

26 August 2010

Full Year Results for the year ending 30 June 2010

Financial Summary

- Earnings within market guidance given in April 2010
 - Reported EBITDA of \$62.1 million down 28% and reported NPAT of \$12.7 million down 55%
 - Underlying EBITDA of \$69.1 million down 22% and underlying NPAT of \$19.2 million down 44%
- Revenue of \$1.7 billion down 13%
- Operating cashflow of \$29.1 million
- Reported earnings per share of 7.3 cents
- Net debt reduced to \$184.4 million from \$258.7 million
- No final dividend declared

Operational Summary

- Results impacted by a slower than expected recovery of the labour hire market
- Lower contribution from Offshore Marine Services, Excelior, ATIVO and Origin Healthcare
- Key executive appointments following the restructure of the Group into four operating units
- Continued focus on cost management
- Successful completion of the IT back office systems rollout
- Continued improvement in safety performance with the LTIFR falling to 1.02 compared to 2.2 at June 2009

Strategic Review

- In April 2010, the Board initiated a strategic review of the Group's business portfolio, performance and prospects
- The review has been completed and has confirmed that the fundamental elements of the businesses are strong but the debt level for the Group is high given the Group's financial profile and operating requirements
- The Board has determined that the sale of Swan Contract Personnel ("Swan") will be pursued to enable the Company to reduce its debt to an appropriate level

Outlook

- Indications are that the economy is recovering with steady signs of improvement and recovery across the Group in the last two months of the year with the trend continuing into the new financial year
- Strong leverage to a return to increased staffing services demand
 - Cost base at a sustainable level to flow through to improved margins
 - Substantial debt reduction resulting in a stronger balance sheet
- SKILLED remains well positioned in all its sectors

Financial Performance

SKILLED Group Limited (“SKILLED”) (ASX: SKE) today announced reported NPAT of \$12.7 million (2009: \$28.3 million) and reported EBITDA of \$62.1 million (2009: \$86.1 million) for the financial year ending 30 June 2010.

Underlying NPAT was \$19.2 million (2009: \$34.2 million) with underlying EBITDA at \$69.1 million (2009: \$88.7 million). The results were impacted by the slower rate of improvement in the staffing businesses after the normal seasonal slowdown in early 2010 and underperformance in Offshore Marine Services, ATIVO, Excelior and Origin Healthcare.

A summary of the underlying results is as follows:

	FY10	FY09
Reported EBITDA	62.1	86.1
Restructuring and Branch closure costs	5.3	5.0
Goodwill impairment	1.7	
Adjustment to Executive option expense		(2.4)
Underlying EBITDA	69.1	88.7
Reported Profit After Tax	12.7	28.3
After tax EBITDA adjustments	5.3	1.1
Notional interest on earn-out liabilities	2.3	3.8
Amortisation of intangibles	2.1	3.0
R&D tax concession	(1.5)	(2.0)
Impact of tax consolidation adjustments	(1.7)	
Underlying Net Profit After Tax	19.2	34.2

Revenue was \$1.7 billion, down 13% as a result of the slower than expected recovery across most of the Group’s businesses following the global financial crisis.

Total depreciation and amortisation was marginally higher at \$21.8 million, including \$10.7 million in depreciation of fixed assets and \$11.1 million in amortisation of software licences, databases and other acquired intangibles.

Total net interest expense was \$26.5 million, comprising net interest expense on debt of \$24.2 million and notional interest on earn-out liabilities of \$2.3 million.

Net debt has fallen substantially to \$184.4 million down from \$258.7 million at the end of last financial year, following the completion of the capital raising in September 2009. SKILLED Group’s gearing expressed as net debt to net debt plus equity is now 35%, down from 53%.

The final rollout of the back office IT system has been completed delivering a scalable platform to progressively enhance back office productivity across the Group over the next few years.

Commenting on the performance Greg Hargrave, Managing Director and Chief Executive Officer, said:

“The global financial crisis continued to have an impact on our business with a slower than expected rate of improvement following the seasonal slowdown in January 2010. The performance of the different businesses was impacted by the individual economic and commercial factors affecting those businesses and the patchy nature of the economic recovery.

“Offshore Marine Services was impacted by lower sales and margins in the manning business and lower utilisation and higher maintenance costs in the vessel business. This was offset by a strong first year contribution from the OMSA joint venture associated with the Gorgon project. We believe that the next six months will continue to be flat but will grow rapidly with the increased activity expected in the oil and gas sector.

“The ATIVO business experienced a sharp decline in the first half due to clients postponing maintenance shutdowns and reducing capital expenditure; however we have seen an increase in activity over the last few months as clients resumed their maintenance and capital expenditure programs.

“We continue to strengthen the management team with key executive appointments. Damian Johnson, John Kempe and Mark Jansen have been appointed as the Chief Executive Officer of Staffing Services, Offshore Marine Services and ATIVO respectively.

“We have continued to be prudent with our costs and remain focused on lifting operating margins as the business rebuilds its revenue base.

“It is pleasing to note that whilst there was a reduction in the revenue and the underlying result this year, we don’t believe that we have lost any market share in any of our key segments. We are beginning to see significantly better activity levels across the Group and we believe that this trend will continue.”

Strategic Review

On 29 April 2010 SKILLED Group announced that it would undertake a strategic review of its business portfolio, performance and prospects and engaged Goldman Sachs to lead the review.

The strategic review assessed a range of business portfolio and capital structure options for SKILLED Group, in the context of the impact of the Global Financial Crisis (GFC) on the Group’s financial profile and its objectives to improve performance and grow the business.

The review confirmed the fundamental elements of SKILLED’s businesses are strong but that the debt level for the Group, around 3x EBITDA (based on 2010 results), is high given SKILLED’s financial profile and operating requirements.

The Board believes that the Group’s debt level should be around 2x EBITDA. The Board has decided to divest Swan Contract Personnel (“Swan”) with the sale proceeds to be applied to the Group’s debt. The sale proceeds are expected to exceed the Group’s debt reduction target. SKILLED Group’s syndicated bank debt facility has a maturity date of August 2012 and a current limit of \$230 million.

Swan was acquired by SKILLED Group in January 2007 and is a specialist provider of professional contract personnel to the resources industry. Swan is a well established business with a strong brand name and reputation. In 2010 Swan generated sales of approximately \$170 million and EBITDA of \$8.5 million.

Commenting on the decision to pursue the sale of Swan SKILLED Group Managing Director & Chief Executive Officer, Mr Greg Hargrave, said “Swan is an excellent business and has been a valuable contributor to SKILLED Group. While its specialist focus on white collar professionals is complementary to SKILLED’s other core businesses, as a result of its distinct brand and operating characteristics it has been run independently within SKILLED since its acquisition in 2007.”

Mr Hargrave added “The sale will substantially strengthen SKILLED Group’s balance sheet and place the company in a strong position for its next phase of growth.”

Chief Executive Officer Update and Board Renewal

Commenting on the progress on the search for the new CEO, SKILLED Group Chairman, Mr Ken Loughnan, said:

“We are extremely pleased with the strong level of interest and calibre of candidates. The process is well advanced and we hope to confirm the appointment shortly.

“As part of the Board’s ongoing commitment to move to a more independent Board, we are also conducting a professional search for two independent non executive directors. We will provide an update on the appointments at the Annual General Meeting in October.”

Final Dividend

The Board has decided not to declare a final dividend. SKILLED Group continues to maintain a focus on conserving cash and reducing debt whilst profitability returns to more acceptable levels.

Operational Overview

Workforce Services:

Provision of blue-collar labour hire in the industrial, mining and resources sectors. Brands include SKILLED, TESA, Extraman and Longhill Group.

		2H FY10	1H FY10	2H FY09	1H FY09
Revenue	\$M	426.8	414.6	409.1	544.4
EBITDA ¹	\$M	18.2	17.9	17.5	29.0
EBITDA margin ¹		4.3%	4.3%	4.3%	5.3%
Underlying EBITDA ¹	\$M	20.4	18.7	19.0	30.1
Underlying EBITDA margin ¹		4.8%	4.5%	4.6%	5.5%

¹ Before Corporate Costs

Growth was solid during the first half, although the activity levels did not accelerate at the same rate in the second half, following the normal seasonal slowdown over the Christmas period. There was an increase in activity in the last two months of the year and the trend has continued to date.

Higher margin trades skills have performed well in the second half. Activity levels in the Eastern seaboard are being driven by civil and construction projects and major roads upgrades.

Activity levels in the mining business continue to improve in line with the recovery in the mining sector. The business is benefiting from the provision of innovative labour solutions for key clients.

Ongoing focus on indirect costs has countered the pressure of reduced volumes. Cost reductions have been delivered through branch network integration and rationalisation and finalisation of the IT back office systems rollout. Consolidation of businesses has also enhanced opportunities for growth & efficiency.

Other Staffing Services:

Provision of nursing, white collar, engineering and technical professional staff. Brands include Origin Healthcare, PeopleCo, Mosaic, Swan, Skilled Technical Professionals and Damstra Mining Services.

		2H FY10	1H FY10	2H FY09	1H FY09
Revenue	\$M	176.4	174.0	180.5	212.5
EBITDA ¹	\$M	8.3	7.3	6.2	7.5
EBITDA margin ¹		4.7%	4.2%	3.4%	3.5%
Underlying EBITDA ¹	\$M	8.8	8.0	6.5	7.8
Underlying EBITDA margin ¹		5.0%	4.6%	3.6%	3.7%

¹ Before Corporate Costs

Swan's profitability was only marginally impacted by the global financial crisis even though there was a slowing down of projects in the oil and gas, petrochemical and mining sectors. The level of activity in these sectors increased substantially in the last two months of the year and the trend has continued to date. The business is well positioned to take advantage of this increased activity including major LNG and infrastructure projects.

Lower recruitment in the business support and professional services sectors contributed to lower revenue for **Mosaic**. This was offset by revenue generated from the extension of the Victorian new public transport ticketing system contract. Over the last few months, there has been increased demand for contractors in the professional services and IT&T sectors, mainly in Sydney.

Revenue for **PeopleCo** was slightly lower due to a reduction in permanent and temporary recruitment during the year. This was offset by significant reductions in the personnel and office lease costs as part of the overall restructuring programme.

Origin Healthcare was impacted by a reduction in the healthcare industry's reliance on agency staffing during the year.

Engineering and Marine Services

Provision of contract maintenance and engineering services and offshore marine staffing and vessel chartering and management services. Brands include ATIVO and Offshore Marine Services.

		2H FY10	1H FY10	2H FY09	1H FY09
Revenue	\$M	228.3	229.1	257.3	272.2
EBITDA ¹	\$M	13.5	11.4	9.4	26.1
EBITDA margin ¹		5.9%	5.0%	3.7%	9.6%
Underlying EBITDA ¹	\$M	13.6	11.8	10.2	26.3
Underlying EBITDA margin ¹		6.0%	5.2%	4.0%	9.7%

¹ Before Corporate Costs

Offshore Marine Services performed below expectations during the year. Sales were lower by 8% due to a slow down in the sector and lower margins in the manning business. The profitability of the vessel business was significantly lower due to underutilisation, higher maintenance costs and the provisioning of a few non-profitable contracts. This was offset by a strong first year contribution from the OMS Alliance joint venture, formed to operate and manage the marine transportation for the Gorgon project. Further contracts with the Gorgon project and other opportunities in the oil and gas industry are being pursued. We envisage that the next six months will continue to be flat but will grow rapidly with the increased activity in the oil and gas sector.

A sharp decline in business activity due to clients cancelling or postponing maintenance shutdowns and restrictions on capital expenditure impacted **ATIVO's** result, particularly in the first half. However, there has been increased activity over the last few months with contract wins in the annuity maintenance business resulting in a positive second half.

Business Services

Provision of customer contact solutions to third party clients through Excelior

		2H FY10	1H FY10	2H FY09	1H FY09
Revenue	\$M	23.3	28.6	30.7	40.1
EBITDA ¹	\$M	0.3	2.2	3.1	5.7
EBITDA margin ¹		1.3%	7.7%	10.1%	14.2%
Underlying EBITDA ¹	\$M	0.9	2.7	3.3	5.8
Underlying EBITDA margin ¹		3.9%	9.4%	10.7%	14.5%

¹ Before Corporate Costs

The slowdown in the growth of the call centre outsourcing market, reduction in volumes from continuing contracts, the wind down of a major contract and restructuring costs significantly impacted **Excelior's** result this year. The outlook has improved over the last few months with new opportunities in the pipeline and the signing of new contracts reducing excess capacity.

Outlook

Commenting on the outlook for SKILLED, Greg Hargrave said:

“We are encouraged by the improved level of activity that we have seen over the last few months across the Group; however the improvement is still patchy as our clients continue to be conservative and cautious with their plans.

“With employment growth forecast to be 2.3% in 2011, compared to 1.2% in 2010¹ and as business confidence increases, we are well placed to leverage from the forecast increase in demand for staffing services. We have achieved a sustainable cost base which will result in improved margins as activity increases.

“Furthermore the reduction in our debt level will substantially strengthen our balance sheet ensuring that we are well-positioned for the next phase of growth and to benefit from Australia’s economic recovery.

“We are in a strong position now to grow the business and as the economy picks up we look forward to returning to more profitable conditions and restoring value to our shareholders.”

¹ BIS Shrapnel Economic Outlook June/July 2010

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About SKILLED Group

SKILLED Group Limited is Australia and New Zealand’s leading provider of labour hire and workforce services. SKILLED Group has over 160 offices across Australasia with annualised revenues around A\$1.7billion. SKILLED partners with clients to improve their workforce efficiency and increase their productivity levels and provides staffing services to the industrial, healthcare and contact service centre sectors. SKILLED is listed on the Australian Stock Exchange (ASX: SKE) and has approximately 6,200 shareholders, predominantly in Australia.