

Section 5

Risk Factors



Section 5 – Risk Factors

5.1 Introduction

If the Scheme is implemented, New Programmed Shares will be issued to Scheme Shareholders (or to a nominee in the case of Ineligible Foreign Holders) as part of the Scheme Consideration for the transfer of their Scheme Shares to Programmed. Therefore, the value of the Scheme Consideration that Scheme Shareholders will receive is dependent, in part, on the value of Programmed Shares.

There are many factors that may influence the price of Programmed Shares and any future dividends paid in respect of Programmed Shares, including those that apply to investments generally, those that apply and will continue to apply specifically to the businesses of the Programmed Group, those that apply and will continue to apply specifically to the businesses of the Integrated Group and those that arise, or may arise, from a combination of the Programmed Group and the Integrated Group.

It is therefore important to be aware of the risks that may affect, and may have an adverse impact on, the future operating and financial performance of the Merged Group and the value of Programmed Shares, which include those set out in this section 5. The risk factors described below outline the key risks (but this is not, and cannot be, an exhaustive list) associated with an investment in Programmed Shares and the Merged Group. Additionally, this section does not take into account the investment objectives, financial situation, taxation position or particular needs of individual Scheme Shareholders.

Further, the Programmed Group derives a significant proportion of its earnings from operations to which Scheme Shareholders are not currently exposed. Section 3 provides further detail of Programmed's businesses. Scheme Shareholders should be aware that the businesses of the companies within the Programmed Group have a different growth and risk profile compared to Integrated's current businesses given their inherent nature, level of exposure to overseas markets (introducing geographical and currency risk) and capital expenditure requirements.

While, to some extent, Scheme Shareholders are already exposed to certain of the risks highlighted in this section 5 due to their ownership of Integrated Shares, the occurrence of any of the risk factors set out in this section 5 may have an adverse impact on the Merged Group's future operating and financial performance and the value of Programmed Shares.

5.2 General risks

a) Share market conditions

As discussed in section 5.1 above, the value of the Scheme Consideration that Scheme Shareholders will receive is dependent, in part, on the value of Programmed Shares.

The market value of the Programmed Shares received by Scheme Shareholders under the Scheme will fluctuate depending on the price at which those shares are traded on ASX. Accordingly, the market value of Programmed Shares at the time at which they are received by Scheme Shareholders may vary from their market value at any other time.

There are general risks associated with any investment in the share market. The prices at which shares in Programmed trade may rise or fall in response to a number of factors affecting the market for equities in general. These factors are unpredictable and may be unrelated or disproportionate to the operating performance of the underlying assets of the Merged Group. Such factors include changes in the general economic outlook, global political and economic stability, interest and inflation rates, currency exchange rates, investor sentiment and the demand and supply of capital.

b) Economic and financial risks

Changes in the general economic climate in which the Merged Group will operate may adversely affect the future financial performance (that is, future costs and revenues) of the Merged Group. In particular, changes in economic factors such as economic growth, interest rates, inflation, employment levels, consumer demand, consumer and business sentiment, market volatility and monetary policy could have a substantial effect on the value of Programmed Shares and the Merged Group's assets.

c) General regulatory risk

The Merged Group will be exposed to any changes in the regulatory conditions under which it operates (both in Australia and also in New Zealand and the United Kingdom). Such regulatory changes can include, for instance, changes in:

- taxation laws and policies;
- accounting laws, policies, standards and practices;
- environmental regulations that may impact upon the operations and processes of the Merged Group; and
- employment laws and regulations, including laws and regulations relating to occupational health and safety.

5.3 Specific risks relating to Integrated

a) Increased or new competition

Integrated operates in markets where generally healthy competition exists. New competitors may enter the market and this might affect the earnings from the relevant local operation and hence impact the earnings of Integrated.

b) Occupational Health and Safety

Integrated manages, with its clients, certain risks associated with the occupational health and safety of its employees. Integrated takes out insurance to cover these risks within certain parameters, however, it is possible for injuries and/or incidents to occur which may result in expenses in excess of the amount insured or provided for with a resultant impact on the earnings of Integrated.

c) Loss of key personnel

The management and performance of Integrated could be impacted by the loss of key personnel until such time as the relevant person is adequately replaced.

d) Emerging internet technology

Use of internet based tools to recruit personnel is an emerging trend that presents both opportunities and threats for Integrated.

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5.4 Specific risks relating to the Programmed Group

a) Increased or new competition

Programmed faces competition in its existing painting and non-painting businesses.

To the extent that there are new entrants or changes in strategy by existing competitors, the Merged Group may lose market share with consequent adverse effects upon operating and financial performance.

b) Exchange rate fluctuations

A portion of the Programmed Group's earnings and assets are denominated in foreign currencies (being the New Zealand dollar and the British pound). Changes in foreign currency exchange rates may affect the book value of Programmed's assets and revenues and increase its liabilities and costs. In the financial year ended 31 March 2006, earnings of the Programmed Group denominated in foreign currencies represented approximately 40% of the total earnings of the Programmed Group. While, following the Merger, the percentage of the Merged Group's earnings denominated in foreign currency is expected to be less than that referred to above, a part of the Merged Group's earnings will still be denominated in foreign currency.

Programmed does not, currently, generally hedge against balance sheet changes due to exchange rate fluctuations. It is possible, therefore, that Programmed, and hence the Merged Group, might suffer negative movements in equity based solely on changes in foreign currency exchange rates.

c) Environmental risks

Extensive national and local environmental laws and regulations in Australia, New Zealand and the United Kingdom affect the operation of the Programmed Group. The laws and regulations set various standards which regulate certain aspects of health and environmental quality, provide penalties or other remedies for any violation of standards and, in certain circumstances, impose obligations to undertake remedial action in current or former locations where operations are or were conducted.

There is a risk that significant damages or penalties might be imposed on companies in the Programmed Group, including for certain discharges into the environment, effects on employees, sub-contractors or customers, or as clean up costs. The Programmed Group minimises these risks by having processes to manage compliance with environmental laws and regulations in Australia, New Zealand and the United Kingdom and, where appropriate, by carrying insurance.

d) Indexation and cash deferral under long term contracts

A portion of the Programmed Group's revenue is dependent on the level of indexation under its long term contracts which is linked to increases in prices of labour, materials and overheads. In nearly all contracts, the indexation is based on publicly available indices for wage levels, paint prices and interest rates. Therefore there may be a difference between the increase in Programmed's costs and the movement in the publicly available indices that may result in Programmed not being adequately covered for its cost increases.

Separately, the Programmed Group's long term contracts are structured such that cash flows are delayed until the latter part of the term of the contract. Consequently the Programmed Group is exposed to the credit risk of the relevant customer.

e) **Reliance on key personnel**

The responsibility of overseeing day-to-day operations and the strategic management of the Programmed Group is concentrated amongst a small number of key employees. While it is not currently anticipated, one or a number of these key employees may cease employment with the Programmed Group. The loss of any such key employees by Programmed could have the potential to have a detrimental impact on the Programmed Group until the skills that are lost are adequately replaced.

5.5 Specific risks relating to the Merger

a) **Integration risks**

The long term success of the Merged Group, and, in particular, the ability to derive cost savings as a result of the Merger, will depend, to some extent, on the integration of the two corporate cultures and the common functions of the Integrated and Programmed businesses, and the establishment of efficient management and operational structures. As Integrated and Programmed operate different but complementary businesses, the Merger does not involve the combination of either party's frontline operations, which reduces the level of integration risk without detracting from the key benefits of the Merger. While Programmed and Integrated have jointly established a dedicated integration team, which also includes independent consultants, to assist and lower the risks involved in the integration of the merged businesses, there is no guarantee that the Merged Group will be able to successfully integrate the merged businesses and derive the estimated cost savings referred to in this Scheme Booklet.

Specific areas of risk that might impact on any expected cost savings include any unforeseen difficulties in effectively:

- integrating accounting and financial systems;
- integrating information technology and support functions;
- integrating management (including human resource management) systems and styles; and
- implementing new strategic goals.

There is no guarantee that the estimated pre-tax cost savings referred to in this Scheme Booklet will be achieved, or that integration will not take longer than is presently anticipated.

b) **Selling of Programmed Shares after Implementation**

Programmed will issue a maximum of approximately 18.8 million New Programmed Shares under the Scheme. Some Scheme Shareholders may not wish to continue to hold the Programmed Shares which they receive under the Scheme and may sell them on ASX. Additionally, a nominee will be issued any New Programmed Shares attributable under the Scheme to Ineligible Foreign Holders and will sell them on ASX (and at the risk of Ineligible Foreign Holders) as soon as practicable and remit the net proceeds of sale back to the relevant Ineligible Foreign Holders.

If a significant number of Scheme Shareholders sell the Programmed Shares that they receive under the Scheme, the price at which Programmed Shares are traded on ASX may be adversely affected.

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It is also possible that some existing Programmed Shareholders may not wish to hold Programmed Shares post-Merger and may sell them on ASX. These sales may also have an adverse effect on the market price of Programmed Shares.

c) Loss of key personnel

It is possible that there may be some unintended loss of key employees of the Programmed Group and/or the Integrated Group following implementation of the Merger. The loss of one or more key personnel may have an adverse impact on the performance of the Merged Group until the skills that are lost are adequately replaced.

d) Termination of contracts

It is possible that, because of the Merger, a counterparty could decide to terminate a material contract with Integrated or Programmed. While the directors of Integrated and Programmed are not aware of any counterparty who may wish to do so, should any such contracts be terminated the Merged Group would lose the benefit of the contract and may not be able to obtain similarly favourable terms upon entry into replacement arrangements (should such replacement arrangements be available).

e) Gearing

Following the Merger, the ratio of net interest bearing borrowings to the aggregate of such borrowings and the amount of shareholder equity in the Merged Group will be higher than that ratio currently is for the Programmed Group.

This increased level of gearing introduces a greater level of financial risk for Integrated Shareholders. Increased gearing may restrict the ability of the Merged Group to borrow further capital in the future and increases the sensitivity of the Merged Group's earnings to changes in interest rates. An increased gearing ratio may also be relevant to Programmed's ability to pay dividends in respect of future financial years in accordance with any applicable financial covenants contained in Programmed's banking facilities (such as the financial covenants referred to in section 3.7(e)(ii)).