



Report to Shareholders

FEBRUARY 2003

HALF YEAR RESULTS TO 31st DECEMBER 2002

SKILLED ENGINEERING LIMITED

ABN 66 005 585 811

- **Sales Increase of 14%**
- **Strong EBIT Growth**
- **Continued Margin Improvement**
- **Fully Franked Interim Dividend of 6.0 cents**
- **Positive Future Outlook**

It is pleasing to report that trading for the first half continued the trend of strong growth experienced in the first quarter as reported at the Annual General Meeting last October. This also follows on from the strong sales and profit performance of last year.

Sales revenue for the six months was \$324 million compared to \$286 million for the same period last year, an increase of 14%.

Earnings before Interest and Tax (EBIT) for the first half was \$12.6 million and EBIT margin was 3.9%. Net Profit after tax for the first half was \$8.5 million compared to \$4.5 million last year. Included in this result is a net profit of \$1.3 million arising from the sale of surplus maritime assets. This is a non-recurring item. If this profit was excluded then EBIT from trading operations was \$11.3 million (a 47% increase on same period last year) at a margin of 3.5%, and Net Profit after tax was \$7.2 million (a 58% increase on same period last year).

Net debt at 31 December 2002 was \$22.1 million compared to \$15.2 million at 30 June 2002 and \$27.3 million as at 31 December 2001. Gearing (expressed as debt to debt + equity) is currently 27%. Interest cover over the past 12 months was a very strong 17.6 times.

Directors have declared a fully franked interim dividend of 6.0 cents per share to be paid on 23 April 2003. The Dividend Reinvestment Plan (DRP) will operate for this dividend, enabling shareholders an opportunity to reinvest their dividends in company shares. The DRP discount rate applicable for this dividend will be 2.5%. The record date for determining entitlements to the interim dividend and for the lodgement of DRP notices will be 7 April 2003.

Managed Labour Services

	First Half 2002/03	First Half 2001/02
Sales A\$000's	250,200	219,959
EBIT A\$000's	9,091	4,471
EBIT %	3.6%	2.0%
Sales growth %	+14%	

Sales within this Division increased by 14% to \$250 million compared to \$220 million in the first half last year.

Included in this result is a profit of \$1.3 million arising from the sale of surplus maritime assets. If this profit was excluded as a non-recurring item, then EBIT from trading operations was \$7.8 million at a margin of 3.1% compared to 2.0% for the same period last year.

The market for Supplementary Labour Hire continues to expand as more companies recognise the advantages of outsourcing their non-core activities and take advantage of having access to a more flexible workforce. This is evidenced by the number of new opportunities being brought to the market through tenders and enquiries.

The market is also showing signs, albeit slowly, of consolidation toward the larger participants who have access to a wide diversity of skilled employees and are able to provide services on a national basis.

Skilled is exposed to a broad range of industry and service sectors in Australasia and the trend of strong economic growth has continued. This is reflected in our strong performance in contract maintenance and other trades related activities. We have experienced no discernable impact from any reported economic slowdown. Recruitment and outsourcing activities in the white collar sector continues to be flat, consistent with reports from other industry sources.

As demonstrated by the growth in sales, Skilled is well positioned to take advantage of these industry trends. Our strategy of focussing on

OH&S, Industrial Relations, customer IT interfaces, training, workforce management and value added propositions is proving successful. A number of senior appointments have been made in the past year to facilitate continuous improvement to these capabilities.

The improvement in EBIT margin demonstrates the results of the strategic initiatives implemented over the past year. These have included a focus on value added propositions and higher margin customers, a continuous improvement in OH&S performance, a strong focus on cost control, and a leveraging of our cost base off higher sales.

Infrastructure Services

	First Half 2002/03	First Half 2001/02
Sales A\$000's	75,058	66,928
EBIT A\$000's	3,543	3,242
EBIT %	4.7%	4.8%
Sales growth %	+12%	

Sales revenue for this Division increased by 12% to \$75 million compared to \$67 million in the first half last year. This was largely driven by a 78% increase in sales at Skilled Equipment Manufacturing (sales in first half last year affected by an industrial dispute). Sales from Communications and Power activities increased by 6%.

EBIT margin was maintained at a healthy 4.7% compared to 4.8% for the same period last year.

Sales revenue from the Telstra Access Network contracts was flat compared with last year. These contracts expire in September 2003 and negotiations for renewal are due to commence shortly. This business activity has been reconfigured over the past two years to provide a more flexible and low risk approach. Skilled is one of eight Telstra distribution network suppliers, following a major rationalization by Telstra, and is well positioned to play a long-term role in this sector of the market.

Sales revenue for Power services in the privatised states, and non-Telstra Communications activities particularly in Broadband installations, have continued to show strong growth.

We have recently achieved accreditation from Telstra to extend the scope of work activities into the broader Telstra network, which will provide opportunities for additional revenue streams. We are also expanding our work activities into other utility technologies (eg water and gas) so that, in addition to our existing capabilities in communications and power, a complete infrastructure service can be provided. These additional work activities will increase the diversity and stability of this division.

General Outlook

We remain optimistic about the company's future prospects and we believe there are opportunities to continue to expand and to profitably grow the business.

The general economic environment, from our perspective, continues to be strong and we see no evidence at this time of a slow down, although we are conscious that the international scenario and effects of the drought and fires may well impact the immediate economic environment.

Based on recent performance and our view of the immediate future, we expect the second half earnings to be about in line with the first half (excluding the non-recurring item).



Ken V Loughnan AO
Chairman



Frank Hargrave AO
Managing Director

The detailed financial results are provided in the Appendix 4B Half Yearly Report lodged with ASX and are available on the Skilled web site at www.skilled.com.au. A hard copy can be obtained by contacting the Company Secretary's office on (03) 9924 2175.

Statement of Financial Performance (Unaudited)

	First Half 2002/03 A\$000	First Half 2001/02 A\$000	Increase / (Decrease) %
Sales Revenue	324,181	286,141	+14%
EBDAIT	15,216	10,568	+44%
Depreciation and Amortisation	(2,582)	(2,855)	
EBIT	12,634	7,713	+64%
Net Interest	(496)	(1,165)	
Profit/(Loss) before Tax	12,138	6,548	+85%
Taxation (Expense)/Credit	(3,616)	(1,999)	
Net Profit/(Loss) after Tax	8,522	4,549	+87%
EBIT Margin%	3.9%	2.7%	

Statement of Financial Position (Unaudited)

	31 December 2002 A\$000	30 June 2002 A\$000
Current Assets		
Cash	2,405	2,107
Receivables	91,083	81,954
Inventories	5,057	4,529
Other – Prepayments	3,359	3,144
Total Current Assets	101,904	91,734
Non-Current Assets		
Receivables	296	203
Investments (equity accounted)	269	317
Property, Plant and Equipment	17,547	15,963
Intangibles	25,651	26,227
Deferred Tax Assets	2,582	3,668
Other – Prepayments		278
Total Non-Current Assets	46,345	46,656
Total Assets	148,249	138,390
Current Liabilities		
Payables	40,686	44,638
Interest Bearing Liabilities	3,239	3,465
Current Tax Liabilities	901	3,841
Provisions	19,716	23,139
Total Current Liabilities	64,542	75,083
Non-Current Liabilities		
Interest Bearing Liabilities	21,278	13,830
Provisions	3,379	2,526
Total Non-Current Liabilities	24,657	16,356
Total Liabilities	89,199	91,439
Net Assets	59,050	46,951
Shareholders' Equity		
Contributed Equity	44,782	41,042
Reserves	4,670	4,833
Retained Profits	9,598	1,076
Total Shareholders' Equity	59,050	46,951