# Capability Performance Growth

Annual Report 2011

SKILLED Group

# SKILLED today

## Market leader in the provision of flexible labour solutions: temporary, contract and permanent recruitment

– trades, experienced operators and technical professionals
– Engineering Projects and Maintenance
– Offshore Marine Services

## Employed 50,000+ people throughout FY11, including:

– over 1,000 traineeships and apprenticeships
– 230 Indigenous employees

## Well-established and trusted brand (47 years)

## Strong safety record

## Industrial relations expertise

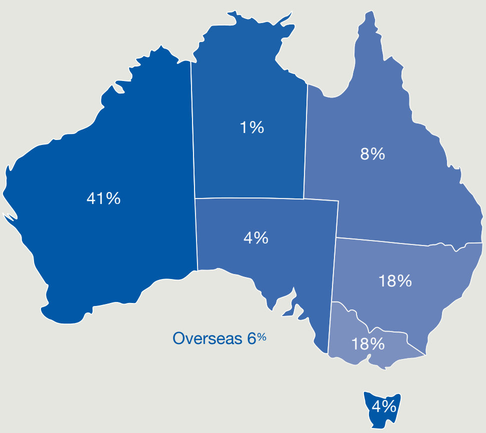
## Extensive branch network across Australia

## Strong position in key growth sectors:

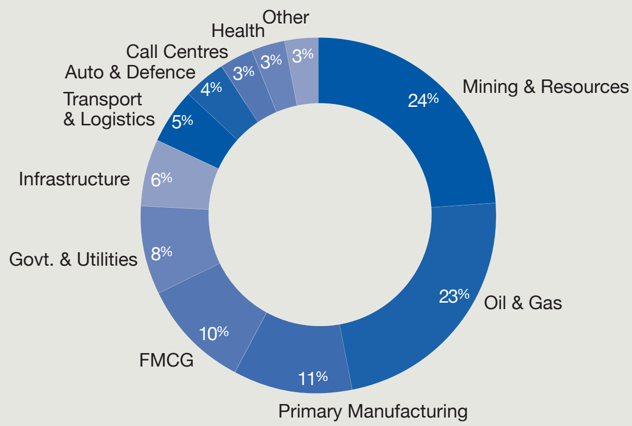
– mining & resources; oil & gas; infrastructure & telecommunications

## $1.88bn in revenue – approximately 50% in Western Australia and Queensland

**SKILLED Group Revenue by Geography**




**SKILLED Group Revenue by Sector**




Note: The above graphs include notional ⅓ share of OMSA JV revenue

**Contents:** 

For the SKILLED Group, FY11 has been a year of reshaping and rejuvenating the business. It was the time to refocus the strategy on our core strength – the provision of skilled blue collar temporary labour and contract recruitment services. To drive this change, we needed to build capability and renew our culture with a re-energised management team. We are confident that our strategy will deliver strong sustainable growth and improved returns for our shareholders.

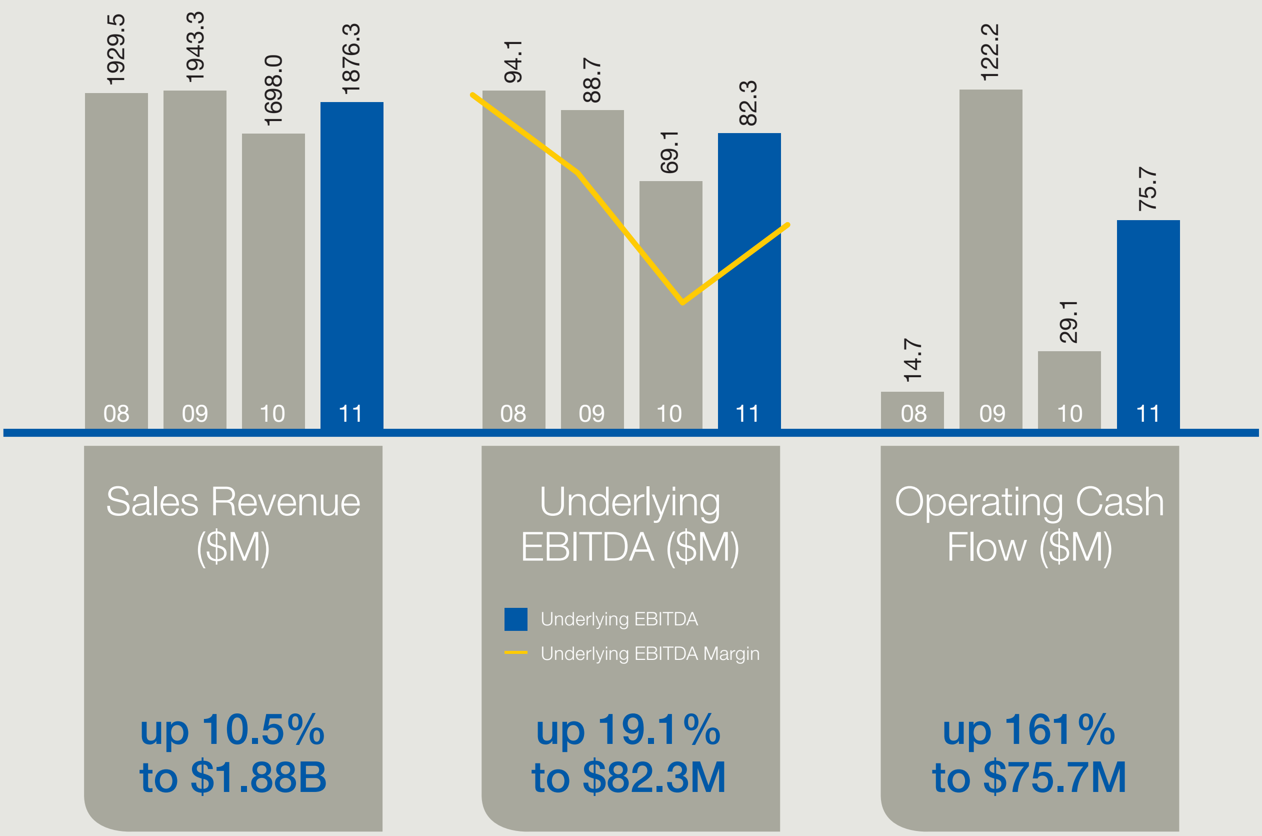

## Corporate Calendar

| | |
|---|---|
| 13 October 2011 | Payment of Final Dividend |
| 18 October 2011 | Annual General Meeting |
| 22 February 2012* | Announcement of 2012 First Half Results |

*to be confirmed

# Financial performance

- Sales revenue up 10.5% to $1.88 billion
- Underlying EBITDA up 19.1% to $82.3 million
- Underlying EBIT up 13.7% to $57.1 million
- Underlying NPAT up 36% to $26.1 million
  - Reported NPAT of $3.1 million impacted principally by restructuring charges and goodwill impairment
- Operating cash flow up 161% to $75.7 million
- Debt refinancing completed; Net Debt reduced to $96.6 million from $184.4 million
  - Gearing reduced to 19% from 35%
- Final dividend of 3 cents per share, fully franked



# Performance highlights

- Continued growth in Workforce Services
  - Second half growth rates maintained despite the impact of the Queensland floods
  - Revenue up 12.4% with stronger growth than expected on the east coast
  - However reduction in the rate of growth over the last three months to August 2011
- Growth in Other Staffing Services
  - Continued strong growth in Swan Contract Personnel and Mosaic IT
- Improving profitability in Engineering & Marine Services
  - Profit improvement in Offshore Marine Services (OMS), helped by growth in OMSA JV contract (servicing Gorgon)
  - 7% segment revenue growth including notional ⅓ share of OMSA JV revenue
  - Continued de-risking of ATIVO through selective contract bidding and pricing
- Good progress on Core Plus strategy implementation
  - 'Normalisation' phase completed:
    - strengthened balance sheet, new management team, simplified organisation and a renewed focus on operational and customer needs
  - Good progress on cost out, working capital improvement and debt reduction
  - Core Plus strategy positions the business well in an uncertain economic environment

# Refocus strategy


## Core Plus Strategy

- Zero harm
- Focus on the Core business
- Fit for purpose back office systems
- Scale overheads and cost base to suit
- Drive value added services
- 'Core Plus' businesses leverage the core
- 'One Team' culture in support of front line teams
- Improve the performance or exit from non-core businesses

...Core Plus strategy is appropriate for an uncertain economic environment...

# Chairman's report

We have developed the 'Core Plus' strategy to rebuild the Company's core strengths and to position it for future growth and operational excellence.

On behalf of the Board, I am delighted to report that in this year, my first as your Chairman, SKILLED Group has achieved the key objectives we established for the year ending 30 June 2011.

It has been a busy and rewarding year on many levels. In November 2010, we appointed Mick McMahon as CEO and under Mick's stewardship, we have developed the 'Core Plus' strategy to rebuild the Company's core strengths and to position it for future growth and operational excellence. The first stages of our strategy have been implemented, including the strengthening of our balance sheet following the equity raising in February this year, the refinancing of our banking facilities, the appointment of new key senior management and the implementation of the cost reduction program.

## Safety

The Board and senior management are committed to safety as our prime corporate value. Safety resonates through all our activities. Our refreshed approach to safety, through the launch of the Safety Golden Rules, has been implemented across the Group. We firmly believe that each and every one of our 50,000 plus employees and staff has the right to return home in the same state as they left for work. We will continue to work relentlessly on achieving zero harm in our organisation.

## Corporate Governance

As part of our Board renewal program, we have welcomed two new independent Non-Executive Directors, who have immediately provided leadership and clarity to the Board based on their previous experience.

Tracey Horton was appointed as a Non-Executive Director in February 2011, bringing extensive strategy development, performance improvement, business turnaround and leadership experience to the Board. Tracey has been Dean of The University of Western Australia Business School and has worked in both the public and private sectors, including significant periods at the Reserve Bank of Australia and at Bain & Company in the United States.

Tony Cipa was appointed as a Non-Executive Director in April 2011 and brings over 30 years of experience in senior finance, management and leadership roles, most recently as Finance Director of CSL Limited. For the past 20 years, Tony managed the finance function at CSL as the company grew from a government-owned business to a global market leader in the pharmaceutical sector. He has been appointed Chair of the Audit & Risk Committee.

Ken Loughnan and Kerry Hughes retired at the conclusion of last year's Annual General Meeting and Peter Gregg retired from the Board in February due to the substantial work and time commitment required for his role as CFO and Director of Leighton Holdings Limited. Greg Hargrave also retired as a Non-Executive Director on 31 August 2011. I would like to thank Ken, Kerry, Peter and Greg for their valuable contribution to the Board over many years.

Corporate governance remains a high priority for the Board. Your Board has tasked itself with a wholesale review and enhancement of SKILLED Group's processes, authorities, management and direction. We have reviewed all the major frameworks, policies and arrangements across the Group and I am satisfied that we have made, and will continue to make, the major changes that the Group requires to achieve performance at the highest level. By way of example, we have undertaken a tender for the Company's audit services, we have adopted and promulgated policies on diversity and a new share trading policy, and we have reviewed the Company's constitution.

## Diversity

We are committed to identifying and removing barriers to diversity, respecting individuals, developing skills and talents, educating the members of the Group and holding ourselves accountable.

Within the SKILLED Group 33% of the Non-Executive Directors, 32% of the management team, and 57% of staff are female. We also now employ more than 230 Aboriginal or Torres Strait Islands Australians and have committed to increasing this number.

## Constitution

We will be proposing a new constitution for the Company, which will be voted on at the 2011 Annual General Meeting. This will replace the constitution adopted seven years ago and in addition to complying with the Corporations Act and the ASX Listing Rules, it is consistent with corporate governance principles and the general market practices for ASX-listed companies.

## Dividend

The Board is pleased to declare a fully franked dividend of 3 cents per share. We believe that our strategy is sound, the balance sheet is strong and that our business is well led. We remain optimistic for the continued success of SKILLED Group into the future.

In conclusion, I would like to thank our staff for their tireless efforts during this time of change – the result we achieved this year would not have been possible without their focus and dedication. I would also like to thank the members of the Board for their ongoing commitment to the Company and to achieving best practice.

Chairman
7 September 2011

# Chief Executive Officer's report

We employed over 50,000 people in the course of 2011, primarily in trades, experienced operator and technical professional positions, in over 3,500 customer locations.

I am pleased to report improved underlying results for the financial year with revenue growth of just over 10% to $1.88 billion, underlying operational profit (EBITDA) growth of 19% to $82.3 million and an operating cash flow increase to $75.7 million.

I am delighted to be writing my first report as CEO of SKILLED Group – a business with a long and proud history in the provision of flexible employment, training and related services that deliver improved productivity for our customers and opportunities for our people to both work in challenging roles and develop new skills and competence.

At SKILLED Group we employed over 50,000 people in the course of 2011, primarily in trades, experienced operator and technical professional positions, in over 3,500 customer locations in industry sectors of the economy, including mining and resources, oil and gas, manufacturing, and infrastructure.

We are also proud to employ over 1,000 Australians in Apprenticeship and Traineeship roles building critical skills for our customers and our employees, and we have successfully grown our Indigenous Employment program to 230 employees across all of our businesses and joint ventures.

## Our strategy

Since my appointment in November 2010 we have developed and are implementing the Core Plus strategy to improve the performance of the business. This strategy focuses on our core strength in the provision of skilled blue collar temporary labour and contract recruitment services from a national branch network across metropolitan, regional and remote regions.

We are working to ensure that our systems, cost base and operational processes work more effectively in support of our core business and that we invest more in the development of our staff working in operational roles. We have further opportunity to build on our core strengths to grow our businesses by providing training, workforce management technology, white collar permanent and contract recruitment, projects and maintenance and offshore marine services.

Safety improvement remains a key element of our strategy and we will continue to build on the track record of SKILLED Group in this regard. We have launched a Safety Refresh program that reinforces safety as our number one priority, focuses on high risk activities and locations via the Safety Golden Rules initiative and ensures our approach is targeted at the industry sector in which we are operating.

In implementing the Core Plus strategy we are pursuing a program of cost reduction and process improvement, which includes the sale of non-core businesses and integration of acquired businesses and brands. This has resulted in a number of provisions and write-downs being taken in the year.

## Performance Improvement

I am pleased to report improved underlying results for the financial year with revenue growth of just over 10% to $1.88 billion, underlying operational profit (EBITDA) growth of 19% to $82.3 million and an operating cash flow increase to $75.7 million.

Reported NPAT was $3.1 million compared to $12.7 million in the previous year. This was due to restructuring and branch co-location costs associated with the implementation of our Core Plus strategy, write off of unamortised bank establishment fees, goodwill impairment and costs associated with the discontinued sale process of Swan.

The improved underlying result is a reflection of the SKILLED Group's brand strength in trades, experienced operators and technical professionals and exposure to high growth sectors in mining, oil and gas and infrastructure investment, together with good progress on the implementation of the Core Plus strategy. Approximately 50% of the Group's revenue is from Western Australia and Queensland which are benefiting from investment in resources and related infrastructure.

The balance sheet has been strengthened by the raising of around $70 million in equity in 2011 as well as an improvement in operating cashflow and the refinancing of our syndicated debt facility with the major banks. With gearing levels below 20% SKILLED Group has access to a $160 million funding facility with two tranches: $60 million maturing in two years and $100 million maturing in three years, provided by a syndicate of the four major Australian banks.

## Looking Ahead

With a branch network across Australia and a lower cost base, stronger balance sheet and a greater focus on the core business, our strategy positions SKILLED Group well for the future.

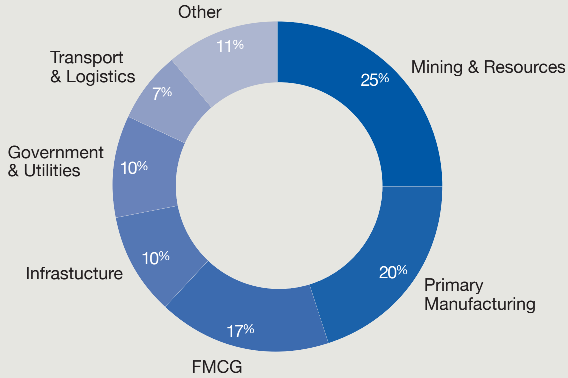
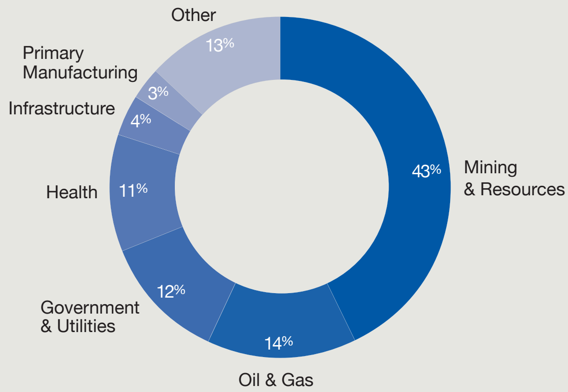
I look forward to seeing our business grow profitably over the next few years and delivering improved returns for shareholders as we implement our strategy.

I would like to thank all our staff for their commitment and service in a period of change. I would also like to thank our shareholders, our customers and our employees for their continued support.

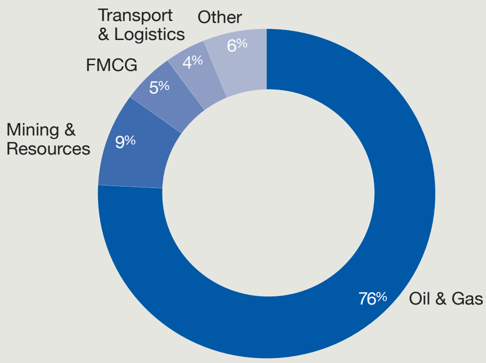
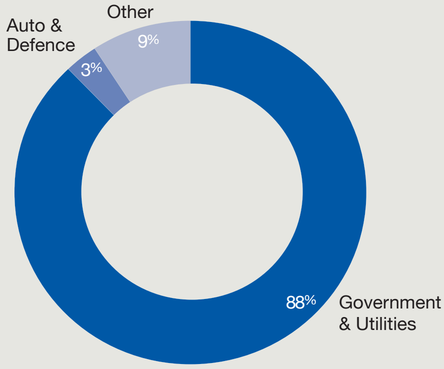
MP McMahon
Chief Executive Officer

# Business overview

## Business Segments Summary

| Business Segment | Activities | 2011 Summary |
|---|---|---|
| **Workforce Services** | **SKILLED Workforce Services (WFS)** is the industry leader in specialised workforce solutions through the delivery of flexible labour-and project-based workforce solutions including shutdowns, installations, relocations and total workforce management.<br>SKILLED WFS is a people business specialising in blue collar trades. It accounts for nearly 50% of SKILLED Group's total revenue – 70% in the Eastern and 30% in the Western region respectively. | Revenue up 12.4% to $945.9 million<br>Underlying EBITDA up 7.4% to $42.3 million<br>**INDUSTRY BREAKDOWN:**<br> |
| **Other Staffing Services** | Other Staffing Services operates nationally in the provision of professional services, IT&T, technical professionals and personnel and human resources solutions for the healthcare industry.<br>The main brands within this segment include:<br>**SWAN Contract Personnel** which is well known for its long standing presence in the professional, technical and engineering recruitment industry. SWAN's speciality is in the mining & resources and oil & gas industries. It has built a strong track record in providing project management, engineering and project support labour into onshore and offshore oil and gas and infrastructure projects.<br>**Mosaic** specialises in sourcing, carefully assessing and placing skilled professional, IT, government and business support staff at all levels.<br>**Origin Healthcare®** is one of Australia's largest providers of personnel and human resources solutions for the healthcare industry. | Revenue up 20.4% to $422.0 million<br>Underlying EBITDA up 27.2% to $21.5 million<br>**INDUSTRY BREAKDOWN:**<br> |

# Business Segments Summary continued

| Business Segment | Activities | 2011 Summary |
|---|---|---|
| **Engineering and Marine Services** | **Engineering and Marine Services** provides contract maintenance and engineering services, and offshore marine staffing and vessel chartering and management services. ATIVO and Offshore Marine Services are included in this segment.<br>**ATIVO** 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.<br>ATIVO is a leading provider of specialist maintenance and project services to the mining, manufacturing, maritime, industrial and energy resource sectors.<br>**Offshore Marine Services** (OMS) is a world leading provider of offshore drilling and marine personnel to the oil & gas industry.<br>OMS has offices based in Australia, Malta, New Zealand, Singapore, United Arab Emirates and the United Kingdom.<br>OMS Services include: recruitment solutions, vessel management and chartering, project management and marine consultancy, provision of marine and drilling personnel, catering services and rig moving.<br>OMS also has a one-third interest in the OMSA joint venture servicing the Gorgon project. | Revenue up 1.2% to $465.0 million<br>Underlying EBITDA up 32.2% to $33.7 million<br>**INDUSTRY BREAKDOWN:**<br><br> |
| **Business Services – Excelior** | **Excelior** is a provider of customer contact optimisation solutions to public and private sector organisations.<br>Excelior offers a broad range of services including strategic consulting to government entities and corporations, business processing solutions, customer service and sales programs. | Revenue down 3.1% to $50.3 million<br>Underlying EBITDA down 72.2% to $1.0 million<br>**INDUSTRY BREAKDOWN:**<br><br> |

# Financial summary

## Income statement

### Revenue

- Revenue for the group was $1.88 billion, a 10.5% increase on the prior comparative period (pcp).
- The core Workforce Services division generated 12.4% revenue growth driven by activity on the east coast in mining and infrastructure projects despite the Queensland floods.
- Other Staffing Services achieved 20.4% revenue growth, with the Swan Contract Personnel business continuing to be a major contributor, benefiting from the increased engineering activity in the West Australian mining and oil & gas sectors.
- Engineering and Marine Services revenue grew by 1.2% as a result of increased activity in ATIVO shutdown and projects and OMS international manning activity. Including SKILLED's one-third share of the OMSA joint venture, revenue was up 7%.
- Business Services revenue was slightly lower than pcp, however, there was increased call centre activity from government contracts and on-boarding of contract wins in the three months to August 2011.

### Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

- Reported EBITDA increased 1% to $62.7 million (pcp $62.1 million).
- Underlying EBITDA (excluding goodwill impairment of $12.4 million, redundancy and branch closure costs of $6.2 million and costs associated with the discontinued sale process of Swan $0.9 million) increased 19% to $82.3 million (pcp $69.1 million) reflecting increased sales revenue and lower costs.

### Depreciation and Amortisation

- Depreciation and amortisation for the year was $27.7 million, an increase of $5.9 million or 27% on the pcp, principally due to an additional $6.0 million charge from the accelerated amortisation of the Origin employee database intangible asset.
- Depreciation and amortisation included $2.5 million for amortisation of acquired intangibles (pcp $3.0 million), the reduction reflecting the completion of amortisation of some items during the year.

### Interest

- Reported net interest expense (finance costs less interest revenue) for the year was $28.3 million, an increase of $1.8 million on the pcp, principally due to accelerated amortisation of bank facility establishment fees of $4.1 million, a non-cash item. The accelerated amortisation was recognised due to the successful re-financing of the bank debt facility announced on 4 July 2011. Excluding this item, interest expense decreased by $2.3 million reflecting lower debt levels after the equity raising completed in the second half of the financial year.
- Net interest expense also includes $1.0 million of notional interest on earn-out liabilities for acquisitions (pcp $2.3 million). The decrease on the pcp reflects the reduction in earn-out liabilities as a result of payments made during the year.

### Tax

- The effective tax rate for the period was 52.8% (pcp 8.1%).
- The current year's effective tax rate includes the effect of a non-tax deductible goodwill amortisation charge of $12.4 million, while the prior year includes tax benefits in relation to tax consolidation legislation amendments and research and development tax concessions, both of which were not repeated in the current year.
- The effective tax rate is also impacted by lower income tax rates in foreign jurisdictions.

### Net Profit after Tax (NPAT)

- Reported NPAT decreased 75% to $3.1 million.
- Underlying NPAT after adjusting for the after tax effect of the adjustments to EBITDA referred to earlier, amortisation of acquired intangibles, notional interest on earn-out liabilities and accelerated amortisation of bank establishment fees increased 36% to $26.1 million.

## Balance sheet

- Funds employed stood at $511.9 million at 30 June 2011, funded by $96.6 million of net debt and $415.3 million of shareholders' equity.
- Funds employed decreased by $12.2 million (2.3%) compared to the pcp mainly due to the goodwill impairment of $12.4 million, and a decrease in working capital balances.
- Goodwill decreased by $9.2 million due to the $12.4 million goodwill impairment in respect of Skilled New Zealand ($1.7 million), Longhill ($2.7 million) and Extraman ($8.0 million). Offsetting this was an increase in goodwill recognised from higher acquisition earn-out liabilities reflecting increased earnings from Offshore Marine Services businesses.
- Other intangibles decreased by $14.5 million to $56.4 million mainly due to amortisation charges, including the $6.0 million charge from the accelerated amortisation of the Origin employee database.
- Key financial ratios are as follows:
  - Leverage (net debt / underlying EBITDA) of 1.2 was lower (pcp 2.7);
  - Interest cover (underlying EBITDA / net interest expense[1]) was 3.5 times (pcp 2.9 times); and
  - Gearing (net debt / net debt plus equity) decreased to 19% (pcp 35%).
- Shareholders' equity increased by $75.7 million to $415.3 million largely due to the $69.6 million increase in issued capital from the equity raising in the second half of the financial year.

1 Net interest expense excludes accelerated amortisation of bank facility establishment fees and notional interest on earn out liabilities.


# Cash flow


## Operating activities

- Cash inflows from operating activities of $75.7 million were $46.7 million higher than the pcp.
- Cash earnings were $9.2 million higher than the pcp.
- Working capital balances decreased by $6.8 million largely due to strong collection of receivables in June 2011.
- Tax paid of $3.3 million compared to tax refund of $0.5 million in the pcp.

## Investing activities

- The net cash outflow, from the purchase of businesses, of $20.3 million, was due to acquisition earn-out payments.
- Capital expenditure of $7.2 million comprised $3.6 million for intangible assets (mainly computer systems and software) and $3.6 million for other property, plant and equipment (mainly leasehold improvements and office equipment).

## Financing activities

- SKILLED Group Limited issued 42.4 million shares during the year, mainly through equity raising in the second half of the financial year. Net cash proceeds from issues of equity were $69.2 million, which was used to repay debt, reflected in the net repayment of borrowings for the year of $81.3 million.
- No dividend was paid during the year, however a 3 cent per share fully franked dividend was declared for FY11 and will be paid on 13 October 2011.

# Sustainability

## Safety
Our goal is to ensure every employee feels a commitment to safety that drives how they behave when they arrive on our clients' sites.

## People
Over 50,000 SKILLED people made an impact in over 3,500 workplaces across Australia, New Zealand, Malta, Singapore, United Arab Emirates and the United Kingdom.

## Environment
Our goal is for every employee to recognise unsound environmental practice and to adopt a pro-active role that demonstrates commitment to environmental excellence.

## Community
We are passionate about having an active involvement in the local regions in which we provide employment – it has a positive impact on our ability to attract and retain the best people.

# Safety: Our number one corporate value.

At SKILLED Group we recognise that a 'value' is not defined by process or logic but is something that is felt. Our goal is to ensure every employee feels a commitment to safety that drives how they behave when they arrive on our clients' sites. It's because of the commitment to this value that SKILLED Group employees look after themselves, their colleagues and our clients.

> "Everybody has the right to return home in the same state as when they left for work"


In 2011 we launched the Safety Golden Rules. The Rules highlight, in the simplest language, the five key hazards our employees face and the five key defences they must have in place to protect themselves.

The Rules have been developed by analysing the safety risk and performance of Australian industry (something we can do by working for more Australian companies than any other contractor). We ensure the five risks are known by all SKILLED employees so they can identify them at any worksite they encounter. In this way we enhance our client's safety system by helping identify and mitigate potential risk.

The five key defences from a client perspective are:

- A thorough risk assessment of the work location that identifies and works through hazards with the client
- Reporting of any changes to the work, hazards or incidents
- Ensuring the people we send out are competent to work safely
- Ensuring they know how to manage fatigue and be free of drugs and alcohol
- Ensuring they are protected with the right personal protection equipment

This means we know our people can be safe when they work, and that they meet the safety expectations of SKILLED Group and our clients.

Safety engagement has been reinvigorated at the Board and executive level and is a key pillar of SKILLED Group's strategy. We have used case studies of accidents to engage the whole organisation to feel and learn from the impact of incidents. For example, the Arrive Alive program demonstrated our commitment does not just stop when the job does, but includes safe travel to and from the worksite. We want safety understood, felt and lived by all our employees.

# Sustainability continued

## People

SKILLED Group people are contributing to all sectors of our economy through their expertise and safe work. Over 50,000 SKILLED Group people made an impact in over 3,500 workplaces across Australia, New Zealand, Malta, Singapore, United Arab Emirates and the United Kingdom this year.

### Talent and development

Attracting, developing and retaining people with our clients continues to be secured by over 1,200 dedicated and engaged SKILLED Group people across the extensive SKILLED Group network.

Refining our employment offering advanced throughout 2011 by consolidating the Performance Enhancement Program, talent reviews and development programs, whilst the business strategy continued to improve retention Group-wide.

Talent reviews and planning across the SKILLED Group leverage talented SKILLED people across different business environments to complement career capability and maximise retention. Targeted talent development roles have meant securing the future leaders of our business and progressing career aspirations.

The SKILLED Group continues to grow Australia's capability in people with over 1,000 apprenticeships and traineeships deployed across many industries and a desire to secure more people into training roles to stretch their skills and expertise.

Once again, in March 2011 SKILLED Group recognised a group of talented apprentices and trainees for their excellence in vocational qualification and commitment to the benefits of industry based learning from apprenticeships and traineeships.

SKILLED Group is a nationally accredited Group Training Organisation and Registered Training Organisation deploying professionally developed training by developing the skills of 28,000 employees across Australia.

### Diversity

SKILLED Group is proud to be an industry leader in the employment of women and to have substantially increased the level of female representation at Board and senior executive levels during the 2011 financial year.

SKILLED Group values the diversity of our employees and the skills, background and experience they bring to work. We wish to reflect the communities in which we operate through fostering a culture which embraces and values this diversity.

As a service provider, the SKILLED Group recognises leveraging a diverse workforce contributes to an enhanced service to all our stakeholders, builds a culture of high performance, improves our financial position and builds a strong reputation in the markets in which we operate.

To support this commitment, the Board has recently adopted a *Diversity Policy* with the purpose of securing the leadership, promotion and measurement of diversity across the SKILLED Group. The key areas of focus for the 2012 financial year are women in leadership, Indigenous employment and pay equity.

SKILLED Group is a panel member of the Indigenous Employment Program with over 230 Indigenous employees working throughout our business.

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.

As at 30 June 2011, two of our six Non-Executive Directors (33%), 32% of our management roles, and 57% of the employees across SKILLED Group, were women.

Continuous development of the SKILLED Group talent resources will prepare female candidates for management roles. SKILLED has set the measurable target of women holding 40% of management roles by 2016.

### SKILLED Technical Trades Foundation (STTF)

The STTF was established in 2004 to commemorate the retirement of SKILLED Group's founder, Mr Frank Hargrave AO, and acknowledge his contribution to Australian industry by promoting careers in technical trades.

STTF provides financial assistance and mentoring to trainees and trade apprentices to help them complete their technical qualifications. In acknowledging that some trainees and apprentices must overcome obstacles to succeed during their studies, STTF aims to provide practical assistance to award recipients that may make the difference between completing their qualifications or discontinuing.

Since the inception of STTF, just over $150,000 has been awarded to assist 76 apprentices and trainees across SKILLED Group. In FY11, $27 800 was awarded to assist the eight successful applicants.


Australia's Future!
SKILLED Group

# Sustainability continued

## Environment

### We have a strong commitment to positive environmental behaviour and our goal of 'zero harm' is equally applicable to our approach to environmental management.

Our goal is for every employee to recognise unsound environmental practice and to adopt a pro-active role that demonstrates commitment to environmental excellence. Where appropriate, we incorporate environmental issues into the site safety management plans, incorporating our clients' specific systems, policies and procedures.

In conjunction with ongoing recycling initiatives, we have a number of practical steps which our staff take to minimise our impact on the environment, including reducing energy use in offices and in procurement, replacing paper payslips with electronic notifications and using electronic invoicing and reconciliations where clients accept this.

SKILLED Group has reviewed our vehicle fleet and made the decision to replace a number of LPG vehicles with an alternative vehicle with lower $CO_2$ emissions.

Neither the Company nor any of our subsidiaries has been prosecuted for any breaches of environmental regulation during the 2011 financial year.

We continue to track our carbon footprint by measuring our Scope 1 (vehicle-and gas-related emissions) and Scope 2 (electricity-related emissions) as classified by the World Business Council for Sustainable Development and the World Resources Institute's Greenhouse Gas Protocol. Excluding emissions relating to OMS chartered vessels, during the year SKILLED Group reduced its carbon emissions, with Scope 1 and 2 emissions of 7.5 kilotonnes, compared to 11.8 kilotonnes reported in the previous year.

Carbon emissions relating to OMS-chartered vessels reduced to 59 kilotonnes from 62.2 kilotonnes, taking SKILLED Group's total emissions to 66.5 kilotonnes.

SKILLED Group has assessed our reporting obligations under the *National Greenhouse & Energy Reporting Act* with particular reference to our OMS Australia operations. After taking into account issues of operational control and the location of vessel operations, SKILLED Group does not breach any corporate or facility reporting threshold.

# Community

As one of Australia's largest and most geographically diverse employers, we have a strong role to play in the community. We are passionate about having an active involvement in the local regions in which we provide employment – it has a positive impact on our ability to attract and retain the best people.

During the year we continued to provide charitable support to both national and local organisations and community groups, including the Westpac Helicopter Rescue Service and the Royal Flying Doctor Services.

Many staff and employees were affected by the floods in Queensland and Victoria and we contributed $50,000 and $25,000 respectively to help with the rebuilding process. Several staff from our Queensland offices volunteered their time to the community rebuild weekends in Grantham.

Our staff continues to support the workplace giving charity partners – the Salvation Army, RSPCA Australia, Garvan Institute, Children's Hospital Foundations Australia, Cancer Council Australia and Lifeline. In 2011, our staff donated almost $14,000 to our charity partners through our Workplace Giving Program.


# Board of directors

Left to right:

Top: Vickki McFadden, Mick McMahon, Tony Cipa, Max Findlay
Bottom: Bob Herbert, Tracey Horton, Terry Janes and Tim Paine
Absent: Greg Hargrave

## Vickki McFadden, age 52

BComm, LLB
Independent Non-executive Chairman

Appointed to the Board in September 2005, Vickki has been a director for six years.

Chairman of the Nomination Committee, and a member of the Audit & Risk Committee and the Remuneration Committee.

### Skills and experience

Vickki McFadden has broad experience in finance and law and brings to the Board considerable experience in corporate finance transactions. Previously, Ms McFadden was employed as a Director/Principal of Centaurus Corporate Finance and Managing Director, Investment Banking, at Merrill Lynch in Australia.

### Current Directorships and Offices

Member, The Takeovers Panel (since March 2008).

Member, Advisory Board and Executive Committee of Australian School of Business, The University of New South Wales (since August 2000).

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).

## Mick McMahon, age 48

BEc, Harvard Business School Advanced Management Program (2009)
Chief Executive Officer and Managing Director

Appointed to the Board in November 2010, Mick has been a director for 10 months.

### Skills and experience

Mick McMahon has been Managing Director and CEO of the Company since November 2010.

Prior to joining SKILLED Group, Mick spent 19 years with Shell both in Australia and overseas. Roles included Vice President Retail Marketing for Shell's global retail business, Director of Shell UK & Ireland downstream businesses, GM Strategy & Marketing for Shell Europe and running the Australian retail business. In addition, Mick has experience across national marketing, supply chain, IT and strategy roles.

In 2005 Mick was appointed Managing Director of Coles Express responsible for the newly formed alliance between Coles and Shell. Mick held this role through to 2009, in addition to responsibility for Supply Chain, Marketing and Coles Liquor. Mick was appointed Chief Operating Officer Coles from 2007 to 2009 as the business transitioned to Wesfarmers ownership.

Mick worked as a Senior Advisor with TPG Capital engaging on current and potential investments in the energy, retail and industrial sectors in Australia and overseas, prior to joining SKILLED Group.

### Current Directorships and Offices

Chairman, Red Rock Leisure Pty Ltd (since December 2009).

Member of Business Council of Australia.

Victorian Councillor of the Australian Industry Group.

## Tony Cipa, age 56

BBus, Grad Dip Accounting, CPA
Independent Non-Executive Director

Appointed to the Board April 2011, Tony has been a director for five months.

Chairman of the Audit & Risk Committee.

### Skills and experience

Tony Cipa spent 20 years with CSL Limited in various senior finance roles, commencing prior to its float on the ASX in 1990. Between 1994 and 2000 Tony was Chief Financial Officer and was appointed to the Board of CSL Limited as Finance Director in 2000 until his retirement in 2010.

### Current Directorships and Offices

Mansfield District Hospital (since June 2011).

## Max Findlay, age 64

Independent Non-Executive Director

Appointed to the Board in March 2010, Max has been a director for 18 months.

A member of the Audit & Risk Committee, the Remuneration Committee and the Nomination Committee.

### Skills and experience

Max Findlay has had a long and distinguished career in services and manufacturing. He worked with Programmed Maintenance Services (PMS) for over 20 years and held the positions of Business Development Manager, General Manager and Managing Director, a role he held for 18 years. Prior to joining PMS, Max's experience included 11 years with Australian Consolidated Industries, three years with Vinyl Clad (a division of Smith & Nephew) and five years with James Sephton Plastics.

### Current directorships and offices

Director, SMEC Holdings Limited (trading as Snowy Mountain Engineering Corporation) (since April 2010).

Chairman, Redflex Limited (since November 2009).

Chairman, EVZ Limited (since April 2008).

Director, The Royal Children's Hospital (since March 2009).

## Bob Herbert AM, age 67

BComm

Independent Non-Executive Director

Appointed to the Board in November 2003, Bob has been a director for eight years.

Chairman of the Remuneration Committee.

### Skills and experience

As the former CEO of Australian Industry Group, Bob Herbert brings considerable industry experience to the Board. He has been 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. Bob is now involved in various company director and advisory roles. In April 2010, he was appointed by the Federal Government as Water Supplier Advocate.

### Current Directorships and Offices

Trustee, Emergency Services Superannuation Board (since June 2010)

Water Supplier Advocate, appointed by the Department of Innovation, Industry, Science & Research, Commonwealth Government (since April 2010).

Trustee, Melbourne Cricket Ground Trust (since November 2003).

Deputy Chairman, Industry Capability Network Limited (since May 2003).

## Tracey Horton, age 47

BEc, Hons, MBA Stan.

Independent Non-Executive Director

Appointed to Board in February 2011, Tracey has been a director for 7 months.

A member of the Audit & Risk Committee.

### Skills and experience

Tracey Horton was Dean of The University of Western Australia Business School between February 2005 and August 2011. Prior to this position, she worked in Australia and in the United States as an economist, business analyst and management consultant. Tracey has worked in both the public and private sectors including significant periods at the Reserve Bank of Australia, based in Sydney and Bain & Company, based in San Francisco. She brings extensive strategy development, performance improvement, business turnaround and leadership experience to the Board.

### Current Directorships and Offices

Chair, D'Orsogna Ltd (since November 2004).

Director, Edge Employment Solutions (since October 2005).

Member, Council of Presbyterian Ladies College (since March 2010).

Trustee of the West Australian Museum and Chair of its Foundation (since March 2002).

Director, Cullen Wines (since August 2010).

## Terry Janes, age 58

BComm FCPA, CFTP, Wharton AMP

Chief Financial Officer and Executive Director

Appointed Chief Financial Officer and to the Board in July 1998, Terry has served as a director for 13 years.

### Skills and experience

As Chief Financial Officer, Terry Janes has had overall responsibility for the finance, accounting, tax, treasury and risk management functions at SKILLED Group for the past 13 years. Terry has over 20 years' experience in a wide range of senior finance roles including as Chief Financial Officer for major operating divisions in the steel and minerals business at BHP.

## Greg Hargrave, age 39

Non-Executive Director

Appointed to the Board in August 2003, Greg served as a director for eight years. Greg became a Non-Executive Director in November 2010 until his retirement on 31 August 2011.

### Skills and experience

Greg Hargrave joined SKILLED Group in 1998. In 2000 he was appointed National Marketing Manager and Business Development Manager. In 2002, he was appointed Chief Operating Officer and was Chief Executive Officer between August 2003 and November 2010. Mr Hargrave has a broad business background with experience in property, management and private investment.

### Current Directorships and Offices

Chairman, St Vincent's Hospital Foundation, Cancer Appeal Committee (since September 2008).

## Tim Paine, age 47

BEc, LLB

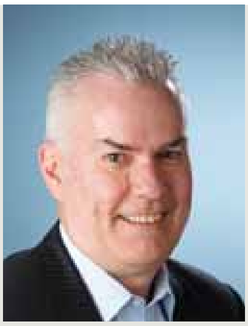
Company Secretary and Group General Counsel

### Skills and experience

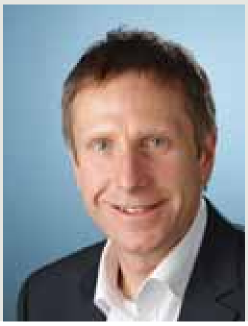
Tim Paine joined SKILLED Group in March 2010 and has over 18 years' experience in corporate counsel and company secretary roles, including at Symbion Health, Mayne Group, and ANZ Bank. Tim commenced his career as a solicitor in private practice and has also managed his own consulting company. He has extensive experience in major corporate transactions and litigations, both domestically and overseas.

# Executive committee





Left to right:

Top: David Timmel, Paul McCormick, Sue Healy, Malcolm Roberts, John Kempe
Bottom: Matt Caulfield, Delphine Cassidy, Carl Philips and John Watkinson

## David Timmel

### Executive General Manager Western Region

David joined the SKILLED Group in January 2010 and was appointed to his current role which holds responsibility for the growth of the traditional workforce services business in WA/SA/NT.

Prior to joining SKILLED Group, David had a wide and varied background having held senior positions in Financial Services and Agribusiness Services companies. Key responsibilities in these companies involved the management of distribution networks undergoing significant change programs, the introduction of structured sales processes and the commencement of cultural change. David holds a Bachelor of Business, Post Graduate Diploma in Business Management and is a graduate of the Advanced Management Program from Harvard University.

## Paul McCormick

### Executive General Manager Eastern Region

Paul joined SKILLED Group in 1994 and has held many senior positions, including General Manager Victoria/Tasmania, Executive General Manager of Integration, Chief Safety Officer and Chief Operating Officer of QLD and NSW. Paul was recently appointed as the Executive General Manager Eastern Region.

Paul has over 17 years' experience in the recruitment industry, with substantial management, operation and leadership experience in a number of senior executive roles. He has been a Director of the RCSA, on the board of St Vincent De Paul and a member of the Cradle Coast Council in Tasmania.

## Sue Healy

### Executive General Manager Recruitment Services

Sue joined SKILLED Group in March 2011 as Executive General Manager Recruitment Services.

Sue brings a wealth of executive experience in managing specialist professional and managed solutions recruitment businesses to the SKILLED Group. Her previous roles include EGM Talent Management Services, EGM Defence Force Recruiting, Chandler Macleod from 2007 to 2010, Managing Director Staff & Exec, and HR Partners from 1988 to 2007. Sue is responsible for the white collar and professional recruitment brands of the SKILLED Group. She is a Life Member of the Recruiting & Consulting Services Association (RCSA).

## Malcolm Roberts

### Executive General Manager, ATIVO

Malcolm joined SKILLED as NSW Maintenance Services Manager in September 2003 and was appointed to Acting Executive General Manager ATIVO in June 2011.

Malcolm has 35 years' experience in the industrial market in both senior management and engineering roles. Prior to his current role, Malcolm was General Manager Operations for ATIVO from 2006. He was previously General Manager Services, ABB Industry (1990-2003) and National Services Manager, Combustion Engineering (1987-1990). Malcolm holds a Bachelor of Electrical Engineering.

## John Kempe

### Chief Executive Officer, Offshore Marine Services

John was appointed CEO of Offshore Marine Services in July 2010.

John has a wealth of knowledge and expertise in the oil and gas field. Prior to joining the Group, John previously held positions as Vice President, Business Development of Technip, a world leader in engineering, technologies and project management for the oil and gas industry in Perth from 2008 to 2010 and prior to that, General Manager of Toll Energy, the largest provider of integrated logistics services to the Australian oil and gas industry from 2002 to 2008. John's credentials also include serving in the Australian Army for over 20 years where he held a range of appointments including service in Special Forces.

## Matt Caulfield

### Executive General Manager Branch Support

Matt joined the SKILLED Group in November 2010 and was appointed Executive General Manager Branch Support.

His previous experience includes Chief Financial Officer Coles Liquor and Hotels Group from 2008 to 2010, Group Finance & Strategy Manager Coles Express & Liquor, Group Financial Controller Tate & Lyle plc, and Financial Integration Manager for Penguin Publishing Inc. Matt holds a Bachelor of Business Degree in Accounting and Marketing and is a CPA.

## Delphine Cassidy

### Executive General Manager Corporate Affairs

Delphine was appointed to SKILLED Group as Executive General Manager Corporate Affairs in August 2010.

Prior to this, Delphine was General Manager Advisory at Orient Capital providing investor relations advice to ASX listed companies. Delphine's previous roles included Head of Investor Relations for St Barbara Limited and AWB Limited and various commercial and management roles for AWB Limited and Australian Airlines.

## Carl Philips

### Executive General Manager People

Carl was appointed to SKILLED Group as Executive General Manager People in April 2011.

Prior to this, Carl held the role of Director of Safety, Alcoa Australia, leading the safety function across the integrated primary assets of Alcoa Australia, and was a member of Alcoa's global Safety Committee. Carl's previous roles over 18 years have been leading industrial relations and human resources requirements at Alcoa Australia, Coles Myer and The Australian Workers' Union. Carl has held various industry association membership and committee roles in Western Australia, Victoria and nationally, including Chamber of Minerals and Energy W.A, Australian Mines and Metals Association, and Australian Labour and Employment Relations Association.

## John Watkinson

### Chief Sales and Marketing Officer

John Watkinson joined SKILLED Group in August 2008 as CEO of Excelior, the Group's customer contact outsourcing business. In April 2011, John was appointed to his current position of Chief Sales & Marketing Officer.

Previously, John held several senior executive positions with FOXTEL, spanning sales, marketing, operations and business transformation. He brings more than 15 years of senior leadership experience across a diverse range of industries including; Services, Telecommunications, Entertainment, Media and Retail.

## Terry Janes, Chief Financial Officer

See page 19

## Mick McMahon, Chief Executive Officer

See page 18

## Tim Paine, Company Secretary

See page 19

# Corporate governance statement

This Statement sets out the corporate governance framework which was in place during the year and the key areas of focus worked on during 2011 by the Board. The Board has established and continues to develop a corporate governance framework that:

- identifies and manages the risks of the Company's businesses; and
- complies with best-practice standards of corporate governance to the extent that the Board considers those standards are in the best interests of SKILLED Group and its shareholders.

## ASX Governance Principles

As a company listed on the ASX, SKILLED Group is required to disclose the extent to which it has, during the relevant reporting period, followed the recommendations contained in the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (second edition) dated August 2007 (ASX Governance Principles).

The SKILLED Group Board fully supports the ASX Governance Principles 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 Governance Principles throughout the 2011 year.

## Key areas of focus in 2011

- Appointment of a Chief Executive Officer
- Appointment of Chairman of the Board and additional directors as part of the renewal of the Board of Directors following the retirement of Mr Ken Loughnan AO, Mr Kerry Hughes and Mr Peter Gregg
- Reviewing the framework for the delegation of authorities from the Board to management, and implementation of a new matrix setting out these delegations
- Conducting a review of the Board's effectiveness and performance, including in relation to the size and composition of the Board and its committees, and the manner in which it functions
- Reviewing the framework for the management of risk across SKILLED Group, including, in particular, the assessment and management of risks arising from contractual arrangements entered into by SKILLED Group
- Conducting a tender for the provision of audit services to SKILLED Group
- Adoption and promulgation of a diversity policy
- Adoption and promulgation of a new share trading policy in compliance with changes to the ASX Listing Rules
- Reviewing the Company's constitution in light of current legal requirements and corporate standards, resulting in the drafting of a new constitution to be put to shareholders at SKILLED Group's 2011 Annual General Meeting

# The Board

The Board is chaired by an independent Non-Executive Director. The roles of the Chairman and Chief Executive Officer are separate. Further details on the composition of the Board are set out below.

## Responsibilities and functions of the Board

The Board of Directors is responsible for setting the strategic direction of the Company and for overseeing and 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.skilledgroup.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.

Day-to-day management of the Company's affairs and implementation of strategy and policy initiatives are delegated to the Chief Executive Officer and to senior executives. Formal position descriptions that detail key accountabilities and authorities have been issued for the Chief Executive Officer, the Chief Financial Officer and other key executives.

During the year the Board has adopted and promulgated a matrix setting out authority limits for various levels of management across a range of activities and transactions. The limits set out in this matrix will be reviewed at least annually by the Board for their appropriateness.

## Composition of the Board and the appointment and re-election of Directors

The names of the directors of the Company in office during the financial year are given in the Directors' Report.

The Board is currently comprised of seven directors, being five Non-Executive Directors and two executive directors. Following his resignation as Chief Executive Officer in November 2010, Mr Greg Hargrave remained a Non-Executive Director of the Company, but was on a leave of absence until his retirement from the Board on 31 August 2011.

In searching for and selecting new directors to the Board, the Nomination Committee identifies any gaps in the 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 the Committee 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. Further detail in relation to SKILLED Group's Diversity Policy is set out below at page 27.

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

During the 2011 financial year the Board appointed Mr Tony Cipa and Ms Tracey Horton as Directors. Profiles of Mr Cipa and Ms Horton are set out on pages 18 and 19 respectively of this Annual Report. In accordance with the ASX Listing Rules and the Company's constitution these directors will retire and stand for election at the 2011 Annual General Meeting.

These appointments followed the retirements of Mr Ken Loughnan AO and Kerry Hughes from the Board on 25 October 2010, and the retirement of Mr Peter Gregg from the Board on 10 February 2011.

In addition, Mr Mick McMahon was appointed to the Board as an executive director following his appointment as Chief Executive Officer.

# Corporate governance statement continued

In accordance with the ASX Listing Rules and the Company's Constitution, other than the Managing Director and those directors appointed during the year, one-third (or the nearest number to one-third) must retire by rotation at each annual general meeting and are eligible to stand for re-election.

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

Executive directors receive no extra remuneration for their service on the Board beyond their executive salary package. Remuneration of Non-Executive Directors is determined in maximum aggregate 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.
- 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 ongoing 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.

Following the retirement from the Board of Mr Ken Loughnan AO at the conclusion of the 2010 annual general meeting on 25 October 2010, Ms Vickki McFadden was appointed chairman of the Board.

## 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 their 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. Each of the five current Non-Executive Directors are considered independent.

The Board does not believe that any 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.skilledgroup.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. However, typically two or three meetings each year are held at interstate office premises of the Company's businesses, to assist the Board to gain a better understanding of those businesses.

Typically at Board meetings the agenda will 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;
- the Chief Financial Officer's report;
- 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; and
- reports from Chairs of Committees which have met shortly prior to the Board meeting on matters considered at those meetings.

The Company Secretary & Group General Counsel is present at all Board meetings. Members of senior management attend Board meetings when an issue under their area of responsibility is being considered or as otherwise requested by the Board.

## Review of Board performance

The Chairman has recently completed a review of the Board's effectiveness and performance, including in relation to the size and composition of the Board and its committees, and the manner in which it functions. This was undertaken by a series of interviews with the Non-Executive Directors, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary & Group General Counsel to identify areas of concern and opportunities for improvement.

The Chairman's report was made available to all directors and considered by the full Board.

The Board's policy *Directors and Board Performance Evaluation* is available for review in the Corporate Governance section of www.skilledgroup.com.au.

## 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 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

The Board has the ability under its Constitution to 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 four principal Board Committees:

- the Audit Committee
- the Risk Committee
- the Remuneration Committee
- the Nomination Committee

Since the conclusion of the 2011 financial year, the Board has resolved to merge the Audit Committee and the Risk Committee to form the Audit & Risk Committee. As at the date of this Annual Report the composition of the Audit & Risk Committee is as follows:

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

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

The objectives and the composition of each of the Board committees as they operated during the year are set out below.

## Audit Committee

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

- reporting of financial information to users of financial reports;
- application of accounting policies;
- assessment of the management processes supporting external reporting;
- financial management;
- internal control systems;
- assessment of the performance and objectivity of the internal audit function;
- appointment, removal, performance assessment and independence of the external auditor;
- management's approach to identifying key financial risk areas and ensuring that programs are in place to manage those risks;
- the management of the Group's insurance program; and
- compliance with applicable laws, regulations, standards and best-practice guidelines in relation to the above.

# Corporate governance statement continued

The members of the Audit Committee as at 30 June 2011 were:

- Mr Tony Cipa (appointed to the Committee on 4 April 2011; Chairman of the Committee from 4 April 2011);
- Ms Vickki McFadden (Chairman of the Committee until 25 October 2010); and
- Ms Tracey Horton (appointed to the Committee on 22 February 2011).

Other members of the Committee during the year were:

- Mr Ken Loughnan AO (until his retirement on 25 October 2010); and
- Mr Peter Gregg (until his retirement on 10 February 2011).

The Audit Committee met on four occasions during the year.

The Audit Committee did not meet between 25 October 2010 and 4 April 2011 pending the completion of changes to the composition of the Committee during this period. During this period, matters which would otherwise have been considered by the Audit Committee were considered by the full Board.

## Risk Committee

The role of the Risk Committee was to oversee management's approach to identifying key operational risk areas and to ensure that programs were in place to manage those risks.

The members of the Risk Committee as at 30 June 2011 were:

- Mr Max Findlay (appointed to the Committee on 20 July 2010; Chairman of the Committee from 21 December 2010);
- Mr Bob Herbert AM; and
- Ms Tracey Horton (appointed to the Committee on 22 February 2011).

Other members of the Committee during the year were:

- Ms Vickki McFadden (until 21 December 2010); and
- Mr Kerry Hughes (Chairman until his retirement on 25 October 2010).

The Risk Committee met on four 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's Charter outlines the principles of diversity to be adopted in the Company's recruitment practices. 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.

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

The members of the Remuneration Committee as at 30 June 2011 were:

- Mr Bob Herbert AM (Chairman of the Committee);
- Mr Max Findlay (appointed to the Committee on 21 December 2010); and
- Ms Vickki McFadden (appointed to the Committee on 21 December 2010).

Other members of the Committee during the year were:

- Mr Ken Loughnan AO (until his retirement on 25 October 2010); and
- Mr Peter Gregg (until his retirement on 10 February 2011).

The Remuneration Committee met on four 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.skilledgroup.com.au.

The members of the Nomination Committee as at 30 June 2011 were:

- Ms Vickki McFadden (Chairman of the Committee since 25 October 2010); and
- Mr Greg Hargrave.

Mr Ken Loughnan AO was also a member and Chairman of the Committee during the year until his retirement on 25 October 2010.

The Nomination Committee met on six occasions during the year. As Mr Hargrave was on leave of absence from the Board from November 2010, matters for consideration by the Nomination Committee after that date were considered by the full Board.

Since the conclusion of the 2011 financial year, Mr Max Findlay has been appointed to the Nomination Committee and Mr Hargrave ceased to be a member of the Committee upon his retirement from the Board on 31 August 2011.

# 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
- 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.skilledgroup.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. Alternatively, employees may choose to directly contact their executive general manager or the company secretary. 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. In addition, senior financial executives, as part of their employment contract, must adhere to the Group of 100's Code of Conduct for Chief Financial Officers and Senior Financial Officers.

## Diversity

SKILLED Group values the diversity of our employees and the skills, background and experience they bring to work. We wish to reflect the communities in which we operate through fostering a culture which embraces and values this diversity.

As a service provider, SKILLED Group recognises leveraging a diverse workforce contributes to an enhanced service to all our stakeholders, builds a culture of high performance, improves our financial position, and builds a strong reputation in the markets in which we operate.

To support this commitment, the Board has recently adopted a *Diversity Policy* with the purpose of securing the leadership, promotion and measurement of diversity across SKILLED Group. The key areas of focus for the 2012 financial year are women in leadership, Indigenous employment and pay equity.

The Remuneration Committee will ensure the senior executive team are held accountable for delivering results against the diversity measures and will twice a year report to the Board on performance against these measures. The senior executive team will agree and commit annually to a range of activities to achieve the objectives set out by the Board and ensure visible sponsorship is given to building a diverse workplace.

### DIVERSITY POLICY

The *Diversity Policy* draws attention to 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 Group's talent to develop the skills and experience they need to succeed;
- provide the structure and frameworks to support diversity by:
  - developing a robust governance structure with Board involvement;
  - auditing recruitment, performance, remuneration and development processes and developing an action plan for removing systemic barriers;
  - actively monitoring demographic changes, particularly in relation to gender diversity; and
  - delivering staff education programs to raise awareness and challenge workplace norms.
- eliminate discrimination, harassment, bullying and other inappropriate behaviours in the workplace.

# Corporate governance statement continued

### WOMEN AT SKILLED GROUP

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.

As at 30 June 2011, the proportion of women employed at different levels of SKILLED Group was as follows:

- two of the six Non-Executive Directors at 30 June 2011 (33%) are women. Ms Vickki McFadden is Chairman of the Board and Ms Tracey Horton is a Non-Executive Director;
- 32% of our management roles are filled by women; and
- 57% of SKILLED Group staff are women.

SKILLED Group has set a specific target to increase the representation of women in management roles to 40% by 2016.

The *Diversity Policy* is supported by SKILLED Group's *Code of Conduct*, *Workplace Behaviour Policy* and *Grievance Policy*. SKILLED Group's *Diversity Policy* is available for review in the Corporate Governance section of www.skilledgroup.com.au.

## Risk management and control

### Controlling and managing risks

All business activities contain an element of risk. SKILLED Group's philosophy on risk is to identify a risk in advance, assess the likelihood and possible impact of that risk, and for risks considered material, determine potential risk mitigation strategies and a risk response plan.

The key areas of risk faced by SKILLED Group are:

- risk of serious injury or fatality to our employees;
- operational risk, which arises from inadequate or failed internal processes, people and systems, or from external events;
- risks associated with our offshore and overseas activities;
- risks associated with changes to the industrial relations landscape in Australia;
- financial risk, which includes fraudulent activities, the risk of financial loss from losing business from a key customer and/or the credit risk attached to non-payment by a customer; and
- contractual risk, being the nature of the performance and indemnity requirements in contracts with customers.

Appropriate policies and procedures are continually being developed and updated to help manage these risks. The Board is responsible for approving the Company's risk management strategy and policies. Executive management is responsible for the implementation of the strategy and for developing policies, processes and procedures to identify and manage risks. Executive management is required to report to the Board at least annually on the effectiveness of the risk management process for the Company's material risks.

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

- the Company's financial statements present a true and fair view of SKILLED Group's financial condition and operational results; and
- the risk management and internal compliance and control systems, to the extent they relate to financial reporting objectives, are sound, appropriate and operating effectively.

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

The Company has issued a formal Board policy, which requires that:

- the Audit & Risk Committee monitors the independence, objectivity, effectiveness and scope of the external audit and reviews the external auditor's findings and recommendations.
- the Audit & Risk Committee reviews the processes governing all 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 serve in that capacity for a maximum of five years.
- at least three years must elapse before any retired partner or former partner of the external auditor can be permitted to serve as a director or officer of the Company.

Deloitte Touche Tohmatsu has been the auditor of SKILLED Group since before its ASX listing in July 1994. Following completion of the audit for the year ended 30 June 2009, Mr Tom Imbesi was appointed as the audit engagement partner.

During the year SKILLED Group commenced a tender process for the appointment of a firm to provide external audit services to the Company for the 2012 year and beyond. Following that process, SKILLED Group has asked that Ernst & Young consent to act as auditor of the Company, and Ernst & Young has provided its consent in writing to so act. Accordingly, the Board will be recommending that, at the Company's 2011 Annual General Meeting, shareholders resolve to appoint Ernst & Young as auditor of the Company.

# Disclosure

## Shareholder communications

SKILLED Group is committed to giving all shareholders comprehensive and equal access to information about our activities and to fulfilling continuous disclosure obligations to the wider market. The Shareholder Communications Strategy, together with the Board policy *Disclosures to the Investment Community*, set out how we undertake these communications.

The Shareholder Communications Strategy and the Board policy *Disclosures to the Investment Community* are available in the Corporate Governance section of www.skilledgroup.com.au. The audit engagement partner always attends the annual general meeting and is available to respond to questions from shareholders.

## 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 a website that includes an Investor Relations section. To ensure provision of equal access to material information, all ASX announcements are also placed on this site.

# Corporate governance statement continued

## Buying and selling of shares

During the year, SKILLED Group adopted a revised *Share Trading Policy.* Under this revised policy:

- directors, officers and staff who are 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 defined restricted periods, namely:
  - 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.

  **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.
- 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, on the condition that they provide the Company Secretary with notification of their dealings.
- during any other period, relevant persons must, in advance of any proposed dealing in SKILLED Group securities, receive approval for any proposed dealing in SKILLED Group securities.

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

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.

## No hedging

SKILLED Group's *Share Trading Policy* and the terms of invitations to executives to participate in 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 which, at the sole discretion of the Board, may consist of any or all of the following:

- immediate forfeiture of any portion of any option or performance right that has previously been granted, which has not yet vested or been exercised;
- exclusion from participation in future grants of long-term incentives; and/or
- other disciplinary action, including termination of employment.

## Proposed new constitution

The Company's existing constitution has not been updated since its adoption at the 2004 Annual General Meeting. Since that time, there have been a number of changes, amendments and other developments in the context of the *Corporations Act*, the ASX Listing Rules, corporate governance principles and general market practice for ASX-listed companies.

In order to ensure that the Company's constitution is consistent and up-to-date with current law, policy and practice, the Board is proposing a new constitution for adoption by shareholders at the 2011 Annual General Meeting which reflects these changes and developments. The proposed new constitution is in a relatively standard form for an ASX-listed company. Most of the proposed amendments are administrative or technical in nature, but there are some substantive differences between the existing constitution and the new constitution, which are summarised in the explanatory notes accompanying the notice of meeting for the 2011 Annual General Meeting.

A copy of the Company's existing constitution and the proposed new constitution is available for review on the Company's website at www.skilledgroup.com.au.

# Directors' report

The directors of SKILLED Group Limited (the "Company") present the annual financial report for the financial year ended 30 June 2011. In accordance with the provisions of the *Corporations Act 2001*, the directors report as follows:

The directors of the Company during the financial year (or, where indicated, during part of the year only) were:

VA McFadden

MP McMahon (appointed 8 November 2010)

AM Cipa (appointed 4 April 2011)

MJ Findlay

GM Hargrave

RN Herbert AM

TA Horton (appointed 10 February 2011)

TB Janes

PA Gregg (retired 10 February 2011)

KW Hughes (retired 25 October 2010)

KV Loughnan AO (retired 25 October 2010)

Other than the retirement of GM Hargrave on 31 August 2011, there have been no changes to the directors since the end of the financial year.

Particulars of directors and the company secretary are shown on pages 18 to 19 of the Annual Report.

The Remuneration Report set out at pages 35 to 48 of this Annual Report forms part of this Directors' Report.

## Principal activities

The principal activities of the consolidated entity, constituted by the Company and the entities it controlled from time to time during the financial year, were the provision of staffing 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 staffing services, customer contact solutions and trainee and apprenticeship management.

## Results

The consolidated net profit of the consolidated entity for the financial year after income tax expense was $3,139,000 (2010: $12,701,000).

## Dividends

For the financial year ended 30 June 2011, a final dividend of 3.0 cents per share franked to 100% (at a corporate income tax rate of 30%) will be paid on 13 October 2011 to holders of fully paid ordinary shares. No interim dividend was declared for the financial year ended 30 June 2011.

No interim or final dividend was declared for the financial year ended 30 June 2010.

## Review of operations

A detailed review of the operations of the consolidated entity is contained in the Chairman's Report, Managing Director's Report and Finance Review in this Annual Report.

## Changes in state of affairs

There has been no significant change in the state of affairs of the consolidated entity.

## Subsequent events

On 4 July 2011, the consolidated entity announced to the ASX that it had successfully refinanced its syndicated bank debt facility. The new facility of $160 million in total comprises two tranches, being $60 million (maturing in August 2013) and $100 million (maturing in August 2014). The syndicate now comprises the four major domestic banks, National Australia Bank, ANZ Banking Group, Westpac Banking Corporation and Commonwealth Bank of Australia.

Due to EPS performance measures not being met in relation to grants made in 2006 and 2008 under the Executive Share Option Plan, 3,259,000 options lapsed in August 2011.

Other than these events, there has been no 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

Future developments in relation to the consolidated entity are outlined in the Chairman's Report and Managing Director's Report. In the opinion of the directors, the disclosure of any additional information relating to the likely developments in the operations of the consolidated entity and the expected results of those operations could be prejudicial to the interests of the consolidated entity. Accordingly, this information has not been included in this report.

## Share options and performance rights

Since October 2009 grants of share options and performance rights have been made under the Company's Executive Long-Term Incentive Plan ("ELTI Plan"). Prior to this, share options were granted under the Company's Executive Share Option Plan. Details of the ELTI Plan are disclosed in the Long-Term Incentive section of the Remuneration Report and in note 31 of the financial statements. Under this Plan, the Board has discretion to grant performance rights, share options and cash rewards to eligible executive directors and senior executives.

No person who exercised, or was entitled to exercise, any of the share options or performance rights under either plan had or has any right, by virtue of the share option or performance right, to participate in any share issue of any other body corporate.

The share options and performance rights issued to, and held by, executive directors of the Company and other key management personnel during the 2011 financial year are detailed in note 38 to the financial statements.

# Directors' report continued

The un-issued shares in SKILLED Group Limited under share options or performance rights at the date of this report are as follows:

## Share options

| Grant date | Number | Exercise price per share option $ | Exercise period Commencement | Exercise period Date expiring | Value at grant date per share option $ |
|---|---|---|---|---|---|
| 05/04/2006 | 204,000 | 4.92 | 05/04/2009 | 04/04/2012 | 1.18 |
| 15/11/2006 | 81,000 | 5.81 | 15/11/2009 | 14/11/2012 | 1.62 |
| 02/11/2007 | 309,000 | 5.29 | 02/11/2010 | 01/11/2013 | 1.47 |
| 21/10/2008 | 1,253,000 | 2.52 | 21/10/2011 | 20/10/2014 | 0.71 |
| 19/11/2009 | 346,000 | 2.28 | 19/11/2012 | 18/11/2015 | 0.72 |
| 23/11/2010 | 527,000 | 1.47 | 23/11/2013 | 18/11/2016 | 0.54 |
| 12/08/2011 | 50,000 | 2.28 | 19/11/2012 | 18/11/2015 | 0.46 |
| 12/08/2011 | 50,000 | 1.47 | 23/11/2013 | 18/11/2016 | 0.73 |
| | 2,820,000 | | | | |

## Performance rights

| Grant date | Number | Vesting date | Value at grant date per performance right $ |
|---|---|---|---|
| 19/11/2009 | 374,600 | August 2012 | 2.11 |
| 23/11/2010 | 768,000 | August 2013 | 1.47 |
| 23/11/2010 | 159,000 | 23/11/2011 | 1.60 |
| 12/08/2011 | 103,929 | August 2013 | 1.71 |
| 12/08/2011 | 21,000 | 23/11/2011 | 1.93 |
| | 1,426,529 | | |

## Board committees

The table below sets out the Board and committee meetings held during the financial year and, where applicable, the number attended by each director.

| | Board | | Audit Committee | | Risk Committee | | Remuneration Committee | | Nomination Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| Director | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| VA McFadden(i) | 13 | 13 | 4 | 4 | 3 | 3 | 2 | 2 | 6 | 6 |
| M McMahon(ii) | 7 | 6 | | | | | | | | |
| AM Cipa(iii) | 3 | 3 | 1 | 1 | | | | | | |
| MJ Findlay(iv) | 13 | 10 | | | 4 | 3 | 2 | 1 | | |
| GM Hargrave(v) | 8 | 5 | | | | | | | 6 | 6 |
| RN Herbert AM | 13 | 12 | | | 4 | 4 | 4 | 4 | | |
| TA Horton(vi) | 5 | 5 | 1 | 1 | 1 | 1 | | | | |
| TB Janes | 13 | 11 | | | | | | | | |
| PA Gregg(vii) | 8 | 7 | 3 | 3 | | | 2 | 2 | | |
| KW Hughes(viii) | 6 | 5 | | | 2 | 2 | | | | |
| KV Loughnan AO(ix) | 6 | 6 | 3 | 3 | | | 2 | 2 | 6 | 6 |

(i) Retired from the Risk Committee on 21 December 2010; Appointed to the Remuneration Committee on 21 December 2010

(ii) Appointed as a director on 8 November 2010

(iii) Appointed as a director on 4 April 2011; Appointed to the Audit Committee on 4 April 2011

(iv) Appointed to the Risk Committee on 20 July 2010; Appointed to the Remuneration Committee on 21 December 2010

(v) On a leave of absence since 23 November 2010

(vi) Appointed as a director on 10 February 2011; Appointed to the Audit Committee and the Risk Committee on 22 February 2011

(vii) Retired as a director on 10 February 2011

(viii) Retired as a director on 25 October 2010

(ix) Retired as a director on 25 October 2010

# Directors' shareholdings and shares under option and rights holdings

The table below sets out directors' shareholdings and shares under option and rights holdings in the Company as at the date of this report:

| Directors | Fully paid ordinary shares | Shares under option/rights |
|---|---|---|
| VA McFadden | 126,885 | – |
| M McMahon(i) | 667,501 | – |
| AM Cipa(ii) | – | – |
| MJ Findlay | 35,000 | – |
| GM Hargrave(iii) | 55,225,283 | – |
| RN Herbert AM | 13,054 | – |
| TA Horton(iv) | – | – |
| TB Janes | 116,667 | 881,000 |
| PA Gregg(v) | – | – |
| KW Hughes(vi) | 15,434 | – |
| KV Loughnan AO(vii) | 170,496 | – |

(i) Appointed as a director on 8 November 2010

(ii) Appointed as a director on 4 April 2011

(iii) Retired as a director on 31 August 2011

(iv) Appointed as a director on 10 February 2011

(v) Retired as a director on 10 February 2011

(vi) Retired as a director on 25 October 2010

(vii) Retired as a director on 25 October 2010

# 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 Limited 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 Limited or a subsidiary.

The Company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company or any related body corporate against a liability incurred as such by an auditor.

# Directors' report continued

## Environmental regulation and performance

The Company's operations are subject to various environmental regulations under both Commonwealth and State legislation. These are set out in further detail in the Sustainability section on page 16 of this Annual Report.

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.

## 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 39 to the financial statements.

## Auditor's independence declaration

The auditor's independence declaration is included on page 50.

## 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 have been rounded off to the nearest thousand dollars.

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

Melbourne, 7 September 2011

# Remuneration report

## 1. Message from the Board

Dear Shareholders,

We are pleased to present the 2011 Remuneration Report. SKILLED Group's success depends on its people – our Board and management team – for leadership, stewardship and accountability for performance, and our staff and field employees to fulfil their responsibilities to the highest level. We are very focused on ensuring that our remuneration policies and practices are appropriate to support the Company's strategy, to drive performance and behaviours in the Company's best interests and to deliver shareholder value.

Significant changes occurred at the senior executive level, including the Chief Executive Officer, during the past financial year at SKILLED Group. In conjunction with those management changes, the Remuneration Committee felt it was timely to review the incentive plans and how they support the Company strategy. In particular, the Committee reviewed the mix of fixed and variable pay which forms part of the total reward offer to senior executives, to ensure that our remuneration objectives are achieved.

We have enhanced both the short-term and long-term incentive plans including:

- the setting of a common set of performance metrics for variable pay to align further employee remuneration with Company and individual performance. The variable pay performance measures focus on safety, customer, operations, financials and our people; and
- the introduction of a second performance measure, relative Total Shareholder Return (TSR), to the executive long-term incentive plan. Both relative TSR and Earnings per Share (EPS) will act as independent performance measures on a 50/50 basis for each Award granted under the plan.

These refinements will introduce a more rigorous framework for assessing Company and individual performance to support our Core Plus strategy and to drive our high performance culture.

The remuneration practices adopted by SKILLED Group conform with corporate governance principles and provide remuneration disclosures aimed to maintain a high standard of clarity and transparency in communications with all stakeholders.

## 2. Introduction

This Remuneration Report is for the year ended 30 June 2011 and details remuneration information as it applies to SKILLED Group executives and Non-Executive Directors. This includes SKILLED Group's Key Management Personnel (KMP), including the five highest remunerated executives in 2011. The people currently in these positions are listed in the following tables:

| Non-Executive Directors | Position | Remuneration report reference |
|---|---|---|
| VA McFadden | Chairman | Section 2, 4 and 5 |
| AM Cipa | Non-Executive Director, Chairman Audit Committee | |
| MJ Findlay | Non-Executive Director | |
| RN Herbert AM | Non-Executive Director, Chairman Remuneration Committee | |
| T Horton | Non-Executive Director | |

| Executive directors and other KMP | Position | Remuneration report reference |
|---|---|---|
| M McMahon | Chief Executive Officer, Executive Director | Section 2, 3.2, 3.4 and 5 |
| T Janes | Chief Financial Officer, Executive Director | Section 2, 3.2 and 5 |
| J Kempe | CEO Offshore Marine Services | |
| P McCormick | Executive General Manager Eastern Region | |
| D Timmel | Executive General Manager Western Region | |
| S Healy | Executive General Manager Recruitment Services | |
| J Watkinson | Chief Sales and Marketing Officer | |

# Remuneration report continued

## 3. Executive Remuneration

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.

### 3.1 Our remuneration policy

SKILLED Group's remuneration policy is based on a performance driven, market competitive pay framework. There is a significant 'at risk' component for senior executives in the form of short-term and long-term incentives which have clear links to company performance. These links are achieved through setting annual objectives whereby the 'at risk' remuneration for achieving these objectives is outlined and agreed with senior executives. This clearly identifies, for the senior executive group, that certain levels of remuneration will only be achieved if the performance of the Company, and the consequential delivery of relative shareholder returns, are at a certain level.

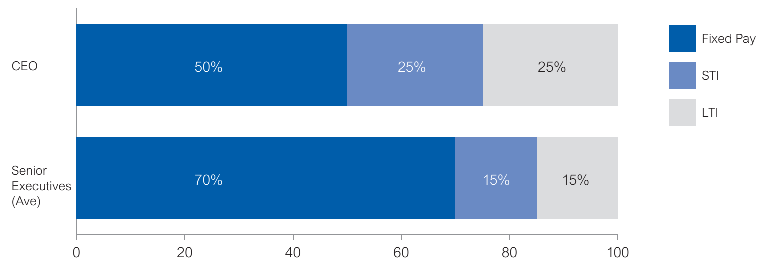
The key principles and drivers behind SKILLED Group's approach to remuneration are:

| Principle | Driver | Outcome |
|---|---|---|
| Performance driven | Create value | Positive employment for stakeholders from staff, field employees, trainees and apprenticeships and for the industries and communities in which SKILLED Group operates |
| Competitive framework | Competitive total reward structures | SKILLED Group will have the ability to attract, motivate and retain key talent |
| Sustainable business for all stakeholders | Differentiate performance | Engender a high performance culture through strong links between an individual's performance and company performance |
| | Fair and ethical | Consistency and transparency in remuneration frameworks for all stakeholders |

With the commencement of Mick McMahon as the CEO and the implementation of the Core Plus strategy in 2011, the Remuneration Committee implemented a review of the remuneration framework and how it supports this strategy. Ernst & Young provided an independent and external analysis of the existing remuneration framework, particularly in relation to incentive schemes. The resulting changes are reflected in the remuneration structure outlined below.

### 3.2 Executive remuneration structure

Executive remuneration at SKILLED Group is a mix of fixed annual remuneration and variable remuneration through 'at risk' short-term and long-term incentives. The chart below illustrates how these three elements of remuneration form part of senior executives' total remuneration offering using the 'at target' remuneration package for each group.




These three elements for senior executives are described below. Sections 3.4 and 3.5 provide further detail in relation to the Chief Executive Officer's remuneration structure.

## FIXED REMUNERATION

The fixed remuneration (total package value or "TPV") consists of cash salary, superannuation and other short-term benefits. Fixed remuneration is targeted at the market median for executive roles having similar scope, accountability and complexity to those being reviewed. Benchmarking of executive remuneration is conducted annually against executive remuneration practices for:

- executive roles in companies listed on the ASX with market capitalisations and revenues similar to that of SKILLED Group and/or within an industry sector in which it has operations; and
- within SKILLED Group to assist with maintaining internal relativities.

Fixed remuneration is reviewed annually with consideration for the market movement for organisations and positions of comparable size and complexity sustained individual performance and 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 "ESTI Plan" has been established to provide competitive performance-based remuneration incentives to the Executive Leadership Group. The ESTI Plan reflects a strong commitment towards attracting and retaining a high performing leadership team who are committed to the on-going success of the Group and creating shareholder value. While fixed remuneration is targeted at the median of the market, through variable pay, senior executives have the opportunity to earn remuneration above the median should they deliver sustained performance against stretch targets.

Performance objectives are established for each eligible executive at the start of the year and are structured to reflect each executive's potential impact on the business. A threshold, target and stretch measure are set for each performance objective.

| Measure | Performance level |
|---|---|
| Threshold | 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. |

In prior years this plan operated with a threshold based on net profit after tax (NPAT) determined by the Board. For FY12 this plan will include a balanced scorecard with gateways in place and a focus on five key areas of measurement. To provide consistent criteria on which to evaluate the individual and business performance the five key areas of measurement are: safety, customer, operations, financials and our people. Under this plan, the Board retains discretion to increase or decrease incentive payments to take account of significant events and/or other factors which were not anticipated when the threshold levels were established.

The ESTI Plan is not the exclusive method of providing incentive remuneration for employees of SKILLED Group. The Board has discretion to provide other forms of incentive remuneration.

In FY11, SKILLED Group performance measures did not meet the threshold set for NPAT. Reported NPAT of $3.1 million was impacted by the restructuring and branch co-location/closure costs associated with the implementation of the Core Plus strategy, the write-off of unamortised bank facility establishment fees, goodwill impairment and costs associated with the discontinued sale process of Swan. As a result no incentives accrued in FY11, except for a small number of select individuals where the Board exercised its discretion under the plan, to take account of significant individual and business unit performance. The following incentives were achieved in FY11 under the ESTI Plan for the executive directors and other key management personnel.

| | Maximum that could be earned | Achieved |
|---|---|---|
| | % of TPV | % of TPV |
| M McMahon | 100% | 0% |
| TB Janes | 60% | 0% |
| J Kempe | 40% | 20% |
| PR McCormick | 40% | 30% |
| D Timmel | 40% | 0% |
| S Healy | 40% | 0% |
| J Watkinson | 40% | 0% |

# Remuneration report continued

## LONG-TERM INCENTIVE

The Executive Long-Term Incentive Plan ('ELTI Plan') provides flexibility in delivering long-term incentive awards to executives in the form of options, performance rights and cash or a combination of those. The ELTI Plan is a method of retaining key skills and aligning the interests of participants with the interests of the Company and our shareholders.

The vesting of awards granted under the ELTI Plan in 2009 and 2010 were subject to performance conditions based on Earnings per Share ('EPS'). For this year, to enhance the performance conditions used in the ELTI Plan, it has been decided to include relative Total Shareholder Return ('TSR') as a second independent performance measure. The two performance measures – EPS and relative TSR – will operate independently under a 50/50 split. Relative TSR was favoured as it provides a comparison of relative performance in a range of market conditions with other listed companies.

The intended peer group is the ASX200 excluding financial institutions and including key competitors. Absolute TSR was considered, but deemed inappropriate for the ELTI Plan given that it does not take into account relative performance and can be more volatile to share market movement over which executives may have no control.

### Who participates in the ELTI Plan?

The ELTI Plan is open to senior executives and other key individuals who can make a significant contribution to the direction of the Company. Participation in the plan, which is approved by the Remuneration Committee, is based on sustained individual performance and value to the Company.

### What awards are possible under the ELTI Plan?

Under the ELTI Plan it is possible for the Board to grant options or performance rights over SKILLED Group ordinary shares, cash, or a combination of these awards. The options and performance rights do not confer a right to vote. The vesting of awards is subject to performance hurdles which are outlined in the tables below and over.

### Who sets the performance hurdles and what are they?

The performance period is generally three years, determined at the time of grant by the Board. For FY11 there was a single EPS performance measure. As detailed above, a second performance measure will be included and grants under the ELTI Plan in FY12 will be tested against both EPS and relative TSR.

### What were the performance requirements for options/performance rights/cash granted in FY11 under the ELTI Plan?

The performance period is three years and if the performance hurdles are satisfied:

- any options will vest and may be exercised by participants until the sixth anniversary of the grant date.
- performance rights will vest and entitle the participant to one SKILLED Group ordinary share.

| Performance level | 3 year cumulative EPS 1 July 2010 – 30 June 2013 | % to vest | | |
|---|---|---|---|---|
| | | Options | Performance rights | Cash |
| Below threshold | Below 44.4 cents per share (cps) | 0% | 0% | 0% |
| Threshold | 44.4 cps | 50% | 25% | 25% |
| Between threshold & target | Between 44.4 and 51.8 cps | Pro rata | Pro rata | Pro rata |
| *Target* | 51.8 cps | 100% | 50% | 50% |
| *Between target & stretch* | Between 51.8 and 64.5 cps | 100% | Pro rata | Pro rata |
| *Stretch* | At or above 64.5cps | 100% of options grant | 100% of performance rights grant | 100% of cash grant |

In FY11, the Company also issued performance rights to certain senior executives to retain key skills during the period of restructure. These retention performance rights require an individual to be in employment at the time of vesting and the performance period for these retention performance rights was up to one year from grant date.

What are the performance requirements for performance rights to be granted in FY12 under the ELTI Plan?

For the FY12 grant the two performance measures – EPS and relative TSR – will operate independently under a 50/50 split. For relative TSR the peer group is the ASX200 excluding financial institutions and including key competitors. In FY12, the number of performance rights to be issued is based on the volume weighted average share price of SKILLED Group ordinary shares for the five days commencing on 25 August 2011 (being one day after the announcement of the 2011 full year results).

| 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 |

| 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 |

Does SKILLED Group have a policy prohibiting the hedging of grants of equity securities?

Yes, 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.

Decisions to grant options and performance rights and cash are made by the Board based on recommendations of the Remuneration Committee. Please refer to Section 5 of the Remuneration Report for a list of share-based arrangements in existence during FY11. Please refer to the note 38 of the financial statements for disclosures on the equity settled share-based payments issues, exercised and lapsed by the executive directors and key management personnel as part of their compensation for the year ended 30 June 2011.

# Remuneration report continued

## 3.3 Company performance and executive remuneration outcomes

The following table is a summary of key performance and shareholder wealth statistics for the consolidated entity over the past five years.

| Financial year | NPAT $ million | Earnings per share (cents) | Total dividends per share (cents) | Share price @ 30 june ($) |
|---|---|---|---|---|
| 2011 | 3.1 | 1.6 | 3.0 | 2.24 |
| 2010 | 12.7 | 7.3 | – | 1.09 |
| 2009 | 28.3 | 23.0 | 10.5 | 1.23 |
| 2008 | 39.3 | 34.5 | 23.0 | 3.00 |
| 2007 | 29.8 | 28.6 | 22.0 | 5.25 |

The changes to remuneration in the past financial year are set out below for senior executives. Please refer to section 3.4 for details regarding the remuneration structure for the Chief Executive Officer.

- Total Remuneration
  For those senior executives who were disclosed in FY10 and FY11 the total remuneration increased. For departing senior executives the increase in expensed remuneration is predominately due to termination payments made.
- Fixed Remuneration
  Senior executives have an annual review of their total remuneration and as a result of the review any increase to fixed remuneration is applied in October. 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. In 2010 a review of fixed remuneration was undertaken and increases applied given the market movement, significant changes in roles during FY11 and performance and value to the organisation.
- Short-Term Incentives
  No award incentive payments were made under the ESTI plan for the FY11 performance period given the Company did not meet the minimum threshold required for NPAT. Using its discretion, the Board has awarded bonus payments to a small number of selected senior executives based on significant individual and business unit performance. The number of executives who received a discretionary bonus was significantly less than those who would have been eligible for a bonus if the minimum thresholds had been achieved.
- Long-Term Incentives
  For FY11 no equity grants vested where the performance hurdles were based on EPS growth. During FY11, 527,000 options and 805,000 performance rights over SKILLED Group shares have been granted under the ELTI Plan to a number of executives with a performance period from 1 July 2010 through to 30 June 2013. A further 313,000 performance rights for the purposes of retaining certain senior executives were granted in FY11 in preparation for the restructure. These performance rights were issued with a performance period of up to one year from grant.

## 3.4 Current Chief Executive Officer – Mick McMahon

The following summary provides an outline of the contract details and remuneration package for the Chief Executive Officer, Mr Mick McMahon, who commenced with SKILLED Group effective 8th November 2010.

| | |
|---|---|
| Fixed Remuneration: | The annual fixed remuneration on commencement was set at $995,000 inclusive of superannuation. This is to be reviewed annually with any increases at the discretion of the Board. Following a market review of the CEO's total remuneration package and acknowledgement of the significant contribution made to the business during FY11, the CEO's fixed remuneration will be increased to $1,100,000 inclusive of superannuation. |
| Short-Term Incentives: | The maximum short-term incentive payable is 100% of fixed annual remuneration; targets are set annually by the Board for target and stretch performance measures. Given the NPAT targets were not met for the FY11 performance period, no short-term incentive or discretionary bonus will be paid. |

Long-Term Incentives

As announced in November 2010, Mr McMahon's contract of employment included the following grant subject to shareholder approval. The CEO is eligible to participate in the ELTI Plan; the Board determines the performance and vesting criteria for each grant.

**Year 1: 2010 grant**

For the **2010 grant**, the total value of options to be granted is of equal value to 100% of fixed annual remuneration of $995,000. The exercise price of these options is $1.47 based on the volume weighted average share price of SKILLED Group ordinary shares for the five days commencing on the date of announcement of Mr McMahon's appointment. The value of each option has been determined by an external consultancy firm based upon a Black Scholes valuation and the number of options to be granted is 1,842,593. If the performance hurdles are satisfied, the options will vest and may be exercised by Mr McMahon until the sixth anniversary of the grant date. The options will vest upon achievement of two separate performance conditions:

1. EPS based on the company's EPS growth over the period 1 July 2010 to 30 June 2013 using reported EPS for the year ended 30 June 2010 as the base, the options will vest as outlined in the table below.

| Average annual % EPS growth | Equivalent 3 year cummulative EPS 1 July 2010 – 30 June 2013 | % to vest |
|---|---|---|
| Below 40% | Below 44.4 cps | 0% |
| 40% | 44.4 cps | 25% |
| 50% | 51.8 cps | 50% |
| 65% | 64.5 cps | 100% |

Note, there is a pro-rata allocation for EPS growth between 40%-50% and 50%-65%

2. Gearing ratio. Over the period 1 July 2011 to 30 June 2013, the Company's debt levels must not exceed two times EBITDA.

**Year 2: 2011 LTI grant**

In respect of the '**2011 LTI grant**', subject to shareholder approval, Mr McMahon will be issued 569,948 performance rights. The value of the performance rights is 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 applicable performance hurdles, comprising EPS and relative TSR measures over the relevant performance period, are set out in Section 3.2.

Co-investment scheme:

To align the Chief Executive Officer's interests with those of shareholders, SKILLED Group established the CEO co-investment scheme. Pursuant to this scheme Mr McMahon purchased $1 million worth of SKILLED Group shares in November 2010.

In accordance with the terms of his employment contract, Mr McMahon will be granted, subject to shareholder approval, performance rights (each being a right to one SKILLED Group share). The number of performance rights to be granted is 675,676 and was determined by dividing the amount invested in SKILLED Group shares by the CEO by $1.48 being the five day VWAP prior to (and not including) the date of announcement of appointment as Chief Executive Officer. The performance rights will vest as to 50% on 30 September 2013 provided that Mr McMahon still holds the shares he purchased and that the Company's three-year cumulative EPS from 1 July 2010 to 30 June 2013 equals, or is greater than, 51.8 cps, and as to the remaining 50% on 30 September 2014, provided that Mr McMahon still holds 50% of the shares he purchased and that the Company's three-year cumulative EPS from 1 July 2011 to 30 June 2014 equals, or is greater than, 70.0 cps. Failure to meet the co-investment conditions, employment conditions or the performance conditions will result in the performance rights lapsing.

# Remuneration report continued

## 3.5 Former Chief Executive Officer – Greg Hargrave

Mr Greg Hargrave resigned from SKILLED Group and ceased employment on 31 December 2010. His remuneration package is set out as follows:

| | |
|---|---|
| Fixed Remuneration: | The fixed remuneration for Mr Hargrave for the period 1 July 2010 until 31 December 2010 was $410,489 (annualised fixed remuneration for the former CEO was $816,400, inclusive of superannuation). |
| Short-Term Incentives: | For the period 1 July 2010 until 31 December 2010 no short-term incentives were payable. |
| Long-Term Incentives: | The former CEO was a participant in the ELTI Plan. On resignation any unvested grants previously made under the ELTI Plan lapsed effective 30 days post the date of resignation. |
| Termination Payments: | As per the announcement made on 24th November 2010, Mr Hargrave was paid an ex-gratia payment for past services to the organisation of $629,855 in addition to his statutory leave entitlements of $186,545. |
| Directors Fees: | Mr Hargrave remained a director of SKILLED Group after his resignation in November 2010 and took a leave of absence from the Board. During this time Mr Hargrave did not receive any Directors Fees. Mr Hargrave retired from the Board effective 31st August 2011. |

## 3.6 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. The table summarises the key contract terms.

| Contract Item | Terms |
|---|---|
| **Length of contract** | Open ended. |
| **Fixed Remuneration** | The Total Package Value (TPV) comprises salary, statutory employer superannuation contributions and benefits. Any fringe benefit tax liability with respect to benefits is borne by the employee and included as part of the TPV. |
| **Executive Short-Term Incentive Plan (ESTI Plan)** | Eligible to participate. Incentive criteria and award opportunities vary for each executive. |
| **Executive Long-Term Incentive Plan (ELTI Plan)** | Eligible to participate. Award opportunities may vary for each executive.<br>▪ if a senior executive chooses to resign from the SKILLED Group: any unvested grants of options, performance rights and/or cash under the ELTI Plan will lapse. For vested options, a senior executive has up to 30 days from departure (or the original date of expiry whichever is the earliest) to exercise the options or they will lapse. Vested performance rights will convert into shares in the Company.<br>▪ if the exit is involuntary, by retirement or a company initiated termination (excluding termination for cause) the unvested grant of options, performance rights and/or cash under the ELTI Plan will continue. For options, performance rights and/or cash – they will continue until three years from the date of grant and then if the performance conditions are met they will vest, otherwise they will lapse. Should the options vest, the senior executive will have six months from date of vesting to exercise, otherwise they will lapse. Vested performance rights will convert into shares in the Company.<br>▪ if an employee is dismissed with cause, any unvested grant of option, performance rights and/or cash under the ELTI Plan will lapse.<br>Refer to Section 3.2 for further details on the Executive Long-Term Incentive Plan. |
| **Notice period** | Varies for each executive to a maximum of 12 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. Directors do have discretion to make ex-gratia payments. |
| **Termination on notice by the Company** | The Company 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 Remuneration Guidelines to ensure consistent and equitable practices are applied. |
| **Death or total and permanent disablement** | Same principles as for retirement.<br>In addition, the Company currently has salary continuance insurance cover for members of the Executive Leadership Group. 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 TPV only up to the date of termination. |

# 4. 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.

The Board increased the Non-Executive Directors' fees with effect from 1 July 2011 as outlined in the table below. These fees had not been increased since 1 October 2006. In its review of the fees the Remuneration Committee engaged external remuneration consultants, Ernst & Young, to provide independent advice in relation to fees paid to other Non-Executive Directors. In establishing the Non-Executive Director's fees the Board reviewed market data of comparable companies in revenue size and the median of directors' fees for the ASX 151 – 200 companies.

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 are set at levels that fairly represent the responsibilities of, and the time spent by, the Non-Executive Directors on Group matters. Non-Executive Directors do not receive performance-based incentives.

The fee structure as at the date of this report is:

| Role | Current fee |
|---|---|
| Chairman | $200,000 |
| Chairman of Audit, Risk and Compliance Committee | $120,000 |
| Non-Executive Director | $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 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 Section 5 for the Non-Executive Directors Remuneration table for the financial years 2010 and 2011.

# Remuneration report continued

## 5. 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, other senior executives and key management personnel for the 2010 and 2011 financial years.

Current key management personnel and other senior executives

| | | | Short-term employee benefits | | | | | Long-term employee benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Title | Year | Fixed(i) | Short-term incentive | Non-monetary | Other short-term benefit | Super-annuation | Other long-term employee benefits | Equity settled share-based payment(ii) | Termi-nation benefits | Total | Proportion of total that is perform-ance related |
| M McMahon(iii) | Chief Executive Officer (Executive Director) | **2011** | 667,514 | – | 5,389 | – | 13,800 | – | 345,957 | – | 1,032,660 | 34% |
| | | 2010 | – | – | – | – | – | – | – | – | – | – |
| T Janes(iv) | Chief Financial Officer (Executive Director) | **2011** | 511,003 | – | 34,859 | – | 48,559 | 171,162 | 9,966 | – | 775,549 | 23% |
| | | 2010 | 361,538 | – | 39,049 | – | 47,821 | 11,293 | 12,461 | – | 472,162 | 5% |
| J Kempe(v) | Chief Executive Officer Offshore Marine Services | **2011** | 388,546 | 95,000 | 66,492 | 45,000 | 38,399 | 9,530 | 9,585 | – | 652,552 | 17% |
| | | 2010 | – | – | – | – | – | – | – | – | – | – |
| P McCormick(vi) | Executive General Manager, Eastern Region | **2011** | 325,761 | 117,000 | 10,291 | – | 47,199 | 2,933 | 27,394 | – | 530,578 | 28% |
| | | 2010 | – | – | – | – | – | – | – | – | – | – |
| D Timmel(vii) | Executive General Manager, Western Region | **2011** | 155,612 | – | – | – | 21,600 | – | – | – | 177,212 | 0% |
| | | 2010 | – | – | – | – | – | – | – | – | – | – |
| S Healy(viii) | Executive General Manager, Recruitment Services | **2011** | 93,997 | – | – | – | 5,012 | – | – | – | 99,009 | 0% |
| | | 2010 | – | – | – | – | – | – | – | – | – | – |
| J Watkinson(vi) | Chief Sales and Marketing Officer | **2011** | 357,775 | – | – | – | 15,199 | 3,218 | 42,916 | – | 419,108 | 11% |
| | | 2010 | – | – | – | – | – | – | – | – | – | – |
| Totals | | **2011** | 2,500,208 | 212,000 | 117,031 | 45,000 | 189,768 | 186,843 | 435,818 | – | 3,686,668 | – |
| | | 2010 | 361,538 | – | 39,049 | – | 47,821 | 11,293 | 12,461 | – | 472,162 | – |

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

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

(iii) Mr M McMahon commenced with SKILLED Group on 8th November 2010.

(iv) Mr TB Janes in the period FY10 had a reduced fixed package as part of a company initiated scheme to reduce costs during the GFC, this was effective to Dec 2009. In preparation for the restructure of the organisation, the Chief Financial Officer's position was reviewed and a retention plan included to ensure the organisation retained Mr Janes during SKILLED Group's re-engineering phase.

(v) Mr J Kempe commenced with SKILLED Group on 22nd July 2010.

(vi) Mr P McCormick and Mr J Watkinson became Key Management Personnel in FY11.

(vii) Mr D Timmel commenced with SKILLED Group on 17th January 2011.

(viii) Ms S Healy commenced with SKILLED Group on 8th March 2011.

Former key management personnel and other senior executives[i]

| | | | Short-term employee benefits | | | | | Long-term employee benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Title | Year | Fixed[ii] | Short-term incentive | Non-monetary | Other short-term benefit | Superannuation | Other long-term employee benefits | Equity settled share-based payment[iii] | Termination benefits | Total | Proportion of total that is performance related |
| GM Hargrave[iv] | Chief Executive Officer and Managing Director | **2011** | 443,991[v] | – | 12,600 | – | 7,789 | (26,167) | (28,962) | 629,855 | 1,039,106 | (5)% |
| | | 2010 | 735,918 | – | 25,201 | – | 14,461 | 26,167 | 28,962 | – | 830,709 | 7% |
| DW Johnson[vi] | CEO Staffing Services | **2011** | 535,199 | – | 1,080 | – | 15,199 | 6,335 | 170,021 | 366,916 | 1,094,750 | 16% |
| | | 2010 | 367,622 | – | 1,026 | – | 14,461 | 9,615 | 10,615 | – | 403,339 | 5% |
| DJ Bridge[vii] | Executive General Manager, Southern Region | **2011** | 309,186 | – | 29,369 | – | 15,176 | 3,424 | 22,891 | 235,380 | 615,426 | 4% |
| | | 2010 | – | – | – | – | – | – | – | – | – | – |
| KW Beig[viii] | Company Secretary | 2010 | 115,205 | – | 3,806 | – | 2,390 | – | – | – | 121,401 | – |
| TW Puncard[ix] | Chief Information Officer | 2010 | 66,761 | – | – | – | 3,615 | – | – | 189,252 | 259,628 | – |
| J Caporale | Chief Executive Officer – Skilled Workforce Services | 2010 | 545,859 | – | – | – | 9,641 | 13,221 | 14,654 | – | 583,375 | 5% |
| NJ Daly | Group Executive General Manager OHSE | 2010 | 203,141 | – | 148,183 | – | 25,716 | 4,904 | 4,531 | – | 386,475 | 4% |
| CA Renner[x] | Chief Strategy Officer | 2010 | 249,884 | – | – | – | 10,846 | 4,206 | 3,893 | 127,867 | 396,696 | 2% |
| BJ Maher[xi] | Company Secretary | 2010 | 210,463 | – | 21,019 | – | 15,063 | 3,205 | 2,967 | 133,310 | 386,027 | 2% |
| TA Paine[xii] | Company Secretary and Group General Counsel | 2010 | 88,838 | – | – | – | 3,615 | – | – | – | 92,453 | – |
| JB Dixon[xiii] | Chief Operating Officer | 2010 | 562,680 | – | – | – | 40,000 | 11,438 | 12,635 | – | 626,753 | 4% |
| Totals | | **2011** | 1,288,376 | – | 43,049 | – | 38,164 | (16,408) | 163,950 | 1,232,151 | 2,749,282 | |
| | | 2010 | 3,146,371 | – | 199,235 | – | 139,808 | 72,756 | 78,257 | 450,429 | 4,086,856 | |

(i) Mr KW Bieg, Mr TW Punchard, Mr CA Renner, Mr BJ Maher, Mr NJ Daly, Mr J Caporale and Mr TA Paine were disclosed as key management personnel in the remuneration tables for FY10, however, they have not been determined as key management Personnel in FY11. In addition Mr JB Dixon was disclosed as an executive director in FY10 prior to his resignation from this position on 23 March 2010.

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

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

(iv) Mr GM Hargrave ceased employment with SKILLED Group effective 31st December 2010 (see section 3.5).

(v) Mr GM Hargrave was employed with SKILLED Group for 6 months on an annualised fixed remuneration of $816,400 (see section 3.5).

(vi) Mr DW Johnson ceased employment with SKILLED Group effective 30th June 2011.

(vii) Mr DJ Bridge became a Key Management Personnel in FY11 and ceased employment with SKILLED Group effective 30th June 2011.

(viii) Mr KW Bieg ceased employment with SKILLED Group effective 5th September 2009.

(ix) Mr TW Punchard ceased employment with SKILLED Group effective 22nd July 2009.

(x) Mr CA Renner ceased employment with SKILLED Group effective 24th March 2010.

(xi) Mr BJ Maher ceased employment with SKILLED Group effective 1st April 2010.

(xii) Mr TA Paine commenced employment with SKILLED Group effective 29 March 2010.

(xiii) Mr JB Dixon ceased employment with SKILLED Group effective 23rd March 2010.

# Remuneration report continued

The remuneration table below discloses the remuneration for the Non-Executive Directors for the financial years 2010 and 2011.

| Name | Title | Year | Non-Executive director fees | Superannuation | Total |
|---|---|---|---|---|---|
| Non-Executive Directors | | | | | |
| VA McFadden[(i)] | Chairman of the Board | **2011** | 128,914 | 11,602 | 140,516 |
| | | 2010 | 75,739 | 6,816 | 82,555 |
| RN Herbert AM | Non-Executive Director, Chairman Remuneration Committee | **2011** | 75,900 | – | 75,900 |
| | | 2010 | 72,105 | – | 72,105 |
| MJ Findlay | Non-Executive Director | **2011** | 69,600 | 6,300 | 75,900 |
| | | 2010 | 20,435 | | 20,435 |
| AM Cipa[(ii)] | Non-Executive Director, Chairman Audit Committee | **2011** | 19,267 | 1,734 | 21,001 |
| | | 2010 | – | – | – |
| TA Horton[(iii)] | Non-Executive Director | **2011** | 27,151 | 1,789 | 28,940 |
| | | 2010 | – | – | – |
| Former Non-Executive Directors | | | | | |
| KV Loughnan AO[(iv)] | Former Chairman of the Board | **2011** | 125,929 | (18) | 125,911 |
| | | 2010 | 145,219 | 11,531 | 156,750 |
| KW Hughes[(v)] | Non-Executive Director | **2011** | 25,300 | – | 25,300 |
| | | 2010 | 77,798 | – | 77,798 |
| PA Gregg[(vi)] | Non-Executive Director | **2011** | 40,619 | 4,700 | 45,319 |
| | | 2010 | 67,435 | 4,670 | 72,105 |
| Totals | | **2011** | 512,680 | 26,107 | 538,787 |
| | | 2010 | 458,731 | 23,017 | 481,748 |

(i) Ms VA McFadden commenced as Chairman of the Board on 25th October 2010, Ms McFadden has been a board member since 2005.
(ii) Mr AM Cipa was appointed to the Board on 4th April 2011.
(iii) Ms TA Horton was appointed to the Board on 10th February 2011.
(iv) Mr KV Loughnan resigned as Chairman of the Board on 25th October 2010.
(v) Mr KW Hughes resigned from the Board on 25th October 2010.
(vi) Mr PA Gregg resigned from the Board on 10th February 2011.

## LONG-TERM INCENTIVE GRANTS FOR THE PERIOD 2006 THROUGH TO 30 JUNE 2011

During FY11, 527,000 options and 1,118,000 performance rights over SKILLED Group shares have been granted under this plan to a number of executives. During the financial year, the following share-based arrangements were in existence:

| Grant date | Grant type | Exercise price | Exercise period | | Value at grant | |
|---|---|---|---|---|---|---|
| | | | Start date | End date | | |
| 05/04/2006 | Options | 4.92 | 5/4/2009 | 4/4/2012 | 1.18 | The vesting date occurs when, and to the extent that, the performance criteria has been met. The earliest date that this can occur is the commencement of the exercise period, and the latest date is the option expiry date. |
| 15/11/2006 | | 5.81 | 15/11/2009 | 14/11/2012 | 1.62 | |
| 02/11/2007 | | 5.29 | 2/11/2010 | 1/11/2013 | 1.47 | |
| 21/10/2008 | | 2.52 | 21/10/2011 | 20/10/2014 | 0.71 | |
| 19/11/2009 | | 2.28 | 19/11/2012 | 19/11/2015 | 0.72 | |
| 23/11/2010 | | 1.47 | 23/11/2013 | 23/11/2016 | 0.54 | |

| Grant date | Grant type | Performance period | | Value at grant | |
|---|---|---|---|---|---|
| | | Start date | End date | | |
| 19/11/2009 | Performance Rights | 1/07/2009 | 30/06/2012 | 2.11 | Rights which meet the performance criteria at the end of the performance period will automatically be exercised on behalf of the participant. Instruments which do not meet the performance criteria will lapse. |
| 23/11/2010 | | 01/07/2010 | 30/06/2013 | 1.47 | |
| 23/11/2010 | Retention Performance Rights | 23/11/2010 | 23/11/2011 | 1.60 | |
| 23/11/2010 | | 23/11/2010 | 30/06/2011 | 1.04 | |

| Grant date | Grant type | Performance period | |
|---|---|---|---|
| | | Start date | End date |
| 19/11/2009 | Cash | 01/07/2009 | 30/06/2012 |
| 23/11/2010 | | 01/07/2010 | 30/06/2013 |

Equity-settled share-based payments issued, exercised and lapsed by executive directors and key management personnel[i] as part of their compensation for the year ended 30 June 2011 are as follows:

| 2011 | Balance at 1/7/2010 No. | Granted as compens-ation No. | Vested[ii] No. | Other change No. | Balance at 30/6/2011 No. | Balance vested at 30/6/2011 No. | Balance exercisable at 30/6/2011 No. | Options vested during year No. |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| MP McMahon[iii] | – | – | – | – | – | – | – | – |
| TB Janes | 961,000 | 207,000 | – | – | 1,168,000 | 81,000 | 81,000 | – |
| GM Hargrave[iv] | 1,763,000 | – | – | (1,763,000) | – | – | – | – |
| **Total** | **2,724,000** | **207,000** | **–** | **(1,763,000)** | **1,168,000** | **81,000** | **81,000** | **–** |
| **Other key management personnel** | | | | | | | | |
| J Kempe | – | 65,000 | – | – | 65,000 | – | – | – |
| PR McCormick | – | 75,000 | – | 426,900 | 501,900 | 73,000 | 73,000 | – |
| D Timmel | – | – | – | – | – | – | – | – |
| S Healy | – | – | – | – | – | – | – | – |
| J Watkinson | – | 87,000 | – | 157,300 | 244,300 | – | – | – |
| DW Johnson[v] | 92,000 | 343,000 | (154,000) | (281,000) | – | – | – | – |
| DJ Bridge[v] | – | 46,000 | – | (46,000) | – | – | – | – |
| **Total** | **92,000** | **616,000** | **(154,000)** | **257,200** | **811,200** | **73,000** | **73,000** | **–** |

(i) Mr NJ Daly, Mr J Caporale and Mr TA Paine were disclosed as key management personnel in 2010, however, they have not been determined as key management personnel in 2011.

(ii) Shares relating to performance rights that vested in 2011 were issued on 10 August 2011.

(iii) Pursuant to his employment agreement Mr McMahon is entitled, subject to shareholder approval, to receive 1,842,593 options by way of his 2010 long-term incentive grant and 675,676 performance rights under a co-investment scheme. If approved by shareholders, these will be granted after the Company's 2011 Annual General Meeting.

(iv) Mr GM Hargrave retired from the Board on 31 August 2011.

(v) These employees ceased to be key management personnel during 2011.

# Remuneration report continued

## INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company paid a premium in respect of 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 Limited has entered into a Deed of Indemnity with each director of the Company and the company secretary against a liability incurred as such by a 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 Limited or a subsidiary. This indemnity is limited to $1 million for any liability arising out of or in respect of any one claim.

The Company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company or any related body corporate against a liability incurred as such by an auditor.

## 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 39 to the financial statements.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 49.

## 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 have been rounded off to the nearest thousand dollars.

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,

**RN (Bob) Herbert AM**
Chairman, Remuneration Committee
Melbourne, 7 September 2011

# Auditor's independence declaration

**Deloitte.**

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

550 Bourke Street
Melbourne Vic 3000
PO Box 78
Melbourne Vic 3001 Australia

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

The Board of Directors
Skilled Group Limited
Level 15, 380 St Kilda Road
MELBOURNE VIC 3004

7 September 2011

Dear Board Members,

**Skilled Group Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Skilled Group Limited.

As lead audit partner for the audit of the financial statements of Skilled Group Limited for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tom Imbesi
Partner
Chartered Accountants

# Independent audit report

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

550 Bourke Street
Melbourne Vic 3000
PO Box 78
Melbourne Vic 3001 Australia

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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 statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, 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 as set out on pages 52 to 103.

*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 control as the directors determine is 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 consolidated 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 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 judgement, 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 control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 control. 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.

*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Skilled Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*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 2011 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 consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 35 to 48 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tom Imbesi
Partner
Chartered Accountants
Melbourne, 7 September 2011

# Directors' declaration

## For the financial year ended 30 June 2011

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity;

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

(d) the directors have been given the declarations required by 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 37 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.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the directors,

VA McFadden
Chairman

MP McMahon
Chief Executive Officer
and Managing Director

Melbourne, 7 September 2011

# Financial statements

**Contents:** 

# Consolidated statement of comprehensive income

| For the financial year ended 30 June 2011 | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Revenue | 4 | 1,876,255 | 1,697,994 |
| Equity-accounted income from joint venture | 4 | 3,700 | 1,938 |
| Other income | 4 | 496 | 385 |
| Employee and sub-contractor related costs | | (1,648,744) | (1,465,858) |
| Raw materials and consumables used | | (11,456) | (7,723) |
| Office occupancy related costs | | (15,897) | (16,651) |
| Loss from sale of assets | 5 | (119) | (513) |
| Impairment of goodwill | | (12,449) | (1,657) |
| Marine vessel charter costs | | (33,035) | (40,147) |
| Other expenses | | (95,558) | (105,258) |
| Depreciation and amortisation expenses | 4 | (27,729) | (21,829) |
| Finance costs | 4 | (28,808) | (26,854) |
| Profit before income tax expense | | 6,656 | 13,827 |
| Income tax expense | 6 | (3,517) | (1,126) |
| Profit for the year | | 3,139 | 12,701 |
| **Other comprehensive income** | | | |
| Gain on cash flow hedges taken to equity | 32 | 3,767 | 6,246 |
| Income tax on items taken directly to equity | | (1,130) | (1,874) |
| Change in foreign currency translation reserve arising on translation of foreign operations and net investment in foreign subsidiaries | 32 | (566) | (1,223) |
| Total comprehensive income for the period | | 5,210 | 15,850 |
| Profit attributable to members of the parent entity | 33 | 3,139 | 12,701 |
| Total comprehensive income attributable to members of the parent entity | | 5,210 | 15,850 |

| | | | |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic earnings per share (cents) | 43 | 1.56 | 7.27 |
| Diluted earnings per share (cents) | 43 | 1.55 | 7.25 |

Notes to the financial statements are included on pages 58 to 103.

# Consolidated statement of financial position

| As at 30 June 2011 | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 13,931 | 2,577 |
| Trade and other receivables | 8 | 240,176 | 253,326 |
| Inventories | 11 | 816 | 911 |
| Current tax assets | 21 | – | 3,829 |
| Other financial assets | 9 | 1,193 | 503 |
| Other | 12 | 6,752 | 8,754 |
| Total current assets | | 262,868 | 269,900 |
| **Non-current assets** | | | |
| Receivables | 13 | 2,035 | 1,687 |
| Property, plant and equipment | 14 | 13,231 | 18,117 |
| Investments in joint ventures | 10 | 5,638 | 1,938 |
| Other financial assets | 9 | – | 64 |
| Goodwill | 15 | 334,671 | 343,851 |
| Other intangibles | 16 | 56,397 | 70,873 |
| Deferred tax assets | 17 | 17,887 | 12,930 |
| Total non-current assets | | 429,859 | 449,460 |
| Total assets | | 692,727 | 719,360 |
| **Current liabilities** | | | |
| Payables(i) | 18 | 99,834 | 128,115 |
| Borrowings | 19 | 509 | 17,861 |
| Current tax liabilities | 21 | 1,702 | – |
| Other financial liabilities | 20 | 1,958 | 3,441 |
| Provisions(i) | 22 | 43,652 | 36,770 |
| Total current liabilities | | 147,655 | 186,187 |
| **Non-current liabilities** | | | |
| Payables | 23 | 7,222 | 11,946 |
| Borrowings | 24 | 109,959 | 169,088 |
| Other financial liabilities | 20 | 623 | 2,600 |
| Provisions | 26 | 11,961 | 9,889 |
| Total non-current liabilities | | 129,765 | 193,523 |
| Total liabilities | | 277,420 | 379,710 |
| Net assets | | 415,307 | 339,650 |
| **Equity** | | | |
| Issued capital | 30 | 348,943 | 279,129 |
| Reserves | 32 | (773) | (3,477) |
| Retained earnings | 33 | 67,137 | 63,998 |
| Total equity | | 415,307 | 339,560 |

(i) In 2011 an adjustment of $5,177,000 was made to reclassify a portion of the 2010 employee entitlements liability balance from current payables to current provisions to ensure consistency with the current period disclosure.

Notes to the financial statements are included on pages 58 to 103.

# Consolidated statement of cash flows

| For the financial year ended 30 June 2011 | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 6,656 | 13,827 |
| Adjustments for: | | | |
| Depreciation and amortisation | | 27,729 | 21,829 |
| Interest revenue | | (496) | (385) |
| Interest expense | | 28,808 | 26,854 |
| Earnings before interest, tax, depreciation and amortisation | | 62,697 | 62,125 |
| Amortisation of executive share options and performance rights | | 633 | 166 |
| Loss on disposal of property, plant and equipment | | 119 | 513 |
| Impairment of goodwill | | 12,449 | 1,657 |
| Impairment of vessel plant and equipment | | – | 444 |
| Non-cash joint venture income | | (3,700) | (1,938) |
| | | 72,198 | 62,967 |
| **Increase/Decrease in assets and liabilities excluding effects of acquisitions and investments:** | | | |
| Decrease/(Increase) in receivables | | 12,632 | (42,517) |
| Decrease in inventories | | 95 | 257 |
| Decrease in other assets | | 2,002 | 3,007 |
| (Decrease)/Increase in payables | | (16,857) | 8,342 |
| Increase/(Decrease) in provisions | | 8,954 | (3,502) |
| Cash generated from operations | | 79,024 | 28,554 |
| Income taxes (paid)/received | | (3,288) | 502 |
| Net cash provided by operating activities | | 75,736 | 29,056 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (3,634) | (3,679) |
| Payments for intangibles | | (3,574) | (6,909) |
| Payments for purchase of businesses | 40(d) | (20,329) | (12,394) |
| Proceeds from sale of property, plant and equipment | | 151 | 531 |
| Net cash used in investing activities | | (27,386) | (22,451) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 565,328 | 453,590 |
| Repayment of borrowings | | (646,590) | (535,173) |
| Interest received | | 496 | 385 |
| Interest paid | | (20,658) | (22,674) |
| Net proceeds from issues of equity | | 69,191 | 93,449 |
| Dividends paid | | – | (2,570) |
| Net cash used in financing activities | | (32,233) | (12,993) |
| Net Increase/(Decrease) in cash and cash equivalents | | 16,117 | (6,388) |
| Cash and cash equivalents at the beginning of the financial year | | (2,470) | 4,202 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 284 | (284) |
| Cash and cash equivalents at the end of the financial year | 40(a) | 13,931 | (2,470) |

Notes to the financial statements are included on pages 58 to 103.

# Consolidated statement of changes in equity

| For the financial year ended 30 June 2011 | Issued capital $'000 | Foreign currency translation reserve $'000 | Hedging reserve $'000 | Employee equity-settled benefits reserve $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| 2011 | | | | | | |
| Balance at 1 July 2010 | 279,129 | (1,116) | (3,811) | 1,450 | 63,998 | 339,650 |
| Profit for the period | – | – | – | – | 3,139 | 3,139 |
| Exchange differences arising on translation of foreign operations | – | (566) | – | – | – | (566) |
| Net gain on cash flow hedges | – | – | 3,767 | – | – | 3,767 |
| Income tax relating to components of other comprehensive income | – | – | (1,130) | – | – | (1,130) |
| Total comprehensive income for the period | – | (566) | 2,637 | – | 3,139 | 5,210 |
| Issue of shares (net of costs) | 69,814 | – | – | – | – | 69,814 |
| Amortisation of executive share options and performance rights | – | – | – | 633 | – | 633 |
| Payment of dividends | – | – | – | – | – | – |
| Balance at 30 June 2011 | 348,943 | (1,682) | (1,174) | 2,083 | 67,137 | 415,307 |
| 2010 | | | | | | |
| Balance at 1 July 2009 | 180,170 | 107 | (8,183) | 1,284 | 54,153 | 227,531 |
| Profit for the period | – | – | – | – | 12,701 | 12,701 |
| Exchange differences arising on translation of foreign operations | – | (1,223) | – | – | – | (1,223) |
| Net loss on cash flow hedges | – | – | 6,246 | – | – | 6,246 |
| Income tax relating to components of other comprehensive income | – | – | (1,874) | – | – | (1,874) |
| Total comprehensive income for the period | – | (1,223) | 4,372 | – | 12,701 | 15,850 |
| Issue of shares (net of costs) | 98,959 | – | – | – | – | 98,959 |
| Amortisation of executive share options and performance rights | – | – | – | 166 | – | 166 |
| Payment of dividends | – | – | – | – | (2,856) | (2,856) |
| Balance at 30 June 2010 | 279,129 | (1,116) | (3,811) | 1,450 | 63,998 | 339,650 |

Notes to the financial statements are included on pages 58 to 103.

# Notes to the financial statements

For the financial year ended 30 June 2011

## 1. Adoption of new and revised accounting standards

The consolidated entity has adopted the following new and revised Standards and Interpretations as listed below, which have not impacted the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements:

- AASB 1048 Interpretations of Standards (June 2010)
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment transactions
- AASB 2009-9 Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues
- AASB 2010-1 Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters
- AASB 2010-3 Amendments to Australian Accounting Standards from the Annual Improvement Process
- Interpretation 19 Extinguishing Liabilities with Equity Instruments

At the date of authorisation of the financial report, a number of Standards and Interpretations were on issue but not yet effective. Application of these Standards/Interpretations is not expected to have any material impact on the financial report of the consolidated entity:

| | |
|---|---|
| ▪ AASB 9 Financial Instruments (December 2009), AASB 2009-11 Amendments to Australian Accounting Standards from AASB 9 | Effective for annual reporting periods beginning on or after 1 January 2013 |
| ▪ AASB 9 Financial Instruments (December 2010), AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) | Effective for annual reporting periods beginning on or after 1 January 2013 |
| ▪ AASB 124 Related Party Disclosures (2009), AASB 2009-12 Amendments to Australian Accounting Standards | Effective for annual reporting periods beginning on or after 1 January 2011 |
| ▪ AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements | Effective for annual reporting periods beginning on or after 1 July 2013 |
| ▪ AASB 1054 Australian Additional Disclosures, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project | Effective for annual reporting periods beginning on or after 1 July 2011 |
| ▪ AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Regime | Effective for annual reporting periods beginning on or after 1 July 2013 |
| ▪ AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement | Effective for annual reporting periods beginning on or after 1 January 2011 |
| ▪ AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project | Effective for annual reporting periods beginning on or after 1 January 2011 |
| ▪ AASB 2010-5 Amendments to Australian Accounting Standards | Effective for annual reporting periods beginning on or after 1 January 2011 |
| ▪ AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets | Effective for annual reporting periods beginning on or after 1 July 2011 |
| ▪ AASB 2010-8 Amendments to Australian Accounting standards – Deferred Tax: Recovery of Underlying Assets | Effective for annual reporting periods beginning on or after 1 January 2012 |
| ▪ AASB 2010-10 Further Amendments to Australian Accounting Standards – removal of Fixed Dates for First-time Adopters | Effective for annual reporting periods beginning on or after 1 January 2013 |
| ▪ AASB 10 Consolidated Financial Statements | Effective for annual reporting periods beginning on or after 1 January 2013 |
| ▪ AASB 11 Joint Arrangements | Effective for annual reporting periods beginning on or after 1 January 2013 |
| ▪ AASB 12 Disclosure of Interests in Other Entities | Effective for annual reporting periods beginning on or after 1 January 2013 |
| ▪ AASB 13 Fair Value Measurement | Effective for annual reporting periods beginning on or after 1 January 2013 |
| ▪ IAS 127 Separate Financial Statements | Effective for annual reporting periods beginning on or after 1 January 2013 |
| ▪ IAS 128 Investments in Associates and Joint Ventures (2011) | Effective for annual reporting periods beginning on or after 1 January 2013 |
| ▪ AASB 2010-9 Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters | Effective for annual reporting periods beginning on or after 1 July 2011 |
| ▪ IAS 1 Presentation of Items of Other Comprehensive Income | Effective for annual reporting periods beginning on or after 1 July 2012 |
| ▪ IAS 19 Employee Benefits | Effective for annual reporting periods beginning on or after 1 July 2013 |
| ▪ AASB 2011-7 Amendments to Australian Accounting Standards for the Consolidation and Joint Arrangement Standards | Effective for annual reporting periods beginning on or after 1 July 2013 |

# 2. Significant accounting policies

## Statement of compliance

The financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the consolidated financial statements of the consolidated entity. The financial statements of the parent company are no longer included due to the *Corporations Amendment (Corporate Reporting Reform) Act 2010*. Abridged parent company disclosures are now included in note 45. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the consolidated entity and Company comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the directors on 5 September 2011.

## Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company 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 financial report are rounded to the nearest thousand dollars, unless otherwise noted.

## Significant accounting policies

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 entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Non-controlling interests in subsidiaries are identified separately from the consolidated entity's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at the initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the consolidated entity's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the consolidated entity's and the non-controlling interests are adjusted to reflect the changes in their relative interests in their subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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 and 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 (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

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 and 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 and loss, where such treatment would be appropriate if that interest was disposed of.

## 2. Significant accounting policies continued

### (B) BUSINESS COMBINATIONS continued

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, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the consolidated entity of an acquiree's share-based payment awards are measured in accordance with AASB 2 Share-Based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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 VENTURE AGREEMENTS

#### Jointly controlled entities

Interests in jointly controlled entities in which the consolidated entity is a venturer (and so has joint control) are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Investments in jointly controlled entities where the consolidated entity is an investor but does not have joint control over that entity are accounted for as an available-for-sale financial asset or, if the consolidated entity has significant influence, by using the equity method.

### (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.

### (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) 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 41 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). The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining term of the hedge relationship is more than 12 months and as a current asset or current liability if the remaining term of the hedge relationship is less than 12 months.

#### 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. Note 41 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also disclosed in note 32.

#### 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 and 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.

### (G) 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.

## (H) REVENUE RECOGNITION

### 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.

### 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.

### Interest income

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

## (I) INCOME TAX

### Tax consolidation

The Company and all its wholly owned Australian resident entities are part of a tax-consolidated entity under Australian taxation law. SKILLED Group Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using a 'stand-alone taxpayer' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by SKILLED Group Limited (as head entity in the tax-consolidated group).

Due to the existence of tax-funding arrangements between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangements. Further information about the tax-funding arrangements is detailed in note 6 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

### 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 comprehensive balance sheet liability 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.

## 2. Significant accounting policies continued

### (I) INCOME TAX continued

#### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, 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.

### (J) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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

Work performed but not billed on contracts is valued at the contract rate and recorded as work in progress. Profits recognised are based on the percentage completion of each contract.

### (K) 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 assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

### (L) PROPERTY, PLANT AND EQUIPMENT

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

Depreciation is provided on property, plant and equipment, including buildings but excluding land. 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:

| | |
|---|---|
| Buildings | 4 – 20 years |
| Leasehold improvements | 1 – 10 years |
| Plant and equipment | 4 – 5 years |
| Assets under finance lease | 2 – 8 years |
| Computer equipment | 3 – 7 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.

### (M) 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.

### (N) IMPAIRMENT OF 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.

### (O) 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.

## (P) 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 are recorded at cost less any impairment writedown. 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.

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.

### Databases

Databases are recorded at cost less accumulated amortisation and any impairment writedown, and amortised over a maximum of 10 years on a straight-line basis.

### Software

Costs associated with the development of computer systems are 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 12 years on a straight-line basis.

### Non-compete agreements and contracts

Non-compete agreements and contracts 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 on a straight-line basis.

## (Q) BORROWINGS

Bank loans 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 and 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.

## (R) 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.

### Financial guarantee contract liabilities

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.

## (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.

Contributions made to defined contribution superannuation plans are expensed when incurred.

## 2. Significant accounting policies continued

### (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.

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(f));
- exchange differences on monetary items receivable or payable to a foreign operation for which settlement is neither planned or 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 recognised 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.

#### Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

### (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.

#### 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

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. The fair value determined, by an external valuation, at the grant date(s) of the equity-settled share-based payments are expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest.

# 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:

### Acquisitions based on future earnings

In the 2008 financial year SKILLED acquired the issued capital of Offshore Marine Services (UK) Ltd (OMS UK) and Offshore Marine Services Ltd (OMS International). The acquisition purchase price for OMS UK and OMS International is based on a multiple of 5.75 times EBITDA for 2010 (50% weighting), 2011 (25% weighting) and 2012 (25% weighting) financial years.

The valuation of the acquisition purchase price requires an estimation of future EBITDA's for each entity. In addition, the estimated payable is required to be discounted at a suitable discount rate in order to calculate present value.

### Goodwill impairment testing

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 $334,671,000 (2010: $343,851,000). Further details of the impairment testing are provided in note 15.

# Notes to the financial statements continued
For the financial year ended 30 June 2011

## 4. Profit from operations
The profit from operations, before income tax, includes the following items of revenue and expense:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| (A) REVENUE | | |
| Sales revenue: | | |
| Rendering of services | 1,876,255 | 1,697,994 |
| (B) EQUITY-ACCOUNTED INCOME FROM JOINT VENTURE | | |
| Income from OMS Alliance joint venture | 3,700 | 1,938 |
| (C) OTHER INCOME | | |
| Interest income | 496 | 385 |
| (D) EXPENSES | | |
| Finance costs: | | |
| Interest and other costs paid to other entities | 27,491 | 24,277 |
| Finance lease charges | 295 | 290 |
| Notional interest on deferred acquisition payments | 1,022 | 2,287 |
| | 28,808 | 26,854 |
| Net bad and doubtful debts expense | 1,296 | 2,356 |
| Depreciation and amortisation: | | |
| Depreciation: | | |
| Plant and equipment | 5,739 | 5,094 |
| Leasehold improvements | 3,419 | 4,617 |
| Assets under finance lease | 536 | 985 |
| | 9,694 | 10,696 |
| Amortisation: | | |
| Databases | 7,997 | 2,123 |
| Software and licences | 7,497 | 6,031 |
| Brand names | 721 | 1,028 |
| Other acquired intangibles | 1,820 | 1,951 |
| | 18,035 | 11,133 |
| Total depreciation and amortisation expense | 27,729 | 21,829 |
| Operating lease rental expenses: | | |
| Properties | 12,969 | 13,452 |
| Computer equipment | 1,373 | 1,659 |
| Marine vessels under bareboat charter | 33,035 | 40,147 |
| Other | 98 | 251 |
| | 47,475 | 55,509 |
| Equity-settled share-based payments (amortisation of executive share options and performance rights) | 633 | 166 |

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| (E) RECONCILIATION OF UNDERLYING PROFIT | | |
| Statutory profit before tax | 6,656 | 13,827 |
| Redundancy and branch closure costs | 6,215 | 5,291 |
| Impairment of goodwill | 12,449 | 1,657 |
| Unamortised bank facility establishment fees write off | 4,096 | – |
| Cost associated with the discontinued sale process of the Swan Contract Personnel business[(i)] | 939 | – |
| Amortisation of acquired intangibles: | | |
| Brand names | 721 | 1,028 |
| Other acquired intangibles | 1,820 | 1,951 |
| Notional interest on deferred acquisition payments | 1,022 | 2,287 |
| Underlying profit before tax | 33,918 | 26,041 |
| Tax expense | (7,829) | (6,857) |
| Underlying profit after tax | 26,089 | 19,184 |
| Underlying earnings per share (cents) | 12.89 | 10.97 |

(i) Includes incremental internal expenses of $345,000 inclusive of staff retention payments.

# 5. Sale of assets

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Sale of assets in the ordinary course of business have given rise to the following: | | |
| Net loss on disposal of property, plant and equipment | 119 | 513 |

# 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:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Profit from operations | 6,656 | 13,827 |
| Income tax expense calculated at 30% | 1,997 | 4,148 |
| Non-deductible items including entertainment, notional interest on deferred acquisition payments and amortisation of executive share options and performance rights | 734 | 1,106 |
| Foreign income tax rate differential | (1,476) | (1,100) |
| Research and development concession | (237) | (1,542) |
| Equity-accounted income from joint venture | (1,110) | (583) |
| Goodwill impairment | 3,735 | 449 |
| Tax-consolidation amendments | – | (1,703) |
| Other | (166) | 362 |
| Under/(Over) provision of income tax in previous year | 40 | (11) |
| Income tax expense | 3,517 | 1,126 |
| Income tax expense comprises: | | |
| Current tax expense | 10,444 | 6,260 |
| Adjustments recognised in the current year in relation to the current tax of prior years | (1,573) | (4,639) |
| Deferred tax expense relating to the origination and reversal of temporary differences | (5,354) | (495) |
| Total tax expense | 3,517 | 1,126 |

# Notes to the financial statements continued

For the financial year ended 30 June 2011

## 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.

# 7. Dividends

| | 2011 Cents per share | 2011 Total $'000 | 2010 Cents per share | 2010 Total $'000 |
|---|---|---|---|---|
| (A) RECOGNISED AMOUNTS | | | | |
| Final 2010 dividend fully franked at a tax rate of 30% | – | – | | |
| Interim 2011 dividend fully franked at a tax rate of 30% | – | – | | |
| Final 2009 dividend fully franked at a tax rate of 30% | | | 1.5 | 2,856 |
| Interim 2010 dividend fully franked at a tax rate of 30% | | | – | – |
| | – | – | | 2,856 |
| (B) UNRECOGNISED AMOUNTS | | | | |
| Final 2011 dividend fully franked at a tax rate of 30% | 3.0 | 6,997 | | |
| Final 2010 dividend fully franked at a tax rate of 30% | | | – | – |
| | | 6,997 | | – |

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Franking account balance | 65,000 | 58,498 |

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 $2,999,000 (2010: $nil).

# 8. Current trade and other receivables

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Trade receivables(i) | 239,568 | 250,389 |
| Allowance for doubtful debts | (5,040) | (3,814) |
| | 234,528 | 246,575 |
| Goods and services tax receivable | 1,765 | 2,995 |
| Other receivables(ii) | 3,883 | 3,756 |
| | 240,176 | 253,326 |

(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 2011 no amounts are considered past due or impaired (2010: $nil).

Ageing of trade receivables:

| | 2011 $'000 Gross | 2011 $'000 Allowance | 2010 $'000 Gross | 2010 $'000 Allowance |
|---|---|---|---|---|
| Not past due | 207,360 | (27) | 207,569 | (100) |
| Past due 1 – 30 days | 13,957 | (62) | 29,700 | – |
| Past due 31 – 60 days | 4,102 | (62) | 4,308 | – |
| Past due 61 – 90 days | 601 | (5) | 1,156 | (25) |
| Past due 91 days | 13,548 | (4,884) | 7,656 | (3,689) |
| Total | 239,568 | (5,040) | 250,389 | (3,814) |

Movement in the allowance for doubtful debts:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Balance at the beginning of the year | (3,814) | (2,070) |
| Amounts written off during the year | 372 | 654 |
| (Increase) in allowance recognised in profit or loss | (1,598) | (2,398) |
| Balance at end of the year | (5,040) | (3,814) |

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 customer base being large and unrelated. 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 financial assets

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Derivatives designated and effective as hedging Instruments carried at fair value: | | |
| Foreign currency forward contracts | 1,174 | 462 |
| Financial assets carried at fair value through profit or loss (FVTPL) | | |
| Held for trading derivatives that are not designated in hedge accounting relationships: | | |
| Foreign currency forward contracts | 19 | 105 |
| | 1,193 | 567 |
| Disclosed in the financial statements as: | | |
| Current | 1,193 | 503 |
| Non-Current | – | 64 |
| | 1,193 | 567 |

# Notes to the financial statements continued
For the financial year ended 30 June 2011

## 10. Investments in joint ventures

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Investment in Offshore Marine Services Alliance Pty Ltd | 5,638 | 1,938 |

The consolidated entity has a 33.3% shareholding, with equivalent voting rights, in Offshore Marine Services Alliance Pty Ltd, a joint venture established in Australia. A capital contribution of $100 was made on formation of the joint venture, representing 100 shares.

A performance guarantee has been provided by the consolidated entity to third parties in respect of the operations of the joint venture.

There were nil contingent liabilities or commitments for expenditure at 30 June 2011.

The summarised financial information of the joint venture representing the consolidated entity's share are as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Assets and liabilities** | | |
| Current assets | 26,543 | 12,111 |
| Non-current assets | 939 | 3,508 |
| Current liabilities | 20,635 | 13,190 |
| Non-current liabilities | 2,000 | 401 |
| **Results** | | |
| Revenue | 70,469 | 34,765 |
| Expenses | (66,769) | (32,827) |

## 11. Current inventories

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Raw materials and stores at cost | 816 | 911 |

## 12. Current other assets

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Prepayments | 6,752 | 8,754 |

## 13. Non-current receivables

| | 2011 $'000 | 2011 $'000 |
|---|---|---|
| Claims recoveries | 1,758 | 1,398 |
| Other receivables | 277 | 289 |
| | 2,035 | 1,687 |

# 14. Property, plant and equipment

| | Land & buildings $'000 | Leasehold improvements $'000 | Plant & equipment $'000 | Assets under finance lease $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | |
| Balance as at 30 June 2010 | 4 | 18,794 | 33,731 | 6,291 | 58,820 |
| Additions | – | 1,128 | 2,506 | 1,112 | 4,746 |
| Disposals | – | (803) | (3,903) | – | (4,706) |
| Other | – | 146 | (640) | – | (494) |
| Balance as at 30 June 2011 | 4 | 19,265 | 31,694 | 7,403 | 58,366 |
| **Accumulated depreciation and impairment** | | | | | |
| Balance as at 30 June 2010 | (4) | (12,521) | (24,713) | (3,465) | (40,703) |
| Disposals | – | 697 | 3,746 | – | 4,443 |
| Depreciation expense[(i)] | – | (3,419) | (5,739) | (536) | (9,694) |
| Other | – | 75 | 744 | – | 819 |
| Balance as at 30 June 2011 | (4) | (15,168) | (25,962) | (4,001) | (45,135) |
| **Net book value** | | | | | |
| As at 30 June 2010 | – | 6,273 | 9,018 | 2,826 | 18,117 |
| As at 30 June 2011 | – | 4,097 | 5,732 | 3,402 | 13,231 |
| Gross carrying amount | | | | | |
| Balance as at 30 June 2009 | 4 | 20,284 | 32,367 | 7,342 | 59,997 |
| Additions | – | 1,585 | 3,145 | (1,051) | 3,679 |
| Disposals | – | (2,872) | (1,412) | – | (4,284) |
| Other | – | (203) | (369) | – | (572) |
| Balance as at 30 June 2010 | 4 | 18,794 | 33,731 | 6,291 | 58,820 |
| **Accumulated depreciation and impairment** | | | | | |
| Balance as at 30 June 2009 | (3) | (10,670) | (20,424) | (2,480) | (33,577) |
| Disposals | – | 2,368 | 1,130 | – | 3,498 |
| Depreciation expense | – | (4,617) | (5,094) | (985) | (10,696) |
| Impairment expense | – | – | (444) | – | (444) |
| Other | (1) | 398 | 119 | – | 516 |
| Balance as at 30 June 2010 | (4) | (12,521) | (24,713) | (3,465) | (40,703) |
| **Net book value** | | | | | |
| As at 30 June 2009 | 1 | 9,614 | 11,943 | 4,862 | 26,420 |
| As at 30 June 2010 | – | 6,273 | 9,018 | 2,826 | 18,117 |

(i) Depreciation expense is included in the line item 'depreciation and amortisation expense' in the Income Statement (refer also note 4).

# Notes to the financial statements continued

For the financial year ended 30 June 2011

## 15. Goodwill

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Gross carrying amount** | | |
| Balance at beginning of the period | 345,508 | 352,511 |
| Adjustment for change in deferred purchase consideration | 5,741 | (3,183) |
| Net foreign currency exchange differences | (2,472) | (3,820) |
| Balance at end of the period | 348,777 | 345,508 |
| **Accumulated impairment losses** | | |
| Balance at beginning of the period | (1,657) | – |
| Impairment losses for the period | (12,449) | (1,657) |
| Balance at end of the period | (14,106) | (1,657) |
| **Net book value** | | |
| As at beginning of period | 343,851 | 352,511 |
| As at end of period | 334,671 | 343,851 |

### Allocation of goodwill to cash-generating units

In response to ongoing integration of acquired businesses and other business restructures undertaken during the year, the consolidated entity has realigned the cash-generating units. The revised cash-generating units are aligned to the Board 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 as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Workforce Services New Zealand | – | 1,722 |
| Workforce Services Western | 12,552 | 20,546 |
| Workforce Services Eastern | 43,365 | 46,098 |
| Unallocated Workforce Services | 46,632 | 46,632 |
| Mosaic | 9,729 | 9,729 |
| Technology Solutions | 477 | 477 |
| Origin Healthcare | 18,596 | 18,596 |
| Swan Contract Personnel | 36,820 | 36,820 |
| Ativo | 8,465 | 8,465 |
| OMS Australia/OMS New Zealand | 132,401 | 132,736 |
| OMS International/UK | 25,634 | 22,030 |
| Total Goodwill | 334,671 | 343,851 |

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% (2010: 2.5%) for two years, then 2.5% (2010: 2.5%) into perpetuity and a pre-tax discount rate of 14.22% (2010: 12.43%). In determining the discount rate to adopt in the current year, the Board has chosen to adopt a more conservative approach than in prior periods.

### Impact of possible changes in key assumptions

Management believes that any reasonable 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.

## Impairment losses recognised in the year

During the reporting period, the consolidated entity assessed the recoverable amount of goodwill and determined that goodwill associated with the following businesses was impaired:

| | 2011 $'000 |
|---|---|
| Workforce Services New Zealand | 1,722 |
| Workforce Services Eastern (Longhill) | 2,733 |
| Workforce Services Western (Extraman) | 7,994 |

# 16. Other intangibles

| | Databases $'000 | Software and licences $'000 | Trademarks and brand names $'000 | Other acquired $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | |
| Balance as at 30 June 2010 | 17,850 | 74,670 | 23,990 | 9,241 | 125,751 |
| Additions | – | 3,574 | – | – | 3,574 |
| Disposals | – | (20) | – | – | (20) |
| Other | – | 2 | (39) | (4) | (41) |
| Balance as at 30 June 2011 | 17,850 | 78,226 | 23,951 | 9,237 | 129,264 |
| **Accumulated amortisation** | | | | | |
| Balance as at 30 June 2010 | (9,853) | (29,482) | (8,626) | (6,917) | (54,878) |
| Disposals | – | 13 | – | – | 13 |
| Amortisation expense(i) | (7,997) | (7,497) | (721) | (1,820) | (18,035) |
| Other | – | – | 31 | 2 | 33 |
| Balance as at 30 June 2011 | (17,850) | (36,966) | (9,316) | (8,735) | (72,867) |
| **Net book value** | | | | | |
| As at 30 June 2010 | 7,997 | 45,188 | 15,364 | 2,324 | 70,873 |
| As at 30 June 2011 | – | 41,260 | 14,635 | 502 | 56,397 |
| **Gross carrying amount** | | | | | |
| Balance as at 30 June 2009 | 17,850 | 67,990 | 24,052 | 9,240 | 119,132 |
| Additions | – | 6,814 | – | – | 6,814 |
| Disposals | – | (129) | – | – | (129) |
| Other | – | (5) | (62) | 1 | (66) |
| Balance as at 30 June 2010 | 17,850 | 74,670 | 23,990 | 9,241 | 125,751 |
| **Accumulated amortisation** | | | | | |
| Balance as at 30 June 2009 | (7,730) | (23,462) | (7,619) | (4,965) | (43,776) |
| Disposals | – | 11 | – | – | 11 |
| Amortisation expense(i) | (2,123) | (6,031) | (1,028) | (1,951) | (11,133) |
| Other | – | – | 21 | (1) | 20 |
| Balance as at 30 June 2010 | (9,853) | (29,482) | (8,626) | (6,917) | (54,878) |
| **Net book value** | | | | | |
| As at 30 June 2009 | 10,120 | 44,528 | 16,433 | 4,275 | 75,356 |
| As at 30 June 2010 | 7,997 | 45,188 | 15,364 | 2,324 | 70,873 |

(i) Amortisation expense is included in the line item 'depreciation and amortisation expense' in the Income Statement (refer also note 4).

Indefinite life intangibles of $14,000,000 (2010: $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.

# Notes to the financial statements continued
For the financial year ended 30 June 2011

## 16. Other intangibles continued

Allocation of indefinite life '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:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| SKILLED Group | 14,000 | 14,000 |

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% (2010: 2.5%) for two years, then 2.5% (2010: 2.5%) into perpetuity and a pre-tax discount rate of 14.22% (2010: 12.43%). In determining the discount rate to adopt in the current year, the Board has chosen to adopt a more conservative approach than in prior periods.

Management believes 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.

## 17. Deferred tax assets and liabilities

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES | | |
| Deferred tax assets comprise: | | |
| Temporary differences | 17,887 | 12,930 |
| The deferred tax asset has been reduced by the provision for deferred income tax attributable to temporary differences | 6,326 | 8,791 |

Taxable and temporary differences comprise the following:

| 2011 | Opening balance $'000 | Charged to income $'000 | Charged to equity $'000 | Other $'000 | Closing balance $'000 |
|---|---|---|---|---|---|
| **Gross deferred tax liabilities** | | | | | |
| Intangible and other assets | (8,791) | 2,476 | – | (11) | (6,326) |
| **Gross deferred tax assets** | | | | | |
| Provisions and accruals | 13,443 | 3,928 | – | – | 17,371 |
| Doubtful debts | 1,130 | 356 | – | – | 1,486 |
| Property, plant and equipment | 3,091 | 257 | – | – | 3,348 |
| Other | 4,057 | (1,700) | (344) | (5) | 2,008 |
| | 21,721 | 2,841 | (344) | (5) | 24,213 |
| | 12,930 | 5,317 | (344) | (16) | 17,887 |

| 2010 | Opening balance $'000 | Charged to income $'000 | Charged to equity $'000 | Other $'000 | Closing balance $'000 |
|---|---|---|---|---|---|
| **Gross deferred tax liabilities** | | | | | |
| Intangible and other assets | (5,912) | (2,891) | – | 12 | (8,791) |
| **Gross deferred tax assets** | | | | | |
| Provisions and accruals | 12,913 | 530 | – | – | 13,443 |
| Doubtful debts | 609 | 521 | – | – | 1,130 |
| Property, plant and equipment | 1,591 | 1,500 | – | – | 3,091 |
| Other | 4,265 | 835 | (1,043) | – | 4,057 |
| | 19,378 | 3,386 | (1,043) | – | 21,721 |
| | 13,466 | 495 | (1,043) | 12 | 12,930 |

**Unrecognised deferred tax assets:**

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Tax losses (revenue in nature) | 151 | – |
| Tax losses (capital in nature) | 119 | – |
| | 270 | – |

# 18. Current payables

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Unsecured** | | |
| Trade payables and accruals | 75,794 | 89,209 |
| Deferred purchase consideration | 9,692 | 20,019 |
| Goods and services tax payable | 14,348 | 18,887 |
| | 99,834 | 128,115 |

# 19. Current borrowings

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Secured – amortised cost** | | |
| Bank overdraft(i) | – | 5,047 |
| Bank debt facilities(i) | – | 8,300 |
| Insurance premium funding(ii) | – | 2,757 |
| Finance lease liabilities(iii) (note 29) | 509 | 1,757 |
| | 509 | 17,861 |

(i) Secured by fixed and floating charge over all the assets of the consolidated entity.

(ii) Secured by the underlying policies.

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

# 20. Other financial liabilities

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Derivatives that are designated and effective as hedging instruments carried at fair value** | | |
| Foreign currency forward contracts | 467 | 300 |
| Interest rate swaps | 2,074 | 5,606 |
| | 2,541 | 5,906 |
| **Financial liabilities carried at fair value through profit or loss (FVTPL)** | | |
| Held for trading derivatives that are not designated in hedge accounting relationships | | |
| Foreign currency forward contracts | 40 | 135 |
| | 2,581 | 6,041 |
| Disclosed in the financial statements as: | | |
| Current | 1,958 | 3,441 |
| Non-current | 623 | 2,600 |
| | 2,581 | 6,041 |

## 21. Current tax liability/(asset)

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Income tax payable/(receivable) | 1,702 | (3,829) |

## 22. Current provisions

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Employee benefits (note 27) | 36,060 | 33,244 |
| Litigation (note 28) | 915 | 501 |
| Claims (note 28) | 2,935 | 2,523 |
| Other (note 28) | 3,742 | 502 |
| | 43,652 | 36,770 |

## 23. Non-current payables

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Deferred purchase consideration | 7,222 | 11,946 |

## 24. Non-current borrowings

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Secured – amortised cost: | | |
| Bank debt facilities[(i)] | 109,075 | 168,748 |
| Finance lease liabilities[(ii)] (note 29) | 884 | 340 |
| | 109,959 | 169,088 |

(i) Secured by a fixed and floating charge over all of the assets of the consolidated entity.

(ii) Effectively secured over the assets leased, the current market value of which exceeds the value of the finance lease liability.

## 25. Assets pledged as security

In accordance with the security arrangements of borrowings, as disclosed in notes 19 and 24, the consolidated entity's syndicated bank debt facilities are secured by a fixed and floating charge over all the rights, property and undertakings of the consolidated entity. The consolidated entity's finance lease arrangements are secured by a fixed charge over the specific asset financed.

## 26. Non-current provisions

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Employee benefits (note 27) | 4,004 | 3,429 |
| Claims (note 28) | 5,318 | 4,040 |
| Other (note 28) | 2,639 | 2,420 |
| | 11,961 | 9,889 |

## 27. Employee benefits

The aggregate employee benefits liability recognised and included in the financial statements is as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Provision for employee benefits: | | |
| Current (note 22) | 36,060 | 33,244 |
| Non-current (note 26) | 4,004 | 3,429 |
| Accrued wages and salaries[i] | 8,910 | 15,905 |
| | 48,974 | 52,578 |

(i) Accrued wages and salaries are included in current trade payables and accruals as disclosed in note 18 to the financial statements.

## 28. Provisions

| | Litigation[i] $'000 | Claims[ii] $'000 | Other[iii] $'000 |
|---|---|---|---|
| Balance as at 30 June 2010 | 501 | 6,563 | 2,922 |
| Additional provisions recognised | 595 | 2,835 | 4,085 |
| Reductions arising from payments/other sacrifices of future economic benefits | (536) | (866) | (91) |
| Changes resulting from the re-measurement of the estimated future sacrifice or the settlement of the provision without cost to the consolidated entity | 355 | (279) | (535) |
| Balance as at 30 June 2011 | 915 | 8,253 | 6,381 |
| Included in the financial statements as: | | | |
| Current (note 22) | 915 | 2,935 | 3,742 |
| Non-current (note 26) | – | 5,318 | 2,639 |
| | 915 | 8,253 | 6,381 |

(i) The provision for litigation represents the directors' best estimate of the future sacrifice of economic benefits that will be required for the consolidated entity to meet all obligations under litigation proceedings. The estimate has been made on the basis of known legal actions, the probability of success and the likelihood of eventual future economic sacrifice.

(ii) Provision for claims incurred under self-insurance in relation to workers compensation (note 2(w)).

(iii) Other provisions include a provision for rental and make good obligations on leased premises and a provision for costs associated with the end of certain labour and maintenance services contracts.

## 29. Leases

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| (A) FINANCE LEASES[i] | | |
| Finance lease commitments: | | |
| No later than 1 year | 578 | 1,980 |
| Later than 1 year and not later than 5 years | 1,001 | 386 |
| Minimum finance lease payments | 1,579 | 2,366 |
| Deduct future finance charges | (186) | (269) |
| Present value of finance lease liabilities | 1,393 | 2,097 |
| Disclosed in the financial statements as: | | |
| Borrowings: | | |
| Current (note 19) | 509 | 1,757 |
| Non-current (note 24) | 884 | 340 |
| | 1,393 | 2,097 |

(i) Leasing arrangements

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.

## 29. Leases continued

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| (B) OPERATING LEASES[ii] | | |
| Non-cancellable operating leases: | | |
| No later than 1 year | 15,814 | 33,881 |
| Later than 1 year but not later than 5 years | 15,057 | 26,087 |
| Later than 5 years | 526 | 1,293 |
| | 31,397 | 61,261 |

(ii) Leasing arrangements

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 Offshore Marine Services operations 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.

## 30. Issued capital

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| 233,089,776 fully paid ordinary shares (2010: 190,738,408) | 348,943 | 279,129 |

| | 2011 No. '000 | 2011 $'000 | 2010 No. '000 | 2010 $'000 |
|---|---|---|---|---|
| (A) FULLY PAID ORDINARY SHARES | | | | |
| Balance at the beginning of the financial year | 190,738 | 279,129 | 123,592 | 180,170 |
| Issue of shares under Employee Share Acquisition Plan[i] | 126 | 228 | 168 | 357 |
| Issue of shares under share placement and share purchase plan[ii] | 42,225 | 69,586 | 66,821 | 98,317 |
| Issue of shares under the Dividend Reinvestment Plan | – | – | 157 | 285 |
| Balance at the end of the financial year | 233,089 | 348,943 | 190,738 | 279,129 |

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

(i) Net of issuance costs of $13,962 (2010: nil).

(ii) Net of issuance costs of $1,695,260 (net of tax) (2010: $1,917,000 (net of tax)).

### (B) SHARES HELD BY SUBSIDIARIES

Allskills Pty Ltd, a fully owned subsidiary, held 418,500 (2010: 417,500) shares in SKILLED Group Limited at 30 June 2011. These shares were held for the benefit of the SKILLED Group Limited Employee Share Acquisition Plan.

## 31. Share-based payments

The Executive Long-Term Incentive Plan ("ELTI Plan") has been in place since 1 July 2009 and provides flexibility in delivering long-term incentives to senior executives in the form of performance rights, options and cash rewards. Granted at the discretion of the Board, the shares, under option or rights, will vest three years from the grant date contingent upon achieving the performance criteria outlined below. Once vested, the options may be exercised at any time over the following three years (six years after the date granted). Each option or right converts to one SKILLED Group Limited ordinary share on exercise. The options will lapse if not exercised before the last permitted exercise date.

In 2011 the Board granted retention performance rights which vest one year from grant date should the executive remain employed by the Company at this time.

## ELTI Plan 2010

Performance criteria for options granted in November 2010:

- threshold: Cumulative EPS of 44.4 cents (equivalent to 40% average annual EPS growth) will allow the exercise of 50% of options held.
- target: Cumulative EPS of 51.8 cents (equivalent to 50% average annual EPS growth) will allow the exercise of 100% of options held.
- stretch: Cumulative EPS of 64.5 cents (equivalent to 65% average annual EPS growth) will allow the exercise of 100% of options held.
- if EPS growth falls between the above targets then the number of options that can be exercised will be calculated on a pro-rata basis.

Performance criteria for performance rights granted in November 2010:

- threshold: Cumulative EPS of 44.4 cents (equivalent to 40% average annual EPS growth) will result in vesting of 25% of rights held.
- target: Cumulative EPS of 51.8 cents (equivalent to 55% average annual EPS growth) will result in vesting of 50% of rights held.
- stretch: Cumulative EPS of 64.5 cents (equivalent to 65% average annual EPS growth) will result in vesting of 100% of rights held.
- if EPS growth falls between the above targets then the number of rights that will vest will be calculated on a pro-rata basis.

The number of options and performance rights granted in prior years under the ELTI Plans introduced in 2009 and 2006 are subject to a performance based formula approved by the Board.

### Valuation methodology for share options and performance rights

Options and rights granted during the year were valued using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations. Expected volatility is based on the historical share price volatility over the past four years.

Inputs into the model:

| | Share option | | | | | |
|---|---|---|---|---|---|---|
| | 23/11/10 | 19/11/09 | 21/10/08 | 02/11/07 | 15/11/06 | 05/04/06 |
| Grant date share price ($) | 1.66 | 2.38 | 2.47 | 5.28 | 5.50 | 4.80 |
| Exercise price ($) | 1.47 | 2.28 | 2.52 | 5.29 | 5.81 | 4.92 |
| Expected volatility (%) | 40 | 40 | 40 | 34 | 37 | 30 |
| Option life (years) | 6 | 6 | 6 | 6 | 6 | 6 |
| Dividend yield (%) | 4.0 | 4.0 | 4.0 | 4.0 | 3.4 | 3.7 |
| Risk free interest rate (%) | 5.24 | 5.08 | 4.80 | 6.60 | 5.77 | 5.43 |

| | Performance rights | | | |
|---|---|---|---|---|
| | 23/11/10 | 19/11/09 | 23/11/10 | 01/07/10 |
| Grant date share price ($) | 1.66 | 2.38 | 1.66 | 1.07 |
| Exercise price ($) | – | – | – | – |
| Expected volatility (%) | 40 | 40 | 40 | 40 |
| Right life (years) | 3 | 3 | 1 | 1 |
| Dividend yield (%) | 4.0 | 4.0 | 3.5 | 3.0 |
| Risk free interest rate (%) | 5.10 | 5.08 | 4.72 | 4.44 |

## 31. Share-based payments continued

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Share options | No. of shares under option/right | Weighted average exercise price $ | No. of shares under option/right | Weighted average exercise price $ |
| Balance at the beginning of the financial year(I) | 10,150,000 | 3.50 | 10,112,000 | 4.31 |
| Granted during the financial year(II) | 527,000 | 1.47 | 724,000 | 2.28 |
| Exercised during the financial year(III) | – | – | – | – |
| Lapsed during the financial year(IV) | (4,689,000) | 4.38 | (686,000) | 5.40 |
| **Balance at the end of the financial year(V)** | **5,988,000** | **2.92** | **10,150,000** | **3.50** |
| **Performance rights** | | | | |
| Balance at the beginning of the financial year(I) | 472,500 | – | – | – |
| Granted during the financial year(II) | 1,118,000 | – | 498,800 | – |
| Vested during the financial year(III) | (154,000) | – | – | – |
| Lapsed during the financial year(IV) | (134,900) | – | (26,300) | – |
| **Balance at the end of the financial year(V)** | **1,301,600** | **–** | **472,500** | **–** |

### (I) BALANCE AT THE BEGINNING OF THE FINANCIAL YEAR

| Grant date | No. of shares under option | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|
| Share options | | | | |
| 2011 | | | | |
| 05/04/2006 | 398,000 | 04/04/2012 | 4.92 | 1.18 |
| 15/11/2006 | 327,000 | 14/11/2012 | 5.81 | 1.62 |
| 15/11/2006 | 1,265,000 | 14/11/2012 | 5.81 | 1.62 |
| 02/11/2007 | 2,049,000 | 01/11/2013 | 5.29 | 1.47 |
| 21/10/2008 | 5,387,000 | 20/10/2014 | 2.52 | 0.71 |
| 19/11/2009 | 724,000 | 18/11/2015 | 2.28 | 0.72 |
| | **10,150,000** | | | |
| 2010 | | | | |
| 05/04/2006 | 639,000 | 04/04/2012 | 4.92 | 1.18 |
| 15/11/2006 | 327,000 | 14/11/2012 | 5.81 | 1.62 |
| 15/11/2006 | 1,553,000 | 14/11/2012 | 5.81 | 1.62 |
| 02/11/2007 | 2,085,000 | 01/11/2013 | 5.29 | 1.47 |
| 21/10/2008 | 5,508,000 | 20/10/2014 | 2.52 | 0.71 |
| | **10,112,000** | | | |

| Grant date | No. of shares under PR | Vested No. | Unvested No. | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|---|---|
| Performance rights | | | | | | |
| 2011 | | | | | | |
| 19/11/2009 | 472,500 | – | 472,500 | 18/11/2012 | – | 2.11 |
| 2010 | | | | | | |
| There were no performance rights on issue at the beginning of this financial year. | | | | | | |

### (II) GRANTED DURING THE FINANCIAL YEAR

| Grant date | No. of shares under option | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|
| Share options | | | | |
| 2011 | | | | |
| 23/11/2010 | 527,000 | 23/11/2016 | 1.47 | 0.54 |
| 2010 | | | | |
| 19/11/2009 | 724,000 | 18/11/2015 | 2.28 | 0.72 |
| Performance rights | | | | |
| 2011 | | | | |
| 01/07/2010 | 154,000 | 30/06/2011 | – | 1.04 |
| 23/11/2010 | 805,000 | 23/11/2013 | – | 1.47 |
| 23/11/2010 | 159,000 | 23/11/2011 | – | 1.60 |
| | 1,118,000 | | | |
| 2010 | | | | |
| 19/11/2009 | 498,800 | 18/11/2012 | – | 2.11 |

### (III) EXERCISED/VESTED DURING THE FINANCIAL YEAR

Share options

There were no share options exercised during the financial year (2010:nil).

| Grant date | No. of shares under option | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|
| Performance rights | | | | |
| 2011 | | | | |
| 01/07/10 | 154,000 | 30/06/2011 | – | 1.04 |
| 2010 | | | | |
| There were no performance rights exercised during 2010. | | | | |

### (IV) LAPSED DURING THE FINANCIAL YEAR

Share options

The following options, previously issued to employees, have lapsed during the reporting period.

| | 2011 No. of shares under option | 2010 No. of shares under option |
|---|---|---|
| 05/04/2006 | 135,000 | 241,000 |
| 15/11/2006 | 1,118,000 | 288,000 |
| 02/11/2007 | 1,740,000 | 36,000 |
| 21/10/2008 | 1,318,000 | 121,000 |
| 19/11/2009 | 378,000 | – |
| | 4,689,000 | 686,000 |

Performance rights

| | 2011 No. of shares under rights | 2010 No. of shares under rights |
|---|---|---|
| 19/11/2009 | 97,900 | 26,300 |
| 23/11/2010 | 37,000 | – |
| | 134,900 | 26,300 |

(V) BALANCE AT THE END OF THE FINANCIAL YEAR

Share options

| Grant date | No. of shares under option | Vested No. | Unvested No. | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|---|---|
| 2011 | | | | | | |
| 05/04/2006 | 263,000 | 263,000 | – | 04/04/2012 | 4.92 | 1.18 |
| 15/11/2006 | 81,000 | 81,000 | – | 14/11/2012 | 5.81 | 1.62 |
| 15/11/2006 | 393,000 | – | 393,000 | 14/11/2012 | 5.81 | 1.62 |
| 02/11/2007 | 309,000 | – | 309,000 | 01/11/2013 | 5.29 | 1.47 |
| 21/10/2008 | 4,069,000 | – | 4,069,000 | 20/10/2014 | 2.52 | 0.71 |
| 19/11/2009 | 346,000 | – | 346,000 | 18/11/2015 | 2.28 | 0.72 |
| 23/11/2010 | 527,000 | – | 527,000 | 23/11/2016 | 1.47 | 0.54 |
| | 5,988,000 | 344,000 | 5,644,000 | | | |
| 2010 | | | | | | |
| 05/04/2006 | 398,000 | 398,000 | – | 04/04/2012 | 4.92 | 1.18 |
| 15/11/2006 | 327,000 | 327,000 | – | 14/11/2012 | 5.81 | 1.62 |
| 15/11/2006 | 1,265,000 | – | 1,265,000 | 14/11/2012 | 5.81 | 1.62 |
| 02/11/2007 | 2,049,000 | – | 2,049,000 | 01/11/2013 | 5.29 | 1.47 |
| 21/10/2008 | 5,387,000 | – | 5,387,000 | 20/10/2014 | 2.52 | 0.71 |
| 19/11/2009 | 724,000 | – | 724,000 | 18/11/2015 | 2.28 | 0.72 |
| | 10,150,000 | 725,000 | 9,425,000 | | | |

Performance rights

| Grant date | No. of shares under PR | Vested No. | Unvested No. | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|---|---|
| 2011 | | | | | | |
| 19/11/2009 | 374,600 | – | 374,600 | 18/11/2012 | – | 2.11 |
| 23/11/2010 | 768,000 | – | 768,000 | 23/11/2013 | – | 1.47 |
| 23/11/2010 | 159,000 | – | 159,000 | 23/11/2013 | – | 1.60 |
| | 1,301,600 | | 1,521,600 | | | |
| 2010 | | | | | | |
| 19/11/2009 | 472,500 | – | 472,500 | 19/11/2012 | – | 2.11 |

The fair value of options and performance rights at grant date adjusted for the expected number to vest has been amortised over the vesting period and recognised in the profit and loss in the financial statements.

The remuneration of directors and other key management personnel, as disclosed in Section 5 of the Remuneration Report within the Directors' Report, includes the value of share options granted under the Executive Share Option Plan calculated as the value at grant date allocated equally over the period from the date of grant to date of vesting.

Consideration received on the exercise of executive share options and performance rights is recognised in issued capital. During the financial year $nil (2010: $nil) was recognised in issued capital arising from the exercise of executive options and performance rights.

## 32. Reserves

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Employee equity-settled benefits reserve | 2,083 | 1,450 |
| Hedging reserve | (1,174) | (3,811) |
| Foreign currency translation reserve | (1,682) | (1,116) |
| | (773) | (3,477) |
| **Employee equity-settled benefits reserve** | | |
| Balance at the beginning of the financial year | 1,450 | 1,284 |
| Share-based payments – amortisation of executive share options and performance rights | 633 | 166 |
| Balance at the end of the financial year | 2,083 | 1,450 |

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Hedging reserve** | | |
| Balance at the beginning of the financial year | (3,811) | (8,183) |
| Foreign currency forward contracts | 546 | 161 |
| Interest rate swaps | 3,532 | 5,926 |
| Income tax related to gains/losses recognised in equity | (1,223) | (1,826) |
| Transferred to profit or loss: | | |
| Forward exchange contracts | (311) | – |
| Interest rate swaps | – | 159 |
| Income tax related to amounts transferred to profit or loss | 93 | (48) |
| Balance at the end of the financial year | (1,174) | (3,811) |

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 and loss, or is included as a basis adjustment to the non-financial hedged item. Refer note 2(f) to the financial statements.

### Foreign currency translation reserve

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | (1,116) | 107 |
| Translation of foreign operations | (566) | (1,223) |
| Balance at the end of the financial year | (1,682) | (1,116) |

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.

## 33. Retained earnings

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | 63,998 | 54,153 |
| Net profit attributable to members of the parent entity | 3,139 | 12,701 |
| Dividends provided for or paid | – | (2,856) |
| Balance at the end of the financial year | 67,137 | 63,998 |

# Notes to the financial statements continued
For the financial year ended 30 June 2011

## 34. Superannuation contributions

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Superannuation contributions provided for employees via the following superannuation funds: | | |
| Complying superannuation funds(i) | 104,733 | 91,379 |

(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.

## 35. Contingent liabilities

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Bank guarantees for various contracts | 14,337 | 19,718 |

## 36. Compensation of directors and other key management personnel
For details of compensation of directors and other key management personnel refer to note 38(b) and to Section 3 of the Remuneration Report contained within the Directors' Report.

## 37. Subsidiaries

| | | | Ownership interest | |
|---|---|---|---|---|
| Name of entity | Note | Country of incorporation | 2011 % | 2010 % |
| **Parent entity** | | | | |
| SKILLED Group Limited | (e) | Australia | | |
| **Controlled entities** | | | | |
| Allskills Pty Ltd | (d) | Australia | 100 | 100 |
| Ativo Pty Ltd | (d) | Australia | 100 | 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 | (d) | Australia | 100 | 100 |
| Jet Tasmania Pty Ltd | (d) | Australia | 100 | 100 |
| Mosaic Recruitment Pty Ltd | (c) | Australia | 100 | 100 |
| The Green & Green Group Pty Ltd | (d) | Australia | 100 | 100 |
| Excelior Pty Ltd | (c) | Australia | 100 | 100 |
| Extra Group Pty Ltd | (c) | Australia | 100 | 100 |
| Extraman (NT) Pty Ltd | (d) | Australia | 100 | 100 |
| Extraman (HR) Pty Ltd | (d) | Australia | 100 | 100 |
| Offshore Marine Services Pty Ltd | (e) | Australia | 100 | 100 |
| Australia Offshore Marine Services Pte Ltd | (a) | Singapore | 100 | 100 |
| Origin Healthcare Holdings Pty Ltd | (c) | Australia | 100 | 100 |
| Nursing Australia Pty Ltd | (d) | Australia | 100 | 100 |
| HR Link No. 2 Pty Ltd | (d) | Australia | 100 | 100 |
| HR Link No. 1 Pty Ltd | (d) | Australia | 100 | 100 |
| Locumitis Pty Ltd | (d) | Australia | 100 | 100 |
| Mantech Systems Pty Ltd | (c) | Australia | 100 | 100 |
| Medistaff Pty Ltd | (d) | Australia | 100 | 100 |
| Nursing (Australia) Holdings Pty Ltd | (d) | Australia | 100 | 100 |

| Name of entity | Note | Country of incorporation | Ownership interest 2011 % | 2010 % |
|---|---|---|---|---|
| Origin Education Services Pty Ltd | (d) | Australia | 100 | 100 |
| Origin Health Support Services Pty Ltd | (d) | Australia | 100 | 100 |
| Origin Healthcare Pty Ltd | (c) | Australia | 100 | 100 |
| ProSafe Personnel Pty Ltd | (d) | Australia | 100 | 100 |
| PeopleCo. Pty Ltd | (c) | Australia | 100 | 100 |
| SKILLED Group International Pty Ltd | (c) | Australia | 100 | 100 |
| Offshore Marine Services Ltd | (a) | Malaysia | 100 | 100 |
| OMS DMCEST | (a) | Dubai | 100 | 100 |
| Offshore Marine Holdings (Malta) Limited | (a) | Malta | 100 | 100 |
| Offshore Marine Services (Malta) Limited | (a) | Malta | 100 | 100 |
| SKILLED Group NZ Holdings Limited | (e) | New Zealand | 100 | 100 |
| SKILLED Group NZ Limited | (e) | New Zealand | 100 | 100 |
| Offshore Marine Services (NZ) Ltd | (a) | New Zealand | 100 | 100 |
| SKILLED International Sourcing Pty Ltd | (d) | Australia | 100 | 100 |
| SKILLED Group UK Ltd | (a) | United Kingdom | 100 | 100 |
| Offshore Marine Services UK Ltd | (a) | United Kingdom | 100 | 100 |
| SKILLED Maritime Services Pty Ltd | (d) | Australia | 100 | 100 |
| SKILLED Quest Personnel Pty Ltd | (b) | Australia | 100 | 100 |
| SKILLED Rail Services Pty Ltd | (e) | Australia | 100 | 100 |
| SKILLED Resources Pty Ltd | (b) | Australia | 100 | 100 |
| SKILLED SPS Pty Ltd | (b) | Australia | 100 | 100 |
| SKILLED Workforce Solutions (NSW) Pty Ltd | (d) | Australia | 100 | 100 |
| Swan Contract Personnel Pty Ltd | (c) | Australia | 100 | 100 |
| Swan Middle East Pty Ltd | (b) | Australia | 100 | 100 |
| TESA Group Pty Ltd | (c) | Australia | 100 | 100 |
| TESA Mining (QLD) Pty Limited | (d) | Australia | 100 | 100 |
| TESA Mining (NSW) Pty Limited | (c) | Australia | 100 | 100 |
| TESA Mining (U/G) Pty Limited | (d) | Australia | 100 | 100 |
| Damstra Mining Services Pty Ltd | (d) | Australia | 100 | 100 |
| HVA (Qld) Pty Limited | (d) | Australia | 100 | 100 |
| HVA Support Services Pty Limited | (d) | Australia | 100 | 100 |
| HVA Technical Services Pty Limited | (d) | Australia | 100 | 100 |
| Waycon Services Pty Limited | (c) | 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 a member firm of Deloitte Touche Tohmatsu International.

(b) Inactive.

(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) 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.

(e) Audited by Deloitte Touche Tohmatsu.

## 37. Subsidiaries continued

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:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Income statement** | | |
| Revenue | 1,434,623 | 1,230,171 |
| Other revenue | 1,412 | 256 |
| Gain/(loss) on sale of fixed assets | (125) | 40 |
| Employee and sub-contractor related costs | (1,300,872) | (1,106,582) |
| Raw materials and consumables used | (10,336) | (6,649) |
| Office occupancy related costs | (14,338) | (15,272) |
| Depreciation and amortisation expense | (13,564) | (13,974) |
| Impairment | (10,727) | – |
| Finance costs | (27,236) | (25,213) |
| Other expenses | (74,478) | (73,714) |
| (Loss)/Profit before income tax expense | (15,641) | (10,937) |
| Income tax benefit | 4,384 | 14,994 |
| (Loss)/Profit attributable to members of the parent entity | (11,257) | 4,057 |
| **Balance sheet** | | |
| Current assets | | |
| Cash and cash equivalents | 7,502 | 513 |
| Trade and other receivables | 144,899 | 153,721 |
| Other financial assets | 1,193 | 503 |
| Current tax assets | – | 3,695 |
| Inventories | 264 | 306 |
| Other | 4,079 | 4,866 |
| Total current assets | 157,937 | 163,604 |
| Non-current assets | | |
| Trade and other receivables | 2,035 | 1,687 |
| Other financial assets | 166,000 | 165,250 |
| Property, plant and equipment | 10,757 | 17,569 |
| Goodwill | 176,032 | 186,759 |
| Other intangibles | 52,605 | 53,259 |
| Deferred tax assets | 12,014 | 11,994 |
| Total non-current assets | 419,443 | 436,518 |
| Total assets | 577,380 | 600,122 |
| Current liabilities | | |
| Trade and other payables | 71,739 | 81,327 |
| Current tax liabilities | 1,702 | – |
| Borrowings | 509 | 17,056 |
| Other financial liabilities | 1,958 | 3,441 |
| Provisions | 33,850 | 24,515 |
| Total current liabilities | 109,758 | 126,339 |

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Non-current liabilities | | |
| Trade and other payables | 5,885 | 10,057 |
| Borrowings | 90,638 | 151,335 |
| Other financial liabilities | 623 | 2,600 |
| Provisions | 10,697 | 10,770 |
| Total non-current liabilities | 107,843 | 174,762 |
| Total liabilities | 217,601 | 301,101 |
| Net assets | 359,779 | 299,021 |
| Equity | | |
| Issued capital | 348,943 | 279,129 |
| Reserves | (773) | (3,476) |
| Retained earnings | 11,609 | 23,368 |
| Total equity | 359,779 | 299,021 |
| **Retained earnings** | | |
| Balance at the beginning of the financial year | 23,368 | 22,167 |
| Net profit | (11,257) | 4,057 |
| Dividends provided for or paid | (502) | (2,856) |
| Balance at the end of the financial year | 11,609 | 23,368 |

# 38. Related party disclosures

## (A) EQUITY INTERESTS IN SUBSIDIARIES

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 37 to the financial statements.

## (B) KEY MANAGEMENT PERSONNEL COMPENSATION (INCLUDING DIRECTORS)

| | 2011 $ | 2010 $ |
|---|---|---|
| Short-term employee benefits | 4,718,344 | 4,204,924 |
| Post-employment benefits | 254,039 | 210,646 |
| Share-based payments | 599,768 | 90,718 |
| Termination benefits | 1,232,151 | 450,429 |
| Other long-term employee benefits | 170,435 | 84,049 |
| | 6,974,737 | 5,040,766 |

Details of directors' and other key management personnel compensation are disclosed in Section 5 of the Remuneration Report contained in the Directors' Report.

# 38. Related party disclosures continued

## (C) 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[(ix)] including their personally related parties:

| 2011 | Balance at 1/7/2010 | Granted as compensation No. | Received on exercise of options No. | Net other change No. | Balance at 30/6/2011 No. | Balance held nominally No. |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| MP McMahon[(vi)] | – | – | – | 667,501 | 667,501 | – |
| TB Janes | 125,992 | – | | 21,000 | 146,992 | – |
| VA McFadden | – | – | – | 126,885 | 126,885 | – |
| RN Herbert AM | 11,189 | – | – | 1,865 | 13,054 | – |
| MJ Findlay | – | – | – | 35,000 | 35,000 | – |
| AM Cipa[(viii)] | – | – | – | – | – | – |
| TA Horton[(vii)] | – | – | – | – | – | – |
| GM Hargrave[(ii)] | 57,807,305 | – | – | (2,504,000) | 55,303,305 | – |
| KV Loughnan AO[(iii)] | 264,032 | – | – | (264,032) | – | – |
| KW Hughes[(iv)] | 16,643 | – | – | (16,643) | – | – |
| PA Gregg[(v)] | 20,000 | – | – | (20,000) | – | – |
| | 58,245,161 | – | – | (1,952,424) | 56,292,737 | – |
| Other key management personnel | | | | | | |
| J Kempe | – | – | – | 1,000 | 1,000 | – |
| PR McCormick | – | – | – | 2,754 | 2,754 | – |
| D Timmel | – | – | – | – | – | – |
| S Healy | – | – | – | – | – | – |
| J Watkinson | – | – | – | – | – | – |
| DW Johnson[(i)] | – | – | – | – | – | – |
| DJ Bridge[(i)] | – | – | – | – | – | – |
| | – | – | – | 3,754 | 3,754 | – |

(i) These employees ceased to be key management personnel during 2011.
(ii) Mr GM Hargrave retired from the Board on 31 August 2011.
(iii) Mr KV Loughnan AO retired from the Board on 25 October 2010.
(iv) Mr KW Hughes retired from the Board on 25 October 2010.
(v) Mr PA Gregg retired from the Board on 10 February 2011.
(vi) Mr MP McMahon was appointed to the Board on 8 November 2010.
(vii) Ms TA Horton was appointed to the Board on 10 February 2011.
(viii) Mr AM Cipa was appointed to the Board on 4 April 2011.
(ix) Mr NJ Daly, Mr J Caporale and Mr TA Paine were disclosed as key management personnel in 2010, however, they have not been determined as key management personnel in 2011.

| 2010 | Balance at 1/7/2009 No. | Granted as compensation No. | Received on exercise of options No. | Net other change No. | Balance at 30/6/2010 No. | Balance held nominally No. |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| KV Loughnan AO | 254,540 | – | – | 9,492 | 264,032 | – |
| JB Dixon[(i)] | 185,524 | – | – | (185,524) | – | – |
| GM Hargrave | 62,023,890 | – | – | (4,216,585) | 57,807,305 | – |
| RN Herbert AM | 11,098 | – | – | 91 | 11,189 | – |
| KW Hughes | 16,508 | – | – | 135 | 16,643 | – |
| TB Janes | 116,768 | – | – | 9,224 | 125,992 | – |
| VA McFadden | – | – | – | – | – | – |
| PA Gregg | 10,000 | – | – | 10,000 | 20,000 | – |
| MJ Findlay[(ii)] | – | – | – | – | – | – |
| | 62,618,328 | – | – | (4,373,167) | 58,245,161 | – |
| Other key management personnel | | | | | | |
| KW Bieg[(i)] | 51,000 | – | – | (51,000) | – | – |
| TW Punchard[(i)] | 4,000 | – | – | (4,000) | – | – |
| CA Renner[(i)] | 9,500 | – | – | (9,500) | – | – |
| J Caporale | – | – | – | – | – | – |
| NJ Daly | – | – | – | 3,500 | 3,500 | – |
| BJ Maher[(i)] | – | – | – | – | – | – |
| TA Paine | – | – | – | – | – | – |
| DW Johnson | – | – | – | – | – | – |
| | 64,500 | – | – | (61,000) | 3,500 | – |

(i) These employees ceased to be key management personnel during 2010.

(ii) Mr MJ Findlay was appointed to the Board on 23 March 2010.

(ii) Executive share options and performance rights issued by SKILLED Group Limited

| 2011 | Balance at 1/7/2010 No. | Granted as compens-ation No. | Vested(ii) No. | Other change No. | Balance at 30/6/2011 No. | Balance vested at 30/6/2011 No. | Balance exercisable at 30/6/2011 No. | Options vested during year No. |
|---|---|---|---|---|---|---|---|---|
| Directors | | | | | | | | |
| MP McMahon(iii) | – | – | – | – | – | – | – | – |
| TB Janes | 961,000 | 207,000 | – | – | 1,168,000 | 81,000 | 81,000 | – |
| GM Hargrave(iv) | 1,763,000 | – | – | (1,763,000) | – | – | – | – |
| Total | 2,724,000 | 207,000 | – | (1,763,000) | 1,168,000 | 81,000 | 81,000 | – |
| Other key management personnel(i) | | | | | | | | |
| J Kempe | – | 65,000 | – | – | 65,000 | – | – | – |
| PR McCormick | – | 75,000 | – | 426,900 | 501,900 | 73,000 | 73,000 | – |
| D Timmel | – | – | – | – | – | – | – | – |
| S Healy | – | – | – | – | – | – | – | – |
| J Watkinson | – | 87,000 | – | 157,300 | 244,300 | – | – | – |
| DW Johnson(v) | 92,000 | 343,000 | (154,000) | (281,000) | – | – | – | – |
| DJ Bridge(v) | – | 46,000 | – | (46,000) | – | – | – | – |
| Total | 92,000 | 616,000 | (154,000) | 257,200 | 811,200 | 73,000 | 73,000 | – |

(i) Mr NJ Daly, Mr J Caporale and Mr TA Paine were disclosed as key management personnel in 2010, however, they have not been determined as key management personnel in 2011.

(ii) Shares relating to performance rights that vested in 2011 were issued on 10 August 2011.

(iii) Pursuant to his employment agreement Mr McMahon is entitled, subject to shareholder approval, to receive 1,842,593 options by way of his 2010 long-term incentive grant and 675,676 performance rights under a co-investment scheme. If approved by shareholders, these will be granted after the Company's 2011 Annual General Meeting.

(iv) Mr GM Hargrave retired from the Board on 31 August 2011.

(v) These employees ceased to be key management personnel during 2011.

| 2010 | Balance at 1/7/2009 No. | Granted as compens-ation No. | Exercised/ vested No. | Other change No. | Balance at 30/6/2010 No. | Balance vested at 30/6/2010 No. | Balance exercisable at 30/6/2010 No. | Options vested during year No. |
|---|---|---|---|---|---|---|---|---|
| Directors | | | | | | | | |
| GM Hargrave | 1,512,000 | 251,000 | – | – | 1,763,000 | 146,000 | 146,000 | – |
| JB Dixon(i) | 1,125,000 | 146,000 | – | (1,271,000) | – | 100,000 | 100,000 | – |
| TB Janes | 853,000 | 108,000 | – | – | 961,000 | 81,000 | 81,000 | – |
| Total | 3,490,000 | 505,000 | – | (1,271,000) | 2,724,000 | 327,000 | 327,000 | – |
| Other key management personnel | | | | | | | | |
| KW Bieg(i) | 341,000 | – | – | (341,000) | – | – | – | – |
| TW Punchard(i) | 359,000 | – | – | (359,000) | – | – | – | – |
| CA Renner(i) | 238,000 | 30,700 | – | (268,700) | – | – | – | – |
| J Caporale | – | 127,000 | – | – | 127,000 | – | – | – |
| NJ Daly | 323,000 | 26,800 | – | – | 349,800 | 59,000 | 59,000 | – |
| BJ Maher(i) | – | 23,400 | | (23,400) | – | – | – | – |
| TA Paine | – | – | – | – | – | – | – | – |
| DW Johnson | – | 92,000 | – | – | 92,000 | – | – | – |
| Total | 1,261,000 | 299,900 | – | (1,468,900) | 568,800 | 59,000 | 59,000 | – |

(i) These employees ceased to be key management personnel during 2010.

All executive share options and performance rights issued during the financial year were made in accordance with the provisions of the Executive Long-Term Incentive Plan. No amounts are paid or payable by the recipient on receipt of the option or right. Each executive share option and performance right converts to one SKILLED Group Limited ordinary share on exercise.

During the financial year $nil (2010: $nil) was recognised in issued capital arising from the exercise of options by directors and other key management personnel of the consolidated entity. Further details of the options and performance rights granted during the year are contained in note 31 to the financial statements.

### (D) TRANSACTIONS WITH DIRECTORS AND THEIR PERSONALLY RELATED ENTITIES:

| Related party | Type of transaction | 2011 | 2010 | Class of related party | 2011 $ | 2010 $ |
|---|---|---|---|---|---|---|
| Larkfield Property Holdings Pty Ltd | Payment for rental of office accommodation | Normal commercial terms and conditions | Normal commercial terms and conditions | Company of which Mr GM Hargrave is the sole director | 998,376 | 1,148,974 |
| Hughes Engineering Services Pty Ltd | Consulting services | Normal commercial terms and conditions | Normal commercial terms and conditions | Company of which Mr KW Hughes is a director | 60,000 | 22,600 |

### (E) TRANSACTIONS WITH OTHER RELATED PARTIES:

| Related party | Type of transaction | 2011 | 2010 | Class of related party | 2011 $ | 2010 $ |
|---|---|---|---|---|---|---|
| Offshore Marine Services Alliance Pty Ltd | Offshore marine staffing | Normal commercial terms and conditions | Normal commercial terms and conditions | Joint Venture | 40,500,000 | 22,098,000 |

# 39. Remuneration of auditors

| | 2011 $ | 2010 $ |
|---|---|---|
| **Deloitte Touche Tohmatsu Australian firm** | | |
| Audit and review of the financial report | 635,663 | 561,000 |
| Other assurance and advisory services | 59,407 | 21,158 |
| Income, indirect and employment-related tax services | 176,352 | 76,150 |
| | 871,422 | 658,308 |
| **Other Deloitte Touche Tohmatsu international firms** | | |
| Audit and review of the financial report | 58,484 | 88,487 |
| Other assurance and advisory services | 1,623 | – |
| Income, indirect and employment-related tax services | 26,556 | 74,130 |
| | 86,663 | 162,617 |
| | 958,085 | 820,925 |

# 40. 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:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Cash | 13,931 | 2,577 |
| Bank overdraft | – | (5,047) |
| Cash assets/(liabilities) | 13,931 | (2,470) |

## (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 $1,112,000 (2010: $nil).

(ii) Operated a Dividend Reinvestment Plan in which dividends paid during the year to 30 June 2011 of $nil (2010: $285,000) were reinvested in ordinary shares.

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| (C) FINANCING FACILITIES | | |
| Bank overdraft facility, payable at call: | | |
| Amount used | – | 5,047 |
| Amount unused | 6,747 | 1,778 |
| | 6,747 | 6,825 |
| Syndicated bank debt facility and market rate advance facility subject to periodic roll-over: | | |
| Amount used | 109,331 | 180,629 |
| Amount unused | 60,669 | 59,371 |
| | 170,000 | 240,000 |

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 2011, the syndicated bank debt facility was in a single tranche of $160 million, reviewable in August 2012.

On 4 July 2011, the consolidated entity announced to the ASX that it had successfully refinanced its syndicated bank debt facility. The new facility of $160 million in total comprises two tranches, being $60 million (maturing in August 2013) and $100 million (maturing in August 2014).

## (D) BUSINESSES ACQUIRED

During the financial year, the consolidated entity did not make any acquisitions (2010: nil).

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Net outflow of cash for prior year acquisitions | | |
| Payment of deferred consideration | 20,329 | 12,394 |

During the financial year deferred consideration payments were made in respect of the prior period's acquisitions of OMS Australia, OMS NZ, OMS International and OMS UK.

# 41. 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 consolidated entity's overall strategy relating to capital risk is to operate at a lower level of gearing than in the recent past.

The capital structure of the consolidated entity consists of debt, which includes the borrowings disclosed in notes 19 and 24, the cash and cash equivalents disclosed in note 40, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 30, 32 and 33.

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 following:

- committed debt levels;
- leverage (debt to EBITDA);
- interest cover (EBITDA to interest expense); and
- gearing (net debt to net debt plus equity).

The consolidated entity's key capital structure financial metrics as at reporting date were as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Leverage | | |
| (Net debt/underlying EBITDA) | 1.2 | 2.7 |
| Interest cover | | |
| (Underlying EBITDA/Net interest expense)(i) | 3.5 | 2.9 |
| Gearing | | |
| (Net debt/Net debt + equity) | 19% | 35% |

(i) Net interest expense excludes accelerated amortisation of bank facility establishment fees (2011: $4.1m, 2010: $nil) and notional interest on earn out liabilities (2011: $1.0m, 2010: $2.3m).

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.

## 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 2010.

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 13,931 | 2,577 |
| Loans and receivables | 242,211 | 255,013 |
| Derivatives held for trading | 19 | 105 |
| Derivatives in hedge relationships | 1,174 | 462 |
| **Financial liabilities** | | |
| Loans and payables | 217,524 | 327,010 |
| Derivatives held for trading | 40 | 135 |
| Derivatives in hedge relationships | 2,541 | 5,906 |

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.

# Notes to the financial statements continued

For the financial year ended 30 June 2011

## 41. Financial instruments continued

### 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 policy relating to interest rate risk management employed during the 2011 financial year was unchanged from 2010. This policy required hedging a proportion of the consolidated entity's floating interest rate exposure throughout a rolling five-year period.

Subsequent to the end of the 2011 financial year, the Board approved certain changes to the interest rate risk management policy as follows:

- no additional interest rate hedging to be entered into for the time being although the existing interest rate hedge book will be allowed to run to maturity; and
- no minimum level of fixed rate debt is prescribed.

The following table details the consolidated entity's non-derivative exposure to interest rate risk as at 30 June 2011.

| | | | Fixed interest rate maturity | | | | |
|---|---|---|---|---|---|---|---|
| 2011 | Weighted average interest rate(i) % | Variable interest rate $'000 | Less than 1 year $'000 | 1 to 5 years $'000 | More than 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
| Financial assets | | | | | | | |
| Cash | 3.3% | 13,931 | – | – | – | – | 13,931 |
| Trade receivables | – | – | – | – | – | 234,528 | 234,528 |
| Other receivables | – | – | – | – | – | 7,683 | 7,683 |
| | | 13,931 | – | – | – | 242,211 | 256,142 |
| Financial liabilities | | | | | | | |
| Bank overdraft facility | – | – | – | – | – | – | – |
| Short-term borrowing | – | – | – | – | – | – | – |
| Payables | – | – | – | – | – | 107,056 | 107,056 |
| Bank loans – A$ | 8.2% | 79,813 | – | – | – | – | 79,813 |
| Bank loans – NZD (in A$) | 6.4% | 17,782 | – | – | – | – | 17,782 |
| Bank loans – EUR (in A$) | 4.8% | 9,988 | – | – | – | – | 9,988 |
| Bank loans – GBP (in A$) | 4.3% | 1,492 | – | – | – | – | 1,492 |
| Finance lease liabilities | 11.1% | – | 509 | 884 | – | – | 1,393 |
| | | 109,075 | 509 | 884 | – | 107,056 | 217,524 |

(i) Excluding impact of hedging and amortisation of bank facility establishment fees.

The following table details the consolidated entity's non-derivative exposure to interest rate risk as at 30 June 2010.

| 2010 | Weighted average interest rate(i) % | Variable interest rate $'000 | Fixed interest rate maturity: Less than 1 year $'000 | 1 to 5 years $'000 | More than 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash | – | 2,577 | – | – | – | – | 2,577 |
| Trade receivables | – | – | – | – | – | 246,575 | 246,575 |
| Other receivables | – | – | – | – | – | 8,438 | 8,438 |
| | | 2,577 | – | – | – | 255,013 | 257,590 |
| **Financial liabilities** | | | | | | | |
| Bank overdraft facility | 9.3% | 5,047 | – | – | – | – | 5,047 |
| Short-term borrowing | 6.5% | 8,300 | – | – | – | – | 8,300 |
| Payables | – | – | – | – | – | 145,238 | 145,238 |
| Bank loans – A$ | 10.1% | 149,821 | – | – | – | – | 149,821 |
| Bank loans – NZD (in A$) | 8.3% | 17,384 | – | – | – | – | 17,384 |
| Bank loans – EUR (in A$) | 6.2% | 1,543 | – | – | – | – | 1,543 |
| Insurance premium funding | 7.2% | – | 2,757 | – | – | – | 2,757 |
| Finance lease liabilities | 8.6% | – | 1,757 | 340 | – | – | 2,097 |
| | | 182,095 | 4,514 | 340 | – | 145,238 | 332,187 |

(i) Excluding impact of hedging and amortisation of bank facility establishment fees.

## Interest rate sensitivity

The following table details the consolidated entity's sensitivity to a 200 basis point increase in interest rates and a 100 basis point decrease in interest rates against its financial assets and financial liabilities outstanding at balance date. This level represents management's assessment of the possible changes in interest rates.

A positive number indicates an increase in hedge reserve or profit. A negative number indicates a decrease in hedge reserve or profit. All amounts are post-tax and include the impact of hedging.

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **200 basis point increase in interest rates** | | |
| Hedge reserve | 864 | 2,360 |
| Profit | (409) | (670) |
| **100 basis point decrease in interest rates** | | |
| Hedge reserve | (443) | (1,220) |
| Profit | 204 | 334 |

# 41. Financial instruments continued

## Interest rate derivatives

The consolidated entity manages its interest rate risk in accordance with Board-approved policy. The policy relating to interest rate risk management employed during the 2011 financial year was unchanged from 2010. This policy required hedging a proportion of the consolidated entity's floating interest rate exposure throughout a rolling five-year period using interest rate swap contracts.

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. It should be noted that subsequent to the end of the 2011 financial year, the Board approved certain changes to the interest rate risk management policy as follows:

- no additional interest rate hedging to be entered into for the time being although the existing interest rate hedge book will be allowed to run to maturity; and
- no minimum level of fixed rate debt is prescribed.

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 and contracts outstanding as at reporting date:

| Maturity | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | 2011 % | 2010 % | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| Less than 1 year | 7.8% | 7.9% | 30,000 | 45,000 | (233) | (660) |
| 1 to 5 years | 8.0% | 7.9% | 60,000 | 100,000 | (1,841) | (4,946) |

The fair value of interest rate swaps and forward rate agreement contracts is included in the balance of other financial assets and other financial liabilities (refer notes 9 and 20).

## 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 2010.

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 carrying amount of the consolidated entity's foreign currency denominated monetary assets and monetary liabilities as at the reporting date is as follows:

| | Monetary liabilities | | | | Monetary assets | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| | FC'000 | A$'000 | FC$'000 | A$'000 | FC$'000 | A$'000 | FC$'000 | A$'000 |
| GB Pounds | – | – | 255 | 450 | 2,084 | 3,119 | 344 | 607 |
| Euro | – | – | 1,172 | 1,679 | 117 | 158 | 91 | 130 |
| US Dollars | 286 | 267 | 1,386 | 1,626 | 2,274 | 2,121 | 7,443 | 8,732 |
| Singapore Dollars | 186 | 141 | 54 | 45 | – | – | – | – |
| UAE Dirhams | 104 | 26 | – | – | 231 | 59 | – | – |

## Foreign exchange derivatives

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 2010. This policy provides for the principal management of foreign exchange risk through natural hedging. In circumstances where the use of natural hedging is not possible, foreign exchange risk is managed through the use of forward exchange contracts the terms of which are matched to the underlying contract being hedged. As at 30 June 2011, the forward exchange contracts had various terms that do not extend beyond February 2012. Hedging activities are reviewed regularly to align with the consolidated entity's foreign exchange risk management policy and are reported to the Board.

The consolidated entity uses foreign exchange contracts to economically hedge its exposures and does not enter into or trade derivative financial instruments for speculative purposes. Where appropriate, the hedge accounting provisions of AASB 139 are utilised.

The following table details the forward exchange contracts outstanding as at reporting date:

| | Average exchange rate | | Foreign currency | | Contract value | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| Maturity | 2011 | 2010 | 2011 FC$'000 | 2010 FC$'000 | 2011 A$'000 | 2010 A$'000 | 2011 A$'000 | 2010 A$'000 |
| Buy USD | | | | | | | | |
| Less than 1 year | 0.9162 | 0.8289 | 3,196 | 6,036 | 3,488 | 7,285 | (481) | (101) |
| 1 to 5 years | – | 0.8355 | – | 1,836 | – | 2,198 | – | 64 |
| Sell USD | | | | | | | | |
| Less than 1 year | 0.8796 | 0.8284 | 6,259 | 18,274 | 7,115 | 22,088 | 1,192 | 347 |
| 1 to 5 years | – | 0.8326 | – | 5,257 | – | 6,314 | – | (178) |
| Buy SGD | | | | | | | | |
| Less than 1 year | 1.2889 | – | 210 | – | 163 | – | – | – |
| 1 to 5 years | – | – | – | – | – | – | – | – |
| Buy EUR | | | | | | | | |
| Less than 1 year | 0.7412 | – | 200 | – | 270 | – | 1 | – |
| 1 to 5 years | – | – | – | – | – | – | – | – |
| Buy GBP | | | | | | | | |
| Less than 1 year | 0.6539 | – | 500 | – | 765 | – | (16) | – |
| 1 to 5 years | – | – | – | – | – | – | – | – |
| Buy MYR | | | | | | | | |
| Less than 1 year | 3.1902 | – | 525 | – | 165 | – | (2) | – |
| 1 to 5 years | – | – | – | – | – | – | – | – |
| Sell NZD | | | | | | | | |
| Less than 1 year | 1.300 | – | 1,700 | – | 1,308 | – | (7) | – |
| 1 to 5 years | – | – | – | – | – | – | – | – |

The fair value of forward exchange contracts is included in the balance of financial assets and financial liabilities (refer notes 9 and 20).

# 41. Financial instruments continued

## Foreign currency sensitivity

The following tables detail the consolidated entity's sensitivity to a 10% change in the Australian Dollar against the respective foreign currency monetary assets and monetary liabilities outstanding at balance date. 10% is a level that represents management's assessment of the possible changes in exchange rates.

A positive number indicates an increase in hedge reserve or profit where the Australian Dollar strengthens against the respective currency. All amounts are post tax and include the impact of hedging.

| | USD impact | | GBP impact | | EUR impact | | SGD impact | | NZD impact | | MYR impact | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 A$'000 | 2010 A$'000 | 2011 A$'000 | 2010 A$'000 | 2011 A$'000 | 2010 A$'000 | 2011 A$'000 | 2010 A$'000 | 2011 A$'000 | 2010 A$'000 | 2011 A$'000 | 2010 A$'000 |
| 10% increase | | | | | | | | | | | | |
| Hedge reserve | 77 | 465 | – | – | – | – | (10) | – | – | – | (10) | – |
| Profit | 235 | (4) | 171 | (5) | 11 | 54 | (10) | 2 | 84 | – | – | – |
| 10% decrease | | | | | | | | | | | | |
| Hedge reserve | (94) | (523) | – | – | – | – | 12 | – | – | – | 13 | – |
| Profit | (259) | (26) | (160) | 5 | (11) | (54) | 10 | (2) | (102) | – | – | – |

## 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 2010.

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.

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 % | Less than 1 month $'000 | 1-3 months $'000 | 3 months to 1 year $'000 | 1-5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| 2011 | | | | | | |
| Bank loans – A$ | 6.9% | 658 | 853 | 4,096 | 88,325 | 93,932 |
| Bank loans – NZD (in A$) | 6.3% | 468 | – | 443 | 20,483 | 21,394 |
| Bank loans – EUR (in A$) | 4.7% | – | – | 383 | 11,117 | 11,500 |
| Bank loans – GBP (in A$) | 3.5% | – | 23 | 23 | 1,617 | 1,663 |
| Finance lease liabilities | 11.1% | 73 | 128 | 378 | 1,001 | 1,580 |
| 2010 | | | | | | |
| Bank overdraft facility | 9.3% | 5,061 | – | – | – | 5,061 |
| Short-term borrowing | 6.5% | 8,442 | – | – | – | 8,442 |
| Bank loans – A$ | 9.8% | 987 | 2,541 | 10,721 | 171,338 | 185,587 |
| Bank loans – NZD (in A$) | 10.1% | 648 | – | 764 | 20,232 | 21,644 |
| Bank loans – EUR (in A$) | 5.4% | – | – | 81 | 1,711 | 1,792 |
| Insurance premium funding | 7.2% | 361 | 723 | 1,758 | – | 2,842 |
| Finance lease liabilities | 8.8% | 212 | 415 | 1,084 | 486 | 2,197 |

The following tables detail the consolidated entity's contractual maturity for derivative financial liabilities. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on those derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows of those that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

| | Less than 1 month $'000 | 1-3 months $'000 | 3 months to 1 year $'000 | 1-5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| 2011 | | | | | |
| Net settled: | | | | | |
| interest rate swaps | 307 | 356 | 1,222 | 629 | 2,514 |
| Gross settled: | | | | | |
| foreign exchange forward contracts | 130 | 161 | 221 | – | 512 |
| 2010 | | | | | |
| Net settled: | | | | | |
| interest rate swaps | 340 | 759 | 2,695 | 2,614 | 6,408 |
| Gross settled: | | | | | |
| foreign exchange forward contracts | 145 | 33 | 82 | 189 | 449 |

## 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 2010. 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.

## Fair value

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

- financial assets and financial liabilities with standard terms and conditions that are traded on active liquid markets are determined with reference to quoted market prices; and
- the value of all other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The fair value of foreign currency forward contracts are derived using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The fair value of interest rate swap and forward rate agreement contracts are derived at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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

Fair value measurements recognised in the statement of financial positions are categorised as:

- level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.
- level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The consolidated entity records all its derivative financial instruments at fair value, measured using the techniques outlined in level 2.

## 42. Commitments for expenditure

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 29 to the financial statements. There are no other commitments for expenditure, at the end of the financial year, other than those disclosed in the financial statements.

## 43. Earnings per share

| | 2011 Cents | 2010 Cents |
|---|---|---|
| Basic earnings per share | 1.56 | 7.27 |
| Diluted earnings per share | 1.55 | 7.25 |

### 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:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Earnings | 3,139 | 12,701 |

| | 2011 No. '000 | 2010 No. '000 |
|---|---|---|
| Weighted average number of shares | 203,360 | 174,835 |

### 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:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Earnings | 3,139 | 12,701 |

| | 2011 No. '000 | 2010 No. '000 |
|---|---|---|
| Weighted average number of shares[(a)] | 202,360 | 175,151 |
| 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 | 201,111 | 174,835 |
| Shares deemed to be issued for no consideration in respect of: | | |
| Executive share options and performance rights[(i)] | 1,249 | 316 |
| | 202,360 | 175,151 |

(i) 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.

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

| | 2011 No. '000 | 2010 No. '000 |
|---|---|---|
| Executive share options and performance rights | – | – |

# 44. Segment reporting

## Segment revenues and results

| | Workforce Services $'000 | Other Staffing Services $'000 | Engineering & Marine Services $'000 | Business Services $'000 | Eliminations $'000 | Unallocated $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| 2011 | | | | | | | |
| **Segment result** | | | | | | | |
| Revenue | 945,861 | 421,962 | 461,267 | 50,326 | (3,161) | – | 1,876,255 |
| Other income | – | – | 3,700 | – | – | 496 | 4,196 |
| EBITDA | 27,022 | 20,553 | 33,263 | 758 | – | (18,899) | 62,697 |
| Depreciation and amortisation | (6,285) | (12,172) | (4,322) | (3,001) | – | (1,949) | (27,729) |
| Earnings before interest and tax | 20,737 | 8,381 | 28,941 | (2,243) | – | (20,848) | 34,968 |
| Net interest expense | | | | | | (28,312) | (28,312) |
| Profit before tax | | | | | | | 6,656 |
| Income tax expense | | | | | | | (3,517) |
| Profit for the period | | | | | | | 3,139 |
| **Segment assets and liabilities** | | | | | | | |
| Assets | 256,911 | 118,757 | 269,826 | 12,598 | – | 34,635 | 692,727 |
| Liabilities | 66,815 | 21,031 | 69,676 | 5,148 | – | 114,750 | 277,420 |
| **Other segment information** | | | | | | | |
| Share of profit of jointly controlled entities | – | – | 3,700 | – | – | – | 3,700 |
| Carrying value of investments accounted for using the equity method | – | – | 5,638 | – | – | – | 5,638 |
| Acquisition of segment assets | 3,190 | 1,367 | 2,070 | 1,694 | – | – | 8,321 |

| | Workforce Services $'000 | Other Staffing Services $'000 | Engineering & Marine Services $'000 | Business Services $'000 | Eliminations $'000 | Unallocated $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| 2010 | | | | | | | |
| **Segment result** | | | | | | | |
| Revenue | 841,444 | 350,385 | 457,358 | 51,870 | (3,063) | – | 1,697,994 |
| Other income | – | – | 1,938 | – | – | 385 | 2,323 |
| EBITDA | 36,034 | 15,681 | 24,936 | 2,419 | – | (16,945) | 62,125 |
| Depreciation and amortisation | (6,230) | (6,513) | (4,731) | (3,289) | – | (1,066) | (21,829) |
| Earnings before interest and tax | 29,804 | 9,168 | 20,205 | (870) | – | (18,011) | 40,296 |
| Net interest expense | | | | | | (26,469) | (26,469) |
| Profit before tax | | | | | | | 13,827 |
| Income tax expense | | | | | | | (1,126) |
| Profit for the period | | | | | | | 12,701 |
| **Segment assets and liabilities** | | | | | | | |
| Assets | 265,965 | 128,894 | 290,049 | 13,820 | – | 20,632 | 719,360 |
| Liabilities | 60,918 | 22,552 | 97,289 | 5,962 | – | 192,989 | 379,710 |
| **Other segment information** | | | | | | | |
| Share of profit of jointly controlled entities | – | – | 1,938 | – | – | – | 1,938 |
| Carrying value of investments accounted for using the equity method | – | – | 1,938 | – | – | – | 1,938 |
| Acquisition of segment assets | 3,979 | 1,774 | 2,586 | 2,154 | – | – | 10,493 |

# 44. Segment reporting

## Segment descriptions

The consolidated entity has identified the following four segments: Workforce Services, Other Staffing Services, Engineering & Marine Services and Business Services.

| | |
|---|---|
| **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 included in this segment include SKILLED, TESA, Extraman and Longhill Group. |
| **Other Staffing Services** | Provision of engineering and technical professional, white collar and nursing staff. Brands included in this segment include Swan, SKILLED Technical Professionals, Mosaic, PeopleCo, Damstra Mining Services and Origin Healthcare and its subsidiaries. |
| **Engineering and Marine Services** | Provision of contract maintenance and engineering services and offshore marine staffing and vessel chartering and management services. Brands included in this segment include ATIVO and Offshore Marine Services. |
| **Business Services** | Provision of customer contact solutions for third party clients provided through the Excelior brand. |
| **Other disclosures** | The consolidated entity predominantly operates in one geographical segment, being Australia. Inter-segment pricing is on a normal commercial basis. |

# 45. Parent company disclosures

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Current assets | 129,166 | 153,106 |
| Total assets | 533,567 | 569,996 |
| Current liabilities | 88,624 | 109,041 |
| Total liabilities | 179,114 | 269,551 |
| Net assets | 354,453 | 300,445 |
| Equity | | |
| Issued capital | 348,943 | 279,129 |
| Hedge reserve | (1,174) | (3,811) |
| Foreign currency translation reserve | (9) | (9) |
| Employee equity-settled benefits reserve | 2,083 | 1,450 |
| Retained earnings | 4,610 | 23,686 |
| Total equity | 354,453 | 300,445 |
| (Loss)/profit for the year | (19,077) | 2,382 |
| Other comprehensive income | 2,637 | 4,372 |
| Total comprehensive income | (16,440) | 6,754 |
| Contingent liabilities | | |
| Bank guarantees for various contracts | 12,893 | 17,980 |
| As detailed in note 37, 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) | 38,488 | 31,550 |
| | 51,381 | 49,530 |

## 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.

## 46. Subsequent events

On 4 July 2011 the consolidated entity announced to the ASX that had successfully refinanced its syndicated bank debt facility. The new facility of $160 million in total comprises two tranches, being $60 million (maturing in August 2013) and $100 million (maturing in August 2014). The syndicate now comprises the four major domestic banks, National Australia Bank, ANZ Banking Group, Westpac Banking Corporation and Commonwealth Bank of Australia.

Due to EPS performance measures not being met in relation to grants made in 2006 and 2008 under the Executive Share Plan 3,259,000 options lapsed in August 2011.

Other than these events, there has been no 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 29 August 2011, 6,024 shareholders held the Company's 233,243,776 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 holder's associates have a relevant interest, as disclosed in substantial holding notices given to the Company as at 29 August 2011, are as follows:

| | Date of notice | Fully paid ordinary shares |
|---|---|---|
| Mr Gregory MacKenzie Hargrave | 04/03/2011 | 55,225,283 |
| Thorney Holdings Pty Ltd | 26/08/2011 | 24,340,000 |
| Orbis Investment Management (Australia) Pty Ltd | 17/08/2010 | 21,404,423 |
| Invesco Australia Limited | 08/09/2010 | 9,573,714 |

## 20 Largest holders of ordinary shares as at 29 August 2011

| | Fully paid ordinary shares | |
|---|---|---|
| **Name** | **Number of shares** | **Percentage** |
| J P Morgan Nominees Australia Limited | 40,090,950 | 17.19% |
| National Nominees Limited | 32,719,526 | 14.03% |
| HSBC Custody Nominees (Australia) Limited | 30,186,572 | 12.94% |
| Hedonsax Pty Ltd | 28,438,802 | 12.19% |
| Citicorp Nominees Pty Limited | 17,017,253 | 7.30% |
| Larkfield Nominees Pty Ltd | 11,752,641 | 5.04% |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 5,708,731 | 2.45% |
| Rixi Pty Ltd | 5,010,000 | 2.15% |
| Embershell Pty Ltd | 5,010,000 | 2.15% |
| Junere Holdings Pty Ltd | 5,010,000 | 2.15% |
| Smallco Investment Manager Ltd | 2,135,561 | 0.92% |
| Cogent Nominees Pty Limited | 1,944,204 | 0.83% |
| Bond Street Custodians Limited | 1,794,467 | 0.77% |
| R A T Investments Pty Ltd | 1,679,001 | 0.72% |
| Mr Robert Kelvin Biddle | 1,396,420 | 0.60% |
| Queensland Investment Corporation | 1,309,838 | 0.56% |
| Mr Michael Peter McMahon | 667,501 | 0.29% |
| BKI Investment Company Limited | 644,826 | 0.28% |
| UBS Nominees Pty Ltd | 608,024 | 0.26% |
| Aust Executor Trustees NSW Ltd | 393,497 | 0.17% |
| | **193,517,814** | **82.97%** |

## Options

As at 29 August 2011, 13 individual option holders held 2,820,000 options.

## Distribution of holdings as at 29 August 2011

| | No. of holders | |
|---|---|---|
| **Range** | **Ordinary shares** | **Options** |
| 1 – 1000 | 1,701 | – |
| 1,001 – 5,000 | 2,516 | – |
| 5,001 – 10,000 | 852 | – |
| 10,001 – 100,000 | 896 | 1 |
| 100,001 to max | 59 | 12 |
| **Total:** | **6,024** | **13** |

As at 29 August 2011, there were 490 holdings of ordinary shares of less than a marketable parcel.

# Five-year financial summary

| Income statement | 2007 $'000 | 2008 $'000 | 2009 $'000 | 2010 $'000 | 2011 $'000 |
|---|---|---|---|---|---|
| Revenue | 1,384,811 | 1,929,530 | 1,943,258 | 1,697,994 | 1,876,255 |
| Other income | 5,701 | 8,181 | 335 | 2,323 | 4,196 |
| Total revenue and other income | 1,390,512 | 1,937,711 | 1,943,593 | 1,700,317 | 1,880,451 |
| EBITDA | 69,352 | 101,114 | 86,083 | 62,125 | 62,697 |
| Depreciation and amortisation | 14,239 | 19,885 | 21,477 | 21,829 | 27,729 |
| EBIT | 55,113 | 81,229 | 64,606 | 40,296 | 34,968 |
| Net interest expense | 9,671 | 23,038 | 27,122 | 26,469 | 28,312 |
| Profit from ordinary activities before income tax | 45,442 | 58,191 | 37,484 | 13,827 | 6,656 |
| Income tax expense | 15,643 | 18,863 | 9,230 | 1,126 | 3,517 |
| Net profit | 29,799 | 39,328 | 28,254 | 12,701 | 3,139 |
| EBITDA margin | 5.0% | 5.2% | 4.4% | 3.7% | 3.3% |
| EPS (undiluted): cents per share | 28.6 | 34.5 | 23.0 | 7.3 | 1.6 |
| Dividend per share: | | | | | |
| Interim | 8.0 | 9.0 | 9.0 | – | – |
| Final | 14.0 | 14.0 | 1.5 | – | 3.0 |
| Total | 22.0 | 23.0 | 10.5 | – | 3.0 |
| Gearing (Net debt / Net debt + equity) | 57% | 51% | 53% | 35% | 19% |
| Interest cover (EBITDA / Interest expense) | 7.4 | 4.8 | 3.4 | 2.9 | 3.5 |
| Return on average equity | 26% | 22% | 12% | 4% | 1% |

| Balance sheet | 2007 $'000 | 2008 $'000 | 2009 $'000 | 2010 $'000 | 2011 $'000 |
|---|---|---|---|---|---|
| Cash assets | 5,531 | – | 4,202 | 2,577 | 13,931 |
| Receivables | 190,022 | 285,344 | 210,345 | 253,326 | 240,176 |
| Other financial assets | 22 | 59 | – | 503 | 1,193 |
| Inventories | 3,507 | 1,141 | 1,168 | 911 | 816 |
| Current tax assets | – | – | 6,112 | 3,829 | – |
| Other | 5,898 | 9,062 | 12,447 | 8,754 | 6,752 |
| Total current assets | 204,980 | 295,606 | 234,274 | 269,900 | 262,868 |
| Receivables | 2,910 | 3,986 | 1,521 | 1,687 | 2,035 |
| Equity accounted investments | – | – | – | 1,938 | 5,638 |
| Other financial assets | 150 | 1,177 | – | 64 | – |
| Property, plant and equipment | 20,143 | 27,102 | 26,420 | 18,117 | 13,231 |
| Goodwill | 177,818 | 348,404 | 352,511 | 343,851 | 334,671 |
| Other Intangibles | 62,341 | 74,582 | 75,356 | 70,873 | 56,397 |
| Deferred tax assets | 11,295 | 10,048 | 13,466 | 12,930 | 17,887 |
| Total non-current assets | 274,657 | 465,299 | 469,274 | 449,460 | 429,859 |
| Total assets | 479,637 | 760,905 | 703,548 | 719,360 | 692,727 |
| Payables* | 109,940 | 177,130 | 120,124 | 128,115 | 99,834 |
| Borrowings | 76,012 | 17,891 | 2,150 | 17,861 | 509 |
| Other financial liabilities | – | 47 | 6,602 | 3,441 | 1,958 |
| Current tax liabilities | 11,815 | 3,423 | – | – | 1,702 |
| Provisions | 33,665 | 34,377 | 28,185 | 36,770 | 43,652 |
| Total current liabilities | 231,432 | 232,868 | 157,061 | 186,187 | 147,655 |
| Payables | 5,660 | 49,359 | 37,121 | 11,946 | 7,222 |
| Other financial liabilities | – | 657 | 5,089 | 2,600 | 623 |
| Borrowings | 99,516 | 226,982 | 260,709 | 169,088 | 109,959 |
| Provisions[i] | 12,381 | 16,357 | 16,037 | 9,889 | 11,961 |
| Total non-current liabilities | 117,557 | 293,355 | 318,956 | 193,523 | 129,765 |
| Total liabilities | 348,989 | 526,223 | 476,017 | 379,710 | 277,420 |
| Net assets | 130,648 | 234,682 | 227,531 | 339,650 | 415,307 |
| Issued capital | 88,137 | 176,368 | 180,170 | 279,129 | 348,943 |
| Reserves | 2,202 | 4,273 | (6,792) | (3,477) | (773) |
| Retained profits | 40,309 | 54,041 | 54,153 | 63,998 | 67,137 |
| Total equity | 130,648 | 234,682 | 227,531 | 339,650 | 415,307 |

(i) In 2011 an adjustment of $5,177,000 was made to reclassify a portion of the 2010 employee entitlements liability balance from current payables to current provisions to ensure consistency with the current period disclosure.

# Notes

# 2011 Corporate Directory

## Directors

VA McFadden
MP McMahon
AM Cipa
MJ Findlay
RN Herbert AM
TA Horton
TB Janes

## Secretary

TA Paine

## Registered office

**SKILLED Group Limited**
Level 15, 380 St Kilda Road
Melbourne Victoria 3004

ACN 005 585 811
ABN 66 005 585 811

Telephone 61 3 8646 6444
Facsimile 61 3 8646 6441

## Share registry

**Computershare Investor Services Pty Ltd**

Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067
Shareholders enquiries: 1300 850 505

## Auditors

**Deloitte Touche Tohmatsu**

550 Bourke Street
Melbourne Victoria 3000

## Bankers

**Australia and New Zealand Banking Group Limited**

530 Collins 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**

385 Bourke Street
Melbourne Victoria 3000

## Exchange on which shares are listed

Australian Securities Exchange
Level 45, South Tower, Rialto
525 Collins Street
Melbourne Victoria 3000

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