



Report to Shareholders

FEBRUARY 2004

HALF YEAR RESULTS TO 31st DECEMBER 2003

SKILLED ENGINEERING LIMITED

ABN 66 005 585 811

- **Sales Increase of 7%**
- **Strong EBIT growth of 11%**
- **Fully franked half year dividend of 6.0 cents per share**
- **Major strategic acquisition**
- **Appointment of new director**

Skilled's financial results for the first half of 2003/04 are very pleasing and demonstrate a clear continuation of last year's record sales and profit performance.

We are also pleased to announce the acquisition of Origin Healthcare, Australia's largest nursing agency network. Origin Healthcare has current sales revenue of approximately \$75 million pa. Details of this significant strategic initiative are provided in the attached announcement.

Sales revenue for the six months was \$346 million compared to \$324 million for the same period last year, an increase of 7%.

Net Profit after tax was \$9.8 million compared to \$8.5 million last year, an increase of 15%.

Net debt at 31 December 2003 was \$10.2 million compared to \$8.7 million at 30 June 2003 and \$22.1 million as at 31 December 2002. Gearing (expressed as debt to debt + equity) is currently 13%. Interest cover over the past 12 months was a very strong 33 times.

The company's ability to generate strong underlying cash flow is evidenced by Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA). For the six months ended 31 December 2003, EBITDA was \$18.1 million compared to \$15.2 million for the same period last year, an increase of 19%.

Directors have declared a fully franked Interim dividend of 6.0 cents per share payable on Wednesday 21 April 2004. The Dividend Reinvestment Plan (DRP) will operate for this dividend, offering shareholders the opportunity to reinvest their dividends in new 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 Monday 5 April 2004. The shares will be traded cum-dividend until Monday 29 March, and will commence trading on an ex-dividend basis on Tuesday 30 March.

The appointment of Mr Bob Herbert as a non-executive director of Skilled was announced in November 2003.

We are now pleased to announce a further addition to the Board. Mr Bob Biddle, the founder and CEO of Origin Healthcare will be appointed a director. Details of this appointment are provided in the attached announcement.

Results from Operations

Earnings before Interest and Tax (EBIT) for the six months was \$14.5 million compared to \$12.6 million for the same period last year. These results include several non-recurring items as detailed below.

At the 2003 AGM we advised that Skilled is now self-insured for workers compensation in South Australia. We noted that there would be some initial costs associated with the transfer of claims and set-up that would be incurred in the first half of 2003/04. These totalled \$1.3 million and are included in the reported financial results. We believe that self-insurance will be a source of continuing cost benefit for us, effective from the second half of this year.

We also advised at the 2003 AGM that there had been a favourable judgement by the High Court in a case dealing with superannuation on overtime earnings for casual employees. This has enabled us to reverse \$2.3 million of provisions made in previous periods and has increased the reported EBIT for the current half-year by the same amount.

If both of these items were excluded as non-recurring items, then EBIT from trading operations was \$13.5 million, an EBIT margin of 3.9%.

Included in last year's result is a profit of \$1.3 million arising from the sale of surplus maritime assets. In addition, superannuation expense of \$0.8 million has since been reversed as part of the High Court decision referred to above. If this superannuation expense and the profit on sale of Maritime assets are excluded as non-recurring items, EBIT from trading operations for the first half of last year was \$12.1 million at an EBIT margin of 3.7%.

In summary, EBIT for the six months ended December 2003, adjusted for significant non-recurring items, is \$13.5 million at a margin of 3.9%. This represents an 11.4% increase on EBIT of \$12.1 million at a margin of 3.7% for the same period last year.

Managed Labour Services

		First Half 2003/04	First Half 2002/03
Sales	A\$000's	278,967	250,200
EBITDA	A\$000's	12,479	10,472
EBITDA %		4.5%	4.2%
EBIT	A\$000's	10,316	9,091
EBIT %		3.7%	3.6%
Sales growth		+11%	

Strong sales growth in the Managed Labour Services Division continued during the half year, increasing by 11% to \$279 million compared to \$250 million for the previous corresponding period.

Included in the EBIT reported above are the non-recurring items explained in Results from Operations.

The trading performance for the six months ended December 2003, adjusted for significant non-recurring items, is as follows:

		First Half 2003/04	First Half 2002/03
Sales	A\$000's	278,967	250,200
EBITDA	A\$000's	11,497	9,973
EBITDA %		4.1%	4.0%
EBIT	A\$000's	9,334	8,592
EBIT %		3.3%	3.4%
Sales growth		+11%	

Skilled has recently obtained international accreditation to safety standard AS/NZS4801 and is the only labour hire provider in Australia to hold this level of certification. This provides Skilled with a significant competitive advantage in a marketplace with inherent occupational health and safety hazards.

Skilled operates in a broad range of industry and service sectors in Australasia. The demand for Workforce Services, which includes labour hire and maintenance services, continues to expand as more companies recognise the significant advantages of outsourcing their non-core activities and capitalise on the benefits of access to a more flexible workforce.

Sustained growth in sales revenue and EBIT demonstrate the successful execution of our strategies focusing on continued improvement to OH&S performance, leveraging the cost base off higher sales and focus on higher margin value added and skills based business.

The Customer Contact group, which includes Skilled's call centre activities, continued to perform strongly with sales revenue increasing by 62% over the same period last year, primarily due to the Telstra agency contract.

Infrastructure Services

		First Half 2003/04	First Half 2002/03
Sales	A\$000's	67,921	75,038
EBITDA	A\$000's	5,600	4,744
EBITDA %		8.2%	6.3%
EBIT	A\$000's	4,182	3,543
EBIT %	%	6.2%	4.7%
Sales growth		-9%	

Sales revenue for the Infrastructure Services division decreased by 9% to \$68 million compared to \$75 million for the previous corresponding period.

Power Services continued to show strong growth in sales revenue and profit. Sales revenue increased 13% while profit improved by 30%.

A slower rate of delivery of Telstra Access Network work reduced Communications sales revenue by 16% and profit by 33%.

This result was not affected by the non-renewal of the 3 year Telstra Access Network (ANCC) agreement as the winding down process is continuing. Given that the ANCC work was based on the use of subcontractors the division does not expect to incur any significant exit costs on this agreement.

The second half will however be affected by the loss of revenues from the non-renewal of the Telstra ANCC contract. The Division has shifted its focus to asset removals and other (non access-network) activity.

Sales for Skilled Equipment Manufacturing were 24% lower compared with the previous corresponding period. It should be noted however that sales last year included the South Australian operation which has since been closed. EBIT was higher than the first half of last year due in part to a favourable vehicle production mix, although future vehicle pricing will see a return to normal margins.

Sales for the Skilled Mechanical Workshop were close to the previous half year result. The Division reported a small loss, which was an improvement on the previous year.

General Outlook

Your Board remains optimistic about the period ahead and is committed to building on the momentum generated over the past two years as we seek to enhance our position as Australia's leading Staffing Services business.

Based on recent performance, our view of the immediate future, and the contribution from Origin Healthcare for part of the year, we expect net profit for the full 2003/04 financial year in the range of \$15.5 to \$16.0 million.



Ken V Loughnan AO
Chairman



Frank Hargrave AO
Managing Director



Greg Hargrave
Chief Executive Officer

Statement of Financial Performance (Unaudited)

	First Half 2003/04 A\$000	First Half 2002/03 A\$000	Increase / (Decrease) %
Sales Revenue	346,419	324,181	+7%
EBDAIT	18,079	15,216	+19%
Depreciation and Amortisation	(3,581)	(2,582)	
EBIT	14,498	12,634	+15%
Net Interest	(256)	(496)	
Profit/(Loss) before Tax	14,242	12,138	+17%
Taxation (Expense)/Credit	(4,431)	(3,616)	
Net Profit/(Loss) after Tax	9,811	8,522	+15%
EBIT Margin%	4.2%	3.9%	

Statement of Financial Position (Unaudited)

	December 2003 A\$'000	June 2003 A\$'000
Current Assets		
Cash assets	3,486	4,982
Receivables	85,631	93,692
Inventories	4,447	4,046
Other	2,385	2,415
Total Current Assets	95,949	105,135
Non-Current Assets		
Receivables	1,117	113
Property, plant and equipment	15,764	16,515
Intangibles	24,646	25,130
Deferred tax assets	3,800	5,840
Total Non-Current Assets	45,327	47,598
Total Assets	141,276	152,733
Current Liabilities		
Payables	31,127	44,273
Interest-bearing liabilities	2,031	2,862
Current tax liabilities	2,780	4,809
Provisions	19,760	22,130
Total Current Liabilities	55,698	74,074
Non-Current Liabilities		
Interest-bearing liabilities	11,670	10,771
Provisions	5,686	2,853
Total Non-Current Liabilities	17,356	13,624
Total Liabilities	73,054	87,698
Net Assets	68,222	65,035
Equity		
Contributed equity	50,523	48,525
Reserves	4,773	4,782
Retained profits	12,926	11,728
Total Equity	68,222	65,035

The detailed financial results are provided in the Appendix 4D Half Year Report lodged with the 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.