Expansion Project	Cadia Holdings Pty Ltd	Ongoing
Rio Tinto Iron Ore Sustaining Works Projects.	Various Rio Tinto Iron Ore group of companies	Ongoing

The Australian Minerals & Processing line of business was the largest revenue contributor for SCEE. This business is expected to continue to drive growth over the next five years, with recently announced contract wins with Sino and Rio making a substantial contribution, in addition with existing works for clients such as Cadia Holdings. We believe the coal industry with clients such as BHP and Rio Tinto, will also become more significant for SCEE going forward.

Oil & Gas

The FY11 activity in this line of business was up slightly on FY11. With our successful completion of the Pluto project achieving a satisfactory commercial result we have now established our credibility in the oil & gas market. Our acquisition of Oceanic Industries positions us to participate in upcoming CSG projects. We are currently working for the majority of CSG operations and expect this work to expand.

Looking forward we see a number of potential tendering opportunities in the CSG East Coast (QGC, APLNG , Shell-Arrow, and GLNG) as well as major West Coast projects (Wheatstone, Macedon, Browse, Pluto 2/3, Gorgon, Scarborough, Ichthys) as being exceptional. Not all of these projects have yet reached the clients Final Investment Decision (FID), but both the number and size of these projects give us grounds for optimism in this sector.

Infrastructure

FY11 saw a large drop in activity compared to FY10 in the infrastructure market. However, we expect substantial growth over the next twelve months resulting from the increased level of mining investment currently occurring. East Coast CSG has formed a new target market for our infrastructure business. We have existing project work proceeding with Sino and BHP Area C. Over the next year we will be targeting potential work from Rio Tinto, BHP, Sino Iron and CSG on the East Coast. We expect our infrastructure Line of Business to grow significantly during the coming years to be well above its historical revenue levels.

International Minerals & Processing

We experienced an improvement in this line of business during FY11 and activity in Peru is expected to increase following elections. Our work on the Pueblo Viejo project is tracking in line with expectations, and we are also working on the Yanacocha and Antapaccaya power lines. We see further opportunities from projects such as Minas Congas in Peru over the medium term.

Managing Director's Review (continued)

Operation Support and Maintenance

Activity in the operations support and maintenance line of business in FY11 was slightly softer than FY10. Our major service offering is to provide assistance with major shutdowns and minor plant upgrades and provides us with a growing and re-current revenue base and a level of stability in future revenues.

We achieved entry into this segment largely through our acquisition of Oceanic Industries and Hindle Group, and we have a determination to grow this segment. Our clients in this business line include RioTinto, Origin, Caltex, BP, BHP Billiton, QGC and Shell.

Over the medium term we aim to generate sufficient earnings from this business line to fund overheads for the group and de-risk the business against a future downturn in the resource construction cycle.

Maintaining exceptional safety record

I am pleased to say that SCEE continues to maintain its exceptional safety record, recording its seventh consecutive LTI-free year. We also received AS 4801 and ISO 14001 accreditation for our safety and environmental management systems, and we were awarded both the Awarded Regional Managing Director's Contractors HSE Excellence Award (Australia & New Zealand) by Worley Parsons, and NECA WA Excellence award for safety performance at Pluto.

Growth Opportunities for FY12

Despite the difficult conditions in the first half of the 2011 financial year we were able to pursue growth with contract wins driving a substantial improvement in our order book which stood at around $75m at the beginning of the 2012 financial year. These orders will all flow through as revenue in the 2012 financial year, and means we begin the year well ahead of our position twelve months ago.

On 17 August 2011, SCEE announced another contract at the Sino Iron Project which is a significant contributor to the order book. This is the fourth electrical and instrumentation contract win for the Sino Iron Project. Other major contracts that are currently underway include; the Mt Keith Talc Redesign Project with BHP Billiton Nickel West; Pueblo Viejo Gold Project; Cadia Expansion project; and the Rio Tinto Iron Ore Sustaining Works Project.

We are also very pleased with the outcome of our Rio Framework agreement that was negotiated during the 2011 financial year and announced in September 2011. This agreement provides us with the preferred tenderer status on the Rio 333 project and extends our existing eight-year relationship with Rio Tinto working on its Cape Lambert port.

We anticipate the first piece of work under the new contract will start in the second half of the new financial year and expect significant work to continue for a five-year period.

With the growth in major projects, we recognise that we are facing competition for human resources over the next 2-3 years and we are taking actions to address these concerns. We are a service business, and the more high quality, experienced and skilled people we have, the more revenue we can sustainably generate.

We are exploring avenues to recruit from overseas, as well as throughout Australia. Additionally our apprentice intake has increased along with a greater focus on internal training of existing staff.

Recent announcements by civil and structural contractors working on major Australian resource projects are important lead indicators for our business; these combined with the strong order book indicate that we are on track for strong growth over the coming years. We have started the current year with better margins than in the 2011 financial year and we expect to see significant revenue growth and profitable operating performance in the 2012 financial year.

I look forward to presenting a significantly improved financial result for shareholders in the current financial year, and I thank them and all our employees for their on-going support.

Simon High
Managing Director

Directors' Report

For the year ended 30 June 2011

Your directors submit their report for Southern Cross Electrical Engineering Limited ("Southern Cross", "SCEE" or "the Company") the year ended 30 June 2010.

Directors

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. John has provided consulting services to major projects for a number of years.

John accepted the role of chairman in March 2011, having served on the Board since the company listed on the ASX in 2007.

John is also a Non-Executive Director of Flinders Mines, based in Adelaide and NRW Holdings, a major Western Australian based Civil Engineering contracting organisation. 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 CMPS&F and over twenty years with Concrete Constructions, where he held the position of General Manager and was on the Board.

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 High has over 34 years experience in many aspects of the resource industry (oil & gas and mineral processing) on a global basis. He graduated in the UK with a Bachelor of Science Degree in Civil Engineering and has worked in Project Management roles in the UK, Norway, Europe and South Africa.

For the past 18 years he has worked in 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; Clough Limited, Perth, Western Australia and currently Southern Cross Electrical Engineering Ltd.

He has proven experience in CAPEX and OPEX contracting roles where he has been responsible for execution of world size projects, both offshore and onshore in addition to growing new and existing businesses. Mr. High has a track record in developing strong customer relations based on industry knowledge, performance and trust.

Simon's qualifications are B.Sc (Civil Engineering), FIEA and MAICD.

Gianfranco Tomasi

Non-Executive Director

Frank has over 40 years experience in the electrical construction industry.

Frank has been the owner and Chairman of the Company since 1978. In March 2011 Frank retired as Chairman.

Prior to 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), MAICD.

Directors' Report (continued)

Directors (continued)

Derek Parkin
Independent Non-Executive Director

Derek is a chartered accountant and is currently a Professor of Accounting at the University of Notre Dame Australia. Previously, he was an assurance partner with Arthur Andersen and Ernst & Young. His experience in the accounting profession has spanned three decades and four continents.

Derek is a past national Board member of the Institute of Chartered Accountants in Australia (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 corporate directorships to date have been in the non-listed sphere. 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 and a member of the Nomination and Remuneration Committee.

(Appointed 30 March 2011)

Brian Carman
Non-Executive Director

Brian commenced work with SCEE in 1981 as a contracts manager and progressed to Managing Director. He held this position through to his retirement in August 2007.

Brian has over 35 years experience in the electrical construction industry having served in senior positions with Mt Newman Mining Company, Soake Electrical and Transel Pty Ltd.

Brian was a member of the Audit and Risk Management Committee and was the Chairman of the Nomination and Remuneration Committee.

(Retired 30 June 2011)

Douglas Fargher
Independent Non-Executive Director

Douglas has over 37 years experience in the construction and mining industry in Australia and overseas.

Douglas has served in a range of senior maintenance and operating roles in underground and open cut mining and was previously a Project Manager with Rio Tinto, specialising in construction of new and brown field projects including Dampier Port Upgrade.

Douglas' qualifications are BE (Mechanical), MIE Aust, CP Eng, MAICD.

Douglas was a member of the Audit and Risk Management Committee and the Nomination and Remuneration Committee.

(Retired 16 March 2011)

Executive Team

The names and details of the Company's executive team 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.

Phillip Dawson
General Manager Corporate Services

Phil has over 40 years experience in the mining industry and over 25 years in the Human Resources field.

He was previously the Human Resources manager for Oxiana/ Oz Minerals' Laos Gold and Copper operation in South East Asia.

Prior to that Phil worked with BHP Billiton for more than 30 years both in the Pilbara and their Perth head office and has many years Industrial Relations, Training and generalist HR experience.

Simon Buchhorn
Chief Operating Officer

Simon has been with SCEE for 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 a Director of KJ Johnson & Co Pty Ltd and holds an Electrical Engineering Certificate (NSW).

Chris Douglass
Chief Financial Officer/Company Secretary

Chris was formerly the Chief Financial Officer at Pacific Energy Ltd, and prior to that held a number of senior financial roles with Clough Ltd.

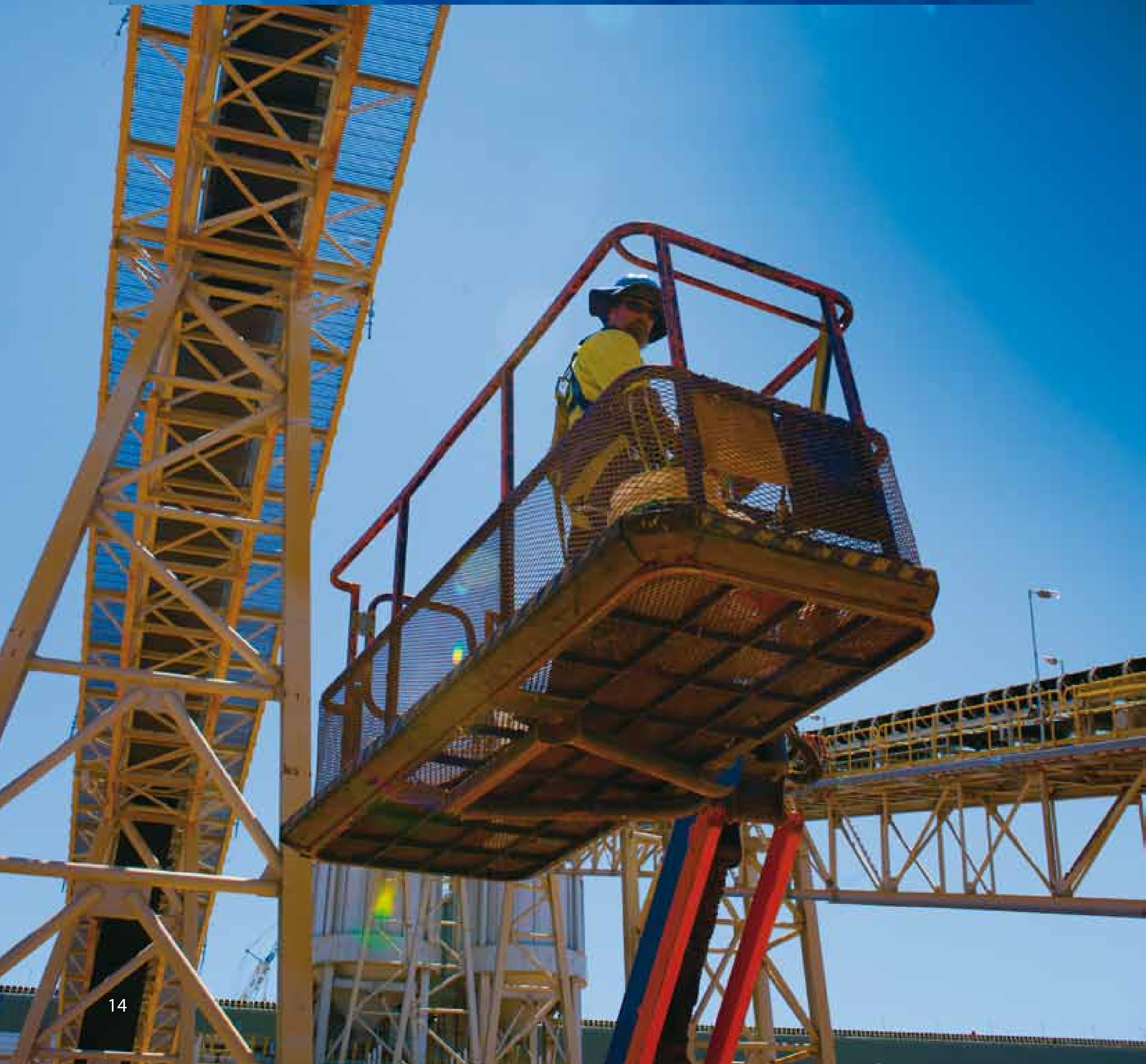
Chris is a chartered accountant who commenced his finance career with Deloitte. Prior to his time with Deloitte, Chris qualified and practiced as a solicitor in London.

(Appointed 5 September 2011)

Stephen Fewster
Chief Financial Officer/Company Secretary
(Resigned 7 October 2011)

Gerard Moody
General Manager Business Development
(Resigned 7 October 2011)

Recent announcements by civil and structural contractors working on major Australian resource projects are important lead indicators for our business; these combined with the strong order book indicate that we are on track for strong growth over the coming years.



Directors' Report (continued)

Company Secretary

Stephen Fewster B.Comm, C.A, SA Fin
Stephen Fewster was appointed to the position of company secretary in March 2008. Stephen is a Chartered Accountant and was previously the company secretary for iiNet Limited.

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 Southern Cross Electrical Limited were:

Director	Number of ordinary shares	Number of options over ordinary shares
John Cooper	100,000	-
Simon High	-	-
Gianfranco Tomasi	65,227,131	-
Derek Parkin	20,000	-

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings	Audit and Risk Management Committee Meetings	Nomination and Remuneration Committee Meetings
Number of meetings held:	**12**	**3**	**2**
Number of meetings attended:			
Gianfranco Tomasi[1]	11	N/A	1
Simon High[2]	12	N/A	N/A
Brian Carman[3]	11	3	1
John Cooper	11	3	2
Douglas Fargher[4]	6	2	1
Derek Parkin[5]	6	1	1

1. Gianfranco Tomasi became a member of the Audit and Risk Management Committee on 16 June 2011 and the Nomination and Remuneration Committee from 2 June 2011.
2. Simon High was appointed a director on 2 August 2010. Simon was not a member of the Audit and Risk Management Committee and the Nomination and Remuneration Committee. As the Managing Director, Simon had a standing invitation to attend committee meetings.
3. Brian Carman retired as a non-executive director on 30 June 2011.
4. Douglas Fargher retired as a non-executive director on 16 March 2011.
5. Derek Parkin was appointed as a non-executive director on 31 March 2011.

Dividends

	Cents per share	Total amount $
Declared and paid during the period (fully franked at 30%)		
Final franked dividend for 2010	4.50	5,588,052
Interim franked dividend for 2011	-	-
Declared and not recognised as a liability (fully franked at 30%)		
Final franked dividend for 2011	-	-

Directors' Report (continued)

Principal Activities

The principal activities during the year of the entities within the consolidated group were the provision of large scale specialised electrical, control and instrumentation installation and testing services for the resources, infrastructure and heavy industrial sectors. The group's major projects during 2011 were:

- Pluto;
- Mt Keith;
- Cadia;
- Pueblo Viejo; and
- Rio Tinto Iron Ore Sustaining Works.

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 Chairman's Report and Managing Director's Report.

Operating results for the year were:	2011	2010
Revenue	**$101,779,659**	$97,375,796
Net profit/(loss) after income tax	**($1,651,824)**	$8,675,437

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 Balance Sheet Date

Other than the following, 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.

During July 2011, the Company accepted offers for the sale of the K.J. Johnson premises which have been disclosed on the balance sheet as assets held for sale. The settlement of this transaction is expected to occur during October 2011. The Company realised book value on this sale.

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 2011 the Group complied with the regulations.

Share Options and Performance Rights

During the reporting period, nil shares were issued from the exercise of options previously granted as remuneration.
During the reporting year there were 209,327 performance rights issued to key management personnel under the Senior Management Long Term Incentive Plan.

Share Options (continued)

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

Expiry date	Exercise price	Number of shares
28 November 2012	$1.15	166,667
28 November 2013	$1.15	166,667
4 March 2013	$1.15	93,334
4 March 2014	$1.15	157,408
30 June 2013	$0.00	249,294
		833,370

All options expire on the earlier of their expiry date or termination of the employee's employment. The vesting of the options is conditional on the employee being employed on the vesting date and the Company achieving a minimum total shareholder return ("TSR"). Further details are contained in the Remuneration Report.

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 $18,872 (2010: $18,307).

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 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 the services disclosed below did 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.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 80 of the directors' report.

Remuneration report

Remuneration report – audited

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 includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, senior executives, general managers and secretaries who meet the definition of an executive under the Corporations Act 2001.

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 executive.

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.

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.

Remuneration Structure

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

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 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 advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Remuneration report - audited (continued)

Each non-executive director receives a base fee of $60,500 for being a director of the Group. The chairman of the Company's Board receives an annual fee of $120,000. An additional fee of $7,500 is also paid for each Board Committee on which a non-executive director sits and $10,000 if the director is a Chair of a Board Committee. Directors also receive superannuation at the statutory rate and a travel allowance 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.

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 period ended 30 June 2011 and 30 June 2010 is detailed in table 1 of this report.

Executive Remuneration

Objectives

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 unit 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 reviews comparative Australian listed companies as well as referencing independent research on executive remuneration. 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
  - Long term incentive.

The proportion of fixed remuneration and variable remuneration (potential and long term incentives) for each executive is set out i n table 1.

Fixed Remuneration

Objective

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee. This process consists of a review of company, business unit and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external research.

Structure

Executives are given the opportunity to receive their fixed (primary) 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.

Remuneration report - audited (continued)

Variable Remuneration – 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:

- Net profit after tax compared to budget;
- Actual revenue compared to budget; and
- Forward order book compared to budget.

The financial KPIs account for 70% of both the Managing Director's and the executive team's STI. The non-financial KPIs comprise business planning and strategy execution, systems and process improvements, health and safety and people development. These KPIs account for 30% of both the Managing Director's and the executive team's STI. No bonus is awarded where performance falls below the minimum threshold. 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.

The assessment of KPI's for the year ended 30 June 2011 is based on the audited financial results for the company. The Nomination and Remuneration Committee recommends the cash incentive to be paid to the individuals for approval by the board. The method of assessment was chosen as it provides the committee with an objective assessment of the individual's performance.

Variable Remuneration – 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 options under the Senior Management Long Term Incentive Plan. During the year ended 30 June 2011, there were 209,327 performance rights issued. The key performance indicators ("KPIs") used to measure performance are earnings per share growth and relative 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.

Remuneration report - audited (continued)

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the remuneration committee have regard to the following indices in respect of the current year and the previous four financial years.

	2011	2010	2009	2008*
Profit/(loss) attributable to owners of the company	(1,651,824)	8,675,437	15,464,156	11,312,261
Dividends paid	5,588,052	7,913,285	7,200,000	9,756,478
Change in share price	(20%)	13%	(22%)	22%
Return on capital employed	(2%)	26%	62%	44%

* The Company was admitted on the Official List of Australian Securities Exchange on 26 November 2007 and official quotation commenced on 28 November 2007.

Profit is considered as one of the financial performance targets in setting the STI. Profit amounts for 2008 to 2011 are calculated in accordance with Australian Accounting Standards (AASBs).

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years.

Employment Contracts

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

Executive	Role	Notice Period
Simon High	Managing Director (appointed 2 August 2010)	12 months*
Simon Buchhorn	Chief Operating Officer	3 months
Stephen Fewster	Chief Financial Officer	3 months
Gerard Moody	General Manager Business Development	6 months
Philip Dawson	General Manager Corporate Services	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 are entitled to receive their accrued annual leave and long service leave together with any superannuation benefits. There are no other termination payment entitlements.

Directors' Report (continued)

Remuneration report - audited (continued)

Table 1 Remuneration of Key Management Personnel

Details of the nature and amount of each major element of remuneration of each director of the Company, each of the four named Company executives and relevant Group executives who receive the highest remuneration and other key management personnel are:

in AUD	Note		Short-term				Post-employment	Termination benefits $	Share-based payments	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
			Salary & fees $	STI cash bonus $(A)	Non-monetary benefits $	Total $	Super-annuation benefits $		Options and rights (B) $			
Directors												
Non-executive directors												
Gianfranco Tomasi, Chairman	1	2011	105,098	-	-	105,098	9,461	-	-	114,559	-	-
		2010	120,000	-	-	120,000	10,800	-	-	130,800	-	-
Brian Carman	2	2011	80,417	-	-	80,417	7,380	-	-	87,797	-	-
		2010	72,500	-	-	72,500	6,528	-	-	79,028	-	-
John Cooper	3	2011	93,667	-	-	93,667	8,572	-	-	102,239	-	-
		2010	72,500	-	-	72,500	6,528	-	-	79,028	-	-
Douglas Fargher	4	2011	78,974	-	-	78,974	7,108	-	-	86,082	-	-
		2010	70,000	-	-	70,000	6,300	-	-	76,300	-	-
Derek Parkin	5	2011	19,500	-	-	19,500	1,755	-	-	21,255	-	-
		2010	-	-	-	-	-	-	-	-	-	-
Executive directors												
Simon High Managing Director/ CEO	6	2011	550,001	-	-	550,001	49,500	-	-	599,501	-	-
		2010			-	-	-	-	-	-	-	-
Stephen Pearce, Managing Director	7	2011	-	-	-	-	-	-	-	-	-	-
		2010	329,466	158,956	-	488,422	9,641	-	65,716	563,778	39.9%	11.7%
Executives												
Simon Buchhorn, Chief Operating Officer		2011	299,382	94,794	-	394,176	23,055	-	28,935	446,166	27.7%	6.5%
		2010	246,677	50,650	-	297,327	49,992	-	20,533	367,852	19.4%	5.6%
Stephen Fewster, Chief Financial Officer		2011	273,418	62,998	-	336,416	24,608	-	29,044	390,068	23.6%	7.4%
		2010	248,562	104,700	-	353,262	22,397	-	23,581	399,240	32.1%	5.9%
Gerard Moody, General Manager Business Development		2011	242,204	33,660	-	275,864	21,798	-	19,056	316,718	16.6%	6.0%
		2010	220,185	25,500	-	245,685	19,818	-	-	265,504	9.6%	-
Phillip Dawson, General Manager Corporate Services		2011	211,927	29,452	-	241,379	19,074	-	17,468	277,921	16.9%	6.3%
		2010	201,835	-	-	201,835	18,168	-	-	220,003	-	-
Total 2011			**1,954,588**	**220,904**	**-**	**2,175,492**	**172,311**		**94,503**	**2,442,306**	**12.9%**	**3.9%**
Total 2010			**1,581,725**	**339,806**	**-**	**1,921,531**	**150,172**	**-**	**109,830**	**2,181,533**	**20.6%**	**5.0%**

1. Gianfranco Tomasi resigned as chairman on 9 March 2011 and continues as a non-executive director.
2. Brian Carman resigned as a non-executive director on 30 June 2011.
3. John Cooper was appointed chairman on 9 March 2011.
4. Douglas Fargher resigned as a non-executive director on 16 March 2011.
5. Derek Parkin was appointed as a non-executive director on 31 March 2011.
6. Simon High was appointed as managing director on 2 August 2010
7. Stephen Pearce resigned on 26 February 2010

Remuneration report - audited (continued)

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

A. The short term incentive bonus is for performance during the financial year using the criteria set out on page 20. The amount was finally determined after performance reviews were completed and approved by the Nomination and Remuneration Committee.

B. 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.

Details of performance related remuneration

Details of the Group's policy in relation to the proportion of remuneration that is performance related is discussed on page 20.

Analysis of bonuses included in remuneration

Details of the vesting profile of the short term incentive cash bonuses awarded as remuneration to the Managing Director and the four named executives are detailed below.

	Short term incentive bonus		
	Included in remuneration $ (A)	% vested in year	% forfeited in year
Managing Director			
Simon High (B)	-	-	-
Executives			
Simon Buchhorn	94,794	98%	2%
Stephen Fewster	62,998	70%	30%
Gerard Moody	33,660	42%	58%
Phillip Dawson	29,452	42%	58%

A. 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 2010 financial year. No amounts vest in future financial years in respect of the bonus schemes for the 2010 financial year. The 2011 financial year short term incentive will be assessed by the Nomination and Remuneration Committee based on achievement of personal goals and satisfaction of specified performance criteria set for the 2011 financial year.

B. Mr High was appointed on 2 August 2010 and therefore was not entitled to receive any short term incentive payments relating to the 2010 financial year.

Options granted as compensation

Details on options over ordinary shares in the Company that were granted as compensation to key management and details on options that vested during the reporting period are as follows:

Remuneration report - audited (continued)

Table 2 Compensation Options : Granted and vested during 2010 and 2011 (Consolidated)

	Granted		Terms and Conditions for each Grant				Vested As at 30 June 2011		Forfeited As at 30 June 2011	
	No.	Grant date	Fair value per option at grant date ($)	Exercise price per option ($)	Vesting Date	Expiry Date	No.	%	No.	%
Executives										
Simon Buchhorn	166,667	28 November 2007	0.21	1.15	28 November 2008	28 November 2012	166,667	100%	-	-
Simon Buchhorn	166,667	28 November 2007	0.22	1.15	28 November 2009	28 November 2013	166,667	100%	-	-
Simon Buchhorn	166,666	28 November 2007	0.23	1.15	28 November 2010	28 November 2014	-	-	166,666	100%
Stephen Fewster	166,667	4 March 2008	0.21	1.15	4 March 2009	4 March 2013	93,334	56%	73,333	44%
Stephen Fewster	166,667	4 March 2008	0.22	1.15	4 March 2010	4 March 2014	157,408	94%	9,259	6%
Stephen Fewster	166,666	4 March 2008	0.23	1.15	4 March 2011	4 March 2015	-	-	166,666	100%
							584,076		**415,924**	

No options have been granted during the financial year or since the end of the financial year. No options were exercised or lapsed during the financial year or since the end of the financial year.

The above options expire on the earlier of the expiry date or termination of the individual's employment. The options are exercisable for four years after vesting date. In addition to a continuing employment service condition, the vesting is conditional upon the following conditions:

1. The Options will vest and only become exercisable in accordance with the following tranches:

(a) one third of the Options will vest on the first anniversary after the grant date subject to the operation of the Threshold TSR Performance Hurdles;

(b) one third of the Options will vest on the second anniversary after the grant date subject to the operation of the Threshold TSR Performance Hurdles; and

(c) one third of the Options will vest on the third anniversary after the grant date subject to the operation of the Threshold TSR Performance Hurdles.

The Threshold TSR Performance Hurdles (and thus the level of vesting) for each of the three tranches will be measured separately at each of the above vesting dates. Therefore the level of vesting for any one tranche is independent of the other two tranches.

Remuneration report - audited (continued)

"TSR" means the Total Shareholder Return for a particular company for a 12 month period which is calculated as follows: (closing share price of the applicable company's shares on the ASX on the last day of the 12 month period minus opening share price of that company's shares on the ASX on the first day of the 12 month period plus any dividends declared per share during the 12 month period) divided by (the opening share price of the applicable company's shares on the ASX on the first day of the 12 month period).

"Comparative TSR" means the TSR of the following companies provided that any of the following companies whose shares are not quoted on the ASX for the relevant 12 month period will not be included:

Ausenco Ltd	Fleetwood Ltd	Sedgmen Ltd
Worley Parsons Ltd	Mermaid Marine Ltd	Nomad Ltd
Monadelphous Ltd	Coffey Ltd	Engenco Ltd
Campbell Brothers Ltd	Cardno Ltd	VDM Group Ltd
Lycopodium Ltd	Clough Ltd	

"Threshold TSR Performance Hurdles" means as follows:

(i) No Options will vest unless the percentile ranking of the Company's TSR for the relevant 12 month period as against the Comparative TSRs for the relevant 12 month period is at or above the 50th percentile;

(ii) If the Company's TSR for the relevant 12 month period as against Comparative TSRs is:

a) at the 50th percentile, then 50% of the Options will vest;
b) between the 51st and 74th percentile then for each percentile over the 50th, an additional 2% of the Options will vest; and
c) at or above the 75th percentile then 100% of the Options will vest.

2. Any Options that do not vest and become exercisable in accordance with the vesting conditions will automatically lapse.

3. Subject to any variation of the Rules, the exercise period in respect of each Option commences on the date that the Options vest in accordance with the above conditions, and ends on the fourth anniversary of the commencement of the exercise period in respect of that Option ("Exercise Period").

4. Any Option that is not exercised before the end of the Exercise Period will automatically lapse.

5. A Share acquired as a result of the exercise of an Option must not be sold, transferred or otherwise dealt with if doing so would result in a breach of the Listing Rules, the ASTC Settlement Rules or the terms of any restriction agreement with the Company.

6. All Shares allotted on exercise of Options will rank pari passu in all respects with other fully paid ordinary shares in the Company then on issue.

During the 2011 financial year Mr Buchhorn and Mr Fewster had options that met the continuous service vesting condition. At the vesting date these options were tested against the Threshold TSR Performance Hurdles. On 28 November 2010 the Company's TSR was below the 50th percentile and therefore 0% of Mr Buchhorn's November 2014 options vested. On 4 March 2011 the Company's TSR was below the 50th percentile and therefore 0% of Mr Fewster's March 2015 options vested.

For details on the options, please refer to note 32.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.
The maximum grant, which will be payable assuming the service and performance criteria is met, is equal to the number of options multiplied by the fair value at the grant date. The minimum grant payable assuming that service and performance are not met is zero.

Remuneration report - audited (continued)

Performance rights granted as compensation

During the period performance rights over ordinary shares in the company were granted as compensation to key management. These performance rights will vest subject to the meeting of performance conditions as measured over a three-year period from 1 July 2009 to 30 June 2012 ("Performance Period"). The hurdles used to determine performance are Earnings per Share (EPS) growth and Relative Total Shareholder Return (TSR).

Details on performance rights that were granted and vested during the period are as follows.

Table 3 Compensation Performance Rights: Granted and vested during 2011 (consolidated)

	Granted		Terms and Conditions for each Grant				Vested As at 30 June 2011		Forfeited As at 30 June 2011	
	No.	Grant date	Fair value per performance right at grant date ($)	Exercise price per performance right ($)	Vesting Date	Expiry Date	No.	%	No.	%
Executives										
Simon Buchhorn[1]	30,215	31/7/2010	0.96	0.00	30 June 2012	30 June 2013	-	-	-	-
Stephen Fewster[1]	27,596	31/7/2010	0.96	0.00	30 June 2012	30 June 2013	-	-	-	-
Gerard Moody[1]	24,445	31/7/2010	0.96	0.00	30 June 2012	30 June 2013	-	-	-	-
Phillip Dawson[1]	22,408	31/7/2010	0.96	0.00	30 June 2012	30 June 2013	-	-	-	-
Simon Buchhorn[2]	30,216	31/7/2010	0.67	0.00	30 June 2012	30 June 2013	-	-	-	-
Stephen Fewster[2]	27,595	31/7/2010	0.67	0.00	30 June 2012	30 June 2013	-	-	-	-
Gerard Moody[2]	24,445	31/7/2010	0.67	0.00	30 June 2012	30 June 2013	-	-	-	-
Phillip Dawson[2]	22,407	31/7/2010	0.67	0.00	30 June 2012	30 June 2013	-	-	-	-
	209,327						**-**	**-**	**-**	**-**

1. Performance rights granted with EPS growth as the vesting condition
2. Performance rights granted with Relative TSR as the vesting condition

Up to 100% of the allocated Performance Rights may vest, subject to the achievement of the performance conditions as set out below.

Upon vesting, the Performance Rights will automatically be settled on the basis of one ordinary share per vested Performance Right. For the Relative TSR hurdle, the measurement date will be the end of the financial year for the third year of the performance period. For the EPS hurdle, the measurement of performance will be determined once the Group's audited results for the third year have been determined. Once the performance measurement calculations for the Relative TSR and EPS growth hurdles have been finalised, the Board will determine the vesting outcome.

Remuneration report - audited (continued)

The performance hurdles are outlined below:

Relative TSR (50% of award)

(i) No Performance Rights will vest unless the percentile ranking of the Company's TSR for the relevant 3 year period as against the Comparative TSRs for the relevant 3 year period is at or above the 50th percentile.

(ii) If the Company's TSR for the relevant 3 year period as against Comparative TSRs is:

- At the 50th percentile, then 50% of the performance rights will vest;
- Between the 51st and 74th percentile then for each percentile over the 50th, an additional 2% of the Performance Rights will vest; and
- At or above the 75th percentile then 100% of the Performance Rights will vest.

EPS Growth (50% of award)

(i) EPS below 7.5% 3 year compound growth – no awards vest.

(ii) EPS equal to 7.5% - 50% will vest.

(iii) EPS between 7.5% and 10% - proportionate vesting of between 50% and 100% of rights.

(iv) EPS above 10% 3 year compound growth – 100% with vest.

Any Performance Rights that do not vest and become exercisable in accordance with the vesting conditions will automatically lapse.

Definitions:

(a) **"TSR"** means the Total Shareholder Return for a particular company for the relevant 3 year period which is calculated as follows:

(closing share price of the applicable company's shares on the ASX on the last day of the 3 year period minus the opening share price of that company's shares on the ASX on the first day of the 3 year period plus any dividends declared per share during the 3 year period) divided by (the opening share price of the applicable company's shares on the ASX on the first day if the 3 year period).

(b) **"Comparative TSR"** means the TSR of the following companies provided that any of the following companies whose shares are not quoted on the ASX for the relevant 3 year period will not be included:

Ausenco Ltd	Fleetwood Ltd	Sedgmen Ltd	Lycopodium Ltd
Worley Parsons Ltd	Mermaid Marine Ltd	Nomad Ltd	Clough Ltd
Monadelphous Ltd	Coffey Ltd	Engenco Ltd	
Campbell Brothers Ltd	Cardno Ltd	VDM Group Ltd	

Analysis of movement in options

The movement during the reporting period, by value, of options and performance rights over ordinary shares in the Company held by each key management person is detailed below:

	Granted in year $	Value of options exercised in year $	Lapsed in year $
Executive			
Simon Buchhorn	49,251	-	72,577
Stephen Fewster	44,981	-	86,035
Gerard Moody	39,845	-	-
Phillip Dawson	36,524	-	-
	170,601	**-**	**158,612**

Corporate Governance Statement

Corporate Governance Statement

	Recommendation	Comply Yes / No	Explanation
Principle 1 – Lay solid foundations for management and oversight			
1.1	Companies should establish the functions reserved for the board and those delegated to senior management and disclose those functions.	Yes	Page 30 – 31
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Pages 18 – 20
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Yes	Pages 29 – 34
Principle 2 – Structure the board to add value			
2.1	A majority of the Board should be independent directors.	No	Page 31
2.2	The chairman should be an independent director.	Yes	Page 31
2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	Yes	Page 31
2.4	The Board should establish a nomination committee.	Yes	Page 34
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Page 32
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Yes	Pages 29 – 34
Principle 3 – Promote ethical and responsible decision making			
3.1	Establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Website
3.2	Disclose the policy concerning trading in Company securities by directors, officers and employees and disclose the policy or a summary of that policy.	Yes	Page 32
Principle 4 – Safeguard integrity in financial reporting			
4.1	The Board should establish an audit committee.	Yes	Page 32
4.2	Structure the audit committee so that it consists of: • only non-executive directors; • a majority of independent directors; • an independent chairman, who is not chairman of the Board; • at least three members.	Yes	Page 32
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 29 – 34
Principle 5 – Make timely and balanced disclosure			
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 29 – 34

Corporate Governance Statement (continued)

	Recommendation	Comply Yes / No	Explanation
Principle 6 – Respect the rights of shareholders			
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 29 – 34
Principle 7 – Recognise and manage risk			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Pages 33 – 34
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 33 – 34
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 34
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	Pages 29 – 34
Principle 8 – Remuneration fairly and responsibly			
8.1	The Board should establish a remuneration committee.	Yes	Page 34
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Pages 18 – 27
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Pages 29 – 34

SCEE's corporate governance practices were in place throughout the year ended 30 June 2011, 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

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 guidelines 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.

Board Functions (continued)

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 11 and 12. 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 equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the 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 and Mr D Parkin are considered to be independent directors. 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 Company announced on 22 September the appointment of an additional two independent non-executive directors who will commence from 1 October 2011 which will result in there being a majority of independent non-executive directors with combined skills and capabilities which will best serve the interests of shareholders.

Structure of the Board (continued)

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	4	Chairman
Simon High (appointed 2 August 2010)	1	Managing Director
Gianfranco Tomasi	33	Non-Executive Director
Derek Parkin (Appointed 31 March 2011)	0	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 and the Board undertook performance evaluations of its performance. These evaluations involved an assessment of each Board member's and key executive's performance against specific and measurable qualitative and quantitative performance criteria. 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 2 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, executive or other employee 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 Southern Cross Electrical Engineering Limited entitlements under any equity based remuneration scheme (such as an incentive or performance based scheme).

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. 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 internal control and ethical standards to the Audit and Risk Management Committee.

Audit and Risk Management Committee (continued)

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 non-executive directors.
The members of the audit committee during the year were:

D. Parkin (Chairman)	(appointed 31 March 2011)
J. Cooper	
F. Tomasi	(appointed 16 June 2011)
D. Fargher	(resigned 16 March 2011)
B. Carman	(resigned 20 June 2011)

Qualifications of audit committee members

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.

J. Cooper has over 33 years experience in the management of risks associated with the industry in which we operate.

G. Tomasi understands all facets of the business being the founder. His appointment to the Audit and Risk Management Committee is on a temporary basis until the process to appoint additional independent non-executive directors is complete.

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;

- 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:

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

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 15 of the Directors' Report.

Corporate Governance Statement (continued)

Risk (continued)

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.

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, 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.

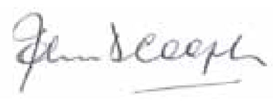
The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the executive team. The Board has established a remuneration committee, comprising three non-executive directors including two independent directors. Members of the Nomination and Remuneration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

J. Cooper	(Chairman)
D. Parkin	(appointed 31 March 2011)
F. Tomasi	(appointed 2 June 2011)
B. Carman	(resigned 30 June 2011)
D. Fargher	(resigned 16 March 2011)

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 meetings of the Nomination and Remuneration Committee, refer to page 15 of the Directors' Report.

Signed in accordance with a resolution of the directors.



John Cooper
Director
26th September 2011

Financial Statements

Balance Sheet

As at 30 June 2011

	Note	2011 $	2010 $
Assets			
Current assets			
Cash and cash equivalents	14	26,280,190	7,497,712
Term deposits	15	5,000,000	-
Trade and other receivables	16	17,196,380	10,280,315
Tax receivable		311,569	2,184,675
Inventories	17	1,301,457	1,268,865
Construction work in progress	18	5,930,884	15,680,806
Prepayments	19	172,605	40,780
Assets held for sale	20	3,610,000	-
Total current assets		**59,803,085**	36,953,153
Non-current assets			
Property, plant and equipment	23	9,083,281	12,519,400
Intangible assets	35	17,701,251	17,851,851
Total non-current assets		26,784,532	30,371,251
Total assets		**86,587,617**	67,324,404
Liabilities			
Current liabilities			
Trade and other payables	24	7,000,745	9,199,104
Unearned revenue	25	600,000	-
Loans and borrowings	28	3,486,492	1,998,923
Employee entitlements	26	2,623,172	2,756,932
Total current liabilities		**13,710,409**	13,954,959
Non-current liabilities			
Loans and borrowings	28	-	2,935,492
Employee entitlements	26	205,357	278,879
Deferred tax liability	12	3,436	2,735,103
Total non-current liabilities		**208,793**	5,949,474
Total liabilities		**13,919,202**	19,904,433
Net assets		**72,668,415**	47,419,971
Equity			
Share capital	29	56,984,100	24,964,368
Reserves	29	340,002	(128,586)
Retained earnings		15,344,313	22,584,189
Total equity		**72,668,415**	47,419,971

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

Statement of Changes in Equity

As at 30 June 2011

	Share capital	Retained earnings	Options reserve	Translation reserve	Total equity
Balance as at 1 July 2009	19,777,237	21,822,037	209,689	(571,405)	41,237,558
Total comprehensive income for the period					
Profit for the period	-	8,675,437	-	-	8,675,437
Foreign currency translation gain	-	-	-	121,336	121,336
Total comprehensive Income	-	8,675,437	-	121,336	8,796,773
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	5,187,131	-	-	-	5,187,131
Dividends to equity holders	-	(7,913,285)	-	-	(7,913,285)
Cost of share-based payment	-	-	111,794	-	111,794
Total transactions with owners	5,187,131	(7,913,285)	111,794	-	(2,614,360)
Balance as at 30 June 2010	24,964,368	22,584,189	321,483	(450,069)	47,419,971

Balance as at 1 July 2010	24,964,368	22,584,189	321,483	(450,069)	47,419,971
Total comprehensive income for the period					
Loss for the period	-	(1,651,824)	-	-	(1,651,824)
Foreign currency translation gain	-	-	-	358,408	358,408
Total comprehensive income/(loss)	-	(1,651,824)	-	358,408	(1,293,416)
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	32,019,732	-	-	-	32,019,732
Dividends to equity holders	-	(5,588,052)	-	-	(5,588,052)
Cost of share-based payment	-	-	110,180	-	110,180
Total transactions with owners	32,019,732	(5,588,052)	110,180	-	26,541,860
Balance as at 30 June 2011	56,984,100	15,344,313	431,663	(91,661)	72,668,415

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	2011 $	2010 $
Continuing operations			
Contract revenue	6	101,779,659	97,375,796
Contract expenses		(85,597,963)	(66,777,334)
Gross profit		**16,181,696**	**30,598,462**
Other income/(loss)	7	(64,293)	(32,235)
Employee benefits expenses	8	(10,096,437)	(8,453,897)
Occupancy expenses		(733,120)	(739,074)
Administration expenses		(3,413,630)	(2,260,511)
Other expenses	9	(773,540)	(845,009)
Business combination expenses		(456,340)	(1,871,790)
Depreciation expense	11	(1,605,130)	(1,537,977)
Amortisation of customer contract intangibles	35	(150,600)	(1,133,152)
Results from operations		**(1,111,394)**	**13,724,817**
Finance income	10	169,679	432,160
Finance expenses	10	(970,099)	(298,232)
Net finance expense	**10**	**(800,420)**	**133,928**
Profit/(loss) before income tax		**(1,911,814)**	**13,858,745**
Income tax (expense)/benefit	12	259,990	(5,183,308)
Profit/(loss) after income tax from continuing operations		**(1,651,824)**	**8,675,437**
Attributable to:			
Members of the parent		**(1,651,824)**	**8,675,437**
Other comprehensive income			
Foreign currency translation gains for foreign operations		358,408	121,336
Income tax on other comprehensive income		-	-
Other comprehensive income, net of income tax		358,408	121,336
Total comprehensive income/(loss)		**(1,293,416)**	**8,796,773**
Attributable to:			
Owners of the Company		**(1,293,416)**	**8,796,773**
Earnings/(loss) per share:			
Basic earnings/(loss) per share (cents)	13	(1.28)	7.11
Diluted earnings/(loss) per share (cents)	13	(1.28)	7.11

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

Statement of Cash Flows

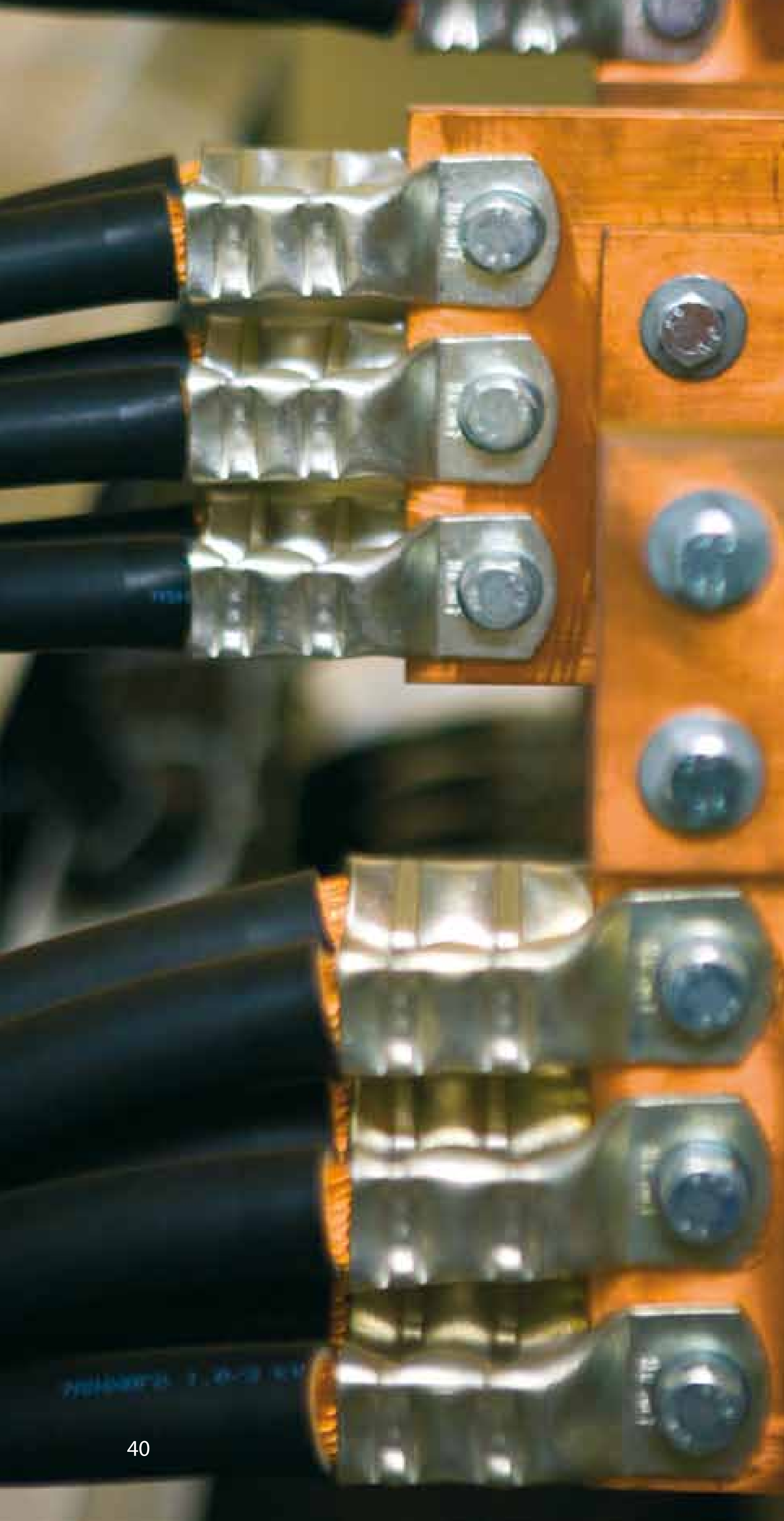
For the year ended 30 June 2011

	Note	2011 $	2010 $
Cash flows from operating activities			
Cash receipts from customers		105,141,952	98,628,622
Cash paid to suppliers and employees		(103,530,906)	(93,756,236)
Interest received		169,679	432,160
Interest paid		(970,099)	(298,232)
Income taxes received / (paid)		(598,572)	(4,847,779)
Net cash from operating activities	**30**	**212,054**	**158,535**
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)		-	(19,734,960)
Proceeds from the sale of assets		-	6,614
Acquisition of property, plant and equipment		(1,779,013)	(1,185,055)
Net cash (used in) investing activities		**(1,779,013)**	**(20,913,401)**
Cash flows from financing activities			
Proceeds from the exercise of options		-	575,000
Proceeds from issue of ordinary shares (net of costs)		32,019,732	-
Proceeds from borrowings		-	4,975,000
Repayment of borrowings		(1,447,923)	(757,153)
Dividends paid	29	(5,588,052)	(7,913,285)
Payment for term deposits		(5,000,000)	-
Net cash from/(used in) financing activities		**19,983,757**	**(3,120,438)**
Net increase/(decrease) in cash and cash equivalents		18,416,798	(23,875,304)
Cash and cash equivalents at beginning of period		7,497,712	31,305,768
Effect of exchange rate fluctuations on cash held		365,680	67,248
Cash and cash equivalents at 30 June	**14**	**26,280,190**	**7,497,712**

The above cash flow statement should be read in conjunction with the accompanying notes.

Index to notes to the Financial Report

For the year ending 30 June 2011



Notes to the Financial Report

For the year ending 30 June 2011

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 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). 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 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 26 September 2011.

(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:

- Financial instruments at fair value through profit or loss are measured at fair value; and
- 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 in the Tanzanian subsidiary is United States dollars and Neuvos Soles for the Peruvian subsidiary. The overseas functional currencies aretranslated to 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 date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

2. Basis of preparation (continued)

(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.

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 critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 6 – contract revenue;
- Note 18 – construction work in progress;
- Note 32 – measurement of share based payments; and
- Note 35 – recoverable amount for testing goodwill.

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) *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.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investee or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

(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 measuredat 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, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges which are recognised directly in equity.

(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. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity in a foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR 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 directly in equity in the FCTR.

(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 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 statement of financial position 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.

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 16).

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) *Non-derivative financial liabilities*

The Group initially recognises debt securities issued and subordinated liabilities on the date they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) 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 statement of financial position 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.

3. Significant accounting policies (continued)

(d) Financial instruments (continued)

The Group has the following non-derivative financial liabilities: 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 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 (major components) 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.

(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 lives 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 and equipment	2 – 10 years
Motor vehicles	2 – 10 years
Office furniture and fittings	2 – 10 years

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

(f) Intangible assets

(i) *Goodwill*

Goodwill is considered to have an indefinite life and is measured at cost less accumulated impairment losses.

(ii) *Other intangible assets*

Other intangibles 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 is as follows:

- Customer contracts 1 – 5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(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.

Notes to the Financial Report

For the year ending 30 June 2011 (continued)

3. Significant accounting policies (continued)

(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 evidenced 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 prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset level and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities 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, adjustedfor 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.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, investment property, 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 and intangible assets that have indefinite lives or that are not yet available for use, 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.

(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.

(iv) *Share-based payment transactions*

The fair value of 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 options. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount is ultimately recognised as an expense is based on the number of awards that do not 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 and expenses are recognised in profit or loss in proportion to the stage of completion.

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.

3. Significant accounting policies (continued)

An expected loss 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.

(o) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets at fair value through profit or loss. 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 convertible notes and share options granted to employees.

(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 MD 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 MD 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 revenue recognition policies.

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.

Notes to the Financial Report

For the year ending 30 June 2011 (continued)

3. Significant accounting policies (continued)

(u) New accounting standards and interpretations

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report.

(i) AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard

(ii) AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

(iii) AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have significant impact on the financial statements.

(iv) AASB 11 *Joint Arrangements*, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the classification and measurement of investments in jointly controlled entities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

(v) Amended AASB 119 *Employee Benefits*, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the definition of short-term and other long-term employee benefits and some disclosure requirements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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 based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation 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 market 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, 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.

(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. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similarlease agreements.

(v) *Share-based payment transactions*

The fair value of employee stock options is measured using an appropriate option 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 option 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.

Notes to the Financial Report

For the year ending 30 June 2011 (continued)

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 therefore operates within 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.

	2011		2010	
	Revenue	**Non-current assets**	**Revenue**	**Non-current assets**
Australia	**94,298,084**	**27,606,667**	96,375,419	32,972,370
South America	**7,481,575**	**536,903**	1,000,377	535,486
Eliminations	**-**	**(1,359,040)**	-	(3,136,605)
	101,779,659	**26,784,530**	97,375,796	30,371,251

One customer of the Group's Australian segment represents approximately $33m (2010: $30m) of the Group's total revenue.

6. Contract revenue

	2011	2010
Contract revenue	**101,779,659**	97,375,796
	101,779,659	97,375,796

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)

	2011	2010
Net gain/(loss) on sale of non-current assets	**7,273**	(865)
Other	**(71,566)**	(31,370)
	(64,293)	(32,235)

8. Employee benefits expenses

	2011	2010
Remuneration, bonuses and on-costs	**(9,622,117)**	(7,978,672)
Amounts provided for employee entitlements	**(364,140)**	(363,431)
Share based payments expense	**(110,180)**	(111,794)
	(10,096,437)	(8,453,897)

The above employee benefits expense does not include employee benefits expense recorded within contract expenses. Employee benefits included in contract expenses were $56m (2010: $47m).

9. Other expenses

	2011	2010
Repairs and maintenance	**(190,623)**	(149,199)
Motor vehicles	**(504,339)**	(645,536)
Other	**(78,578)**	(50,274)
	(773,540)	(845,009)

10. Finance income and expenses

	2011	2010
Interest income on bank deposits	**169,679**	432,160
Finance income	**169,679**	432,160
Interest expense on bank borrowings	**(642,185)**	(86,597)
Finance charges payable under finance lease contracts	**(33,490)**	(17,022)
Bank charges	**(216,910)**	(117,973)
Bank guarantee fees	**(77,514)**	(76,640)
Finance expense	**(970,099)**	(298,232)
Net finance income and expense	**(800,420)**	133,928

11. Depreciation and amortisation expenses

	2011	2010
Buildings	**(93,036)**	(111,784)
Leasehold improvements	**(40,479)**	(72,749)
Plant and equipment	**(749,902)**	(534,449)
Motor vehicles	**(434,238)**	(535,732)
Office furniture and equipment	**(287,475)**	(283,263)
	(1,605,130)	(1,537,977)
Amortisation of customer contract intangibles	**(150,600)**	(1,133,152)

12. Income tax expense

	2011	2010
(a) Income Statement		
Current tax (expense)/benefit		
Current period	**(2,029,324)**	(844,358)
Under provision from prior year	**(64,235)**	-
	(2,093,559)	(844,358)
Deferred tax expense		
Origination and reversal of temporary differences	**2,353,549**	(4,338,950)
Income tax benefit/(expense) reported in the income statement	**259,990**	(5,183,308)
(b) Amounts charged or credited directly to equity		
Expenses relating to capital raising	**(378,112)**	-
Income tax expense reported in equity	**(378,112)**	-

Notes to the Financial Report

For the year ending 30 June 2011 (continued)

12. Income tax expense (continued)

	2011	2010
(c) Reconciliation between tax expense and pre-tax accounting profit		
Accounting profit/(loss) before income tax	(1,911,814)	13,858,745
Income tax using the Company's domestic tax rate of 30% (2010: 30%)	573,544	(4,157,624)
Tax effect of permanent differences		
Tax losses of foreign operations not recognised	(262,492)	(86,898)
Non deductible acquisition costs	-	(561,537)
Non deductible contract intangible amortisation	(45,180)	(317,356)
Other	(44,142)	(59,493)
Effect of different tax rate applicable to Denver branch of 35% (2010: 35%)	38,260	(400)
Income tax benefit/(expense) reported in the income statement	259,990	(5,183,308)
The applicable effective tax rates are:	(13.6%)	37.4%

Deferred tax assets and liabilities

	Balance Sheet		Movement recognised in Income Statement		Movement recognised in Equity	
	2011	2010	2011	2010	2011	2010
Deferred tax liabilities						
Retentions	-	-	-	(22,777)	-	-
Work in progress	**(1,437,358)**	(4,704,242)	**(3,266,884)**	4,605,465	-	-
Property, plant and equipment	**(23,099)**	(23,099)	-	12,556	-	-
Prepayments	**(51,782)**	(12,234)	**39,547**	12,234	-	-
	(1,512,239)	(4,739,575)	**(3,227,337)**	4,607,478	-	-
Deferred tax assets						
Accruals	-	435,044	**435,044**	(204,592)	-	-
Employee benefits	**897,091**	970,143	**73,052**	(432,852)	-	-
Unrealised foreign exchange losses	-	-	-	1,826	-	-
Sundry debtors	-	-	-	96,185	-	-
Property, plant and equipment	**19,159**	19,159	-	(19,159)	-	-
Future IPO related tax benefits (Income statement)	**214,488**	428,976	**214,488**	214,488	-	-
Future IPO related tax benefits	**378,065**	151,150	**151,198**	75,576	**(378,112)**	-
	1,508,803	2,004,472	**873,782**	(268,528)	**(378,112)**	-
Net deferred tax assets/(liabilities)	**(3,436)**	(2,735,103)	**(2,353,555)**	4,338,950		

13. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2011 was based on the loss attributable to ordinary shareholders of $1,651,824 (2010: Profit of $8,675,437) and a weighted average number of ordinary shares outstanding of 129,069,542 (2010: 121,955,714), calculated as follows:

Profit/(loss) attributable to ordinary shareholders

	2011	2010
Profit/(loss) for the period	(1,651,824)	8,675,437

Weighted average number of ordinary shares

	Note	2011	2010
Issued ordinary shares at 1 July	29	**124,178,939**	120,000,000
Effective new balance resulting from issue of shares in the year		**4,890,603**	1,955,714
Weighted average number of ordinary shares at 30 June		**129,069,542**	121,955,714

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2011 was based on the loss attributable to ordinary shareholders of $1,651,824 (2010: Profit of $8,675,437) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 129,069,542 (2010: 121,980,365), calculated as follows:

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

	Consolidated	
	2011	2010
Profit/(loss) for the period	**(1,651,824)**	8,675,437

Weighted average number of ordinary shares (diluted)

	2011	2010
Weighted average number of ordinary shares for basic earnings per share	**129,069,542**	121,955,714
Effect of dilution:		
Share options on issue	-	24,651
Weighted average number of ordinary shares at 30 June	**129,069,542**	121,980,365

14. Cash and cash equivalents

	2011	2010
Bank balances	**5,816,285**	4,474,599
Short term deposits	**20,463,905**	3,023,113
Cash and cash equivalents in the statement of cash flows	**26,280,190**	7,497,712

The effective interest rate on short-term bank deposits was 1.4% (2010: 3.0%); these deposits are all at call.

Notes to the Financial Report

For the year ending 30 June 2011 (continued)

15. Term deposits

	2011	2010
Restricted term deposit	**5,000,000**	-
	5,000,000	-

The term deposit is held in accordance with the details set out in note 28.

16. Trade and other receivables

	2011	2010
Current		
Trade receivables	**17,196,380**	10,280,315
	17,196,380	10,280,315

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.

17. Inventories

	2011	2010
Raw materials and consumables – at cost	**1,301,457**	1,268,865
	1,301,457	1,268,865

18. Construction work in progress

	2011	2010
Costs incurred to date	**30,239,199**	31,588,820
Recognised profit	**6,183,190**	11,859,762
Progress billings	**(30,491,505)**	(27,767,776)
Amounts due from customers	**5,930,884**	15,680,806
Retentions on construction work in progress	**-**	-
Amounts due from customers less retentions	**5,930,884**	15,680,806

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.

19. Prepayments

	2011	2010
Prepayments	**172,605**	40,780
	172,605	40,780

20. Assets held for sale

	2011	2010
Assets held for sale	**3,610,000**	-
	3,610,000	-

Following the completion of the integration of K.J. Johnson & Co ("KJJ") the land and buildings owned by KJJ were marketed for sale. Offers for these premises have been accepted and settlement is expected to occur in October 2011.

21. 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.

	Country of Incorporation	Equity Interest (%)	
		2011	2010
Cruz Del Sur Ingenieria Electra (Peru) S.A Ltd	**Peru**	100	100
Southern Cross Electrical Engineering (WA) Pty Ltd	**Australia**	100	100
SCEE Tanzania Pty Ltd	**Tanzania**	100	100
SCEE Ghana Pty Ltd	**Ghana**	100	100
K.J. Johnson & Co. Pty Ltd	**Australia**	100	100
FMC Corporation Pty Ltd	**Australia**	100	100
SCEE (Aust) Pty Ltd (formerly Oceanic Industries Pty Ltd)	**Australia**	100	100
Hazquip Industries Pty Ltd	**Australia**	100	100

22. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2011 the parent company of the Consolidated entity was Southern Cross Electrical Engineering Ltd.

	Company	
	2011 $	2010 $
Result of the parent entity		
Profit/(loss) for the period	**(3,243,769)**	5,235,543
Other comprehensive income/(loss)	**(199,358)**	(62,264)
Total comprehensive income/(loss) for the period	**(3,443,127)**	5,173,279
Financial position of parent entity at year end		
Current assets	**41,673,790**	25,816,641
Total assets	**75,566,344**	58,789,011
Current liabilities	**8,934,089**	12,412,328
Total liabilities	**9,139,449**	15,460,848
Total equity of the parent entity comprising:		
Share capital	**56,984,100**	24,964,369
Reserves	**141,587**	230,765
Retained earnings	**9,301,208**	18,133,029
Total Equity	**66,426,895**	43,328,163

Parent entity contingencies

The parent entity has commitments and contingent liabilities which are included in note 33. At 30 June 2011 there were in existence guarantees of performance of a subsidiary.

Notes to the Financial Report

For the year ending 30 June 2011 (continued)

23. Property, plant and equipment

	Land and Buildings	Leasehold Improvements	Plant and equipment	Motor Vehicles	Office Furniture and Equipment	Total
Cost						
Balance at 1 July 2009	916,321	2,091,561	5,571,317	4,572,666	887,151	14,039,016
Additions from acquisitions	3,800,000	41,266	899,063	517,672	92,372	5,350,373
Additions	-	15,500	720,819	2,209	548,035	1,286,563
Disposals	-	-	(77,041)	-	-	(77,041)
Balance at 30 June 2010	4,716,321	2,148,327	7,114,158	5,092,547	1,527,558	20,598,911
Balance at 1 July 2010	4,716,321	2,148,327	7,114,158	5,092,547	1,527,558	20,598,911
Additions from acquisitions	-	-	-	-	-	-
Additions	-	161,143	1,143,513	151,281	323,074	1,779,011
Disposals	-	-	-	-	-	-
Reclassification of assets held for sale	(3,800,000)	-	-	-	-	(3,800,000)
Balance at 30 June 2011	916,321	2,309,470	8,257,671	5,243,828	1,850,632	18,577,922
Depreciation and impairment losses						
Balance at 1 July 2009	(16,784)	(338,738)	(3,509,474)	(2,334,195)	(334,467)	(6,533,658)
Depreciation for the year	(111,784)	(72,749)	(534,449)	(535,732)	(283,264)	(1,537,977)
Disposals	-	-	(7,876)	-	-	(7,876)
Balance at 30 June 2010	(128,568)	(411,487)	(4,051,798)	(2,869,927)	(617,731)	(8,079,511)
Balance at 1 July 2010	(128,568)	(411,487)	(4,051,798)	(2,869,927)	(617,731)	(8,079,511)
Depreciation for the year	(111,784)	(81,243)	(667,445)	(455,275)	(289,383)	(1,605,130)
Disposals	-	-	-	-	-	-
Reclassification of assets held for sale	190,000	-	-	-	-	190,000
Balance at 30 June 2011	(50,352)	(492,730)	(4,719,243)	(3,325,202)	(907,114)	(9,494,641)
Carrying amounts						
At 1 July 2009	899,537	1,752,823	2,061,843	2,238,471	552,684	7,505,358
At 30 June 2010	4,587,753	1,736,840	3,062,360	2,222,620	909,827	12,519,400
At 1 July 2010	4,587,753	1,736,840	3,062,360	2,222,620	909,827	12,519,400
At 30 June 2011	865,969	1,816,740	3,538,428	1,918,626	943,518	9,083,281

24. Trade and other payables

	2011	2010
Current		
Trade payables	**4,742,763**	4,660,880
Accrued expenses	**2,151,653**	3,906,286
Goods and services tax payable	**106,329**	631,938
	7,000,745	9,199,104

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 27.

25. Unearned Revenue

	2011	2010
Current		
Unearned revenue	**600,000**	-
	600,000	-

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

26. Employee entitlements

	2011	2010
Current		
Annual leave	**1,919,135**	2,283,519
Long service leave	**704,037**	473,413
	2,623,172	2,756,932
Non-current		
Long service leave	**205,357**	278,879

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 criteria relating to employee benefits have been included in note 3 to this report.

27. 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 risk, 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 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.

27. Financial instruments (continued)

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 their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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	
	2011	**2010**
Cash	**26,280,190**	7,497,712
Term deposits	**5,000,000**	-
Trade and other receivables	**17,196,380**	10,280,315
	48,476,570	17,778,027

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 41 percent (2010: 68 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 industry wise 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.

67 percent (2010: 88 percent) of the Group's current customers have been transacting with the Group for several years, and losses have occurred infrequently if at all. 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 their client base.

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

	Carrying amount	
	2011	**2010**
Australia	**14,683,501**	10,280,315
South America	**2,512,879**	-
	17,196,380	10,280,315

Impairment losses

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

	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	**2,858,367**	-	8,551,804	-
Past due 0-30 days	**13,967,736**	-	1,311,629	-
Past due 30-60 days	**266,154**	-	400,779	-
Past due 60 days and over	**104,123**	-	16,103	-
More than one year	-	-	-	-
	17,196,380	-	10,280,315	-

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.

27. Financial instruments (continued)

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:

30 June 2011

	Effective rate	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
Non-derivative financial assets								
Cash and cash equivalents	1.4%	26,280,190	26,280,190	26,280,190	-	-	-	-
Term Deposits	5.4%	5,000,000	5,000,000	-	5,000,000	-	-	-
Trade and other receivables	-	17,196,380	17,196,380	17,196,380	-	-	-	-
		48,476,570	48,476,570	43,476,570	5,000,000	-	-	-
Non-derivative financial liabilities								
Finance lease liabilities	7.9%	571,492	704,053	704,053	-	-	-	-
Bank borrowings	7.6%	2,915,000	2,915,000	2,915,000	-	-	-	-
Trade and other payables	-	7,000,745	7,000,745	7,000,745	-	-	-	-
		10,487,237	10,619,798	10,619,798	-	-	-	-

30 June 2010

	Effective rate	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
Non-derivative financial assets								
Cash and cash equivalents	3.0%	7,595,545	7,595,545	7,595,545	-	-	-	-
Trade and other receivables	-	12,464,990	12,464,990	12,464,990	-	-	-	-
		20,060,535	20,060,535	20,060,535	-	-	-	-
Non-derivative financial liabilities								
Finance lease liabilities	7.9%	351,415	415,355	125,002	125,002	165,351	-	-
Bank Borrowings	7.6%	4,583,000	5,090,069	995,451	964,670	1,836,998	1,292,950	
Trade and other payables	-	9,199,104	9,199,104	9,199,104	-	-	-	-
		14,133,519	14,704,528	10,319,557	1,089,672	2,002,349	1,292,950	-

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 30 June 2011	AUD 30 June 2010
Cash	**594,874**	751,844
Trade receivables	**2,824,447**	-
Trade and other payables	**(603,535)**	-
Gross balance sheet exposure	**2,815,786**	751,844

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
USD:AUD	**0.99**	0.88	**1.06**	0.86

Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the USD 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 2010.

	Consolidated			
	Profit or loss		Equity	
	10% increase	10% decrease	10% increase	10% decrease
30 June 2011				
USD	**(210,527)**	**257,311**	**(32,575)**	**39,814**
30 June 2010				
USD	(64,802)	79,203	(30,918)	37,788

27. Financial instruments (continued)

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	
	2011	**2010**
Fixed rate instruments		
Financial liabilities	**571,492**	351,415
Variable rate instruments		
Financial assets	**26,280,190**	7,497,712
Financial liabilities	**2,915,000**	4,583,000

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 2010.

	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
30 June 2010				
Variable rate instruments	**(73,756)**	**73,756**	-	-
Cash flow sensitivity (net)	**(73,756)**	**73,756**	-	-
30 June 2009				
Variable rate instruments	85,473	(188,118)	-	-
Cash flow sensitivity (net)	85,473	(188,118)	-	-

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 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.

28. 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 27.

	2011	2010
Current liabilities		
Secured bank loan (i)	**2,915,000**	1,668,000
Finance lease liabilities (ii)	**571,492**	330,923
	3,486,492	1,998,923
Non-current liabilities		
Secured bank loan	-	2,915,000
Finance lease liabilities	-	20,492
	-	2,935,492

(i) On 27 May 2011, the Group entered into a new financing facility for the provision of bank guarantees and working capital with the Commonwealth Bank of Australia ("CBA"). As part of this agreement the Group was required to maintain a $5.0 million restricted term deposit until 31 December 2011 (refer note 15).

Under the terms of this agreement there are three financial covenants these being interest cover ratio, gearing ratio and leverage ratio. These ratios are measured quarterly on a rolling 12 month basis. At 30 June 2011, the Group was not compliant with the interest cover ratio and the leverage ratio under this agreement. Subsequent to 30 June 2011 the Group negotiated a Deed of Variation with the CBA which has remedied the non-compliance issues which existed at 30 June 2011. As part of this Deed of Variation, the Group is required to maintain a term deposit of $8.0 million until 30 June 2012.

In line with Accounting Standards, all outstanding loan balances with the CBA have been classified as current liabilities at 30 June 2011. As a consequence of the Deed of Variation, the loan balances will revert to non-current liabilities subsequent to year end.

(ii) 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.

Notes to the Financial Report

For the year ending 30 June 2011 (continued)

29. Capital and reserves

Share capital

	Note	2011 Number	2011 $	2010 Number	2010 $
Ordinary shares					
Issued and fully paid		**160,736,826**	56,984,100	**124,178,939**	24,964,368
Movements in shares on issue					
Balance at the beginning of the financial year		**124,178,939**	24,964,368	**120,000,000**	19,777,237
Exercise of options		**-**	-	**500,000**	575,000
Shares as consideration		**-**	-	**3,678,939**	4,612,131
Capital raising	(i)	**36,557,887**	32,902,098		
Cost of capital raising	(ii)	**-**	(882,366)	**-**	-
Balance at the end of the financial year		**160,736,826**	56,984,100	**124,178,939**	24,964,368

(i) On 18 April 2011, Southern Cross announced it had completed a $30 million placement ("Placement") to institutional and sophisticated investors and a Share Purchase Plan would be offered to shareholders. The Placement was completed in two tranches on 27 April 2011 and 27 May 2011 by issuing 18,500,000 ordinary shares and 14,833,334 ordinary shares at $0.90 respectively. The Share Purchase Plan was completed on 31 May by issuing 3,224,553 shares at $0.90.

(ii) The tax effected cost of these issues was $882,366.

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

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.

	2011	2010
Reserves		
Translation reserve	**(91,661)**	(450,069)
Options reserve	**431,663**	321,483
	340,002	(128,586)

Translation reserve

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

Options reserve

The options 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	Franked	Date of payment
2011				
Final 2010 ordinary	4.5	5,588,052	Franked	5 November 2010
Interim 2011 ordinary	-	-	-	-
Total amount		5,588,052		
2010				
Final 2009 ordinary	4.5	5,439,706	Franked	23 October 2009
Interim 2010 ordinary	2.0	2,473,579	Franked	1 April 2010
Total amount		7,913,285		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.
Given the results for 2011 the Board considered it prudent not to declare a final dividend.

	Company	
	2011	2010
Franking account balance	**4,713,751**	5,268,525

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 Report

For the year ending 30 June 2011 (continued)

30. Reconciliation of cash flows from operating activities

	2011	2010
Cash flows from operating activities		
Profit/(loss) for the year	**(1,651,824)**	8,675,437
Adjustments for:		
Depreciation and amortisation	**1,755,730**	2,671,129
(Gain)/Loss on sale of property, plant and equipment	**(7,273)**	865
Equity-settled share-based payment transactions	**110,180**	111,794
(Increase)/decrease in assets		
Change in trade and other receivables	**(6,916,065)**	1,284,196
Change in work in progress	**9,749,922**	(15,351,548)
Change in inventories	**(32,592)**	(2,890)
Change in prepayments	**(131,826)**	(13,810)
Increase/(decrease) in liabilities		
Change in trade and other payables	**(2,198,359)**	1,417,885
Change in unearned revenue	**600,000**	-
Change in provisions and employee benefits	**(207,278)**	1,029,947
Change in income tax payable	**1,873,106**	(4,003,420)
Change in deferred income tax	**(2,731,667)**	4,338,950
Net cash from operating activities	**212,054**	158,535

31. Related parties

Details of Key Management Personnel

Directors

John Cooper	Director (non-executive)	
Simon High	Managing Director	Appointed 2 August 2010
Gianfranco Tomasi	Director (non-executive)	
Brian Carman	Director (non-executive)	Resigned 30 June 2011
Derek Parkin	Director (non-executive)	Appointed 31 March 2011
Douglas Fargher	Director (non-executive)	Resigned 16 March 2011
Stephen Pearce	Managing Director	Resigned 26 February 2010

Executives

Simon Buchhorn	Chief Operating Officer	
Stephen Fewster	Chief Financial Officer/Company Secretary	
Gerard Moody	General Manager Business Development	Appointed 2 February 2009
Philip Dawson	General Manager Corporate Services	Appointed 28 April 2009

On 5 September 2011 the Group announced the resignation of Mr Stephen Fewster as Chief Financial Officer / Company Secretary and that Mr Chris Douglass had been appointed to this position.

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:

	2011 $	2010 $
Short-term employee benefits	**2,175,492**	1,921,531
Post-employment benefits	**172,311**	150,172
Share-based payments	**94,503**	109,830
	2,442,306	2,181,533

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 11 to 27.

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.

			Transactions value year ended 30 June	
		Note	2011	2010
Other related parties				
F & A Tomasi Superannuation Fund	Rental income	(i)	**208,000**	192,443
Frank Tomasi Family Trust	Rental income	(ii)	**-**	5,200
G & A Tomasi	Rental income	(iii)	**56,470**	126,650
Frank Tomasi Family Trust	Rental income	(iv)	**27,282**	32,011

(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) Frank Tomasi Family Trust owns the properties at 35 Herbert Way, Wickham and the Brooklyn Park camp facilities in Boddington which are leased to Southern Cross Electrical Engineering Limited. These properties were not leased in 2011.

(iii) G & A Tomasi own the properties at Lot 2 Covehill Road Tasmania and 45, 47, 49 & 51 Macedonia Street, Naval Base WA which are leased to Southern Cross Electrical Engineering Limited. During the year the lease for Covehill Road property expired and the company did not re-new the lease.

(iv) Frank Tomasi Family Trust owns the property which is leased to the Denver branch of 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.

Notes to the Financial Report

For the year ending 30 June 2011 (continued)

31. 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:

	Held at 1 July 2010	Granted as compensation	Exercised	Forfeited	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2010
Executives							
Simon Buchhorn Chief Operating Officer	500,000	-	-	(166,666)	333,334	-	333,334
Stephen Fewster Chief Financial Officer	417,408	-	-	(166,666)	250,742	-	250,742
	917,408	**-**	**-**	**(333,332)**	**584,076**	**-**	**584,076**

Performance Rights over equity instruments

	Held at 1 July 2010	Granted as compensation	Exercised	Cancelled	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2010
Executives							
Simon Buchhorn Chief Operating Officer	-	60,431	-	-	60,431	-	-
Stephen Fewster Chief Financial Officer	-	55,191	-	-	55,191	-	-
Gerard Moody General Manager Business Development	-	48,890	-	-	48,890	-	-
Phillip Dawson General Manager Corporate Services	-	44,815	-	-	44,815	-	-
	-	**209,327**	**-**	**-**	**209,327**	**-**	**-**

Where a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to termination initiated by the Company or death. In the event of a change of control of the Company, all options 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 1 July 2010	Purchases	Received on exercise of options	Sales	Held at 30 June 2011
Directors					
Gianfranco Tomasi	61,200,000	4,027,131	-	-	65,227,131
Simon High	-	-	-	-	-
Brian Carman	2,000,000	200,000	-	-	2,200,000
John Cooper	100,000	-	-	-	100,000
Douglas Fargher	200,000	-	-	-	200,000
Derek Parkin	-	20,000	-	-	20,000
Executives					
Simon Buchhorn	600,000	127,778	-	-	727,778
Stephen Fewster	-	-	-	-	-
Gerard Moody	-	-	-	-	-
Phillip Dawson	-	-	-	-	-

	Held at 1 July 2009	Purchases	Received on exercise of options	Sales	Held at 30 June 2010
Directors					
Gianfranco Tomasi	61,914,844	-	-	714,844	61,200,000
Stephen Pearce	33,250	-	-	-	33,250*
Brian Carman	1,870,000	130,000	-	-	2,000,000
John Cooper	100,000	-	-	-	100,000
Douglas Fargher	200,000	-	-	-	200,000
Executives					
Simon Buchhorn	600,000	-	-	-	600,000
Stephen Fewster	-	-	-	-	-
Gerard Moody	-	-	-	-	-
Phillip Dawson	-	-	-	-	-

*Stephen Pearce resigned on 26 February 2010 and these represent the options held at resignation.

Notes to the Financial Report

For the year ending 30 June 2011 (continued)

32. Share-based payments

On 1 July 2010 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 personnel on 31 July 2010	209,327	Employed on 30 June 2012 and exceed performance hurdle	23 months
Performance rights issued to senior management on 31 July 2010	39,967	Employed on 30 June 2012 and exceed performance hurdle	23 months
Total share options	249,294		

	Weighted average exercise price 2011	Number of Options / Performance rights 2011	Weighted average exercise price 2010	Number of Options 2010
Outstanding at 1 July	$1.15	917,408	$1.15	2,426,667
Exercised during the period	$1.15	-	$1.15	(500,000)
Performance rights granted during the period	$0.00	249,294	$1.15	-
Forfeited during the period	$1.15	(333,332)	$1.15	(1,009,259)
Outstanding at 30 June	$1.15	833,370	$1.15	917,408
Exercisable at 30 June	$1.15	584,076	$1.15	584,076

The options outstanding at 30 June 2011 all have an exercise price of $1.15 and a weighted average contractual life of 5 years. No options were exercised during the year.

The above Performance Rights will vest subject to the meeting of performance conditions as measured over a three-year period from 1 July 2009 to 30 June 2012 ("Performance Period"). The hurdles used to determine performance are Relative Total Shareholder Return (TSR) and Earnings per Share (EPS) Growth. The vesting of 50% of the Performance Rights granted will be subject to the Relative TSR condition, while the remaining 50% of the Performance Rights will be subject to the EPS Growth condition. Up to 100% of the allocated Performance Rights may vest, subject to the achievement of the performance conditions as set out below. Upon vesting, the Performance Rights will automatically be settled into the equivalent number of shares on the basis of one ordinary share per vested Performance Right.

For the Relative TSR hurdle the measurement date will be the end of the financial year for the last year of the performance period. For the EPS hurdle the measurement of performance will only be determined once the Group's audited results for the third year have been released.

Once the performance measurement calculations for the Relative TSR and EPS hurdles have been finalised, the Board will determine the vesting outcome.

The performance hurdles are outlined below:

Definitions:

(a) "TSR" means the Total Shareholder Return for a particular company for the relevant 3 year period which is calculated as follows: (closing share price of the applicable company's shares on the ASX on the last day of the 3 year period minus the opening share price of that company's shares on the ASX on the first day of the 3 year period plus any dividends declared per share during the 3 year period) divided by (the opening share price of the applicable company's shares on the ASX on the first day if the 3 year period).

(b) "Comparative TSR" means the TSR of the following companies provided that any of the following companies whose shares are not quoted on the ASX for the relevant 3 year period will not be included:

Ausenco Ltd	Fleetwood Ltd	Sedgmen Ltd
Worley Parsons Ltd	Mermaid Marine Ltd	Nomad Ltd
Monadelphous Ltd	Coffey Ltd	Engenco Ltd
Campbell Brothers Ltd	Cardno Ltd	VDM Group Ltd
Lycopodium Ltd	Clough Ltd	

Relative TSR (50% of award)

(iii) No Performance Rights will vest unless the percentile ranking of the Company's TSR for the relevant 3 year period as against the Comparative TSRs for the relevant 3 year period is at or above the 50th percentile.

(iv) If the Company's TSR for the relevant 3 year period as against Comparative TSRs is:
- At the 50th percentile, then 50% of the performance rights will vest;
- Between the 51st and 74th percentile then for each percentile over the 50th, an additional 2% of the Performance Rights will vest; and
- At or above the 75th percentile then 100% of the Performance Rights will vest.

Absolute EPS (50% of award)

(i) EPS below 7.5% 3 year compound growth – no awards vest.

(ii) EPS equal to 7.5% - 50% will vest.

(iii) EPS between 7.5% and 10% - proportionate vesting of between 50% and 100% of rights.

(iv) EPS above 10% 3 year compound growth – 100% with vest.

Any Performance Rights that do not vest and become exercisable in accordance with the vesting conditions will automatically lapse. 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.

The following inputs were used to determine the fair values of the performance rights.

	EPS growth	Relative TSR
Underlying share price	$1.08	$1.08
Exercise price of options	$0.00	$0.00
Risk-free rate	4.6%	4.6%
Volatility factor	60% to 80%	60% to 80%
Dividend yield	6%	6%
Period of the Performance Rights	1.9 years	1.9 years
Effect of performance hurdles	Not reflected in valuation due to non-market condition	Reflected in valuation through Monte Carlo simulation

Notes to the Financial Report

For the year ending 30 June 2011 (continued)

33. 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 2011 are

	2011 $	2010 $
Within one year	**196,032**	272,592
After one but no more than five years	**784,128**	1,090,368
After more than five years	**256,802**	629,688
Total minimum lease payments	**1,236,962**	1,992,648

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.

Finance lease commitments – as lessee

The Group has finance lease contracts for various items of plant and equipment. These contracts expire within 1 and 3 years. Ownership of the asset passes to the Group on completion of the final payment.

Finance lease commitments of the Group are payable as follows:

	Future minimum lease payments 2011 $	Present value of minimum lease payments 2011 $	Future minimum lease payments 2010 $	Present value of minimum lease payments 2010 $
Less than one year	**704,053**	**704,053**	128,882	128,882
Between one and five years	-	-	165,350	165,350
Total minimum lease payments	**704,053**	**704,053**	294,232	294,232
Less amounts representing finance charges	**(132,562)**	**(132,562)**	(35,010)	(35,010)
Present value of minimum lease payments	**571,492**	**571,492**	259,222	259,222

34. 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.

	2011 $	2010 $
Bank guarantees	13,985,876	11,491,261

Total bank guarantee facilities at 30 June 2011 were $30,000,000 and the unused portion was $16,014,124. This facility is subject to annual review.

35. Intangible assets – goodwill and customer contracts

Reconciliation of carrying amount

Cost	Note	Goodwill $	Customer Contracts $	Total $
Balance as at 1 July 2009		-	-	-
Acquisitions through business combinations		17,174,151	1,810,852	18,985,003
Balance as at 30 June 2010		17,174,151	1,810,852	18,985,003
Balance as at 1 July 2010		17,174,151	677,700	17,851,851
Acquisitions through business combinations	32	-	-	
Balance as at 30 June 2011		**17,174,151**	**677,700**	**17,851,851**
Amortisation and impairment losses				
Balance as at 1 July 2009		-	-	-
Impairment loss		-	-	-
Amortisation		-	(1,133,152)	(1,133,152)
Balance as at 30 June 2010		**-**	**(1,133,152)**	**(1,133,152)**
Balance as at 1 July 2010		-	-	-
Impairment loss		-	-	-
Amortisation		-	(150,600)	(150,600)
Balance as at 30 June 2011		**-**	**(1,283,752)**	**(1,283,752)**
Carrying amounts				
At 1 July 2009		-	-	-
At 30 June 2010		**17,174,151**	**677,700**	**17,851,851**
At 1 July 2010		17,174,151	677,700	17,851,851
At 30 June 2011		**17,174,151**	**527,100**	**17,701,251**

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.

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

	2011 $	2010 $
FMC Corporation Pty Ltd	**3,167,200**	3,167,200
K.J. Johnson & Co Pty Ltd	**3,616,148**	3,616,148
Oceanic Industries Pty Ltd	**10,390,803**	10,390,803
	17,174,151	17,174,151

35. Intangible assets – customer contracts and goodwill (continued)

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 charged has been recognised. The CGU valuations are sensitive to changes in the discount rate. The Group has further tested all CGU's identified during the year by increasing the discount rate for each of the CGU's by an additional 2.0%. The sensitised testing confirmed that no impairment would be recognised under this scenario for K.J. Johnson & Co Pty Ltd and Oceanic Industries Pty Ltd. An increase in the discount rate by 2.0% for FMC Corporation Pty Ltd showed there may be an impairment indicator at the increased discount rate.

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 2012 is based on historical 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.

- For K.J. Johnson & Co and Oceanic Industries a pre-tax discount rate of 20% was applied in determining the recoverable amounts of the units. For FMC Corporation a pre-tax discount rate of 18% was applied. These discount rates were estimated based on past experience, and industry average weighted cost of capital, which was based on debt leveraging of 5% at a market rate of 8.6%.

36. Subsequent events

Other than the following, 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.

During July 2011, the Company accepted offers for the sale of the K.J. Johnson premises which have been disclosed on the balance sheet as assets held for sale. The settlement of this transaction is expected to occur during October 2011. The Company realised book value on this sale.

37. Auditor's remuneration

	2011	2010
Remuneration of KPMG Australia as the auditor of the parent entity for:		
- Auditing or reviewing the financial report	**204,807**	178,600
Other services		
- Agreed upon procedures	**10,354**	43,725
	215,161	222,325

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, set out on pages 18 to 27 and 36 to 76, 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 2011 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;

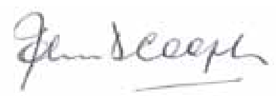
   b. the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a),

   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 2011.

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
Brisbane
26 September 2011

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 2011, 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, accompanying 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

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 2011 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 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG.

KPMG

R Gambitta
Partner

Perth
26 September 2011

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 2011 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.

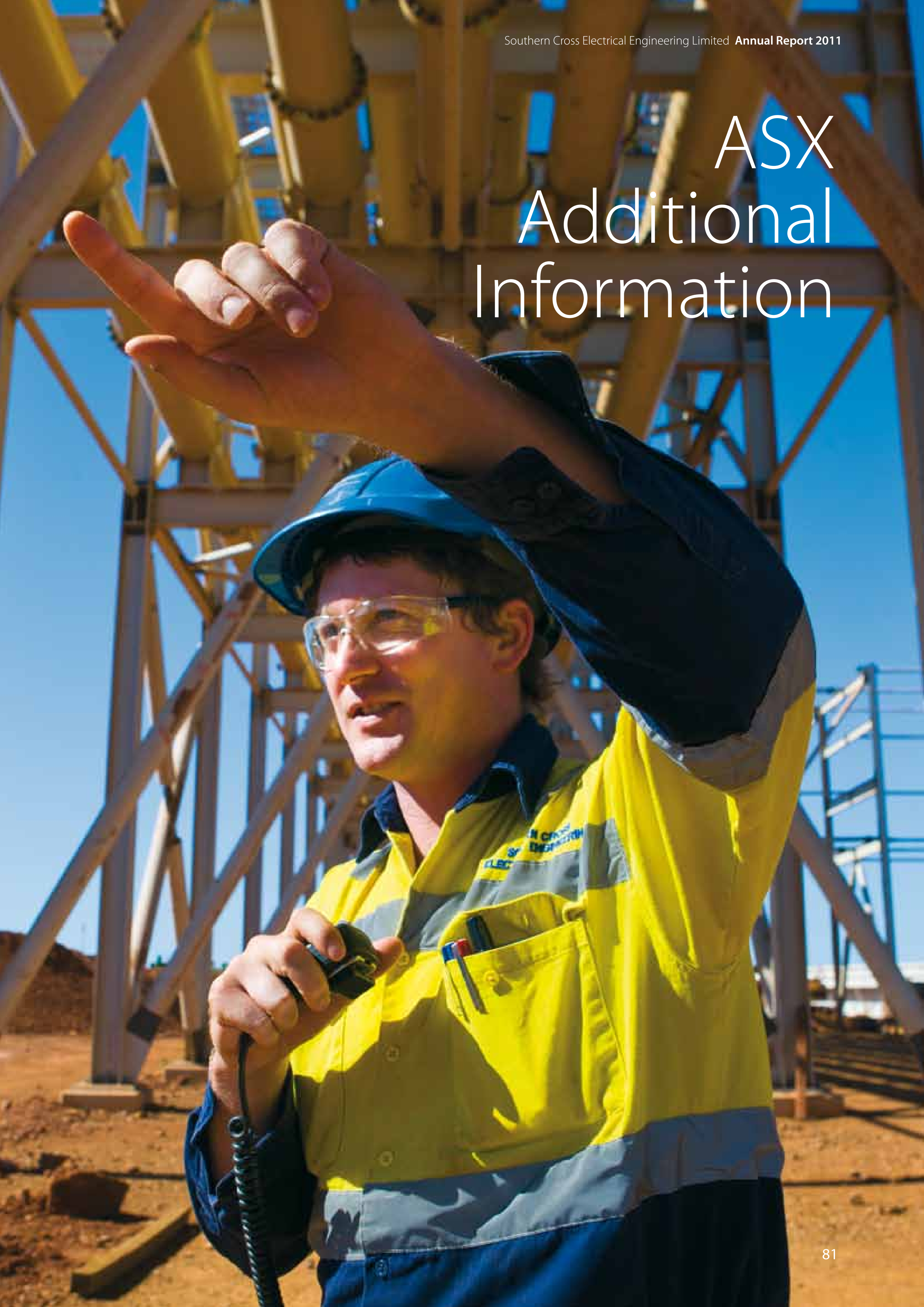
KPMG.

KPMG

R Gambitta
Partner

Perth
26 September 2011

ASX Additional Information



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 23 September 2011)

Substantial shareholders

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

Shareholder	Number	Number
Gianfranco Tomasi	65,227,131	40.6%
Acorn Capital	12,018,795	7.5%
Aviva Investors	10,480,089	6.5%
Treasury Group	8,386,585	5.2%

Voting rights

Ordinary shares

Refer to note 29 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
Performance rights		
1 - 1,000	90	-
1,001 - 5,000	207	-
5,001 - 10,000	153	-
10,001 - 100,000	377	3
100,001 and over	48	2
	875	5

The number of shareholders holding less than a marketable parcel of ordinary shares is 61.

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.

ASX Additional Information (continued)

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	40.58
J P MORGAN NOMINEES AUSTRALIA LIMITED	18,307,361	11.39
NATIONAL NOMINEES LIMITED	17,095,713	10.64
CITICORP NOMINEES PTY LIMITED	8,139,593	5.06
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,639,749	4.13
UBS NOMINEES PTY LTD	4,098,831	2.55
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	3,495,618	2.17
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	2,778,766	1.73
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	2,659,413	1.65
CARMAN SUPER PTY LTD <M & B CARMAN SUPER FUND A/C>	2,200,000	1.37
MR JORN WILLIAM HENRY GRANGER	1,398,293	0.87
MR RAYMOND JOHN WISE	1,398,293	0.87
ROLLASON PTY LTD <GIORGETTA SUPER PLAN A/C>	1,221,041	0.76
ZERO NOMINEES PTY LTD	976,779	0.61
CITICORP NOMINEES PTY LIMITED <CWLTH BANK OFF SUPER A/C>	938,139	0.58
COGENT NOMINEES PTY LIMITED	935,147	0.58
MR WILLIAM GORDON MARTIN + MRS BEVERLEY MICHELLE MARTIN <CHEMCO SUPER FUND A/C>	900,000	0.56
MR ANDREW WILLIAM MCKENZIE + MRS CATHERINE PATRICIA MCKENZIE <A W MC-KENZIE SUPER FUND A/C>	848,667	0.53
MR WILLIAM GORDON MARTIN + MRS BEVERLEY MICHELLE MARTIN <CHEMCO SUPER FUND A/C>	830,000	0.52
QUINHIN PTY LTD <THE HINDLE FAMILY A/C>	794,353	0.49
	140,882,887	**87.65**

Offices and officers

Company Secretary

Chris Douglass

Principal Registered Office
Southern Cross Electrical Engineering Limited
41 Macedonia Street
Naval Base Western Australia 6165

Telephone: +618 9410 1833
Facsimile: +618 9410 2504

Locations of Share Registry

Perth
Computershare Limited
31 Howe Street
Osborne Park Western Australia 6017

Telephone: +618 9323 2000

Southern Cross Electrical Engineering Limited
ABN 92 009 307 046
EC 001681

41 Macedonia Street, Naval Base WA 6165
Phone: +618 9410 1833
Facsimile: +618 9410 2504