ASX Release

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CHAIRMAN'S ADDRESS AND MANAGING DIRECTOR'S ADDRESS TO ANNUAL GENERAL MEETING – WEDNESDAY, 27 JULY 2016, 10.00AM 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 17th Annual General Meeting of Programmed Maintenance Services Limited as a listed company. In particular, we welcome former Skilled Group shareholders who are attending their first Programmed meeting.

Last year was a significant milestone in your company's history. The acquisition of Skilled in October has transformed our business, increasing our scale and diversification and opening new opportunities across the combined customer base.

Through consolidating the Programmed and Skilled businesses, we are positioned to become the most effective, scalable and efficient provider of services in our markets. It will take a number of years for these benefits to be fully realised as we integrate business systems and seek growth across our expanded network. We have a large platform that will allow us to continue to invest in technology and lower our unit operating costs for many years to come.

The founder of Programmed some 60 years ago, Norman Miles, died late last year. We recognise and are grateful for his vision and innovation that led to the development of long-term painting maintenance programs, a product that has been highly successful and we continue to sell today.

Few companies survive 60 years, and we are delivering a strategy to ensure we are a strong, sustainable company for the next 60 years and beyond. This involves creating new opportunities to grow in the coming decade following the end of the capital expenditure boom in the resources sector.

This is an important point because too often commentators focus on daily and monthly movements in share prices, encouraging companies to make short-term decisions, when the key to creating long-term shareholder value is a clear vision and an effective long-term plan.

At Programmed, we have a clear vision to be a leading provider of staffing, maintenance and facility management services, without injury. We have a diverse team; the right people; a strong culture built around safety, care and empathy for people and good customer service; and we put much effort into managing our safety, environmental and community obligations.

We believe this is the best way for us to create long-term, sustainable value for our shareholders.

We have also determined that our diversification across all industry sectors, all towns and cities across Australia and New Zealand, and many thousands of customers, is fundamental to our future success. It will ensure that we can find and attract new business as, over the next 60 years, some customers or industry sectors reduce demand or disappear, and new customers and industry sectors grow and develop.

The year to 31 March 2016 was a transitional year for Programmed as we completed the Skilled acquisition and incurred one-off costs to integrate the business, while also managing the significant downturn in the oil and gas sector. Our results included six months' revenue and earnings from Skilled and significant one-off costs to enable us to deliver the long-term plan for our business.

Revenue was $2,209 million, up 54% on the previous year, and profit before amortisation and non-trading items was $38.8 million, up 24.7%.

We incurred one-off non-trading expenses totalling $33.9 million. These related to completion of the Skilled transaction, integrating Programmed and Skilled and securing more than $30 million of ongoing cost savings, and down-sizing parts of our business facing the resources sector to reflect the significant reduction in demand for services.

We have taken a non-cash impairment charge of $102.4 million to the goodwill of our Marine division, where activity has reduced significantly following the steep fall in oil and gas prices.

After amortisation and non-trading items, we reported a loss of $98.0 million compared to a $25.7 million profit in the 2015 year.

Importantly, we are pleased to have maintained very strong cash flow. Net debt, which was $302 million on completion of the Skilled acquisition, fell to $239.1 million at 31 March 2016.

We paid a final dividend of 5 cents per share, fully franked, on 26 July, bringing dividends for the year to 11.5 cents fully franked. The dividend reinvestment plan was reinstated for the final dividend, with a discount of 2.5%.

The board works closely with management to monitor our safety performance which improved during the year, as measured by both the Long Term Injury Frequency Rate, which was 40% lower than the previous year, and the Total Injury Frequency Rate, which was down 33%. However, very sadly we experienced a fatality which will be covered further by our Managing Director.

Jon Whittle retired from the board in November 2015 and I would like to recognise and thank him for his nine years' strong contribution as a director.

I am delighted to welcome two new members of our board to their first Programmed annual general meeting. Jim Walker, previously a director of Skilled and former CEO of WesTrac, was appointed a director in November, and Lisa Paul, who has a wealth of experience in Australian public service roles, most recently as head of the Federal Government Department of Education and Training, joined the board in February this year. You will hear from both of them later in the meeting when you will be invited to support their election.

I would like to highlight that we are now one of only a handful of ASX200 companies that have an equal number of male and female non-executive directors on the board, reinforcing our belief in the value of diversity.

There are six resolutions on the agenda for this morning and I will introduce and ask for questions on each one later. I would like, however, to comment briefly on resolution 6, which seeks shareholder approval of the Programmed Managing Director Long Term Incentive Plan and to grant 300,000 performance rights to Chris Sutherland. The Plan has not changed since it was last approved at our 2013 AGM. The proposed 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 2020, and then will vest only if the performance criteria set out in the notice of meeting are met.

Ladies and gentlemen, I would like to conclude by repeating that our business model, providing staffing, maintenance and facility management services across all industry sectors, has enabled us to maintain revenue and very strong cash flow, reduce debt and increase dividends in markets that continue to present challenges. The acquisition of Skilled has been a transformational event for Programmed and is expected to create material value for shareholders.

Before I ask Chris Sutherland to talk about the company's operations, I would like thank all my board colleagues for their ongoing support and commitment. I also thank Chris and the entire Programmed team for the successful integration of Programmed and Skilled and for their efforts on behalf of customers and shareholders in a challenging year.

MANAGING DIRECTOR'S ADDRESS BY CHRIS SUTHERLAND

Thank you, Bruce. Good morning ladies and gentlemen.

As Bruce has mentioned, we have a clear vision to be a leading provider of staffing, maintenance and facility management services, without injury.

To deliver this vision we have a plan built on four key components:

First, safety. A basic tenet of our operations is that every employee comes home uninjured every night. 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.

Skilled's operations have been integrated into our existing HSE framework, and our critical risk standards have been updated to reflect a more diverse range of activities.

Second, people and culture. Our employee numbers have doubled as a result of the Skilled acquisition, and we now 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 good old-fashioned customer service. These behaviours define the Programmed Culture.

Third, **systems**. We are integrating all Skilled's operations on to our core business systems for HSE, HR, payroll, finance, staffing and customer relationship management. We are approximately half way through this process and expect to complete the integration by the end of our 2017 financial year.

Fourth, **growth**. We are investing in strategic marketing of our services across the combined group, and also to specific industry sectors and customers, based upon the "Programmed Difference" and the new opportunities that arise across the combined Programmed and Skilled customer base.

We have a standard operating platform that is readily scalable and we will seek to increase range of services to grow earnings and lower our average unit operating cost. The combination with Skilled creates larger scale, delivering efficiencies to create a more competitive service provider and to offer more benefits for customers.

Now let us look at our results in more detail.

Whilst our **safety** performance improved statistically, it is with great sadness that we report a fatality in our marine operations during the last financial year. Andrew Kelly was killed on a vessel working on the North West Shelf, and our prayers and support remain with his family. This tragedy reinforces our resolve to do everything we believe is possible to prevent workplace incidents; it also reminds us of the need to ensure that focus on eliminating or controlling critical risks is not lost among many other day to day processes, regulations and reports.

To further reduce the number of injuries, incidents and near misses, we are continuing to focus on leadership, behaviour and personal responsibility. In addition, we are raising awareness of the risks of working at heights, electrical isolation and operating plant and machinery, as these areas are major contributors to the number of incidents and near misses reported over the past 12 months.

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.

We report our financial results in three segments which now include 6 months contribution from Skilled businesses.

First, **Staffing.** This segment combines Programmed's Workforce business and Skilled's Workforce Services and Technical Professionals businesses, providing staffing services across all industry sectors.

Staffing revenue was $897 million, up 138% on 2015 due to the six month contribution from Skilled. Earnings before interest, tax and amortisation, or EBITA, were $21.7 million, up 189%.

The business' management and front office have been integrated successfully and more than 20 offices have been consolidated. No material customers or revenue have been lost arising from the acquisition of Skilled and we project increased revenue on an annualised basis in the current financial year.

Second, **Maintenance.** This segment combines Programmed's Property & Infrastructure businesses with Skilled's industrial maintenance businesses. It provides maintenance, building and operational services to asset owners across all industry sectors.

The maintenance division's revenue was 19% higher at $961 million, and EBITA increased 27% to $41.1 million. The revenue growth arose from the additional maintenance businesses of Skilled and new long-term facility management contracts. The higher margin was the result of improved operational control across many areas of the business.

Painting volumes were similar to the prior year, but on reduced invested capital due to a greater mix of sundry work. Margins were higher due to lower overheads and improved job management, offset partially by lower indexation revenue from existing contracts.

Our grounds maintenance operations performed well, with improved margins and a number of new outsourcing contracts.

In our electrical, data and communications systems operations, our focus on fit-out, maintenance and upgrades in existing buildings and infrastructure is delivering new work.

The division's infrastructure maintenance portfolio continued to grow. The highlight was the Western Australian Government Department of Finance's Building Management and Works Maintenance Services Arrangement contract, which is expected to generate revenue of between $90 million and $120 million per annum and has a possible total value in excess of $1.5 billion over 15 years.

Revenue from the industrial and mining sector declined in the second half, and our industrial and mining activities are being refocused on operational support and maintenance with traditional customers in iron ore and coal where consolidation of service providers is continuing. We are also seeking opportunities in gold, energy and processing where investment is continuing.

The **Marine** division combines Programmed's Resources division and Skilled's marine businesses.
Revenue was $349 million, up 41% on the previous year, due to the Skilled acquisition. A number of major offshore projects were completed in the second half, and the business has been significantly downsized to suit the lower activity forecast over the next year.

The vessels owned by the former Skilled business, Broadsword, were sold for $25 million and its business was treated in our accounts as a discontinued operation.

Looking ahead, our business model, providing staffing, maintenance and facility management services across all industry sectors, gives Programmed considerable strength in an economy that continues to present new challenges.

Customers in markets such as retailing, tourism, transport and manufacturing are hiring people and spending on their assets again, and there are growing opportunities in the education, health and aged care sectors. Demand is growing for staff and maintenance services across these sectors which represent more than 2/3 of group revenue going forward.

Demand for labour in the resources sectors, however, has weakened due to the completion of major projects, cutbacks in exploration and operating budgets, and a sharp drop in services for the oil and gas industry.

Following the decline in oil and gas prices and the end of a number of major offshore construction projects, our marine operations now make up a relatively small proportion of the group's business. After a review to further lower overheads in this business and consider how we best seek operations and maintenance work in the offshore oil and gas sector, we have decided to combine the marine business with the existing onshore facility management / industrial maintenance businesses to become a single Operations and Maintenance division that now serves the infrastructure, industrial, mining and offshore oil and gas sectors. We will adjust our segment reporting to match this change in our 2017 financial year.

The integration of Skilled is ahead of plan, with cost savings of more than $30 million per annum delivered by 31 March 2016. The group and divisional management teams have bonded and are operating successfully, and all businesses have been rebranded under the master Programmed brand. Integration of the core business IT systems will be completed during the next 12 months, with projected one-off integration and restructuring costs of approximately $10 million.

Programmed is the largest blue collar staffing business in Australia and we are seeking to ensure customers understand the benefits of strong safety systems and compliance, along with getting the right person for the right job each and every day.

We have created a large national white collar staffing business, Programmed Professionals, operating in a number of markets where growth is occurring, such as health and aged care.

Operational and maintenance expenditures are forecast to grow across all classes of infrastructure, including health, education, water, justice, public housing, ports and transport, and new assets are being built to meet the demands of a growing and aging population. We have been successful recently in securing major infrastructure contracts and will seek further ways to participate in the staffing, maintenance and facility management of new and existing infrastructure.

A pipeline of large infrastructure maintenance opportunities continues to be developed and we are well positioned to bid for, and secure, a share of this work over the next 12 months.

In addition, we are seeking opportunities to support the new assets that have been built in the resources and energy sector that will require operational and maintenance services for the next 20 to 40 years.

In conclusion, we are continuing to make progress, taking advantage of the many opportunities presented by our expanded operations. While we are less than four months into our year and much can change between now and next March, we currently maintain the forecast we made in February 2016 of EBITA between $100 million and $110 million, before non-trading items, for our 2017 year.