

- **Restructuring review substantially complete**
- **Significant cost savings identified and being implemented**
- **Changes to Board composition**
- **CEO search continuing**
- **Board reaffirms strategy of targeting growth both organically and through acquisition**

SCEE today announced changes to the composition of its Board and has also now substantially finalised the restructuring review that was foreshadowed in the ASX release dated 27 March 2015. The Company provides the following update to the market.

### **Restructuring Review**

SCEE advises that it has substantially finalised the restructuring review that was foreshadowed in the ASX release dated 27 March 2015. The aim of the review is to ensure that SCEE's business is appropriately structured for the current market conditions and forecast activity levels.

The preliminary outcomes from the review are set out below. The financial impacts of these initiatives, where provided, are indicative only at this stage and remain subject to further management and Board review and to independent audit.

#### Organisation and Structure

A review of the organisation structure has been completed. As a result of the review a more streamlined structure will be implemented and a number of positions will be made redundant. It is anticipated that the changes will result in future annualised pre-tax savings in the range of \$3m to \$4m. The current year pre-tax impact of this restructuring is expected to be a cost of approximately \$1m.

#### Property Restructure

The Company's current property arrangements have been reviewed. On the East Coast the Rockhampton lease has been terminated and the Brisbane office is expected to be vacated with more appropriately sized accommodation sought. West Coast properties remain under review. Where appropriate, onerous lease provisions will be recognised at 30 June in respect of these changes but the current year financial impact cannot be quantified at this point in time. Going forward it is expected that these changes will achieve annual savings in accommodation costs of at least \$0.4m.

#### Plant, Equipment and Systems

The Company's plant, equipment and systems have been reviewed and the sale of assets that are surplus to forecast activity requirements has commenced. The book value and useful lives of remaining assets has been assessed to ensure that they are being carried at an appropriate value in the current market. It is anticipated that the disposal of assets and write down to recoverable values will result in a pre-tax loss in the current year of approximately \$3.5m. The future annual depreciation savings as a result of the above actions are forecast to be over \$2m.

### Inventory

Surplus or obsolete inventory has been identified and will be sold or written down to nil for a forecast pre-tax loss of approximately \$0.3m.

### Board

The changes to the Board discussed below will result in reduced costs going forward.

### Other General and Administrative Overheads

Other general and administrative overheads have been reviewed and a number of cost savings identified. The management of these costs will remain a key focus for the business in FY16.

### Bank Facilities

Outstanding asset finance debts of approximately \$0.8m will be paid out in full prior to 30 June leaving the Company debt free at year end.

SCEE's banking facilities are due for renewal in August 2015. It is anticipated that cost savings will be achieved by reducing the facility to a level appropriate for forecast activity.

### Impairment

SCEE is currently carrying approximately \$17m of goodwill on its balance sheet from previous acquisitions. The impairment review at HY15 supported this carrying value but the worsening outlook has necessitated that this is revisited. A preliminary review has indicated that a substantial amount of the goodwill balance will need to be written off at 30 June and a detailed impairment review will be performed prior to year end.

### **Board Composition and Management**

Mr John Cooper, Dr Jack Hamilton and Mr Peter Forbes have resigned as Non-Executive Directors. The Company thanks them for their contribution to SCEE during their tenure on the Board.

Mr Simon Buchhorn has been appointed as a Non-Executive Director. Mr Buchhorn has a comprehensive understanding of SCEE's operations having previously worked for the Company for over 30 years before retiring in 2014, which included over 6 years as Chief Operating Officer, and he brings significant experience in contract delivery and operational performance both domestically and internationally.

Following the resignation of Mr Cooper, Professor Derek Parkin has been appointed as Chairman. Professor Parkin has served as an independent Non-Executive Director of SCEE since 2011.

The Board believes that, as a consequence of these changes in composition, it is better sized and more economic for the market in which SCEE is currently operating with a skill set suitable for these conditions. However the Board recognises that a greater proportion of independent representation on the Board is desirable and is looking to address this in the foreseeable future.

The CEO recruitment process was recently put on temporary hold. With the restructuring review discussed above now substantially finalised the process will recommence. Chris Douglass, the Company's Chief Financial Officer, will continue as interim CEO for the time being.

### **Trading Update and Outlook**

As noted, the Board is not in a position to quantify the full financial impact of the restructuring at this point in time and as such cannot provide definitive full year earnings guidance. A further update will be provided in due course.

As the Company has typically experienced in recent years, there are material project claims subject to ongoing negotiation with clients. The Board will continue to assess recoverability of these claims and adjust the carrying values if and when appropriate.

Excluding the impact of restructuring costs or any adjustments that may be required to the current carrying values of project claims, the Company is forecasting that it will return to trading profitably in the final quarter of FY15 although it still does not expect to be trading profitably over the whole of H2 FY15.

The Company has maintained a strong balance sheet throughout the year and this will be further strengthened by the implementation of the restructuring initiatives. The cash impact of the restructuring initiatives is expected to be broadly neutral. The cash balance at year end is forecast to be over \$40m although this is subject to working capital requirements from the projects in progress at the time.

Since 31 December 2014 the order book has been replenished at substantially the same rate as work has been executed and the order book at 31 March was \$108m. Approximately \$60m of the order book is forecast to be carried forward into FY16. Tendering activity remains high across the business.

Market conditions continue to be challenging as a result of highly competitive tendering, lower margins and commercially focussed clients.

Moving into FY16 the restructuring initiatives discussed above will significantly reduce SCEE's overhead base and depreciation charge which will help counter the impact of operating in this current environment.

## **Strategy**

The Board reaffirms the Company's previously stated strategy of targeting growth opportunities both organically and through acquisition. Increasing revenue from operational maintenance and sustaining capital programs remains a core strategic target.

With the volume of available work in the domestic resources construction sector expected to remain low in the near to medium term, management has been evaluating the entry into other potential revenue streams, both geographical and in other adjacent or complementary sectors. This evaluation activity is expected to continue over the coming months.

Management continues to monitor and evaluate merger and acquisition opportunities that are consistent with the strategy.

The management of overheads to ensure an appropriate balance between cost control and operational effectiveness remains a high priority.

## **Contact**

SCEE Perth Office  
41 Macedonia Street  
Naval Base WA 6165  
T: +61 8 9236 8300

Chris Douglass  
Interim CEO  
E: [chris.douglass@scee.com.au](mailto:chris.douglass@scee.com.au)

Colin Harper  
Company Secretary  
E: [colin.harper@scee.com.au](mailto:colin.harper@scee.com.au)