

12 February 2014

Half Year Results for the six months ended 31 December 2013 and completion of T & C Services acquisition

Financial Summary:

| | 1H14 | 2H13 | 1H13 |
|--|-------|-------|-------|
| Sales Revenue ¹ (\$m) | 906.3 | 900.3 | 973.6 |
| Reported NPAT (\$m) | 21.0 | 27.9 | 28.2 |
| Underlying NPAT (\$m) | 26.0 | 29.3 | 29.2 |
| Underlying EBITDA ² (\$m) | 43.9 | 46.4 | 48.7 |
| Operating cash flow (before tax) (\$m) | 13.1 | 73.8 | 15.9 |
| Net debt (\$m) | 132.9 | 44.8 | 67.1 |
| Gearing (debt/debt+equity) (%) | 21.9 | 8.7 | 12.8 |
| Reported EPS (cps) | 9.0 | 12.0 | 12.1 |
| Underlying EPS (cps) | 11.1 | 12.5 | 12.5 |
| Dividend (cps) | 7.5 | 9.0 | 7.0 |

SKILLED Group (ASX:SKE) today announced net profit after tax of \$21.0 million for the half year ended 31 December 2013. Underlying net profit after tax was \$26.0 million compared to \$29.2 million in the pcp, down 10.8%.

Revenue of \$906.3 million was in line with the second half of FY13 but down by 6.9% on pcp.

SKILLED Group CEO, Mr Mick McMahon said, "The slowdown in projects, focus on cost reduction in the mining sector and subdued economic conditions resulted in reduced activity and margin in Workforce Services (WFS), Swan and ATIVO. Offsetting this was the contribution from Broadsword and a further \$10 million cost reduction. With activity levels in the underlying businesses beginning to stabilise, a visible pipeline of oil and gas projects and contributions from Broadsword and T & C Services, we are expecting to deliver a stronger result in the second half."

Mr McMahon said that despite reduced activity and margin pressure impacting most of the Group, disciplined management of costs and cash has delivered a good result in a challenging environment.

The Board has declared an interim dividend of 7.5 cps, fully franked, up from 7.0 cps in the pcp.

Completion of T & C Services acquisition

The acquisition of T & C Services was completed on 11 February 2014, following approval from its shareholders and the satisfaction of other conditions. T & C Services is a leading maintenance services provider to the manufacturing, mining, heavy industry and utilities sectors with an established presence in NSW and QLD.

The transaction value is \$33.5 million and will be wholly funded through SKILLED Group's existing debt facilities.

Safety

The continued focus in improving safety performance has resulted in a 7% reduction in AIFR against pcp.

¹ Includes equity accounted income from joint ventures ² as per segment reporting in financial report

Strategy implementation

We have continued to invest in our systems and businesses in order to leverage scale with benefits from the further integration of recruitment and back office processes. The integration of Broadsword's back office functions to the ERP system has been substantially completed.

A pilot "Paperless Branch of the Future" has opened in Thomastown, Victoria with the objective of improving the performance of the branch network by establishing more effective and efficient ways to provide the best possible service to our clients, employees and candidates.

An upgrade to the ERP system (Agresso) is underway which will enable further process improvement and cost reductions.

A further reduction in indirect costs of \$10 million (with \$2.3 million in restructuring costs) has been delivered in this half as a result of accelerating the cost out program in WFS and Shared Services. It is expected that the total reduction in indirect costs in this financial year will be approximately \$15 million.

The acquisitions of Broadsword and T & C Services and the winning of the manning services contract for Saipem on the Ichthys LNG project builds scale in attractive and higher growth sectors, and will support the delivery of future earnings growth.

Net debt and operating cash flow

Net debt increased from \$44.8 million at 30 June 2013 to \$132.9 million at 31 December 2013, an increase of \$88.1 million, which includes \$52.4 million (net of debt assumed) for the acquisition of Broadsword in July 2013.

Capital expenditure increased to \$8.6 million in this half (pcp: \$6.5 million) due to the purchase of an additional Broadsword vessel and investment in systems.

Gearing (debt/debt+equity) at 21.9% remains conservative following recent investments.

Operating cash flow before tax was \$13.1 million compared to \$15.9 million in the previous corresponding period, reflecting lower cash earnings in the first six months of the financial year.

The seasonal working capital increase of \$25m from June 2013 is consistent with the pcp.

Interim Dividend

The Board has declared a fully franked interim dividend of 7.5 cents per share, up from 7.0 cents per share in the pcp. The Record Date for determining entitlements to the dividend will be 28 March 2014, with payment to be made on 11 April 2014. The Dividend Reinvestment Plan will remain suspended until further notice.

Outlook

Trading conditions remain challenging but the second half of this financial year is expected to be stronger:

- **Workforce Services:** overall activity levels appear to have stabilised and benefits from supplier consolidation are expected to continue; however continued price pressure in mining is impacting margins
- **Technical Professionals:** reduced activity in mining and related engineering services is expected to continue, primarily in Swan. Telecommunications activity is expected to strengthen
- **Engineering & Marine Services:** growth is expected from:
 - increased activity levels and a visible pipeline in oil & gas in the second half notwithstanding the mobilisation of Saipem being delayed to the end of FY14;
 - Broadsword – an additional vessel and the opportunity to change the mix of chartered and owned vessels;
 - the initial contribution from T & C Services acquisition

The cost reduction program is expected to deliver \$15 million in FY14 from initiatives already underway.

Commenting on the outlook, Mr McMahon said, "We remain well positioned for longer term benefit from any improvement in economic activity, expansion in mining volumes and the full contribution from the Saipem contract, Broadsword and T & C Services. The continued implementation of the strategy will support further cost reduction and the strength of the balance sheet will support dividend payments and investment for future growth."

Performance Summary

| | 1H14 | 1H13 | Variance | % change |
|---|-------------|-------------|--------------|----------------|
| Revenue ¹ | 906.3 | 973.6 | (67.3) | (6.9%) |
| EBITDA² | 43.9 | 48.7 | (4.8) | (9.9%) |
| EBITDA Margin % | 4.8% | 5.0% | (0.2) | |
| Depreciation & Amortisation ² | (5.6) | (5.5) | (0.1) | 0.3% |
| EBIT² | 38.3 | 43.2 | (4.9) | (11.2%) |
| EBIT Margin % | 4.2% | 4.4% | 0.2 | |
| Interest ² | (3.0) | (1.9) | (1.1) | 63.2% |
| Profit before tax before reconciling items | 35.3 | 41.3 | (6.0) | (14.6%) |
| Restructuring costs ² | (2.3) | (1.4) | (0.9) | nm |
| Acquisition and integration costs ² | (1.2) | - | (1.2) | nm |
| Non cash acquisition related costs ^{2,3} | (3.1) | - | (3.1) | nm |
| Income tax expense | (7.7) | (11.7) | 4.0 | (34.1%) |
| Statutory net profit after tax | 21.0 | 28.2 | (7.2) | (25.6%) |
| Underlying net profit after tax | | | | |
| Statutory net profit after tax | 21.0 | 28.2 | (7.2) | (25.6%) |
| Restructuring costs ² | 2.3 | 1.4 | 0.9 | nm |
| Acquisition and integration costs ² | 1.2 | - | 1.2 | nm |
| Non cash acquisition related costs ^{2,3} | 3.1 | - | 3.1 | nm |
| Income tax expense on reconciling items | (1.6) | (0.4) | (1.2) | nm |
| Underlying net profit after tax | 26.0 | 29.2 | (3.2) | (10.8%) |
| EPS - Statutory NPAT (cps) | 9.0 | 12.1 | (3.1) | (25.7%) |
| EPS - Underlying NPAT (cps) | 11.1 | 12.5 | (1.4) | (10.9%) |

1 - Includes equity accounted income from joint ventures. 2 - As per segment reporting in the Financial Report. 3 - Amortisation of intangibles (\$2.4m) and notional interest on deferred and contingent consideration (\$0.7m)

Segment Overview

(EBITDA results are before corporate costs)

Workforce Services:

Provision of blue-collar labour hire to clients in the industrial, mining and resources sectors under the SKILLED brand.

| | 1H14 | 2H13 | 1H13 | 1H14 v 2H13 | 1H14 v 1H13 |
|----------------------|-------|-------|-------|----------------|----------------|
| Revenue (\$m) | 452.6 | 454.9 | 463.4 | (0.5%) | (2.3%) |
| EBITDA (\$m) | 19.4 | 18.3 | 22.5 | 6.2% | (13.7%) |
| EBITDA margin | 4.3% | 4.0% | 4.9% | 0.3 | (0.6) |

WFS was impacted by the slowdown in mining and related services and a slow seasonal build up into Christmas, which was partially offset by improved activity in the infrastructure and rail sectors.

Margins were impacted by continued pricing pressure from clients across most sectors.

Good progress was made on sustainable cost reduction and efficiency improvements. The cost out program was accelerated in the first half, partially offsetting the reduction in mining activity.

Activity levels stabilised in the second quarter and WFS is well positioned to benefit from any growth in mining volumes and improvement in economic activity.

Technical Professionals:

Provision of engineering and technical professional staff, white collar and nursing staff. Brands in this segment include Swan, Mosaic and Nursing Australia

| | 1H14 | 2H13 | 1H13 | 1H14 v 2H13 | 1H14 v 1H13 |
|---------------|-------|-------|-------|----------------|----------------|
| Revenue (\$m) | 202.8 | 217.5 | 271.4 | (6.8%) | (25.3)% |
| EBITDA (\$m) | 9.3 | 11.7 | 15.1 | (20.2%) | (38.1)% |
| EBITDA margin | 4.6% | 5.4% | 5.6% | (0.8) | (1.0) |

Swan was impacted by the slowdown in mining and related project activity with a reduction in contractor numbers and hours and margin reduction due to pricing pressure.

There was weaker demand for permanent technical professional roles, including NBN related telecommunication roles, in the first half. Technology Solutions (Damstra) was affected by reduced mining demand on the east coast (mainly coal mining clients).

Trainees & apprentices and Indigenous employment continued to perform well.

Engineering and Marine Services:

Provision of contract maintenance and project and shutdown services and offshore marine manning and management services. Brands include ATIVO, Offshore Marine Services and Broadsword.

| | 1H14 | 2H13 | 1H13 | 1H14 v 2H13 | 1H14 v 1H13 |
|----------------------------|-------|-------|-------|----------------|----------------|
| Revenue (\$m) ¹ | 252.3 | 227.8 | 241.0 | 10.7% | 4.7% |
| EBITDA (\$m) | 22.7 | 21.6 | 19.7 | 4.8% | 15.1% |
| EBITDA margin | 9.0% | 9.5% | 8.2% | (0.5) | 0.8 |

¹ Includes equity accounted income from joint ventures

ATIVO was impacted by the deferrals of maintenance projects and shutdowns by clients in the first half. Activity levels have stabilised in recent months.

The initial contribution from the T & C Services acquisition, effective early February, will flow through in the second half.

Increased activity in OMS International and OMS NZ contributed positively to the segment; offset by a reduction in activity levels in OMS Australia. Activity levels in OMS Australia have ramped up early in the second half.

Revenue from Broadsword was in line with expectations and the integration is progressing well.

The mobilisation of vessels under the Saipem contract will commence at the end of FY14.

For further information please contact:

Delphine Cassidy, Executive General Manager Corporate Affairs
SKILLED Group Limited
Mobile: 0419 163 467

About SKILLED Group

SKILLED Group Limited is Australia's leading provider of labour hire and workforce services. SKILLED Group has 100 offices across Australasia with annualised revenues of around A\$1.9billion. SKILLED partners with clients to improve their workforce efficiency, enhance safety performance and increase productivity levels. SKILLED is listed on the Australian Securities Exchange (ASX: SKE) and has approximately 5,600 shareholders, predominantly in Australia.