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Operator: Ladies and gentlemen, thank you for standing by and welcome to the market announcement conference call. I must advise you that this conference is being recorded today on Friday 30 July 2010.

I would now like to hand the conference over to your speaker today, Mr Chris Sutherland. Thank you. Please go ahead.

Chris Sutherland: Hi. Thank you for coming into the call this morning. I'll firstly provide some commentary and then be very, very happy to take some questions.

We wish to comment on our first quarter trading performance and provide our initial guidance for our current financial year ending 31 March 2011.

As you would have read, there have been three major influences on our present trading performance. Firstly, volumes, and to some degree margins, in our Property Services Division are lower in our first quarter this year compared to last year.

It's clear that a number of our retail commercial customers in particular are operating at reduced levels of maintenance and project expenditures compared to a year ago. We've seen some retailers who may spend AUD800,000 a month with us cut back to say AUD100,000 to AUD200,000 a month for this April, May and June period.

Secondly, we are unlikely to replace all of the new work we won last year that arose from the Federal Government stimulus package in education and public housing. We certainly, I think, whenever you're thinking that we would be able to do this, but certainly our view after the first quarter is that that isn't likely now to be the case.

I mean last year we undertook a range of maintenance improvement projects across many schools attached to that AUD1.3 billion maintenance component of the education stimulus package. In addition, we undertook painting and building kind of upgrades attached to public housing stimulus funds. That was all work done at reasonably good margins as well.

Thirdly, as you're aware, in our traditional seven year painting maintenance program, about 70% of the Revenue Gross Margin is booked in Year 1, matching the repaint expenditure required in Year 1. In our year to date, renewal of our traditional maintenance programs remains lower than our average as some customers seek to defer a commitment in the short term. Hence we're forecasting now our earnings this year from painting programs to be lower.

We would expect renewal rates to increase when our customers become more confident with their own financial position. Obviously that doesn't cover all groups of customers, but certainly as a sector of customers there who faced with the option to sign another seven year contract are choosing to defer at this stage. As I said our renewal rates are running lower than our kind of normal average.

We're not sitting still in responding. Firstly we have restructured our property services operations to lower our fixed operating costs. The first phase of that change was undertaken yesterday, with a number of organisational changes and some departures. Secondly, we're undertaking review of the painting program model and plan to implement a range of kind of alternate models, to better suit customers who are looking for better value or in some times effectively lower annual payments.

It's quite clear to me that in the current environment, we've got customers who kind of love the programs and love the product, the painting product, but just want to spend less. What we've got to do, I think is come up with some different models that can fulfil that desire for them while still delivering us the margin that we require. I think that's all about changing the model.

One of the options that we're considering is where we don't go and repaint in Year 1, we put the repaint out to Year 4 or 5 and hence while we can without impacting our net margin after our cost of finance by reducing the amount of contract recoverable finance we've lent the customer, we can effectively give him a lower price but still effectively be an effective margin for us. They're some of the things we're looking through.

We have done those sorts of things in the past, but they've tended to just be a kind of a one off unique kind of solution for a customer. We will still do that. But I think we want to do is that we want to have a range of products: A, B and C, kind of refreshed if you like that we can actually go to the market. So in a renewal sense, we can kind of meet the market requirement, particularly at the moment in a number of our customer sector groups for effectively a lower priced product.

Thirdly, a key outcome of the restructure that we've undertaken in our organisation is to have all our business units operating within the property and infrastructure segment, now reporting into one person who will be Steve Taylor. He will lead an improvement plan to market our services across all our customers in that property and infrastructure stake, as well as reduce some of the back office costs that we have across some of those businesses.

Some of you may be aware that internally we've been running effectively a property services division as a division, FM as a division and we've got KLM. They're the three kind of divisions sitting within that property infrastructure segment. Effectively that Property Services Division will no longer exist. The structure of management and administration that ran that will be dispersed. Some people will have been made redundant. Other people will go into other roles and effectively you will sit in reporting directly in to Steve, effectively the business units of painting, grounds, corporate imaging, KLM - the electrical business and facility management.

Thus the result of what we've just described is our initial FY11 guidance and we're providing a projection to be about approximately the same as last year. Our last year we reported an EBITA of AUD58.9 million. If I just give you a little bit of a colour on that guidance, if we look at the breakdown. EBITA from the Property and Infrastructure segment is projected to be about the same as last year, and hence the additional earnings that we're getting from KLM within that segment, are being offset by a fall in earnings in our current projection within what was the property services areas, which was mainly painting.

Secondly the EBITA from that resources segment will also be about the same as last year, with effect the additional earnings from marine being offset by about a AUD2 million impact from the SWG changes announced earlier this year. One should also note that the earnings from marine are significantly weighted in the second half. So it's been a - if you compare our first half marine this year to our first half marine last year, the marine result's lower. We always thought it would be. I believe that in my previous commentary to the market I've always talked about the opportunity in that marine area being more back ended in the second half and certainly that's the case.

Now I guess the projected increase in the workforce EBITA, is offset largely by corresponding increase in the remaining part of our segmentation which is unallocated when compared to last year. Now unallocated is effectively - it's not just corporate costs, it's also where we kind of take the pluses and the minuses out of what we might call non-division trading issues. If there's a kind of a premium rebate in insurance areas sometimes, there's some pluses or minuses when we dispose of assets, there's all sorts of things that go through that unallocated book. We're currently projecting that to be larger than what it was last year, and effectively that will offset the increase that we'll see in the workforce EBITA. Hence overall, we're still projecting an EBITA similar to last year at this point in time.

Now the key assumptions in these projections are firstly, the retail trading conditions into Christmas. We're certainly expecting that things are - look like they should improve, but it is patchy.

Secondly, the general strength of economic recovery -- again I make the comment it's quite patchy. Currently recovery is mainly focused around mining and construction. When you go into other areas, it is actually hard to find sometimes.

Thirdly, we're assuming that we're going to see improved painting program renewal rates in our second half, being October to March.

Finally, the timing of commencement of major marine projects in the second half of the year, particularly our major project associated with Gorgon which starts around December. If that kind of slipped through to April, then we'd obviously have earnings move from our last quarter into our first quarter the following year.

Prior to summary of commentary around our first quarter trading in our outlook, I guess I'd just like to end there by saying, we remain very confident about our strategy. There's no doubt that there are some hurdles in the economy out there along the way, that we're moving through. But overall, we're still very confident about our strategy. It's simply a strategy about a range of services to those property infrastructure customers and to a less degree we want to build up the services, but certainly a range of services that we can offer into that resource space as well, across Australia and New Zealand, and obviously you're aware that we've decided to axe the UK. That's simply our strategy. We're very confident about it.

As I said, I'm certainly disappointed that we're here today talking about a lower number, but on the other hand, we're still navigating through what's going on out there in the field. We're quite confident that at the end of the day, that we've got a leading position across that part of painting, building, maintenance, repair kind of area. We've got the electrical business now and that's trading quite well and with the FM area, we've won a contract in WA public housing, we mentioned in May. We've got a range of new opportunities that are developing and again we feel confident about our long term future in that whole property infrastructure space.

So, I'll leave it at that and I'm very happy to take any questions. Thank you.

Questions and Answers

Operator: Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions).

Your first question comes from Tim Plumbe from Deutsche Bank. Please ask your question.

Tim Plumbe: Hi Chris, Tim here. So you mentioned before that the renewal rates are a fair bit weaker now than they are usually. Just wondering if you could give a feel as to what the current renewal levels actually are and what they normally are and then also then I guess what you're expecting them to increase into the second half of '11 please.

Chris Sutherland: Typically what happens at renewal time - typically renew - it's around 50%. But it doesn't mean the other 50% walk away. What quite often happens is that we go into sundry arrangements and all sorts of things. I have commented before about we've been at the MCG now for 40 odd years and we re-signed again for 3 years on 01 January. But they went from a programmed model to a kind of a scheduled rates model. So that would then not be counted as a renewal, but we keep the customer.

So typically, we keep the customer, kind of 75, 80%, but in terms of renewals, people will often kind of - about 50% is what we consider is our normal. Certainly in the first 3 months of this year, and it probably started around February, March this year, after Christmas if you like, we're seeing renewal rates at about 30% at the moment. Now the business isn't lost. It's just that they haven't wanted to make that commitment. Sometimes we're doing some sundry work, et cetera.

Certainly I think there are a range of customers out there right now today, who are just looking to say, well if they were spending AUD80,000 a year, they want to know, well we only want to spend AUD50,000 a year, how can we do that? As I said, what we've got to do is implement some different models that can cater for reduced scopes of work or spending the payments in a different manner, et cetera. That's what we'll do. But the answer is that - from 50% to 30% basically. But we're just talking about - certainly the year to date result for the first quarter is that 30 odd per cent, whereas our normal average is about 50%.

Tim Plumbe: Sorry, just for the second half, you were saying you were expecting an improvement. What sort of assumptions have you got underlying in the current guidance?

Chris Sutherland: It would be back up at near that 50%.

Tim Plumbe: Okay, thanks.

Operator: The next question comes from Alexander Mees from JP Morgan. Please ask your question.

Alexander Mees: Good morning Chris. Three questions for you. Firstly, this is clearly fairly poor business that we're talking about in terms of deferrals, do you have a sense of when your customers are likely to resume their usual level of spend on things like essential maintenance? Presumably there's only so long you can go without renewing that.

Chris Sutherland: Obviously in the detail there's a combination of things there but in a direct sense I did make comment just about, particularly in that last quarter, in retail commercial, I think they'd probably start again on 1 July with a new budget, to some degree. But certainly they're - I won't go into the names, because they're all going to put out their results fairly soon, but they are going to have to be very weak, because I think that - we've seen people just decide they didn't want to spend any more money through April, May and June and get to the end of their financial year.

I think those customers will need to spend money into Christmas again, obviously, because that's when they obviously have increased volumes in their retail outlets and so on. But I think there's another group of customers where ultimately - you're always in a game where you've got people want to do things at lower cost and we've also got to change the cost base of our business to be able to deliver services at lower costs as well. Our way to do that is to leverage the scale of our group back office more than anything, because we can't reduce the rate that a painter gets. So I think that for those sorts of customers we've got to actually come up with working better at some different program models - 1, and 2, we've got to improve our ability to also add value with other services.

Alexander Mees: Okay and just secondly you flagged the issue with your Gorgon work in marine and the risk that if that does get pushed back then obviously your assumptions are to start some time - we've heard a lot across the market about delays associated with Gorgon. Are you confident that they will start on time or are you seeing this as a legitimate risk?

Chris Sutherland: There's a legitimate risk but there's a fair bit of momentum there about the timing because these are the most sophisticated pipe-laying businesses in the world that are being mobilised, - we've got people in Europe right now under training, et cetera, et cetera. So, a delay now is very, very expensive. So, it's a legitimate risk, but I do think that it's not like in the engineering phase when you can kind of - you haven't got major stuff mobilised. I don't know if I can add any more to that.

Alexander Mees: No, that's good.

Chris Sutherland: I mean we wouldn't have it in our projection if we didn't think it was going to happen. We believe it definitely is going to happen and it's not to say that other things don't come forward and other things change either, but I think that this is a fairly chunky contract. It's going to come through our books obviously at the end of our financial year and run all of next year.

Alexander Mees: Okay, and just finally can you give us some idea for your projections for gearing going forward?

Chris Sutherland: Well our gearing at the end of March was 28%, and it won't kind of get any - I wouldn't have thought it's going to get any worse than that and that's a very low number so it'll be about the same unless we decide that we've got a reasonable investment opportunity.

Alexander Mees: Thanks Chris. All the best.

Operator: The next question comes from Mike [Younger] from Goldman Sachs. Please ask your question.

Mike Younger: Hi Chris. Just with regards to the painting business, can you just explain a little more about these alternative models? Is this a complete change of the way that you do business or is offering additional options? Can you just explain that a little more?

Chris Sutherland: Yes, look, it'll be offering additional options. I think I've explained it in MD review in the Annual Report and it was also in my commentary in May that in our painting business - last year we did AUD140 million of sales across Australia and New Zealand. So it is a very large business. There isn't another AUD50 million market to go and grab in painting in Australia and New Zealand and we decided that we're not going to expand it overseas, so what we're wanting to do is make sure that we maintain our customers and our customer relationships, add our other services to those customers and I think I'm really talking about a refreshing of our product in that space.

So it's not a complete change, but the standard painting program will be there but I think it's - what I think is that after you've renewed for the second and the third time, I think for those clients, he looks at the building and it looks perfect, so he doesn't think he needs another program again and we kind of need to come up with a different model for him sometimes I think. That's what I'm suggesting.

But I'm also - I've been very transparent about the fact that this business, when you have a long term contract, it's a long term relationship, you book most of your earnings in Year 1. So in other words, to say the same next year, you've actually got to find new business. So we've reached the point where - a point of maturity across our market here, so what we've got to do is focus on renewing our contracts. Obviously, if there are clients that used to be with us and they're not with us, then we've got to go back to them. But effectively, we're operating I think in a mature basis now and we have to therefore look at cost savings across the business and operate a more operationally efficient model.

I do think that's something that the business is traditionally not used to and that's why we've made some management changes to make sure that we get some impetus into that. But overall, on the ground, 50 odd people selling programs, they're going to be selling programs, but they're going to be selling Option A to some customers, Option B to some customers and Option C to some customers, to suit their particular kind of requirement, rather than just always Option A.

Mike Younger: Do you think that's representative of what the industry's saying at the moment or is there something else that applies here with competitive forces - Riley Shelley for arguments sake, taking business off you?

Chris Sutherland: No, that is not part of this. But what is at play obviously is that if the overall volume of available work is less in the last 3 months than it was a year ago, there are obviously competitive pressures in that sense and that puts some pressure on margins for some of that work - the last 10 to 15% of work. So there's no doubt that yes, if you've got less available work in the market in the last 3 months than one year ago, kind of more competition. It's supply and demand isn't it?

But, what's not really at play is the suggestion that a particular competitor has gone and taken a chunk of business. That's not true.

Mike Younger: Okay. Last question, you mentioned in the resources the growth in marine will be offset by a drop in SWG earnings. This is above and beyond the expected reduction in SWG earnings as a function of the asset sale?

Chris Sutherland: No, we said last time that AUD1 million to AUD2 million. I'm kind of saying AUD2 million. You've got a segment result last year of X, which included a 2 point something from SWG. So what we're really saying is that component is not going to make much contribution this year, whereas last year it made a contribution of AUD2 million.

Mike Younger: Okay, thank you.

Chris Sutherland: Whereas marine will grow somewhat, which will offset that. Really, we've reset that business under a new resources kind of division. We've taken a lot of - all the back office costs are gone in the business now. It's effectively got the same back office shared with marine. So on that lower cost base, we're a lot easier spaced to go and market and win work. It has still been a reasonably harsh environment in that kind of second tier mining area, if you like. We've recently just picked up some scheduled rates work with MCC up at Geraldton, on that iron ore development up there, so we're happy with that. What I wanted the business to do was go from a lower cost base, so we're not at risk of you win a job, you make money, if you lose a job, you don't make money, so we take slightly smaller steps into the market and grow the business accordingly that way.

Mike Younger: Thanks.

Operator: The next question comes from Neil Watson from Credit Suisse. Please ask your question.

Neil Watson: Hi guys. Most of the guys have touched on the high level operating stuff. I'm going to ask a stupid question perhaps. I'm struggling to get from a flat EBITA down to your impact guidance, given interest should be lower. Is there something I'm missing? Is there a higher tax rate this year or something like that?

Chris Sutherland: I think probably and we didn't try to line it up, but certainly the impact projection is slightly more conservative than the EBITA projection, so you're probably not missing anything. But I do think that in general we sense our interest expense probably is a little bit higher than what the market ends up thinking it will be.

Neil Watson: Care to expand on that point?

Chris Sutherland: Only that if I look through all the analysts' consensus numbers for interest, it's a touch lower than probably what our forecast is. But there's no logic to that. We know what it is.

Neil Watson: So you're not expecting an abnormal tax rate or anything like that, you're just assuming that if we use last year's for the sake of argument?

Chris Sutherland: Another way to put it is I think there is up side on the impact compared to the EBITA. Impact should greater than 10% would be our current projection.

Neil Watson: Without labouring the point, when I do the maths and put in last year's interest expense, and it should be lower than that, I get a higher than 10% growth rate in impact. But anyway, we can take that offline if you like.

Chris Sutherland: Yes, that's fine. But I mean, presumably you're getting 12 or 13 or something, not 15 or 20.

Neil Watson: Look, let's take it offline.

Operator: Your next question comes from Shane Bannon from Bligh Capital. Please ask your question.

Shane Bannon: Thanks Chris. My question's been answered.

Chris Sutherland: No worries Shane.

Operator: The next question comes from Tim Plumbe from Deutsche Bank. Please ask your question.

Tim Plumbe: Hi guys. Sorry just one last question from me. Just wondering if you could touch a little bit more in terms of the restructuring cost out story. How much cost out are you expecting to achieve?

Chris Sutherland: There's no kind of target number. We kind of restructured the top and then we'll kind of work through. My sense is that it is not worth doing unless you're going to get a few million. But as I said, we've kind of started at the top, and we'll work our way down.

Tim Plumbe: Okay, thanks.

Operator: Once again, if you wish to ask a question, please press Star 1 on your telephone and wait for your name to be announced. There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

Chris Sutherland: Okay, thanks very much. Very happy to take any phone calls today on my mobile. I know you've all got it, and I look forward to catching up with you over the coming months. We've got our AGM next Friday as well. So no doubt we might speak to some of you guys between now and then, so thanks very much and talk to you soon. Bye.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating, you may all disconnect.