ASX Release

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CHAIRMAN'S ADDRESS AND MANAGING DIRECTOR'S ADDRESS TO ANNUAL GENERAL MEETING – WEDNESDAY, 30 JULY 2014, 10.00AM EST

<u>CHAIRMAN'S ADDRESS BY BRUCE BROOK</u>

Good morning ladies and gentlemen. I am your Chairman, Bruce Brook and it is my pleasure to welcome you to the fifteenth Annual General Meeting of Programmed Maintenance Services Limited as a listed company, and the first such meeting we have held in Sydney.

2014 Performance

I will start with a review of the Company's performance during the year to 31 March 2014.

Programmed is not immune from the challenges presently confronting many businesses, where organic revenue growth is weak, costs continue to rise, and the online world is challenging traditional business structures. I am pleased, therefore, to report that, despite a 5% decline in group revenue to $1.435 billion which was due to lower revenue from our Resources division, our company maintained its earnings before interest and tax and delivered a 5.5% increase in profit before tax to $44.4 million due to lower interest costs. We also achieved an after-tax profit of $31.1 million before equity accounting our 27.5% interest in OneShift, a start-up online staffing business, and this was only 3% below the previous year when there was a $2.7 million tax credit. Importantly, we also reduced net debt and increased dividends.

Equally pleasing was our general operational performance.

Our safety performance improved and our employee engagement score was our best to date.

Programmed’s ability to offer staffing, maintenance and facility management services to all sectors means that our performance does not depend on one group of customers or one industry sector. The benefit of this was demonstrated in the year’s results with our Property & Infrastructure division’s earnings increasing by 21% to offset a similar decrease in our Resource division’s earnings. Our Workforce division’s earnings were similar to the previous year despite a fall in revenue.

The Company’s good overall operational performance has enabled further debt to be paid down, and net debt / equity at 31 March 2014 was just 10.3%. It also enabled us to increase total dividends for the year to 17 cents per share fully franked from 15 cents per share for the previous year.

We are confronting the opportunities and challenges of an online digital world by making significant investments in technology to enable greater online servicing and support for job seekers, employees, subcontractors and customers, as well as further significant consolidation of back office functions and support. In October 2013, we invested $5 million in a start-up online staffing business called OneShift to advance our knowledge and position in the online space.

There is a significant increase in new investment by government and private industry in infrastructure, along with further outsourcing of operations and maintenance of existing assets. We have identified more than $3 billion of opportunities to target over the next 12 months.

We have continued to improve the effectiveness of the board. A key action arising from our annual board performance review was a plan to increase the board's investment in the company's safety conversation program.

AGM resolutions

Now to the meeting agenda.

There are four items of business that we need to consider today. These items concern the financial statements and the remuneration report, followed by the re-election of one director, and the grant of performance rights to the managing director. I will ask you to vote on resolutions related to these items later in this meeting.

The purpose of these resolutions is outlined in the notice of meeting sent to you and I will be happy to take questions on them during the formal part of the meeting.

There are three resolutions on the agenda for this morning and I will introduce each one later. I would like, however, to comment briefly on resolution 3, which seeks shareholder approval to grant 150,000 performance rights to Chris Sutherland. This grant is in line with the long-term incentive component of Chris' agreed remuneration package and the non-executive Directors believe that, through aligning his income with shareholders' returns, it is in the best interests of our shareholders. It should be noted that the performance rights will not vest until 1 July 2018, and then will vest only if the performance criteria set out in the notice of meeting are met.

Conclusion

Ladies and gentlemen, in conclusion, while the market remains challenging, our business model gives Programmed considerable strength, and I am confident that our company will continue to prosper as the economy grows.

Before I ask Chris to talk about the Company's operations, I would like to thank him and the entire Programmed team for their contribution and commitment to the interests of our customers and shareholders. I also thank our shareholders and my fellow directors for their continuing support.

Bruce Brook
Chairman

MANAGING DIRECTOR'S ADDRESS BY CHRIS SUTHERLAND

I will start with our health, safety and environment results which demonstrate that as an organisation we have progressed well down the path to Zero Harm. We know, however, that we have a lot more to do.

Our lost time injury frequency rate fell a further 34% from 2.98 to 1.99 on more than 25,000,000 hours worked. Equally pleasing was a 24% fall in the total injury frequency rate, which includes all lost time, medical treatment and first aid injuries, from 28 to 22. These results cover all permanent, casual and contracted employees, all employees of subcontractors engaged by us, and all our labour hire employees who work under the direct supervision and work systems of others. (As many companies do not report injuries to casual and contracted workers or subcontractors' workers, direct comparisons are seldom possible)

To further reduce the number of injuries, incidents and near misses, we are continuing to focus on leadership, behaviour and personal responsibility.

Our safety culture has been based upon core programs such as safety conversations, safety pauses, good news stories and managers ringing injured workers at home. It has been exciting to see many employees develop their own safety leadership at home and at work, influencing the adoption of safe work practices across the wider community.

Now to our divisional results.

The Property & Infrastructure division's revenue was maintained at $752 million, whilst EBIT increased 21% to $28.0 million. The higher margin was the result of improved operational control across many areas of the business.

During the year, both the KLM electrical business and the Turnpoint specialist turf business were further integrated into the division and were rebranded as Programmed Electrical Technologies and Programmed Turnpoint respectively.

Demand for long term painting maintenance programs stabilised, with invested capital of $110.2 million at the end of FY2014 compared with $113.6 million a year earlier. Whilst painting volumes were similar, margins were higher due to lower overheads and improved job management.

We have been steadily reducing our exposure to new commercial building electrical works and increasing our focus on fit-out, maintenance and upgrades of electrical, data and communications systems in existing buildings and infrastructure. This has improved profitability despite lower revenue and allows greater opportunity to work with the division's customers.

Revenue from our facility management operations increased as a number of new contracts commenced. Margins, however, were lower as we increased our expenditure on business development and tendering to target a significant number of substantial opportunities, as governments across Australia and New Zealand increasingly seek to outsource the operations and maintenance of public infrastructure.

Existing public assets are getting older and require upgrades and greater levels of maintenance to maintain service. The growing population is requiring new assets to be built, thus creating further opportunities, and increasingly governments at all levels are looking for privately funded and managed solutions.

The Resources division's revenue was $307 million, 13% less than FY2013, due to the completion of a major onshore mining project where we were providing workforce services during the construction phase.

EBIT was $24.4 million, 21% lower due almost entirely to the reduction in onshore mining project activity.

The offshore oil and gas sector continued to deliver a similar result to last year and contributed all of the division’s earnings.

Demand for vessel management, manning, catering and logistical services remained strong throughout most of the year across Australia and New Zealand.

However, some customers have become concerned about the current status of negotiations for a new Australian marine EBA, following expiry of the previous EBA last year, and thus some work may be deferred in the short term to avoid any potential industrial action. We continue to negotiate and our hope remains to reach agreement but there remains some risk of industrial action with associated short term revenue and cost impacts during the negotiation period.

We were successful in securing a major contract for works associated with Inpex’s Ichthys project which will commence later in the current year.

The Workforce division's revenue was $373 million, down 8% from FY2013, but margins improved due to lower costs across the business. As a result, EBIT was $10.5 million, slightly below the $10.7 million in FY2013.

The staffing industry is facing major digital disruption to its traditional methods, affecting costs and margins. The traditional placement fee paid to a recruitment firm for searching and finding a worker is rapidly being replaced by customers using online search and database systems to find and match candidates for specific jobs. The placement fee revenue of many recruitment firms, although not a material component of our income, is at historical lows and we believe will never fully recover. Large employers are investing in online technology and using social media to recruit and maintain their own database of potential full-time and part-time employees.

Thus, we are reshaping our Workforce business through four initiatives.

First, we are undertaking a significant upgrade of the core Workforce business system to provide new capability that operates simply and efficiently across any mobile device. This will significantly enhance our ability to find and support job seekers, increase engagement with our casual workforce, and improve customer service and satisfaction. We have invested more than $2 million in this system over the past 12 months and will be launching it across Australia and New Zealand in the coming months.

Second, we are using the upgraded system capability to further centralise recruitment functions in each state, expand the mobile account / sales network, reduce the need for some branches, and lower overall overhead costs.

Third, we are encouraging customers to appreciate the advantages of hiring staff from Programmed to access the skills we can offer across the entire group. We want customers to value the “Programmed Difference” and we are growing the list of customers who procure both staffing and maintenance / FM services.

And fourth, we have invested $5 million for a 27.5% equity stake in a start-up online business called OneShift which focuses on the temporary employment market, matching potential candidates with businesses seeking temporary workers on a fee per candidate basis.

We believe OneShift can be an attractive placement service for thousands of small and medium size employers, and we are actively promoting it and working with the other shareholders to refine the system to meet market requirements. As it is a start-up business, we have forecast losses in the short term as we build scale and improve the product. Whilst it is not yet possible to predict the extent online matching systems will take over the traditional staffing placement fee revenue, it is becoming clear that the historical placement fee structures and margins are being broken and that significant technology investment is required to be part of the future.

Now to our balance sheet and cash flow.

Gross operating cash flow was $80.6 million, 11% lower than FY2013 and 129% of EBITDA. Net operating cash flow was $55.8 million, 2% lower than FY2013.

With the continued focus on capital management and strong operating cash flow, the group's net debt reduced to $42.2 million at 31 March 2014, from $67.1 million at 31 March 2013. The net debt to equity ratio fell to 10.3% from 17.1%.

In December 2013, we agreed new financing terms with our banks, replacing facilities which were due to expire in October 2014. Our considerably strengthened balance sheet enabled us to negotiate facilities extending to December 2017 and, as we were not using all our facilities, our revolving debt capacity was reduced by $50 million.

The bank syndicated facility includes three financing tranches aggregating $200 million comprising:

- A working capital and overdraft facility of $60 million with a rolling one year term;
- A revolving debt facility of $70 million with a four year term; and
- A bank guarantee facility of $70 million with a three year term.

Other arrangements remain for ongoing support of our asset finance requirements of $17 million.

The group operated throughout the year well within its loan covenants.

Now to our strategy which is built on four key components:

First, safety. We need to have every employee come home uninjured every night as a basic tenet of our operations. This also means our productivity improves and our costs are lower. Customers will hire Programmed because we work safely and can help them improve the safety of their own operations.

We continue to expand and develop initiatives to improve the leadership and safety culture of our entire team. Our critical risk standards have been further embedded into the safety systems of each of our businesses and our customer operations. We have commenced the rollout of our Life Saving Rules to focus all employees further on the key things that they must know and do to keep them and those around them safe. We are developing more rigour and improved quality in our site risk assessments and job safety analysis.

Our results tell us that our plan is working. Not only are significantly less people being injured; our customers are recognising that our ability to improve the safety, and as a consequence the productivity, of their operations is a key value-add, helping us to secure their ongoing business and contributing to their decision to outsource more work.

Second, people and culture. We have a process to develop and enhance the culture we expect in all our operations. This is how we have improved our safety results. We are constantly engaging new employees, with 35,000 different employees each year working on thousands of different customer sites, and it is important that we can quickly show them, and in some cases an entire new workforce, what our culture is and how we expect them to perform and behave.

Having established common standards of behaviour around safety, we are now pursuing a similar goal around customer service to achieve high levels of customer satisfaction. We are currently preparing the education materials to be rolled out later this year and have selected the reporting system to measure customer satisfaction on a common basis across all divisions.

Third, systems and integration. We are continuing a progressive upgrade of our systems to enable further significant consolidation of back office functions and support as well as, importantly, greater online servicing and support for job seekers, employees, subcontractors and customers.

The move to enable all our customers, employees, job seekers and subcontractors to interact with us seamlessly through online applications and portals using any mobile device will change the way we do business.

Our payroll systems have been upgraded and now offer self-servicing and online access for all permanent employees across Australia and New Zealand.

Our workforce systems upgrade is nearly complete, with an entirely new capability to service and support our Workforce division's job seekers, employees and customers through online access and, importantly, through any mobile device. This system will be launched progressively, starting this month, and will result in significant cost savings, greater engagement with the casual workforce and significant improvement in customer service.

Our finance and accounting, procurement, and project control systems will be upgraded over the next 18 months to a new "bigger brother" of our current system. This will enable employees, subcontractors and customers to access the information they need in real time, on any mobile device, to plan and manage their work, report effectively on a daily basis and help reduce non-productive time. The system will also result in further consolidation of our back office functions.

Our web and social media presence will be significantly upgraded in the next 12 months as we move more of our marketing and support to online systems.

The investment in these system upgrades will total approximately $17 million, and $3 million was incurred in FY2014. A further $9 million is expected to be incurred in FY2015, followed by $5 million in FY2016.

The main focus of these investments is to secure our future in a developing digital world, to grow sales through enabling customers to access our services 24/7, and to improve operational performance, customer service and satisfaction. However, we are also projecting back office cost savings of more than $5 million per annum to be fully realised in 18 months. One-off restructuring costs of more than $5 million are currently projected to deliver these ongoing savings, split across our next two years. We recognise there are some execution risks attached to these investments, but we have a detailed plan to mitigate these.

We have also rebranded both KLM and Turnpoint to become Programmed-branded entities to maximise the opportunities that arise from the growing strength of our brand and from selling the Programmed Difference.

Fourth, growth. We have articulated clearly the "Programmed Difference" and are focused on ensuring our people understand these differences and deliver them every day, so it is recognised that these are what our company and our brand stand for. In a digital world, face-to-face customer interaction may occur less often, and thus our online presence and ability to project our values and what we stand for are even more important. We will invest further in our brand, in online communications and in digital marketing to ensure that the differences we can make to our customers and the improvements we can make to their business performance are understood, be it through safety, the quality of people, the effective maintenance of an asset, or our responsiveness and great customer service.

We have invested greater effort in seeking how we can provide more staffing, maintenance and facility management services to our major customers. We have a workforce / HR platform that is readily scalable and we will seek opportunities to increase the workforce services we provide to grow earnings and lower our average unit operating cost.

We are enacting strategies to pursue a significant share of future operations and maintenance expenditures related to the infrastructure of the major resource companies, utilities and governments. We are positioned to bid for more than $3 billion of work associated with major outsourcing programs over the next 12 months.

In conclusion, we believe that delivery of a similar EBIT (excluding equity accounting of OneShift), along with strong operational performance, a reduction in debt and increased dividends, represents a good result for shareholders in the current environment, and we thank them for their support. We also thank each one of our 10,000 + employees for their continuing commitment to serving our customers in a safe manner.

Now an update on our first quarter trading – that is the three months April to June 2014.

Present trading conditions remain mixed.

Activity in the Property & Infrastructure division, which contributed 44% of the Company's EBIT last year, remains in line with the previous corresponding period. Due to the strong performance of Programmed Turnpoint, the specialist turf business acquired two years ago, the division's first half results will include a one-off expense of $1.4 million representing the final performance-related portion of the business' purchase price. Programmed Turnpoint has a strong pipeline of opportunities.

A number of new long-term maintenance contracts have been secured which are expected to contribute to revenue growth for the Property & Infrastructure division in the second half of FY2015. These include a five year contract with NZ Housing to maintain social housing in Auckland and Wellington, a three year contract with Fonterra to maintain its logistics distribution centres across New Zealand, and a 14 year contract for the maintenance of Gatton Prison in Queensland. The division is also tendering or negotiating a significant pipeline of further long-term maintenance opportunities.

In the Resources division, which contributed 39% of FY2014 EBIT, trading in the first quarter of FY2015, work-in-hand and tendering indicate that offshore oil and gas activity is continuing at similar levels to last year.

In the Workforce division, which contributed 17% of FY2014 EBIT, demand has been lower than in the previous corresponding period, indicating further weakening of the market, particularly in the blue-collar, light industrial and manufacturing sectors. As already announced, the division is investing in technology to lower costs and reshape the way the business operates in an online world.

Our cash flow has remained strong, our net debt is low and despite some current market weakness, we are well placed to enact our strategy to grow the business over the long term.

Chris Sutherland
Managing Director