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Skilled Group Limited
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Record of interview:

Skilled Group Limited announced earlier today a 48 percent increase in reported net profit to \$24.3 million in the year ended June 30 2005. The result is distorted by divestments and acquisitions. How has your strategy evolved and how do you assess the performance of your core business?

MD and CEO Greg Hargrave

The reported net result of \$24.3 million includes profits on divestments and is consistent with our earlier guidance range of \$24 to \$25 million. The after tax contribution from the divestments was \$11.0 million which is \$0.2 million down on the half year estimate due to a change in our view on the earn-out contribution. During the year we sold non-core businesses, including Communications, Power and Yallourn Mechanical Workshops. This is entirely in step with our strategy to grow the core staffing services businesses and to reduce exposure in non-core areas.

In the past 18 months we've grown the core business organically and with the acquisition of Origin Healthcare, Medistaff Nursing Agency and Extraman. We've also broadened our management capability with several important appointments, including Chief Operating Officer, John Dixon. We're positioned for growth in line with our strategy to build our core staffing services business.

In FY05, our core business of Managed Labour Services increased revenue 27.4 percent to \$779.4 million and EBITDA increased 25.3 percent to \$33.1 million. This incorporates the SKILLED, Excelior and Origin brands. In terms of the

EBITDA contribution, the SKILLED and Excelior brands achieved our expectations, but Origin underperformed.

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What are your expectations for FY06?

MD and CEO Greg Hargrave

In future our guidance will be focussed on revenue and EBITDA. In FY06 we're targeting 15 percent growth in group revenue from the FY05 base of \$833.6 million and we'd expect group EBITDA growth of 15 to 20 percent from last year's base, excluding divestments, of \$35 million.

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Do you expect further consolidation in the out sourced labour sector? What role do you see Skilled playing in consolidation?

MD and CEO Greg Hargrave

Our industry is fragmented and consolidation will continue. Our cash flow and balance sheet are strong and that gives us a solid platform to play a leading role given our number one market position. In FY05, our net debt fell from \$55m to \$25 million. Our interest cover was a strong 12.6 times. We will look to re-invest cash flows in the core business and we'll be active in identifying and assessing further acquisition opportunities.

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The Workforce Services Division, that is the SKILLED brand, which focuses on labour hire and maintenance services, grew sales by 19 percent to \$644.9 million. What were the major drivers of that growth?

MD and CEO Greg Hargrave

We're winning market share from smaller competitors and we've gained deeper access to our existing accounts across all major industry sectors, particularly resources and primary manufacturing. The environment has also been relatively buoyant. The economy's strength and the national shortage of skilled workers is a positive trend for us and allows us to demonstrate our superior ability to attract skilled workers for our clients compared with the limited capability of our smaller competitors.

Our track record on Occupational Health and Safety is also an advantage. Our goal is zero injuries and we made further progress towards that in the past year. All our metrics are moving in the right direction.

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In July 2005, you acquired Extraman for an estimated \$20 million. What did it achieve in FY05 and what targets are realistic for FY06?

MD and CEO Greg Hargrave

Extraman's audited accounts for 2005 will be finalised in mid-September, but we expect it will be in line with the previously stated targets of \$70 million in revenue and approx \$4.5 million in EBIT. We expect a similar performance for FY06.

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Origin Healthcare reported sales of \$73.8 million in its first full year of contribution. At the time of the acquisition in February 2004, FY05 revenue was forecast to be \$95 million. Why has Origin underperformed your pre-acquisition forecasts and what steps have you taken towards improving the performance of Origin over the past year?

MD and CEO Greg Hargrave

The general shortage of nurses has continued. We've been working to optimise our scarce nursing resources and address the lack of management depth. We've reviewed the business basics and applied our staffing services knowledge to the business. We've restructured management and operations, including appointing a new CEO who started in February, making other senior management changes and closing high cost offices. Also, we are focusing on new sectors, such as Aged Care. The January acquisition of Medistaff Nursing Agency, which is a specialist in the supply of clinical nurses, has bolstered the business.

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Is the strategic rationale for the Origin Healthcare acquisition still valid? What is the outlook for Origin's growth in the current year and when do you expect this acquisition to be earnings per share positive?

MD and CEO Greg Hargrave

Given Australia's ageing population we are committed to growing our presence in the healthcare market. Origin is the market leader in healthcare labour services and we expect a better performance this year following our restructuring efforts. We expect Origin to make a positive contribution to earnings per share this year.

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The group EBITDA margin was 4.3 percent. Was Origin's EBITDA margin more or less than the group's average in FY05?

MD and CEO Greg Hargrave

Origin's business model is significantly leveraged to sales and its EBITDA margin was less than the group average in FY05. In future periods with higher sales growth we expect that Origin's EBITDA will increase to at least the group average.

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Excelior, formerly known as Customer Contact Services, lifted revenue by 35 percent to \$62.3 million. How did this business achieve such strong organic growth?

MD and CEO Greg Hargrave

Excelior has delivered very strong growth over the past three years. The re-positioning of the business with the new brand has been positive. This year we've had strong growth from our existing customer base, acquired new customers and begun new services, such as the Telstra Traineeship Program, and had strong growth in temporary labour and permanent recruitment. We're fully leveraging

the investment we have made in expanding the capacity of the Burnie call centre which is now operating at higher levels of utilisation.

We've grown much faster than the sector nationally, but we're coming off a fairly low base. We now have a national coverage of over 1800 staff at around 50 sites across Australia and New Zealand and the business is a top five player in the sector. Excelior revenue won't continue to grow at 35 percent per annum; but it will remain a solid growth contributor.

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Thank you, Greg.

For more information about Skilled, visit www.skilled.com.au or call Julie McBeth, Corporate Affairs Manager, on (03) 9924 2390.

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