

Tuesday, 14 August 2001



**PROGRAMMED  
MAINTENANCE  
SERVICES  
LIMITED**

## **CHAIRMAN'S ADDRESS TO THE ANNUAL GENERAL MEETING**

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

This year we celebrate fifty years in business, since our founder, Norman Miles commenced work as a painting contractor in 1951. A brief history of the business is shown on the back of our recent Milestones newsletter which each of you now have. Despite the many economic cycles over the last 50 years, it is testimony to the resilience of the business, the loyalty of its customers and the dedication of its people that the company has continued to grow and prosper over that time.

I am, therefore, particularly pleased to report that in our fiftieth year of business operations Programmed Maintenance Services has achieved record profit of \$ 11.2 million for the year ending 31 March 2001. This represents an increase of 11 per cent over the previous year. Group revenue, which includes the UK business acquired in July 2000, increased by 20 per cent to \$ 146.1 million. The group's contract receivables increased by 15.7 per cent to \$104 million. We can count on receiving this revenue in future years under our existing contracts, but our high proportion of receivables means that we need to be prudent in managing our cash flow and dividend policy. New maintenance contracts written in the painting division were up 15 % over the prior year to \$ 91 million.

This included major contracts written with such customers as Paperlinx, Incitec, Visy Industries, Lockwood, Ford Australia, Swan Cottage Homes, Stockland Trust, Lend Lease and CSR Limited, to name just a few. In addition, we now maintain over 800 educational facilities in Australia and New Zealand across a range of primary, secondary and tertiary institutions. We are also one of the largest providers of maintenance services to the health and aged care industries with over 140 facilities under long term maintenance.

Your directors declared a final dividend of 4 cents per share, which was paid on 25 July. This has brought total dividends for the year ended 31 March to 9 cents per share. This takes into account the requirements of our shareholders, funding for future growth and the availability of franking credits. The company's ability to pay franked dividends is limited by the deferred component of our revenue, due to our long-term programs and the overseas proportion of our earnings. Therefore, the final dividend was franked to 66 per cent. We expect to maintain the current level of franking next year, and the board is developing a dividend strategy to best accommodate the interests of both the company and its shareholders. This dividend strategy will be announced before the end of the financial year.

Your directors are committed to a growth strategy and we have pursued this through three major areas of focus:

- Organic growth of our core maintenance painting business in both Australia and New Zealand
- Geographic expansion into new markets such as the UK, and
- Continuing development of our smaller business units such as Grounds, Building Services and Industrial Services

The maintenance painting business in Australia continues to have a strong order book, despite the cyclical downturn in the commercial construction sector as we are not directly exposed to that industry. Our long-term contracts provide some insulation to workflow volatility and increasing costs through the indexation of future revenue. We remain in a strong market share position in an industry where there are continuing outsourcing opportunities in both Australia and New Zealand.

It is clear that our core business model of long term maintenance painting programmes has stood the test of time and remains an innovative means for building owners to maintain their property over a long time frame, which better reflects the economic life of a building or structure. To the best of our knowledge, our system is unique in the world and will continue to provide a platform for future growth in both our core maintenance painting programmes and growth in our other services of grounds maintenance, building and industrial services.

Our business in the United Kingdom continues to perform in line with expectations, having come through a difficult winter period last year. In addition to the existing Whittle business, which currently

employs over 200 people, I am pleased to announce that, to date, we have won eleven new long-term maintenance programmes. These include contracts in our traditional markets of education, commerce, leisure and entertainment. Our long-term maintenance painting programmes represent a unique service in the UK market and it is pleasing to note that customer reactions to date have been very positive. We are committed to grow the business further with the establishment of new branches, additional staff and training in our unique product offering.

Our industrial services business is continuing to perform well, with an 83 % increase in earnings from a 2% increase in revenue. The business has substantially improved with a greater focus on planned rather than reactive maintenance, better equipment utilization, new maintenance contracts and an encouraging outlook for our new non-destructive digging technology. As a result of the wide acceptance by telecommunications and utility customers, a second unit has been ordered and will be located within our NSW operation. Demand for industrial vacuuming continues to exceed supply and we are developing plans to increase our capacity in this area.

We have also consolidated our Building and Engineering Services business into the one Building Services division. The division currently operates across three states with contracts, which include infrastructure maintenance for 51 public schools in the Mt Druitt Region of Sydney, 23,000 houses for the South Australian government and 1,400 houses for the NSW government. In addition, the division has also secured contracts for the auditing and maintenance of properties for a number of institutional and commercial customers. We plan to grow the business throughout Australia and into New Zealand. Last year the combined building services revenue was \$ 14 million a 15 % increase over the previous year. We plan to capitalize on future growth opportunities as the market continues to embrace outsourcing of non-core services.

Our Grounds Management Division is continuing to develop with new major contracts written for the period totaling over \$ 3 million including new contracts with Adelaide University and the City of Charles Sturt in South Australia and Parks Victoria and Paperlinx Limited in Victoria. To date, we have consolidated this business in Victoria, New South Wales and South Australia and we are already one of the largest grounds maintenance businesses in Australia employing over 150 staff and grounds people. This year, we are planning to expand this business into the Western Australian market.

Your directors are taking a long-term view of the structure, systems and processes, which is needed to ensure a profitable growth strategy. Therefore, we are not resting on our laurels and are investing in the future of the business and all of our people are working hard to tackle the many challenges ahead. For example, we are in the process of implementing a new IT system, which will provide us with better and more timely management reporting and forecasting.

We are also implementing a new customer knowledge database system designed to link customers between all of our divisions and enhance our ability to service our customers over a wider geographic base. This will also improve the effectiveness of our large sales force in targeting those market segments, which will provide us with the greatest opportunities. Once fully implemented, this will enable us to take the business to the next level of growth.

Your directors understand the value of our people in being able to provide quality services to our customers and in the importance of a safe and injury-free workplace. We are, therefore, re-focusing the attention of our entire workforce and management team towards the implementation of a revised Occupational Health and Safety and Environmental Management System throughout the business. We also remain totally committed to the training and development of our people and now have 80 apprentices in training with additional skills-based training underway for all trade staff and professional development programs for senior management. This includes such training as Frontline Management, skills-based training and sales process development. We are also continuing our graduate recruitment program with plans to take on additional graduates and have recently awarded a cadetship to a second Doxa Youth Foundation cadet.

I note that some analysts have expressed concern about our working capital requirements, however, it is important to note that growth in long-term maintenance programs is an investment that generates future revenue and profit growth for the group. This funding requirement is offset by the growth in our more conventional businesses of Grounds Management, Industrial Services and Building Services, which now contribute 18 % to group revenue and produce a strong positive cash flow.

Ladies and gentlemen, this was Programmed Maintenance Services' first full year of trading since our shares were listed on the Australian Stock Exchange. Since listing in October 1999, your company has exceeded prospectus forecasts and shown continuing growth in revenue and profit. I believe we

have demonstrated to shareholders that our business model and strategy provide a sound platform for ongoing profitable growth. I am pleased to note the improvement in our share price, which peaked at \$ 2.30 per share on 28 June 2001 and, over the last few months, has steadied above our listing price of \$ 2.00 per share. The potential for growth in our business and enhancement of future shareholder value remains positive and I note a number of analysts have valuations in excess of our current trading price.

In our painting divisions, our sales and works projections are strong in Australia and the United Kingdom, however we are still experiencing some difficulties in the Auckland market in New Zealand due to local economic conditions. The operating results for the first quarter of the current financial year were in line with the Board's expectations, and reflect continuing growth over the previous year. 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.

Geoff Tomlinson  
Chairman  
Programmed Maintenance Services Limited

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