Managing Director’s Review

Whilst the economic outlook remains uncertain, we are confident that we have the management, balance sheet and strategy to deliver improved returns for shareholders.

Chris Sutherland
Managing Director

Australia was a very different place in March last year (2009) when we prepared our business for the start of our new financial year. The economy had stalled, businesses had stopped hiring staff and projects were being deferred or cancelled. Refinancing risks were considered high which was affecting many companies, including Programmed.

Thus I am pleased to report that our company has weathered the storm well with a revenue decline of only 5% and an EBITA decline of only 14% against our normalised FY09 results (only 7% decline versus reported FY09 EBITA).

Importantly, we significantly reduced borrowings and gearing levels, raised capital to continue to expand the business, and have reinstated our 50% payout ratio for dividends.

Our safety performance has improved as measured by a reduction in our LTIFR and we have undertaken a detailed examination of our carbon emissions which will form the baseline of a plan to improve our sustainability over the next 12 months.

We are a strong and stable company with a clear plan and significant opportunities in front of us. Recent successes in securing both our largest facility management contract and our largest marine services contract highlight the strength of our internal capabilities.

Strategy

We have reviewed the current strategy and plans for our business, taking into account changes in market conditions over the past 18 months. This has resulted in the proposed exit from the United Kingdom and the refocus of SWG.

Our vision remains to be the leading provider of staffing, maintenance and project services. It’s a simple vision about providing the right person, at the right time with the appropriate competencies to do the job safely.

Our business consists of three segments:

- Property & Infrastructure, providing building, maintenance and operation services to the property and infrastructure sector;
- Resources and Industrial, providing construction , maintenance and operation services to the resources and industrial sector, and;
- Workforce, providing staffing services to support our internal operations and the external market.

We have a simple strategy to grow our business.

Firstly we plan to provide additional services to our large Property & Infrastructure customer base. Our original painting business in Australia and New Zealand is a large mature business. We maintain strong, long term relationships with these customers and expect painting volumes to be stable. Growth will come from building our other services such as grounds, corporate imaging, electrical, and facility management to this group of customers.

Secondly we plan to expand our existing services in the resources / industrial market. Whilst we have a large operation in the offshore oil and gas sector, we remain a relatively small player in the onshore market compared to our peers.

Thirdly we plan to expand our staffing services market. There remain both new geographic and customer sector opportunities for the business as well as providing ongoing internal staffing support for other parts of our Group.

And finally we will continue to identify and develop new services to bring to the Group’s customers that leverage our core competencies to recruit, deploy and manage a workforce.

Managing Director's Review continued

Property and Infrastructure

Australia

In Australia our painting revenue declined 9%, due to painting maintenance demand being reduced across all sectors excluding education which was the beneficiary of federal government stimulus funds. There was some margin pressure in capital cities where the lack of new commercial building work saw traditional construction painting contractors enter the maintenance market.

In grounds maintenance, revenue and earnings increased as our position as a high quality national service provider becomes more widely recognised and the market moves further to an outsourced contract model. We are developing a full landscape and construction capability to rollout nationally as an added service to our customers.

In corporate imaging (including signage), revenue and earnings increased in a tight retail market. We are developing further our project / store refurbishment capability as increasingly customers seek us to reimage both the inside and outside of their retail outlets with new brand corporate livery and furnishings.

We were pleased to successfully complete the acquisition of KLM Group Ltd, a leading electrical service provider, in January 2010 for $29 million. With a strong balance sheet and solid work in hand, we are confident the acquisition will be earnings per share accretive in the year ahead.

We have completed the integration of KLM into Programmed. All KLM offices now run on the Programmed IT network and email exchange. Insurances and Human Resources have been brought under the Group policy and administration arrangements. Corporate costs have been removed associated with their previous ASX listing. The Group has begun selling KLM's capability to its broader customer base.

We achieved solid growth in our Facility Management business including some benefit from government stimulus expenditures in our public housing contracts in New South Wales and South Australia. We are continuing to build a stronger and more capable business in a large market.

Our strategy to leverage our internal workforce and maintenance capabilities makes us different to our larger competitors.

The Facility Management business has tendered for a number of major opportunities in the past year including opportunities in the Private Public Partnership (PPP) market. We are pleased to have just been recently awarded a 25 year facility management contract for provision of a range of services to maintain the Ararat prison as part of the Aegis Consortium PPP contract with the Victorian government.

New Zealand

In New Zealand the average painting margin has declined over the past 5 years as competition has increased and contracts secured in earlier years are renewed at lower margins. Last year we also saw our revenue fall as the impact of global downturn impacted an already flat economy and commercial customers reduced expenditures. We are responding by lowering overheads through combining most business functions on a transnational basis with the Australian painting operations.

Our plan in New Zealand is to hold our current high painting market share albeit at lower margins than previous years and to develop our other services to enable further revenue growth over time. Thus corporate imaging and workforce have opened in New Zealand and there are plans to develop grounds, electrical and facility management services in time as the general market recovers and opportunities are identified.

United Kingdom

We propose to exit the United Kingdom. The rationale is simple.

We acquired a small painting business in the United Kingdom ten years ago and it remains a small business. Revenue was less than $20 million or only 2% of total Group sales. There is no relationship or synergy of this business with the customers or operations of the rest of the Group in Australia and New Zealand. The business lost GBP 500,000 in the past year and the current economic outlook is poor.

Thus we propose to exit the United Kingdom by way of winding down the business over a two year period to collect the considerable amounts of working capital and contract recoverable that exist on our United Kingdom balance sheet. The proposal will result in an estimated provision of $7.6 million after tax in the Group's financial statements for FY11 to cover redundancies and closure costs. The aim is to sell the remaining assets by June 2012, with an estimated capital return of more than $5 million to be reinvested back in Australia.

We believe we are better investing further in our strategy in Australia and New Zealand to expand the range of building, maintenance and operational services we sell to customers across the property, infrastructure, industrial and resources markets.

Resources and Industrial

Our marine business saw revenue fall by 10% and earnings fall by 4% impacted by the major industrial dispute that occurred through our second half and significantly impacted our last quarter. Agreement has been reached with the relevant unions and some work previously deferred has commenced. There is a significant expansion of work opportunities towards the end of the 2010 year.

Over the past 18 months, many small/medium sized companies in the resources/industrials sectors have reduced maintenance expenditure and deferred project spend. Our results have not been what we had expected due mainly to this slow down in activity. Hence we have decided to refocus the business and seek a lower cost structure.

Consequently, we have recently sold the direct offshore contracting part of the business to DOF Subsea, a leading international subsea contractor, whilst retaining our capability to provide construction and project services to offshore contractors (i.e. we plan to be a service provider to offshore contractors rather than be an offshore contractor).

Workforce

The restructuring of the Workforce business at the end of the 2009 financial year has produced a creditable result for the business in the 2010 financial year, considering the significant downturn in the market. Revenue fell 15% whilst earnings fell 37% from $12.7 million to $8 million. Casual labour demand in small and medium size enterprises remains relatively flat but is increasing in large enterprises, particularly within the mining and construction sectors.

The plan for FY11 is to maintain a tight administration cost base, invest further in the Integrated brand and increase the marketing and sales effort. A number of small branches located within existing Programmed offices are planned.

Throughout the year our employees have shown tremendous spirit and commitment in sometimes challenging economic conditions. I thank them for their efforts.

Recently, Brian Pollock decided to retire from the Board after 10 years of dedicated service. Brian has made a significant contribution to the company over this period, looking after the interests of all shareholders.

Finally, we look forward to the year ahead with a company that is stronger than a year ago. Whilst the economic outlook remains uncertain, we are confident that we have the management, balance sheet and strategy to deliver improved returns for shareholders.

C. Sutherland

Chris Sutherland
Managing Director

16 June 2010