Company announcement

Tuesday, February 18th, 2014

FY2014 Half Year Headlines

- Revenue $81.1m (down 3.3% on the prior corresponding period), EBITDA of $6.9m (down 5.4% pcp), NPAT of $4.1m (down 9.5% pcp), diluted EPS of 4.5 cents (down 8.2%).
- Total production effort increased by over 6% on the pcp reflecting an overall increase in market share.
- Outside of the ACT and NSW, all operating locations have had modest revenue growth. NSW and ACT markets have been most impacted by constrained spending, continuing project delays and deferrals by clients.
- The Federal Government continues to work through changes post election. However, the view of future IT services requirements is well aligned to the new Oakton service model, with some recent wins and sales pipeline growth supporting this positioning.
- Sales in H1 FY2014 up 17% on the pcp contributing to booked and committed revenue at 75% of current FY2014 full year revenue forecast (pcp 71%). Backlog into FY2015 and beyond is at $51m ($43m pcp).
- Ended December 2013 with 1,106 total staff (up 39 pcp). India at 283 staff (up 82 pcp). On shore staff numbers have marginally reduced from June 2013 via natural attrition and targeted separations required to change the mix of capability onshore.
- Hyderabad will soon have the largest staff numbers of all operating locations with production (billable) hours from this location in H1 FY2014 increasing to 25% of total production (pcp 19%). This increase continues to reduce revenue and profit per FTE, however, the price point for our solution development and customer delivery is enabling market share growth.
- Employee satisfaction across the Group remains above industry averages and attrition is 15% below the pcp.
- Interim fully franked dividend of 4 cents (down 16% pcp).
- Operating cash flow (before interest and tax) of $2.68m impacted by increasing WIP associated with larger projects (including managed services) and timing of milestone payments.
- Market demand continues to increase in areas of digital customer and partner engagement solutions, information management solutions leveraging new data sources from social platforms and core system capability with a strong focus on delivery of these solutions in cloud based “as a service” models.
- Continued investment in the Oakton Cloud capability and the Solutions business supporting growing demand for cloud based “as a service” delivery models, including an increasing number of partnerships with “as a service” infrastructure and software providers. This has seen a 50% increase (pcp) of Non Person Revenue (NPR) in H1 FY2014.
- Re-appointed to Telstra IT PSA panel, with the reduced panel size providing opportunities to expand our services footprint.
- Opened new offices in NSW and WA along with refurbishment of our Hyderabad and Managed Services centres

Australian consulting and I.T. services provider Oakton Limited [ASX: OKN] today announced a net profit after tax of $4.1 million for the FY2014 half year ended December 2013 – a 9.5% decrease on the results from the previous corresponding half year period. Revenue was down 3.3% to $81.1 million and EBITDA decreased by 5.4% to $6.9 million.

The Oakton Board declared a fully-franked interim dividend of 4 cents per share. The dividend will be paid on the 6th May 2014 with a record date of the 28th February 2014.

Neil Wilson, Oakton's Managing Director and CEO, made comment on the result:

"Market conditions during the first half of FY2014 again remained challenging across all industry sectors. In particular, there continues to be a large number of project deferrals and delays by clients in all sectors. Based on the current pipeline and Q2 sales, we expect an improved performance in the second half.

It is pleasing to note that, outside of NSW and ACT (which again has been impacted by reduced Federal Government spend), operating performance has shown modest revenue growth. Our production effort has grown again, by 6%, over the pcp reflecting an overall increase in market share. The long term investment in our off shore facility in Hyderabad is again making a significant contribution to our performance and our strategic positioning, with their share of total production up to 25% (pcp 19%). In particular, our ability to meet reduced price expectations from our customers has enabled us to maintain and improve market share in a number of sectors. Also of note is our investment in the generation of non-person based revenue, including Oakton Solutions as a service and other "cloud" related service models. This investment has enabled us to increase revenue from these sources by 50% over the pcp.

Our strategic positioning is now generating larger projects with longer term annuity revenue streams. Reflecting this, the level of booked and committed revenue for FY2014 is ahead of last year's level, with sales in the H1 up by 17% over the pcp. Our cash flow performance has primarily been impacted by timing of milestone payments on some engagements. The transition to larger and longer projects will have some medium term impact on cash flow. We currently expect cash flow to improve in the second half.

Current expectations are for continued growth in off shore effort and overall production for FY2014, with 2H earnings to be ahead of both the pcp and H1.

We continue to invest in the business to ensure our service offer remains relevant to our customers' evolving requirements. Our mature off shore capability, deep specialisation and project/managed service engagement approach are now enabling a shift to a service integration and solution delivery as a service business model. This is becoming increasingly important as many cloud based business and technology services emerge and require careful integration and operation.

The investment in the business over the last few years has established a platform for an on-going increase in market share which should accelerate under improved market conditions and with the new non-person based revenue streams which are not as linear as traditional headcount growth models.

I would like to take this opportunity to thank our outstanding team at Oakton in both Australia and India for their contributions over the past six months. We have the best team to enable us to continue on our growth strategy in the future. I would also like to thank our customers, partners, shareholders and the wider investment community for their ongoing support and interest in our company"

Please find attached the results and outlook presentation that will be presented to the investment community over the following two weeks.

Further information:

Neil Wilson, Managing Director and CEO

John Phillips, Chief Financial Officer

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Consulting Technology

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FY2014 Half Year Results and Outlook

Neil Wilson
Managing Director and CEO

John Phillips
CFO

FY2014 First Half Headlines

- Revenue $81.1m (down 3.3% on the prior corresponding period), EBITDA of $6.9m (down 5.4% pcp), NPAT of $4.1m (down 9.5% pcp), diluted EPS of 4.5 cents (down 8.2%).
- Total production effort increased by over 6% on the pcp reflecting an overall increase in market share.
- Outside of the ACT and NSW, all operating locations have had modest revenue growth. NSW and ACT markets have been most impacted by constrained spending, continuing project delays and deferrals by clients.
- The Federal Government continues to work through changes post election. However, the view of future IT services requirements is well aligned to the new Oakton service model, with some recent wins and sales pipeline growth supporting this positioning.
- Sales in H1 FY2014 up 17% on the pcp contributing to booked and committed revenue at 75% of current FY2014 full year revenue forecast (pcp 71%). Backlog into FY2015 and beyond is at $51m ($43m pcp).
- Ended December 2013 with 1,106 total staff (up 39 pcp). India at 283 staff (up 82 pcp). On shore staff numbers have marginally reduced from June 2013 via natural attrition and targeted separations required to change the mix of capability onshore.
- Hyderabad will soon have the largest staff numbers of all operating locations with production (billable) hours from this location in H1 FY2014 increasing to 25% of total production (pcp 19%). This increase continues to reduce revenue and profit per FTE, however, the price point for our solution development and customer delivery is enabling market share growth.

FY2014 First Half Headlines (continued)

- Employee satisfaction across the Group remains above industry averages and attrition is 15% below the pcp.
- Interim fully franked dividend of 4 cents (down 16% pcp).
- Operating cash flow (before interest and tax) of $2.68m impacted by increasing WIP associated with larger projects (including managed services) and timing of milestone payments.
- Market demand continues to increase in areas of digital customer and partner engagement solutions, information management solutions leveraging new data sources from social platforms and core system capability with a strong focus on delivery of these solutions in cloud based “as a service” models.
- Continued investment in the Oakton Cloud capability and the Solutions business supporting growing demand for cloud based “as a service” delivery models, including an increasing number of partnerships with “as a service” infrastructure and software providers. This has seen a 50% increase (pcp) of Non Person Revenue (NPR) in H1 FY2014.
- Re-appointed to Telstra IT PSA panel, with the reduced panel size providing opportunities to expand our services footprint.
- Opened new offices in NSW and WA along with refurbishment of our Hyderabad and Managed Services centres.

FY2014 First Half Results - Detail

Profit and Loss - $A millions	Dec 2013	Dec 2012
Revenue	$81.08	$83.87
EBITDA	$6.91	$7.30
NPAT	$4.11	$4.55
Diluted EPS (cents)	4.5c	4.9c

- H1 FY2014 Revenue/earnings levels impacted by:
  - Continuing project commencement delays, particularly in NSW and Federal Government offset by modest growth in other locations
  - Improved utilisation offset by pricing pressures
  - Continued investment in WA location
- Increased use of off shore impacts revenue and profitability as the business transitions to the blended model

- Improvement in gross margin (over the pcp) driven by:
  - Improved utilisation on and off shore
  - Increase in revenue and margin on NPR
  - Growth in Managed Services with increased leverage of our off shore facility
- Overhead margin includes over $500k investment in Oakton Solutions and Oakton Cloud enablement and includes fixed costs supporting future growth.

As a % of revenue	Dec 2013	Dec 2012
Gross margin	20.64%	19.46%
Overhead margin	12.11%	10.76%
EBITDA margin	8.53%	8.71%
NPAT margin	5.08%	5.42%

FY2014 First Half Results - Detail

Balance sheet - $A millions	Dec 2013	Dec 2012
Cash	0.28	8.10
Receivables	37.84	31.54
Total assets	130.73	130.52
Borrowings	-	-
Total liabilities	27.32	25.13

- Cash balance impacted by:
  - Project milestone payment timing impacts from some major clients.
  - Increased WIP levels based on larger project and managed services engagements
  - Increased CAPEX supporting office upgrades

- Revenue per average FTE down due to:
  - Market pricing pressures
  - Increased use of off shore model – production contribution up to 25% (pcp 19%)
  - Increase in average headcount
  - Some offset with increasing NPR contribution
- Improved utilisation both on and off shore.
- Dividend Payout Ratio within guidance range.

Other	Dec 2013	Dec 2012
Interim dividend	4.00cf	4.75cf
Revenue per average FTE	$74k	$80k
Utilisation	72%	70%
Days debtors	56 days	47 days

FY2014 First Half Cash Flow Summary

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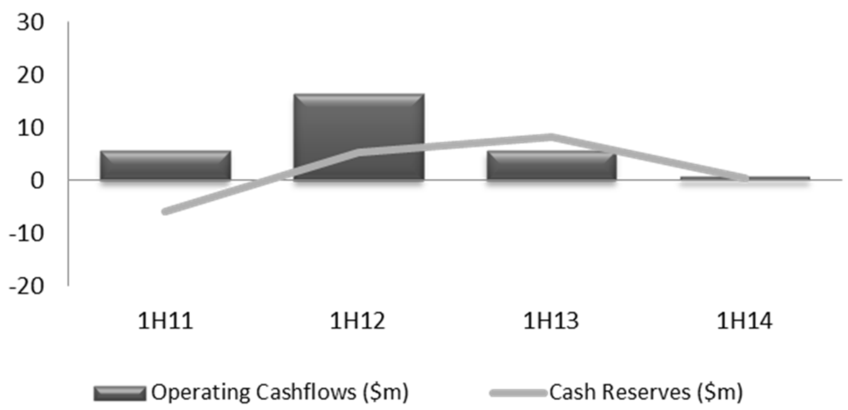
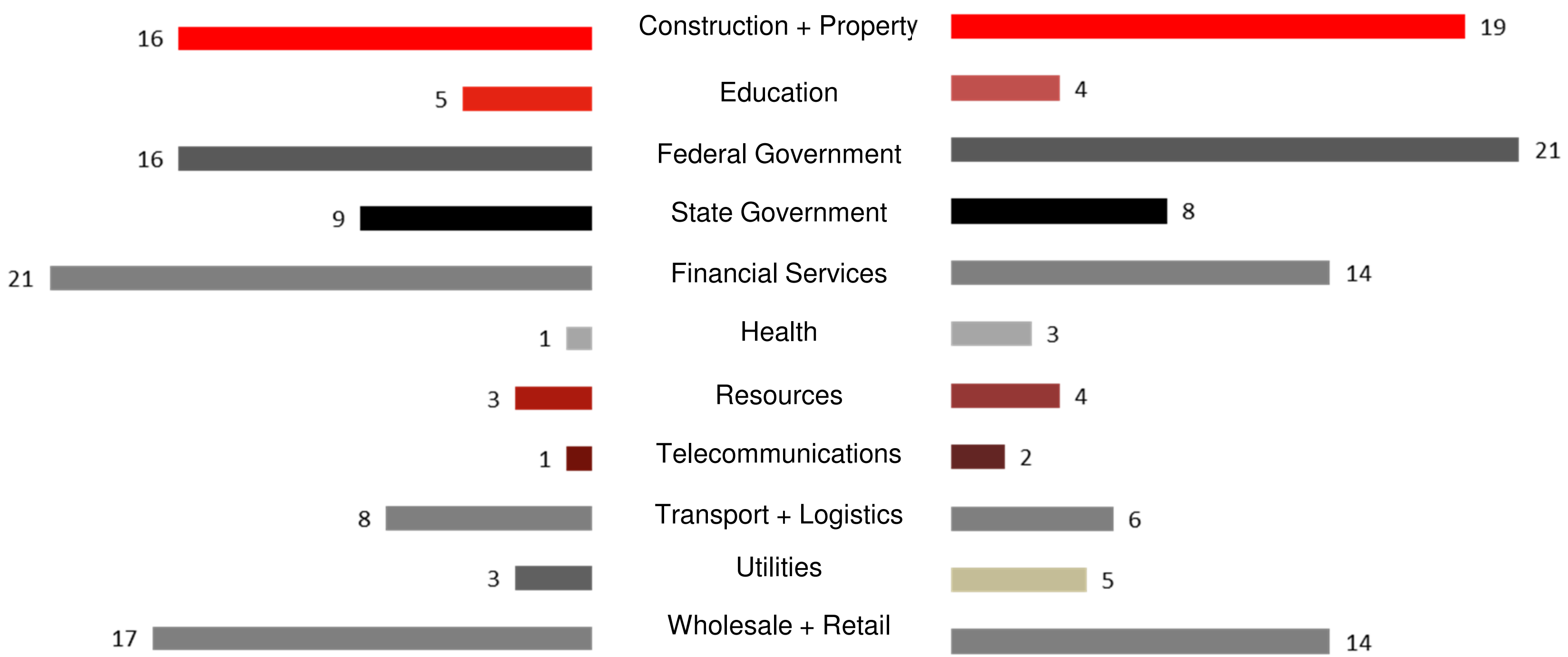
- Increase in CAPEX reflects:
  - New offices in NSW and WA
  - Expansion of office in Hyderabad to meet increased demand
  - Refurbishment of Managed Services facility to meet growing demand
- Expect CAPEX for H2 FY2014 to return to normal levels
- No further buy-back activity in H1 FY2014



Opening Balance	**$6.95m**
Operating	
Net operating inflows	2.68
Net interest received	(0.09)
Income tax paid	(1.86)
Operating Cash Flow	$0.73m
Investing	
Capex	(3.23)
Investments	(0.00)
Total Investing	($3.23m)
Financing	
Share issues	0.10
Dividends	(4.27)
Repayment of borrowings	(0.0)
Total Financing	($4.17m)
Closing Balance	**$0.28m**

Industry revenue spread and outlook

H1 FY2014 Industry Sector Analysis (%)   H1 FY2013 Industry Sector Analysis (%)

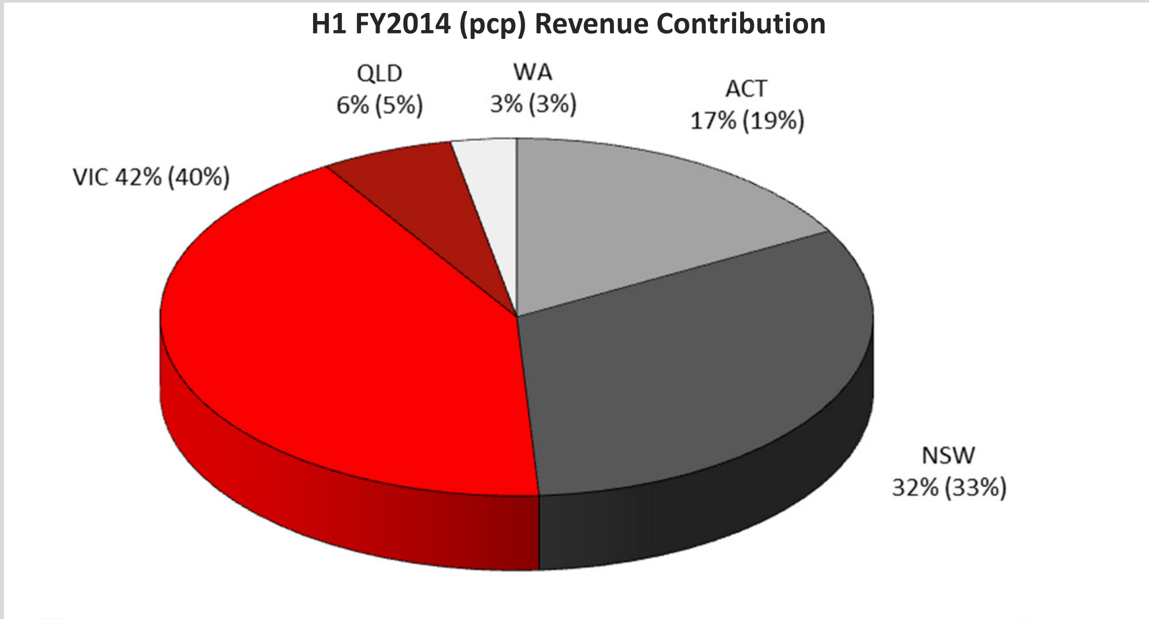


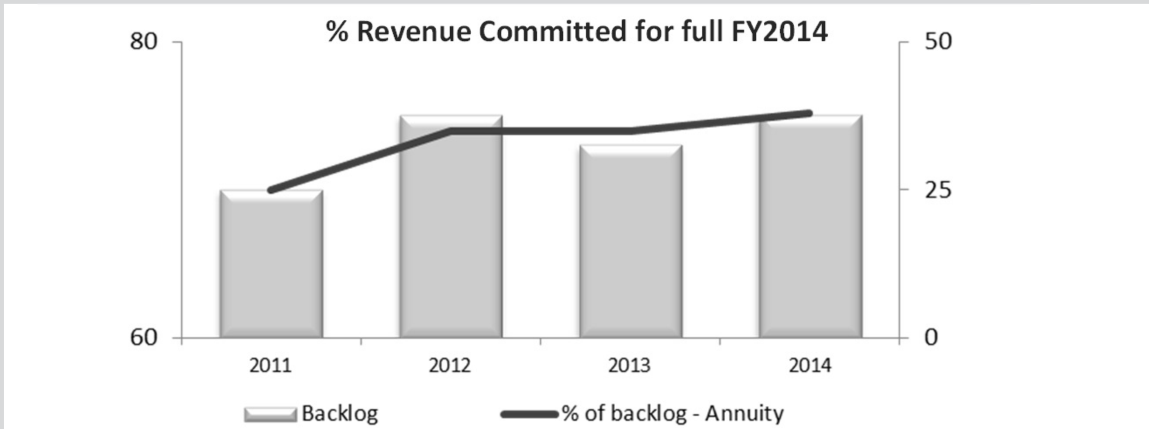
Expected market outlook:

- Some growth in Financial Services, Education, Transport and Logistics and Utilities.
- Steady outlook for Construction and Property, Health, Resources and Retail.
- Expect growth in Telecommunications given increased focus from Telstra panel position.
- Victorian election may impact spend. Other State governments moving to new service based models which should drive increased demand. Expect a slight increase in Federal Government activity as normal Q4 seasonal spend occurs. Expect spending in this sector to improve next financial year.

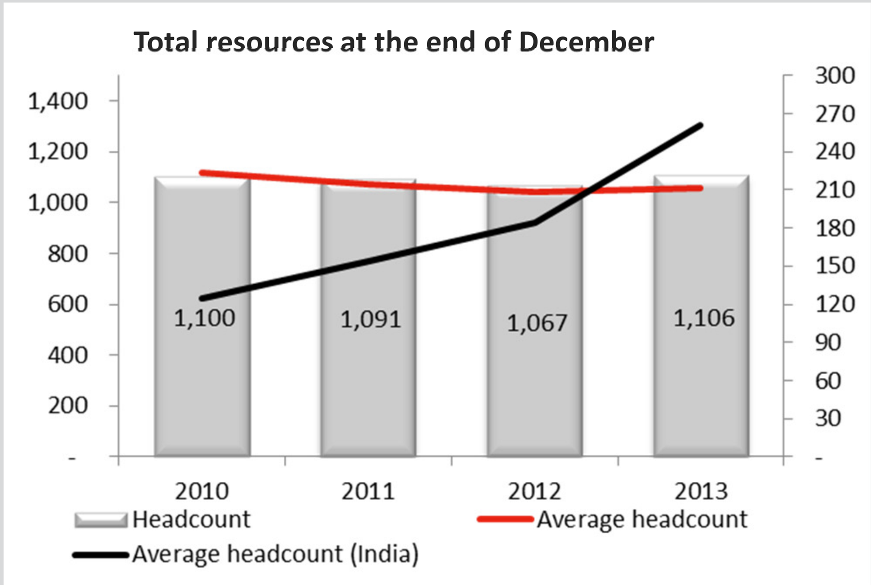
Revenue Analysis

- Revenue contribution from ACT reflects slowdown in Federal Government spend.
- Booked and committed revenue for FY2014 at 75% (pcp 71%)
- Backlog that represents Annuity type services at 38% (pcp 35%).
- Sales for H1 FY2014 up 17% on the pcp which is mostly contributing to backlog into future years
- Backlog of committed revenue into FY2015 and beyond at $51m (pcp $43m).





FY2014 Half Year People Summary



	Dec 2013	Dec 2012
Victoria	336	332
New South Wales	214	242
ACT	160	198
Queensland	54	44
WA	16	8
India	283	201
National Shared Services	43	42
Total	**1,106**	**1,067**

- First half on half staff number increase since 2009.
- Total contractors at 31 December were 115 (pcp 121).
- Percentage of location revenue delivered from India continues to grow resulting in changing on shore headcount profiles relative to revenue contribution.
- India continues to increase as a % of total workforce as demand for global pricing increases.
- Staff churn levels have reduced again and employment engagement score continues to improve.

Off Shore Operations

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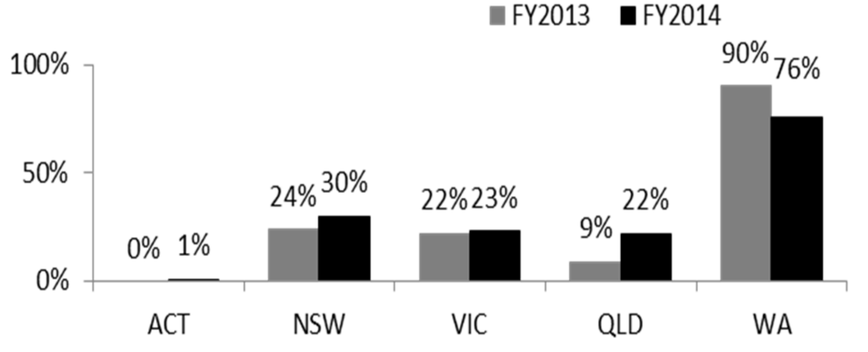
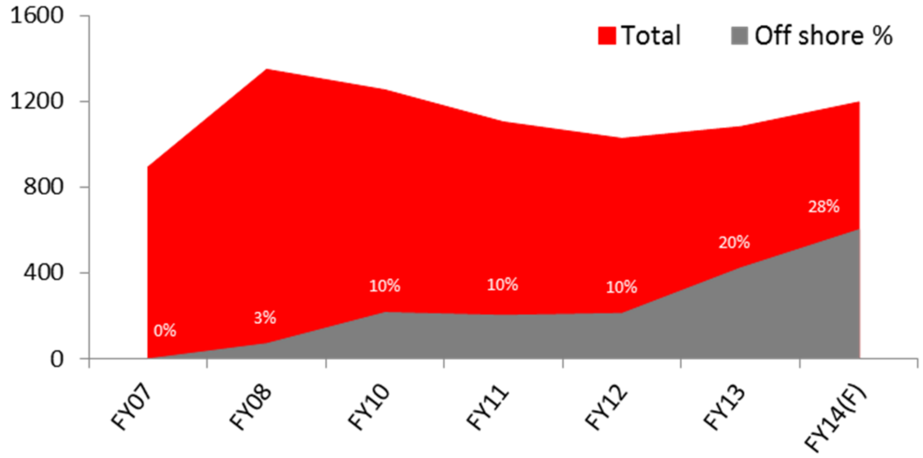
The Off Shore Operations continues to grow and become core to our business model and strategic direction

- Our purpose built wholly owned 24*7 operation in Hyderabad (India) has been expanded to take additional capacity reflecting increasing adoption of off shore models across most industries including government to support reduced cost of service delivery.
- As at reporting date headcount was over 290 (pcp 210), with further hiring forecast to meet current demand - low attrition and high employee engagement score.
- Off shore effort as a % of total effort continues to grow and is currently at 25% (pcp 19%) and is forecast to be nearly 30% for FY2014.
- Established Solutions Development Centre to accelerate development of Oakton Solutions "as a service".
- Transition to optimal usage levels and operation cost coverage is expected by FY2014/FY2015.
- New country manager appointed in India who brings extensive Indian offshore experience. Strong ex-pat coverage to continue.

Off shore Production Contribution by Location



Off shore % of total Production ('000 Hrs)



IT Services market evolution

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Significant changes in the market are occurring which are leading to new models of service delivery and engagement with customers. This is impacting the business models of traditional I.T. services companies.

Customers

- Business side buying increasing
- Industry knowledge critical
- Digital business models everywhere
- Customers Customer focus
- The internet of everything

Services

- Information services
- Social Media impacts
- Mobility first
- Cloud Service integration
- Global delivery price points

Engagement

- Solutions not projects / roles
- Solutions including IP
- Subscription not CAPEX
- Continuous innovation
- Best of breed providers

Oakton market position

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The investment that has been made over the past 4 years to transform the Oakton business model has positioned the business well to support the direction of the market.

We continue to provide the traditional Systems Integration services but increasingly are being requested by existing and new customers to act as the Services Integrator.

2000-2004	2004-2009	2009-2012	2012-2014	2014 onwards
				Oakton Solutions 'as-a-Service'
			Infrastructure and Software Cloud Services Integration	Infrastructure and Software Cloud Services Integration
		Application Managed Services engagement	Application Managed Services engagement	Application Managed Services engagement
	Project based outcome engagement	Project based outcome engagement	Project based outcome engagement	Project based outcome engagement
Daily rate role engagement	Daily rate role engagement	Daily rate role engagement	Daily rate role engagement	Daily rate role engagement

Role based provider → **Systems Integrator** → **Services Integrator**

Alignment across Industry, Domain and Technology

The combination of Industry, Domain and Technology enables a solution focus to meet specific customer requirements.

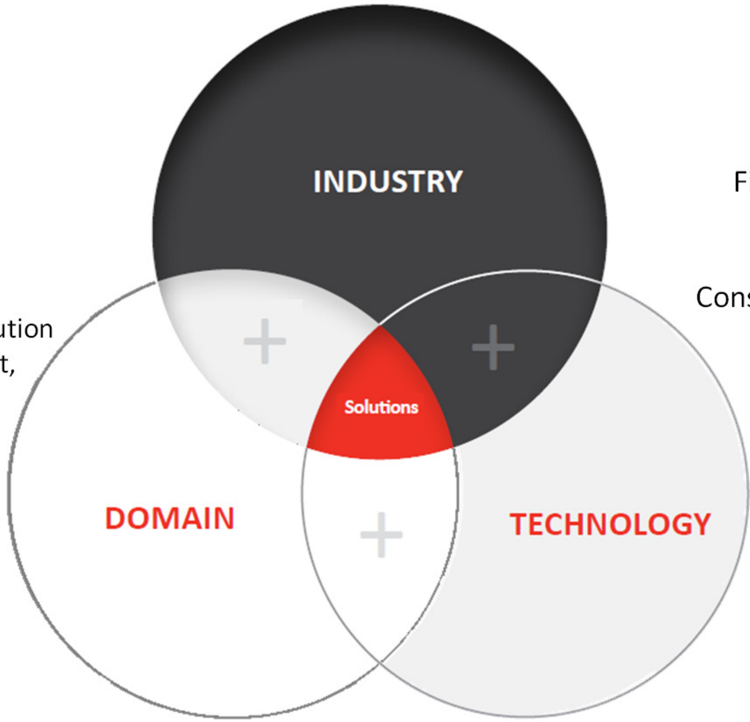
DOMAIN SERVICES

Consult
Accounting & Assurance, Business Systems Consulting

Implement
Project Services, Testing

Manage
Application/solution management, Service integration

Digital
Online, Mobile + Integration Services
Information Management
Core Systems (Back Office)
Relationship Management (Front Office)



INDUSTRY COVERAGE

Government
Education
Healthcare
Financial Services and Insurance
Resources
Utilities
Construction + Property Management
Telecommunications
Wholesale + Retail
Transport + Logistics

TECHNOLOGY ENABLEMENT

Microsoft
Oracle
Dimension Data
Amazon
IBM
SAP
Emerging cloud, software and infrastructure providers

Oakton Solutions as a service leveraging cloud based software and infrastructure services

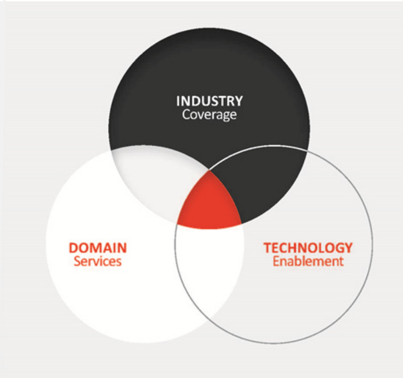
Oakton Solutions as-a-Service

Software-as-a-Service

Platform-as-a-Service

Infrastructure-as-a-Service

Oakton Cloud

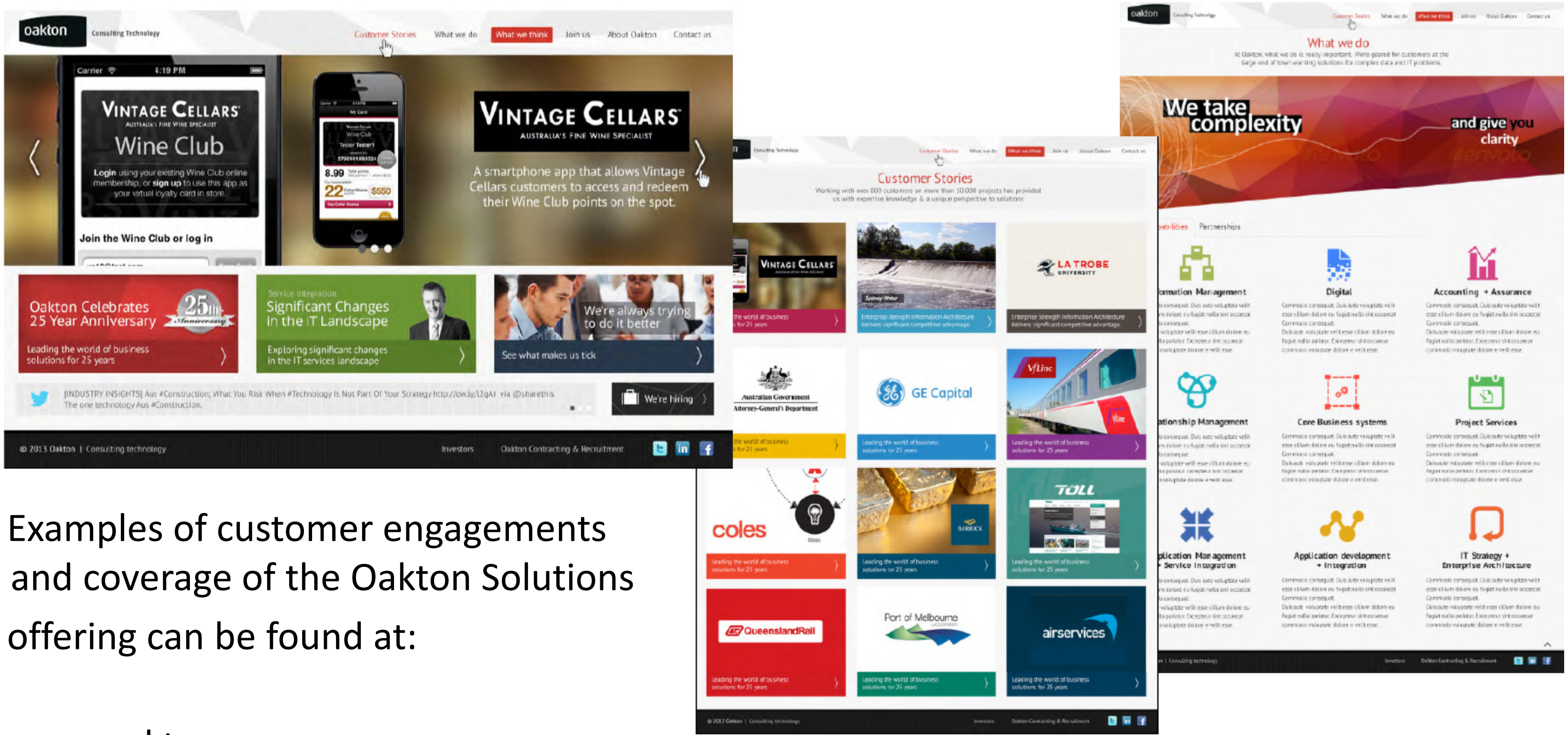


We are increasingly packaging the solution assets to bring to market solutions that meet the specific requirements of our customers in an “as a service” model.

As a service integrator, Oakton will continue to build relationships with leading global infrastructure and software providers. This approach allows for flexibility to evolve these relationships over time to take advantage of emerging trends and changes in the market.

The combination and integration of these services from different providers is enabling Oakton to go to market with an end to end cloud offering.

Oakton Market presence



Examples of customer engagements and coverage of the Oakton Solutions offering can be found at:

www.oakton.com.au

Outlook and summary

- Trading conditions remain challenging across most industry sectors and market share remains a key focus. Federal Government demand is not expected to improve until Q4 FY2014.
- Based on our committed level of work and current pipeline, production effort in FY2014 is expected to show growth on FY2013 reflecting continuing market share acquisition.
- The investment in Oakton Solutions as a Service and establishment of the Oakton Cloud is expected to continue to drive increased levels of Non Person Revenue (NPR) as customers and the industry move to new models of IT service delivery and engagement.
- The pipeline of opportunities for Solutions as a Service continues to grow and we expect to convert some of these multi year annuity deals in H2 FY2014 with some revenue contribution in FY2014. Overall, NPR for FY2014 is currently expected to double the amount received in FY2013.
- Business and IT customers across all industries will continue to move to new models of engagement with IT service providers. Customers will continue to adopt more digital, information and core system enablement ‘as a service’ from the cloud.
- Customer focus on cost and value for money is resulting in government and non government organisations increasing their use of offshore service models. Offshore headcount is expected to continue to grow in FY2014 to above 300. On shore headcount, as expected, is flat overall with some hiring in VIC, WA and QLD offset by small reductions in NSW and ACT.
- Current expectations are for H2 FY2014 earnings to show improvement on the pcp and H1 FY2014.
- A number of contracts have been secured in Q2 across all locations which will contribute to H2 FY2014 earnings and FY2015 and beyond backlog.
- The transition to larger and longer projects will have some medium term impact on cash flow. Forecast operating cash flow is expected to improve in H2 and should enable the full year dividend pay-out ratio to be maintained at previous guidance range.

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What problem do you want defined?

Oakton, offering the best in consulting and technology services in Australia
1,100 plus industry, domain and technical experts

25 years
10 key industries
800+ customers
10,000+ projects

Melbourne
Sydney
Canberra
Brisbane
Perth
Hyderabad

Partners:

Microsoft
Oracle
Dimension Data
Amazon
IBM
SAP
Emerging cloud, software and infrastructure providers