

**PROGRAMMED MAINTENANCE SERVICES LIMITED**

**CHAIRMAN'S ADDRESS  
TO THE ANNUAL GENERAL MEETING  
7 AUGUST 2002**

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

For the fourth successive year Programmed Maintenance Services increased its profit after tax, and before tax change benefit, by more than 10 per cent. Revenue increased for the seventh successive year, demonstrating the underlying strength of the company and its business model, and its ability to consistently grow across economic cycles.

Our profit after tax of \$12.5 million for the year to 31 March 2002 compares with \$12.8 million reported in 2000/1, but the latter figure included a one-off benefit of \$1.6 million resulting from the reduction in the company tax rate from 1 July 2001. This benefit was due to the deferred taxation on revenue from the company's long-term maintenance contracts. Before this tax change benefit, the 2000/1 profit was \$11.2 million and the 2001/2 profit represents an increase of 11.4 per cent. On a similar basis, earnings per share increased to 19.4 cents from 17.4 cents.

The company's contract recoverables increased by 12.2 per cent to \$116.9 million, reflecting the growth in our business. We will progressively recover these funds in the future under our long-term maintenance contracts.

The company had a positive cash flow of \$1.9 million, compared with negative \$1.2 million in 2000/1. Net consolidated debt increased from \$47.7 million to \$53.4 million, as additional working capital was required to fund the \$12.7 million growth in contract recoverables from long-term maintenance programmes. The amounts recoverable in these programmes are indexed and produce an excellent return on the funds employed. With interest cover of 6.7 times earnings before interest and tax, the company remains well placed to service its current debt.

Our painting businesses in Australia, New Zealand and the United Kingdom all performed strongly during the year, increasing market share. The Australian Painting Division increased its revenue by 6 per cent and contributed 74 per cent of the company's Australian revenue. Overall margins were steady and costs remained under control.

We increased revenue and earnings significantly in Queensland, South Australia and New South Wales. We achieved an improvement in performance in Victoria and Tasmania. Results in Western Australia continued to be affected by weakness in the mining and resource industries. Growth was particularly strong in the education, tourism and government sectors and there was an increased demand from property and facility managers. Our country and regional areas experienced a higher growth rate, and a new branch was opened in Lismore. We also extended our market penetration into the one-off commercial repaint market, and continued to supply corporate signage to an increasing number of national customers' sites.

The proportion of quotes converted into sales grew by more than 10 per cent, and new major contracts were written in the winery, food, government and entertainment markets. Customer feedback surveys have shown increasing appreciation of our operating procedures, our commitment to quality and our high safety standards. These factors contribute towards our competitive advantage and our consistently high rate of programme renewals.

Some of the significant contracts written or renewed during the year included projects for the Stockland Trust group, South Australia Brewing, Transfield Defence, Uniting Church Homes and the Sydney Showgrounds at Homebush.

Our New Zealand painting business improved its margins significantly and increased its earnings before interest and tax by 25 per cent to A\$6.5 million. Revenue was 8 per cent higher at A\$20.4 million, with strong growth in the South Island and the central region of the North Island.

Major new contract wins included national reimaging in the banking and telecommunications sectors and growth in new long-term programmes in the food, wine, entertainment, healthcare and power generation industries. The expansion of our customer base continued to reduce our dependence on the education sector, where we already have a high market share.

In the first full year since its acquisition, Whittle Painting Group achieved revenue of A\$16.4 million and earnings before interest and tax of A\$0.6 million, compared with revenue of A\$13.2 million and earnings of A\$0.4 million for the nine months to 31 March 2001. Whittle's traditional one-off painting business, which currently accounts for 95 per cent of revenue, was affected by a significant drop in orders following the terrorist attacks on September 11. This has affected Whittle's first quarter results, however, we now have a full order book and we would expect achievement of targeted profit levels for the balance of the year.

We acquired Whittle as a platform for the introduction of our painting programmes into the UK, and it is already evident that there is a significant market for them at margins similar to those achieved in Australia. To date 45 programmes have been sold, with a total contract value of A\$3.6 million, to a wide range of customers including schools, hospitals, racecourses, and shopping centres. The market for our services in the United Kingdom is similar in profile to our core markets in Australia and New Zealand.

We have recently opened small satellite branches in Cambridge and Newcastle, and are currently evaluating a Glasgow branch. We are continuing to develop our resources and facilities to support the future growth of the business in the United Kingdom.

We are continuing to develop our grounds, building and industrial services businesses.

The grounds division, which is already one of Australia's largest grounds management businesses, continued to expand its operations with a 36 per cent increase in revenue. Earnings, however, were significantly lower due to structural problems in New South Wales, which have now been resolved.

The division performed strongly in Victoria, where we won several new contracts including a national contract for a major oil company, and in South Australia, where the Adelaide University contract progressed successfully in its first year.

The division commenced operations in WA during the year. The business was established so that we could provide grounds management services to two of our major existing painting division customers in the aged care and education sectors. This branch is already operating profitably. This is an excellent example of the opportunities which exist within in our company to cross-sell integrated services to our customer base.

The building services division maintained its revenue and earnings. Two significant contracts were renewed during the year and we now manage maintenance work on 25,000 properties in New South Wales, Queensland, Victoria and South Australia. Strong growth is expected as more businesses and institutions outsource their building maintenance and compliance requirements. We have also developed a packaged service concept which will help us take advantage of opportunities to cross-sell to customers of other divisions.

The performance of our industrial services business, which trades as Barry Bros. Specialised Services, was disappointing. Overall revenue was flat at \$14.8 million and earnings before interest and tax were \$0.3 million, compared with \$0.8 million the previous year.

The market for non-destructive digging continues to grow as councils and infrastructure companies appreciate its value in locating and minimising the risk of damage to underground services. We now have four units operating in Victoria and New South Wales.

The difficult market conditions during the year have led to consolidation in the sewerage and drain maintenance industry and the company is considering options to maximise value from this business. It is pleasing to note that in the first quarter there has been a significant turnaround in the earnings of the Industrial Services business.

For the first time, the company now has a fully integrated information technology system which provides access to key marketing, operational and management data throughout our branch network. Its implementation incurred some operational delays and additional one-off costs however the system is a valuable investment which is already having a positive impact on productivity and will underpin future growth. Further modules will improve the accuracy, and reduce the cost of estimates through hand-held devices used on-site, give us reports on achievement of key performance indicators, and enable online interfaces with suppliers and customers.

We introduced a number of new training programmes, ranging from skills development to customer relations, and these have led to a measurable improvement in the quality of our service. A new sales management programme, linked with the information technology system, has improved customer sourcing, account management and retention in the Australian painting division. This programme was introduced into the New Zealand business in the new financial year. A performance management system, implemented during the year, has resulted in greater accountability throughout the company and improved financial results.

We are committed to our apprenticeship programme, and we currently employ 80 apprentices throughout the business. We were particularly proud when one of our apprentices was chosen to represent Australia at the Worldwide Skill Olympics in Seoul in September. Our graduate training programme has also been expanded, and the strong company focus on training enables us to fill internal management appointments as the company grows.

An unfranked final dividend of 4 cents per share was paid on 25 July, bringing total

dividends for the year to 8 cents. Our ability to pay franked dividends was less than projected in my report last year, being limited by the deferred component of our revenue from long-term programmes and the increasing proportion of our earnings coming from overseas. With the expected growth in revenue from long-term programmes, it is likely that the company will be unable to pay franked dividends in the next twelve months.

We were delighted with the high participation in our recently introduced dividend reinvestment plan (DRP). The 66% take-up of the shares available under the plan is significantly higher than we had expected and reflects the strength of the company's business model and our continuing earnings growth across economic cycles. The introduction of an underwritten dividend reinvestment plan has enabled us to retain \$2.58 million in cash which otherwise would have been distributed as dividends. It has also increased the potential liquidity in our stock.

Your directors have considered a proposal to fund the company's continuing growth through securitising our contract recoverables. After detailed examination, the Board concluded this would not be in the best interests of shareholders as the higher cost of funds, increased administration expenses and limitations on operational flexibility, would outweigh the cash flow and dividend franking benefits. We will continue to review alternative funding methods to facilitate our future growth.

We have recently received notice of proceedings in the Industrial Relations Commission, brought by the Workcover Authority of New South Wales in relation to the fatality at Cessnock in May 2001. We are still awaiting the outcome of any coronial inquiry, and the company will defend vigorously any legal challenges that may arise.

We are determined to provide our employees with a safe working environment, and over the past year, have further reinforced our occupational health and safety procedures and increased our training efforts. The OH&S procedures, together with our environmental and quality practices, provide us with a competitive advantage in the marketplace.

The Group's revenue in April and May 2002 was affected by adverse weather conditions in New Zealand, the continuing impact of the September 11 terrorist attack on orders in the United Kingdom and general uncertainty in the Australian market. Sales and works projections throughout all divisions have, however, picked up strongly since then and we would expect recent years' growth rate to continue for the full 2002/3 year.

We are delighted that during the year to 31 March, the company's share price rose from \$1.73 to \$2.33, an increase of 35 per cent. The recent decline in the share price is due to the overall decline in investment markets, however in the month of July our shares have performed better than the index for our sector and the All Ordinaries index. Currently, the majority of analysts following our stock rate our company as a "buy" with valuations ranging from \$2.50 to \$2.80 per share.

In conclusion, I would like to thank our managing director, Max Findlay and all members of our team for their contribution to another successful year.