PROGRAMMED MAINTENANCE SERVICES

PEOPLE TAKING CARE OF PROPERTY

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# ASX Announcement

23 August 2006

Company Announcements Office
Australian Stock Exchange Limited
Exchange Centre
Level 4
20 Bridge Street
SYDNEY NSW 2000

Dear Sir,

## CHAIRMAN'S ADDRESS TO THE ANNUAL GENERAL MEETING

In accordance with Listing Rule 3.13.3, please find attached the address to be given by Mr. Geoff Tomlinson, Chairman of Programmed Maintenance Services Limited, to the Annual General Meeting being held at 11:00am this morning.

Yours sincerely,
PROGRAMMED MAINTENANCE SERVICES LIMITED

Ian H. Jones

Ian H. Jones
Secretary

PROGRAMMED MAINTENANCE SERVICES LIMITED

# CHAIRMAN'S ADDRESS

## TO THE ANNUAL GENERAL MEETING

## 23rd AUGUST 2006

Ladies and gentlemen, on behalf of my fellow directors, welcome to the Annual General Meeting of Programmed Maintenance Services Limited, our seventh AGM since listing on the Australian Stock Exchange.

Programmed Maintenance Services strengthened its position in the Australian, New Zealand and United Kingdom markets during the year to 31 March 2006 with another year of record performance.

This was the seventh consecutive year of double-digit profit growth, and the company's net profit after tax passed $20 million for the first time. Your directors believe the strategy that has underpinned this increasing growth and quality of the company's earnings should continue to produce similar performance in the future.

Our strategic focus has been to invest in diversifying and extending operations, simultaneously expanding both the range of our services and our geographic coverage. This has transformed Programmed Maintenance Services from the Australian painting business that it was when it started 55 years ago, into an international property maintenance and infrastructure services group, with more than 40 different service offerings. Significantly, we believe there remains considerable scope for the company's business to continue to evolve and grow.

Our growth is driven by the consistent application of our 'strategic progression' strategy of selectively adding to our range of services, while extending our geographic reach. This strategy not only increases marketing opportunities, but reduces the company's business risk, expands opportunities for staff, delivers better operating cash flows and lifts dividend franking capability. In turn, it increases shareholder value.

The company's strategic progression has seen it evolve from a single-service business in maintenance painting with a unique programmed proposition, into a broader property maintenance services group. Two years ago we extended our skills and systems into infrastructure maintenance and facilities management when we acquired several major contracts to form the Infraserv business. In the past year we also acquired the Tungsten specialist facilities management group. These businesses have opened the door to long-term, large scale outsourcing contracts and continue to contribute additional skills and capabilities to the Group. Your Board continues to explore appropriate acquisitions to further enhance shareholder value and create new career opportunities for our people.

The trend in the marketplace towards bundling non-core activities to external providers has been driven partly by greater emphasis on compliance and risk management and partly by the continued search for value for money. Programmed Maintenance Services is in an excellent position to meet the demands being generated by these market developments.

As we increase our range of services, we are able to strengthen our position in the market as a single source provider of maintenance solutions. In this way, we are able to 'build' an individual solution for each customer, reflected in the 'building block' theme throughout the annual report.

An example of the unique way we can combine our range of skills is the traffic management safety programme which we are currently rolling out across 700 Coles and Bi Lo supermarkets throughout Australia. The programme involves our painting and corporate imaging businesses in painting traffic safety lines, our building services business in installing safety guard-rails and staircases and Barry Bros, who utilise non-destructive digging technology to install safety bollards.

We have continued our commitment to safety and significantly reduced the rate of injury across the organisation. Every site meeting starts with the topic of safety. Safety is built into our management systems as a key performance indicator throughout the business and we have well established systems to encourage and implement new safety ideas.

Our safety innovation program, 'Pause Make Safe', has served to target behavioural change. The program uses a combination of formal training, awareness and visual reminders to reinforce the safety message throughout the organisation. Our culture is now a 'safety first' culture and the number of lost time injuries (LTIs) has fallen steadily, even though the staff numbers have increased. There was a decline in LTI frequency of almost 50 per cent in 2005-6, after a 23.4% reduction of LTIs in 2004-5. The benefits of the program and our improved safety performance clearly flow through to our employees, customers and shareholders.

## Our People

The number of employees throughout the business has now grown to over 2,500 across three countries with a diverse spread of capability from painters to plumbers, carpenters and grounds people, through to project managers, administrative staff and senior managers. Bringing a diverse group of people together such as this requires sound systems and values. Our values remain unchanged and are based on six core themes of Safety, Team, Responsibility, Innovation, Pride and Recognition.

The company's Apprentice Training Scheme has now been modified to more closely align with the national competency framework while our focus is to 'grow our own' and offer our graduates the opportunity of long and rewarding careers. As part of our commitment to reward and recognise our people, we have introduced incentives for successful completion of apprenticeships and the opportunity to be named Apprentice of the Year within each state and at national level. By successfully meeting the selection criteria, an apprentice could also earn a 12 month international placement.

Our Management Trainee Graduate Program has been re-designed and fully implemented with 3 new trainees participating this year from our Grounds and Building Services' Businesses. Skills training remains an important focus throughout the company. One example that illustrates our commitment is the group of employees in South Australia who undertook an internally developed Certificate 3 in Horticulture – the group was large enough to fill a classroom with 26 employees participating. Other initiatives include Infraserv's partnership with the De Bono Institute to create a methodology for creative thinking and innovation.

For the first time, we participated in the Hewitt Best Employers in Australia and New Zealand survey, achieving an engagement score above industry average and providing valuable feedback for further improvement.

## Australian Property Maintenance

Our diversification in Australia continued with non-painting services contributing 42 per cent of total property services revenue, compared with 37 per cent the previous year.

While revenue increased 24.5 per cent, earnings for the Australian Property Maintenance segment were flat over the full year, with a 7.5 per cent improvement in the second half making up for a lower first half. This was mainly due to reduced demand in New South Wales, which is now showing signs of improvement since the end of the financial year.

The Australian painting business lifted its performance in Victoria and Queensland with the overall result impacted by lower than anticipated results in NSW and Western Australia. During the year, we have increased our revenue from long term contracts and increased the number of long term programmes in the education sector to over 700. We have also continued to secure major new contracts spread throughout different market sectors including retail, gas supply and religious orders. Our quality program was updated during the year with the roll out of the 'Right First Time' program and we have improved our estimating and pricing systems throughout the business.

The Australian Corporate Imaging business provides multi site customers with consistent brand imaging across their retail network and we have increased revenue as demand for its specialised service continues to increase. Major new contracts include the Tyrepower national store re-image and continuing re-imaging work for Repco Australia, Yamaha and John Danks, who operate the Home Hardware chain.

The building services business was impacted by the loss of the New South Wales public schools maintenance contract, which was not renewed during the re-bidding process. The results for the year only include the three months to June 2005 from this contract. Results were further impacted by a tapering out of the Sydney property market which slowed demand for unit refurbishments in the retirement industry. Consequently, overall results were below expectations for the year.

However, the business has more recently secured several new contracts based on multi-trade and multi-solution offerings. One recent example of the benefit of our multi-trade skill base is a contract to provide maintenance services to more than 60 Myer stores throughout Australia. This three-year contract was renewed and expanded in May 2006 requiring over 80 specialist painting, carpentry, plumbing, and electrical tradespeople. We have also secured new compliance auditing and responsive maintenance contracts with Medibank Private, the Royal Australasian College of Surgeons and the Australian Electoral Commission. During the year we also completed a major contract of routine condition based maintenance and capital upgrade works for Country Energy in New South Wales. A new branch in Newcastle was profitable in its first year and the Queensland and South Australian branches performed particularly well.

The Grounds Management business continued its strong growth. Both revenue and earnings increased and the business won significant new contracts from the education, retirement and local government sectors. Major new contracts were secured with Coles Express, Macquarie Goodman, Vasey Housing New South Wales and Anglican Church Grammar School in Queensland.

In Victoria, where grounds management revenue is complemented by landscaping services, performance was particularly strong. Our decision to introduce landscaping services nationally is expected to contribute to further growth in 2006-7.

The South Australian grounds management branch performed well and the Queensland branch made a positive contribution in its first full year. The New South Wales business performed below expectations, however, improved operational resources and recent new contract wins will provide a strong foundation for improved performance.

The Infraserv business performed ahead of expectations, with strong organic growth across the existing contract base together with a recent contract win for Stanwell Power Station in Queensland. Infraserv provides government and industrial customers with a wide variety of facilities management and maintenance services. The contract at Stanwell Power Station includes the provision of a wide range of services such as catering, cleaning, grounds, building maintenance, plumbing, electrical, air conditioning, light earthmoving, waste removal, pest control, tool store management and calibration services.

Additional contracts secured during the year include the implementation of a new fire suppression system for One Steel at Whyalla, new contract extensions for Trans Perth, the Department of Education, Training and Justice in Western Australia and additional works for the Frankston City Council foreshore and Central Activities District development.

Infraserv has expanded its national business development capability and improved the depth and skill base of staff through leadership development and operational training at all levels. A new integrated Safety, Quality and Environmental management system achieved triple accreditation by City West Water, one of our major alliance partners.

The Tungsten business was acquired in October 2005 and made a minor contribution to second half earnings after absorbing integration costs and office rationalisation. Since acquisition, however, Tungsten has added new contracts with Sony, Macquarie Bank, Australian Submarine Corporation and Reuters (NZ), Asian Pacific Building Company and GE Money. In addition, Tungsten's reputation as a facilities adviser continues to gather momentum with recent appointments for government advisory panels including the Royal Children's Hospital and the Melbourne Markets Public Private Partnership. The Tungsten business has also managed to secure new key management staff who will be critical in driving new business opportunities.

## Industrial Services

Significant investment over the last 2 years in additional capital has provided Barry Bros. Specialised Services with the platform to produce an excellent result. Revenue rose by 35.2 per cent with high volume and greater utilisation of equipment while earnings grew 88.6 per cent. Investment into this business will continue this year and we would expect revenues to continue a pattern of growth.

Capital expenditure of more than $12 million in the past two years enabled Barry Bros. to add 20 units to its fleet and expand geographically to Adelaide and Rockhampton. In improving the fleet, we have focused on maximizing use of our wide range of equipment.

A further two water recycling plants were commissioned during the year in Adelaide and Melbourne. New contracts secured during the year included high pressure jetting during the Alcoa shutdown, closed circuit television sewer surveys for Sydney Water and non-destructive digging services for the Abi-Leighton consortium during construction of the M7 Ring Road in Sydney. Recently, a new contract was secured for Brisbane Airport Corporation which utilises a range of services including our new Envirovac sweeping unit, non-destructive digging, combination jetting and vacuuming and scheduled vacuuming of both airside and landside stormwater drains.

To increase efficiency and minimise risk, the Barry Bros. business upgraded its management systems, introduced structured training programmes for all employees and maintained a strong focus on safety. The 2006/07 financial year will see further expansion of this business regionally throughout Australia.

## New Zealand

Our New Zealand painting services business performed well, with all regions contributing to another year of double-digit growth in revenue and earnings. Since Programmed Maintenance Services was listed in 1999, the New Zealand business revenue has grown 12.3% per annum with annual earnings growth at 14.5%.

The business grew more rapidly in the second half and the order book indicates continuing growth. Significant new contracts were signed within the racing industry, and food processing and agriculture sectors. Major projects were completed during the year at Dunedin Railway Station, Ericsson Stadium and Lion Brewery and long term programmes in the education market continued to grow to over 550 education programmes throughout New Zealand. The total value of contract recoverables and work in progress grew 17 per cent in local currency.

Our Building Services business has continued to develop its refurbishment and maintenance services, specialising in the refurbishment of classrooms for schools. The Programmed Maintenance Services' model of financing the up-front refurbishment work with ongoing maintenance over the longer term is being recognised as a more attractive model than the traditional 'tender and walk away' approach.

## United Kingdom

Earnings in the United Kingdom grew by 56 per cent in the latest year. The most significant aspect of this performance was a steep increase in the number of long-term maintenance programmes, which contributed 25 per cent of total revenue, compared with 19 per cent in 2004-5.

The United Kingdom business, trading as Whittle Painting Group, is continuing to build momentum in the take up of long term programmes. Our programmes are unique in the market, with a high acceptance rate within our traditional education, commercial and health markets. A further 72 contracts were written during the year, bringing the total number of programmes to 300 with an overall value of $ 22 million.

Since Programmed Maintenance Services entered the United Kingdom market in 2001, property owners are now seeing the benefits of our long term programme model. As in New Zealand, programmes are particularly popular in the education sector which comprise some 60 per cent of all programmes written to date.

Although Whittle Painting Group contributes only eight per cent of Programmed Maintenance Services' total revenue, we expect this contribution to grow significantly. New branches were opened during the year in Slough (west of London) and Cambridge further expanding our geographic coverage. These lift the total number of branches to eight.

A new management information system has been invested into the business which is compatible with our Australian system. Improved management performance systems have also been implemented with a focus on improving OH&S practices, productivity and sales performance.

## Key Financial Measures

As part of our commitment to facilitate growth, borrowings were increased during the year for the acquisition of Tungsten and additional plant and equipment investments. Your Board is comfortable with the level of gearing with interest cover at over eight times earnings.

The growth in non-painting services had the effect of lowering average margins slightly. Our EBIT to revenue margin, however, remains well ahead of other listed services groups and it is our aim to keep this ratio above 10 per cent.

During the year ended 31 March 2006, contract recoverables and work in progress increased to $177m. Together with larger income tax payments in Australia, which reflect our increased profitability and higher interest charges, the net effect reduced operating cash flow by 50 per cent to $6.4 million. Total shareholders' equity grew to $126.0 million at 31 March 2006, from $118.5 million a year earlier.

## Current Year

The Group's trading results for the quarter ended 30 June 2006 have shown growth over the prior corresponding period.

We have entered the new financial year in an improved position in Australian property maintenance, with an increasing range of services and a larger customer base and we are confident of maintaining our rate of growth. The Australian painting business has seen greater demand, particularly in New South Wales, and margins have improved. The New Zealand business has continued to grow its revenue and earnings, notwithstanding the impact of the negative exchange rate movements over the past few months.

Over the past few years, the results of the PMS Group have shown greater seasonality, with the first half to September 30 now representing about 35% of annual total earnings. At this stage in the PMS financial year, it is too early to provide guidance on earnings for the full year.

Consistent with previous years, your directors expect to give guidance for profit for the year ending 31 March 2007 upon the release in late November of the results for the half year ending 30 September.

## Share Price

The company's share price at 31st March 2006 was $3.61. Since that time, the company's share price has shown a steady increase, with a record high of $4.41 being achieved in July. The company's share price at close of trading last Monday was $4.23.

Your directors believe that this lift in share price, and consequently a higher price/earnings ratio, shows the greater acceptance by the investment market of the company's strategic growth and earnings consistency. Retail investor interest has strengthened, with more than 4,200 investors now having a shareholding in the company.

The number of shareholders has grown by 14% over the past year, mainly through shareholders having individual holdings of between 1,000 and 10,000 shares.

## Dividends

For the first time since listing on the ASX in 1999 our dividends have been fully franked. Total dividends for the year were increased to 17 cents a share, fully franked, compared with 15 cents franked to 71 per cent the previous year.

Your directors will continue to aim for increasing dividends while retaining sufficient funds to facilitate our future growth. We expect that the company will be able to fully frank dividends over the next twelve months, and maintain a payout ratio of broadly 60% of after-tax profits.

## Conclusion

The outstanding performance of the past year is the result of the commitment of all our people in three countries. I would like to thank our Managing Director, the management team and all of our staff for the strong position we are in today and also thank our shareholders for their continuing support.

G.A. Tomlinson
Chairman