

Servcorp Limited

ABN 97 089 222 506

CHAIRMAN'S ADDRESS 2011 ANNUAL GENERAL MEETING

Ladies and Gentlemen,

Before turning to the formal business of the meeting, I propose making a few comments.

2011 was Servcorp's biggest expansion year in its history. Given the challenging trading conditions in world markets and the hurdles faced as a result of natural disasters in both Japan and Australia, we are satisfied with the overall result.

Revenue for the year was \$182.06 million, an increase of 8% on 2010. This was despite the effect the strong Australian dollar had on overseas revenue which accounts for 70% of the Company's total revenue. Our mature floors contributed \$31.19 million profit before tax, an increase of 24% on 2010, and ahead of guidance. Due to our rapid expansion initiatives, immature floor losses were \$27.98 million, better than our February 2011 guidance but greater than our original forecast. As a result, net profit after tax increased marginally on 2010, to \$2.49 million.

Servcorp continues to enjoy significant financial strength. During the 2011 financial year the business generated strong net operating cash flows of \$18.79 million, up 114% on 2010. Cash balances at 30 June 2011 were \$99.99 million, with \$91.27 million unencumbered, and the Company had negligible debt. Current unencumbered cash balances remain strong at \$94.2 million.

The Company paid a fully franked final dividend of 5.0 cents per share, bringing total dividends for the year to 10.0 cents per share, a payout of approximately \$9.8 million. All these dividends were fully franked.


I now turn to our global expansion.

As I mentioned earlier, the 2011 financial year has been Servcorp's biggest expansion year in its history, with 40 floors opening in 29 cities across 12 countries.

The major expansion across multiple regions has been challenging. This year we have opened floors in Beirut, Istanbul, Riyadh, Al Khobar-Damman, Dubai, London, Brussels, Yokohama, Osaka, Fukuoka, Manila, Singapore, Auckland, Sydney, Melbourne, Hobart and Brisbane.

Our major focus was in the USA, where 19 floors were opened in Atlanta, Washington DC, New York, Boston, Houston, Dallas, Philadelphia, Miami, Los Angeles, San Francisco and Irvine.

There are now 21 floors open in 13 cities across the USA giving Servcorp the necessary critical mass upon which to build a sustainable business.



We continue to have confidence in the Servcorp business model and are satisfied with the overall progress of new floor rollouts. Floor construction costs and monthly operating expenses for new floors are in line with budget expectations. We believe we have executed the majority of our new leases at or near the bottom of the market which should ensure that Servcorp will be competitive and increase its profits if and when global business confidence recovers.

Current strategy is to slow the pace of expansion in the 2012 financial year and consolidate operations in new and existing markets. New openings, beyond those already committed, are being limited to floors in established locations where expansion is expected to be expeditiously profitable.

We expect to commit to no more than 15 floors in the 2012 financial year. At this point we have committed to 6. Two new floors have already opened in Shanghai and Guangzhou. New floors in Doha and Brisbane will open this month, with floors in Perth and Bangkok expected to open in January.

This will bring the total floor openings to 68 in the 36 months to June 2012.

Alf will take you through the detail of our global expansion in his address.

This takes me to the outlook for the 2012 financial year.

When we released our 2011 results we forecast that mature floor net profit before tax for the 2012 financial year would increase by almost 19 per cent on 2011 to approximately \$37 million. Forecast immature floor losses should be approximately \$20 million for the 2012 financial year – an improvement of some \$8 million on 2011.

Notwithstanding the current extreme uncertainty in global markets, based on trading to date, we confirm this guidance.

These forecasts assume constant currencies and no substantial deterioration in global financial markets or other unforeseen circumstances.

I now turn to dividends.

Evidencing our confidence in the future of the business, notwithstanding short term earnings challenges, shareholders can expect to receive partially franked dividends totalling 15.0 cents per share in respect of the 2012 financial year (subject always to unforeseen circumstances). At this stage, we expect these dividends to be franked to at least 50%. We will have greater clarity on the percentage as the year progresses.

Finally, I wish to comment on changes to your Board. This year has seen the first change to the Board's membership since November 2004.

The Hon. Mark Vaile was appointed as a non-executive director in June.

Mark had a distinguished career as a Federal Parliamentarian, holding several key Ministerial Portfolios and serving as Deputy Prime Minister from July 2005 to December 2007. During his political career, Mark focussed on global trade. We were fortunate to have his support and advice during our significant expansion period, particularly in the key Middle East region. Mark brings a new dimension of experience and a valuable perspective to the Board. We welcome him to the team.

With considerable disappointment, we farewell Julia King. Julia has announced her intention to retire from the Board at the conclusion of today's meeting. Julia has been a director of the Company since its incorporation in 1999. Her experience in the public company arena and in strategic marketing has been invaluable. Her involvement in training our young management teams has been especially important.

Julia, we thank you for your untiring efforts. You will be missed.

In October we announced that, after 15 years of service, Taine Moufarrige would resign from his operational role at the Company, effective 31 December 2011. Taine has decided that he wants to try something different and especially wishes to spend more time with his young family. We are delighted that Taine is not ending his association with Servcorp. The Board has encouraged Taine to stay on as a non-executive Director and, in this role, he will remain a strong ambassador for Servcorp. With his deep knowledge of the Company, we are confident he will continue to play an important role in our future.

We thank Taine for his outstanding service and invaluable contribution to the development and growth of the organisation over the past 15 years. Taine is proud that he finishes his executive role leaving a strong management team in place.

Reporting to our CEO, Alf Moufarrige, our leadership group is the strongest and most experienced in the Company's history. Members of the leadership group are Marcus Moufarrige, our Sales Director and Chief Information Officer, with 16 years of service and Tom Wallace, our Chief Financial Officer, with 10 years of service. They are supported by a group of outstanding General Managers - Susie Martin in Asia, Laudy Lahdo in the Middle East, Olga Vlietstra in Japan, Liane Gorman in Australia and Jennifer Goodwyn in the USA, who have an average senior management experience with Servcorp of over 15 years. It is these General Managers who lead the Company's operations on a day-to-day basis. We believe they have no peers in our industry.

Importantly, Alf continues to be totally committed to the Company in his role as CEO.

That concludes my address. On behalf of the Board I thank our CEO, Alf Moufarrige, our leadership group and all the Servcorp team members for their dedication and commitment during the past year. Servcorp's record expansion over the past couple of years put great demands on their time and energy. Due to their efforts we continue to maintain our position as the world's leading provider of serviced and virtual office solutions.