



# Report to Shareholders

AUGUST 2004

FULL YEAR RESULTS TO 30<sup>th</sup> JUNE 2004

**SKILLED ENGINEERING LIMITED**

ABN 66 005 585 811

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- **Sales Increase of 12%**
- **Fully Franked Final Dividend of 10 cents per share**
- **Confident Outlook for 2004/05**

Trading for the second half of the 2003/04 financial year continued the strong trend experienced in the first half and follows on from the strong sales and profit performance of the previous two years.

#### **Sales Revenue**

Sales revenue for the year was \$736 million compared to \$654 million last year, an increase of 12%. This includes the effect of 4.5 months of trading from the operations of Origin Healthcare which was acquired on 17 February 2004. It also reflects the loss of revenues from the non-renewal of the Telstra Access Network contracts which we announced to shareholders in November 2003.

#### **Net Profit and EBIT**

Net Profit after Tax was \$16.4 million compared to \$16.1 million last year.

Earnings before Interest and Tax (EBIT) for the year was \$25.8 million compared to \$24.9 million last year. There were a number of non-recurring items included in the reported EBIT and these are detailed under Results from Operations.

#### **Debt and Gearing**

Net debt at 30 June 2004 was \$55 million compared to \$8.7 million at 30 June 2003 and \$10.1 million at 31 December 2003. This increase in debt includes \$41 million related to the acquisition of Origin Healthcare in February 2004.

Gearing (expressed as debt to debt + equity) at 30 June was 40.6%. Interest cover over the past 12 months was a comfortable 13.7 times.

#### **Cash Flow**

The company's ability to generate strong underlying cash flow is evidenced by Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA). For the 12 months ended 30 June 2004, EBITDA was \$36.4 million compared to \$31.3 million last year, an increase of 16%.

#### **Fully Franked Dividend**

Directors have declared a fully franked final dividend of 10.0 cents per share to be paid on Tuesday 19 October 2004. 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 final dividend and for the lodgement of DRP notices will be Wednesday 27 September 2004.

#### **40<sup>th</sup> Anniversary**

On 31 July 2004 Skilled celebrated its 40<sup>th</sup> anniversary – a marvellous achievement. The Founder of the company and Managing Director for the past 40 years, Mr Frank Hargrave AO, also announced his retirement. Frank is the pioneer of the labour hire industry in Australia and has been responsible for building the company from a small 1 person operation into an Australian icon which is now part of the fabric of the Australian economy. Frank is keen to continue his involvement with the company as a non-executive director and so his knowledge and experience will continue to be available in the next phase of the company's development.

## **Appointment of Managing Director**

The Board has announced the appointment of Mr Greg Hargrave to the position of Managing Director, in addition to his current role as Chief Executive officer. Greg has been involved with the company for the past 6 years in various roles including Chief Operating Officer and Marketing Director.

## **Business Update**

Earlier this month we advised that the Communications business is being sold to Service Stream Limited. This sale is subject to Service Stream financing the purchase through a public capital raising and is expected to be finalized in November 2004. Skilled expects to receive approximately \$10 million plus an earn out which will add a further \$3 million if the forecast 2004/05 sales of \$45 million and EBITDA of \$2.5 million is achieved. Book profit after tax on the sale of this business is expected to be approximately \$2.5 million assuming the earn out is achieved.

Our core business, and the focus of our future plans, is the Managed Labour Services business. This includes Workforce Services, Customer Contact Services and Origin Healthcare. Opportunities to expand this business through organic growth are constantly being explored. In addition, there are opportunities to expand by acquisition which will be considered where they add to our strategic capability and enhance shareholder value. Skilled also has a number of non-core businesses and these are being reviewed to determine how they can best contribute to increasing shareholder value.

We have received an offer for the purchase of the Power Services business from Abigroup Limited. Negotiations between the parties are continuing and further details will be made available when these negotiations are concluded.

## **Results from Operations**

Earnings before Interest and Tax (EBIT) for the 12 months was \$25.8 million compared to \$24.9 million for the same period last year. These results include a number of 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 have been offset by savings in the second half making the net cost of \$0.5 million for the full year. We believe that self-insurance will be a source of continuing cost benefit for us.

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 \$1.7 million of provisions made last year and \$0.3 million for other prior periods. This has increased the reported EBIT for the current year by \$2.0 million.

As part of the continuous review of all asset values, we have written down the Skilled Mechanical Workshops asset values by \$1.0 million so that they more properly reflect market value.

If these items were excluded as non-recurring items, then EBIT from trading operations was \$25.3 million, an EBIT margin of 3.4%.

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 \$1.7 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 last year was \$25.3 million at an EBIT margin of 3.9%.

Depreciation and amortisation increased by \$4.1 million from \$6.4 million last year to \$10.5 million this year, primarily due to the additional depreciation and amortisation costs related to Origin Healthcare.

EBITDA, adjusted for the significant non-recurring items, for the year ended 30 June 2004 was \$34.9 million at a margin of 4.7% compared to EBITDA of \$31.7 million for the same period last year, an increase of 10%.

## Managed Labour Services

		Full Year 2003/04	Full Year 2002/03
<b>Sales</b>	A\$000's	611,944	515,361
<b>EBITDA</b>	A\$000's	26,435	20,941
<b>EBITDA %</b>		4.3%	4.1%
<b>EBIT</b>	A\$000's	19,721	17,388
<b>EBIT %</b>		3.2%	3.4%
<b>Sales growth</b>		+19%	

Strong sales growth in the Managed Labour Services Division continued during this year, increasing by 19% to \$612 million compared to \$515 million last year.

Included in the EBIT reported above are a number of non-recurring items explained in the Results from Operations. The trading performance for the year, adjusted for significant non-recurring items is as follows:

		Full Year 2003/04	Full Year 2002/03
<b>Sales</b>	A\$000's	611,944	515,361
<b>EBITDA</b>	A\$000's	24,934	21,267
<b>EBITDA %</b>		4.1%	4.1%
<b>EBIT</b>	A\$000's	18,220	17,714
<b>EBIT %</b>		3.0%	3.4%
<b>Sales growth</b>		+19%	

Workforce Services, which includes our core labour hire and maintenance services, has continued to show strong growth in sales revenue and profit. Sales revenue increased by 11% to \$541 million. While market demand continues to be strong, these results also demonstrate the successful execution of our strategies which has seen us focus on continued improvement to OH&S performance, leveraging the cost base off higher sales, improving our appeal as an employer of choice, and focus on higher margin value added and skills based business.

The Customer Contact Services business, which includes Skilled's call centre activities, continued to perform strongly with sales revenue increasing by 71% over last year to \$46 million, primarily due to the Telstra agency contract.

This Division also includes the trading operations of Origin Healthcare for the 4.5 months since acquisition. Sales revenue for this period was \$25 million, which is \$5 million below the forecast issued at the time of the acquisition. This shortfall is mainly related to the impact of a change in government policy related to the use of agency nurses in the public hospital sector. This is being

addressed by pursuing other opportunities in the private health sector. EBITDA contribution for the period was \$1.2 million.

## Infrastructure Services

		Full Year 2003/04	Full Year 2002/03
<b>Sales</b>	A\$000's	126,077	140,800
<b>EBITDA</b>	A\$000's	9,952	10,369
<b>EBITDA %</b>		7.9%	7.4%
<b>EBIT</b>	A\$000's	6,112	7,519
<b>EBIT %</b>		4.8%	5.3%
<b>Sales growth</b>		-11%	

Sales revenue for this Division decreased by 11% to \$126 million compared to \$141 million last year. EBIT was \$6.1 million compared to \$7.5 million last year.

This result included a \$1.0 million write-down of the assets value of Skilled Mechanical Workshops to market value. The trading performance, adjusted for this non-recurring item, is as follows:

		Full Year 2003/04	Full Year 2002/03
<b>Sales</b>	A\$000's	126,077	140,800
<b>EBITDA</b>	A\$000's	9,935	10,387
<b>EBITDA %</b>		7.9%	7.4%
<b>EBIT</b>	A\$000's	7,073	7,537
<b>EBIT %</b>		5.6%	5.4%
<b>Sales growth</b>		-11%	

The Communications business was impacted in the second-half by the non-renewal of the Telstra Access Network contracts. Sales revenue decreased by 20% to \$68 million. This business, which has a projected 2004/05 revenue of \$45 million, is being sold to Service Stream Limited.

Power Services continued to show strong growth with sales revenue increasing by 23% over last year to \$28 million.

Sales for the Skilled Mechanical Workshop were \$13 million, which was slightly below last year. Trading at the EBITDA level was profitable although the write-down of the assets to market value has resulted in a loss being reported for the year.

Skilled Equipment Manufacturing recorded sales of \$18 million, a 13% decrease on last year. It should be noted however that sales last year included the South Australian operation which was trading at a loss and has since been closed.

## General Outlook

Based on recent performance, our view of the immediate future, the contribution from Origin Healthcare for the full year, and the planned sale of the Communications business at the end of October, we expect earnings to continue to grow in 2004/05 in the range of 5-10%, inclusive of the profit on sale of the Communications business.



**Ken V Loughnan AO**  
Chairman



**Greg Hargrave**  
Managing Director & Chief Executive Officer

## Statement of Financial Performance (Unaudited)

	Full Year 2003/04	Full Year 2002/03	Increase / (Decrease)
	A\$000	A\$000	%
<b>Sales Revenue</b>	735,917	654,481	+12%
<b>EBITDA</b>	36,387	31,310	+16%
<b>Depreciation and Amortisation</b>	(10,554)	(6,403)	
<b>EBIT</b>	25,833	24,907	+4%
<b>Net Interest</b>	(1,890)	(1,044)	
<b>Profit before Tax</b>	23,943	23,863	
<b>Taxation Expense</b>	(7,556)	(7,741)	
<b>Net Profit after Tax</b>	16,387	16,122	+2%
<b>EBITDA Margin %</b>	4.9%	4.8%	
<b>EBIT Margin%</b>	3.5%	3.8%	

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