

KEN LOUGHNAN AO
COMMENTARY ON OUTLOOK FOR AGM 2003
SKILLED ENGINEERING LIMITED

- When we announced our full year results in August of this year, the Board also provided a view of the outlook for 2003/04. We advised that we expect earnings to continue to grow in 2003/04 in the range of 10%-15% (excluding the 2002/03 non-recurring item).
- I am pleased to report that our sales revenue for the first quarter is tracking at 7.5% higher than the same time last year. We remain on track to meet that projection.
- I am also pleased to report that Skilled is now self-insured for workers compensation in South Australia. Although there are some initial cost implications, we believe that this will be a source of continuing cost benefits for us and is another strategic initiative to improve our EBIT margins for the future. Costs associated with the initial transfer of claims and set-up will cost approximately \$1m in the first half, although cost savings in the second half will bring this to about \$0.5m for the full year. These costs have been factored into the profit projections.
- There has been a recent favourable judgement by the High Court in a case dealing with superannuation on overtime earnings for casual employees. Based on an earlier Federal Court decision, we had made provisions of some \$2.5m as at 30 June 2003. The High Court decision will mean that we expect to be able to reverse the \$2.5m provision and will result in a non-recurring profit being reported for this current financial year.

- In the report to Shareholders in August of this year, we advised that the Telstra Access Network contracts were due to expire in November. These contracts provided sales revenue of approximately \$50m for the 2002/03 financial year. Skilled has participated in a tender for the Access Network contracts.

Telstra have not yet advised the outcome of the process and we do not know when Telstra will announce the results of the tender.

We are aware that there is a level of interest in the investment community in the outcomes of those tenders. Some people have expressed concern about the financial impact should we be unsuccessful with these tender negotiations and not be awarded any Access Network work.

As previously reported, the Communications Division business model has been adjusted so that it is now based on project management and the management of a largely subcontracted workforce. This provides us with the opportunity to increase or decrease our operations to cope with fluctuations in workflows. If we were to lose all of the Telstra Access Network contract work, then we would incur some closedown expenses of a non-recurring nature which would impact on profit. However, these would be more than offset by the non-recurring profit resulting from the decision in the High Court case.

In this scenario, we would expect that the earnings outlook for 2003/04 would be in line with the record 2002/03 result (excluding the 2002/03 non-recurring item) should we lose all of the Access Network contract work.

The future is promising, with moderate economic growth projected for the National economy into the medium term, increasing trends to outsourcing in both the private and public sectors, and your Company continuing to build profitable market share. We believe there are a number of growth opportunities for Skilled and our strong balance sheet ensures we have the financial strength to fund these future growth opportunities. We are focused on growing the business and capturing an increased share of an expanding market.

Your Board has a very positive view of our future!

It is pleasing to note that the current edition of Forbes magazine ranks Skilled amongst the top 200 best performing companies outside the US. The cover story entitled 'Best under a Billion' analyses the performance of companies with a turnover under a billion US\$. The analysis is based, amongst other aspects, on a 5 year review of average ROE and EPS growth. It covers companies in some 38 countries and in the introduction the editor notes that of the 19,000 companies surveyed, the best performing 200...."all under \$1B in latest year revenue, had outstanding results in recent years, boosting sales, profits and shareholder value in a rough environment. Whilst past performance doesn't guarantee anything about the future, the flair that got them this far makes the companies worth a look from investors seeking to beat the markets."

In closing my comments, I would like to pay special tribute to the top management team at Skilled, the middle level managers, the supervisors, and our 11,000+ staff throughout Australia. They are the people who have produced this record result. A hard working, dedicated and importantly, increasingly passionate team.