SKILLED
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1964–2014
YEARS STRONG

Annual Report 2014

Contents

Corporate Governance Statement

This Statement outlines the corporate governance framework adopted by SKILLED Group. The Board believes that its policies and practices should encompass a high standard of corporate governance in the interests of SKILLED Group and its shareholders.

The corporate governance framework is based on a set of charters and policies, which are designed to identify and manage the risks of the Company's businesses. In developing its approach to corporate governance, the Board aims to foster a culture that values and rewards our people for maintaining ethical standards, and is encouraging of diversity and respect for others.

The SKILLED Group Board fully supports the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations and is committed to complying with those recommendations, unless it believes compliance is not in the best interests of shareholders. SKILLED Group has complied with all recommendations contained in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (Second Edition) (ASX Governance Principles) throughout the 2014 year.

The Board

RESPONSIBILITIES AND FUNCTIONS OF THE BOARD

The Board of Directors is responsible for overseeing the strategic direction of the Company and for monitoring its businesses and affairs. The *Board Charter* sets out the principles used by the Board to manage its affairs and enable it to discharge its responsibilities. The *Board Charter* is available for review in the Corporate Governance section of www.skilled.com.au.

The functions of the Board include:

- setting overall financial goals for the Company;
- approving strategies and plans for SKILLED Group's businesses to achieve these goals;
- approving financial plans and annual budgets;
- monitoring business performance and results;
- overseeing the Company's sustainability and diversity;
- approving key management recommendations (such as major capital expenditure, acquisitions, divestments, restructuring and funding);
- appointing and reviewing the performance of the Chief Executive Officer and senior management;
- reporting to shareholders on the Company's direction and performance;
- overseeing the management of occupational health and safety and environmental performance;
- determining that satisfactory internal control arrangements are in place regarding the Company's operations;
- determining that satisfactory arrangements are in place for auditing and reporting the Company's financial affairs;
- considering and making declarations in relation to distributions to shareholders; and
- meeting statutory and regulatory requirements and overseeing the way business risks and SKILLED Group's assets are managed.

The Board also sets policies to guide management in relation to key decisions and activities.

The day-to-day management of the Company's affairs and implementation of the approved strategy and policies are the responsibility of the Chief Executive Officer, who is accountable to the Board for those responsibilities. The Board has approved clear delegated authorities throughout the group which sets limits to the authority of the management team. In addition, formal position descriptions detail key accountabilities and authorities for the Chief Executive Officer, the Chief Financial Officer and other key executives.

COMPOSITION OF THE BOARD AND THE APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is currently comprised of seven directors, being six non-executive directors and one executive director, Mr Mick McMahon. The Board is chaired by an independent non-executive director. The roles of the Chairman and Chief Executive Officer are separate.

The names of the directors of the Company in office during the financial year and their skills, experience, expertise and period of office are set out in the Directors' Report.

In searching for and selecting new directors to the Board, the Board or its Nomination Committee identifies any gaps in the expertise, skills and diversity characteristics of the directors on the Board and then, using external consultants as appropriate, identifies candidates with the appropriate attributes. The Nomination Committee's Charter provides that if the Committee is overseeing this appointment, it shall take into account the Company's Diversity Policy and its application to the composition of the Board, and consider strategies to address diversity in the composition of the Board. The mix of skills and diversity which the Board is looking to achieve and maintain in the membership of the Board is in areas such as:

- specialist skill representation relating to both functions (such as safety, industrial relations, marketing, strategy development, accounting, finance, economics and law) and industry backgrounds (such as resources, manufacturing, services and healthcare);
- board and senior executive experience (including familiarity with formal board and governance processes and senior executive functions at organisations of significant size);
- diversity in general (including in particular gender diversity); and
- a commitment to the highest standards of governance and integrity.

Corporate Governance Statement (cont.)

New appointees are expected to bring independent views and judgement to Board deliberations, to add to the portfolio of skills considered necessary, and to be able to devote sufficient time to the affairs of the Board.

During the 2014 financial year the Board appointed Mr Jim Walker as a director. Mr Walker has a strong business background and complements the skill set of existing Directors. A profile of Mr Walker is set out in the Directors' Report included in this annual report and the Board of Directors section at www.skilled.com.au. In accordance with the ASX Listing Rules and the Company's constitution, Mr Walker will retire and stand for election at the 2014 Annual General Meeting. The Company has undertaken police, ASIC and bankruptcy searches and reference checking in relation to Mr Walker and is not aware of any matters or relationships that might influence or reasonably be perceived to influence Mr Walker's capacity to exercise independent judgement on issues before the Board or his ability to act in the best interests of the Company and its shareholders.

In accordance with the ASX Listing Rules and the Company's Constitution, any director other than the Managing Director must retire by rotation no later than at the end of the third annual general meeting following their last election or three years, whichever is later, and are eligible to stand for re-election. At least one election or re-election of a director must be held each year. In accordance with these requirements, Ms McFadden, Mr Cipa and Ms Horton will retire and stand for re-election at the 2014 Annual General Meeting.

Before each annual general meeting, the Board assesses the performance and independence of each director due to stand for re-election, and decides whether to recommend to the shareholders that they vote in favour of the re-election of each director.

Executive directors receive no additional remuneration for their service on the Board beyond their executive salary package. The maximum aggregate remuneration of non-executive directors is determined by the shareholders. The policy on directors' remuneration and relevant details are contained in the Remuneration Report.

All directors are expected to prepare fully for all Board meetings, and to attend as many Board meetings as is reasonably practicable.

ROLE OF THE CHAIRMAN

In relation to the role of Chairman, the Board's Charter provides as follows:

- the Chairman is an independent, non-executive director; and
- the roles of the Chairman and the Chief Executive Officer should not be exercised by the same individual.

The Chairman plays an important leadership role and in particular:

- chairs meetings of the Board and provides effective leadership to it;
- monitors the performance of the Board and the mix of skills and effectiveness of the contributions of each director;
- maintains on-going dialogue with the Chief Executive Officer and provides appropriate mentoring and guidance; and
- liaises with shareholders and potential investors on key issues, and chairs meetings of shareholders.

DIRECTORS' INDEPENDENCE

The Board assesses each of the directors against specific criteria to decide if they are considered to be independent. Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, their ability to exercise unfettered and independent judgement.

In assessing the materiality of any such relationship, the Board considers the relationship from both the perspective of the Company and from the perspective of the director or related party. Materiality is assessed by reference to each director's individual circumstances, rather than by applying general materiality thresholds.

Each of the six current non-executive directors are considered independent.

The Board believes that no director has served on the Board for a period longer than what could materially affect their independence or their ability to act in the best interests of the Company.

The Board's policy *Assessment of Independence of Directors* is available for review in the Corporate Governance section of www.skilled.com.au.

BOARD MEETINGS

The typical annual Board schedule involves at least nine face-to-face meetings each year. However, the Board will usually meet on an ad hoc basis on several other occasions, often by teleconference, in relation to specific matters requiring timely consideration.

Of the Board's scheduled meetings, most are held at SKILLED Group's head office in Melbourne. Typically two or three meetings each year are held at other capital cities to assist the Board to gain a better understanding of the Company's business activities in those cities.

Corporate Governance Statement (cont.)

At Board meetings the agenda will usually include:

- a review of minutes of the previous meeting, and outstanding issues raised by directors at previous meetings;
- a report on safety performance and strategy across SKILLED Group;
- the Chief Executive Officer's report;
- a Finance report;
- a report from each of the key operating divisions;
- a legal and regulatory update;
- an overview of a specific business selected to present to that Board meeting, including its financial performance and strategies;
- reports on major projects, current business issues and specific proposals;
- reports from Chairs of Committees which have met since the last Board meeting on matters considered at those meetings;
- a consideration of whether any matters reported to, or considered at, the meeting warranted disclosure to the ASX pursuant to the Company's continuous disclosure obligations; and
- a closed session scheduled at the end of each meeting where the non-executive directors meet and confer in the absence of management.

The Company Secretary & Group General Counsel and the Chief Financial Officer are usually present at all Board meetings. Members of senior management attend Board meetings regularly to report on the businesses for which they are directly responsible or as otherwise requested by the Board.

Board and Committee papers are distributed electronically, with a view to improving the efficiency of the meeting processes, and to enhancing non-executive directors' timely access to information.

REVIEW OF BOARD PERFORMANCE

The Board's performance is subject to regular review in line with the recommendations in the ASX Governance Principles. The Company completed an externally facilitated review of the Board's effectiveness and performance in August 2013. This review included consideration of the size and composition of the Board and its Committees and the manner in which these function and the skills set recommended for consideration in the appointment of an additional director to the Board. This was then included in the recruitment process which resulted in the appointment of Mr Walker to the Board.

The Board will undertake an internal review of its effectiveness and performance during FY15.

DIRECTORS' CONFLICTS OF INTEREST

Directors' outside interests that have the potential to conflict with the interests of the Company are declared by the relevant director by way of standing notification which is tabled at a Board meeting. At each Board meeting directors have the opportunity to notify the Board of any update or amendment to their disclosed interests.

If a conflict actually arises, the director concerned will absent himself or herself from that part of the meeting at which the issue is discussed, and will abstain from voting on the issue.

INDEPENDENT PROFESSIONAL ADVICE

With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil his or her duties and responsibilities as a director.

Board Committees

Under the Constitution, the Board may delegate its powers and responsibilities to Committees of the Board. This allows the Board to spend additional and more focused time on specific issues.

During the year, there were three Board Committees:

- the Audit & Risk Committee;
- the Remuneration Committee; and
- the Nomination Committee.

The Board will from time to time establish ad hoc Committees to assist the Board to review specific matters on a timely basis.

AUDIT & RISK COMMITTEE

The Audit & Risk Committee was constituted with effect from 1 July 2011 by way of a merger of the Audit Committee and the Risk Committee of the Board in order to provide for a more seamless oversight of the Company's financial and non-financial risks.

The main objective of the Audit & Risk Committee is to assist the Board to discharge its responsibility to exercise due care, diligence and skill in relation to the monitoring of:

- external reporting;
- internal control;
- external audit;
- internal audit; and
- risk management

Corporate Governance Statement (cont.)

The *Audit & Risk Committee Charter* is available for review in the Corporate Governance section of www.skilled.com.au.

The members of the Audit & Risk Committee as at 30 June 2014 were:

- Mr Tony Cipa (Chairman of the Committee);
- Ms Vickki McFadden;
- Mr Max Findlay; and
- Ms Tracey Horton.

The Audit &Risk Committee met on five occasions during the year.

REMUNERATION COMMITTEE

The role of the Remuneration Committee is to review and make recommendations to the Board on remuneration packages and policies applicable to the Chief Executive Officer and senior executives. This role also includes responsibility for share option schemes, incentive performance packages, and retirement and termination entitlements. The Committee is also responsible for making recommendations to the Board regarding the Company's Diversity Policy and strategies to address diversity across the Company as well as reviewing the Company's performance against its diversity objectives.

Remuneration levels are competitively set to attract the most qualified and experienced senior executives. The Remuneration Committee may obtain independent advice on the appropriateness of remuneration packages.

In the year ending 30 June 2014, performance evaluations for the Chief Executive Officer and senior executives were carried out in accordance with the process disclosed in the Remuneration Report. Detailed information on SKILLED Group's remuneration policies and practices is contained in the Remuneration Report.

The *Remuneration Committee Charter* is available for review in the Corporate Governance section of www.skilled.com.au.

The members of the Remuneration Committee as at 30 June 2014 were:

- Mr Bob Herbert AM (Chairman of the Committee);
- Mr Max Findlay
- Ms Vickki McFadden; and
- Ms Tracey Horton.

The Remuneration Committee met on five occasions during the year.

NOMINATION COMMITTEE

The Nomination Committee supports and advises the Board on fulfilling its responsibilities to shareholders in ensuring that the Board is appropriately structured and comprised of individuals who are best able to discharge the responsibilities of directors. It is also responsible for assessing the terms of appointment and remuneration arrangements for non-executive directors. The Committee's Charter outlines the principles of diversity to be adopted in structuring the composition of the Board.

Details of directors' remuneration, superannuation and retirement payments are set out in the Remuneration Report contained in this Annual Report.

The *Nomination Committee Charter* is available for review in the Corporate Governance section of www.skilled.com.au

The members of the Nomination Committee as at 30 June 2014 were:

- Ms Vickki McFadden (Chairman of the Committee);
- Mr Max Findlay; and
- Ms Tracey Horton.

The Nomination Committee did not meet during FY14 as matters for consideration by the Nomination Committee were instead considered by the full Board

Ethical standards

ETHICS POLICIES

The Company has a *Code of Ethics* and a *Code of Conduct*, which set out how all directors, managers and employees of the Company are expected to act in the following main areas:

- professional conduct;
- dealing with clients;
- dealing with suppliers;
- dealing with competitors; and
- dealing with other employees.

The requirement to comply with the *Code of Ethics* and *Code of Conduct* is communicated to all employees. SKILLED Group's *Code of Ethics* and *Code of Conduct* are available in the Corporate Governance section of www.skilled.com.au.

Employees are encouraged to report any actual or suspected breach of the *Code of Ethics* and *Code of Conduct* to their supervisor or to their human resources manager. Employees may also choose to directly contact their executive general manager or the company secretary. Alternatively, employees may choose to confidentiality and, if they wish, anonymously, report an actual or suspected breach to SKILLED Group's Ethics and Compliance Hotline, operated by an independent third party. Any employee who reports in good faith a breach or suspected breach of legal or ethical standards can do so confidentially and will not be subject to retaliation, or suffer any recrimination for making that report.

Corporate Governance Statement (cont.)

DIVERSITY

SKILLED is the largest provider of workforce solutions in Australia and employs approximately 50,000 people a year. As a business our strength lies in our people and how they improve productivity for our clients and we assist with providing a diverse range of employees to our clients.

SKILLED is committed to meeting Australia's future skills needs and will continue to build our employee base through:

- an inclusive workforce that values diversity to achieve better outcomes for all stakeholders;
- focusing on all aspects of diversity from gender, age, ethnicity and cultural background;
- building on our apprentice and trainee employee base, with 1,337 apprentices and trainees employed; and
- improving employment opportunities for Indigenous people, with 679 employed at SKILLED.

To support this commitment, the Board has a *Diversity Policy* with the purpose of securing the leadership, promotion and measurement of diversity across SKILLED Group.

DIVERSITY POLICY

SKILLED's *Diversity Policy* sets out our intention to promote and foster a diverse workforce. SKILLED recognises the benefits to be gained from a workforce that brings together a range of skills, backgrounds and experiences that delivers an enhanced service to our clients, improves our financial position and builds on our strong reputation.

The *Diversity Policy* highlights the need to create an inclusive and supportive organisation by:

- identifying and removing barriers to diversity;
- respecting the unique diversity that each individual brings to the workplace; and
- building our leadership pipeline to assist SKILLED's talent to develop the skills and experience they need to succeed.

SKILLED has built a framework to support diversity through:

- a robust corporate governance structure led by the Board;
- auditing recruitment, performance, remuneration and development processes;
- identifying and taking action to remove systemic barriers;
- monitoring demographic changes, particularly in relation to gender diversity;
- delivering education programs to raise awareness and challenge workplace norms; and
- addressing discrimination, harassment, bullying and other inappropriate behaviours in the workplace.

During the year a Diversity Working Party was established to review SKILLED's diversity strategies and policies and develop and implement initiatives to promote diversity and enhance the awareness of diversity across the Group. The Working Party obtained feedback from a cross section of employees on SKILLED's diversity practices and identified a number of initiatives to further enhance SKILLED's approach to diversity. The Working Party will continue its work into 2015.

GENDER EQUALITY at SKILLED

Women at SKILLED Group are represented at the highest levels of the organisation. Our focus is to ensure we support women in all roles and integrate our program for diversity, including gender diversity, into our succession planning for senior roles. SKILLED has a specific target to increase the representation of women in management to 40% by the end of 2016.

Classification of management positions has changed with updates to the Workplace Gender Equality Act 2012 and our data has been updated accordingly. This provides for greater transparency in our analysis and allows us to build objectives that target particular areas for improvement.

The proportion of women employed at different levels of SKILLED are as follows:

- two of the six non-executive directors are women. Ms Vickki McFadden is Chairman of the Board and Ms Tracey Horton is a non-executive director;
- two of the five direct reports to the CEO are women and 33% of our Executive Committee are women;
- 36% of management roles are women*; and.
- 60% of SKILLED staff (excluding field employees on-hired to clients) are women*.

(*As at 31 March 2014)

SKILLED's objectives on gender equality focuses on women in all levels of management and all sectors and ensuring all forms of diversity. Some of our focus areas include:

- reviewing our recruitment principles to ensure all forms of diversity are valued in our selection process and in particular:
  - building on the 2013 Branch of the Future recruitment pilot programme to increase female participation in recruitment shortlists;
  - integrating gender equality into our talent and succession planning for senior roles.
- supporting management and employees to utilise flexible working arrangements;
- reviewing our broader policy suite to ensure the policies support all forms of diversity.

SKILLED lodged its annual report to the Workplace Gender Equality Agency (Agency) on gender equality performance as required under the Workplace Gender Equality Act 2012. A copy of the public report is available for review in the Corporate Governance section of our website along with a copy of the Diversity Policy and the Code of Conduct (www.skilled.com.au).

Corporate Governance Statement (cont.)

Risk management and control

CONTROLLING AND MANAGING RISKS

The Board is responsible for approving the Company's risk management strategy and policies. Management is responsible for the implementation of the strategy and for developing policies, processes and procedures to identify and manage risks. Whilst the Board is responsible for risk management, it has delegated responsibility for the monitoring and evaluation of the effectiveness of risk management and the internal control environment to the Audit & Risk Committee. This Committee regularly reviews the key risks and risk mitigants identified by management in addition to reviewing matters relating to external financial reporting.

In addition to reporting regularly to the Audit & Risk Committee on key risks and other internal control matters, management reports to the Board at least annually on the effectiveness of the risk management process for the Company's material risks. The Board has received and considered management's report on the effectiveness of the risk management process for the Company's key areas of risk for the year ended 30 June 2014 as part of its review of the FY14 Financial Report.

The CEO and the CFO have provided formal statements to the Board that, in all material respects:

- the Company's FY14 financial statements present a true and fair view of SKILLED Group's financial position and performance; and
- the risk management and internal compliance and control systems, to the extent they relate to financial reporting risks, are sound and operating effectively.

Further information on SKILLED Group's key business risks are contained in the Operating and Financial Review included in this annual report.

SKILLED Group's *Risk Management Policy* is available for review in the Corporate Governance section of www.skilled.com.au.

INTERNAL CONTROL FRAMEWORK

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described under the following five headings.

- **Financial reporting**: There is a comprehensive budgeting system with an annual budget approved by the directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. Procedures are also in place to ensure that information is reported to the ASX in accordance with continuous disclosure requirements.
- **Quality and integrity of personnel**: The Company has a suite of policies which specify principles, minimum standards and behaviours, which support its overall quality systems.
- **Internal audit**: The Company has an internal audit function to review and assess key risks across the organisation. The annual program is approved and monitored by the Audit & Risk Committee. External resources are used to augment this function.
- **Operating unit controls**: Financial controls and procedures, including information systems controls, are detailed in procedure manuals. Exception and corrective action reports highlight any departures from these procedures.
- **Functional specialty reporting**: The Company has identified a number of key areas that are subject to regular reporting to the Board, such as cash forecasts, OHS, information technology and legal matters.

AUDIT INDEPENDENCE

Ernst & Young were appointed the external auditor of SKILLED Group at the Company's 2011 AGM. Mr Bruce Meehan is the Company's lead audit partner. The Audit & Risk Committee monitors the independence, objectivity, effectiveness and scope of the external auditor and reviews the external auditor's findings and recommendations. It is important that the auditor continues to be independent and steps taken to ensure this include:

- Review by the Audit & Risk Committee of the processes governing non-audit work undertaken by the external auditor to ensure that the independence of the external auditor is not affected by conflicts;
- the lead audit partner on the SKILLED Group audit can only serve in that capacity for a maximum of five years; and
- at least three years must elapse before any retired partner or former partner of the external auditor can be appointed as a director or officer of the Company.

The auditor attends the annual general meeting and is available to respond to questions from shareholders.

Disclosure

SHAREHOLDER COMMUNICATIONS

SKILLED Group is committed to giving all shareholders transparent and timely information about our activities and to fulfilling our continuous disclosure obligations to the wider market. The Shareholder Communications Strategy, together with the *Disclosures to the Investment Community Policy*, set out how we undertake these communications. These policies can be viewed at www.skilled.com.au.

CONTINUOUS DISCLOSURE PROTOCOL

The Board is aware of its obligations for continuous disclosure of material information and embraces the principle of providing access to that information to the widest audience of investors. The Company has adopted a continuous disclosure protocol that outlines management's reporting requirements to a nominated disclosure officer and ensures a system of monitoring compliance with the protocol. A Board Policy, *Disclosures to the Investment Community* has also been issued. The Company has established an internal Continuous Disclosure Committee to assist in its review of and on-going compliance with its continuous disclosure obligations.

Corporate Governance Statement (cont.)

At the conclusion of each Board meeting consideration is given to whether any matters reported to, or considered at, the meeting warranted disclosure to the ASX pursuant to the Company's continuous disclosure obligations.

The Company's website includes an Investor section. To ensure provision of equal access to material information, the Company now webcasts its analyst and investor briefings and a transcript of these briefings are included in this section of our website. All ASX announcements are also placed on this site.

Buying and selling of shares by Directors, Officers and Staff

SKILLED Group has a *Share Trading Policy* under which:

- directors, officers and staff subject to the policy (relevant persons) must not deal in SKILLED Group's securities on a short-term trading basis.
- relevant persons must not deal in SKILLED Group securities during the following defined restricted periods:
  - the period from the close of trading on 30 June each year until 10am on the next trading day after the announcement to the ASX of the preliminary final statement or full year results; and
  - the period from the close of trading on 31 December each year until 10am on the next trading day after the announcement to the ASX of half-yearly results;
- relevant persons may deal in SKILLED Group securities during defined window periods following release of the Company's half-year and full year results and its annual general meeting, assuming that they do not possess market sensitive information which has not been publicly disclosed. They must provide notification to the Company Secretary of their dealings within two days of the dealing occurring; and
- during any other period, relevant persons must receive approval for any proposed dealing in SKILLED Group securities in advance of any proposed dealing.

Note: In exceptional circumstances (such as financial hardship or compulsion by court order) a relevant person may be granted permission to trade during a restricted period.

Each director has entered into a contract with the Company to advise the Company when any interest in any securities in the Company held by the director changes and to advise the Company of the director's interest in securities at the date of retirement. Share dealings by directors are promptly notified to the ASX.

SKILLED Group's *Share Trading Policy* and the rules of the SKILLED Group Limited Executive Long-Term Incentive Plan prohibit any portion of an option or performance right that has not vested, to be hedged using financial products designed to eliminate risk of price movement in the underlying share. A breach of this rule will result in the Board taking disciplinary action.

SKILLED Group's *Share Trading Policy* is available for review in the Corporate Governance section of www.skilled.com.au.

Operating and Financial Review

1. Overview

SKILLED Group (also referred to as 'SKILLED' or 'the Group') is the largest provider of workforce solutions in Australia, employing over 50,000 skilled Australians a year. It is a well-established and trusted brand whose reach extends across the Australian economy, into all states and territories as well as all major sectors of the economy. SKILLED's core strength lies in partnering closely with clients over the long-term to improve workforce utilisation and increase productivity levels through the provision of skilled and semi-skilled people.

The range of services offered by the Group reflects its size and scope. These include both onshore and offshore total workforce management, flexible labour solutions and project-based workforce solutions, including shut downs, installations and relocations, enabling our clients to focus on their core business operations. It has a branch network of over 100 local and regional offices across Australia, New Zealand, United Kingdom, the United States of America, Singapore, Malta and the United Arab Emirates.

An integral part of the Group's offering to clients is its safety leadership and excellent safety record. Our commitment to the health, safety and wellbeing of our employees is our first and most important value. To meet the broader needs of our clients, SKILLED Group has broad-based expertise in industrial relations, information and reporting systems, and employee management, creating total solutions for clients seeking improved flexibility and productivity and a reduction in associated workforce costs.

In addition, SKILLED has a strong commitment to meeting Australia's future skills needs. It is one of the largest employers of apprentices and trainees in the country, employing approximately 1,000 young trainees. The Group is committed to improving employment opportunities for Indigenous people and is currently employing approximately 500 Indigenous Australians.

2. Business Segments

WORKFORCE SERVICES

SKILLED Workforce Services is the industry leader in specialised workforce solutions through the delivery of flexible labour and project based workforce solutions.

Workforce Services is a people business specialising in blue collar trades. For the 2014 financial year, Workforce Services accounted for approximately half of SKILLED Group's total revenue servicing a broad range of industries including mining & resources, primary manufacturing, food & pharmaceuticals, automotive & machinery, transport & logistics, primary services, telecommunications, government and defence and utilities & infrastructure.

TECHNICAL PROFESSIONALS

Technical Professionals operates and provides IT&T, executive, professional services, technical professional and medically trained casual, contract and permanent staffing solutions. For the 2014 financial year, the Technical Professionals segment accounted for approximately 20% of SKILLED Group's total revenue.

The main brands within this segment include:

SWAN Contract Personnel: SWAN is well known for its long-standing presence in the professional, technical and engineering recruitment industry. SWAN's speciality is in the Oil & Gas and Mining industries. It has built a strong track record in providing project management, engineering and project support labour into onshore and offshore oil and gas, petrochemicals, mineral and infrastructure projects.

Damstra Technology Solutions: Specialises in workforce management, compliance, and safety management with a unique web-based Total Workforce Management System (TWMS) designed and developed to help businesses manage their site-based workforce, contractors, and visitors.

Mosaic: Specialises in sourcing, carefully assessing and placing skilled professional, IT, Government and business support staff at all levels.

ENGINEERING AND MARINE SERVICES

Engineering and Marine Services provides contract maintenance and engineering services and offshore marine staffing and vessel chartering and management services, through two business units being ATIVO/Thomas & Coffey and SKILLED Offshore (formerly Offshore Marine Services (OMS)).

For the 2014 financial year, Engineering and Marine Services accounted for approximately 30% of SKILLED Group's total revenue.

ATIVO and Thomas & Coffey (acquired in February 2014) works closely with SKILLED Workforce Services to deliver projects and capital works, whole of life maintenance services (installations, commissioning, operations and production), decommissioning and infrastructure maintenance and shutdowns, outages, relines and turnarounds.

ATIVO and Thomas & Coffey are leading providers of specialist maintenance and project services to the mining, manufacturing, maritime, industrial and energy resource sectors.

SKILLED Offshore is a leading provider of offshore drilling and marine personnel to the oil and gas industry, and includes Broadsword Marine Contractors business acquired in July 2013.

SKILLED Offshore has offices based in Australia, Malta, New Zealand, Singapore, United Arab Emirates, United Kingdom and the United States of America, offering a global solution to the industry's marine vessel and manning requirements.

Operating and Financial Review (cont.)

SKILLED Offshore services include: recruitment solutions, project management and marine consultancy, provision of marine and drilling personnel, catering services and rig moving.

Offshore Marine Services Alliance Pty Ltd (OMSA) is a 50/50 joint venture between SKILLED Group and PB Sea-Tow Holdings (BVI) Limited principally engaged in the provision of tugs and barges and associated services to the Gorgon Project in North-West Australia. SKILLED Group holds a 50% investment in OMSA, having increased its investment from 33.3% to 50% during the prior period.

3. Our Strategy

SKILLED Group's Core Plus strategy, which was initiated more than two years ago in order to turnaround its performance, remains the key focus in delivering shareholder value.

Key elements of the Core Plus strategy include:

- Building scale in attractive higher skill, higher margin segments; and
- Leveraging scale and brand strength in Workforce Services with a focus on customer service, cost efficiency and safety.

With the acquisition of Broadsword in July 2013 and Thomas & Coffey in February 2014 SKILLED has increased its exposure to higher skilled roles and growth sectors such as oil and gas and will to continue to pursue growth in these sectors, and other growth sectors such as telecommunications and infrastructure.

Significant progress continues to be made on the transformation program with the successful upgrade of the Group's ERP system in July 2014 which was on time and on budget. This will allow for continued simplification of back-office processes and opportunities to further reduce the cost base.

4. SKILLED Group Financial Performance

For the year 30 June ($000's)	2014	2013
Revenue and equity accounted income	1,873,318	1,873,893
EBITDA[1]	95,356	95,083
Depreciation and amortisation	(12,477)	(10,379)
EBIT[1]	82,879	84,704
Net interest expense	(7,781)	(3,774)
Profit before reconciling items and income tax expense[1]	75,098	80,930
Net reconciling items[1]	(14,531)	(3,749)
Income Tax Expense	(16,367)	(21,022)
Reported profit after income tax expense	44,200	56,159

[1] As per Segment reporting in Full Year Financial Report

Reconciliation of result for the year 30 June ($'000s)	2014	2013
Reported profit after income tax expense	44,200	56,159
Net reconciling items[1]	14,531	3,749
Tax on net reconciling items & other items	(3,445)	(1,465)
Underlying profit after income tax expense	55,286	58,443

[1] As per Segment reporting in Full Year Financial Report

REVENUE

Revenue for the Group was $1.873 billion, in line with the prior comparative period ('pcp') due to strong growth in the maintenance and marine sectors and the acquisition of Broadsword and Thomas & Coffey offset by the slowdown in mining activity and overall weaker employment growth.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

EBITDA of $95.4 million compared to $95.1 million in the prior period, with EBITDA margins constant in both periods at 5.1%.

EBITDA excludes restructuring costs and acquisition/integration costs which are recognised within net reconciling items in Segment reporting in Full Year Financial Report.

The cost out program delivered a $15 million reduction in operating and other costs resulting in a sustainably lower cost base. Further productivity improvements are being targeted in the 2015 financial year as the Group leverages its scale and improves operational efficiency.

Operating and Financial Review (cont.)

DEPRECIATION AND AMORTISATION

Depreciation and amortisation for the year was $12.5 million (pcp $10.4 million), reflecting higher depreciation from the asset backed acquisition of Broadsword as well as additional vessels acquired during the period. The Thomas & Coffey acquisition also resulted in higher depreciation during the year.

In addition, amortisation of acquired intangibles of $6.2m was incurred (pcp $0.6m) in respect of customer contracts and other intangibles assets acquired from Broadsword and Thomas & Coffey. This amortisation is recognised within net reconciling items in Segment reporting in Full Year Financial Report.

NET INTEREST EXPENSE

Net interest expense (finance costs less interest revenue) for the year was $7.8m, an increase of $4.0 million on the pcp. The increase was principally due to higher levels of debt in the current year from the acquisition of businesses and capital expenditure on additional vessel acquisitions.

In addition, notional (non-cash) interest on deferred consideration of $1.3 million (pcp $nil) was incurred from recognising this consideration at its net present value on acquisition. This notional interest is recognised within net reconciling items in Segment reporting in Full Year Financial Report.

INCOME TAX EXPENSE

SKILLED's effective tax rate for the period was 27.0% (pcp 27.2%). SKILLED's effective tax rate is impacted by lower income tax rates in foreign jurisdictions and equity accounted income from joint ventures which is recognised on a net of tax basis.

PROFIT AFTER INCOME TAX EXPENSE

As a result of the items described above, reported profit after income tax expense was $44.2 million (pcp $56.2 million) while underlying profit after income tax expense was $55.3 million (pcp $58.4 million).

DIVIDENDS

A fully franked dividend of 9.5 cents per share was declared taking the full year dividend to 17.0 cents per share an increase of 1.0 cent per share from the prior year. This reflects the strong operating cashflow generation of the Group.

5. Segment Financial Performance

WORKFORCE SERVICES

For the year 30 June ($'000s)	2014	2013	Change
Revenue $m	884,253	918,323	(34,070)
EBITDA $m	35,200	40,824	(5,624)
EBITDA margin	4.0%	4.4%	(0.4%)

Revenue was $884.3 million, a 3.7% decrease on the prior year, while EBITDA was $35.2 million a 13.8% decrease.

Workforce Services' revenue and margin continued to be affected by difficult market conditions, particularly in the mining and manufacturing sectors, with weaker employment growth post the Federal budget.

Underlying activity levels stabilised in the second half and have been maintained to date with contract wins in iron ore, coal, infrastructure, rail and further opportunities in telecommunications (NBN).

Good progress was made on the implementation of systems and process initiatives and further cost reduction, partially offsetting continued pricing pressure. The recently upgraded ERP (Agresso), and ongoing automation and centralisation of activities, will benefit Workforce Services in particular.

Volumes in Workforce Services continued to benefit from supplier consolidation in mining and FMCG sectors.

The pipeline of infrastructure projects and re-setting of NBN activity is expected to support future growth.

TECHNICAL PROFESSIONALS

For the year 30 June ($'000s)	2014	2013	Change
Revenue $m	375,032	488,914	(113,882)
EBITDA $m	16,574	26,795	(10,221)
EBITDA margin	4.4%	5.5%	(1.1%)

Revenue was $375.0 million, a 23.3% decrease on the prior year, while EBITDA was $16.6 million, a 38.1% decrease.

Swan revenue and contractor numbers declined significantly across the year, affected by reduced engineering project activity. However, contractor numbers appear to have stabilised towards the end of the second half.

There was weaker demand for permanent and contractor technical professional roles, however, demand for NBN related telecommunication roles is expected to increase in FY15. Training Services and Indigenous employment continued to perform well, and performance improved in Skilled Health.

The cost base in this segment was lowered significantly during FY14 in response to the ongoing difficult market conditions.

Operating and Financial Review (cont.)

ENGINEERING & MARINE SERVICES

For the year 30 June ($'000s)	2014	2013	Change
Revenue $m	617,841	468,758	149,083
EBITDA $m	58,278	41,321	16,957
EBITDA margin	9.4%	8.8%	0.6%

Revenue was $617.8m, a 31.8% increase on the prior year, while EBITDA was $58.3m a41.0% increase.

Activity levels in ATIVO improved in the second half, with an increase in maintenance and shutdown activity, in addition to contract wins at Olympic Dam, in the Hunter Valley and the Pilbara.

Thomas & Coffey, acquired in February 2014, is performing well, providing reach and capability to the Engineering offering. Integration is progressing to plan.

In SKILLED Offshore, a strong performance from the International and New Zealand businesses, and improved activity levels in the Australian business in the second half, contributed positively to the result.

Mobilisation of the Saipem contract commenced in the fourth quarter, with the majority of activity scheduled to occur in FY15.

Broadsword Marine Contractors EBITDA contribution was in line with expectations on acquisition. The business experienced a high level of vessel utilisation in the second half and has a strong pipeline of work, including mining and infrastructure related projects.

Activity levels in the OMSA JV continue to wind-down, consistent with the client's project schedules. The current contract is due to be completed in December 2015.

Overall, the strong second half run-rate achieved in Engineering and Marine Services is expected to continue into FY15. There is a strong pipeline of opportunities, including recent contract wins.

6. SKILLED Group Financial Position

	30 June 2014 $'000	30 June 2013 $'000
Total Assets	873,099	684,720
Total Liabilities	394,302	212,814
Total Equity	478,797	471,906

TOTAL ASSETS

Total assets increased by $188.4 million from $684.7 million to $873.1million. Current trade receivables were $254.9 million, an increase of $44.1million from the pcp of which $29.6 million related to the acquisition of businesses during the period and the balance due to higher activity from the acquired businesses towards the end of the 2014 financial year, a higher mix of business with Engineering & Marine customers with longer credit terms and the impact of the initial mobilisation of the SKILLED Offshore manning services contract with Saipem in relation to the INPEX operated Ichthys LNG project.

Property, plant and equipment was $88.1 million, an increase of $70.0 million, of which $29.2m related to the acquisition of businesses during the period with the balance due to $40.9 million of additional vessels purchased to support the Broadsword marine business. Other items of capital expenditure were offset by depreciation in the period.

Equity accounted investments decreased by $10.4 million to $22.9 million reflecting dividends of $15.0 million received during the period from the OMSA joint venture and the share of income from associates recognised for the year.

TOTAL LIABILITIES

Total liabilities increased by $181.5 million from $212.8 million to $394.3 million. Of the increase, $66.9 million related to liabilities acquired with businesses during the period, including deferred consideration payable but excluding debt assumed, while borrowings increased $120.2 million due to cash payments in relation to acquisitions and additional vessel purchases (refer Funding and capital management for further details).

TOTAL EQUITY

Equity increased by $6.9 million from $471.9 million to $478.8 million. Of this, retained earnings increased by $5.5 million reflecting profit earned for the year of $42.2 million less dividends paid of $38.7 million.

7. Funding and capital management

Financing facilities of $385.7 million were available as at 30 June 2014 of which $177.6 million were used (excluding finance lease liabilities and unamortised loan establishment costs), leaving $208.1 million unused.

Net Debt (borrowings less cash) increased by $125.3 million from $44.8 million to $170.1 million. The increase in debt reflected the following key items:

- operating cashflow of $60.7 million;
- net interest paid of $7.2 million;
- capital expenditure of $51.0 million, of which $40.9m related to vessel purchases;
- payments for acquisitions of $86.5 million (net of $8.5 million of debt assumed);
- dividends paid of $38.7 million.

SKILLEDGroup's key capital structure financial metrics as at 30 June 2014 were:

	2014	2013
Leverage		
(Net debt/EBITDA(i))	*1.8x*	*0.5x*
Interest cover		
(EBITDA(i)/Net interest expense(i))	*12.3x*	*25.2x*
Gearing		
(Net debt/Net debt + equity)	*26%*	*9%*

(i) EBITDA and net interest expense is as disclosed in note 30 Segment Reporting

At 30 June 2014, the syndicated bank debt facility was $320 million in total comprising three tranches, being $100 million (maturing in August 2015), $90 million (maturing in August 2015) and $130 million (maturing in August 2016). The market rate advance facility is $22.5 million (maturing in December 2014).

<u>Future Commitments</u>

As at 30 June 2014, SKILLED Group's future operating lease commitments of $49.8 million (pcp $47.9 million) related to leases of office premises, computer equipment and bareboat charter arrangements.

8. Outlook

The stronger second half FY14 trends are expected to continue into FY15, despite external market challenges:

- Workforce Services: overall activity levels appear to have stabilised, with wins in FMCG, mining & resources and transport & logistics, however margin pressure is expected to continue.
- Engineering & Marine Services: the contribution from the Saipem project will offset reduced activity from the OMSA JV. A full year contribution from Thomas & Coffey and growth in Broadsword will support FY15 earnings. Growth is also expected from increased activity levels, new contract wins and a visible pipeline of opportunities in project maintenance and marine.
- Technical Professionals: contractor numbers in Swan showed some signs of stabilising at the end of FY14. Telecommunications activity is expected to strengthen in line with increased NBN activity. Health and Training Services activity levels are expected to remain solid into FY15.

The cost reduction program is expected to deliver a further $10 million benefit in FY15.

Working capital will peak in mid FY15 in line with activity on the Saipem project.

SKILLED is well positioned for longer term benefits from its pipeline of opportunities across infrastructure, mining and oil & gas and any cyclical improvement in economic activity and expansion in mining volumes. Ongoing strategy implementation, further cost reduction, cash generation and a strong balance sheet support future dividends and SKILLED will continue to invest in future growth.

Operating and Financial Review (cont.)

9. Risk management

The risk management process at SKILLED Group analyses and manages business risks, as well as identifies business process improvement opportunities. The risk assessment process includes an estimation of the likelihood of risk occurrence, potential impact on the financial results and an assessment of the effectiveness of existing internal controls. When existing controls need further improvements, action plans are established and implemented to mitigate the risk to an acceptable level. All business units perform risk assessments on a regular basis and a summary of results is reported to the Audit & Risk Committee.

Set out below are summaries of key risks which may materially impact the execution and achievement of the business strategies and prospects for the Group in future financial years. These key risks should not be taken to be a complete or exhaustive list of the risks and uncertainties associated with the Group. Many of the risks are outside the control of the Group or its officers. There can be no guarantee that SKILLED will achieve its stated objectives, that it will meet trading performance expectations, or that any forward looking statements contained in this report will be realised or otherwise eventuate.

KEY RISKS IN RELATION TO SKILLED GROUP

Downturn in the industries in which we work

SKILLED's revenue and growth is susceptible to any downturn in the industries and geographies we service. In turn, the labour related services we supply are susceptible to any economic or political changes that lead to a decreased demand for workers. SKILLED's financial performance could be affected by downward movements in the economic and labour market conditions.

SKILLED has developed a diversified portfolio of businesses with exposures across industries and geographies and across a broad range of service offerings. While general economic conditions are outside the Group's control this diversification mitigates the risk of a downturn in any one area.

Key contracts and business relations

Services which we provide are generally subject to contracts that are terminable on short notice. SKILLED has fixed term contracts with the majority of its significant customers. However, these contracts can be terminated on notice prior to the expiry of the fixed term. The financial performance of SKILLED is therefore susceptible to the loss of one or more major contracts or clients.

SKILLED is proactively engaged in maximising customer retention and seeking new customers and opportunities to mitigate the risk of loss of one or more major contracts.

Competition

SKILLED's business is susceptible to competition for the provision of labour related services in the markets in which we operate. Additionally, competitive pricing strategies and demands from high value clients seeking preferred supplier agreements, may impact on SKILLED's profit margins and market share.

This risk is mitigated by a large diversified client base reducing the impact of pricing strategies and demands from any one customer.

Safety

While SKILLED's objective is to achieve zero harm, there remains the risk of serious injuries or fatalities to our employees. This risk is mitigated by progressively improving on already high safety performance standards across the business. Central to this is SKILLED's Safety Golden Rules which are well embedded and embraced across our business. We also work with clients to enhance their approach to managing their safety risks.

Reliance on key personnel

There can be no assurance that SKILLED will be able to retain key personnel and the departure of such personnel may affect adversely the business until suitable replacements are recruited. SKILLED endeavours to ensure that it remains competitive in terms of remuneration and other incentives, and reviews employee incentive arrangements from time to time with a view to aligning management's and employees' interests with those of SKILLED and its shareholders.

Other risks

Other areas of risk faced by SKILLED Group include:

- operational risk, which arises from inadequate or failed internal processes, people and systems, or from external events;
- risks associated with the integration of acquired businesses;
- risks associated with our offshore and overseas activities;
- risks associated with the industrial relations landscape in Australia;
- contractual risk, being the nature of the performance and indemnity requirements in contracts with customers and;
- financial risks arising from fraud, regulatory breaches and bad debts.

Appropriate policies and procedures are continually being developed and updated to help manage these risks.

Directors' Report

The Directors of SKILLED Group Limited (the "Company") present the annual financial report for the consolidated entity comprising the Company and its controlled entities (collectively referred to as "SKILLED Group") for the financial year ended 30 June 2014.

Directors

The Directors of the Company during the financial year were:

Directors	Qualifications & experience	Directorships and Offices
Vickki McFadden • Independent Non-executive Chairman • Chairman of the Nomination Committee • Member of the Audit & Risk Committee • Member of Remuneration Committee	BComm, LLB Appointed Chairman in October 2010 and a Director in September 2005. Broad experience in finance and law with considerable experience in corporate finance transactions. Previously, a Director/Principal of Centaurus Corporate Finance and Managing Director, Investment Banking, at Merrill Lynch in Australia.	**Listed** Non-Executive Director, Leighton Holdings Limited (from June 2013 to May 2014) **Other** President of the Takeovers Panel (appointed March 2013). Member since March 2008 Non-Executive Director, The Myer Family Company Holdings Pty Ltd, The Myer Family Investments Pty Ltd, Sidney Myer Custodian Pty Ltd and The Myer Family Company Ltd (since August 2011) Member, Advisory Board and Executive Committee of Australian School of Business, The University of New South Wales (since August 2000)
Mick McMahon • Chief Executive Officer and Managing Director	BEc, Harvard Business School Advanced Management Program (2009) Managing Director and CEO since November 2010. Previous experience in national marketing, supply chain, IT and strategy. Mick previously spent 19 years with Shell in Australia and overseas. His roles included Vice President Retail Marketing for Shell's global retail business, Director of Shell's UK & Ireland downstream businesses, GM Strategy & Marketing, Shell Europe and running its Australian retail business. Mick was previously Chief Operating Officer Coles from 2007 to 2009 and Managing Director of Coles Express 2005 to 2009. Prior to joining SKILLED Group, he was Senior Advisor with TPG Capital engaging in investments in the energy, retail and industrial sectors in Australia and overseas.	**Listed** Non-Executive Director, Metcash Ltd (since November 2013) **Other** Chairman, Red Rock Leisure Pty Ltd (since December 2009) Member of Business Council of Australia Victorian and National Councillor of the Australian Industry Group Co-Chair, Victorian Industry Skills Consultative Committee (since March 2013)
Tony Cipa • Independent Non-Executive Director • Chairman of the Audit & Risk Committee	BBus, Grad Dip Accounting Appointed Director in April 2011. Tony spent 20 years with CSL Limited in various senior finance roles. Tony was Chief Financial Officer, CSL (1994 – 2000) and was appointed to the Board of CSL Limited as Finance Director in 2000 until his retirement in 2010.	**Listed** Non-Executive Director, Navitas Limited (since May 2014) Non-Executive Director, Healthscope Limited (since June 2014) **Other** Non-Executive Director, Mansfield District Hospital (since July 2011)
Max Findlay • Independent Non-Executive Director • Member of the Audit & Risk Committee • Member of the Remuneration Committee • Member of the Nomination Committee	BEc Appointed Director in March 2010. Broad experience in services and manufacturing. Max spent 20 years at Programmed Maintenance Services and was Managing Director for 18 years until his retirement in 2008. Prior to that he was its Business Development Manager. He previously spent 11 years with Australian Consolidated Industries, three years with Vinyl Clad (a Division of Smith & Nephew) and five years with James Sephton Plastics.	**Listed** Chairman, EVZ Limited (April 2008 to present) Chairman, Redflex Holdings Limited (November 2009 to February 2013) **Other** Deputy Chairman, the Royal Children's Hospital, Melbourne (since December 2012). Director since 2009 Non-Executive Director, SMEC Holdings Limited (trading as Snowy Mountain Engineering Corporation) (since April 2010) Non-Executive Director, Exact Mining Group Pty Ltd (from August 2008 to March 2014).

Directors' Report (cont.)

Directors	Qualifications & experience	Directorships and Offices
Bob Herbert AM • Independent Non-Executive Director • Chairman of the Remuneration Committee	BComm Director since November 2003. Former CEO of Australian Industry Group. Considerable industry experience. Involved with Australian Industry Group and its predecessor organisation, Metal Trades Industry Association of Australia, since 1961, including 30 years as a director in numerous roles.	**Listed** Nil **Other** Deputy Chairman, Industry Capability Network Limited (since May 2003) Chairman, Melbourne Cricket Ground Trust (appointed 2014). Trustee since November 2003 Chairman, trackSAFE Foundation (since November 2012) Water Supplier Advocate (from April 2010 to June 2014), appointed by Commonwealth Department of Innovation, Industry, Science & Research Trustee, Emergency Services Superannuation Board (from June 2010 to 30 June 2013)
Tracey Horton • Independent Non-Executive Director • Member of the Audit & Risk Committee • Member of the Remuneration Committee • Member of the Nomination Committee	BEc(Hons), MBA Appointed Director in February 2011. Tracey previously worked as an economist, business analyst and management consultant and has experience in developing strategy, performance improvement and business turnaround, having worked in the public and private sectors in Australia and overseas. Tracey was the Dean of The University of Western Australia Business School (February 2005 - August 2011) and worked at the Reserve Bank of Australia (based in Sydney) and Bain & Company (based in San Francisco).	**Listed** Non-Executive Director, AHG Limited (since May 2012) Non-Executive Director, Navitas Limited (since June 2012) **Other** Chairman, Council of Presbyterian Ladies College (since September 2012) President, Chamber of Commerce and Industry of WA (Inc) (since 2013), Vice-President (from October 2012) Chair, Perth Fashion Concepts Inc (since February 2013) Member, Bain & Co Advisory Board (since January 2014) Member, Australian Treasury Advisory Committee (since May 2014)
Jim Walker Independent Non-Executive Director	GAICD Appointed Director November 2013. Jim has over 40 years of experience in the resources sector, most recently as Managing Director and Chief Executive Officer of WesTrac Pty Ltd, where he led the company's rapid development in industrial and mining services locally and in China. Prior to this, Mr Walker held various roles with other Australian Caterpillar dealers. Jim is a qualified Diesel and Heavy Earthmoving Equipment Fitter.	**Listed** Chairman, Macmahon Holdings Limited (since March 2014). Non-Executive Director since October 2013 Non-Executive Director, Seeing Machines Limited (since May 2014) (Listed on London Stock Exchange) **Other** Trustee, WA Motor Museum (since 2001) Councillor, Wesley College, Perth (since 2006) Non-Executive Director, RAC Holdings, WA (since October 2013) Chairman, WA State Training Board (since July 2014). Director since March 2014

Directors' Report (cont.)

There have been no changes to the directors since the end of the financial year.

As at the date of this report, the interests of the directors in the shares and options of SKILLED Group Limited were:

Directors	Fully paid ordinary shares	Shares under option/rights
VA McFadden	126,885	-
MP McMahon	1,005,339	3,248,946
AM Cipa	15,544	-
MJ Findlay	35,000	-
RN Herbert AM	13,054	-
TA Horton	-	-
JA Walker	-	-

The Remuneration Report set out at pages 12 to 25of this Report forms part of this Directors' Report.

Company Secretary

SHARYN PAGE, BALLB, ACIS

Appointed Company Secretary and Group General Counsel of SKILLED Group on 1 December 2012. Previously Company Secretary, Spotless Group Limited (2010 – 2012), Deputy Company Secretary, ANZ (2009), Company Secretary, Arrium Limited (formerly OneSteel Limited) (2008 – 2009), Board Executive and Company Secretary, AMP (2005 – 2008) and Assistant Company Secretary, AMP (2003 – 2005). Previously held a number of legal and compliance roles within the financial services industry.

Dividends

For the financial year ended 30 June 2014, a final dividend of 9.5 cents per share franked to 100% (at a corporate income tax rate of 30%) will be paid on17 October 2014 to holders of fully paid ordinary shares. An interim dividend of 7.5 cents per share franked to 100% (at a corporate income tax rate of 30%) was paid on 11 April 2014.

Principal activities

The principal activities of SKILLED Group were the provision of staffing and related solutions to the public and private sectors. This included the provision of supplementary trades and professional labour, maintenance services, project management, healthcare professionals, offshore marine vessel and staffing services, customer contact solutions and trainee and apprenticeship management.

Results

The net profit of SKILLED Group for the financial year after income tax expense was $44,200,000 (2013: $56,159,000).

Review of operations

Information on the operations and financial position of SKILLED Group and its business strategies and prospects is set out in the Operating and Financial Review.

Changes in state of affairs

There has been no significant change in the state of affairs of the Consolidated Entity.

Subsequent events

There has been no other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect the operations of the Consolidated Entity, results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Future developments

In the opinion of the directors, the disclosure of any information in addition to that provided in the Operating and Financial Review relating to the likely developments in the operations of SKILLED Group and the expected results of those operations could be prejudicial to the interests of SKILLED Group. Accordingly, this information has not been included in this report.

Directors' Report (cont.)

Environmental regulation and performance

The Company's operations are subject to various environmental regulations under both Commonwealth and State legislation.

The Company has established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force. The Company has not been fined or prosecuted for, or convicted of, any significant breaches of environmental regulation during the financial year.

Indemnification of officers and auditors

During the financial year, the Company paid a premium for a contract insuring the directors of the Company (as named above), the company secretary and all executive officers of the Company and of any related body corporate against a liability incurred as such by a director, company secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

SKILLED Group has entered into a Deed of Indemnity, Insurance and Access with each director of the Company and the company secretary against a liability incurred as such by the director or the company secretary, to the extent permitted by the *Corporations Act 2001* and to provide funding during legal proceedings against the directors or the company secretary, where the legal proceedings arise from acting in their capacity as a director or company secretary of SKILLED Group or a subsidiary.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Board and committee meetings

The table below sets out the Board and committee meetings held during the financial year and, where applicable, the number attended by each director. Directors have a standing invitation to all Committee meetings and often attend meetings where they are not Committee members.

	Board		Audit & Risk Committee		Remuneration Committee		Nomination Committee		Other special purpose Committees	
Director	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
VA McFadden	11	11	5	5	5	5	0	0	3	3
MP McMahon	11	11	-	-	-	-	-	-	7	7
AM Cipa	11	11	5	5	-	-	-	-	5	4
MJ Findlay	11	11	5	4	5	4	0	0	-	-
RN Herbert AM	11	11	-	-	5	5	-	-	-	-
TA Horton	11	11	5	5	5	5	0	0	-	-
JA Walker[1]	6	6	-	-	-	-	-	-	-	-

Rounding of amounts

The Company is of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and, in accordance with that Class Order, amounts in the Directors' Report and the Financial Report has been rounded off to the nearest thousand dollars.

Non-audit services

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 26 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 32.

[1]JA Walker joined SKILLED Group as a Non-Executive Director on 1 November 2013.

Remuneration Report

This Remuneration report forms part of the Directors' Report.

1. Introduction

This Remuneration Report details remuneration information as it applies to SKILLED Group Key Management Personnel ("KMP") for the year ended 30 June 2014 in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 208(3C) of the Act. Our remuneration disclosures aim to maintain a high standard of clarity and transparency in communications with all stakeholders.

The KMP referenced throughout this report are listed below.

Non-Executive Directors	Position
Vickki McFadden	Chairman, Chairman - Nomination Committee
Tony Cipa	Non-Executive Director, Chairman - Audit & Risk Committee
Max Findlay	Non-Executive Director
Bob Herbert AM	Non-Executive Director, Chairman - Remuneration Committee
Tracey Horton	Non-Executive Director
Jim Walker (i)	Non-Executive Director

Executive directors and KMP	Position
Mick McMahon	Chief Executive Officer, Executive Director
Gary Kent	Chief Financial Officer
David Timmel	Chief Operating Officer, Workforce Services
Johannes Risseeuw (ii)	Chief Operating Officer, Engineering & Offshore
Jennifer Boulding(iii)	Chief Operating Officer, Technical Professionals
Sharyn Page(iv)	Company Secretary & Group General Counsel

(i) Jim Walker joined SKILLED Group as a Non-Executive Director on 1 November 2013

(ii) Johannes Risseeuw was appointed to the role of Chief Operating Officer, Engineering effective 1 January 2014 and subsequently to the role of Chief Operating Officer, Engineering & Offshore

(iii) Jennifer Boulding was appointed to the role of Chief Operating Officer, Technical Professionals effective 1 October 2013

(iv) Sharyn Page became a KMP effective 1 July 2013

2. Remuneration governance

The Board's objective is to ensure that SKILLED Group's remuneration strategy is aligned to the Company's strategy, to drive performance and behaviours in the Company's best interests and to deliver shareholder value. Most of the remuneration matters are considered by the Remuneration Committee, which is a sub-committee of the Board. Pursuant to the terms of its charter, the Remuneration Committee considers the remuneration framework, levels and performance of the Chief Executive Officer ("CEO") and the CEO's direct reports as well as the general remuneration policies and practices for all staff.

In carrying out its duties, the Remuneration Committee from time to time, draws on the services of independent remuneration consultants. In the 2014 financial year the Committee obtained remuneration general market data from remuneration consultants. The Remuneration Committee forms its own independent decisions on executive remuneration.

The overall remuneration strategy is reviewed by the Committee to ensure it meets the needs of the Company.

3. Our remuneration principles and policy

SKILLED Group's approach to executive remuneration is to have a remuneration framework in place that enables us to attract, retain, motivate and reward high performing executives in the Company's best interests and to deliver long term value to shareholders. The executive remuneration principles are set by the Board and managed by the Remuneration Committee.

The key principles which govern the Company's remuneration framework are to:

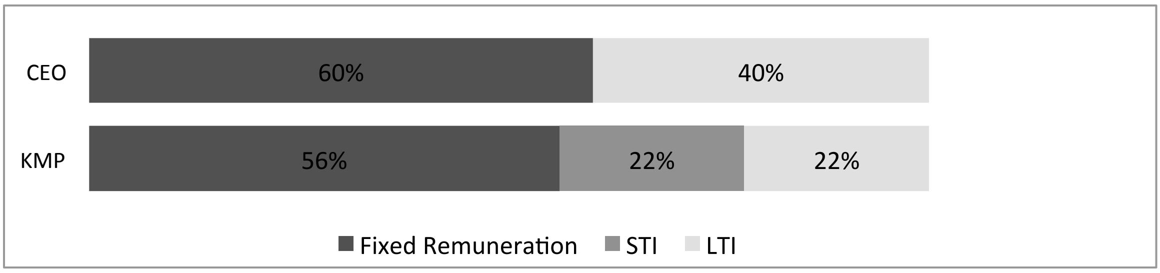
- ensure remuneration outcomes are aligned to the drivers of the Company's success and the achievement of overall company and business unit objectives.
- provide specific and measurable objectives under a balanced scorecard approach with targets set for the five pillars of safety, our people, financials, customers and operations.
- ensure the total remuneration package is market competitive and provides the appropriate balance of fixed and variable remuneration.

Remuneration Report (cont.)

Components of the senior executives' total remuneration include:

	FIXED ANNUAL REMUNERATION	SHORT-TERM INCENTIVE (STI)	LONG-TERM INCENTIVE (LTI)
Covers	• All KMPs and Senior Executives	• All KMPs and Senior Executives (excluding CEO)	• All KMPs and Senior Executives
Consists of:	• Fixed cash salary • Superannuation • Salary sacrificed benefits	• Annual cash incentive	• Grants of performance rights or options over a 3 year performance period
Performance Measures		• Targets linked to Company, business unit and individual performance outcomes	• Performance hurdles are linked to EPS and relative TSR
Rewards for:	• Performance, skills and capability	• Performance over a 12-monthperiod against agreed Company, business unit and individual performance	• Growth in the Company's EPS • Relative TSR performance against peer group

The chart below illustrates how the above elements of remuneration are used to reward the CEO and senior executives' in the 2014 financial year remuneration using an "at target" remuneration package for each group. The Board has discretion to provide other forms of incentive remuneration in appropriate circumstances.



At stretch levels of performance a further 40% of the CEO's remuneration (at target) is available for LTI. In the case of other senior executives, a further 22% of remuneration (at target) is available for STI and 22% for LTI, on average.

A significant component of the senior executives' total remuneration is at risk in the form of short-term and long-term incentives. The Board & CEO sets clear performance targets for the senior executives directly aligned to five key areas of measurement across the Company: safety, our people, financials, customers and operations. These five pillars are outlined in the table below.

Balanced scorecard – five key pillars	
Safety	Safety is a core value for SKILLED Group. Targets are set for each business and the Company as a whole to reduce the total recordable injury frequency rate (TRIFR), the all injury frequency rate (AIFR) and the lost time injury frequency rate (LTIFR).
Our People	People are the foundation of our business and our greatest asset. Attracting, developing and retaining capable staff and field employees to meet the needs of our clients will continue our success as a market leader. Measures can vary between each business but may include staff retention and staff engagement.
Financials	Financial discipline is essential to enhance shareholder value. Our targets are focused on: profitability; ensuring our cost base is appropriate; and working capital management.
Customers	As market leader, SKILLED Group is committed to building its customer base and delivering outstanding service to all customers. The Company has put in place measures across each business to assess our performance in delivering superior service to all our customers including customer profitability, customer satisfaction and customer retention.
Operations	Delivering improvements to our systems and procedures is a focus of all of our operations, supported by a centralised 'back office' model to achieve operational efficiencies. Measures include processing efficiency and implementation of process improvements.

Achievement of targets set for each of these five key pillars will deliver target remuneration and where senior executives deliver above target performance levels, they have the capacity to earn in excess of target remuneration.

Remuneration Report (cont.)

4. Executive remuneration components

The remuneration components for senior executives are outlined in this section. External benchmarking is undertaken annually, with information provided by independent remuneration consultants:

- against executive remuneration practices within companies listed on the ASX with market capitalisation and revenues similar to that of the Company and/or within an industry sector in which it has operations;
- with consideration for the market for organisations and positions of comparable size and complexity, sustained individual performance and competency levels, and importance to the business; and
- within the Company to manage internal relativities.

FIXED REMUNERATION

The fixed remuneration consists of cash salary, any salary sacrifice items and employer superannuation. Fixed remuneration is targeted at the market median for executive roles having similar scope, accountability and complexity to those being reviewed.

Fixed remuneration is reviewed annually against the benchmarks with any adjustment taking into consideration the individual performance, competency levels, and importance to the business. For particular cases, high performance, value and critical skills may result in fixed remuneration above the market median.

SHORT-TERM INCENTIVE

The SKILLED Group Executive Short-Term Incentive Plan ("STI Plan") has been established to provide competitive performance-based remuneration incentives to senior executives. The STI Plan reflects a strong commitment towards attracting and retaining a high performing leadership team committed to the on-going success of SKILLED Group and the creation of shareholder value.

A balanced scorecard is established for each eligible senior executive at the start of the performance year with clear objectives set to reflect each executive's potential impact on the business. To provide consistent evaluation, individual performance and business performance are assessed against the same five key areas of measurement being safety, our people, financials, customers, and operations. Under each of these five areas key performance indicators are established for each eligible executive at the start of the year, at each of the threshold, target and stretch levels. Through variable remuneration senior executives have the opportunity to earn more than target remuneration, should they achieve the stretch levels set out in the balanced scorecard.

The threshold, target and stretch measures are based on the following performance levels.

Measure	Performance level
Threshold	Represents the minimum acceptable level of performance that needs to be achieved before any incentive payment is generated on the performance objective.
Target	Represents strong performance outcomes relative to past and otherwise expected achievements.
Stretch	Represents a clearly outstanding level of performance.

Under the STI Plan, the Board retains discretion to increase or decrease incentive payments to take account of significant events and/or other factors that were not anticipated when the targets were established. The STI Plan is not the exclusive method of providing incentive remuneration for employees of SKILLED Group and the Board has discretion to provide other forms of incentive remuneration in appropriate circumstances.

LONG-TERM INCENTIVE

The Long-Term Incentive Plan ("LTI Plan") provides flexibility in delivering long-term incentive awards to executives in the form of performance rights or options. The LTI Plan is designed to retain executives with key skills and to align the interests of participants with the interests of the Company and shareholders.

LTI Plan Participants	The LTI Plan is open to senior executives and other key individuals who make a significant contribution to the success of the Company. Participation in the plan, which is approved by the Board, is based on sustained individual performance and value to the Company.
Type of Awards	Under the LTI Plan it is possible for the Board to grant performance rights or options over SKILLED Group ordinary shares. The performance rights and options do not confer a right to vote. The vesting of awards is subject to performance hurdles which are outlined in Section 5.
Performance Measures	Under the LTI Plan the awards are granted subject to performance conditions based on Earnings Per Share ("EPS") and relative Total Shareholder Return ("TSR"). These two performance measures operate independently under a 50/50 split on grant. Under the Plan, EPS is defined as Earnings per Share excluding profit or loss on divestment of businesses and any non-cash items associated with the acquisition, divestment or restructure of any business. For the calculation of TSR, the peer group is the ASX200 excluding financial institutions and including key competitors. Prior to 2011, the grants awarded under the LTI Plan were subject only to EPS performance hurdles.
Performance Period	The performance period is generally three years, determined at the time of grant by the Board and if the performance hurdles are satisfied the awards will vest. In the case of performance rights, upon vesting the participant will be entitled to one SKILLED Group ordinary share for each performance right. For grants made to the CEO in the 2014 financial year and onwards, 50% of any grant that vests is required to be retained by the CEO for two years.
Cessation of Employment	The LTI Plan Rules provide the Board with discretion in relation to the treatment of performance rights or options held by employees who cease employment. Subject to the exercise of that discretion in any particular case, the following

	principles apply: If the employee ceases to be employed as the result of total & permanent disability, retirement, redundancy or such other circumstances where the Board determines the employee to be a “good leaver”, the employee will be eligible to retain unvested performance rights and options on a pro-rata basis, in line with their period of service during the performance period for those performance rights or options (rounded up or down to the nearest whole year). The remaining performance rights or options lapse. If an employee resigns, any unvested performance rights or options will, subject to Board discretion, lapse. If an employee is dismissed with cause, any unvested options or performance rights will lapse. Any employee who ceases employment and retains options which subsequently vest has 6 months from the date of vesting to exercise the options, otherwise they will lapse.
Hedging Policy	SKILLED Group has a policy which prohibits any portion of a grant that has not vested to be hedged using financial products designed to eliminate risk of price movement in the underlying share. Any breach of this policy can result in the Board taking disciplinary action which may result in immediate forfeiture of any portion of any grant that has not yet vested or been exercised, or other disciplinary action.
Forfeiture / Claw back	The LTI Plan provides the Board absolute discretion to forfeit, claw back or withhold a grant where the Board becomes aware a participant has acted fraudulently, dishonestly and/or made a material misstatement on behalf of SKILLED. The Board does not apply a purely formulaic approach to vesting outcomes which ensures any benefit a participant receives, as a current or former participant, reflects the participant’s contribution to SKILLED’s long term performance.

Decisions to grant performance rights and options are made by the Board based on recommendations of the Remuneration Committee.

5. Executive remuneration outcomes

The remuneration for senior executives for the year ended 30 June 2014 is set out below. Please refer to section 6 for further details regarding the remuneration structure for senior executives including the Chief Executive Officer

FIXED REMUNERATION

The remuneration of senior executives is reviewed annually and any increase to fixed remuneration, as a result of the review, is applied effective 1 September for the CEO and 1 October for other senior executives. Consideration is given to pay market movements for organisations and positions of comparable size and complexity, sustained individual performance and competence levels, and importance to the business.

SHORT-TERM INCENTIVES

The variable remuneration outcomes are linked with the performance of the individual and the Company against the key objectives set out in the balanced scorecard for each business unit.

In the 2014 financial year, SKILLED Group did not meet the target performance measures at a Group level. No incentives were achieved in the financial year for the executive directors and other key management personnel outlined in the table below.

Short-Term Incentive Plan	% of Fixed Remuneration		
	STI Achieved	STI not achieved	Maximum STI that could be achieved
Gary Kent	–	80%	80%
David Timmel	–	80%	80%
Johannes Risseeuw	–	80%	80%
Jennifer Boulding	–	40%	40%
Sharyn Page	–	40%	40%

Note: Mr McMahon’s remuneration structure consists of fixed remuneration and participation in the LTI Plan. No STI is available to Mr McMahon. For further details refer to section 6 of this report.

LONG-TERM INCENTIVES

<u>2014 Financial Year</u>

During the year, 1,859,000 performance rights and 1,750,000 options over SKILLED Group shares have been granted under the LTI plan to a number of executives. Performance rights granted with a performance period from 1 July 2013 through to 30 June 2016 were calculated based on the volume weighted average share price of SKILLED Group ordinary shares for the five days commencing on 15 August 2013 (being one day after the announcement of the 2013 financial year full year results).

Remuneration Report (cont.)

Options and performance rights granted during the year were valued using Black-Scholes option pricing methodology. The following table lists the inputs to the models used for grants of options and performance rights under the LTIP Plan.

	Options	Performance Rights
Grant date share price ($)	3.24	3.24
Exercise price ($)	3.08	N/A
Expected volatility (%)	35.0	35.0
Life (years)	6	3
Dividend yield (%)	6.0	6.0
Risk free interest rate (%)	2.93	2.93

The performance hurdles for the performance rights and options are set out below.

EPS 3 year performance period 1 July 2013 – 30 June 2016	% to vest
Less than 6% Compound Annual Growth (CAGR)	0%
6% CAGR	25%
Between 6% and 8% CAGR	Pro rata
8% CAGR	50%
Between 8% and 10% CAGR	Pro rata
10% CAGR	100% of grant assessed under EPS performance measure

Relative TSR 3 year performance period 1 July 2013 – 30 June 2016	% to vest
Below 50th Percentile	0%
50th Percentile	50%
Between 50th and 75th Percentile	Pro rata
75th Percentile	100% of grant assessed under Relative TSR measure

In the 2014 financial year, SKILLED also issued 229,000 retention performance rights to selected senior executives to retain key skills during the integration of Thomas & Coffey. These retention performance rights may vest between 3 February 2015 and 3 February 2016, subject to the satisfaction of time and performance based vesting conditions.

During the 2014 financial year, 1,679,938 options and 204,977 performance rights vested in relation to the LTI Plan awarded in the 2011 Financial Year with a performance period of 1 July 2011 to 30 June 2013. Also during the year 337,838 performance rights vested in relation to the CEO Co-investment scheme (Tranche 1) with a performance period ending 30 September 2013.

<u>2015 Financial Year</u>

In the 2011 financial year, Mr McMahon was granted 675,676 performance rights on his commencement under a co-investment scheme with a vesting date of 30 September 2013 for 50% of the rights and 30 September 2014 for the remaining 50%. On 30 September 2013, 337,838 performance rights vested and were allocated to Mr McMahon in the 2014 financial year. On 30 September 2014 the balance of the co-investment scheme will be tested. Given the performance measures have been met, 100% of the 337,838 performance rights eligible to vest on 30 September 2014 will vest, subject to Mr McMahon continuing to hold his Co-investment shares in the Company until 30 September 2014 and remaining employed by SKILLED Group on this date.

In 2012 financial year, performance rights were granted to Mr McMahon and other executives under the LTI Plan. The performance rights with an EPS performance measure vested at 40% and those with a relative TSR performance measure vested at 86%.

Remuneration Report (cont.)

The performance hurdles for the LTI grants and the vesting outcome are as follows:

EPS Performance Measure

Performance level	3 year cumulative EPS 1 July 2011 – 30 June 2014	% to vest
Below threshold	Below 62 cents per share (cps)	0%
Threshold	62 cps	25%
Between threshold & target	Between 62 and 70 cps	Pro rata
Target	70 cps	50%
Between target & stretch	Between 70 and 76 cps	Pro rata
Stretch	76 cps	100% of grant assessed under EPS performance measure
Actual performance		
Between threshold & target	66.7 cps[1]	40%

[1]EPS for the purposes of the 1 July 2011 – 30 June 2014 LTIP plan is based on reported EPS of 21.1cps in 2012, 24.1cps in 2013 and reported EPS adjusted for non-cash acquisition accounting items in 2014 of 21.5cps. Non cash acquisition accounting items in 2014 are amortisation of acquired intangibles of $4.9m after tax and notional interest on deferred acquisition payments of $1.3m after tax. Reported NPAT in 2014 was $44.2m (EPS 18.9cps) while NPAT excluding these items was $50.4m (EPS 21.5cps).

TSR Performance Measure

Performance level	3 year relative total shareholder returns (TSR) 1 July 2011 – 30 June 2014	% to vest
Below threshold	Below 50th Percentile	0%
Threshold	50th Percentile	50%
Between threshold & target	Between 50th and 75th Percentile	Pro rata
Target	75th Percentile	100% of grant assessed under Relative TSR measure
Actual performance		
Target	68th Percentile	86%

The following table is a summary of key performance and shareholder wealth statistics for the consolidated entity over the past five years; this includes the reported net profit after tax (“NPAT”) and the reported earnings per share (“EPS”).

Financial year	NPAT$ million	Earnings per share (cents)	Total dividends per share (cents)	Share price @ 30 June ($)
2014	44.2	18.9	17.0	2.30
2013	56.2	24.1	16.0	2.57
2012	49.3	21.1	13.0	2.37
2011	3.1	1.6	3.0	2.24
2010	12.7	7.3	–	1.09

Remuneration Report (cont.)

6. Senior executive contracts of employment

The general details of the contracts for senior executives are outlined below. The individual contracts may differ on occasions to suit particular needs.

Contract Item	Terms
Length of contract	Open ended.
Fixed Remuneration	The fixed remuneration comprises cash salary, any salary sacrifice items and employer superannuation. Any fringe benefit tax liability with respect to benefits is borne by the employee and included as part of the fixed remuneration.
Executive Short-Term Incentive Plan (STI Plan)	Eligible to participate. Incentive criteria and award opportunities vary for each executive.
Long-Term Incentive Plan (LTI Plan)	Eligible to participate. Award opportunities may vary for each executive. Refer to Section 4 and 5 for further details on the Long-Term Incentive Plan.
Notice period	The Chief Executive Officer and Chief Financial Officer have a notice period up to twelve months, while key management personnel have a notice period up to six months.
Resignation	Employment may be terminated by giving notice consistent with the notice period.
Retirement	There are no financial entitlements due from the Company on the retirement of an executive. The Board does have discretion to make ex-gratia payments.
Termination on notice by the Company	SKILLED may terminate the employment agreement by providing notice consistent with the notice period or payment in lieu of the notice period.
Redundancy	Payments for redundancy are discretionary and determined having regard to the particular circumstances. While there are no contractual commitments to pay redundancy, the Remuneration Committee has adopted guidelines to ensure consistent and equitable practices are applied.
Death or total and permanent disablement	Same principles as for retirement. In addition, the Company currently has salary continuance insurance cover for senior executives. Any benefits paid under this policy will be provided to the executive or his/her estate.
Termination for serious misconduct	The Company may terminate the employment agreement at any time without notice, and the executive will be entitled to payment of fixed remuneration only up to the date of termination.

Remuneration Report (cont.)

Chief Executive Officer – Mick McMahon

The following summary provides an outline of the contract details and remuneration package for the Chief Executive Officer, Mr McMahon.

Remuneration Item	Terms
Fixed Remuneration:	The annual fixed remuneration in respect of the 2014 financial year is $1,500,000 inclusive of superannuation, effective 1 September 2013, which is fixed for three years.
Long-Term Incentives	The CEO is eligible to participate in the LTI Plan. The Board determines the performance and vesting criteria for each grant. 2012 Financial Year Grant: Mr McMahon was issued with 569,948 performance rights in the 2012 financial year. The number of the performance rights was based on the volume weighted average share price of SKILLED Group ordinary shares over the five days commencing on 25 August 2011 (being one day after the announcement of the 2011 full year results). The rights vest upon achievement of two separate performance conditions, EPS and relative TSR, which operate independently under a 50/50 split. For relative TSR the peer group is the ASX200 excluding financial institutions and including key competitors. This award vested at 40% for performance rights based on the EPS performance measure and 86% for performance rights with a relative TSR measure. Refer to Section 5 for further details on the achievement of performance measures in relation to these grants. 2013 Financial Year grant: Mr McMahon was issued with 266,160 performance rights in the 2013 financial year. The number of the performance rights was based on the volume weighted average share price of SKILLED Group ordinary shares over the five days commencing on 23 August 2012 (being one day after the announcement of the 2012 full year results).The rights vest upon achievement of two separate performance conditions, EPS and relative TSR, which operate independently under a 50/50 split. For relative TSR the peer group is the ASX200 excluding financial institutions and including key competitors. 2014 Financial Year grant: Mr McMahon was issued with 1,750,000 options and 325,000 performance rights in the 2014 financial year. The number of performance rights issued was based on the volume weighted average share price of SKILLED Group ordinary shares over the five days commencing on 15 August 2013 (being one day after the announcement of the 2013 full year results) ("VWAP Calculation"). The number of options issued was based on a Black Scholes option valuation methodology with the exercise price based on the VWAP Calculation. The options have a term of six years from the date of issue, with vesting determined after the completion of the 3 year performance period. The options and/or performance rights will vest upon achievement of two separate performance conditions, EPS and relative TSR, which operate independently under a 50/50 split. For relative TSR the peer group is the ASX200 excluding financial institutions and including key competitors. 2015 Financial Year grant: In line with Mr McMahon's employment contract, options or performance rights (comprising at least 50% options), will, subject to approval by shareholders at the 2014 AGM, be issued to Mr McMahon for a total value equal to 133% of fixed annual remuneration of $1,500,000 representing the maximum vesting at stretch levels of performance. The number of performance rights to be issued will be based on the volume weighted average share price of SKILLED Group ordinary shares over the five days commencing on 14 August 2014 (being one day after the announcement of the 2014 full year results) ("VWAP Calculation"). The number of options to be issued will be based on a Black Scholes option valuation methodology with the exercise price based on the VWAP Calculation. The options will have a term of six years from the date of issue, with vesting determined after the completion of the 3 year performance period. The options and/or performance rights will vest upon achievement of two separate performance conditions, EPS and relative TSR.

Remuneration Report (cont.)

Remuneration Item	Terms
Co-investment scheme:	To align the Chief Executive Officer's interests with those of shareholders, SKILLED Group established a CEO co-investment agreement. Pursuant to this agreement Mr McMahon purchased $1 million worth of SKILLED Group shares in November 2010. In accordance with the terms of his employment contract, Mr McMahon was granted 675,676 performance rights (each being a right to one SKILLED Group ordinary share) and was determined by dividing the amount invested in SKILLED Group shares by the CEO by $1.48 being the five day volume weighted average share price prior to (and not including) the date of announcement of appointment as Chief Executive Officer. On 30 September 2013, 337,838 performance rights vested and were allocated to Mr McMahon in the 2014 financial year. On 30 September 2014 the balance of the co-investment scheme will be tested. The three year cumulative EPS from 1 July 2011 – 30 June 2014 was 71.1 cents per share, based on underlying EPS for purposes of the CEO Co-investment scheme, which is greater than the target EPS of 70.0 cents per share. As such, 100% of the 337,838 performance rights eligible to vest on 30 September 2014 will vest, subject to Mr McMahon continuing to hold his Co-investment shares in the Company until 30 September 2014 and remaining employed by SKILLED Group on this date.

Remuneration Report (cont.)

7. Remuneration tables

The tables below are provided as per the disclosure requirements under the *Corporations Act*, Section 300A and the requirement of the accounting standards AASB 124. The remuneration tables below disclose the remuneration for the executive directors and key management personnel for the 2013 and 2014 financial years.

Current key management personnel

			Short-term employee benefits									
Name	Title	Year	Fixed[i]	Short-term incentive	Non-monetary[ii]	Other short-term benefit	Super-annuation	Long-term employee benefits	Equity settled share-based payment	Termi-nation benefits	Total	Proportion of total that is perform-ance related
Mick McMahon	Chief Executive Officer (Executive Director)	**2014**	1,487,586	–	16,338	–	17,775	–	581,209	–	2,102,908	28%
		2013	1,115,856	–	13,594	–	19,404	–	810,407	–	1,959,261	41%
Gary Kent	Chief Financial Officer	**2014**	578,080	–	5,425	–	25,109	–	107,906	–	716,520	15%
		2013	555,945	–	3,766	–	32,882	–	57,694	–	650,287	9%
David Timmel	Chief Operating Officer, Workforce Services	**2014**	400,689	–	2,911	60,848	21,360	–	90,249	–	576,057	16%
		2013	357,328	–	1,366	10,496	22,557	–	35,547	–	427,294	8%
Johannes Risseeuw[iii]	Chief Operating Officer, Engineering & Offshore	**2014**	210,261	–	4,708	–	8,887	–	33,585	–	257,441	13%
		2013	–	–	–	–	–	–	–	–	–	–
Jennifer Boulding[iv]	Chief Operating Officer, Technical Professionals	**2014**	277,654	–	5,859	–	13,331	–	28,267	–	325,111	9%
		2013	–	–	–	–	–	–	–	–	–	–
Sharyn Page[v]	Company Secretary & Group General Counsel	**2014**	343,340	–	4,776	–	25,875	–	17,520	–	391,511	4%
		2013	–	–	–	–	–	–	–	–	–	–
Total		**2014**	3,297,610	–	40,017	60,848	112,337	–	858,736	–	4,369,548	
		2013	2,029,129	–	18,726	10,496	74,843	–	903,648	–	3,036,842	

(i) Fixed includes fixed cash, and annual and long service leave accruals.

(ii) Non-monetary items include benefits provided under a salary sacrifice arrangement.

(iii) Johannes Risseeuw was appointed to the role of Chief Operating Officer, Engineering effective 1 January 2014 and subsequently to the role of Chief Operating Officer, Engineering & Offshore. Mr Risseeuw's annual fixed short term employee benefit, including superannuation, is $450,000.

(iv) Jennifer Boulding was appointed to the role of Chief Operating Officer, Technical Professionals effective 1 October 2013. Ms Boulding's annual fixed short term employee benefit, including superannuation, is $340,000.

(v) Sharyn Page became a KMP effective 1 July 2013.

Remuneration Report (cont.)

Former key management personnel [(i)]

			Short-term employee benefits									
Name	Title	Year	Fixed[(ii)]	Short-term incentive	Non-monetary	Other short-term benefit	Super-annuation	Long-term employee benefits	Equity settled share-based payment[(iii)]	Termi-nation benefits	Total	Proportion of total that is performance related
Paul McCormick	Executive General Manager, Eastern Region	**2014**	–	–	–	–	–	–	–	–	–	–
		2013	573,367		23,588	34,351	112,683	(9,399)	27,971		762,561	2%
John Watkinson[(iv)]	Executive General Manager, Technical Professionals	**2014**	88,178	–	–	–	4,444	–	2,393	99,998	195,013	1%
		2013	367,767	–	535	–	16,470	(8,779)	29,479	–	405,472	5%
Matt Caulfield [(v)]	Executive General Manager, Transformation	**2014**	–	–	–	–	–	–	–	–	–	–
		2013	320,694	–	3,964	–	16,470	(4,534)	37,721	–	374,315	9%
Total		**2014**	88,178	–	–	–	4,444	–	2,393	99,998	195,013	
		2013	1,261,828	–	28,087	34,351	145,623	(22,712)	95,171	–	1,542,348	

(i) Matt Caulfield and John Watkinson were disclosed as key management personnel in the remuneration tables for the 2013 financial year.

(ii) Fixed includes fixed cash and annual and long service leave accruals.

(iii) Long-term employee benefits that are negative amounts reflecting the write back of amortised LTI Plan grants due to performance criteria no longer expected to be met.

(iv) John Watkinson ceased employment with SKILLED Group effective on 30 September 2013.

(v) Matt Caulfield ceased being a KMP in the 2013 financial year.

Remuneration Report (cont.)

8. Non-Executive Directors' remuneration

Non-executive directors' fees are reviewed annually and are determined by the Board based on recommendations from the Remuneration Committee. In making its recommendations the Remuneration Committee considers the level of remuneration required to attract and retain non-executive directors to the SKILLED Group Board and seeks market information from independent consultants. The fees are set at levels that fairly represent the responsibilities of, and the time spent by, the non-executive directors on SKILLED Group matters.

In the 2014 financial year the Board increased the non-executive directors' fees with effect from 1 September 2013 as outlined in the table below. These fees were last increased in July 2011 and before that in October 2006. In establishing the non-executive director's fees the Board reviewed data on companies listed on the ASX with market capitalisation and revenues similar to that of SKILLED and/or within industries in which SKILLED has operations. Non-executive directors' fees are within the maximum aggregate limit of $900,000 per annum agreed to by shareholders at the Annual General Meeting held on 13 October 2007.

The fees paid to non-executive directors are:

Role	September 2013 – June 2014	July – August 2013
Chairman	$240,000	$200,000
Chairman of Audit and Risk Committee	$135,000	$120,000
Chairman of Remuneration Committee	$125,000	$100,000
Non-Executive Director	$110,000	$100,000

Directors may elect to take all or part of their fees in cash or nominated benefits. Benefits that can be packaged by non-executive directors include novated car leases and additional superannuation contributions. The Company does not operate any equity plans for, or pay any performance based incentives to, non-executive directors. Non-executive directors are entitled to statutory superannuation. Amounts paid for statutory superannuation are included as part of the directors' fees. There are no other schemes for retirement benefits for non-executive directors. This is consistent with Principle 9.3 of the Australian Stock Exchange (ASX) Corporate Governance Guidelines.

Please see the Non-Executive Directors' Remuneration tables below which disclose the remuneration for the Non-Executive Directors for the financial years 2013 and 2014.

Name	Title	Year	Non-Executive director fees	Superannuation	Total
Non-Executive Directors					
Vickki McFadden	Chairman of the Board	**2014**	215,699	17,634	233,333
		2013	183,530	16,470	200,000
Bob Herbert AM	Non-Executive Director, Chairman Remuneration Committee	**2014**	120,833	–	120,833
		2013	100,000	–	100,000
Max Findlay	Non-Executive Director	**2014**	99,158	9,175	108,333
		2013	91,743	8,257	100,000
Tony Cipa	Non-Executive Director, Chairman Audit and Risk Committee	**2014**	121,281	11,219	132,500
		2013	110,092	9,908	120,000
Tracey Horton	Non-Executive Director	**2014**	99,158	9,175	108,333
		2013	91,743	8,257	100,000
Jim Walker [i]	Non-Executive Director	**2014**	67,124	6,209	73,333
		2013	–	–	–
Total		**2014**	723,253	53,412	776,665
		2013	577,108	42,892	620,000

[i] Jim Walker joined SKILLED Group as a Non-Executive Director on 1 November 2013.

9. Directors' and other Key Management Personnel equity holdings

(i) Fully paid ordinary shares issued by SKILLED Group Limited held by directors and other key management personnel including their personally related parties are outline in the table below.

2014	Balance 1/7/2013 No.	Granted as compen-sation No.	Received on exercise of options/rights No.	Net other change No.	Balance at 30/6/2014 No.	Balance held nominally No.
Directors						
Mick McMahon	667,501	–	1,720,970	(1,383,132)	1,005,339	–
Vickki McFadden	126,885	–	–	–	126,885	–
Bob Herbert AM	13,054	–	–	–	13,054	–
Max Findlay	35,000	–	–	–	35,000	–
Tony Cipa	15,544	–	–	–	15,544	–
Tracey Horton	–	–	–	–	–	–
Jim Walker(i)	–	–	–	–	–	–
Other key management personnel						
Gary Kent	20,000	–	–	20,000	40,000	–
David Timmel	–	–	–	–	–	–
Johannes Risseeuw(ii)	–	–	–	26,600	26,600	–
Jennifer Boulding(iii)	–	–	–	–	–	–
Sharyn Page(iv)	–	–	–	–	–	–
Former key management personnel						
John Watkinson(v)	41,000	–	15,136	(56,136)	–	–
Total	918,984	–	1,736,106	(1,392,668)	1,262,422	–

(i) Jim Walker joined SKILLED Group as a Non-Executive Director on 1 November 2013

(ii) Johannes Risseeuw was appointed to the role of Chief Operating Officer, Engineering effective 1 January 2014 and subsequently to the role of Chief Operating Officer, Engineering & Offshore

(iii) Jennifer Boulding was appointed to the role of Chief Operating Officer, Technical Professionals effective 1 October 2013

(iv) Sharyn Page became a KMP effective 1 July 2013

(v) John Watkinson ceased employment with SKILLED Group effective on 30 September 2013

Remuneration Report (cont.)

(ii) Equity-settled share-based payments issued to, exercised by and lapsed for executive directors and key management personnel during the year ended 30 June 2014 are outlined in the table below.

2014	Balance at 1/7/2013 No.	Granted as compensation No.	Vested No.	Lapsed No.	Other Change No.	Balance at 30/6/2014 No.	Balance vested at 30/6/2014 No.	Balance exercisable at 30/6/2014 No.	Options vested during year No.
Directors									
Mick McMahon	3,354,377	2,075,000	(1,720,970)	(459,461)	-	3,248,946	-	-	1,383,132
Key management personnel									
Gary Kent	176,000	256,000	-	-	-	432,000	-	-	-
David Timmel	132,684	204,000	-	-	-	336,684	-	-	-
Johannes Risseeuw(i)	-	50,000	-	-	258,000	308,000	-	-	-
Jennifer Boulding (ii)	-	92,000	-	-	50,000	142,000	-	-	-
Sharyn Page (iii)	-	48,000	-	-	-	48,000	-	-	-
Former key management personnel									
John Watkinson(iv)	319,244	-	(15,136)	(229,611)	(74,497)	-	-	-	-
Total	3,982,305	2,725,000	(1,736,106)	(689,072)	233,503	4,515,630			1,383,132

(i)Johannes Risseeuw was appointed to the role of Chief Operating Officer, Engineering effective 1 January 2014 and subsequently to the role of Chief Operating Officer, Engineering & Offshore.

(ii)Jennifer Boulding was appointed to the role of Chief Operating Officer, Technical Professionals effective 1 October 2013
(iii)Sharyn Page became a KMP effective 1 July 2013

(iv) John Watkinson ceased employment with SKILLED Group effective on 30 September 2013

For a table of changes in share based arrangements during the financial year please refer to Note 19 of the financial statements.

(iii) Transactions with related parties

Vickki McFadden was a director of Leighton Holdings Ltd from June 2013 to May 2014. Leighton Holdings Ltd is a SKILLED Group customer and transacts on normal commercial terms and conditions.

Max Findlay is a director of Royal Children's Hospital, Melbourne. Royal Children's Hospital, Melbourne is a SKILLED Group customer and transacts on normal commercial terms and conditions.

Signed in accordance with a resolution of the directors made pursuant to Section 298(2) of the *Corporations Act 2001*.

On behalf of the directors,

VA McFadden
Chairman

MP McMahon
Chief Executive Officer
and Managing Director

13 August 2014

Auditor’s Independence Declaration

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
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Auditor’s Independence Declaration to the Directors of Skilled Group Limited

In relation to our audit of the financial report of Skilled Group Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Bruce Meehan

Bruce Meehan
Partner

13 August 2014

Independent Audit Report

Ernst & Young
8 Exhibition Street
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Independent auditor's report to the members of Skilled Group Limited

Report on the financial report

We have audited the accompanying financial report of Skilled Group Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Building a better working world

Opinion

In our opinion:

a. the financial report of Skilled Group Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Skilled Group Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Bruce Meehan

Bruce Meehan
Partner
Melbourne

13 August 2014

Directors' Declaration

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

In accordance with a resolution of the directors of Skilled Group Limited ('the Company'), we state that:

1. In the opinion of the directors:

   a) the financial statements and notes of Skilled Group Limited for the financial year ended 30 June 2014 are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of its financial position as at 30 June 2014 and its performance for the year ended on that date, and
      (ii) complying with Accounting Standards and Corporations Regulations 2001;

   b) the financial statements and notes are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements; and

   c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with s.295A of the *Corporations Act 2001*.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418 and has entered into a deed of cross guarantee as contemplated in that class order. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 24 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become subject, by virtue of the deed of cross guarantee.

On behalf of the directors,

VA McFadden
Chairman

MP McMahon
Chief Executive Officer
and Managing Director

13 August2014

Financial Statements

Contents:

Consolidated statement of comprehensive income

For the financial year ended 30 June 2014	Note	2014 $'000	2013 $'000
Revenue	4(a)	1,869,569	1,868,192
Equity-accounted income from associates	4(b)	3,749	5,701
Other income	4(c)	212	325
Employee and sub-contractor related costs		(1,667,450)	(1,690,563)
Raw materials and consumables used		(19,054)	(6,332)
Office occupancy related costs		(15,501)	(11,670)
Profit from sale of assets	5	195	103
Marine vessel charter and related costs		(14,382)	(12,133)
Other expenses		(70,145)	(61,964)
Depreciation and amortisation expenses	4(d)	(16,980)	(10,379)
Finance costs	4(d)	(9,646)	(4,099)
Profit before income tax expense		60,567	77,181
Income tax expense	6	(16,367)	(21,022)
Profit for the year		44,200	56,159
Other comprehensive income			
Items that may be reclassified subsequently to profit/(loss):			
Net movement on cash flow hedges	20(b)	93	509
Change in foreign currency translation reserve arising on translation of foreign operations and net investment in foreign subsidiaries	20(c)	571	1,171
Income tax on items that maybe reclassified subsequently to profit/(loss)	20(b)	(28)	(153)
Other comprehensive income for the year, net of tax		636	1,527
Total comprehensive income for the year		44,836	57,686
Profit attributable to members of the parent entity		44,200	56,159
Total comprehensive income attributable to members of the parent entity		44,836	57,686

Earnings per share			
Basic earnings per share (cents)	29	18.86	24.05
Diluted earnings per share (cents)	29	18.51	23.27

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2014	Note	2014 $'000	2013 $'000
Current assets			
Cash and short-term deposits	27	7,858	12,890
Receivables	8	254,907	210,849
Inventories		821	412
Other assets	9	6,264	5,510
Total current assets		269,850	229,661
Non-current assets			
Receivables	8	2,627	1,688
Property, plant and equipment	10	88,131	18,085
Equity accounted investments	12	22,882	33,274
Intangibles	11	472,007	386,335
Deferred tax assets	13	17,602	15,677
Total non-current assets		603,249	455,059
Total assets		873,099	684,720
Current liabilities			
Payables	14	123,571	94,209
Borrowings	15	5,006	1,294
Current tax liabilities		3,577	4,163
Other financial liabilities		–	110
Provisions	16	49,432	43,616
Total current liabilities		181,586	143,392
Non-current liabilities			
Payables	14	20,107	–
Borrowings	15	172,924	56,413
Provisions	16	19,685	13,009
Total non-current liabilities		212,716	69,422
Total liabilities		394,302	212,814
Net assets		478,797	471,906
Equity			
Issued capital	18	352,986	349,661
Reserves	20	166	2,138
Retained earnings		125,645	120,107
Total equity		478,797	471,906

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of cash flow

For the financial year ended 30 June 2014	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Profit before taxation		60,567	77,181
Depreciation and amortisation		16,980	10,379
Interest revenue	4(c)	(212)	(325)
Interest expense	4(d)	9,646	4,099
Earnings before interest, tax, depreciation and amortisation from continuing and discontinued operations		86,981	91,334
Non-Cash Items			
Share based payments		1,701	814
Gain on disposal of property, plant and equipment	5	(195)	(103)
Non-cash equity accounted income from an associate	4(b)	(3,749)	(5,701)
		84,738	86,344
Increase/Decrease in assets and liabilities excluding effects of acquisitions and divestments:			
(Increase)/Decrease in receivables		(15,503)	25,073
(Increase)/Decrease in inventories		455	122
(Increase)/Decrease in other assets		15,126	1,325
Increase/(Decrease) in payables		1,913	(12,225)
Increase/(Decrease) in provisions		(5,814)	(10,949)
Cash generated from operations		80,915	89,690
Income taxes paid		(20,235)	(27,783)
Net cash provided by operating activities		60,680	61,907
Cash flows from investing activities			
Payments for property, plant and equipment		(46,530)	(9,786)
Payments for intangibles		(4,459)	(1,480)
Proceeds from the divestment of businesses (net of sale costs)		–	1,200
Payments for purchase of equity-accounted investments	12	–	(17,500)
Payments for purchase of businesses (net of cash acquired)	22	(77,993)	(9,508)
Proceeds from sale of property, plant and equipment		1,309	992
Net cash used in investing activities		(127,673)	(36,082)
Cash flows from financing activities			
Proceeds from borrowings		694,507	485,674
Repayment of borrowings		(585,038)	(471,338)
Interest received		212	190
Interest paid		(7,432)	(4,093)
Net (payments)/proceeds from issues of equity		(1,484)	222
Dividends paid	7	(38,662)	(35,046)
Net cash from/(used in) financing activities		62,103	(24,391)
Net increase/(decrease) in cash and cash equivalents		(4,890)	1,434
Cash and cash equivalents at the beginning of the financial year		12,261	10,532
Effects of exchange rate changes on cash held in foreign currencies		19	295
Cash and cash equivalents at the end of the financial year	27	7,390	12,261

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the financial year ended 30 June 2014

	Issued capital $'000	Foreign currency translation reserve $'000	Hedging reserve $'000	Employee equity-settled benefits reserve $'000	Retained earnings $'000	Total $'000
2014						
Balance at 1 July 2013	349,661	(1,296)	(65)	3,499	120,107	471,906
Profit for the year	–	–	–	–	44,200	44,200
Exchange differences arising on translation of foreign operations	–	571	–	–	–	571
Net gain on cash flow hedges	–	–	93	–	–	93
Income tax relating to components of other comprehensive income	–	–	(28)	–	–	(28)
Total comprehensive income for the year	–	571	65	–	44,200	44,836
Own shares acquired to settle share based payments	(1,204)	–	–	(2,472)	–	(3,676)
Share based payments	4,529	–	–	(136)	–	4,393
Payment of dividends	–	–	–	–	(38,662)	(38,662)
Balance at 30 June 2014	352,986	(725)	–	891	125,645	478,797
2013						
Balance at 1 July 2012	349,500	(2,467)	(421)	2,980	98,699	448,291
Profit for the year	–	–	–	–	56,159	56,159
Exchange differences arising on translation of foreign operations	–	1,171	–	–	–	1,171
Net gain on cash flow hedges	–	–	509	–	–	509
Income tax relating to components of other comprehensive income	–	–	(153)	–	–	(153)
Total comprehensive income for the year	–	1,171	356	–	56,159	57,686
Issue of shares (net of costs)	161	–	–	–	–	161
Share based payments	–	–	–	814	–	814
Lapse of Executive Long Term Incentive plan	–	–	–	(295)	295	–
Payment of dividends	–	–	–	–	(35,046)	(35,046)
Balance at 30 June 2013	349,661	(1,296)	(65)	3,499	120,107	471,906

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the financial year ended 30 June 2014

1. Corporate information

SKILLED Group Limited ("SKILLED" or "the Company") is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of SKILLED and its controlled entities ("the Consolidated Entity") are described in the directors' report.

The consolidated financial statements of the Consolidated Entity for the year ended 30 June 2014 were authorised for issue by the directors on 13 August 2014.

2. Significant accounting policies

2.1 Basis of preparation

The financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001*, Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report includes the consolidated financial statements of the Consolidated Entity. The financial report has been prepared on the basis of historical cost, except for derivative financial instruments that have been measured at fair value. The financial report is presented in Australian dollars, unless otherwise noted.

The accounting policies used have been consistently applied for the purposes of this financial report.

The Company is a company of the kind referred to in ASIC Class Order 98/100, and in accordance with that Class Order amounts in the financial report are rounded to the nearest thousand dollars, unless otherwise noted.

2.2 Statement of compliance

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

2.3 New accounting standards and interpretations

The Consolidated Entity has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2013:

- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*
- AASB 119 *Employee Benefits (September 2011)* and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*
- AASB 127 *Separate Financial Statements (2011)*
- AASB 128 *Investments in Associates and Joint Ventures (2011)*
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009 – 2011 Cycle*
- AASB 2012-9 *Amendments to AASB 1048 from the Withdrawal of Australian Interpretation 1039*
- AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures*
- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*

The adoption of these standards did not result in a change in the financial position or performance of the Consolidated Entity.

Notes to the financial statements (cont.)

2. Significant accounting policies (cont.)

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Consolidated Entity for the annual reporting period ended 30 June 2014 are outlined in the table below. These standards and amendments are not expected to have a material impact on the Consolidated Entity's financial position or performance; however, increased disclosure may be required.

Reference	Title	Effective / Application date of Standard for Group
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 July 2014
AASB 2013-4	Amendments to Australia Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting	1 July 2014
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (December 2013) – Part B – Materiality	1 July 2014
AASB 2014-1	Amendments to Australian Accounting Standards Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles	1 July 2014
AASB 2014-1	Amendments to Australian Accounting Standards Part C: Materiality	1 July 2014
Interpretation 21	Levies	1 July 2014
AASB 9	Financial Instruments	1 July 2018
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9	1 July 2018
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (December 2013) – Part C – Financial Instruments	1 July 2018
AASB 2014-1	Amendments to Australian Accounting Standards – Part E: Financial Instruments	1 July 2018

Notes to the financial statements (cont.)

2. Significant accounting policies (cont.)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(A) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are all those entities over which the Consolidated Entity has power over the investee such that the Consolidated Entity is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns. The results of subsidiaries acquired or disposed during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Consolidated Entity. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

When the Consolidated Entity loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiaries are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(B) BUSINESS COMBINATIONS

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Consolidated Entity in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration agreement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration are recorded in the consolidated statement of comprehensive income.

Where a business combination is achieved in stages, the Consolidated Entity's previously held interests in the acquired entity are remeasured at fair value at the acquisition date (i.e. the date the Consolidated Entity attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest was disposed of.

The aquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 are recognised at their fair value at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Consolidated Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about the facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Consolidated Entity obtains complete information about facts and circumstances that existed as of acquisition date – and is subject to a maximum of one year.

(C) JOINT ARRANGEMENTS

Joint arrangements are classified as either a joint venture or a joint operation, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

Joint venture: When the Consolidated Entity has rights to the net assets of the arrangement, the investment is accounted for using the equity method.

Joint operation: When the Consolidated Entity has rights to the individual assets and obligations arising from the joint arrangements, the Consolidated Entity recognises its share of the assets, liabilities, revenues and expenses of the operation.

(D) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the financial statements (cont.)

2. Significant accounting policies (cont.)

(E) CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(F) ACQUISITION OF ASSETS

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition. In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value at the date of acquisition.

(G) REVENUE RECOGNITION

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. Revenue from time and material contracts is recognised at the contractual rate as labour hours are delivered and direct expenses are incurred. Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims, contract exit costs and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Sale of goods and disposal of assets

Revenue from the sale of goods and disposal of other assets is recognised when the Consolidated Entity has transferred the significant risks and rewards of ownership of the goods to the buyer.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(H) INCOME TAX

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Deferred tax liabilities are recognised in respect of relevant finite life intangible assets at acquisition.

This approach considers the future tax consequences of recovering the underlying asset through use and through ultimate disposal. The deferred tax liability is reduced as the assets are amortised. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the Consolidated Entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Notes to the financial statements (cont.)

2. Significant accounting policies (cont.)

(H) INCOME TAX (CONT.)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the consolidated statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess of purchase price over net asset(s) acquired.

(I) INVENTORIES

Inventories are valued at the lower of cost and net realisable value.

Consumables are recorded at cost and written off over the life of the contract to which they relate.

(J) FINANCIAL ASSETS

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market, are classified as 'loans and receivables'.

Financial assets are recognised initially at fair value, plus transaction costs. After initial measurement, financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised costs are calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate is included in other income in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the asset have expired.

The Consolidated Entity assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Consolidated Entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Consolidated Entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in other income in the consolidated statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Consolidated Entity. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

(K) FINANCIAL LIABILITIES

Borrowings and other loans are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method except where capitalised in accordance with note 2(D).

Bills of exchange are recorded at an amount equal to the net proceeds received, with the discount amortised over the period to maturity. Interest expense is recognised on an effective yield basis.

Financial guarantee contract liabilities are measured at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised, less accumulated amortisation.

2. Significant accounting policies (cont.)

(K) FINANCIAL LIABILITIES (CONT.)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(L) FINANCIAL INSTRUMENTS ISSUED BY THE CONSOLIDATED ENTITY

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(M) DERIVATIVE FINANCIAL INSTRUMENTS

The Consolidated Entity enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk. Further details of derivative financial instruments are disclosed in note 28 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedge instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Consolidated Entity designates derivatives as hedges of highly probable forecast transactions (cash flow hedges).

Hedge accounting

The Consolidated Entity designates certain derivative instruments as cash flow hedges. At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Consolidated Entity documents whether the hedging instrument that is used in the hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Movements in the hedging reserve in equity are also disclosed in the consolidated statement of changes in equity.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Hedge accounting is discontinued when the Consolidated Entity revokes the hedging relationship, the hedging instrument is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

2. Significant accounting policies (cont.)

(N) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at their cost of acquisition less accumulated depreciation and any impairment write down.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight-line basis so as to write-off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life whichever is shorter, using the straight-line method.

The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	1 – 10 years
Plant and equipment	4 – 5 years
Assets under finance lease	2 – 8 years
Marine vessels	20 – 25 years

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

(O) LEASED ASSETS

Leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the fair value of the assets, or if lower, the present value of minimum lease payments, each determined at the inception of the lease.

A finance lease is one that effectively transfers from the lessor to the lessee substantially all the risks and rewards incidental to ownership of the leased asset. All other leases are classified as operating leases. Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis.

(P) GOODWILL

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(Q) OTHER INTANGIBLES

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles, annually, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Trademarks and brand names

Trademarks and brand names have been acquired and are recorded at cost less any impairment write down. The Company is committed to continue to actively use and promote the SKILLED trademark and brand name in its business. The directors believe the SKILLED trademark and brand name has an indefinite life and no amortisation is therefore required.

2. Significant accounting policies (cont.)

(Q) OTHER INTANGIBLES (CONT.)

Other brand names are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives are reviewed at the end of each annual reporting period, with any changes being recognised as a change in the accounting estimate. Other trademarks and brand names are recorded at cost less accumulated amortisation, and are amortised over periods ranging from one to five years.

Customer contracts

Customer contract intangible assets acquired are recorded at cost less accumulated amortisation and any impairment write down. The estimated useful lives are reviewed at the end of each annual reporting period, with any changes being recognised as a change in the accounting estimate. Customer contracts are amortised over a period of between 1 and 5 years on a straight-line basis.

Software and licences

Costs associated with the development of computer systems are acquired, capitalised and then expensed over the future periods to which the economic benefits of the expenditure are expected to be recoverable. Computer software is recorded at cost less accumulated amortisation, and amortised over periods ranging from three to twelve years on a straight-line basis.

Other acquired intangibles - Non-compete agreements, contracts and bareboat charters

Non-compete agreements, contracts and bareboat charters arising as a result of a business acquisition, recognised separately from goodwill, are valued at the time of the acquisition and amortised over the life of the agreement/contract/charter on a straight-line basis.

(R) IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Consolidated Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash- generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(S) EMPLOYEE BENEFITS

Provision is made for benefits accruing to employees in respect of wages and salaries, rostered days off, annual leave, long-service leave, contracted severances and incentives when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made with respect to employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made with respect to employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Consolidated Entity with respect to services provided by employees up to the reporting date.

(T) FOREIGN CURRENCY

The individual financial statements of each entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of SKILLED Group Limited and the presentation currency of the financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that time.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2. Significant accounting policies (cont.)

(T) FOREIGN CURRENCY (CONT.)

Exchange differences are recognised in profit or loss in the period in which they arise, except for:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 2(M);
- exchange differences on monetary items receivable or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of foreign controlled entities are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rate for the period unless exchange rates fluctuate significantly. Exchange differences are taken directly to the foreign currency translation reserve and recognised in the income statement on disposal of the foreign operation.

(U) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

The amount of GST recoverable from the taxation authority is included as part of receivables and the amount of GST payable to the taxation authority is included as part of payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(V) PROVISIONS

Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Restoration provision

Present obligations arising from restoration are recognised and measured as a provision. A restoration provision is considered to exist where the Consolidated Entity has entered into a contract where future costs are expected to meet the obligations under the contract. Such contracts include property leaseholds and vessel charters.

(W) WORKERS COMPENSATION – SELF INSURANCE

Outstanding claims

A liability for outstanding claims for self-insurance in relation to workers compensation is provided for in respect of claims incurred but not yet paid, claims incurred but not yet reported and the anticipated direct and indirect costs associated with those claims. The liability for outstanding claims has been measured on the basis of an independently prepared actuarial assessment of the cost of claims, including the anticipated effects of inflation, discounted to a present value at balance date.

The nature of the provision estimated and the data upon which the provision is based are such that it is likely the outcome will be different from the current estimate.

Claims recoveries

Claims recoveries are recorded on claims paid under self - insurance in relation to workers compensation. The recoveries are recognised in profit or loss and are based on actuarial assessment of the expected recovery, which includes claims paid and claims reported but not yet paid to the extent that the nature of the costs incurred are recoverable, in a manner similar to the measurement of the outstanding claim liability and discounted to a present value at balance date.

(X) SHARE-BASED PAYMENTS

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition.

Notes to the financial statements (cont.)

2. Significant accounting policies (cont.)

(X) SHARE-BASED PAYMENTS (CONT.)

These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where nonvesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options and performance rights is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 29).

(Y) FAIR VALUE MEASUREMENT

The Consolidated Entity measures financial instruments, such as derivatives, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Consolidated Entity.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Consolidated Entity uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(Z) CURRENT VERSUS NON-CURRENT CLASSIFICATION

The group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the Consolidated Entity’s normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the Consolidated Entity’s normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3. Critical accounting judgments and key sources of uncertainty

(A) JUDGMENTS AND ESTIMATES

In the application of the Consolidated Entity's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of the Consolidated Entity's accounting policies that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

(B) KEY SOURCES OF ESTIMATION UNCERTAINTY

Below are the key assumptions concerning the future, and other key sources of estimation uncertainty at balance sheet date, that have significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year:

Employee Benefits

The provision recognised for long service leave includes estimates of employees' length of tenure, the timing of future leave payments and the anticipated effects of salary and wage increases, which are discounted to a present value at balance date. The carrying amount of the provision for long service leave at the balance date was $17,485,721 (2013: $14,802,000).

Goodwill and intangibles impairment

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Consolidated Entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was $411,118,000 (2013: $340,550,000). Further details of the impairment testing are provided in note 11.

Restoration costs

A provision has been made for the present value of anticipated costs of the future restoration of leased property and marine vessels. These calculations include estimates of the future cost estimates associated with replacing office fit outs, dry docking and hand back costs. This uncertainty may result in the future actual expenditure differing from the amounts currently provided. The provisions recognised are assessed based on the condition and actual costs incurred for similar works carried out in the past. Changes to the estimated future costs are recognised in the statement of financial position by adjusting both the asset and provision. The carrying amount of the provision for restoration costs at balance date was $9,296,000(2013: $3,863,000).

Workers compensation self-insurance

A provision has been made for the anticipated costs to settle workplace injury claims in regions where the Consolidated Entity self-insures. The provision for workers compensation is based on a third party actuarial valuation, except for components of seafarers insurance, which is based on historical results in settling claims and open cases at balance date. The carrying amount of the provision for workers compensation self-insurance at balance date was $6,104,000 (2013: $8,407,000).

Notes to the financial statements (cont.)

4. Profit

The profit before income tax, includes the following items of revenue and expense:

	2014 $'000	2013 $'000
(A) REVENUE		
Sales revenue:		
Rendering of services	1,869,569	1,868,192
(B) EQUITY-ACCOUNTED INCOME FROM ASSOCIATES		
Income from OMS Alliance joint venture	4,028	5,701
Loss from GSS joint venture	(279)	–
Total	3,749	5,701
(C) OTHER INCOME		
Interest income	212	325
(D) EXPENSES		
Depreciation and amortisation:		
Depreciation:		
Plant and equipment	3,961	2,816
Leasehold improvements	1,459	1,208
Assets under finance lease	70	325
Marine Vessels	2,238	–
	7,728	4,349
Amortisation:		
Software and licences	4,695	5,951
Trademarks and brand names	137	55
Other acquired intangibles	4,420	24
	9,252	6,030
Total depreciation and amortisation expense	16,980	10,379
Finance costs:		
Interest and other costs paid to other entities	8,226	3,973
Finance lease charges	83	126
Notional interest on deferred acquisition payments	1,337	–
	9,646	4,099
Net bad and doubtful debts expense	462	647
Operating lease rental expenses:		
Properties	11,950	10,190
Computer equipment	2,104	1,958
Marine vessels under bareboat charter	14,382	5,576
	28,436	17,724

5. Sale of assets

	2014 $'000	2013 $'000
Sale of assets in the ordinary course of business have given rise to the following:		
Net profit on disposal of property, plant and equipment	195	103

Notes to the financial statements (cont.)

6. Income tax

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	2014 $'000	2013 $'000
The income tax expense for the year can be reconciled to the accounting profit as follows:		
Profit from operations	60,567	77,181
Income tax expense calculated at 30%	18,170	23,154
Non-deductible items	504	358
Foreign income tax rate differential	(1,141)	(1,072)
Research and development concession	–	(74)
Equity-accounted income from joint venture	(1,125)	(1,710)
Other	89	54
Under/(over) provision of income tax in previous year	(130)	312
Income tax expense	16,367	21,022
Income tax expense comprises:		
Current tax expense	18,218	14,257
Adjustments recognised in the current year in relation to the current tax of prior years	861	55
Deferred tax expense relating to the origination and reversal of temporary differences	(2,712)	6,710
Total tax expense	16,367	21,022

Tax-consolidation system

The company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. SKILLED Group Limited is the head entity in the tax-consolidated group.

Nature of tax-funding arrangements and tax-sharing agreements

Entities within the tax-consolidated group have entered into a tax-funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax-funding arrangement, SKILLED Group Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to, or from, the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from, or payable to, other entities in the tax-consolidated group.

The tax-sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax-sharing agreement is considered remote.

Notes to the financial statements (cont.)

7. Dividends

	2014 Cents per share	2014 Total $'000	2013 Cents per share	2013 Total $'000
(A) RECOGNISED AMOUNTS				
Final fully franked dividend	9.0	21,018	8.0	18,679
Interim fully franked dividend	7.5	17,644	7.0	16,367
	16.5	38,662	15.0	35,046
(B) UNRECOGNISED AMOUNTS				
Final 2014dividend fully franked at a tax rate of 30%	9.5	22,349	–	–
Final 2013 dividend fully franked at a tax rate of 30%	–	–	9.0	21,018
	9.5	22,349	9.0	21,018

	2014 $'000	2013 $'000
Franking account balance	80,221	74,650

The impact on the franking account of a dividend not yet recognised as a liability at year end will be a reduction in the franking account of $9,578,000 (2013: $9,008,000).

8. Receivables

	2014 $'000	2013 $'000
Current		
Trade receivables(i)	249,312	207,612
Allowance for doubtful debts	(837)	(332)
	248,475	207,280
Goods and services tax receivable	3,973	1,855
Other receivables(ii)	2,459	1,714
	254,907	210,849
Non- Current		
Claims recoveries	2,578	1,530
Other receivables	49	158
	2,627	1,688

(i) Trade receivables are non-interest bearing and are on a variety of trading terms that average approximately 32 days from the date of billing.

(ii) Other receivables do not contain any individually significant balances and there are no significant concentrations of credit risk. At 30 June 2014 no amounts are considered past due or impaired (2013: $nil).

Movement in the allowance for doubtful debts:

	2014 $'000	2013 $'000
Balance at the beginning of the year	(332)	(6,074)
Acquisition of subsidiaries	(207)	–
Amounts written off during the year	49	6,305
Increase in allowance recognised in profit or loss	(347)	(563)
Balance at end of the year	(837)	(332)

Notes to the financial statements (cont.)

8. Receivables (cont.)

Ageing of trade receivables:

	2014 $'000 Gross	2014 $'000 Allowance	2013 $'000 Gross	2013 $'000 Allowance
Not past due	217,778	–	182,566	–
Past due 1 – 30 days	12,985	–	14,562	–
Past due 31 – 60 days	14,604	–	5,623	–
Past due 61 – 90 days	3,132	(24)	3,066	(10)
Past due 91 days	813	(813)	1,795	(322)
Total	249,312	(837)	207,612	(332)

In determining the recoverability of a trade receivable, the Consolidated Entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the large and unrelated customer base. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. All of the trade receivables included in the allowance for doubtful debts have been individually reviewed for impairment. These trade receivables are considered impaired as the balances are either subject to liquidation, administration, legal or other dispute. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected recoveries. The Consolidated Entity does not hold any collateral over these balances.

9. Other assets

	2014 '000	2013 $'000
Prepayments and other assets	6,264	5,510

Notes to the financial statements (cont.)

10. Property, plant and equipment

	Land& buildings $'000	Leasehold improvements $'000	Plant & equipment $'000	Marine Vessels $'000	Assets under finance lease $'000	Total $'000
Gross carrying amount						
Balance as at 30 June 2013	4	14,976	28,288	–	1,847	45,115
Acquisition of subsidiaries	–	275	3,426	25,391	69	29,161
Additions	–	4,260	5,007	40,906	–	50,173
Disposals	(4)	(114)	(1,086)	(1,257)	–	(2,461)
Other(i)	–	21	820	–	(810)	31
Balance as at 30 June 2014	–	19,418	36,455	65,040	1,106	122,019
Accumulated depreciation and impairment						
Balance as at 30 June 2013	(4)	(8,047)	(18,604)	–	(375)	(27,030)
Disposals	4	111	858	397	373	1,743
Depreciation expense(ii)	–	(1,459)	(3,961)	(2,238)	(70)	(7,728)
Other(i)	–	(510)	–	1	(364)	(873)
Balance as at 30 June 2014	–	(9,905)	(21,707)	(1,840)	(436)	(33,888)
Net book value						
As at 30 June 2013	–	6,929	9,989	52	1,167	18,085
As at 30 June 2014	–	9,513	14,748	63,200	670	88,131
Gross carrying amount						
Balance as at 30 June 2012	4	13,044	29,677	–	1,857	44,582
Additions	–	2,951	6,006	–	–	8,957
Disposals	–	(3,210)	(8,497)	–	(10)	(11,717)
Other(i)	–	2,191	1,102	–	–	3,293
Balance as at 30 June 2013	4	14,976	28,288	–	1,847	45,115
Accumulated depreciation and impairment						
Balance as at 30 June 2012	(4)	(9,877)	(23,206)	–	(360)	(33,447)
Disposals	–	3,097	7,766	–	4	10,867
Depreciation expense(ii)	–	(1,208)	(2,816)	–	(325)	(4,349)
Other(i)	–	(59)	(43)	–	1	(101)
Balance as at 30 June 2013	(4)	(8,047)	(18,299)	–	(680)	(27,030)
Net book value						
As at 30 June 2012	–	3,167	6,471	–	1,497	11,135
As at 30 June 2013	–	6,929	9,989	–	1,167	18,085

(i) Other represents restoration assets recognised, the impact of foreign exchange translation and transfers between asset classes.

(ii) Depreciation expense (2014: $7,728,000, 2013: $4,349,000) is included in the line item 'Depreciation and amortisation expense' in the Statement of Comprehensive Income (refer also note 4).

Notes to the financial statements (cont.)

11. Intangibles

	Goodwill $'000	Databases $'000	Software and licences $'000	Trademarks and brand names $'000	Other acquired intangibles(iii) $'000	Total $'000
Gross carrying amount						
Balance as at 30 June 2013	351,277	17,850	80,042	23,874	–	473,043
Acquisition of subsidiaries	67,985	–	–	600	19,160	87,745
Additions	–	–	4,480	–	–	4,480
Disposals	–	–	(23)	–	–	(23)
Other(i)	2,583	–	124	–	–	2,707
Balance as at 30 June 2014	421,845	17,850	84,623	24,474	19,160	567,952
Accumulated amortisation						
Balance as at 30 June 2013	(10,727)	(17,850)	(48,250)	(9,881)	–	(86,708)
Disposals	–	–	–	–	–	–
Amortisation expense(ii)	–	–	(4,695)	(137)	(4,420)	(9,252)
Other(i)	–	–	15	–	–	15
Balance as at 30 June 2014	(10,727)	(17,850)	(52,930)	(10,018)	(4,420)	(95,945)
Net book value						
As at 30 June 2013	340,550	–	31,792	13,993	–	386,335
As at 30 June 2014	411,118	–	31,693	14,456	14,740	472,007
Gross carrying amount						
Balance as at 30 June 2012	346,359	17,850	82,424	23,892	9,237	479,762
Additions	–	–	1,235	–	–	1,235
Disposals	–	–	(526)	–	(9,237)	(9,763)
Other(i)	4,918	–	(3,091)	(18)	–	1,809
Balance as at 30 June 2013	351,277	17,850	80,042	23,874	–	473,043
Accumulated amortisation						
Balance as at 30 June 2012	(10,727)	(17,850)	(42,822)	(9,826)	(9,213)	(90,438)
Disposals	–	–	526	–	9,237	9,763
Amortisation expense(ii)	–	–	(5,951)	(55)	(24)	(6,030)
Other(i)	–	–	(3)	–	–	(3)
Balance as at 30 June 2013	(10,727)	(17,850)	(48,250)	(9,881)	–	(86,708)
Net book value						
As at 30 June 2012	335,632	–	39,602	14,066	24	389,324
As at 30 June 2013	340,550	–	31,792	13,993	–	386,335

(i) Other represents the impact of foreign exchange translation and transfers between asset classes.

(ii) Amortisation expense (2014: $9,252,000, 2013: $6,030,000) is included in the line item 'depreciation and amortisation expense' in the Statement of Comprehensive Income (refer also note 4).

(iii) Other acquired intangibles include customer contracts, bareboat charters and restraints.

Notes to the financial statements (cont.)

11. Intangibles (cont.)

Allocation of goodwill to cash-generating units

The cash-generating units are aligned to the Chief Operating decision makers reporting structure, the structure for which budgets and strategic plans are prepared, the day-to-day management of the business and the level at which goodwill is monitored. The carrying amount of goodwill allocated to cash-generating units that are significant individually or in aggregate is set out below.

Cash Generating Units	2014 $'000	2013 $'000
Workforce Services	102,549	102,549
Technical Professionals	24,302	24,302
Swan Contract Personnel	36,820	36,820
Ativo/Thomas & Coffey	30,341	8,465
Skilled Offshore	217,106	168,414
Total Goodwill	411,118	340,550

Allocation of other intangibles to cash-generating units

The carrying amount of indefinite life 'Other Intangibles' allocated to cash-generating units that are significant individually, or in aggregate, are as follows:

	2014 $'000	2013 $'000
SKILLED Group trademark and brandname	14,000	14,000

Indefinite life intangibles of $14,000,000 (2013: $14,000,000) consist of the SKILLED trademark and brand name. The trademark and brand name were acquired externally and are protected by legal rights that are renewable at an insignificant cost.

Key assumptions

The key assumptions used in the value-in-use calculations for the various significant cash-generating units are as follows:

The recoverable amount of the cash-generating units is determined based on a value-in-use calculation which uses cash flow projections based on financial forecasts approved by management covering a three-year period, then a constant growth rate of 2.5% (2013: 2.5%) for two years, then 2.5% (2013: 2.5%) into perpetuity and discount rates applied to each cash-generating unit of between 13.5% and 14.5% (2013: between 13.5% and 14.5%).

The discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated into the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its CGUs and is derived from its weighted average cost of capital (WACC) which takes into account both debt and equity.

Impact of possible changes in key assumptions

The calculation of value in use for the cash generating units is most sensitive to the assumptions on gross margins, growth rates used to extrapolate cash flows beyond the forecast period and discount rates.

A decrease in demand volumes and/or pricing can lead to declines in gross margins. A sustained decrease in gross margins would increase the risk of impairment. A decrease in growth rate assumptions used to extrapolate cash flows beyond the three year forecast period will result in reduced valuations of cash generating units. A material reduction in the long term growth rate would increase the risk of impairment. An increase in the discount rate will result in reduced valuations of cash generating units and would increase the risk of impairment.

The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based, would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of these cash-generating units.

Notes to the financial statements (cont.)

12. Equity accounted investments

Carrying amount of interest in joint ventures

	2014 $'000	2013 $'000
Offshore Marine Services Alliance Pty Ltd	22,303	33,274
GSS Broadsword Marine JV Pty Ltd	579	–
Total carrying amount of interests in joint ventures	22,882	33,274

Offshore Marine Services Alliance Pty Ltd

Offshore Marine Services Alliance Pty Ltd (OMSA), a company incorporated in Australia, is engaged in the provision of marine logistics services to Australia's offshore oil and gas industry and supports the Group's position as a leader in the provision of offshore marine staffing and vessel chartering and management services.

OMSA is structured as a separate vehicle and provides the Consolidated Entity rights to the net assets of the entity. Accordingly, the Consolidated Entity has classified the investment in OMSA as a joint venture.

OMSA was established in 2009 between the Consolidated Entity, Ezion Investment Pte Ltd ("Ezion"), and PB Sea-Tow Holdings (BVI) Limited ("PB Sea-Tow") with each partner having an equal interest in the equity ownership of the venture. During the 2013 financial year, Ezion offered its shareholding for sale and on 29 February 2013 the Consolidated Entity and PB Sea-Tow each exercised their rights under the OMSA Shareholder Agreement to increase their shareholding from 33.3% to 50.0% respectively for $17,500,000.

Bank guarantees totalling $17,288,000 have been provided to a financier of OMSA as security for bank guarantees that the financier in turn provides to third parties on behalf of OMSA. In addition, an unlimited performance guarantee has been provided by Skilled Group Limited to third parties in respect of the operations of the joint venture. It is intended the joint venture be self-funding, however, the joint venture has a call option for debt and equity funding from its shareholders. This call option has not been exercised over the life of the joint venture. There were no other contingent liabilities or commitments for expenditure at 30 June 2014 (2013: nil).

Summarised financial information in respect of OMSA is as follows:

	2014 $'000	2013 $'000
Current assets[1]	85,339	71,398
Non-current assets	14,076	18,147
Current liabilities[2]	(54,372)	(21,746)
Non-current liabilities	(10,027)	(12,101)
Net assets	35,016	55,698
Revenue	294,494	304,029
Expenses	(270,007)	(277,932)
Depreciation and amortisation	(11,415)	(7,128)
Interest revenue	281	518
Profit before tax	13,353	19,487
Income tax expense	(4,037)	(5,869)
Profit after tax and total comprehensive income	9,316	13,618
Cash dividends received by the Consolidated Entity	15,000	–

1 Includes cash and cash equivalents amounting to $1,230,000 (2013: $22,997,000).

2 Includes financial liabilities (other than trade and other payables and provisions) amounting to $51,000 (2013: $49,000).

The summarised financial information presented is the amounts included in the financial statements of the joint venture, adjusted for acquisition fair value adjustments and for differences in accounting policies. The fair value adjustments principally relate to goodwill and identifiable intangible assets. Identifiable intangible assets are being amortised over 2.5 years. All operations are continuing.

Notes to the financial statements (cont.)

12. Equity accounted investments (cont.)

Offshore Marine Services Alliance Pty Ltd (cont.)

A reconciliation of the summarised financial information to the carrying amounts of OMSA is detailed below:

	2014 $'000	2013 $'000
Group share of 50.0% (2013: 50.0%) of net assets excluding fair value adjustments on acquisition	12,713	22,424
Goodwill and intangible assets on acquisition less accumulated amortisation	9,590	10,850
Carrying amount of interest in joint venture	22,303	33,274
Profit and total comprehensive income excluding fair value adjustments	10,576	14,248
Amortisation of identifiable intangible assets on acquisition	(1,260)	(630)
Profit and total comprehensive income	9,316	13,618
Share of profit and total comprehensive income (50.0% shareholding)	4,028	3,852
Share of profit and total comprehensive income (33.3% shareholding)	–	1,849
Share of profit and total comprehensive income	4,028	5,701

GSS Broadsword Marine JV Pty Ltd

The Consolidated Entity has a 50% interest in an immaterial joint venture, namely, GSS Broadsword Marine JV Pty Ltd (the "GSS JV"). The GSS JV is an unlisted company based in Darwin Australia specialising in marine logistics services to the Oil and Gas industry. The following table analyses the carrying amount and share of loss and other comprehensive income of this joint venture:

	2014 $'000	2013 $'000
Carrying amount of interest in joint venture	579	-
Share of loss and other comprehensive income[1]	279	-

1 Net of amortisation of acquired intangibles of $448,000 (2013: $nil).

Notes to the financial statements (cont.)

13. Deferred tax assets and liabilities

	2014 $'000	2013 $'000
RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES		
Deferred tax assets comprise:		
Temporary differences	21,772	19,525
The deferred tax asset has been reduced by the provision for deferred income tax attributable to temporary differences	4,170	3,848

Taxable and temporary differences comprise the following:

2014	Opening balance $'000	Acquisition of subsidiaries $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities					
Intangible and other assets	(1,503)	(5,382)	4,417	–	(2,468)
Property, plant and equipment	(2,345)	(151)	794	–	(1,702)
Gross deferred tax liabilities	(3,848)	(5,533)	5,211	–	(4,170)
Gross deferred tax assets					
Provisions and accruals	18,783	2,720	(955)	–	20,548
Doubtful debts	124	62	65	–	251
Other	618	1,014	(1,609)	950	973
Gross deferred tax assets	19,525	3,796	(2,499)	950	21,772
Net deferred tax assets	15,677	(1,737)	2,712	950	17,602

2013	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities				
Intangible and other assets	(3,474)	1,971	–	(1,503)
Property, plant and equipment	(314)	(2,031)	–	(2,345)
Gross deferred tax liabilities	(3,788)	(60)	–	(3,848)
Gross deferred tax assets				
Provisions and accruals	21,834	(3,051)	–	18,783
Doubtful debts	1,821	(1,697)	–	124
Other	1,644	(1,904)	878	618
Gross deferred tax assets	25,299	(6,652)	878	19,525
Net deferred tax assets	21,511	(6,712)	878	15,677

Unrecognised deferred tax assets

Unused tax losses for which no deferred tax assets have been recognised are attributable to the following:

	2014 $'000	2013 $'000
Tax losses (revenue in nature)	–	129
Tax losses (capital in nature)	152	152
	152	281

Notes to the financial statements (cont.)

14. Payables

	2014 $'000	2013 $'000
Current		
Trade payables and accruals	98,507	77,866
Deferred purchase consideration – note 22	8,900	–
Goods and services tax payable	16,164	16,343
	123,571	94,209
Non-Current		
Deferred and contingent purchase consideration – note 22	20,107	–
	20,107	–

Terms and conditions of the above financial liabilities:

- Trade payables and accruals are non-interest bearing and are normally settled on 30-day terms.
- For terms and conditions relating to deferred purchase consideration, refer to Note 22.
- Goods and services tax payable is non-interest bearing and is settled monthly throughout the financial year.

15. Borrowings

	2014 $'000	2013 $'000
Current		
Bank overdraft(i)	468	629
Bank debt facilities(ii)	4,000	–
Finance lease liabilities(iii)	538	665
	5,006	1,294
Non-Current		
Bank debt facilities(ii)	172,600	55,896
Finance lease liabilities(iii)	324	517
	172,924	56,413

(i) Secured by fixed and floating charge over all the assets of the Consolidated Entity, or standby letter of credit.

(ii) Secured by fixed and floating charge over all the assets of the Consolidated Entity.

(iii) Secured over the assets leased, the current market value of which exceeds the value of the finance lease liability

Notes to the financial statements (cont.)

16. Provisions

	2014 $'000	2013 $'000
Current		
Employee benefits	42,623	36,529
Workers compensation self-insurance	308	1,606
Provision for restoration	2,860	2,925
Other	3,641	2,556
	49,432	43,616
Non- Current		
Employee benefits	6,044	5,270
Workers compensation self-insurance	5,796	6,801
Provision for restoration	6,436	938
Other	1,409	–
	19,685	13,009

	Employee benefits $'000	Workers Compensation $'000	Provision for restoration $'000	Other $'000	Total $'000
Balance as at 30 June 2013	41,799	8,407	3,863	2,556	56,625
Acquired from new business	7,706	–	5,498	5,101	18,305
Additional provisions recognised	21,977	–	439	144	22,560
Reductions arising from payments/ other sacrifices of future economic benefits	(22,815)	(4,822)	–	(2,826)	(30,463)
Changes resulting from the re-measurement of the estimated future sacrifice of the settlement of the provision without cost to the Consolidated Entity	–	2,519	(504)	75	2,090
Balance as at 30 June 2014	48,667	6,104	9,296	5,050	69,117
Included in the financial statements as:					
Current	42,623	308	2,860	3,641	49,432
Non-current	6,044	5,796	6,436	1,409	19,685
	48,667	6,104	9,296	5,050	69,117

Notes to the financial statements (cont.)

17. Leases

	2014 $'000	2013 $'000
(A) FINANCE LEASES		
Finance lease commitments:		
Not later than 1 year	586	748
Later than 1 year and not later than 5 years	345	547
Minimum finance lease payments	931	1,295
Deduct future finance charges	(69)	(113)
Present value of finance lease liabilities	862	1,182
Disclosed in the financial statements as:		
Borrowings:		
Current (note 15)	538	665
Non-current (note 15)	324	517
	862	1,182

There are no other commitments for expenditure, at the end of the financial year, other than those disclosed in the financial statements.

The finance lease agreements are for periods between two and five years. The Consolidated Entity has options to purchase the equipment at its residual value at the conclusion of the lease agreements.

	2014 $'000	2013 $'000
(B) OPERATING LEASES		
Non-cancellable operating leases:		
Not later than 1 year	12,947	11,007
Later than 1 year but not later than 5 years	25,802	23,326
Later than 5 years	11,073	13,601
	49,822	47,934

The Consolidated Entity leases its office premises. The rental period of each individual lease agreement varies between one and 10 years with renewal options ranging from one to five years. The majority of lease agreements are subject to rental adjustments in line with movements in the Consumer Price Index or market rentals.

The Consolidated Entity leases the majority of its computer equipment from external suppliers over a lease period of three to five years with payments being quarterly in advance. At the end of the lease period the Consolidated Entity has a number of options available with respect to the equipment, none of which include penalty charges.

The Consolidated Entity enters into bareboat charter arrangements for marine vessels in relation to its SKILLED Offshore businesses in Australia. The vessels are chartered on individual lease agreements that vary between periods of up to five years with renewable options pursuant to the underlying contracts.

Notes to the financial statements (cont.)

18. Issued capital

	2014 $'000	2013 $'000
235,254,496 fully paid ordinary shares (2013: 233,533,526)	352,986	349,661

The Company does not have any authorised capital as part of its constitution.

(A) FULLY PAID ORDINARY SHARES

	2014 No. '000	2014 $'000	2013 No. '000	2013 $'000
Balance at the beginning of the financial year	233,533	349,661	233,487	349,500
Issue of shares under Employee Share Acquisition Plan[(i)]	–	–	46	161
Share based payments	1,721	3,325	–	–
Balance at the end of the financial year	235,254	352,986	233,533	349,661

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(i) Net of issuance costs of $nil (2013: $nil).

(B) SHARES HELD BY SUBSIDIARIES

Allskills Pty Ltd, a wholly owned subsidiary, held 418,500 (2013: 418,500) shares in SKILLED Group Limited at 30 June 2014. These shares were held for the benefit of the SKILLED Group Limited Employee Share Acquisition Plan.

Notes to the financial statements (cont.)

19. Share-based payments

A description and key terms of share-based payments is disclosed in the Remuneration Report.

SHARE OPTIONS

Grant date	Exercise price $	Expiry date	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Forfeited / Expired during the year Number	Balance at end of year Number	Fair value $
2014								
21/10/2008	2.52	20/10/2014	1,253,000	–	–	(1,253,000)	–	0.71
23/11/2010	1.47	23/11/2016	2,419,593	–	(1,679,938)	(739,655)	–	0.54
20/12/2013	3.08	19/12/2019	–	875,000	–	–	875,000	0.66
20/12/2013	3.08	19/12/2019	–	875,000	–	–	875,000	0.63(ii)
			3,672,593	1,750,000	(1,679,938)	(1,992,655)	1,750,000	
WAP(i)			1.83	3.08	1.47	2.13	3.08	
2013								
15/11/2006	5.81	14/11/2012	81,000	–	–	(81,000)	–	1.62
2/11/2007	5.29	1/11/2013	309,000	–	–	(309,000)	–	1.47
21/10/2008	2.52	20/10/2014	1,253,000	–	–	–	1,253,000	0.71
19/11/2009	2.28	18/11/2015	346,000	–	–	(346,000)	–	0.72
23/11/2010	1.47	23/11/2016	2,419,593	–	–	–	2,419,593	0.54
12/08/2011	2.28	18/11/2015	50,000	–	–	(50,000)	–	0.72
			4,458,593	–	–	(786,000)	3,672,593	
WAP(i)			2.18	–	–	3.83	1.83	

(i) Denotes weighted average price
(ii) Grants relate to share options measured against relative total shareholder return, which is a market based measure. All other grants are measured against earnings per share, a non-market based measure.

The share options outstanding at 30 June 2014 have an exercise price of $3.08 (2013: ranging from $1.47 to $2.52) and a weighted average contractual life of 6 years.

Notes to the financial statements (cont.)

19. Share-based payments (cont.)

PERFORMANCE RIGHTS

Grant date	Expiry date	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Forfeited / Expired during the year Number	Balance at end of year Number	Fair value $
2014							
23/11/2010	23/11/2013	776,929	–	(204,977)	(571,952)	–	1.47
20/10/2011	30/09/2013	337,838	–	(337,838)	–	–	1.47
20/10/2011	30/09/2014	337,838	–	–	–	337,838	1.47
20/10/2011	20/10/2014	54,404	–	–	(15,026)	39,378	1.60
22/12/2011	22/12/2014	884,897	–	–	(23,903)	860,994	1.54
22/12/2011	22/12/2014	884,897	–	–	(23,903)	860,994	0.89(i)
30/11/2012	29/11/2015	758,580	–	–	(43,333)	715,247	1.95
30/11/2012	29/11/2015	758,580	–	–	(43,333)	715,247	1.23(i)
20/12/2013	19/12/2016	–	929,500	–	(3,333)	926,167	2.75
20/12/2013	19/12/2016	–	929,500	–	(3,333)	926,167	2.19(i)
2/05/2014	1/05/2017	–	146,500	–	–	146,500	2.58
2/05/2014	1/05/2017	–	82,500	–	–	82,500	2.44
		4,793,963	2,088,000	(542,815)	(728,116)	5,611,032	
2013							
19/11/2009	18/11/2012	374,600	–	–	374,600	–	2.11
23/11/2010	23/11/2013	841,929	–	–	65,000	776,929	1.47
20/10/2011	30/09/2013	337,838	–	–	–	337,838	1.47
20/10/2011	30/09/2014	337,838	–	–	–	337,838	1.47
20/10/2011	20/10/2014	54,404	–	–	–	54,404	1.60
22/12/2011	22/12/2014	945,378	–	–	60,481	884,897	1.54
22/12/2011	22/12/2014	945,379	–	–	60,482	884,897	0.89(i)
30/11/2012	29/11/2015	–	771,080	–	12,500	758,580	1.95
30/11/2012	29/11/2015	–	771,080	–	12,500	758,580	1.23(i)
		3,837,366	1,542,160	–	585,563	4,793,963	

(i) Grants relate to performance rights measured against relative total shareholder return, which is a market based measure. All other grants are measured against non-market based measures, either earnings per share or employee retention

The performance rights outstanding at 30 June 2014 have a weighted average contractual life of 3 years.

Notes to the financial statements (cont.)

20. Reserves

	2014 $'000	2013 $'000
Employee equity-settled benefits reserve	891	3,499
Hedging reserve	–	(65)
Foreign currency translation reserve	(725)	(1,296)
Balance at the end of the financial year	166	2,138

(A) EMPLOYEE EQUITY-SETTLED BENEFITS RESERVE

	2014 $'000	2013 $'000
Balance at the beginning of the financial year	3,499	2,980
Share-based payments	(2,608)	519
Balance at the end of the financial year	891	3,499

The employee equity-settled benefits reserve is used to recognise the fair value of options and rights issued but not yet exercised.

(B) HEDGING RESERVE

	2014 $'000	2013 $'000
Balance at the beginning of the financial year	(65)	(421)
Interest rate swaps	93	565
Income tax related to gains/losses recognised in equity	(28)	(170)
Transferred to profit or loss:		
Interest rate swaps	–	(56)
Income tax related to amounts transferred to profit or loss	–	17
Balance at the end of the financial year	–	(65)

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item. Refer note 2(M) to the financial statements.

Notes to the financial statements (cont.)

20. Reserves (cont.)

(C) FOREIGN CURRENCY TRANSLATION RESERVE

	2014 $'000	2013 $'000
Balance at the beginning of the financial year	(1,296)	(2,467)
Translation of foreign operations	571	1,171
Balance at the end of the financial year	(725)	(1,296)

Exchange differences relating to foreign currency monetary items forming part of the net investment in foreign operations and the translation of foreign controlled entities are brought to account by entries made directly to the foreign currency translation reserve. Refer note 2(T) to the financial statements.

21. Contingent liabilities

	2014 $'000	2013 $'000
Bank guarantees for various contracts	57,284	34,113

Other contingent liabilities

A number of legal claims exist where the outcome is uncertain. Where practicable, provision has been made in the financial statements to recognise the estimated cost to settle the claims based on best estimate assumptions and legal advice where relevant. The actual amounts settled in relation to the outstanding matters may differ to those estimated.

Contractual obligations exist in relation to permanent field employees in the event certain customer labour and maintenance services contracts end, such as termination payments in the event employees cannot be re-deployed. No provision is recognised in the financial statements until such time as there is a present obligation to make a termination payment to the employee.

An unlimited performance guarantee has been provided by Skilled Group Limited to third parties in respect of the operations of OMSA. Further details are provided in Note 12. No provision is recognised in the financial statements until there is a present obligation to make a payment pursuant to the guarantee.

Notes to the financial statements (cont.)

22. Business combinations

Acquisition of Broadsword Marine Contractors Pty Ltd

On 3 July 2013, the Consolidated Entity acquired 100% of the voting shares of Broadsword Marine Contractors Pty Ltd ("Broadsword"), an unlisted company based in Darwin, Australia specialising in marine logistics services to the Oil & Gas industry. The acquisition is expected to provide the Consolidated Entity with a strong growth platform in marine services to complement the existing Offshore Marine Services business and the Offshore Marine Services Alliance joint venture.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Broadsword as at the date of acquisition were:

	Fair value recognised on acquisition $'000
Assets	
Cash and cash equivalents	2,511
Trade receivables	7,243
Inventories	6
Prepayments and other assets	781
Property, plant and equipment	25,952
Intangibles – customer contracts	3,660
Equity accounted investment	859
Deferred tax assets	1,352
	42,364
Liabilities	
Trade and other payables	(1,748)
Interest-bearing liabilities	(8,217)
Provisions and accruals	(839)
Contingent liability	(820)
Deferred tax liability	(1,098)
	(12,722)
Total identifiable net assets at fair value	29,642
Goodwill arising on acquisition	46,109
Purchase consideration transferred	75,751

The fair value of identifiable assets and liabilities included in the Consolidated Entity's interim financial report as at and for the half year ended 31 December 2013 was based on provisional values. The valuation is complete at 30 June 2014 and the acquisition date fair value of property, plant and equipment was $25,952,000, a decrease of $541,000 over the provisional value. This and other adjustments resulted in a corresponding increase in goodwill on acquisition of $549,000 over the provisional value, with the final value totalling $46,109,000.

The trade receivables comprise gross contractual amounts due of $7,263,000, of which $20,000 was expected to be uncollectible at the acquisition date.

The goodwill is attributable mainly to the skills and technical talent of Broadsword's work force and the growth potential of the business working in conjunction with SKILLED's existing Offshore Marine Services business. None of the goodwill is expected to be deductible for income tax purposes.

From the date of acquisition, Broadsword has contributed $58,967,000 of revenue and $8,452,000 of profit before tax to the Consolidated Entity's result, which includes profit from operations, acquisition and integration costs, amortisation of acquired intangibles and notional interest on deferred consideration. There would be no material difference to the contribution of revenue and profit before tax had the acquisition taken place at the beginning of the financial year.

Notes to the financial statements (cont.)

22. Business combinations (cont.)

Consideration transferred

The following summarises the major classes of consideration transferred:

	$'000
Cash	46,696
Deferred consideration	24,417
Contingent consideration	4,638
Total consideration	75,751

Deferred consideration

The purchase consideration includes deferred consideration payable in equal instalments over three years commencing twelve months from the date of acquisition. The present value of the deferred consideration of $24,417,000 was based on a weighted average discount rate of 4.5%.

Contingent consideration

A contingent amount up to a maximum of $24,500,000 may be payable if three-year EBITDA growth exceeds agreed stretch targets and is expected to be finalised within four months of the financial year ending 30 June 2016. As at the acquisition date, the fair value of the contingent consideration was estimated to be $4,638,000 based on a probability assessment of achieving the targets and a discount rate of 4.5%. The provision for contingent consideration was reduced by $1,386,000 in the year ended 30 June 2014 with a corresponding gain recognised in the income statement, based on a reassessment of the probability of achieving the targets.

Acquisition and related costs

In the current financial period, the Consolidated Entity incurred acquisition and integration costs of $495,000 related to external legal and other advisor fees and costs associated with integrating Broadsword into the SKILLED Group. These costs have been included in other expenses in the Consolidated Entity's income statement. In addition, costs of $315,000 were incurred as an early repayment fee in relation to refinancing Broadsword's existing finance lease liabilities and replacing them with debt under SKILLED's senior debt facility. The repayment fee has been included in interest expense in the Consolidated Entity's income statement.

Analysis of cash flows on acquisition

	$'000
Cash price paid as purchase consideration (included in cash flows from investing activities)	46,696
Acquisition and related costs (included in cash flows from operating activities)	495
Net cash acquired with subsidiary (included in cash flows from investing activities)	(2,511)
Early repayment fees on lease liabilities (included in cash flows from operating activities)	315
Net cash flows on acquisition	44,995

22. Business combinations (cont.)

Acquisition of T&C Services Pty Ltd (Thomas & Coffey)

On 11 February 2014, the Consolidated Entity acquired 100% of the voting rights of T&C Services Pty Limited ("T&C Services") a subsidiary of Thomas & Coffey Limited for cash consideration totalling $33,964,000. T&C Services is an unlisted company, which provides a broad range of maintenance and asset management services to the manufacturing, mining, heavy industry and utilities sectors in Australia predominantly in New South Wales and Queensland. The acquisition is highly complementary to the existing maintenance service offering provided by the ATIVO business.

Assets acquired and liabilities assumed

The provisionally determined fair values of the identifiable assets and liabilities of T&C Services as at the date of acquisition were:

	Fair value recognised on acquisition $'000
Assets	
Cash and cash equivalents	156
Trade receivables	22,397
Inventories	858
Prepayments and other assets	110
Property, plant and equipment	3,209
Intangibles – customer contracts and brandname	16,100
Deferred tax assets	2,990
	45,820
Liabilities	
Trade and other payables	(7,195)
Interest-bearing liabilities	(338)
Provisions and accruals	(20,217)
Contingent liability	(1,000)
Deferred tax liability	(4,981)
	(33,731)
Total identifiable net assets at fair value	12,089
Goodwill arising on acquisition	21,875
Purchase consideration transferred	33,964

The fair values are provisional pending completion of the valuation process. The finalisation of the fair value of the assets acquired and liabilities assumed will be completed within 12 months of the acquisition.

The trade receivables comprise gross contractual amounts due of $13,816,000, of which $187,000 was expected to be uncollectible at the acquisition date.

The goodwill is attributable mainly to the skills and technical talent of T&C Services' work force and the growth potential of the business working in conjunction with SKILLED's existing ATIVO business. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition, T&C Services has contributed $47,928,000 of revenue and $100,000 of profit before tax to the Consolidated Entity's result, which includes profit from operations, acquisition and integration costs and amortisation of acquired intangibles. T&C Services is a newly formed entity established to effect the acquisition of certain components of Thomas & Coffey Limited's business. As such, historical financial information for T&C Services relating to the period prior to acquisition is not available to determine the contribution of revenue and profit before tax had the acquisition taken place at the beginning of the financial year.

Notes to the financial statements (cont.)

22. Business combinations (cont.)

Acquisition and related costs

In the current financial period, the Consolidated Entity incurred acquisition and integration costs of $3,249,000 related to external legal and other advisor fees and costs associated with integrating T&C Services into the SKILLED Group. These costs have been included in other expenses in the Consolidated Entity's income statement.

Analysis of cash flows on acquisition

	$'000
Cash price paid as purchase consideration (included in cash flows from investing activities)	33,964
Acquisition and related costs (included in cash flows from operating activities)	3,249
Net cash acquired with subsidiary (included in cash flows from investing activities)	(156)
Net cash flows on acquisition	37,057

Net cash outflows for prior years' acquisitions

	2014 $'000	2013 $'000
Payment of deferred consideration	-	9,508

During the prior year, deferred consideration payments were made in respect of the previous acquisitions of OMS UK and OMS International.

23. Superannuation contributions

	2014 $'000	2013 $'000
Superannuation contributions provided for employees via the following superannuation funds:		
Complying superannuation funds(i)	104,231	107,034

(i) The Consolidated Entity makes contributions to superannuation plans in accordance with the greater of the Superannuation Guarantee Charge legislation, or the terms of applicable industrial awards. Each of the plans are structured using external superannuation fund managers, with the result that the Consolidated Entity is not liable to meet any additional liability in the event of termination of any fund member. The funds are of the accumulation type.

Notes to the financial statements (cont.)

24. Subsidiaries

Name of entity	Note	Country of incorporation	Ownership interest 2014 %	2013 %
Parent entity				
SKILLED Group Limited	(a)	Australia		
Controlled entities				
Allskills Pty Ltd	(b)	Australia	100	100
Ativo Pty Ltd	(c)	Australia	100	100
ATIVO Coal Services Pty Ltd	(b)	Australia	100	–
T&C Services Pty Ltd	(c)	Australia	100	–
Thomas & Coffey (QLD) Pty Ltd	(c)	Australia	100	–
Catalyst Recruitment Systems Pty Ltd	(c)	Australia	100	100
ACN 101 075 512 Pty Ltd	(b)	Australia	100	100
Catalyst Quality Service Pty Ltd	(b)	Australia	100	100
Jet Tasmania Pty Ltd	(b)	Australia	100	100
Mosaic Recruitment Pty Ltd	(c)	Australia	100	100
The Green & Green Group Pty Ltd	(b)	Australia	100	100
Extra Group Pty Ltd	(c)	Australia	100	100
Extraman (NT) Pty Ltd	(b)	Australia	100	100
Extraman (HR) Pty Ltd	(b)	Australia	100	100
Skilled Offshore (Australia) Pty Ltd	(e)	Australia	100	100
Offshore Marine Services Alliance Pty Ltd	(b)	Australia	50	–
Offshore Marine Services Pte Ltd	(a)	Singapore	100	100
Skilled Healthcare Holdings Pty Ltd	(c)	Australia	100	100
Nursing Australia Pty Ltd	(b)	Australia	100	100
HR Link No. 2 Pty Ltd	(b)	Australia	100	100
HR Link No. 1 Pty Ltd	(b)	Australia	100	100
Nursing (Australia) Holdings Pty Ltd	(b)	Australia	100	100
Locumitis Pty Ltd	(b)	Australia	100	100
Mantech Systems Pty Ltd	(c)	Australia	100	100
Medistaff Pty Ltd	(b)	Australia	100	100
Origin Education Services Pty Ltd	(b)	Australia	100	100
Origin Health Support Services Pty Ltd	(b)	Australia	100	100
Skilled Healthcare Pty Ltd	(c)	Australia	100	100
ProSafe Personnel Pty Ltd	(b)	Australia	100	100
PeopleCo. Pty Ltd	(c)	Australia	100	100
SKILLED Group International Pty Ltd	(c)	Australia	100	100
Offshore Marine Services Ltd	(e)	Malaysia	100	100
OMS DMCEST	(e)	Dubai	100	100
Offshore Marine Services FZ LLC	(e)	Dubai	100	100
Offshore Marine Holdings (Malta) Limited	(e)	Malta	100	100
Offshore Marine Services (Malta) Limited	(e)	Malta	100	100
Skilled Offshore (Holdings) LLC	(f)	USA	100	–
Skilled Offshore LLC	(f)	USA	100	–
Point 2 Point Travel Limited	(e)	Malta	100	100
SKILLED Group NZ Holdings Limited	(a)	New Zealand	100	100

Notes to the financial statements (cont.)

24. Subsidiaries (cont.)

Name of entity	Note	Country of incorporation	Ownership interest 2014 %	2013 %
Skilled Offshore (NZ) Ltd	(a)	New Zealand	100	100
SKILLED International Sourcing Pty Ltd	(b)	Australia	100	100
Broadsword Marine Contractors Pty. Ltd	(c)	Australia	100	–
GSS Broadsword Marine JV Pty Ltd	(b)	Australia	50	–
SKILLED Group UK Ltd	(e)	United Kingdom	100	100
Offshore Marine Services UK Ltd	(e)	United Kingdom	100	100
SKILLED Maritime Services Pty Ltd	(b)	Australia	100	100
SKILLED Operations (WA) Pty Ltd	(b)	Australia	100	100
SKILLED Rail Services Pty Ltd	(a)	Australia	100	100
SKILLED Resources Pty Ltd	(b)	Australia	100	100
SKILLED Offshore Pty Ltd	(b)	Australia	100	100
SKILLED Workforce Solutions (NSW) Pty Ltd	(c)	Australia	100	100
Swan Contract Personnel Pty Ltd	(c)	Australia	100	100
TESA Group Pty Ltd	(c)	Australia	100	100
TESA Mining (Aust) Pty Limited	(c)	Australia	100	100
TESA Mining (NSW) Pty Limited	(c)	Australia	100	100
TESA Mining (U/G) Pty Limited	(b)	Australia	100	100
Damstra Mining Services Pty Ltd	(b)	Australia	100	100
HVA (Qld) Pty Limited	(b)	Australia	100	100
HVA Support Services Pty Limited	(b)	Australia	100	100
HVA Technical Services Pty Limited	(b)	Australia	100	100
Waycon Services Pty Limited	(c)	Australia	100	100
Workforce Solutions (No 1) Pty Ltd	(b)	Australia	100	100

All controlled entities carry on business only in the country of formation or incorporation. Allskills Pty Ltd is the trustee of the SKILLED Group Limited Share Plan Trust.

Swan Contract Personnel Pty Ltd is the trustee of the Swan Drafting Unit Trust.

Legend:

(a) Audited by Ernst & Young

(b) These controlled entities are classified as small proprietary companies and in accordance with the Corporations Act 2001 are relieved from the requirement to prepare, audit and lodge financial reports.

(c) These wholly-owned controlled entities have entered into a deed of cross guarantee with SKILLED Group Limited, pursuant to ASIC Class Order 98/1418 and have been relieved from the requirement to prepare and lodge an audited financial report.

(d) Entity in liquidation

(e) Audited by Ernst & Young International

(f) These controlled entities are incorporated in the USA and are relieved from the requirement to prepare, audit and lodge financial reports.

Notes to the financial statements (cont.)

24. Subsidiaries (cont.)

The consolidated income statement and balance sheet of the entities, which are party to the deed of cross-guarantee and are part of the closed group are as follows:

	2014 $'000	2013 $'000
Income statement		
Revenue	1,409,054	1,440,382
Other revenue	(238)	315
Dividends Received	43,000	26,346
Gain/(loss) on sale of businesses and fixed assets	215	163
Employee and sub-contractor related costs	(1,280,973)	(1,274,773)
Raw materials and consumables used	(18,233)	(5,347)
Office occupancy related costs	(13,117)	(11,980)
Depreciation and amortisation expense	(15,929)	(7,577)
Finance costs	(9,503)	(4,051)
Other expenses	(53,094)	(111,836)
Profit/(loss) before income tax expense	61,182	51,642
Income tax (expense)/benefit	2,128	(10,378)
Profit/(loss) attributable to members of the parent entity	63,310	41,264

	2014 $'000	2013 $'000
Balance sheet		
Current assets		
Cash and cash equivalents	2,082	10,855
Receivables	348,625	212,349
Inventories	677	145
Other	2,460	3,674
Total current assets	353,844	227,023
Non-current assets		
Receivables	2,627	1,690
Property, plant and equipment	85,906	15,034
Goodwill	234,334	166,313
Other intangibles	60,237	45,293
Other financial assets	171,721	170,635
Deferred tax assets	7,953	7,376
Total non-current assets	562,778	406,341
Total assets	916,622	633,364

Notes to the financial statements (cont.)

24. Subsidiaries (cont.)

	2014 $'000	2013 $'000
Current liabilities		
Payables	272,817	129,430
Borrowings	4,538	665
Current tax liabilities	1,933	12,742
Other financial liabilities	–	110
Provisions	38,917	28,887
Total current liabilities	318,205	171,834
Non-current liabilities		
Payables	20,108	41,438
Borrowings	155,413	42,950
Provisions	15,868	12,225
Total non-current liabilities	191,389	96,613
Total liabilities	509,594	268,447
Net assets	407,028	364,917
Equity		
Issued capital	352,986	349,661
Reserves	1,367	3,941
Retained earnings	52,675	11,315
Total equity	407,028	364,917
Retained earnings		
Balance at the beginning of the financial year	11,315	4,802
Adjustment to retained earnings in respect of changes to the deed	16,711	
Net profit	63,311	41,264
Dividends provided for or paid	(38,662)	(35,046)
Movements in other comprehensive income	–	295
Balance at the end of the financial year	52,675	11,315

Notes to the financial statements (cont.)

25. Related party disclosures

(A) EQUITY INTERESTS IN SUBSIDIARIES

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 24 to the financial statements.

(B) KEY MANAGEMENT PERSONNEL COMPENSATION (INCLUDING DIRECTORS)

	2014 $	2013 $
Short-term employee benefits	4,209,906	3,959,725
Post-employment benefits	170,193	263,358
Share-based payments	861,129	998,819
Termination benefits	99,998	–
Other long-term employee benefits	–	(22,712)
	5,341,226	5,199,190

(C) TRANSACTIONS WITH OTHER RELATED PARTIES:

Related party	Type of transaction	2014	2013	Class of related party	2014 $	2013 $
Offshore Marine Services Alliance Pty Ltd	Offshore marine staffing	Normal commercia l terms and conditions	Normal commercial terms and conditions	Joint Venture	79,378,000	83,663,986

Details of guarantees provided by the Consolidated Entity in respect of the operations of Offshore Marine Services Alliance Pty Ltd are disclosed in note 12 to the financial statements.

VA McFadden was a director of Leighton Holdings Ltd from June 2013 to May 2014. Leighton Holdings Ltd is a SKILLED Group customer and transacts on normal commercial terms and conditions.

MJ Findlay is a director of Royal Children's Hospital, Melbourne. Royal Children's Hospital, Melbourne is a SKILLED Group customer and transacts on normal commercial terms and conditions.

26. Remuneration of auditors

	2014 $	2013 $
Amounts received or due and receivable by Ernst & Young (Australia)		
Audit and review of the financial report	639,400	530,177
Other assurance services	117,000	32,500
Tax and employment-related services	–	40,692
	756,400	603,369
Amounts received or due and receivable by Ernst & Young (International)		
Audit and review of the financial report	62,000	49,323
Other assurance services	–	–
	62,000	49,323

Notes to the financial statements (cont.)

27. Notes to the cash flow statement

(A) RECONCILIATION OF CASH

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the Balance Sheet as follows:

	2014 $'000	2013 $'000
Cash and short-term deposits	7,858	12,890
Bank overdraft	(468)	(629)
Cash assets	7,390	12,261

(B) NON-CASH FINANCING AND INVESTING ACTIVITIES

During the financial year, the Consolidated Entity:

(i) Acquired plant and equipment under finance lease with an aggregate value of $nil (2013: $nil).

(ii) Acquired plant and equipment and leasehold improvements with an aggregate value of $3,842,000 (2013: $998,000) which did not generate a cash flow in the 2014 year and were included within current payable as at 30 June 2014.

(C) FINANCING FACILITIES

	2014 $'000	2013 $'000
Bank overdraft facility, payable at call:		
Amount used	468	629
Amount unused	10,761	10,185
	11,229	10,814
Syndicated bank debt facility and market rate advance facility subject to periodic roll-over:		
Amount used	177,172	56,074
Amount unused	197,328	123,926
	374,500	180,000

The bank overdraft, syndicated bank debt facility and market rate advance facility are secured by a fixed and floating charge over the assets of the Consolidated Entity. The bank overdraft and market rate advance facility are subject to annual review. At 30 June 2014, the syndicated bank debt facility was $320 million in total comprising three tranches, being $100 million (maturing in August 2015), $90 million (maturing in August 2015) and $130 million (maturing in August 2016). The market rate advance facility is $22.5 million (maturing in December 2014).

28. Financial instruments

Capital risk management

The Consolidated Entity manages its capital to ensure that it will be able to continue as a going concern whilst maximising the return to stakeholders through an optimal balance of debt and equity.

The capital structure of the Consolidated Entity consists of debt, which includes the borrowings disclosed in note 15, the cash and cash equivalents disclosed in note 27, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity and notes 18 and 20.

The Board regularly reviews its capital structure and considers market conditions, industry peers and stakeholder expectations in setting its capital structure. The efficacy and suitability of the Consolidated Entity's capital structure is regularly measured and includes a consideration of the (a) committed debt levels, (b) leverage (debt to EBITDA), (c) interest cover (EBITDA to interest expense) and (d) gearing (net debt to net debt plus equity).

The Consolidated Entity's key capital structure financial metrics as at reporting date were as follows:

	2014 $'000	2013 $'000
Leverage		
(Net debt/EBITDA[(i)])	1.8	0.5
Interest cover		
(EBITDA[(i)]/Net interest expense[(i)])	12.3	25.2
Gearing		
(Net debt/Net debt + equity)	26%	9%

(i) EBITDA and net interest expense is as disclosed in note 30 Segment Reporting.

In order to manage the optimal balance of debt and equity the Consolidated Entity may:

- raise, refinance or retire debt;
- issue or buy-back shares;
- adjust the level of dividend payout ratio and the level of dividends to be paid; and/or
- offer a Dividend Reinvestment Plan.

Notes to the financial statements (cont.)

28. Financial instruments (cont.)

Financial risk management

The Consolidated Entity's financial risks include market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Consolidated Entity's overall strategy relating to financial risk management remains unchanged from 2013.

The carrying amount of the Consolidated Entity's financial assets and financial liabilities at the reporting date are as follows:

	2014 $'000	2013 $'000
Financial assets		
Cash and cash equivalents	7,858	12,890
Current and non-current receivables	257,534	212,537

	2014 $'000	2013 $'000
Financial liabilities		
Loans and payables	318,633	151,916
Derivatives held for trading	–	16
Derivatives in hedge relationships	–	94

The Consolidated Entity manages these risks in accordance with specific Board-approved policies and directives. Each of these risks is discussed in further detail in the following notes.

Interest rate risk

Interest rate risk is the effect on either the financial performance or capital value of the Consolidated Entity arising from movements in interest rates. The Consolidated Entity is exposed to interest rate risk as entities within the Consolidated Entity borrow funds at both fixed and floating rates.

The Consolidated Entity manages its interest rate risk in accordance with Board approved policy. This policy is designed to mitigate the financial risk arising from movements in interest rates to:

- meet stakeholder expectations in respect of earnings and interest expense; and
- protect the financial undertakings under the Consolidated Entity's debt facilities.

The current interest rate risk management policy, unchanged since 2013, is as follows:

- no interest rate hedging to be entered into for the time being; and
- no minimum level of fixed rate debt is prescribed.

The Consolidated Entity's non-derivative exposure to interest rate risk as at 30 June 2014 is as follows:

- Cash (weighted average interest rate 1.5-2.1%). Refer consolidated statement of financial position.
- Bank overdraft (weighted average interest rate 4.0-6.0%). Refer note 15.
- Bank loans (weighted average interest rate 2.0-5.5%) excluding the effect of interest rate derivatives outlined below. Refer note 15.
- Lease liabilities (weighted average interest rate 10.0-11.0%). Refer note 15.

28. Financial instruments (cont.)

Interest rate sensitivity

The Consolidated Entity's sensitivity to a 200 basis point increase or decrease in interest rates is less than $2,500,000 after tax (2013: $800,000 after tax). This level represents management's assessment of the possible changes in interest rates.

Interest rate derivatives

Under interest rate swap contracts, the Consolidated Entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of fluctuating interest rates on the cash flow exposure under its variable rate borrowings by exchanging floating rate amounts for the fixed rate amounts. The interest rate swap contracts settle on a quarterly basis based upon the difference between the fixed rate under each contract and Australian Dollar (bank bill swap rate) BBSY. These differences are settled on a net basis.

Hedging activities are reviewed regularly to align with the Consolidated Entity's interest rate risk management policy and are reported to the Board.

The Consolidated Entity adopts the hedge accounting provisions of AASB 139 in respect of its interest rate hedges and does not enter into or trade derivative financial instruments for speculative purposes.

The following table details the interest rate swap contracts outstanding as at reporting date:

Maturity	Average contracted fixed interest		Notional principal amount		Fair value	
	2014 %	2013 %	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Less than 1 year	–	8.0%	–	10,000	–	(94)
1 to 5 years	–	–	–	–	–	–

The fair value of interest rate swaps and forward rate agreement contracts is included in the balance of other financial liabilities.

Foreign exchange risk

Foreign exchange risk is the effect on either the financial performance or capital value of the Consolidated Entity arising from movements in foreign exchange rates. The Consolidated Entity manages its foreign exchange risk in accordance with Board-approved policy and its overall strategy relating to foreign exchange risk management remains unchanged from 2013.

The Consolidated Entity is principally exposed to US Dollars (USD), Euro (EUR) and Great British Pounds (GBP), through its overseas operations. From time-to-time the Consolidated Entity holds cash and may have overdraft balances in each of these currencies, and undertakes transactions denominated in these foreign currencies. As a consequence, exposures to exchange rate fluctuations arise.

The foreign currency exposure is not greater than A$100,000 (2013: A$700,000) for any one currency or $100,000 in aggregate (2013: $1,200,000)

Liquidity risk management

Liquidity risk is the risk that the Consolidated Entity will not have sufficient funds available to meet its financial commitments as and when they fall due. The Consolidated Entity manages its liquidity risk in accordance with Board-approved policy and its overall strategy relating to liquidity risk management remains unchanged from 2013.

The Consolidated Entity manages its liquidity risk through frequent and periodic cash flow forecasting, reporting and analysis. Liquidity support is provided through maintaining a liquidity buffer in committed debt facilities and accessing other uncommitted facilities.

Notes to the financial statements (cont.)

28. Financial instruments (cont.)

Liquidity risk management (cont.)

The following tables detail the Consolidated Entity's expected maturity at balance date for non-derivative financial liabilities. The tables are based upon the undiscounted cash flows of financial liabilities based upon their assumed debt rollover patterns and interest payments.

	Weighted average interest rate %	0-1 year $'000	1-2 years $'000	3-5 years $'000	Total $'000
2014					
Bank loans – A$	4.5%	8,994	85,262	46,310	140,566
Bank loans – NZD (in A$)	5.3%	587	640	12,284	13,511
Bank loans – EUR (in A$)	2.2%	505	606	28,394	29,505
Bank loans – GBP (in A$)	2.4%	133	133	5,474	5,740
Finance lease liabilities	10.0%	586	150	195	931
Bank guarantees	–	57,284	–	–	–
2013					
Bank loans – A$	4.7%	667	703	15,884	17,254
Bank loans – NZD (in A$)	4.4%	340	371	8,995	9,706
Bank loans – EUR (in A$)	1.7%	441	481	28,294	29,216
Bank loans – GBP (in A$)	2.0%	102	102	5,129	5,333
Finance lease liabilities	10.0%	748	476	71	1,295
Bank guarantees	–	34,113	–	–	–

Credit risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity's overall credit risk management strategy of only dealing with creditworthy counter-parties, remains unchanged from 2013. The Consolidated Entity measures credit risk on a fair value basis. The Consolidated Entity limits credit risk on liquid funds and derivative instruments by only dealing with banks that have high credit-ratings assigned by international credit-rating agencies.

Trade accounts receivable consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the counter-parties and, in certain instances, trade credit insurance cover is purchased.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Consolidated Entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

The Consolidated Entity does not have any significant credit risk exposure to any single counter-party or any group of counter-parties having similar characteristics.

The ageing profile of trade receivables is disclosed in note 8.

Notes to the financial statements (cont.)

28. Financial instruments (cont.)

Fair value

The following table provides the fair value measurement hierarchy of the Consolidated Entity's assets and liabilities recorded at fair value.

			Fair value measurement using		
	Date of valuation	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
2014					
Contingent consideration – refer to note 22	30 June 2014	3,252	–	–	3,252
Derivative financial assets and liabilities	30 June 2014	–	–	–	–
2013					
Contingent consideration	30 June 2013	–	–	–	–
Derivative financial assets and liabilities	30 June 2013	110	–	110	–

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

The fair value of financial assets and financial liabilities referred to in this disclosure note has been derived as follows:

- contingent consideration payable is determined using a discounted cash flow valuation technique. The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast EBITDA growth, the amount to be paid under each scenario and the probability of each scenario. Significant unobservable inputs include:
    - Forecast three-year EBITDA growth – A 1% increase/decrease in forecast three-year EBITDA growth would result in a $230,000 increase/ $600,000 decrease in the fair value of contingent consideration
    - Risk adjusted discount rate – A 100 basis point increase/decrease in the discount rate would result in a $70,000decrease/increase in the fair value of contingent consideration
- interest rate swaps are determined as the present value of the estimated future cash flows based on observable yield curves derived from quoted interest rates matching maturities of the contracts
- foreign currency forward contracts are derived using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts
- all other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on either quoted prices in active markets or discounted cash flow analysis using inputs from observable current market transactions.

Notes to the financial statements (cont.)

29. Earnings per share

	2014 Cents	2013 Cents
Basic earnings per share	18.86	24.05
Diluted earnings per share	18.51	23.27

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2014 $'000	2013 $'000
Earnings	44,200	56,159

	2014 No. '000	2013 No. '000
Weighted average number of shares	234,310	233,500

Diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

	2014 $'000	2013 $'000
Earnings	44,200	56,159

	2014 No. '000	2013 No. '000
Weighted average number of shares(i)	238,854	241,366
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:		
Weighted average number of shares used in the calculation of basic earnings per share	234,310	233,500
Shares deemed to be issued for no consideration in respect of:		
Executive share options and performance rights(ii)	4,544	7,866
	238,854	241,366

(i) Weighted average number of converted, lapsed or cancelled potential ordinary shares used in the calculation of diluted earnings per share

(ii) Executive share options and performance rights are considered to be potential ordinary shares and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share.

Notes to the financial statements (cont.)

30. Segment reporting

Segment descriptions

The Consolidated Entity has identified the following three segments organised based on services and products: Workforce Services, Technical Professionals and Engineering and Marine services. The operating results of these segments are monitored separately for the purpose of making decisions about resource allocation and performance assessment.

Workforce Services	Provision of supplementary labour hire. Revenue from this segment is earned predominantly from the provision of blue-collar labour hire to clients in the industrial, mining and resources sectors. Brands in this segment include SKILLED and TESA.
Technical Professionals	Provision of engineering and technical professional, white collar, and nursing staff. Brands in this segment include Swan, Skilled Technical Professionals, Mosaic, PeopleCo, Damstra Mining Services and Skilled Healthcare.
Engineering and Marine Services	Provision of contract maintenance and engineering services and offshore marine staffing and vessel chartering and management services. Brands in this segment include ATIVO, Thomas &Coffey, Skilled Offshore (formerly Offshore Marine Services) and Broadsword Marine Contractors.
Other disclosures	The Consolidated Entity predominantly operates in one geographical segment, being Australia. Inter-segment pricing is on a normal commercial basis.

Segment revenues and results

2014 Segment result	Workforce Services $'000	Technical Professionals $'000	Engineering & Marine Services $'000	Un-allocated & eliminations $'000	Total $'000
Revenue	884,253	375,032	614,092	(3,808)	1,869,569
Other income	–	–	3,749	212	3,961
EBITDA	35,200	16,574	58,278	(14,696)	95,356
Depreciation and amortisation	(5,176)	(2,210)	(4,909)	(182)	(12,477)
Earnings before interest and tax	30,024	14,364	53,369	(14,878)	82,879
Net interest expense					(7,781)
Profit before tax before reconciling items					75,098
Reconciliation of profit					
Redundancy and branch closure costs					(2,951)
Acquisition and integration costs					(4,031)
Amortisation of intangibles(i)					(6,211)
Notional interest on deferred acquisition payments					(1,338)
Profit before tax					60,567
Income tax expense					(16,367)
Profit for the period					44,200
Segment assets and liabilities					
Assets	256,136	99,281	493,531	24,151	873,099
Liabilities	71,399	21,127	120,269	181,507	394,302
Other segment information					
Share of profit of jointly controlled entities	–	–	3,749	–	3,749
Carrying value of investments accounted for using the equity method	–	–	22,882	–	22,882
Acquisition of segment assets	6,529	1,295	168,978	–	176,801

(i) Includes amortisation of acquired intangibles from wholly owned entities and amortisation recognised within equity accounted income from associates

Notes to the financial statements (cont.)

30. Segment reporting (cont.)

Segment revenues and results

2013 Segment result	Workforce Services $'000	Technical Professionals $'000	Engineering & Marine Services $'000	Un-allocated & eliminations $'000	Total $'000
Revenue	918,323	488,914	463,057	(2,102)	1,868,192
Other income	–	–	5,701	325	6,026
EBITDA	40,824	26,795	41,321	(13,857)	95,083
Depreciation and amortisation	(5,020)	(2,978)	(1,987)	(394)	(10,379)
Earnings before interest and tax	35,804	23,817	39,334	(14,251)	84,704
Net interest expense				(3,774)	(3,774)
Profit before tax before reconciling items					80,930
Reconciliation of profit					
Redundancy and branch closure costs					(2,505)
Amortisation of intangibles(i)					(630)
Acquisition costs					(614)
Profit before tax					77,181
Income tax expense					(21,022)
Profit for the period					56,159
Segment assets and liabilities					
Assets	263,089	113,241	279,524	28,866	684,720
Liabilities	75,577	27,368	47,906	61,963	212,814
Other segment information					
Share of profit of jointly controlled entities	–	–	5,701	–	5,701
Carrying value of investments accounted for using the equity method	–	–	33,274	–	33,274
Acquisition of segment assets	6,441	1,859	1,892	–	10,192

(i) Amortisation of acquired intangibles recognised within equity accounted income from associates

Notes to the financial statements (cont.)

31. Parent company disclosures

	2014 $'000	2013 $'000
Current assets	268,568	199,088
Total assets	738,452	612,891
Current liabilities	201,084	181,311
Total liabilities	357,516	249,931
Net assets	380,936	362,960
Equity		
Issued capital	352,937	349,661
Hedge reserve	-	(65)
Employee equity-settled benefits reserve	748	3,499
Retained earnings	27,251	9,865
Total equity	380,936	362,960
Profit for the year	56,047	53,348
Other comprehensive income	-	295
Total comprehensive income	56,047	53,643
Contingent liabilities		
Bank guarantees for various contracts	32,882	33,171
As detailed in note 24, the Company has entered into a deed of cross guarantee with certain wholly owned controlled entities. The extent to which an outflow of funds will be required is dependent on the future operations of the entities that are party to the deed of cross guarantee being more or less favourable than currently expected. The deed of cross guarantee will continue to operate indefinitely. Total liabilities of these wholly owned entities (excluding amounts owed to the Company)	32,600	53,190
	65,482	86,361

Commitments for expenditure

There are no other commitments for expenditure, at the end of the financial year, other than those disclosed in the financial statements.

32. Subsequent events

Other Matters

There has been no other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect the operations of the Consolidated Entity, results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Shareholder Information

Number of shareholders

As at 8 September 2014, 6,727 shareholders held the Company's 235,415,953 fully paid ordinary shares.

Voting rights of ordinary shares

The Company's Constitution provides for votes to be cast:

- on show of hands – 1 vote for each shareholder; and
- on a poll – 1 vote for each fully paid ordinary share held

Substantial shareholders

The names of substantial holders in the Company and the number of shares in which each substantial holder and the substantial holders' associates have a relevant interest, as disclosed in substantial holding notices given to the Company as at 8 September 2014, are as follows:

	Date of notice	Shares
Invesco Australia Limited	28 Sep 2012	14,296,852
Gregory MacKenzie Hargrave	13 Sep 2013	25,058,636
BT Investment Management Ltd	13 Mar 2014	14,754,180
Celeste Funds Management Limited	30 Jun 2014	11,823,511
AMP Limited	14 Aug 2014	20,080,454

20 Largest holders of ordinary shares as at 8 September 2014

	Fully paid ordinary shares	
Name	Number of shares	Percentage
HSBC Custody Nominees (Australia) Limited	47,681,668	20.25
J P Morgan Nominees Australia Limited	42,386,984	18.01
National Nominees Limited	31,250,454	13.27
Hedonsax Pty Ltd	14,210,000	6.04
Citicorp Nominees Pty Limited	10,775,954	4.58
AMP Life Limited	8,698,159	3.69
BNP Paribas Noms Pty Ltd <DRP>	8,074,808	3.43
Larkfield Nominees Pty Ltd	7,644,796	3.25
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	4,018,377	1.71
HSBC Custody Nominees (Aus) Limited <NT-Comnwlth Super Corp A/C>	2,961,737	1.26
Junere Holdings Pty Ltd	2,010,000	0.85
Hedonsax Pty Ltd	1,712,107	0.73
QIC Limited	1,001,574	0.43
RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	892,268	0.38
RIXI Pty Ltd	844,437	0.36
National Nominees Limited <DB A/C>	734,925	0.31
Michael Peter McMahon	696,906	0.30
Mr Michael Peter McMahon	667,501	0.28
BKI Investment Company Limited	644,826	0.27
Woodross Nominees Pty Ltd	507,587	0.22
Total	187,415,068	79.61

Options

As at 8 September 2014, one individual option holder held 1,750,000 unvested options.

Shareholder Information (cont.)

Distribution of holdings as at 8 September 2014

	Number of holders	
Range	Ordinary shares	Options
1 – 1000	1,855	–
1,001 – 5,000	2,768	–
5,001 – 10,000	1,040	–
10,001 – 100,000	1,001	-
100,001 to max	63	1
Total:	6,727	1

As at 8 September 2014, there were 453 holdings of ordinary shares of less than a marketable parcel.

2014 Corporate Directory

Auditors

Ernst & Young
8 Exhibition Street,
Melbourne Victoria 3000

Bankers

Australia and New Zealand Banking Group Limited
100 Queen Street
Melbourne Victoria 3000

National Australia Bank Limited
500 Bourke Street
Melbourne Victoria 3000

Westpac Banking Corporation
360 Collins Street
Melbourne Victoria 3000

Commonwealth Bank of Australia
727 Collins Street
Melbourne Victoria 3000

Exchange on which shares are listed

Australian Securities Exchange
Level 4, North Tower, Rialto
525 Collins Street
Melbourne Victoria 3000

Directors

VA McFadden
MP McMahon
AM Cipa
MJ Findlay
RN Herbert AM
TA Horton
JA Walker

Secretary

SA Page

Registered office

SKILLED Group Limited
2 Luton Lane
Hawthorn Victoria 3122

ACN 005 585 811
ABN 66 005 585 811

Telephone 61 3 8646 6444
Facsimile 61 3 8646 6441

Share registry

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Shareholders enquiries Australia: 1300 850 505
Shareholder enquiries Outside Australia: +61 3 9415 4000

Notes

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