PROGRAMMED Group

ASX Release

Wednesday 10 November 2010

Company Announcements Office
ASX Limited
Exchange Centre
Level 4
20 Bridge Street
Sydney NSW 2000

Dear Sir,

Media Release

Please find attached the ASX Media Release issued by the Company today.

Yours sincerely,
PROGRAMMED MAINTENANCE SERVICES LIMITED

Ian H. Jones

Ian H. Jones
Company Secretary

PROGRAMMED Group

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10 November 2010

Programmed restructures property services business

Group EBITA before restructuring costs expected to be $15 – 16 million for 1H 11 and c.$46 million for FY 11

New accounting policy to lead to non-cash $29 million adjustment of contract recoverable asset's book value

Expected fully franked interim dividend 3 cents per share

Programmed Group (ASX:PRG), which provides staffing, maintenance and project services, today announced a restructuring of its property services business to reverse recent under-performance. This decision follows a detailed review of the business that has identified the causes of the under-performance and actions that will increase future earnings.

The main causes were:

- Reduced demand, reflecting customers' budget cuts and reluctance to commit to new expenditure in both Australia and New Zealand. This decline in revenue and margin was somewhat offset in FY 10 by revenue of more than $15 million from federal government funded stimulus work.

- Lower indexation revenue (which is driven by inflation) on painting programmes during a period of time when the cost of finance has risen. Indexation revenue has declined from 6.1% of contract recoverable value in FY 06 to a projected 3.5% in FY 11; this has made existing contracts less profitable after the cost of finance and has impacted renewal rates and sales of new programmes, which are priced to reflect the higher finance cost.

The main actions being taken are:

- **Overhead reduction**

  The property services business' overhead costs are being reduced by $7.5 million (c. 16% of FY 10 costs) across Australia and New Zealand, leading to a restructuring charge of $3.5 million in 1H 11.

- **New management**

  Steve Taylor, formerly CEO of the facility management business, has been appointed CEO of the Property & Infrastructure division, with responsibility for the property services business. New sales and finance managers have been appointed to drive change within the business.

- **Revitalise service offering**

  Additional programme models have been developed to meet customers' diverse requirements and lessen the impact of higher financing costs. These will be introduced shortly to new customers.

- **Changed internal management reporting to improve business management**

  Historically, internal management reports have not shown the prevailing market cost of finance in margins when painting programmes are estimated and sold. In future, finance at prevailing market interest rates will be included in price calculations and management reports, and operating margin will be separated from finance margin. This will lead to better management decisions on providing finance to customers, pricing new programmes and controlling existing contracts.

- **Change in accounting policy for painting programmes**

  As some revenue earned on work completed under painting programmes is not receivable until future years, this revenue's fair value is determined by discounting amounts receivable by an imputed rate of interest.

  In the past, Programmed has determined the imputed rate of interest by reference to the current cash sales price of the services provided, which was assumed to be equivalent to the nominal contract amounts (before indexation revenue).

  Due to changes in inflation (which drives indexation revenue) and in prevailing interest rates, it is now more appropriate to base the imputed rate of interest on the prevailing market rate for a typical unsecured customer. More relevant information regarding the financial position and performance of the company will then be available to both management and shareholders.

  This change in accounting policy will be applied retrospectively so FY 11 accounts can be compared with previous years; full details will be provided with the group's half year results due for release on 24 November 2010.

  The main results of this change will be a non-cash reduction of approximately $29 million in the book value of the contract recoverable asset and an increase in interest income to be recognised in future years. Importantly, this adjustment is a re-measurement of the contract recoverable asset based on the new accounting policy. It is not an impairment as the full amount of contract revenue will be collected in future years, with the positive difference between the carrying value and cash receipts booked as future interest revenue.

  In a lower inflation, higher interest rate environment, this change will lessen reported earnings in the first year of a programme and increase reported earnings in the latter years of the programme, as shown in the investor presentation released today.

- **Improved internal system and processes**

  The business' principal management system will be upgraded during the next 18 months. The upgraded system will improve commercial management and customer interaction and will lower administration costs.

- **Exit the loss-making UK painting business**

  As announced in May 2010, Programmed intends to exit the UK painting business. Most of the redundancies have been completed and offers are currently being evaluated for the contract book. Present expectations are for a pre-tax loss of $10 million and a net cash surplus of approximately $5 million (to be received over a number of years) which will be invested in the group's Australian and New Zealand businesses.

Chris Sutherland, managing director of Programmed said: 'These changes will increase the profitability and financial transparency of our property services business, enabling us to maintain our strong market position as economic conditions improve. While we are focused on increasing painting revenue, the long-term relationships with our customers provide an opportunity for the group to develop and offer additional services.'

Unaudited first half results and second half guidance

Subject to audit review, Programmed's EBITA (earnings before interest, tax and amortisation), for the six months to 30 September 2010 is expected to be $15 - $16 million before restructuring costs (refer to Table 1), compared with reported $27.3 million in 1H 10.

Mr Sutherland said: 'This is a disappointing result, but we are expecting a stronger second half, leading to a projected 2H 11 EBITA of approximately $30 million, compared with $31.6 million in 2H 10. This would result in EBITA of approximately $46m for the full year, before restructuring costs.

'The main reasons for this shortfall against previous guidance (EBITA: $58 million) and for our confidence in a stronger future performance are as follows (figures shown are EBITA and are subject to audit review):

- **Property & Infrastructure (1H 11 $9.8m* vs $14.5m pcp)**

  For the reasons mentioned above, earnings from property services were significantly lower than expected. The initiatives to reduce costs by $7.5 million per annum, change management and improve margin transparency will begin to benefit earnings from November 2010.

  Facility management earnings were in line with expectations, but lower than last year due to lower revenues from existing contracts. Future earnings will benefit from the start of the 25-year $200 million Ararat Prison contract, from the recently-awarded Western Australian housing contract and from two new regional NSW housing contracts.

  Earnings from electrical / communication services activities (KLM) were above expectations and the business is expected to continue to perform well. Work in hand at the end of September 2010 was $80 million compared with $45 million at the time of the business' purchase. (*1H 11 includes $2.9m contribution from KLM acquired in Jan 2010)

- **Resources & Industrial (1H 11 $4.4m vs $12.3m pcp)**

  Marine services activity was significantly below expectations due to delays in work restarting after the major industrial dispute at the beginning of 2010 and in customers starting offshore construction work. The second half will be see a substantial uplift in revenue. Work in hand at September 2010 and due to be completed by March 2012 is greater than $350 million, compared with 1H 11 revenue of $75 million, and there are substantial opportunities for additional new marine work.

  General construction and maintenance activity (formerly SWG) was lower than the previous corresponding period resulting in a first half loss (-$1.8m). We have completed the restructure of the business by selling the offshore contracting activities and merging the back office with the marine business. These actions, which have resulted in a restructuring cost of $2.3 million in 1H 11, have lowered the fixed cost base by more than $5 million, as anticipated in May 2010. We expect an earnings turnaround in the second half on the back of lower overheads and new business.

- **Workforce (1H 11 $5.3m vs $4.0m pcp)**

  The performance of the group's staffing services division is pleasing, recovering from its low in mid-2009 as the economy strengthens. The reduction of the cost base in the prior year will provide further upside as revenues grow. Demand is building across the mining and construction markets and we are starting to see some recovery in the SME market.

- **Unallocated Costs (1H 11 -$3.9m vs -$3.5m pcp).'**

Programmed will report its first half results on 24 November 2010.

Dividend

Reflecting the board's confidence in Programmed's future performance and cash flow, the company's interim dividend will be based on earnings before restructuring costs. In line with the 50 per cent payout policy, this is expected to result in a fully franked interim dividend of 3 cents per share, similar to the previous corresponding period.

TABLE 1 - FY 11 restructuring costs before tax	$ million	Note
Restructuring costs in property services business	$3.5	$7.5 million annualised savings
Exit of UK painting business	$10.0	$5 million cash return to Programmed
Restructuring costs in construction and maintenance business	$2.3	$3 million cash received for sale of offshore contracting business and $5 million in annualised savings
Total restructuring costs before tax	$15.8	Nil material cash impact

For further information contact:

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