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Skilled Group Limited
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SKILLED Group Limited (ASX: SKE) today reported NPAT of $39.3 million for the year ending June 2008, up 32 percent from the previous year. Underlying NPAT was $42.3 million up 30 percent and EBITDA was $94.1 million up 35 percent, within your earnings guidance. Acquisitions in 2008 contributed total EBITDA of $27.8 million, implying an existing business contribution of $66.3 million, down 4 percent. What was the reason behind the fall in the existing business contribution?

CEO & MD Greg Hargrave
EBITDA from our operating businesses, excluding the acquired businesses and before allocation of corporate costs, actually increased over the previous year driven by the overall 14 percent organic revenue growth we achieved. The contribution from acquisitions of $27.8 million is before any allocation of corporate costs or the costs of acquisition integration.

In order to underpin the strong overall revenue and earnings growth we've achieved and to ensure our future growth prospects, we've invested strongly in our corporate infrastructure over the past couple of years. This includes areas such as our new shared services environment and IT infrastructure and systems, our business processes, and our management team. These investments will deliver operational efficiencies and support earnings growth for all our businesses, including those recently acquired.

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You expect EBITDA of $100 million to $110 million in the current year ending June 2009, compared to $94.1 million in 2007. What are the expected drivers of the growth?

CEO & MD Greg Hargrave
We're confident about the underlying strength of our businesses and our strong market position in the sectors in which we operate, including our more than 40 percent revenue exposure to the mining and resources, oil and gas and infrastructure sectors. We remain confident that we're very well placed to continue with our history of strong revenue and earnings growth in the future.

In 2009, we'll benefit from growth resulting from the full year contribution of acquisitions we made during 2008 and expected continued growth across the rest of the portfolio. Nevertheless, we're also very aware of the current uncertainty in the outlook for the Australian and global economies and we're therefore being conservative in our outlook for the year ahead.

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Revenue for Workforce and Maintenance Services was $1.3 billion up from $1.1 billion in the previous year. EBITDA was $55.7 million up from $53.5 million and EBITDA margin was 4.4 percent, down from 4.8 percent. Why was the EBITDA margin lower and what is the outlook for margins in the current year?

CEO & MD Greg Hargrave
Overall revenue growth in the Workforce and Maintenance Services segment was 14 percent and organic revenue growth was a solid 12 percent which was pleasing. The EBITDA margin at the business unit level was consistent year on year. The decrease from 4.8 to 4.4 percent reflects the EBITDA margin after the allocation of corporate costs. The corporate costs reflect the implementation costs of our new shared services environment and back office IT platform that will lead to operational efficiencies and improved level of service to clients and employees during FY09 and beyond.

In the year ahead, we'd expect to be able to achieve some improvement in the margin as the benefits of our shared services infrastructure begin to flow in to the second half FY09 results. However, we're conscious of the uncertain economic environment and believe it prudent to be conservative in our predictions at this early stage of the financial year.

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You've indicated that the performance of Workforce and Maintenance Services was impacted by the inclement weather in the Hunter Valley and north Queensland, changes to s.457 visa migration regulations and the Varanus Island gas plant explosion. Will these events have an impact on the performance of this segment in the current year?

CEO & MD Greg Hargrave
We'd certainly view the Varanus Island gas plant explosion in Western Australia in June as being a once-off event, hopefully never to be repeated. However, it did

impact demand from some clients in Western Australia into the first weeks of the new financial year.

In regard to the inclement weather that impacted our operations in the Hunter Valley and north Queensland, we realise that from time to time such instances occur. However our view is that the severe weather conditions experienced in 2008 were unusual in terms of their severity and impact and we wouldn't expect them to be repeated in a normal year.

We're continuing to work with the Federal Government and its advisors to reach an acceptable arrangement that will allow us to resume operating under the s.457 visa program.

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Offshore Marine Services' (OMS) EBITDA contribution was $25.5 million to the Other Brands segment. This means that the other companies in the Other Brands segment contributed $12.9 million, down from $15.9 million. What was the reason for the fall and how resilient is the Other Brands segment with respect to a slowdown in the economy?

CEO & MD Greg Hargrave
The EBITDA contribution from operations from all the businesses in this segment, before the allocation of corporate costs, increased compared with the previous year. This was driven by the strong organic revenue growth of 26 percent. The only exception was the performance of SEM Fire & Rescue, which was divested at the end of April, the contribution of which was approximately $2 million lower than in 2007.

Whilst we cannot be definitive about the impact of an economic slowdown on the businesses within this segment, we take comfort from the knowledge that around 70 percent of its revenue is derived from OMS, Swan Contract Personnel and Origin Healthcare. We believe that any impact from a slowdown would probably have a much lesser impact on these businesses due to their exposure to the oil and gas, mining and resources and healthcare sectors. In addition, the majority of the operating cost structure is variable in nature and can be adjusted to changes in economic circumstances.

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Cash flow from operations was $14.7 million in 2008. Given cash outflow of $33.3 million in the first half, this implies cash inflow of $48 million in the second half. What factors contributed to the positive operating cash flow in the second half?

CFO Terry Janes
The cash outflow from operations in the first half was influenced by four factors. Firstly there was a seasonal influence as usually in December our receivables are higher and our payables are lower than at 30 June.

Secondly, we invested approximately $17 million in additional working capital in the OMS business reflecting the strong sales growth achieved in the months postacquisition plus some impact of the longer payment terms applicable to OMS's multinational oil and gas industry clients compared to SKILLED's traditional clients.

Thirdly, the acquisitions of Hudson Trade & Industrial and Tradeforce NZ were structured as asset purchases not share purchases. Thus we did not acquire a balance sheet with working capital. We had to fund some $5 million of initial working capital for these businesses.

Fourthly, tax payments in the first half were higher than normal due to balancing or "catch up" payments on previous years' incomes. These balancing payments amounted to around $8.5 million. In addition $3.5 million of pre-acquisition tax liabilities for OMS were paid for which provision had been made in the acquired OMS balance sheet.

As expected, in the second half we have seen a substantial turnaround in the cash flow from operations. As well as the impact of the higher EBITDA, the working capital movement was $4.6 million positive despite the higher sales in the second half. The tax payments were also $12 million lower than in the first half.

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Net debt was $244.9 million up 44 percent from a year earlier. What are your expectations for the trends in the net debt levels throughout FY09?

CFO Terry Janes
Our net debt levels will increase to around $320 million over the next couple of months as we make the earn-out payments on the Swan and OMS Australia and New Zealand businesses.

We then expect net debt levels to decrease in the six months to 30 June 2009 due to the strength of the operational cash flows and improved seasonal impacts on working capital balances.

We would expect year end net debt levels to be around $280 million to $300 million.

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You've announced a fully franked final dividend of 14 cents per share, bringing the full year dividend to 23 cents. What is the outlook for dividends in the current year?

CEO & MD Greg Hargrave
Our recent dividend payout ratios have been in the range of 70 to 80 percent and we wouldn't expect any material change to this.

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You've indicated that SKILLED's revenue exposure to the infrastructure, oil and gas and mining and resources sector was about 44 percent. What is the outlook on the exposure of this part of your business?

CEO & MD Greg Hargrave
We believe the mining and resources and oil and gas sectors will remain relatively strong for the foreseeable future. The resource projects being undertaken are long term in nature and the demand for skilled labour continues to exceed supply. In our OMS business we have seen the recent introduction of new exploration and production companies coming into Australia from overseas creating new manning and chartering opportunities.

We remain very comfortable with our exposure to these sectors.

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Thank you Greg and Terry.

For more information about SKILLED, visit www.skilled.com.au or call Annabel Urquhart, Group Manager Corporate Affairs, on (03) 8646 6417 or 0458 394 213.

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