ASX Release

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CHAIRMAN'S ADDRESS AND MANAGING DIRECTOR'S ADDRESS TO ANNUAL GENERAL MEETING – FRIDAY, 28 JULY 2017, 9.30AM WST

CHAIRMAN'S ADDRESS BY BRUCE BROOK

Good morning, ladies and gentlemen. I am your chairman Bruce Brook and it is my pleasure to welcome you to the 18th Annual General Meeting of Programmed Maintenance Services Limited as a listed company.

As you will be aware, two weeks ago there was a significant development that will enhance the future of this company. We announced that we had entered into a scheme implementation deed with PERSOL Holdings Co Ltd under which PERSOL proposes to acquire 100% of Programmed's issued share capital for $3.02 per share in cash. The company may declare a fully-franked special dividend and the cash price per share would be reduced by the amount of any special dividend declared. We understand that shareholders are looking for visibility on the size of the special dividend. Our July accounts will be finalised in mid-August, which will inform the board of the current level of retained earnings on our balance sheet. Our board will then consider and determine the size of the special dividend for inclusion within the scheme book expected to be sent to shareholders in early September.

We believe that PERSOL's offer of $3.02 per share represents compelling value for Programmed shareholders. It is a premium of 68% to our shares' closing price the day before the offer was announced and represents an enterprise value of $992 million, implying an EBITDA multiple of 10.3 times.

We believe, too, that the offer price fairly reflects the considerable value PERSOL places on our strategic plan, the capability of our people to deliver it and our strong market positions. PERSOL has made it clear that it intends to work with the Programmed management team to support and invest in our existing growth strategy, and I am pleased that Chris Sutherland and other senior management have committed to continue with the business.

Your directors have recommended unanimously that shareholders vote in favour of the scheme, in the absence of a superior proposal and subject to an independent expert concluding that the scheme is in shareholders' best interests. Each director intends to vote all the Programmed shares that he or she holds or controls in favour of the scheme, subject to the same qualifications.

The transaction will take place through a scheme of arrangement, and the scheme process is expected to take up to three months from now. In early September, you will receive a booklet containing information on the scheme, the independent expert's report, the reasons for the directors' recommendation and details of a shareholder meeting to vote on the scheme.

The shareholder meeting is expected to take place in early October and, subject to approval by shareholders, the Federal Court and the Foreign Investment Review Board, the transaction is expected to be completed around the middle of October.

In recommending that shareholders approve the scheme, your board has considered carefully the impact on our existing operations, customers and employees, and we are satisfied that there will be no negative impact. Chris Sutherland will talk about this further, but I would emphasise that we believe PERSOL will be a well-capitalised, supportive owner of Programmed if the scheme proceeds.

PERSOL is one of the largest staffing companies in Japan, with 32,000 employees, operations throughout the Asia-Pacific region and revenue equivalent to A$6.8 billion. It is listed on the Tokyo Stock Exchange with a market capitalisation equivalent to A$5.7 billion.

Australia is an interesting part of PERSOL's heritage. The founder, Yoshiko Shinohara, was on holiday in Sydney working for a marketing company when she came across a business providing temporary staff. Recognising that this would be a new business model in Japan, in 1973 she started a business called Temp Staff in her one-bedroom Tokyo apartment. This was the forerunner of PERSOL, and Ms Shinohara is now recognised as one of the top businesswomen in the world. She remains a significant shareholder in the company.

Now to a review of Programmed's performance during the year to 31 March 2017.

Trading conditions remained difficult throughout the period, but pleasingly we completed the integration of Skilled, generated strong cash flow, paid down debt and set the foundations for future growth. We managed to absorb a significant decline in marine services work by growing our property and infrastructure maintenance activities and reducing overheads.

Our results for the year included, for the first time, 12 months' revenue and earnings from Skilled. Revenue was $2.691 billion, up 22% from the previous year, and profit before amortisation and non-trading items was $41.3 million, up 6.4%. After non-trading items, our statutory profit was $12.3 million compared to a loss of $98 million the previous year.

The non-trading items, including amortisation, totalled $29 million after tax and related largely to completing Skilled's integration.

Importantly, cash flow remained very strong, with net operating cash flow of $61.5 million, 5% up on the previous year. Together with a continued focus on capital management, this resulted in a reduction in net debt to $200 million at 31 March 2017, compared with $239 million a year earlier and $302 million on completion of the Skilled acquisition in October 2015. The net debt to equity ratio at 31 March 2017 was 33%.

A final dividend of 3.5 cents per share fully franked is being paid to shareholders on 31 July 2017, bringing dividends for the year to 7.0 cents fully franked, compared with 11.5 cents in 2016. While we announced in May that the dividend reinvestment plan would apply to the final dividend, this decision has been reversed in light of the PERSOL offer, so all shareholders will receive the dividend in cash.

Your board works closely with management to monitor our safety performance, which regrettably didn't improve over the year as measured by both the Long-Term Injury Frequency Rate and the Total Injury Frequency Rate. This followed a number of years when there were considerable improvements, and management has prepared a plan to improve the company's safety performance further.

Andrea Grant retired as a director in May 2017 to begin a new career in the USA, and I would like to recognise and thank her for her contribution to the board over five years. In view of the PERSOL offer, the appointment of a replacement has been postponed indefinitely.

Before I ask Chris Sutherland to talk about the company's operations, I would like to reiterate that we believe PERSOL's offer represents compelling value for Programmed shareholders, and also recognises the considerable value that Programmed can contribute to PERSOL.

As this may be Programmed's last annual general meeting as a listed company, I would like to place on record that I have derived great satisfaction from my seven years of service as a director and six years as chairman. The company has a strong culture based on safety, diversity, opportunities for our people, and good old-fashioned customer service, and these are attributes which are increasingly important in business today, although often forgotten. I believe Programmed's culture will provide a strong base for the company going forward, attracting new clients and capable people.

Finally, I would like to thank my fellow directors for their advice and support, Chris Sutherland and all members of the Programmed team for their efforts on behalf of customers and shareholders, and you, our shareholders, for your confidence in the company during the past challenging year.

MANAGING DIRECTOR'S ADDRESS BY CHRIS SUTHERLAND

Thank you, Bruce. Good morning, ladies and gentlemen.

Before I review the year to 31 March, I'd like to add a few comments on PERSOL's proposed offer from the point of view of our business.

I believe this is an exciting opportunity for Programmed and for our staff and customers, and if the scheme proceeds, PERSOL will be a supportive shareholder. Currently, PERSOL operates across Asia Pacific and we are proud that it has now chosen Programmed as its platform for growth in the Australian and New Zealand markets.

PERSOL has made it clear that it intends us to continue with our current business plan without any changes to management, operating structure or brand. This means we will continue to implement our plans around safety, people, systems and growth. The acquisition of Programmed would not only extend PERSOL's staffing reach to our markets; PERSOL would acquire a leading maintenance and facility management services business with potential to expand to other countries in the Asia-Pacific region.

I would like to reassure any customers here today that it is, and will remain, business as usual for all of us and there will be no distraction or disruption to our services. Programmed will remain an Australian company, operating in Australia and New Zealand and employing thousands of Australians and New Zealanders, and the core behaviours that define our culture will not change.

As the chairman has mentioned, our results for the 2017 financial year reflected weakness in some of our markets, as the integration of Skilled was completed and we put in place the building blocks for the company's future sustainability and growth.

We have a clear vision to be the leading provider of staffing, maintenance and facility management services, without injury, and have a plan 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.

Second, people and culture. We have more than 20,000 employees working every day. We seek a common standard of personal behaviour across the organisation based upon personal safety leadership, care and empathy, and exceptional customer service. These behaviours define the Programmed Culture.

Third, systems. We have integrated all Skilled's operations on to our core business systems for HSE, HR, payroll, finance, staffing and customer relationship management, and now seek to deliver further efficiencies through continuous enhancements.

And fourth, growth. A summary of our plan to grow sales over the next three years is on page 8 of our annual report.

Now let us look at our results in more detail. We have two divisions: Staffing and Maintenance.

The Staffing division's revenue was $1,370 million, up 53% on the previous year due to the additional six month contribution from Skilled. As a result, earnings before interest, tax and amortisation, or EBITA, were $35.8 million, up 65%.

The division has five business units.

First, Skilled Workforce, our blue-collar business. In the second half of the financial year, demand in its main markets tightened as customers in the manufacturing, industrial, materials, transport and logistics sectors reduced their labour requirements, particularly in Western Australia. We maintained revenue, but at a lower margin.

In light of present weaknesses in the economy, we have reduced management and administration expenses by approximately $10 million since the beginning of April to improve margins and return on capital. In making these savings, we were mindful of the impact on people and customers and ensured that our sales growth plan would not be affected.

All Skilled Workforce branches are now operating on the one system, which will improve their sales performance.

The staffing systems and national sales management of our Professionals white collar business have been merged with those of Skilled Workforce, and we are offering its services to all the group's customers and expanding our reach into government administration. White collar employment is growing and we are seeking new opportunities.

Our Health Professionals business has been separated from the broader Professionals business as we see an opportunity to develop a unique staffing and direct care service business in the health, aged care and disability sectors. This market is expected to grow considerably over the next 20 years.

Our Training Services business trains people in real jobs. In early May this year, we purchased the Apprenticeships Australia training business from the Chamber of Commerce and Industry of WA, and we now have 19 contracts and more than 200 apprentices and trainees working with major LNG operators.

OneShift is the start-up online recruitment business in which we acquired a 27.5% equity stake in October 2013. At the end of March 2017, we increased our ownership to 100%, with the other shareholder moving to full ownership of a separate retail and hospitality staffing business that we had developed jointly. We intend to continue to develop OneShift's online offering.

The Maintenance division provides a range of maintenance, building and operational services to asset owners across all industry sectors.

The division's results were flat, with revenue of $1,317 million, in line with the previous year, and EBITA of $58.7 million, compared with $59.4 million in 2016. Growth in revenue and earnings from the non-marine businesses was offset by the significant falls from the Marine business. Excluding the Marine results, Maintenance revenue was up 19% to $1,146 million and EBITA was up 33% to $54.8 million.

The division trades as five business units: Property Services, Electrical Technologies, Facility Management, Industrial Maintenance, and Marine.

Property Services' revenue and earnings grew on the back of increased demand from education, retirement, retail and strata apartment customers. Invested capital in long-term painting maintenance programs was $84.7 million at the end of FY2017, compared with $90.5 million a year earlier.

Our Electrical Technologies business' focus on fit-out, maintenance and upgrades of electrical, data and communications systems in existing buildings and infrastructure is delivering new work, and opportunities are also emerging in the defence sector.

The Facility Management business consolidated its existing contracts during the year and mobilised the Western Australian Government Department of Finance's Building Management and Works Maintenance Services Arrangement contract.

There is increasing demand for facility management services. Existing public assets are getting older and require greater maintenance to maintain service; the growing population needs new assets to be built; and governments are looking for privately funded and managed solutions, creating new opportunities.

The Industrial Maintenance business, which provides operational support and maintenance to customers in the mining and industrial sectors, performed well during the year, following a poor second half of the previous year.

The Marine business provides a range of workforce, maintenance, construction manning support and operational services to the offshore oil and gas and marine sectors. A number of major offshore projects were completed in the 2016 financial year and the business was downsized to suit the significantly lower activity. Revenue was $171 million, down from $349 million the previous year, and EBITA was $3.8 million, compared with $18.3 million. Growth is expected during the coming year with new work from the Prelude FLNG project and increasing exploration activity.

The offshore oil and gas business is a global one. Drilling rigs, seismic vessels, and pipe laying and offshore supply vessels move from location to location and customers seek seamless and borderless manning and support services.

In view of this, earlier this month we formed a 50/50 joint venture with Atlas Professionals, a global provider of staffing services to the offshore oil and gas industry. This involved our selling to Atlas 100% of our international marine activities and 50% of our Australian and New Zealand marine business. The price was $29 million, of which $7.5 million was paid up-front and $21.5 million is subject to a vendor finance arrangement.

Atlas' global customers will provide opportunities for the Australian and New Zealand joint venture, resulting in a stronger and more capable marine services business.

Now, looking ahead.

While some leading economic indicators point to business confidence improving and the economy strengthening in the next 12 months, our current internal staffing indicators suggest a lack of growth in some of the sectors we serve.

Our business model, providing staffing, maintenance and facility management services across all industry sectors, gives Programmed considerable strength. While demand for staff in the materials, transport, logistics and manufacturing sectors has weakened in the past year there are growing opportunities in the public infrastructure, tourism, education, health and aged care sectors. We believe the resources sector has completed a period of downsizing and staff reductions, and expect demand in this sector to grow in the next 12 months, particularly in oil and gas.

Finally, I would like to thank our more than 20,000 employees for their continued support. I would also like to thank our customers for trusting us with the operation or maintenance of their facilities, plant and production, and reiterate that maintaining the quality of our services will remain a priority for us during the coming months.