


SKILLED Group

Annual Report
2010

# 2010 Corporate Directory

## Directors
KV Loughnan AO
GM Hargrave
KW Hughes
TB Janes
RN Herbert AM
VA McFadden
PA Gregg
MJ Findlay – appointed 23 March 2010
JB Dixon – resigned 23 March 2010

## Secretary
KW Bieg – resigned 5 September 2009
TA Paine – appointed 29 March 2010
BJ Maher – resigned 1 April 2010

## Registered office
**Skilled Group Limited**
Level 15, 380 St Kilda Road
Melbourne Victoria 3004
Australia
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 Limited**
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067
Australia
Shareholder enquiries: 1300 850 505

## Auditors
**Deloitte Touche Tohmatsu**
550 Bourke Street
Melbourne Victoria 3000
Australia

## Exchange on which shares are listed
Australian Stock Exchange
Level 45, South Tower, Rialto
525 Collins Street
Melbourne Victoria 3000
Australia

## Bankers
**Australia and New Zealand Banking Group Limited**
530 Collins Street
Melbourne Victoria 3000
Australia

**National Australia Bank Limited**
500 Bourke Street
Melbourne Victoria 3000
Australia

**Westpac Banking Corporation**
360 Collins Street
Melbourne Victoria 3000
Australia

**www.skilledgroup.com.au**

# Corporate Calendar

| | |
|---|---|
| 25 October 2010 | Annual General Meeting |
| 23 February 2011* | Announcement of first-half results |
| 13 April 2011* | Payment of interim dividend |
| 24 August 2011* | Announcement of full-year results |

* To be confirmed

# Contents

# Innovative, Flexible and Diverse

Frank Hargrave's vision for flexible, cost-effective staffing services is as relevant to SKILLED Group today as it was in 1964. Quite simply, his goal was to provide clients with the best employees — on demand — every time.

From our "blue-collar" foundations, SKILLED Group has grown and diversified. Today, SKILLED Group is a portfolio of brands, each with its own specialist market and skills focus. We provide business, industry and government with a broad range of staffing services and customised workforce solutions that improve productivity and reduce risk.

Our experience and capability is unmatched. We provide:

- supplementary labour for the mining, oil and gas, manufacturing, transport, infrastructure, utilities, commercial, government and healthcare sectors;
- customer contact optimisation for telecommunications, financial services and government clients;
- specialist maintenance and project management services in the mining, resources and manufacturing industries;
- staffing services for major events, campaigns and projects; and
- recruitment and management of apprentices and trainees.

## What sets us apart?

- Size, scale and reach — consistency and continuity of services.
- Ability to attract high-calibre employees — every year, over 200,000 people apply for a role through a SKILLED Group company with fewer than 20% making it through our stringent selection process.
- "High-touch" employee management approach ensures that we keep the very best people.
- Financial strength and stability.
- Exceptional safety and industrial relations management capability.
- Reputation — leading brands in our chosen sectors.
- Quality assured processes supported by robust technology and business systems.
- An Australian heritage with a strong sense of community.

**Our unique value proposition**
SKILLED Group's people and solutions are ready to support our clients to improve workforce productivity and reduce risk.

# OUR MISSION

To provide satisfying and flexible career opportunities and to improve the productivity of industry through the delivery of specialist skills.

# OUR VALUES

**Safety**
Care and commitment

**Knowledge**
Understanding and communication

**Integrity**
Accountability and honesty

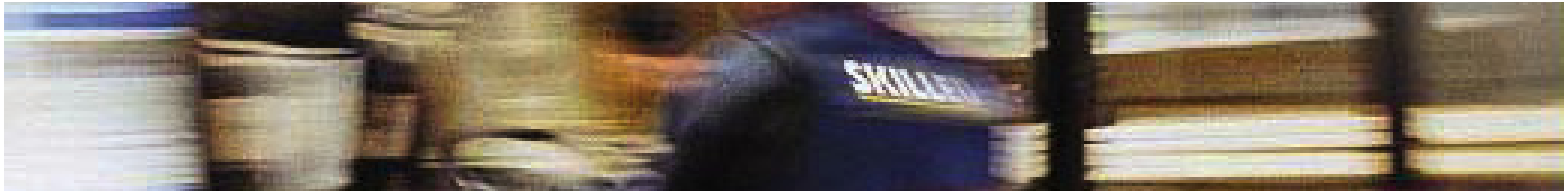
**Leadership**
Innovation and quality

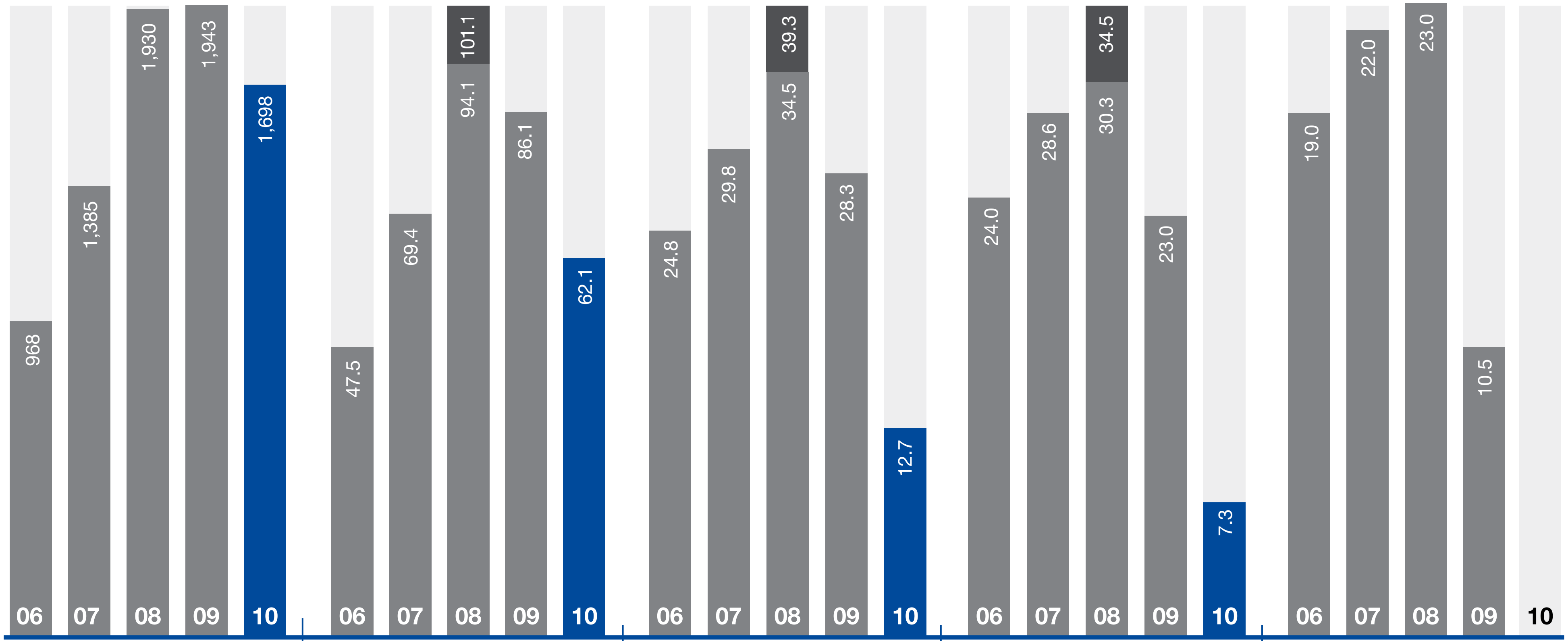
# Highlights

- Volatility across the economy for most of the last financial year directly impacted revenue and margins; improved level of activity in the last two months and trend continuing
- Cost base reduced to a sustainable level to minimise impact of margin reduction
- Strategic review completed — confirmation that business fundamentals are strong but debt level was high given the Company's financial profile and operating requirements
- Net debt across the Group reduced from $258.7 million to $184.3 million during the year with further reduction planned over the next financial year
- Continued improvement in safety performance with the 12-month rolling average Lost Time Injury Frequency Rate (LTIFR) at 1.02
- Key management appointments made during the year
- Well positioned to benefit from economic recovery and the next phase of growth

| **Summary financials** | | 12 months to June 2010 | 12 months to June 2009 | Change % |
|---|---|---|---|---|
| Revenue | $M | 1,698.0 | 1,943.3 | -13 |
| Reported EBITDA | $M | 62.1 | 86.1 | -28 |
| Underlying EBITDA | $M | 69.1 | 88.7 | -22 |
| Reported net profit after tax | $M | 12.7 | 28.3 | -55 |
| Underlying net profit after tax | $M | 19.2 | 34.2 | -44 |
| **Key ratios** | | | | |
| Underlying EBITDA margin | % | 4.1 | 4.6 | - |
| Gearing (net debt / net debt + equity) | % | 35.0 | 53.0 | - |
| Interest cover (EBITDA / interest expense) | times | 2.5 | 3.4 | - |
| Earnings per share | cps | 7.3 | 23.0 | - |
| Dividend per share | cps | - | 10.5 | - |

| **Segmental performance** | 12 months to June 2010 | 12 months to June 2009 | Change % |
|---|---|---|---|
| **Revenue** | | | |
| Workforce Services | 841.4 | 953.5 | -12 |
| Other Staffing Services | 350.4 | 393.1 | -11 |
| Engineering & Marine Services | 457.4 | 529.5 | -14 |
| Business Services | 51.9 | 70.8 | -27 |
| **EBITDA** | | | |
| Workforce Services | 36.0 | 46.5 | -23 |
| Other Staffing Services | 15.7 | 13.8 | +14 |
| Engineering & Marine Services | 24.9 | 35.5 | -30 |
| Business Services | 2.4 | 8.7 | -72 |




**Revenue**
**($M)**

**$1,698M**

**Earnings before interest, tax, depreciation & amortisation**
**($M)**

■ EBITDA FROM DIVESTMENTS

**$62.1M**

**Net profit after tax**
**($M)**

■ NET PROFIT FROM DIVESTMENTS

**$12.7M**

**Earnings per share**
**(cps)**

■ EPS FROM DIVESTMENTS

**7.3¢**

**Dividend per share**
**(cps)**

**0¢**

# Chairman's Report

*After a tumultuous 18 months, the global economy seems to be showing some signs of stabilising. The volatility across the economy for most of the last financial year has had a direct impact on our revenue and margins. Towards the end of the financial year we started to see some recovery in many industry sectors.*

*During the financial year, we responded quickly to this changing environment by reducing the cost base to a sustainable level, and decreasing the overall net debt across the Group from $258.7 million to $184.3 million. We plan to continue with substantial debt reduction over the next financial year.*

*Demand improved in the final two months of the financial year and we have started to see steady signs of improvement.*

## Financial performance

Our financial performance was impacted by the slower than expected recovery as we started to emerge from the global financial crisis. We have reported earnings before interest, tax, depreciation and amortisation (EBITDA) of $62.1 million, down 28% on last year, and reported net profit after tax (NPAT) of $12.7 million, down 55%. Our underlying EBITDA is $69.1 million, down 22% on last year, with an underlying NPAT of $19.2 million, down 44%. Revenue was down 13% to $1.7 billion with an operating cash flow of $29.1 million.

Reported earnings per share was 7.3 cents. The Board has decided not to declare a final dividend. We regard this as the responsible choice given our need to maintain a focus on conserving cash and reducing debt until profitability returns to more acceptable levels.

## Strategic review

In April this year, the Board initiated a strategic review of our business portfolio, performance and prospects and engaged Goldman Sachs to lead the review. The strategic review assessed a range of business portfolio and capital structure options in the context of the impact of the global financial crisis on the Group's financial profile and our objectives to improve performance and grow the business.

The review confirmed that the fundamental elements of SKILLED's businesses are strong but that the debt level for the Group, around three times EBITDA (based on 2010 results), is high given SKILLED's financial profile and operating requirements. The Board believes that the Group's debt level should be around two times EBITDA.

The Board has decided to divest Swan Contract Personnel (Swan) with the sale proceeds to be applied to the Group's debt. The sale is expected to be finalised by the end of this calendar year.

## Governance

### Board renewal and CEO update

The Board is committed to a continuing process of Board renewal and working towards achieving a significant majority of independent directors. The Board appointed Mr Max Findlay in March 2010 as a new independent director. We are also conducting a professional search for further independent non-executive directors to be appointed over the next 12 months.

I announced at the 2009 Annual General Meeting (AGM) that I will retire as Chairman at this year's AGM and a new Chair will be announced shortly.

The search for a new CEO is well advanced. We are extremely pleased with the strong level of interest and calibre of candidates and we hope to confirm an appointment shortly.

### Diversity

In December 2009, the ASX Corporate Governance Council announced that it was proposing to make various amendments to its ASX Governance Principles, including the inclusion of a new recommendation that a listed entity establishes a diversity policy that includes measurable objectives as set by the entity's Board. In light of these amendments, SKILLED is developing an *Equality and Diversity Policy,* which is expected to be finalised and adopted by the second half of the 2011 financial year.

## Our people

At SKILLED, we recognise that our people are our most important asset. We are committed to providing a positive, engaging and safe work environment and strive to become the employer of choice. We place a lot of emphasis on the induction and training of our people and making them genuinely feel part of an organisation that cares about their job satisfaction and wellbeing. During the year, we enhanced our retention strategies that link remuneration to performance, increased staff engagement and offered development and career opportunities. We will continue to develop our employment offering to attract and retain the best staff.

Our outstanding safety record is one of SKILLED's core achievements. We remain committed to the highest standards of Occupational Health and Safety (OHS). Two of the key indicators of safety performance are the Lost Time Injury Frequency Rate (LTIFR) and the All Injury Frequency Rate (AIFR). During the year, our LTIFR (measured as lost time injuries per million hours worked) dropped to 1.02, which is a 54% reduction achieved over the last 12 months. This compares with an LTIFR as high as 69.9 in 1997. The AIFR for SKILLED Group, the primary safety key performance indicator, decreased from 26.33 to 21.39, an 18.8% reduction over the last year. We will continue to work towards achieving our goal of zero harm.

## Outlook

There is some indication that the economy is recovering, with increased demand in staffing services; however the pace seems to be slower than previous rebounds. We are coming to the end of a period of consolidation and many market indicators are showing that demand has begun to recover.

Our cost base is now at a sustainable level and this will flow through to improved margins. This has been assisted by a program of substantial debt reduction resulting in a stronger balance sheet.

We are well positioned to benefit from this restructuring and, if existing conditions continue, we expect to grow the business and deliver stronger returns in the next financial year and beyond.

## Reflections

This will be my last report to you as Chairman.

SKILLED is the clear market leader in its field — working in every major sector of Australian industry; in most geographic areas of Australia through a network of more than 150 branch locations; employing around 25,000 people; and with a turnover close to A$2 billion.

I leave SKILLED truly proud that, as a company, we have set the agenda for flexible employment in Australia. SKILLED has been a pioneer of flexible staffing solutions from its inception in 1964 and the company and its operations have grown dramatically delivering employees for predominantly blue-chip companies and governments right across the nation.

Along the way, SKILLED has driven a fundamental change to employment in this country through the flexible workforce concept — a change process which has had a clear and positive impact on the competitiveness of Australian industry. In that time, we have provided work for hundreds of thousands of Australians.

On behalf of the Board, I would like to thank each of SKILLED's staff who have worked hard and remained focused in the face of very difficult market conditions. Greg Hargrave will be stepping down as CEO and Managing Director as soon as the appointment of the new CEO is confirmed. The Board thanks Greg for his leadership, passion and commitment over the past seven years.

Importantly, I want to thank you, our shareholders, for your continued support of our Company — one which, in my view, has a strong and positive future. I have greatly enjoyed my time as Chairman of SKILLED and it has been a pleasure and privilege to serve you over the past 16 years.

**I look forward to meeting with you at the AGM at the Melbourne Town Hall on 25 October 2010 at 11am.**

**Ken V Loughnan AO**
Chairman

# Managing Director's Report

It has been another challenging year for the SKILLED Group. We experienced signs of recovery with increasing activity levels in the first half of the financial year only to be faced with a slower than expected rate of improvement in the second half.

Pleasingly, the last two months of the financial year showed signs of improvement as our clients began to resume their recruitment, maintenance and capital expenditure programs. The trend has continued into the new financial year. However, the improvement is patchy as our clients still remain cautious with their plans in the current economic environment.

Despite the difficult external environment, we have made solid progress in improving our processes and systems, realigning our structure and making key executive appointments to ensure that we have the right people, processes and systems in place as we embark on our next growth phase.

We have appointed Damian Johnson, John Kempe and Mark Jansen as the CEOs of Staffing Services, Offshore Marine Services (OMS) and ATIVO, respectively. Damian, John and Mark have an excellent depth of knowledge and experience and will work with their teams to capitalise on growth opportunities.

## Performance

The global financial crisis continued to affect our business. Revenue fell by 13% to $1.7 billion; earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 28% to $62.1 million; and net profit after tax (NPAT) fell 55% to $12.7 million.

The performance of the different businesses was impacted by the individual economic and commercial factors affecting those businesses and the patchy nature of the economic recovery.

There was solid growth in Workforce Services in the first half of the financial year, however not at the same rate in the second half following the normal seasonal slowdown. We are beginning to see increased levels of activity driven by civil, construction and mining projects. The ongoing focus on cost management and provision of innovative labour solutions for clients has countered the pressure of reduced volumes and gross margin reductions.

While revenue fell by 10.8% in Other Staffing Services, EBITDA rose 13.8%. Mosaic, our white-collar staffing business, benefited from the extension of the Victorian Government's new public transport ticketing system contract and increased demand for contractors in the professional services and IT&T sectors.

Reduction in both permanent and temporary white-collar recruitment in the small-to-medium enterprise market resulted in a reduction in revenue for PeopleCo. This was offset by significant reductions in personnel and office lease costs as part of the overall restructuring completed during the year.

Origin Healthcare continued to be impacted by the healthcare industry's reduced reliance on agency staff.

OMS was affected by lower sales and margins in the manning business and lower utilisation and higher maintenance costs in the vessel business. This was offset by a strong first year contribution from the OMS Alliance joint venture associated with the Gorgon project off the north-west coast of Australia. We believe that the next six months will continue to be flat but that demand will then grow rapidly with the increased activity expected in the oil and gas sector.

The ATIVO business experienced a sharp decline in the first half due to clients postponing maintenance shutdowns and reducing capital expenditure; however we have seen an increase in activity over the past few months as clients resumed their activities and we are expecting a much stronger year ahead.

Excelior, our call centre business, was negatively impacted by the slowdown in the growth of the call centre outsourcing market, reduction of volumes from continuing contracts and the wind-down of a major contract that was taken offshore.

## Strategic review

As the Chairman has indicated in his report, the strategic review initiated by the Board earlier this year has been completed.

The review confirmed that the fundamentals of the business are strong but identified the need to reduce the Group's debt in light of the Company's financial profile and objectives to grow the business. While we had already substantially reduced our debt from $258.7 million to $184.3 million following the capital raising during the year, the Board determined that the debt level should be around two times EBITDA rather than at the current level of three times EBITDA. The Board has decided to divest Swan Contract Personnel with the sale proceeds to be applied to the Group's debt.

Reducing the debt level will substantially strengthen our balance sheet, ensuring SKILLED is well positioned to benefit from Australia's economic recovery and the next phase of growth.

## Our people

Our business is all about people — employees working at client sites across Australia every day, and our staff who support them. SKILLED has 1,200 office-based staff and management in 150 locations across Australia, New Zealand, Malta, the United Arab Emirates and the United Kingdom.

Our common set of values — safety, knowledge, integrity and leadership — remind us daily that people are our foundation.

### Safety

Safety is our core corporate value and we continue to lead the industry with our safety performance. Our team has delivered an outstanding result with our Lost Time Injury Frequency Rate (LTIFR) dropping to 1.02, a 54% reduction from last year. Our efforts won't stop here. We will continue to put safety first and work with our clients and employees to help achieve our goal of zero harm.

### Knowledge and leadership

During the year we: further evolved the performance enhancement program to link it even more closely with business strategy; developed a new talent program to identify key staff for professional development and inclusion in succession planning; and introduced a formal workforce flexibility options policy. We also launched additional annual leave and flexible work hours programs across the Company.

### Integrity

In line with our values, SKILLED Group has a demonstrated commitment to ensuring that all our employees work in a professional environment without fear of harassment or inappropriate conduct. We will continue to ensure that SKILLED Group is a great place to work for everyone and will not tolerate inappropriate workplace behaviour.

## Going forward

We are encouraged by the increased level of activity across all our businesses but remain cautious on the pace of the recovery. Our clients are beginning to resume, if conservatively, their projects, plans and capital expenditure programs. The last two months of the financial year delivered an upswing in demand and revenue, and to date this trend is continuing.

The key initiatives that we have undertaken internally — cost management, reduction in the Group's debt level, organisational restructure and key executive appointments — along with the strong client relationships that we have built up over the past 45 years, give us a strong platform to enter into the next growth phase.

As announced earlier this year, I will be stepping down from my role as Chief Executive Officer and Managing Director of SKILLED Group.

Skilled Engineering was founded by my father, Frank Hargrave AO, over 45 years ago, pioneering the concept of providing Australian businesses with a flexible workforce. SKILLED Group today is a multi-billion dollar listed company providing flexible employment to around 25,000 people to a predominantly blue-chip client list and is the clear market leader in the staffing services sector.

I am very excited about SKILLED's future prospects. We are strongly positioned for the economic recovery and we have the platform in place for our next growth phase.

I am extremely proud and honoured to have led SKILLED Group over the past seven years. The achievements have been remarkable, particularly given the numerous hurdles that we have faced. This would not have been possible without the support that I have received from the Board, my management team and all SKILLED staff — I sincerely thank you all.

**Greg Hargrave**
Managing Director

# Finance Review

## Income statement

### Revenue

- Revenue for the Group was $1.698 billion, a 13% decrease on the prior comparative period (pcp).
- The first half of the pcp (1H FY09) was the strongest performance for SKILLED Group in its history. This was then followed by a widespread decline in demand as the global financial crisis affected the economy.
- This decline affected the business during 2H FY09 and through the 2010 financial year. Indications of improvement and recovery were seen across the Group in the last two months of the year.

### Earnings before interest, tax, depreciation and amortisation (EBITDA)

- Reported EBITDA decreased 28% to $62.1M (pcp $86.1M).
- Underlying EBITDA (excluding redundancy and branch closure costs of $5.3M and goodwill impairment of $1.7M) decreased 22% to $69.1M reflecting the decrease in revenue partly offset by lower costs.

### Depreciation and amortisation

- Depreciation and amortisation for the year was $21.8M, an increase of 2% on the pcp.
- Depreciation of fixed assets was $10.7M (up from $9.3M in the pcp) and amortisation of computer systems and software was $8.2M (up slightly from $7.9M in the pcp).
- Amortisation of acquired intangibles decreased to $3M reflecting completion of amortisation of some items during the year.

### Interest

- Net interest expense (finance costs less interest revenue) for the year was $26.5M, a decrease of $0.6M on the pcp.
- While there was a lower overall level of debt during the year, principally due to the share placement and share purchase plan during the first half of the year, this was largely offset by higher bank margins incurred.
- Net interest expense includes $2.3M of notional interest on earn-out liabilities for acquisitions (pcp $3.7M). The decrease on the pcp was due to lower liabilities reflecting a number of payments made during the year.

### Tax

- SKILLED's effective tax rate for the period was 8.1%, a decrease of approximately 16.5% on the pcp.
- This decrease was largely due to the following tax benefits, both of which were nil in the pcp:
  - tax consolidation legislation amendments giving rise to revenue tax deductions in respect of the tax cost allocated to certain acquired trading contracts (initial recognition tax benefit of $1.7M); and
  - the tax treatment of the equity accounted profits from the Offshore Marine Services Alliance (OMSA) joint venture, which are recognised on an after-tax basis (tax effect $0.6M).
- There were also favourable adjustments for the research and development (R&D) tax concession for the IT project to replace SKILLED's payroll, billing and finance systems as well as the effect of lower income tax rates in foreign jurisdictions.

### Net profit after tax (NPAT)

- Reported NPAT decreased 55% to $12.7M.
- 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, R&D tax concession, and the impact of tax consolidation adjustments) decreased 44% to $19.2M.

## Balance sheet

- Funds employed stood at $524M at 30 June 2010, funded by $184.4M of net debt and $339.6M of shareholders' equity.
- Funds employed increased by $37.8M (7.8%) compared to the pcp mainly due to increased working capital balances.
- Goodwill decreased by $8.7M due to a combination of foreign exchange rate changes, revised acquisition earn-out liabilities for the OMS companies, and the recognition of goodwill impairment of $1.7M for SKILLED New Zealand.
- Other intangibles decreased by $4.5M to $70.9M, mainly due to amortisation charges partly offset by expenditure on the IT project to replace SKILLED's payroll, billing and finance systems.
- Key financial ratios are as follows:
  - leverage (gross debt / EBITDA) of 2.9 was at a similar level (pcp 3.0);
  - interest cover (EBITDA / interest expense) was 2.5 times (pcp 3.4 times); and
  - gearing (net debt / net debt + equity) decreased to 35% (pcp 53%).
- Shareholders' equity increased by $112.1M largely due to the $99M increase in issued capital. This was mainly due to the share placement/share purchase plan implemented in the first half of the year.

## Cash flow

### Operating activities

- Cash inflows from operating activities of $29.1M were $93.1M lower than the pcp.
- Cash earnings were $20.9M lower than the pcp.
- Working capital balances increased by $34.4M, largely due to higher receivables at balance date as a result of sales in June 2010 being higher than in June 2009.
- A net tax refund of $0.5M compared to tax paid of $18.2M in the pcp reflects the lower level of earnings as well as the cash benefit of the R&D tax concession.

### Investing activities

- The net cash outflow from purchase of businesses of $12.4M was due to acquisition earn-out payments.
- Other capital expenditure of $10.6M comprised $6.9M for intangible assets (mainly computer systems and software and including $2.4M of capitalised interest) and $3.7M for other property, plant and equipment (mainly leasehold improvements and office equipment).

### Financing activities

- Skilled Group Limited issued 67.1M shares during the year, mainly through the share placement and share purchase plan. Net proceeds from issues of equity were $93.4M.
- The proceeds from the issues of equity were largely used to repay debt, which is reflected in the net repayment of borrowings for the year of $81.6M.
- The 2009 final dividend of 1.5 cents per share (cps) was paid during the year. The cash dividend was $2.6M with the balance of approximately $0.3M being added to shareholders' equity through the Dividend Reinvestment Plan (DRP).

# Corporate Structure

## SKILLED
Australia and New Zealand's leading provider of staffing services, delivering trades and maintenance; production and distribution; and technical professional workforce solutions across the industrial sector.

## TESA Mining
Australia's leading provider of skilled and semi-skilled staff to the black coal mining sectors. Operates from the Hunter Valley in New South Wales and the Bowen Basin in Queensland.

## Extraman
Supplies semi-skilled labourers, skilled tradespeople and supervisory personnel to the mining and infrastructure industries and operates in Western Australia and the Northern Territory.

## Tradeforce
Supplies skilled and flexible skilled and semi-skilled staff to the industrial, technical and commercial industries in Auckland, New Zealand.

## Longhill
Specialists in mining and civil recruitment, and projects including subdivisions and freeway construction.

## Origin Healthcare
One of Australia's largest providers of staffing and human resource services to the public and private healthcare sectors.

## Swan Contract Personnel
Operates in Western Australia and Queensland and provides engineering and technical professionals to the oil and gas, petrochemical and mining sectors.

## Mosaic Recruitment
Our white-collar business places executive, professional and business support staff in permanent, contract and temporary roles across a wide range of industries.

## PeopleCo.
Operates in Victoria, New South Wales, Queensland and Western Australia and provides 'local people for local business', servicing the small-to-medium enterprise market.

## Training Services
Learning and development consultancy team dedicated to the development and delivery of quality and customised training services to SKILLED Group's own internal workforce, client employees, and our externally sponsored trainees and apprentices.

## Damstra and Workstream
Providing employee management and monitoring systems across Australia.

## Offshore Marine Services
Provides drilling and marine crews to multinational blue-chip and secondary service businesses in the offshore oil and gas industry. Offshore Marine Services (OMS) operates in Australia, New Zealand, the United Kingdom, Malta and the United Arab Emirates.

## ATIVO
A market leader in the provision of high-quality maintenance, project services, shutdowns and complete asset management to the resources, manufacturing, mining, energy and utilities sectors.

## Pacific Relines
Pacific Relines is a Queensland-based enterprise that specialises in all facets of grinding mill maintenance and general engineering, undertaking over 80 mill reline projects per year in Australia and internationally.

## Waycon
Waycon supplies trades and engineering industry professionals to companies in the manufacturing, fabrication, construction and public utilities sectors. Acquired by SKILLED Group in September 2006, the Waycon brand is the SKILLED specialist construction labour business in New South Wales.

## Excelior
Excelior is a business solutions provider specialising in customer contact optimisation. Operating across five main solution streams, Excelior designs and delivers bespoke solutions that help its clients interact with their customers to achieve business goals.

# Safety and Environment

Safety is our number one corporate value, underpinning every decision we make. Our staff and employees receive the highest standards of care and commitment through induction and ongoing training. We never waver from our goal of **zero harm.**

More than 50,000 employees worked for SKILLED Group during the year, delivering around 35 million labour hours across 9,000 client sites. Ensuring each staff member and employee returns home safely every day, without injury, presents a significant challenge that we continue to meet through our ongoing commitment to improving our safety performance. Over 60 occupational health, safety and environment (OHS&E) professionals work for SKILLED Group and we continue to invest significantly in our safety programs.

## Leading systems and processes

Our safety management systems are certified to the AS / NZS 4801:2001 Standard. We know that embedding a strong safety culture requires significant resources and constant vigilance. Our online safety management system and information portal, Safety Central, is constantly reviewed and enhanced to ensure our safety standards, policies and processes are maintained and strengthened.

In line with our commitment to continually improve our safety management systems, during the year we began rolling out an online OHS training and education program. This initiative will more efficiently deliver tailored safety training over the intranet, which will help staff carry out their day-to-day duties and move towards our goal of zero harm.

## Partnering with our clients to prevent harm

At SKILLED Group we take a "prevention is better than cure" approach to safety. Before any of our employees even step onto a client site, we make sure a comprehensive Workplace Risk Assessment is undertaken. We ensure the site is safe, the job is safe and the client has a suitable OHS management system. Our OHS&E experts continually monitor our clients and work with them to ensure safe working environments for all our employees.

In May this year we also held Safety Month to remind staff, employees and clients of the value of safety.

To ensure safety is kept top of mind, our SKILLED Group Board visited some of our branches and offices from Cairns through to Tasmania and across to Perth to participate in safety talks, morning teas and BBQs.

The improvement in our safety record this year is largely due to the actions of our staff and employees, and Safety Month is also about recognising our achievements and rewarding the staff and employees who contributed to our safety management and performance.

Experience shows that by talking about safety, collaborating to help make our worksites safer places and adhering to our strong safety processes our staff, employees and clients all help to make SKILLED Group a safer place to work.

## Our safety achievements

Our significant investment in safety has achieved laudable results:

- In 2010, SKILLED was an Australian leader in safety performance. We delivered an 18% reduction in our primary safety key performance indicator, the All Injury Frequency Rate (AIFR), down to 21.39 per million hours worked compared to 26.33 for 2009.

> *Ensuring each employee returns home safely every day, without injury, presents a significant challenge that we continue to meet through our ongoing commitment to improving our safety performance.*

- We also reduced our Lost Time Injury Frequency Rate (LTIFR) by 54% for the period. In 1997 our LTIFR for SKILLED Group was 69.9 per million hours worked — in 2010 it was **1.02**.
- Our TESA business achieved an LTIFR of zero during 2010.
- We secured and maintained our self-insurance status for workers' compensation in New South Wales.
- We were also recognised as a finalist in the QComp Return to Work Awards 2009.

## Minimising our environmental impact

SKILLED is committed to minimising our impact on the environment. We recognise that our future competitiveness is dependent upon our ability to meet the demands of our clients, the community and government, including environmental care as a key aspect of responsible business management.

Our aim is to minimise environmental impacts at every stage of work, from planning through to mobilisation, operations and demobilisation. SKILLED is committed to:

- complying with relevant environmental acts, licences and agreements;
- adhering to our clients' environment policies and procedures;
- encouraging new ideas or ways of minimising our environmental impact;
- identifying and rectifying potential environmental impacts of our activities;
- effectively managing our resources, reducing waste and eliminating or minimising harmful environmental effects and risks that may be associated with our operations;
- maintaining our Carbon Neutral Certification through the Carbon Reduction Institute for our Mosaic business;
- periodically reviewing and maintaining our environmental policy and regularly monitoring the Company's environmental compliance; and
- providing safeguards and contingency plans to mitigate potential negative environmental impacts.

In particular, the operations of the Offshore Marine Services (OMS) business are subject to significant environmental regulations under international, commonwealth, state and territory law, in relation to:

- offshore oil and gas supply work;
- offshore drilling;
- offshore underground cable and pipe laying; and
- installation of offshore supply platforms.

These environmental obligations include conditions of regulatory approvals as well as generally applicable statutes and subsidiary legislation. These statutes and subsidiary legislation include, but are not restricted to:

1. the *Protection of the Sea (Prevention of Pollution from Ships) Act 1983* (Commonwealth); and
2. the Australian Maritime Safety Authority (AMSA) Marine Orders 91, 92, 93, 94, 95, 96, 97 and 98.

Neither the Company nor any of our subsidiaries has been prosecuted for any material breaches of environmental regulation during the 2010 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 by 13%, with Scope 1 and 2 emissions of 11.8 kilotonnes.

Carbon emissions relating to OMS-chartered vessels increased to 62.2 kilotonnes, taking SKILLED Group's total emissions to 74 kilo-tonnes. SKILLED 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 does not breach any corporate or facility reporting threshold.

# Our People


Our business is about people: employees working at client sites across Australia every day, and the staff who support them.

SKILLED has 1,200 office-based staff in 150 locations across Australia, New Zealand, Malta, the United Arab Emirates and the United Kingdom.

Our businesses may serve different markets and a variety of locations around the world, but our staff share a common set of values: **safety**, **knowledge**, **integrity** and **leadership.** These values are a mainstay of the culture at SKILLED Group, and they remind us daily that people are our foundation.

Talented people are essential to our competitiveness and sustainability as a Company. We seek to employ people who are highly talented, knowledgeable about the markets we serve, client-focused, adaptable and committed to learning and development. We aim to attract, develop, engage and retain high performers at all levels — leading to better service to our clients.

During the year, we continued to adjust the business structure to maximise efficiency. We developed retention strategies that: offer learning and development and career opportunities; increase staff engagement; and link remuneration to performance. Specific initiatives and achievements during 2010 included:

- The Performance Enhancement Program evolved during the year to align it even more closely with business strategy.
- Training materials were reviewed and improved to increase the effectiveness of the performance enhancement process.
- A new talent program was introduced to identify key staff for professional development and inclusion in succession planning.
- Workforce flexibility, a key pillar of our strategy to attract and retain the best available talent, was further supported with the introduction of a formal flexibility options policy. We also launched additional annual leave and flexible work hours programs across the Company.
- A staff survey provided major insights into people and performance planning for the future, and informed our ongoing programs to increase staff engagement, performance and retention.
- All people policies were revised and updated to help us attract and retain staff and to manage our people practices more easily.

# Community

*From Bundaberg to Roxby Downs; from Christchurch to Tauranga: we've got Australia and New Zealand covered like no other workforce services provider.*

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

We have a proud history of providing sponsorship and charitable support to both national and local organisations and community groups.

Staff community involvement extends to our workplace giving charity partners: The Salvation Army, RSPCA Australia, Garvan Institute, Children's Hospital Foundations Australia, Cancer Council Australia and Lifeline. In 2010, our staff donated almost $11,000 to our charity partners via our Workplace Giving Program and through casual clothes days that helped raise awareness of the contribution each of our charity partners makes to our community.

Through the corporate charity partnership with Reach, the Company provided financial support, and many of our staff had the opportunity to volunteer and participate in events.

Our partnerships with high-profile sporting teams, events and venues provide the Group with opportunities to promote our brands and services across Australia. These sponsorship properties are selected not only for the benefits they provide us but because their values are closely aligned to those of the SKILLED Group:

- SKILLED Stadium in Geelong, home to AFL's Geelong Cats
- SKILLED Park in Robina, Queensland, home to NRL's Gold Coast Titans and A-League's Gold Coast United
- HRT V8 Supercar Team
- SKILLED Burnie 10 foot race in Tasmania
- Skandia Geelong Week
- Classic Cycle Race in Victoria

In addition to our sponsorship and corporate giving, through the SKILLED Technical Trades Foundation we also provide financial and mentoring support to trainees or apprentices who are struggling to complete their qualification or are experiencing barriers to their success.

A member of Corporate Leaders for Indigenous Employment, we are committed to increasing our indigenous workforce to 1,000 by 2012.

As part of our commitment to close the employment gap between indigenous and non-indigenous people, early in the year we signed an agreement with the Commonwealth Department of Education, Employment and Workplace Relations to deliver an Indigenous Program. We employed an Indigenous Employment Manager to oversee the program and are aiming to place 60 indigenous people into full-time or part-time employment.

From mentoring trainees and apprentices and participating in community fund-raising events to donating through our Workplace Giving Program, SKILLED Group, our staff and employees give back every day.

## Our presence

Within Australia, SKILLED Group's geographic coverage is unrivalled. We have a long-established presence in all major metropolitan and regional centres as well as in some of Australia's most remote locations.

Our extensive regional presence ensures our employees and clients are supported by a team with local knowledge who have a strong sense of community and are backed by SKILLED's corporate resources.

At a time when other providers have reduced their footprint, our commitment to this network remains paramount to our business approach.

# Board of Directors


## 01 **Ken V Loughnan** AO, age 63
***DipAcct, FCPA, FAIM, FAICD***

Independent Non-Executive Chairman

Appointed to the Board as Chairman in May 1994, he has been a director for 16 years.

Chairman of the Nomination Committee and a member of the Remuneration Committee and Audit Committee.

### Skills and experience

Ken Loughnan has a strong, top management background and extensive experience in human resource management and finance in the technology sector. He is a former Managing Director and Chief Executive Officer of Telecom Australia (International) Ltd.

### Current directorships and offices

- Commissioner, Victorian Commission for Gambling Regulation (since October 2008)
- Deputy Chair, Victorian State Emergency Telecommunications & Technology Steering Committee (since February 2008)
- Chairman, Victoria University Foundation (since February 2008)
- Deputy Chair, Victorian Defence Industry Advisory Council (since July 2007)
- International Vice President, Variety International (since April 2007)
- Member, Victoria University Council (since October 2003)
- Member, Advisory Committee, Centre for International Corporate Governance Research (CICGR) (since June 1999)
- Chairman, OTEK Australia Pty Ltd (since May 1997)
- Chairman, Management Programs Advisory Board, Victoria University (since April 1992)

## 02 **Greg Hargrave**, age 38
Managing Director and Chief Executive Officer

Appointed CEO in 2003 and a Director of the Board in August 2003, he has served as a director for seven years.

Member of the Nomination Committee and (until March 2010) a member of the Remuneration Committee.

### 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 Manager and in 2003 he was appointed Chief Operating Officer. 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)

## 03 **Kerry Hughes**, age 66
***JP, MAICD***

Independent Non-Executive Director

Appointed to the Board in May 1994. An Executive Director until his retirement as an executive of the Company in August 2005, he has been a director for 16 years.

Chairman of the Risk Committee.

### Skills and experience

Kerry Hughes joined SKILLED in 1977 and was appointed to the Committee of Management upon its establishment in 1990. He has a broad business background with experience in banking, engineering and contracting services and has worked in Australia, New Zealand and the Middle East. Since his retirement as an executive of the Company, he has acted as a Safety Ambassador for the Company. In this capacity, he actively promotes SKILLED's OHS commitment and leadership position to both internal and external stakeholders.

### Current directorships and offices

- Chairman, Charity Link Inc (since January 2010)
- Director, Charity Link Inc (since June 2008)

## 04 **Terry Janes**, age 57
*BComm, FCPA, CFTP, Wharton AMP*

Executive Director and Chief Financial Officer

Appointed CFO and a Director of the Board in July 1998, he has served as a director for 12 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 12 years. Mr Janes has over 20 years experience in a wide range of senior finance roles including CFO for major operating divisions in the steel and minerals business at BHP.


## 05 **Bob Herbert** AM, age 66

*BComm*

**Independent Non-Executive Director**

Appointed to the Board in November 2003, he has been a director for six and a half years.

Chairman of the Remuneration Committee and member of the Risk 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. Mr Herbert 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)
- Chairman, IXC International Ltd – trading as InnovationXchange (since July 2006)
- Trustee, Melbourne Cricket Ground Trust (since November 2003)
- Deputy Chairman, Industry Capability Network Limited (since May 2003)
- Director, Trade Union Education Foundation (since February 2002)

## 06 **Vickki McFadden**, age 51

*BComm, LLB*

**Independent Non-Executive Director**

Appointed to the Board in September 2005, she has been a director for five years.

Chair of the Audit Committee and a member of the Risk Committee and Nomination Committee.

### Skills and experience

Vickki McFadden has broad experience in finance and law and brings to the Board considerable experience in merger and acquisition 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)

## 07 **Peter Gregg**, age 55

*BEc, FFTP, MAICD*

**Independent Non-Executive Director**

Appointed to the Board in March 2009, he has been a director for one and a half years.

A member of the Audit Committee and Remuneration Committee.

### Skills and experience

Peter Gregg is the Chief Financial Officer at Leighton Holdings, having been appointed to the position in October 2009. Peter has extensive experience in finance, strategy, risk management and investor relations. He is a former Director, Chief Financial Officer and Executive General Manager Strategy of Qantas Airways Limited. Prior to joining Qantas, Peter was Treasurer at Australian Airlines and worked in various risk management roles for the Queensland Government.

## 08 **Max Findlay**, age 63

**Independent Non-Executive Director**

Appointed to the Board in March 2010.

As of July 2010, Max became a member of the Risk 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 assumed 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 (since April 2010)
- Chairman, Redflex Limited (since November 2009)
- Director, The Children's Hospital (since March 2009)
- Chairman, EVZ Limited (since April 2008)

## 09 **Tim Paine**, age 46

*BEc, LLB*

**Company Secretary and Group General Counsel**

### Skills and experience

Tim Paine joined SKILLED Group in March 2010 with over 17 years experience in corporate counsel and company secretary roles, including four years at Symbion Health (formerly Mayne Group) as General Counsel and Company Secretary, and 12 years at ANZ Bank in a variety of roles including Deputy Group General Counsel and Company Secretary. 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.

# Corporate Governance

The SKILLED Board has adopted corporate governance principles and practices that:

- recognise that the Board is responsible to shareholders for the performance and growth of the Company;
- establish a framework for identifying and managing the risks of the Company's businesses; and
- comply with best-practice standards of corporate governance to the extent that the Board considers those standards are in the best interests of SKILLED and its shareholders.

## ASX Governance Principles

As a company listed on the ASX, SKILLED 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 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.

Following changes made to the composition of the Company's Board (as detailed below) during the financial year, SKILLED is now complying with all recommendations contained in the ASX Governance Principles.

Some of the key governance initiatives implemented by the Company's Board since 1 July 2009 are as follows:

- **Changes to Board composition – independent majority**

  As reported in the Company's 2009 Annual Report, the SKILLED Board did not, at that time, have a majority of independent directors and therefore did not comply with Recommendation 2.1 of Principle 2 of the ASX Governance Principles ('Structure the board to add value').

  Consistent with our statement in the 2009 Annual Report that we would work towards achieving a majority of independent directors, the Board appointed Mr Max Findlay on 23 March 2010 as a new independent director. Mr Findlay currently holds office until the 2010 SKILLED Annual General Meeting (AGM), and will stand for election at that meeting. In addition, Mr John Dixon, formerly Executive Director and Chief Operating Officer, retired from the Board on 23 March 2010. These changes to the composition of the Board mean that since 23 March 2010 SKILLED has had a majority of independent directors and is in compliance with Recommendation 2.1.

  See section 1(b) below for details of further anticipated changes to SKILLED's Board structure over the coming months, and section 1(c) below for further details in relation to director independence at SKILLED.

- **Establishment of Audit Committee and separate Risk Committee**

  During the reporting period, the Board constituted an Audit Committee and a Risk Committee, which replaced the previous Audit, Risk & Compliance Committee. Separate committees ensure that suitably qualified directors can be appointed to each committee to support the Board's responsibilities to:

  - oversee management's approach to identifying key operational risk areas and to ensure that programs are in place to manage those risks; and
  - monitor the Company's financial management and reporting activities.

  Further details on the composition and the objectives of the Audit Committee and the Risk Committee are set out in section 2 below.

# Corporate Governance continued

- **Equality and diversity**

  In December 2009 the ASX Corporate Governance Council announced that it was proposing to make various amendments to its ASX Governance Principles, including the inclusion of a new recommendation that a listed entity establish a diversity policy that includes measurable objectives as set by the entity's Board. Proposed amendments to the ASX Governance Principles have now been released. It is intended that the reporting requirements for these amendments will apply to an entity's first financial year commencing on or after 1 January 2011. In preparation for these changes, the Company's Board has made various amendments to the charters for both its Remuneration Committee and its Nomination Committee, which outline the principles of diversity to be adopted in SKILLED's recruitment practices, both at Board level and across the organisation generally. The Company's Board has also considered a draft *Equality and Diversity Policy,* which is expected to be finalised and adopted by the second half of the 2011 financial year.

The Company's website (www.skilledgroup.com.au) has a separate Corporate Governance section, which provides public access to much of the material referred to in this section of the Annual Report.

The following is a summary of the main corporate governance practices that were in operation throughout the year ending 30 June 2010.

## 1. The Board

### (a) 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. Directors are accountable to the shareholders for the performance of the Company.

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 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's businesses to achieve these goals;
- approving financial plans and annual budgets;
- monitoring business performance and results;
- approving key management recommendations (such as major capital expenditure, acquisitions, divestments, restructuring and funding);
- appointing and reviewing the performance of the MD and senior management;
- reporting to shareholders on the Company's direction and performance;
- overseeing the management of OHS 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 the Company's financial affairs; and
- meeting statutory and regulatory requirements and overseeing the way business risks and SKILLED's assets are managed.

The Board reviews and approves the Company's business plans and guiding policies. Day-to-day management of the Company's affairs and implementation of strategy and policy initiatives are delegated to the MD and to senior executives.

Formal position descriptions that detail key accountabilities and authorities have been issued for the MD/CEO and the CFO.

All executives are subject to an annual performance review based on previously established performance measurement criteria and objectives. The Remuneration Report sets out the underlying principles for evaluating the performance of senior executives. During the reporting period, senior executives have been subject to a performance evaluation.

All directors appointed since 1 July 2003 have received a formal letter of appointment.

### (b) Composition of the Board

The names of the directors of the Company in office at the date of this Annual Report are given in the Directors' Report.

The composition of the Board is currently determined using the following principles:

- The Board should be comprised of a minimum of seven and a maximum of 12 directors.
- The Chair is an independent, non-executive director.
- The roles of the Chair and the CEO should not be exercised by the same individual.
- The Board members should have a broad range of expertise and backgrounds. In particular, the Company endeavours to maintain directors who have experience relevant to the diverse range of industries that SKILLED is exposed to in our business dealings. If the need for a new Board member is identified, the Board then appoints the most suitable candidate who must then stand for election at the next AGM.

The Board is currently comprised of eight directors, being six non-executive directors and two executive directors.

The following further changes to the Board structure are anticipated in the coming months:

- The chairman, Mr Ken Loughnan AO, and Mr Kerry Hughes intend to retire from the Board following the 2010 SKILLED AGM.
- Following the expected commencement in late 2010 of a newly appointed MD and CEO, Mr Greg Hargrave will step down from his executive role but stay on as a director on the Board.
- The Board intends to appoint an additional non-executive director by the end of December 2010, and a second additional non-executive director by the end of March 2011.

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, and allocated by the Board on the recommendation of the Nomination Committee. The policy on directors' remuneration and relevant details are contained in the Remuneration Report.

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

### (c) 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. Currently, the Board has five independent, non-executive directors — Mr Ken Loughnan AO (due to retire at the conclusion of this year's AGM), Mr Bob Herbert AM, Ms Vickki McFadden, Mr Peter Gregg and Mr Max Findlay.

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. Mr Ken Loughnan has served as Chairman of the Board for 16 years and he continues to make a

# Corporate Governance continued

strong contribution to the Board. However, as noted above, Mr Ken Loughnan, and Mr Kerry Hughes (who has also given outstanding service to the Board for 16 years) intend to retire from the Board following the 2010 AGM.

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

### (d) Review of Board performance

The Chair regularly reviews the Board's overall performance as well as the performance of Board committees and individual directors. This is undertaken by a series of peer reviews to identify areas of concern and opportunities for improvement. The Chair's report is made available to all directors and considered by the full Board. The most recent review of Board performance was undertaken in May 2009.

The SKILLED Board is currently undergoing significant change to its composition. The Board has therefore decided that the next review of Board performance should be deferred until these changes have been completed to maximise the value of any such review. The Board anticipates the next performance review will be in the second half of the 2011 financial year.

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

### (e) Directors' conflicts of interest

Directors' outside interests that are likely to conflict with the interests of the Company are declared by the relevant director at the time when the interest arises or the potential conflict becomes apparent. 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.

### (f) Independent professional advice

With the prior approval of the Chair, 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.

### (g) Appointment and re-election of Board members

In searching for and selecting new directors to the Board, the Nomination Committee identifies any gaps in the skills and experience of the directors on the Board and then, using external consultants as appropriate, identifies candidates with the appropriate expertise and experience. The most suitable candidate is appointed by the Board but must stand for election by the shareholders at the next AGM.

New appointees must 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.

For future appointments, in line with the Nomination Committee's revised *Charter*, the Committee will include in its considerations an assessment of the diversity characteristics required by the Board.

The process for re-election of a director is in accordance with the Company's Constitution, which requires that, other than the MD and those directors appointed during the year, one-third (or the nearest number to one-third) must retire by rotation at each AGM and are eligible to stand for re-election. Directors appointed during the year to fill any vacancy must retire and stand for election.

Before each AGM, 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.

## 2. Board committees

### (a) Audit Committee

The main objective of the Audit Committee is 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 system;
- 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 to ensure 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.

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

The Audit Committee met during the year as required.

The members of the Audit Committee are:

- Ms Vickki McFadden (Chair);
- Mr Ken Loughnan AO; and
- Mr Peter Gregg.

### (b) Risk Committee

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

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

The Risk Committee met during the year as required.

The members of the Risk Committee are:

- Mr Kerry Hughes (Chair);
- Mr Bob Herbert AM;
- Ms Vickki McFadden; and
- Mr Max Findlay (appointed 20 July 2010).

Mr John Dixon was also a member of the Risk Committee until his retirement from the Board on 23 March 2010.

### (c) 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 MD and senior executives. This role also includes responsibility for share option schemes, incentive performance packages, and retirement and termination entitlements. 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 in the Corporate Governance section of www.skilledgroup.com.au.

The members of the Remuneration Committee during the year were:

- Mr Bob Herbert AM (Chair);
- Mr Ken Loughnan AO;
- Mr Greg Hargrave (retired from this Committee on 22 March 2010); and
- Mr Peter Gregg.

Following the retirement of Mr Greg Hargrave from the Remuneration Committee on 22 March 2010, the Committee has consisted entirely of independent directors.

The Remuneration Committee meets as required.

# Corporate Governance continued

### (d) 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.

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 in the Corporate Governance section of www.skilledgroup.com.au.

The members of the Nomination Committee during the year were:

- Mr Ken Loughnan AO (Chair);
- Mr Greg Hargrave; and
- Ms Vickki McFadden.

The Nomination Committee meets as required.

## 3. Risk management

### (a) Controlling and managing risks

All business activities contain an element of risk. SKILLED's philosophy on risk is to identify a risk in advance, determine potential risk mitigation strategies, assess the risk in terms of the risk/reward equation and then determine how to proceed. The key areas of risk faced by SKILLED are:

1. 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.
2. Contractual risk, being the nature of the performance and indemnity requirements in contracts with customers.
3. OHS risk in respect of our employees.
4. Operational risk, which arises from inadequate or failed internal processes, people and systems, or from external events.

Appropriate policies and procedures have been developed 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'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's *Risk Management Policy* is available in the Corporate Governance section of www.skilledgroup.com.au.

### (b) 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.

1. **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.
2. **Quality and integrity of personnel**: The Company's policies are detailed in quality assurance procedures.
3. **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 Committee. External resources are used to augment this function.
4. **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.
5. **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.

### (c) Audit independence

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

- The Audit Committee monitors the independence, objectivity, effectiveness and scope of the external audit and reviews the external auditor's findings and recommendations.
- The Audit 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 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 Limited since before our ASX listing in July 1994. Following the retirement of Mr Chris Biermann as the audit engagement partner upon completion of the audit for the year ended 30 June 2009, Mr Tom Imbesi was appointed as the audit engagement partner.

### (d) Australian Quality Standard ISO 9001

SKILLED strives to ensure that our services are of the highest standard. To this end, we have sought and achieved ISO 9001 accreditation for each of our business segments. The quality accreditation procedures encompass aspects of the Company's internal control framework.

## 4. Ethical standards

### (a) Shareholder communications

SKILLED 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 AGM and is available to respond to questions from shareholders.

# Corporate Governance continued

## (b) Ethics policy

The Company has a *Code of Ethics Policy* 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 Policy* and *Code of Conduct* is communicated to all employees. SKILLED's *Code of Ethics Policy* 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.

## (c) 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.

## (d) Buying and selling of shares

During the reporting period, SKILLED had a policy that governed the buying and selling of SKILLED shares by directors and officers of the Company. For the purpose of this policy, officers include members of the Executive Committee, business unit managers and senior national managers.

Under this policy:

- The Board recognised that it was the individual responsibility of each director, officer and employee to ensure that they complied with the spirit and the letter of insider trading laws.
- Directors, officers and employees were prohibited from buying, selling or otherwise trading in the Company's shares if they possessed material, price-sensitive information that was not yet public.
- Directors and officers were not to buy and sell Company securities in the six-week period before, and the one-day period after, Company announcements of half-year and full-year profit results.

During the reporting period, SKILLED commenced a review of our share trading policy. Following this review, the Board adopted a revised *Policy for Dealing in SKILLED Securities.* Under this revised policy:

- Directors, officers and staff who are subject to the policy (relevant persons) must not deal in SKILLED's securities on a short-term trading basis.

- Relevant persons must not deal in SKILLED securities during the defined restricted periods, namely:
  - (a) 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
  - (b) 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 securities during defined window periods 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 securities, receive approval for any proposed dealing in SKILLED securities.

SKILLED's *Policy for Dealing in SKILLED Securities* is available 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.

### (e) No hedging

The rules of the Skilled Group Limited Executive Long-Term Incentive Plan prohibit any portion of an option 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:

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

If the Board determines that a breach has occurred, then the portion of an option or performance right that has not yet vested or been exercised will immediately lapse.

# Directors' Report

The directors of Skilled Group Limited (the Company) present the annual financial report for the financial year ended 30 June 2010. 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:

| | |
|---|---|
| KV Loughnan AO | VA McFadden |
| GM Hargrave | PA Gregg |
| TB Janes | MJ Findlay (appointed 23 March 2010) |
| RN Herbert AM | JB Dixon (resigned 23 March 2010) |
| KW Hughes | |

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 this Annual Report.

The Remuneration Report set out at pages 33 to 42 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 $12,701,000 (2009: $28,254,000).

## Dividends

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

For the financial year ended 30 June 2009 a final dividend of 1.5 cents per share franked to 100% (at a corporate income tax rate of 30%) was paid on 14 October 2009 to holders of fully paid ordinary shares.

## 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 26 August 2010 Skilled Group Limited announced the results of the strategic review of the Group's business portfolio, performance and prospects. As a result of the strategic review the Board has decided to divest Swan Contract Personnel (Swan). In 2010 Swan, which forms part of the Other Staffing Services segment, generated sales of approximately $170 million and EBITDA of $8.5 million. The sale of Swan will have the dual benefits of strengthening the consolidated entity's balance sheet through debt reduction and placing the Company in a strong position for its next phase of growth.

Other than this event, there has been no matter of circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the 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

In October 2009 the Executive Long-Term Incentive Plan (ELTI Plan) was established as part of the remuneration strategy. Details of the Executive Share Option 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 key management personnel.

The current ELTI Plan replaces the Executive Share Option Plan 2006 under which no further share options will be issued. 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 are detailed in Note 38 to the financial statements. No additional share options or performance rights have been issued since the end of the financial year.

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 | 398,000 | 4.92 | 05/04/2009 | 04/04/2012 | 1.18 |
| 15/11/2006 | 1,592,000 | 5.81 | 15/11/2009 | 14/11/2012 | 1.62 |
| 02/11/2007 | 1,979,000 | 5.29 | 02/11/2010 | 01/11/2013 | 1.47 |
| 21/10/2008 | 5,196,000 | 2.52 | 21/10/2011 | 20/10/2014 | 0.71 |
| 19/11/2009 | 724,000 | 2.28 | 19/11/2012 | 18/11/2015 | 0.72 |
| | **9,889,000** | | | | |

## Performance rights

| Grant date | Number | Vesting date | Value at grant date per performance right $ |
|---|---|---|---|
| 19/11/2009 | 437,800 | 19/11/2012 | 2.11 |
| | **437,800** | | |

## Board committees

During the financial year, the Board operated an Audit, Risk & Compliance Committee, which was subsequently replaced by an Audit Committee and a Risk Committee on 21 July 2009. A Remuneration Committee and a Nomination Committee were also in operation during the year.

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, Risk & Compliance Committee | | Audit Committee | | Risk Committee | | Remuneration Committee | | Nomination Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| KV Loughnan AO | 18 | 18 | 1 | 1 | 5 | 4 | | | 3 | 3 | 6 | 6 |
| GM Hargrave | 18 | 18 | | | | | | | 3 | 3 | 6 | 6 |
| TB Janes | 18 | 16 | | | | | | | | | | |
| RN Herbert AM | 18 | 18 | | | | | 3 | 2 | 3 | 3 | | |
| KW Hughes | 18 | 16 | | | | | 3 | 3 | | | | |
| JB Dixon (i) | 12 | 11 | | | | | 2 | 2 | | | | |
| VA McFadden | 18 | 18 | 1 | 1 | 5 | 5 | 3 | 3 | | | 6 | 5 |
| PA Gregg | 18 | 13 | 1 | 1 | 5 | 4 | | | 3 | 3 | | |
| MJ Findlay (ii) | 6 | 6 | | | | | | | | | | |

(i) Resigned 23 March 2010
(ii) Appointed 23 March 2010

# Directors' Report continued

## 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 |
|---|---|---|
| KV Loughnan AO | 227,071 | - |
| GM Hargrave | 57,725,283 | 1,763,000 |
| JB Dixon (i) | 195,754 | 1,271,000 |
| TB Janes | 100,000 | 961,000 |
| RN Herbert AM | 11,189 | - |
| KW Hughes | 15,434 | - |
| VA McFadden | - | - |
| PA Gregg | 20,000 | - |
| MJ Findlay (ii) | - | - |

(i) Resigned 23 March 2010
(ii) Appointed 23 March 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 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.

## 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 Safety and Environment section on page 14 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 43.

## 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,

**KV Loughnan AO**
Chairman

**GM Hargrave**
Managing Director

Melbourne
7 September 2010

# Remuneration Report



## Section 1: Non-executive directors' remuneration

Non-executive directors' fees are reviewed annually and are determined by the Board based on recommendations from the Nomination Committee. In making its recommendations, the Nomination Committee takes into account fees paid to other non-executive directors of comparable companies and, where necessary, will seek external advice.

Non-executive directors' fees are within the maximum aggregate limit of $900,000 per annum agreed to by shareholders at the Annual General Meeting (AGM) held on 21 October 2008. 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' fees were last increased effective as at 1 October 2006. To preserve the independence and integrity of their position, non-executive directors do not receive performance-based bonuses.

The fee structure as at the date of this report is set out in the table below:

| Role | Current fee |
|---|---|
| Chairman | $165,000 |
| Chairman of Audit Committee<br>(or, until August 2009, the Audit, Risk & Compliance Committee) | $ 86,900 |
| Non-executive director | $ 75,900 |

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 the guidelines set out (at Box 8.2) under Principle 8 of the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations.

## Section 2: Executive remuneration

### Philosophy

The overall objective of the Company's approach to executive remuneration is to have practices and policies that will enable it to attract, retain, motivate and reward executives of the calibre required to be successful in terms of delivering long-term returns to shareholders. To achieve this, the Company has adopted the following philosophy with respect to executive remuneration.

- Remuneration practices adopted by the Company will be legal and ethical.
- The Company will provide appropriate remuneration disclosures and will seek to maintain the highest standards of clarity and transparency in communications with shareholders.
- The Company will take into account corporate governance principles and guidelines issued from time to time by relevant organisations and institutions and will make decisions based on the best interests of the Company and its shareholders.
- The Company will comply with regulatory requirements relating to:
  - shareholder approval of both binding and non-binding resolutions regarding executive remuneration; and
  - disclosure of executive remuneration in annual reports or elsewhere.
- Remuneration for each executive will comprise fixed and variable components. The value to the executive of the remuneration received will vary according to performance of the Company and/or a brand and/or business unit and/or the executive.
- All executives will participate in an annual performance review, at which time financial, growth and other objectives for the next 12 months will be determined.
- At-risk incentives are designed to promote continuous increases in annual performance outcomes and sustained delivery of long-term shareholder wealth. They are also intended to provide the opportunity for the executive to receive superior remuneration when superior results for shareholders are delivered.
- The Company believes that the long-term interests of executives and shareholders should be aligned and that such alignment is best achieved by executives having shareholdings in the Company. Therefore, executive remuneration should facilitate and encourage executives to receive part of their remuneration in the form of shares in the Company and to retain that equity.

### Strategy

Executive remuneration will be composed of the following major elements:

- fixed remuneration;
- short-term incentive; and
- long-term incentive.

Each of these is described in more detail below.

#### Fixed remuneration

The fixed remuneration (total package value or TPV) consists of cash salary, benefits, fringe benefits tax and gross-up in relation to costs that do not qualify as company income tax deductions such as company superannuation contributions in excess of the deductible limits. Statutory obligations in relation to superannuation contributions must be fulfilled as part of the construct of remuneration packages.

# Remuneration Report continued

The types of benefits that can be packaged by executives include novated car leases and additional superannuation contributions.

Benchmarking of executive remuneration is conducted annually against executive remuneration practices for:

- Executive roles having similar scope, accountability and complexity to those being reviewed. Certain positions may be benchmarked against other positions within the Company so that internal relativities are maintained.
- Executive roles in companies listed on the ASX with market capitalisations similar to that of the Company's and/or within an industry sector in which the Company has operations. Roles that are not appropriate comparators because of industry sector incompatibility or otherwise, even if they are close to the Company's size in terms of market capitalisation, are excluded.

To enable our business to manage challenging business circumstances, our Executive Leadership Team and directors made a unanimous decision to reduce their remuneration by 10% from the period 1 March 2009. Full remuneration was returned in January 2010 in light of improving business conditions and the economic climate. In addition, all executive annual remuneration reviews were suspended and no incentive payments were made during the year under the Executive Short-Term Incentive Plan.

### Short-term incentive

The Executive Incentive Plan (EIP) has been established to provide competitive performance-based cash incentives to the Executive Leadership Team. Its objective is to provide participants with an opportunity to achieve total remuneration packages, including at-risk remuneration, in the top quartile of market practice when outstanding performance is achieved. The EIP reflects a strong commitment towards attracting and retaining a high-performing leadership team that is committed to the ongoing success of the Group.

For each year, the Board determines a minimum level of net profit after tax (NPAT) that must be achieved for there to be any incentives payable under the EIP. Thus, if the threshold level of NPAT is not achieved, then no incentive payments under the Plan will be made to participants, irrespective of performance in relation to any other performance criteria. The Board retains discretion to increase or decrease incentive payments to take account of significant events and/or other factors that were not anticipated when the threshold level of NPAT or performance objectives was established.

Performance objectives are established for each eligible executive at the start of the year and are structured to reflect executives' potential impact on the business. The performance objectives may be the achievement of EBIT targets at Group, brand and business unit levels, as well as individual performance objectives.

Standards of performance are the levels of achievement for each performance objective and are set at three tiers:

- Threshold — the minimum acceptable level of performance that needs to be achieved before any incentive payment would be generated in relation to that performance objective.
- Target — represents strong performance outcomes relative to past and otherwise expected achievements.
- Stretch — represents a clearly outstanding level of performance.

The EIP 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 as it sees fit.

The Board reserves the right to pay a higher incentive when exceptional outcomes are delivered or where warranted by special circumstances.

SKILLED Group did not achieve the minimum threshold level of NPAT performance for the year. As a result, there were no incentives accrued in 2010 in relation to the below noted executive directors and key management personnel.

| | Maximum that could be earned | Achieved |
|---|---|---|
| | % of TPV | % of TPV |
| GM Hargrave | 80 | - |
| JB Dixon | 60 | - |
| TB Janes | 60 | - |
| KW Bieg | 40 | - |
| BM Maher | 40 | - |
| TA Paine | 40 | - |
| CA Renner | 40 | - |
| NJ Daly | 40 | - |

### Long-term incentive

In light of the changing economic landscape and legislative environment, the Board established a new Executive Long-Term Incentive Plan (ELTI Plan) applying from 1 July 2009. The new ELTI Plan provides flexibility to deliver long-term incentive awards to executives in the form of share options, performance rights (PRs) and cash awards or a combination of those awards. All options and performance rights are issued by Skilled Group Limited, and holders will be issued fully paid ordinary SKILLED shares upon exercise or vesting of the options or performance rights. This ELTI Plan replaces the Executive Share Option Plan 2006, under which no further options have been granted.

Under the ELTI Plan, the Board has discretion to make offers under the Plan in future years on the terms it thinks appropriate, including different combinations of awards and different performance hurdles.

During 2010, 724,000 options and 498,800 performance rights over SKILLED shares have been granted under this plan to a number of executives.

The terms under which the 724,000 share options were granted during 2010 are outlined below:

| Design feature | Plan rule | Terms for share options granted in 2010 |
|---|---|---|
| Term of option | ■ Up to six years at Board discretion.<br>■ Options lapse if they are not exercised by the end of their term. | ■ Six years.<br>■ Options lapse if they are not exercised by the end of their term. |
| Cost to executives of options | ■ Nil unless otherwise determined by the Board. | ■ Nil |
| Exercise price | ■ Market price of a share when the option is granted.<br>■ Market share price defined as five-day average consistent with tax legislation.<br>■ Board discretion to be applied in extenuating circumstances with the aim of neutralising temporary price spikes or troughs. | ■ Market price of a share when the option is granted.<br>■ Market share price defined as five-day average consistent with tax legislation. |
| Performance vesting condition | ■ Performance measure is EPS performance determined by the Board at time of grant.<br>■ Measurement period is three years from the beginning of the financial period from which the performance measurement commences. | ■ See below for vesting scale re options granted in 2010.<br>■ In respect to options over 724,000 shares granted in 2010, the measurement period is three years from 1 July 2009. |
| Exercise | ■ At any time between when the options vest and when they lapse.<br>■ No option can be exercised unless:<br>– the exercise date is a minimum of three years from the grant date; and<br>– the performance criteria have been met.<br>■ Participants need to pay the exercise price. | ■ As per the plan rule. |

| Design feature | Plan rule | Terms for share options granted in 2010 |
|---|---|---|
| No hedging of unvested executive options | ■ The rules of the Skilled Group Limited Executive Long-Term Incentive Plan (ELTI) prohibit any portion of an option that has not vested to be hedged using financial products designed to eliminate risk of price movement in the underlying share.<br>■ 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:<br>– immediate forfeiture of any portion of any option that has previously been granted, which has not yet vested or been exercised;<br>– exclusion from participation in future grants of long-term incentives; and<br>– other disciplinary action, including termination of employment.<br>■ If the Board determines that a breach has occurred, the portion of an option which has not yet vested or been exercised will immediately lapse. | ■ As per the plan rule. |
| Termination of employment | ■ Death and total permanent disablement, Company-initiated termination for other than cause (e.g. retrenchment), or retirement (permanent retirement with the consent of the Board):<br>– unvested options will be allowed to continue until three years from date of grant and then (based on performance) will either lapse or vest. Then have six months from date of vesting to exercise, otherwise they lapse; and<br>– six months* in which to exercise any vested options which exist at time of termination of employment, or they lapse.<br>■ Resignation:<br>- unvested options lapse; and<br>- 30 days* in which to exercise vested options or they lapse.<br>■ Dismissal for cause:<br>– unvested options lapse; and<br>– unexercised options lapse.<br>Note: * period to exercise cannot exceed period remaining in the term of the options. | ■ As per the plan rule. |

# Remuneration Report continued

The terms under which the 498,800 performance rights were granted during 2010 are outlined below:

| Design feature | Plan rule | Terms for performance rights granted in 2010 |
|---|---|---|
| Term of rights | ■ Three years. | ■ Three years. |
| Cost to executives of rights | ■ Nil unless otherwise determined by the Board. | ■ Nil |
| Performance vesting condition | ■ Performance measure is EPS performance determined by the Board at time of grant.<br>■ Measurement period is three years from the beginning of the financial period from which the performance measurement commences.<br>■ Where the performance measure is not achieved at conclusion of measurement period, performance rights will automatically lapse. | ■ See below for vesting scale re rights granted in 2010.<br>■ In respect to rights over 498,800 shares granted in 2010, the measurement period is three years from 1 July 2009. |
| Vesting | ■ Performance rights will automatically convert to ordinary shares when the rights vest. No exercise price is required to be paid by the executive upon vesting of the performance rights. | ■ As per the plan rule. |
| No hedging of unvested executive performance rights | ■ The rules of the Skilled Group Limited Executive Long-Term Incentive Plan (ELTI) prohibit any portion of a performance right that has not vested to be hedged using financial products designed to eliminate risk of price movement in the underlying share.<br>■ 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:<br>– immediate forfeiture of any portion of any performance right that has previously been granted, which has not yet vested;<br>– exclusion from participation in future grants of long-term incentives; and<br>– other disciplinary action, including termination of employment.<br>■ If the Board determines that a breach has occurred, the portion of a performance right which has not yet vested will immediately lapse. | ■ As per the plan rule. |

| Design feature | Plan rule | Terms for performance rights granted in 2010 |
|---|---|---|
| Termination of employment | ■ Death and total permanent disablement, Company-initiated termination for other than cause (e.g. retrenchment), or retirement (permanent retirement with the consent of the Board):<br>– unvested rights will be allowed to continue until three years from date of grant and then (based on performance) will either lapse or vest; and<br>– vested rights will be converted to shares in the Company.<br>■ Resignation:<br>– unvested rights lapse.<br>■ Dismissal for cause:<br>– unvested rights lapse. | ■ As per the plan rule. |

Performance vesting scale for options and performance rights granted in 2010:

| | Minimum average annual percentage EPS growth | % of share options to vest | % of performance rights to vest |
|---|---|---|---|
| Below threshold | | 0% | 0% |
| Threshold | 8% | 50% | 25% |
| >Threshold but < Target | | Pro-rata | Pro-rata |
| Target | 15% | 100% | 50% |
| >Target but < Stretch | | 100% | Pro-rata |
| Stretch | 20% | 100% | 100% |

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

During the financial year, the following share-based arrangements were in existence:

## Share options

| Grant date | Exercise price per share option $ | Exercise period Commence-ment | Date expiring | Value at grant date per share option $ | Vesting date |
|---|---|---|---|---|---|
| 05/04/2006 | 4.92 | 05/04/2009 | 04/04/2012 | 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 share option expiry date. |
| 15/11/2006 | 5.81 | 15/11/2009 | 14/11/2012 | 1.62 | |
| 02/11/2007 | 5.29 | 02/11/2010 | 01/11/2013 | 1.47 | |
| 21/10/2008 | 2.52 | 21/10/2011 | 20/10/2014 | 0.71 | |
| 19/11/2009 | 2.28 | 19/11/2012 | 18/11/2015 | 0.72 | |

## Performance rights

| Grant date | Vesting date | Value at grant date per performance right $ | Vesting date |
|---|---|---|---|
| 19/11/2009 | 19/11/2012 | 2.11 | Performance 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. |

# Remuneration Report continued

## Section 3: Remuneration tables

The following table discloses the remuneration of the directors of the Company for the year ended 30 June 2010.

| | | Short-term employee benefits | | | Post-employment benefits | Long-term employee benefits | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Title | Salary/fees $ | Short-term incentive $ | Non-monetary $ | Superannuation $ | Other long-term employee benefits $ | Equity-settled share-based payment $ | Total $ | Proportion of total that is performance related % |
| KV Loughnan AO | Non-Executive Chairman | 128,126 | - | 17,093 | 11,531 | - | - | 156,750 | - |
| PA Gregg | Non-Executive Director | 67,435 | - | - | 4,670 | - | - | 72,105 | - |
| GM Hargrave | MD & CEO | 735,918 | - | 25,201 | 14,461 | 26,167 | 28,962 | 830,709 | 7 |
| RN Herbert AM | Non-Executive Director | 72,105 | - | - | - | - | - | 72,105 | - |
| KW Hughes | Non-Executive Director | 77,798 | - | - | - | - | - | 77,798 | - |
| TB Janes | Executive Director & CFO | 361,538 | - | 39,049 | 47,821 | 11,293 | 12,461 | 472,162 | 5 |
| VA McFadden | Non-Executive Director | 75,739 | - | - | 6,816 | - | - | 82,555 | - |
| MJ Findlay (i) | Non-Executive Director | 20,435 | - | - | - | - | - | 20,435 | - |
| JB Dixon (ii) | Executive Director & COO | 562,680 | - | - | 40,000 | 11,438 | 12,635 | 626,753 | 4 |
| **Total** | | **2,101,774** | **-** | **81,343** | **125,299** | **48,898** | **54,058** | **2,411,372** | **-** |

(i) Mr MJ Findlay was appointed on 23 March 2010.
(ii) Mr JB Dixon resigned on 23 March 2010.

The following table discloses the remuneration of the directors of the Company for the year ended 30 June 2009.

| | | Short-term employee benefits | | | Post-employment benefits | Long-term employee benefits | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Title | Salary/fees $ | Short-term incentive $ | Non-monetary $ | Superannuation $ | Other long-term employee benefits $ | Equity-settled share-based payment* $ | Total $ | Proportion of total that is performance related % |
| KV Loughnan AO | Non-Executive Chairman | 123,310 | - | 17,176 | 19,014 | - | - | 159,500 | - |
| PA Gregg (i) | Non-Executive Director | - | - | - | 18,630 | - | - | 18,630 | - |
| GM Hargrave | MD & CEO | 745,189 | - | 26,401 | 12,599 | - | (342,158) | 442,031 | - |
| RN Herbert AM | Non-Executive Director | 73,370 | - | - | - | - | - | 73,370 | - |
| KW Hughes | Non-Executive Director | 73,370 | - | - | - | - | - | 73,370 | - |
| TB Janes | Executive Director & CFO | 359,828 | - | 28,343 | 98,745 | - | (351,732) | 135,184 | - |
| VA McFadden | Non-Executive Director | 77,068 | - | - | 6,936 | - | - | 84,004 | - |
| JB Dixon (ii) | Executive Director & COO | 566,588 | - | - | 46,667 | - | (455,086) | 158,169 | - |
| **Total** | | **2,018,723** | **-** | **71,920** | **202,591** | **-** | **(1,148,976)** | **1,144,258** | **-** |

(i) Mr PA Gregg was appointed on 24 March 2009.
(ii) Mr JB Dixon resigned on 23 March 2010.
* Equity-settled share-based payments are negative amounts reflecting the write-back of amortised options due to performance criteria no longer expected to be met.

The following table discloses the details of remuneration of key management personnel of the consolidated entity, other than executive directors, for the year ended 30 June 2010.

| | | Short-term employee benefits | | | Post-employment benefits | Termination benefits | Other long-term employee benefits | Equity-settled share-based payment | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Short-term incentive | Non-monetary | Superannuation | | Other | Options & rights | Total | Proportion of total that is performance related |
| Name | Title | $ | $ | $ | $ | $ | $ | $ | $ | % |
| KW Bieg (i) | Company Secretary | 115,205 | - | 3,806 | 2,390 | - | - | - | 121,401 | - |
| TW Punchard (ii) | Chief Information Officer | 66,761 | - | - | 3,615 | 189,252 | - | - | 259,628 | - |
| J Caporale | CEO – SKILLED Workforce Services | 545,859 | - | - | 9,641 | - | 13,221 | 14,654 | 583,375 | 5 |
| NJ Daly | Group Executive General Manager OHSE | 203,141 | - | 148,183 | 25,716 | - | 4,904 | 4,531 | 386,475 | 4 |
| CA Renner (iii) | Chief Strategy Officer | 249,884 | - | - | 10,846 | 127,867 | 4,206 | 3,893 | 396,696 | 2 |
| BJ Maher (iv) | Company Secretary | 166,057 | - | 21,019 | 15,063 | 133,310 | 3,205 | 2,967 | 386,027 | 2 |
| TA Paine (v) | Company Secretary & Group General Counsel | 85,136 | - | - | 3,615 | - | - | - | 92,453 | - |
| DW Johnson (vi) | Executive General Manager - Shared Services | 367,622 | - | 1,026 | 14,461 | - | 9,615 | 10,615 | 403,339 | 5 |
| **Total** | | **1,847,773** | **-** | **174,034** | **85,347** | **450,429** | **35,151** | **36,660** | **2,629,394** | **-** |

(i) Held position until 05/09/2009
(ii) Held position until 22/07/2009
(iii) Held position until 24/03/2010
(iv) Held position until 01/04/2010
(v) Appointed 29/03/2010
(vi) Appointed 20/05/2010 as Chief Executive Officer - Staffing Services

# Remuneration Report continued

The following table discloses the details of remuneration of the key management personnel of the consolidated entity, other than executive directors, for the year ended 30 June 2009.

| | | Short-term employee benefits | | | Post-employment benefits | | Equity-settled share-based payment* | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Salary/fees | Short-term incentive | Non-monetary | Superannuation | Other | Options | Total | Proportion of total that is performance related |
| Name | Title | $ | $ | $ | $ | $ | $ | $ | % |
| KW Bieg (i) | Company Secretary | 154,167 | - | 41,668 | 111,696 | - | (81,785) | 225,746 | - |
| CW Chalwell (ii) | COO – SKILLED Workforce Services | 108,309 | - | - | 19,457 | - | (114,568) | 13,198 | - |
| PR McCormick (iii) | Chief Safety Officer | 111,766 | - | 379 | 17,584 | - | (98,436) | 31,293 | - |
| J Caporale | CEO – SKILLED Workforce Services | 385,000 | - | - | - | - | - | 385,000 | - |
| NJ Daly | Group Executive General Manager OHSE | 210,548 | - | 95,419 | 28,525 | | (81,415) | 253,077 | - |
| TW Punchard (iv) | Chief Information Officer | 318,384 | - | - | 13,745 | - | (89,426) | 242,703 | - |
| CA Renner (v) | Chief Strategy Officer | 327,366 | - | - | 13,745 | | (19,725) | 321,386 | - |
| **Total** | | **1,615,540** | **-** | **137,466** | **204,752** | **-** | **(485,355)** | **1,472,403** | **-** |

* Equity-settled share-based payments are negative amounts reflecting the write-back of amortised options due to performance criteria no longer expected to be met.

(i) Held position until 05/09/2009
(ii) Held position until 19/11/2008
(iii) Held position until 19/11/2008
(iv) Held position until 22/07/2009
(v) Held position until 24/03/2010

The aggregate compensation of key management personnel, including directors, of the consolidated entity is set out below:

| | 2010 $ | 2009 $ |
|---|---|---|
| Short-term employee benefits | 4,204,924 | 3,843,649 |
| Post-employment benefits | 210,646 | 407,343 |
| Share-based payments | 90,718 | (1,634,331) |
| Termination benefits | 450,429 | - |
| Other long-term employee benefits | 84,049 | - |
| | **5,040,766** | **2,616,661** |

The following table discloses the equity-settled share-based payments issued, exercised and lapsed by executive directors and key management personnel as part of their compensation for the year ended 30 June 2010.

| Name | Share options/ performance rights (date issued) | Granted No. | Granted $ | Vested No. | % of grant vested | % of grant forfeited | % of remuneration consisting of share options/ performance rights | Exercised No. | Lapsed $ |
|---|---|---|---|---|---|---|---|---|---|
| **EXECUTIVE DIRECTORS** | | | | | | | | | |
| **Options** | | | | | | | | | |
| GM Hargrave | 19/11/2009 | 251,000 | 180,720 | - | - | - | 3.5% | - | - |
| JB Dixon | 19/11/2009 | 146,000 | 105,120 | - | - | - | 2.0% | - | - |
| TB Janes | 19/11/2009 | 108,000 | 77,760 | - | - | - | 2.6% | - | - |
| **OTHER KEY MANAGEMENT PERSONNEL** | | | | | | | | | |
| **Options** | | | | | | | | | |
| J Caporale | 19/11/2009 | 127,000 | 91,440 | - | - | - | 2.5% | - | - |
| DW Johnson | 19/11/2009 | 92,000 | 66,240 | - | - | - | 2.6% | - | - |
| **Rights** | | | | | | | | | |
| NJ Daly | 19/11/2009 | 26,800 | 56,548 | - | - | - | 1.2% | - | - |
| CA Renner | 19/11/2009 | 30,700 | 64,777 | - | - | - | 1.0% | - | - |
| BJ Maher | 19/11/2009 | 23,400 | 49,374 | - | - | - | 0.8% | - | - |
| KW Bieg (i) | - | - | - | - | - | - | - | - | (164,760) |
| TA Paine (ii) | - | - | - | - | - | - | - | - | - |
| TW Punchard (iii) | - | - | - | - | - | - | - | - | (172,120) |

(i) Held position until 05/09/2009

(ii) Appointed 29/03/2010

(iii) Held position until 22/07/2009

## Section 4: Investment performance of Skilled Group Limited

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 $ |
|---|---|---|---|---|
| 2010 | 12.7 | 7.3 | 0.0 | 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 |
| 2006 | 24.7 | 24.0 | 19.0 | 4.26 |

The financial performance of Skilled Group Limited for the 2010 financial year has been disappointing and has fallen well below expectations that existed at the beginning of the year. The impact of the global financial crisis continued to influence the majority of the Company's businesses. The second half of the year, however, saw signs of improvement and it is expected that this will continue into 2011. The actions taken by the Board and management in relation to cost control, debt reduction and management changes will position the Company well to take advantage of continued improvement in economic conditions and deliver improved returns to shareholders.

As SKILLED Group did not achieve the minimum threshold level of NPAT performance for the year, no incentives were paid and no options vested under the Company's executive incentive plans in respect of the 2010 financial year.

The remuneration and incentive framework, which has been put in place by the Board, has been designed to reward and motivate executives to both maximise short-term operating performance and long-term strategic growth. The Board will continue to review and monitor the remuneration

# Remuneration Report continued

and incentive framework to ensure that performance is equitably rewarded and encouraged, and to attract, motivate and retain a high quality executive team.

Skilled Group Limited has not made any return of capital to its shareholders for the past five years.

## Section 5: Employee Share Acquisition Plan

The Company has a shareholder-approved Employee Share Acquisition Plan (ESAP) whereby all permanent employees with a minimum of six months' continuous service are each entitled to apply for a maximum of 1,000 shares in each year. The issue price of the shares is based on the market value of shares at time of issue.

Under the ESAP terms the Company is able to provide an interest-free loan for the purchase of these shares. Repayments of the loans are made by payroll deductions and dividends. Shares issued under these arrangements are held by Allskills Pty Ltd as Trustee until such time as the loan is fully repaid.

During the year ended 30 June 2010, the Company issued 166,750 shares under the ESAP arrangement. As at 30 June 2010 Allskills Pty Ltd held 417,500 shares in Skilled Group Limited under the ESAP terms.

## Section 6: Executive contracts of employment

Formal contracts of employment for all members of the key management personnel are in place. Contractual terms for most executives are similar but do, on occasions, vary to suit different needs. The following table summarises the key contract 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 Incentive Plan (EIP):** | Eligible to participate. Incentive criteria and award opportunities vary for each executive. |
| **Notice period:** | All members of the key management personnel have a notice period of one month, save for the following:<br>• Greg Hargrave 3 months<br>• Damian Johnson 3 months<br>• Tim Paine 3 months<br>Notice periods for all key management personnel are currently under review by the Company, with the intention that all notice periods for key management personnel be increased to at least three 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. There are no contractual commitments to pay redundancy. |
| **Death or total and permanent disablement:** | Same principles as for retirement. In addition, the Company currently has salary continuance insurance cover for members of the Executive Leadership Team. 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. |

# Auditor's Independence Declaration

**Deloitte.**

Deloitte Touche Tohmatsu
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7 September 2010

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

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 2010, 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

Tom Imbesi
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of
Deloitte Touche Tohmatsu

# Independent Audit Report

Deloitte.

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**Independent Auditor's Report to the Members of Skilled Group Limited**

**Report on the financial report**

We have audited the accompanying financial report of Skilled Group Limited, which comprises the consolidated statement of financial position as at 30 June 2010, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated 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 45 to 84.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2 the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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*.



Deloitte.

*Auditor's 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 2010 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

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

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 33 to 42 of the directors' report for the year ended 30 June 2010. 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.

*Auditor's Opinion*

In our opinion the Remuneration Report of Skilled Group Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tom Imbesi

Tom Imbesi
Partner
Chartered Accountants
Melbourne, 7 September 2010

# Directors' Declaration
## for the financial year ended 30 June 2010

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,

**KV Loughnan AO**
Chairman

**GM Hargrave**
Managing Director

Melbourne
7 September 2010

# Financial Statements
## for the financial year ended 30 June 2010

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# Consolidated Statement of Comprehensive Income

| For the financial year ended 30 June 2010 | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| Revenue | 4 | 1,697,994 | 1,943,258 |
| Equity-accounted income from joint venture | 4 | 1,938 | - |
| Other income | 4 | 385 | 335 |
| Employee and sub-contractor related costs | | (1,465,858) | (1,652,876) |
| Raw materials and consumables used | | (7,723) | (8,134) |
| Office occupancy related costs | | (16,651) | (18,032) |
| Loss from sale of assets | 5 | (513) | (141) |
| Marine vessel charter costs | | (40,147) | (59,724) |
| Other expenses | | (106,915) | (118,343) |
| Depreciation and amortisation expenses | 4 | (21,829) | (21,477) |
| Finance costs | 4 | (26,854) | (27,382) |
| Profit before income tax expense | | 13,827 | 37,484 |
| Income tax expense | 6 | (1,126) | (9,230) |
| **Profit for the year** | | **12,701** | **28,254** |
| **Other comprehensive income** | | | |
| Gain/(loss) on cash flow hedges taken to equity | 32 | 6,246 | (12,222) |
| Income tax on items taken directly to equity | | (1,874) | 3,667 |
| Change in foreign currency translation reserve arising on translation of foreign operations and net investment in foreign subsidiaries | 32 | (1,223) | (147) |
| **Total comprehensive income for the period** | | **15,850** | **19,552** |
| **Profit attributable to members of the parent entity** | 33 | **12,701** | **28,254** |
| **Total comprehensive income attributable to members of the parent entity** | | **15,850** | **19,552** |
| **Earnings per share:** | | | |
| Basic earnings per share (cents) | 43 | 7.27 | 23.01 |
| Diluted earnings per share (cents) | 43 | 7.25 | 23.01 |

Notes to the financial statements are included on pages 51 to 84.

# Consolidated Statement of Financial Position

| As at 30 June 2010 | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 2,577 | 4,202 |
| Trade and other receivables | 8 | 253,326 | 210,345 |
| Inventories | 11 | 911 | 1,168 |
| Current tax assets | 21 | 3,829 | 6,112 |
| Other financial assets | 9 | 503 | - |
| Other | 12 | 8,754 | 12,447 |
| **Total current assets** | | **269,900** | **234,274** |
| **Non-current assets** | | | |
| Receivables | 13 | 1,687 | 1,521 |
| Property, plant and equipment | 14 | 18,117 | 26,420 |
| Investments in joint ventures | 10 | 1,938 | - |
| Other financial assets | 9 | 64 | - |
| Goodwill | 15 | 343,851 | 352,511 |
| Other intangibles | 16 | 70,873 | 75,356 |
| Deferred tax assets | 17 | 12,930 | 13,466 |
| **Total non-current assets** | | **449,460** | **469,274** |
| **Total assets** | | **719,360** | **703,548** |

| As at 30 June 2010 | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Payables | 18 | 133,292 | 120,124 |
| Borrowings | 19 | 17,861 | 2,150 |
| Other financial liabilities | 20 | 3,441 | 6,602 |
| Provisions | 22 | 31,593 | 28,185 |
| **Total current liabilities** | | **186,187** | **157,061** |
| **Non-current liabilities** | | | |
| Payables | 23 | 11,946 | 37,121 |
| Borrowings | 24 | 169,088 | 260,709 |
| Other financial liabilities | 20 | 2,600 | 5,089 |
| Provisions | 26 | 9,889 | 16,037 |
| **Total non-current liabilities** | | **193,523** | **318,956** |
| **Total liabilities** | | **379,710** | **476,017** |
| **Net assets** | | **339,650** | **227,531** |
| **Equity** | | | |
| Issued capital | 30 | 279,129 | 180,170 |
| Reserves | 32 | (3,477) | (6,792) |
| Retained earnings | 33 | 63,998 | 54,153 |
| **Total equity** | | **339,650** | **227,531** |

Notes to the financial statements are included on pages 51 to 84.

# Consolidated Statement of Cash Flows

| For the financial year ended 30 June 2010 | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 13,827 | 37,484 |
| Adjustments for: | | | |
| Depreciation and amortisation | | 21,829 | 21,477 |
| Interest revenue | | (385) | (260) |
| Interest expense | | 26,854 | 27,382 |
| **Earnings before interest, tax, depreciation and amortisation** | | 62,125 | 86,083 |
| Amortisation of executive share options and performance rights | | 166 | (2,363) |
| Loss on disposal of property, plant & equipment | | 513 | 141 |
| Impairment of SKILLED NZ goodwill | | 1,657 | - |
| Impairment of vessel plant & equipment | | 444 | - |
| Non-cash joint venture income | | (1,938) | - |
| | | 62,967 | 83,861 |
| **Increase/decrease in assets and liabilities excluding effects of acquisitions and investments:** | | | |
| (Increase)/decrease in receivables | | (42,517) | 77,234 |
| Decrease/(increase) in inventories | | 257 | (27) |
| Decrease/(increase) in other assets | | 3,007 | (3,385) |
| Increase/(decrease) in payables | | 7,590 | (10,774) |
| (Decrease) in provisions | | (2,750) | (6,512) |
| **Cash generated from operations** | | 28,554 | 140,397 |
| Income taxes received/(paid) | | 502 | (18,206) |
| **Net cash provided by operating activities** | | **29,056** | **122,191** |

| For the financial year ended 30 June 2010 | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (3,679) | (8,005) |
| Payments for intangibles | | (6,909) | (13,753) |
| Payments for purchase of businesses | 40(d) | (12,394) | (64,312) |
| Proceeds from sale of property, plant and equipment | | 531 | 52 |
| **Net cash used in investing activities** | | **(22,451)** | **(86,018)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 453,590 | 357,704 |
| Repayment of borrowings | | (535,173) | (338,662) |
| Interest received | | 385 | 260 |
| Interest paid | | (22,674) | (24,149) |
| Proceeds from issues of equity | | 93,449 | 694 |
| Dividends paid | | (2,570) | (24,804) |
| **Net cash used in financing activities** | | **(12,993)** | **(28,957)** |
| **Net increase/(decrease) in cash and cash equivalents** | | (6,388) | 7,216 |
| Cash and cash equivalents at the beginning of the financial year | | 4,202 | (2,505) |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (284) | (509) |
| **Cash and cash equivalents at the end of the financial year** | **40(a)** | **(2,470)** | **4,202** |

Notes to the financial statements are included on pages 51 to 84.

# Consolidated Statement of Changes in Equity

| For the financial year ended 30 June 2010 | | | | | | |
|---|---|---|---|---|---|---|
| 2010 | Issued capital $'000 | Foreign currency translation reserve $'000 | Hedging reserve $'000 | Employee equity-settled benefits reserve $'000 | Retained earnings $'000 | Total $'000 |
| 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) |
| Gain 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** |
| 2009 | | | | | | |
| Balance at 1 July 2008 | 176,368 | 254 | 372 | 3,647 | 54,041 | 234,682 |
| Profit for the period | - | - | - | - | 28,254 | 28,254 |
| Exchange differences arising on translation of foreign operations | - | (147) | - | - | - | (147) |
| Loss on cash flow hedges | - | - | (12,222) | - | - | (12,222) |
| Income tax relating to components of other comprehensive income | - | - | 3,667 | - | - | 3,667 |
| **Total comprehensive income for the period** | **-** | **(147)** | **(8,555)** | **-** | **28,254** | **19,552** |
| Issue of shares (net of costs) | 3,802 | - | - | - | - | 3,802 |
| Amortisation of executive share options | - | - | - | (2,363) | - | (2,363) |
| Payment of dividends | - | - | - | - | (28,142) | (28,142) |
| **Balance at 30 June 2009** | **180,170** | **107** | **(8,183)** | **1,284** | **54,153** | **227,531** |

Notes to the financial statements are included on pages 51 to 84.

# Notes to the Financial Statements

## 1. Adoption of new and revised accounting standards

In the current year, the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The consolidated entity has also adopted the following Standards as listed below, which only impacted on the consolidated entity's financial statements with respect to disclosure:

- AASB 101 Presentation of Financial Statements
- AASB 8 Operating Segments
- AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments

The consolidated entity has also 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 3 Business Combinations
- AASB 127 Consolidated and Separate Financial Statements
- Amendments to AASB 128 Investments in Associates
- Amendments to AASB 138 Intangible Assets
- Amendments to AASB 140 Investment Property
- Amendments to AASB 120 Accounting for Government Grants and Disclosure of Government Assistance
- AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- AASB 2008-1 Amendments to Australian Accounting Standards – Share-Based Payments: Vesting Conditions and Cancellations
- AASB 123 Borrowing Costs
- AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation
- AASB 2008-8 Amendments to Australian Accounting Standards – Eligible Hedged Items
- Interpretation 15 Agreements for the Construction of Real Estate
- Interpretation 16 Hedges of a Net Investment in a Foreign Operation
- Interpretation 17 Distribution of Non-Cash Assets to Owners
- Interpretation 18 Transfers of Assets from Customers

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 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project | Effective for annual reporting periods beginning on or after 1 January 2010 |
| ■ AASB 2009-8 Amendments to Australian Accounting Standards – Group Settled Share-Based Payment Transactions | Effective for annual reporting periods beginning on or after 1 January 2010 |
| ■ AASB 2009-10 Amendments to Australian Accounting Standards – Clarification of Rights Issues | Effective for annual reporting periods beginning on or after 1 February 2010 |
| ■ AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards | Effective for annual reporting periods beginning on or after 1 January 2011 |
| ■ AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 | Effective for annual reporting periods beginning on or after 1 January 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 |
| ■ Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments | Effective for annual reporting periods beginning on or after 1 July 2010 |
| ■ 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 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project | Effective for annual reporting periods beginning on or after 1 July 2010 |
| ■ 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 July 2011 |

## 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 equivalents to International Financial Reporting Standards (A-IFRS). Compliance with the A-IFRS 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 7 September 2010.

# Notes to the Financial Statements continued
for the financial year ended 30 June 2010

## 2. Significant accounting policies *(continued)*

### 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 and 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.

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 maturity of the hedge relationship is more than 12 months and as a current asset or current liability if the remaining maturity 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 derivatives 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. Acquisition-related costs are recognised in the profit and loss as incurred.

## (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

# Notes to the Financial Statements continued
## for the financial year ended 30 June 2010

## 2. Significant accounting policies *(continued)*

### (h) Revenue recognition *(continued)*

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.

**Interest revenue**

Interest revenue 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.

**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'.

Investments in controlled entities are recorded at cost less any impairment writedown.

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.

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.

# Notes to the Financial Statements continued
for the financial year ended 30 June 2010

## 2. Significant accounting policies *(continued)*

### (o) Goodwill *(continued)*

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 trademarks and brand names in its business. The directors believe the SKILLED trademarks and brand names have 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 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 seven 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 in accordance with the revenue recognition policies described in Note 2(h).

### (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

### (s) Employee benefits *(continued)*

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.

### (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 the balance sheet date.

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)); and
- exchange differences on monetary items receivable or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and 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 that 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.

#### Dividends

A provision is recognised for dividends when they have been declared by the directors before reporting date, and are no longer at the discretion of the Company.

#### 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 as revenue 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.

# Notes to the Financial Statements continued

for the financial year ended 30 June 2010

## 2. Significant accounting policies *(continued)*

### (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 judgements and key sources of uncertainty

### (a) Judgements and estimates

In the application of the consolidated entity's accounting policies, management is required to make judgements, 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 judgements. 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.

Judgements 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 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 to calculate present value.

The carrying amount of goodwill at the balance sheet date was $343,851,000 (2009: $352,511,000). Further details of the impairment testing are provided in Note 15.

## 4. Profit from operations

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| The profit from operations, before income tax, includes the following items of revenue and expense: | | |
| **(a) Revenue** | | |
| Sales revenue: | | |
| Rendering of services | 1,697,994 | 1,943,258 |
| **(b) Other income** | | |
| Interest income | 385 | 260 |
| Other | - | 75 |
| | 385 | 335 |
| **(c) Equity-accounted income from joint ventures** | | |
| Income from OMS Alliance joint venture | 1,938 | - |
| **(d) Expenses** | | |
| Finance costs: | | |
| Interest paid to other entities | 24,277 | 23,092 |
| Finance lease charges | 290 | 546 |
| Notional interest on deferred acquisition payments | 2,287 | 3,744 |
| | 26,854 | 27,382 |
| Net bad and doubtful debts expense | 2,356 | 3,142 |
| Depreciation and amortisation: | | |
| **Depreciation** | | |
| Plant and equipment | 5,094 | 3,798 |
| Leasehold improvements | 4,617 | 3,925 |
| Assets under finance lease | 985 | 1,548 |
| | 10,696 | 9,271 |

### (d) Expenses *(continued)*

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Amortisation** | | |
| Databases | 2,123 | 2,124 |
| Software and licences | 6,031 | 5,727 |
| Brand names | 1,028 | 2,118 |
| Other | 1,951 | 2,237 |
| | 11,133 | 12,206 |
| | **21,829** | **21,477** |
| Operating lease rental expenses: | | |
| Minimum lease payments | | |
| Properties | 13,452 | 14,477 |
| Computer equipment | 1,659 | 1,806 |
| Charter vessels | 40,147 | 59,724 |
| Other | 251 | 125 |
| | **55,509** | **76,132** |
| Equity-settled share-based payments (amortisation of executive share options and performance rights) | 166 | (2,363) |

### (e) Unusual items

| | | |
|---|---|---|
| Redundancy and branch closure costs | 5,291 | 5,026 |
| Impairment of SKILLED NZ goodwill | 1,657 | - |
| Impairment of vessel plant & equipment | 444 | - |

## 5. Sale of assets

| | | |
|---|---|---|
| Sale of assets in the ordinary course of business have given rise to the following: | | |
| Loss on disposal of property, plant and equipment | 513 | 141 |

## 6. Income tax

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows: | | |
| **Profit from operations** | **13,827** | **37,484** |
| Income tax expense calculated at 30% | 4,148 | 11,245 |
| Non-deductible items including entertainment, notional interest on deferred acquisition payments and amortisation of executive share options and performance rights | 1,555 | 1,465 |
| Foreign income tax rate differential | (1,100) | (665) |
| Research and development concession | (1,542) | (1,985) |
| Non-assessable items | - | (117) |
| Equity-accounted income from joint venture | (583) | - |
| Tax-consolidation amendments | (1,703) | - |
| Other | 362 | (610) |
| (Over) provision of income tax in previous year | (11) | (103) |
| **Income tax expense** | **1,126** | **9,230** |
| **Income tax expense comprises:** | | |
| Current tax expense | 6,260 | 13,691 |
| Adjustments recognised in the current year in relation to the current tax of prior years | (4,639) | (4,778) |
| Deferred tax expense relating to the origination and reversal of temporary differences | (495) | 317 |
| **Total tax expense** | **1,126** | **9,230** |

**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.

# Notes to the Financial Statements continued
## for the financial year ended 30 June 2010

## 6. Income tax *(continued)*

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Cents per share** | **Total $'000** | **Cents per share** | **Total $'000** |
| **(a) Recognised amounts** | | | | |
| Final 2008 dividend fully franked at a tax rate of 30% | - | - | 14.0 | 17,073 |
| Interim 2009 dividend fully franked at a tax rate of 30% | - | - | 9.0 | 11,069 |
| 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** | | **28,142** |
| **(b) Unrecognised amounts** | | | | |
| Final 2009 dividend fully franked at a tax rate of 30% | | | 1.5 | 2,856 |
| Final 2010 dividend fully franked at a tax rate of 30% | - | - | - | - |
| | | **-** | | **2,856** |

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Franking account balance | 58,498 | 57,088 |

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 $nil (2009: $795,000).

## 8. Current trade and other receivables

| | | |
|---|---|---|
| Trade receivables (i) | 250,389 | 204,512 |
| Allowance for doubtful debts | (3,814) | (2,070) |
| | 246,575 | 202,442 |
| Goods and services tax receivable | 2,995 | 2,546 |
| Other receivables (ii) | 3,756 | 5,357 |
| | **253,326** | **210,345** |

(i) Trade receivables are non-interest bearing and are on a variety of trading terms that average approximately 30 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 2010 no amounts are considered past due or impaired (2009: $nil).

Ageing of trade receivables:

| | 2010 $'000 Gross | 2010 $'000 Allowance | 2009 $'000 Gross | 2009 $'000 Allowance |
|---|---|---|---|---|
| Not past due | 207,569 | (100) | 171,939 | (100) |
| Past due 1-30 days | 29,700 | - | 22,458 | (471) |
| Past due 31-60 days | 4,308 | - | 2,117 | (31) |
| Past due 61-90 days | 1,156 | (25) | 1,212 | (240) |
| Past due 91 days | 7,656 | (3,689) | 6,786 | (1,228) |
| Total | 250,389 | (3,814) | 204,512 | (2,070) |

Movement in the allowance for doubtful debts:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Balance at the beginning of the year | (2,070) | (740) |
| Amounts written off during the year | 654 | 1,962 |
| (Increase) in allowance recognised in profit or loss | (2,398) | (3,292) |
| Balance at end of the year | (3,814) | (2,070) |

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 or legal 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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Derivatives designated and effective as hedging instruments carried at fair value:** | | |
| Foreign currency forward contracts | 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 | 105 | - |
| | **567** | **-** |
| Disclosed in the financial statements as: | | |
| Current | 503 | - |
| Non-current | 64 | - |
| | **567** | **-** |

## 10. Investments in joint ventures

| | | |
|---|---|---|
| Investment in OMS Alliance joint venture | **1,938** | **-** |

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

There were no contingent liabilities or commitments for expenditure at 30 June 2010.

## 11. Current inventories

| | | |
|---|---|---|
| Raw materials and stores at cost | **911** | **1,168** |

## 12. Current other assets

| | | |
|---|---|---|
| Prepayments | **8,754** | **12,447** |

## 13. Non-current receivables

| | | |
|---|---|---|
| Claims recoveries | 1,398 | 1,174 |
| Other receivables | 289 | 347 |
| | **1,687** | **1,521** |

## 14. Property, plant and equipment

| | Land & buildings $'000 | Leasehold improve-ments $'000 | Plant & equipment $'000 | Assets under finance lease $'000 | Total $'000 |
|---|---|---|---|---|---|
| **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 (i) | - | (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** |
| **Gross carrying amount** | | | | | |
| Balance as at 30 June 2008 | 262 | 18,313 | 26,161 | 8,430 | 53,166 |
| Additions | - | 2,452 | 5,449 | 1,078 | 8,979 |
| Disposals | (258) | (1,202) | (1,181) | (1,764) | (4,405) |
| Other | - | 721 | 1,938 | (402) | 2,257 |
| **Balance as at 30 June 2009** | **4** | **20,284** | **32,367** | **7,342** | **59,997** |
| **Accumulated depreciation** | | | | | |
| Balance as at 30 June 2008 | (3) | (7,535) | (15,947) | (2,579) | (26,064) |
| Disposals | - | 1,059 | 980 | 1,663 | 3,702 |
| Depreciation expense (i) | - | (3,925) | (3,798) | (1,548) | (9,271) |
| Other | - | (269) | (1,659) | (16) | (1,944) |
| **Balance as at 30 June 2009** | **(3)** | **(10,670)** | **(20,424)** | **(2,480)** | **(33,577)** |
| **Net book value** | | | | | |
| As at 30 June 2008 | 259 | 10,778 | 10,214 | 5,851 | 27,102 |
| **As at 30 June 2009** | **1** | **9,614** | **11,943** | **4,862** | **26,420** |

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

# Notes to the Financial Statements continued
## for the financial year ended 30 June 2010

### 15. Goodwill

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Gross carrying amount** | | |
| Balance at beginning of the period | 352,511 | 348,404 |
| Adjustment for change in deferred purchase consideration | (3,183) | 2,399 |
| Net foreign currency exchange differences | (3,820) | 1,708 |
| **Balance at end of the period** | **345,508** | **352,511** |
| | | |
| **Accumulated impairment losses** | | |
| Balance at beginning of the period | - | - |
| Impairment losses for the period | (1,657) | - |
| **Balance at end of the period** | **(1,657)** | **-** |
| | | |
| **Net book value** | | |
| As at beginning of period | 352,511 | 348,404 |
| | | |
| **As at end of period** | **343,851** | **352,511** |

**Allocation of goodwill to cash-generating units**

The carrying amount of goodwill allocated to cash-generating units that are significant individually, or in aggregate, is as follows:

| | | |
|---|---|---|
| Origin Healthcare | 18,817 | 18,817 |
| Extraman | 19,951 | 19,951 |
| TESA Mining | 41,600 | 41,600 |
| Skilled Workforce Services | 44,242 | 44,242 |
| Swan Contract Personnel | 36,820 | 36,820 |
| OMS Australia | 117,277 | 122,928 |
| OMS New Zealand | 15,459 | 15,371 |
| OMS International/UK | 21,879 | 23,197 |
| Mosaic | 9,508 | 9,508 |
| Pacific Relines | 7,816 | 7,816 |
| Other | 10,482 | 12,261 |
| **Total goodwill** | **343,851** | **352,511** |

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 that uses cash flow projections based on financial forecasts approved by management covering a three-year period, then a constant growth rate of 2.5% (2009: 2.5%) for two years, then 2.5% (2009: 2.5%) into perpetuity and a pre-tax discount rate of 12.43% (2009: 11.33%).

**Impact of possible changes in key assumptions**

Other than the matter described below, 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.

The recoverable amount for Origin Healthcare exceeds its carrying amount by $2,586,498 (2009: $28,566,811). If the pre-tax discount rate was 13.25% instead of 12.43% and all other assumptions in the value-in-use calculation held constant, the recoverable amount of the cash-generating unit would equal its carrying amount.

**Impairment losses recognised in the year**

At the end of the reporting period, the consolidated entity assessed the recoverable amount of goodwill and determined that goodwill associated with the SKILLED NZ business was impaired by $1,656,196. The recoverable amount of the business was assessed by reference to the cash-generating unit's value-in-use. A pre-tax discount rate of 12.43% (2009: 11.33%) was applied in the value-in-use model.

## 16. Other intangibles

| | Databases $'000 | Software and licenses $'000 | Trademarks and brand names $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|
| **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** |
| | | | | | |
| **Gross carrying amount** | | | | | |
| Balance as at 30 June 2008 | 17,850 | 60,576 | 24,084 | 9,261 | 111,771 |
| Additions | - | 12,913 | - | - | 12,913 |
| Disposals | - | (41) | - | - | (41) |
| Other | - | (5,458) | (32) | (21) | (5,511) |
| **Balance as at 30 June 2009** | **17,850** | **67,990** | **24,052** | **9,240** | **119,132** |
| **Accumulated amortisation** | | | | | |
| Balance as at 30 June 2008 | (5,606) | (23,274) | (5,558) | (2,751) | (37,189) |
| Disposals | - | 41 | - | - | 41 |
| Amortisation expense(i) | (2,124) | (5,727) | (2,118) | (2,237) | (12,206) |
| Other | - | 5,498 | 57 | 23 | 5,578 |
| **Balance as at 30 June 2009** | **(7,730)** | **(23,462)** | **(7,619)** | **(4,965)** | **(43,776)** |
| **Net book value** | | | | | |
| As at 30 June 2008 | 12,244 | 37,302 | 18,526 | 6,510 | 74,582 |
| **As at 30 June 2009** | **10,120** | **44,528** | **16,433** | **4,275** | **75,356** |

(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 (2009: $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.

**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:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Skilled Workforce Services | 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 that uses cash flow projections based on financial forecasts approved by management covering a three-year period, then a constant growth rate of 2.5% (2009: 2.5%) for two years, then 2.5% (2009: 2.5%) into perpetuity and a pre-tax discount rate of 12.43% (2009: 11.33%).

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

### (a) Recognised deferred tax assets and liabilities

| | | |
|---|---|---|
| Deferred tax assets comprise: | | |
| Temporary differences | 12,930 | 13,466 |
| | | |
| The deferred tax asset has been reduced by the provision for deferred income tax attributable to temporary differences by the amount of: | 8,791 | 5,912 |

# Notes to the Financial Statements continued
for the financial year ended 30 June 2010

## 17. Deferred tax assets and liabilities *(continued)*

Taxable and temporary differences comprise the following:

| | Opening balance $'000 | Charged to income $'000 | Charged to equity $'000 | Acquisitions/ disposals $'000 | Other $'000 | Closing balance $'000 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| **Gross deferred tax liabilities** | | | | | | |
| Intangible assets | (2,052) | 877 | - | - | 12 | (1,163) |
| Other | (3,860) | (3,768) | - | - | - | (7,628) |
| | (5,912) | (2,891) | - | - | 12 | (8,791) |
| **Gross deferred tax assets** | | | | | | |
| Provisions & accruals | 12,913 | 530 | - | - | - | 13,443 |
| Doubtful debts | 609 | 521 | - | - | - | 1,130 |
| Property, plant & 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** |
| **2009** | | | | | | |
| **Gross deferred tax liabilities** | | | | | | |
| Property, plant & equipment | (353) | 353 | - | - | - | - |
| Intangible assets | (3,298) | 1,246 | - | - | - | (2,052) |
| Other | (1,474) | (2,386) | - | - | - | (3,860) |
| | (5,125) | (787) | - | - | - | (5,912) |
| **Gross deferred tax assets** | | | | | | |
| Provisions & accruals | 14,251 | (1,406) | - | 68 | - | 12,913 |
| Doubtful debts | 446 | 163 | - | - | - | 609 |
| Property, plant & equipment | - | 1,591 | - | - | - | 1,591 |
| Other | 476 | 122 | 3,667 | - | - | 4,265 |
| | 15,173 | 470 | 3,667 | 68 | - | 19,378 |
| | **10,048** | **(317)** | **3,667** | **68** | **-** | **13,466** |

## 18. Current payables

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Unsecured:** | | |
| Trade payables and accruals | 94,386 | 86,979 |
| Deferred purchase consideration | 20,019 | 17,185 |
| Goods and services tax payable | 18,887 | 15,960 |
| | **133,292** | **120,124** |

## 19. Current borrowings

| | | |
|---|---|---|
| **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) | 1,757 | 2,150 |
| | **17,861** | **2,150** |

(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

| | | |
|---|---|---|
| **Derivatives that are designated and effective as hedging instruments carried at fair value:** | | |
| Foreign currency forward contracts | 300 | - |
| Interest rate swaps | 5,606 | 11,691 |
| | 5,906 | 11,691 |
| **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 | 135 | - |
| | **6,041** | **11,691** |
| Disclosed in the financial statements as: | | |
| Current | 3,441 | 6,602 |
| Non-current | 2,600 | 5,089 |
| | **6,041** | **11,691** |

## 21. Current tax asset

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Income tax receivable | **3,829** | **6,112** |

## 22. Current provisions

| | | |
|---|---|---|
| Employee benefits (Note 27) | 28,067 | 24,629 |
| Litigation (Note 28) | 501 | 644 |
| Claims (Note 28) | 2,523 | 2,076 |
| Other (Note 28) | 502 | 836 |
| | **31,593** | **28,185** |

## 23. Non-current payables

| | | |
|---|---|---|
| Deferred purchase consideration | **11,946** | **37,121** |

## 24. Non-current borrowings

| | | |
|---|---|---|
| **Secured - amortised cost:** | | |
| Bank debt facilities (i) | 168,748 | 258,690 |
| Finance lease liabilities (ii) (Note 29) | 340 | 2,019 |
| | **169,088** | **260,709** |

(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 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

| | | |
|---|---|---|
| Employee benefits (Note 27) | 3,429 | 6,969 |
| Claims (Note 28) | 4,040 | 6,638 |
| Other (Note 28) | 2,420 | 2,430 |
| | **9,889** | **16,037** |

## 27. Employee benefits

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| The aggregate employee benefits liability recognised and included in the financial statements is as follows: | | |
| Provision for employee benefits: | | |
| Current (Note 22) | 28,067 | 24,629 |
| Non-current (Note 26) | 3,429 | 6,969 |
| Accrued wages and salaries (i) | 21,082 | 42,859 |
| | **52,578** | **74,457** |

(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 2009 | 644 | 8,714 | 3,266 |
| Additional provisions recognised | 200 | 1,344 | 4,276 |
| Reductions arising from payments/other sacrifices of future economic benefits | (370) | - | (3,391) |
| Changes resulting from the re-measurement of the estimated future sacrifice or the settlement of the provision without cost to the consolidated entity | 27 | (3,495) | (1,229) |
| **Balance as at 30 June 2010** | 501 | 6,563 | 2,922 |
| Disclosed in the financial statements as: | | | |
| Current (Note 22) | 501 | 2,523 | 502 |
| Non-current (Note 26) | - | 4,040 | 2,420 |
| | 501 | 6,563 | 2,922 |

(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 make-good obligations on leased premises.

# Notes to the Financial Statements continued
for the financial year ended 30 June 2010

## 29. Leases

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **(a) Finance leases** (i) | | |
| Finance lease commitments: | | |
| No later than 1 year | 1,980 | 2,359 |
| Later than 1 year and not later than 5 years | 386 | 2,212 |
| Minimum finance lease payments | 2,366 | 4,571 |
| Deduct future finance charges | (269) | (402) |
| **Present value of finance lease liabilities** | **2,097** | **4,169** |
| Disclosed in the financial statements as: | | |
| Borrowings: | | |
| Current (Note 19) | 1,757 | 2,150 |
| Non-current (Note 24) | 340 | 2,019 |
| | **2,097** | **4,169** |

(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.

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **(b) Operating leases** (ii) | | |
| Non-cancellable operating leases: | | |
| No later than 1 year | 33,881 | 32,619 |
| Later than 1 year but not later than 5 years | 26,087 | 28,300 |
| Later than 5 years | 1,293 | 2,149 |
| | **61,261** | **63,068** |

(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 four 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 and New Zealand. The vessels are chartered on individual lease agreements that vary between periods of one and five years with renewable options pursuant to the underlying contracts.

## 30. Issued capital

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| 190,738,408 fully paid ordinary shares (2009: 123,592,311) | 279,129 | 180,170 |

| | 2010 No. '000 | 2010 $'000 | 2009 No. '000 | 2009 $'000 |
|---|---|---|---|---|
| **(a) Fully paid ordinary shares** | | | | |
| Balance at the beginning of the financial year | 123,592 | 180,170 | 121,953 | 176,368 |
| Issue of shares under Employee Share Acquisition Plan | 168 | 357 | 190 | 464 |
| Issue of shares under share placement and share purchase plan (i) | 66,821 | 98,317 | - | - |
| Issue of shares under the Dividend Reinvestment Plan | 157 | 285 | 1,449 | 3,338 |
| **Balance at the end of the financial year** | **190,738** | **279,129** | **123,592** | **180,170** |

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

(i) Net of issuance costs of $2,737,980 and tax adjustment of $821,394. In addition, 3,233,333 shares were issued to the vendors of OMS Australia as part of the deferred consideration settlement at a value of $4,849,999.

**(b) Shares held by subsidiaries**

Allskills Pty Ltd, a wholly owned subsidiary, held 417,500 (2009: 402,750) shares in Skilled Group Limited at 30 June 2010. These shares were held for the benefit of the Skilled Group Limited Employee Share Acquisition Plan.

## 31. Share-based payments

In light of the changing economic landscape and legislative environment, the Board established a new Executive Long-Term Incentive Plan (ELTI Plan) which applied from 1 July 2009. The ELTI Plan allows performance rights, options and cash rewards to be granted at the discretion of the Board. The shares under options 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). The options will lapse if not exercised before the last permitted exercise date.

Prior to the establishment of the ELTI Plan, the consolidated entity operated an ownership-based remuneration scheme (Option Plan 2006) for executive directors and executives under which share options were issued to executive directors and executives at the discretion of the Board. Each share option converts to a specified number of Skilled Group Limited ordinary shares on exercise, subject to the performance criteria detailed below. No amounts are paid or payable by the recipient on receipt of the option. The share options carry no rights to dividends and no voting rights. The vesting period for this option plan was three years from the grant date (with a possible re-testing for a further two years). The exercise price was determined as the market price at the time the share options were granted. The number of shares under option that finally vest is contingent on achieving the performance criteria outlined below. Options expire if the performance criteria have not been achieved within five years from the grant date or the vested options have not been exercised within six years from the grant date. The Board has decided that no further options will be issued under the 2006 Plan.

## ELTI Plan 2009

Performance criteria for options granted in November 2009:

- Threshold: Cumulative EPS of 52.2 cents (equivalent to 8% average annual EPS growth) will allow the exercise of 50% of options held.
- Target: Cumulative EPS of 59.5 cents (equivalent to 15% average annual EPS growth) will allow the exercise of 100% of options held.
- Stretch: Cumulative EPS of 65.1 cents (equivalent to 20% 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 2009:

- Threshold: Cumulative EPS of 52.2 cents (equivalent to 8% average annual EPS growth) will allow the exercise of 25% of rights held.
- Target: Cumulative EPS of 59.5 cents (equivalent to 15% average annual EPS growth) will allow the exercise of 50% of rights held.
- Stretch: Cumulative EPS of 65.1 cents (equivalent to 20% average annual EPS growth) will allow the exercise of 100% of rights held.
- If EPS growth falls between the above targets then the number of rights that can be exercised will be calculated on a pro-rata basis.

## Option Plan 2006

Performance criteria for options granted in April 2006 and November 2006:

- Threshold: EPS compounded growth of at least 8%p.a. over the vesting period will allow the exercise of 25% of options held.
- Target: EPS compounded growth of at least 12%p.a. over the vesting period will allow the exercise of 50% of options held.
- Stretch: EPS compounded growth of at least 16%p.a. over the vesting period 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 options granted in November 2007 and November 2008:

- Threshold: EPS compounded growth of at least 15%p.a. over the vesting period will allow the exercise of 25% of options held.
- Target: EPS compounded growth of at least 25%p.a. over the vesting period will allow the exercise of 50% of options held.
- Stretch: EPS compounded growth of at least 40%p.a. over the vesting period 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.

## 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 and takes into account the recent increase in volatility of the market in general.

Inputs into the model:

| | Share options series | | | | | Performance rights series |
|---|---|---|---|---|---|---|
| | 19/11/2009 | 21/10/2008 | 02/11/2007 | 15/11/2006 | 05/04/2006 | 19/11/2009 |
| Grant date share price ($) | 2.38 | 2.47 | 5.28 | 5.50 | 4.80 | 2.38 |
| Exercise price ($) | 2.28 | 2.52 | 5.29 | 5.81 | 4.92 | - |
| Expected volatility (%) | 40 | 40 | 34 | 37 | 30 | 40 |
| Option/right life (years) | 6 | 6 | 6 | 6 | 6 | 3 |
| Dividend yield (%) | 4.0 | 4.0 | 4.0 | 3.4 | 3.7 | 4.0 |
| Risk free interest rate (%) | 5.08 | 4.80 | 6.60 | 5.77 | 5.43 | 5.08 |

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Share options | No. of shares under share option | Weighted average exercise price $ | No. of shares under share option | Weighted average exercise price $ |
| Balance at the beginning of the financial year (i) | 10,112,000 | 4.31 | 4,660,000 | 5.39 |
| Granted during the financial year (ii) | 724,000 | 2.28 | 5,508,000 | 2.52 |
| Exercised during the financial year (iii) | - | - | - | - |
| Lapsed during the financial year (iv) | (686,000) | 5.40 | (56,000) | 5.29 |
| **Balance at the end of the financial year (v)** | **10,150,000** | **3.50** | **10,112,000** | **4.31** |

# Notes to the Financial Statements continued
for the financial year ended 30 June 2010

## 31. Share-based payments *(continued)*

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **Performance rights** | **No. of shares under PR** | **Weighted average exercise price $** | **No. of shares under PR** | **Weighted average exercise price $** |
| Balance at the beginning of the financial year (i) | - | - | - | - |
| Granted during the financial year (ii) | 498,800 | - | - | - |
| Exercised during the financial year (iii) | - | - | - | - |
| Lapsed during the financial year (iv) | (26,300) | - | - | - |
| **Balance at the end of the financial year (v)** | **472,500** | **-** | **-** | **-** |

### (i) Balance at the beginning of the financial year

**Share options**

**2010**

| Grant date | No. of shares under option | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|
| 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** | | | |

**2009**

| Grant date | No. of shares under option | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|
| 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 |
| | **4,660,000** | | | |

**Performance rights**

There were no performance rights on issue at the beginning of the year (2009: nil).

### (ii) Granted during the financial year

**Share options**

**2010**

| Grant date | No. of shares under option/PR | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|
| 19/11/2009 | 724,000 | 18/11/2015 | 2.28 | 0.72 |
| | **724,000** | | | |
| **2009** | | | | |
| 21/10/2008 | 5,508,000 | 20/10/2014 | 2.52 | 0.71 |
| | **5,508,000** | | | |

**Performance rights**

**2010**

| Grant date | No. of shares under option/PR | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|
| 19/11/2009 | 498,800 | 19/11/2012 | - | 2.11 |
| | **498,800** | | | |

### (iii) Exercised during the financial year

There were no share options or performance rights exercised during the financial year (2009: nil).

### (iv) Lapsed during the financial year

**Share options**

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

| | 2010 No. of shares under option/PR | 2009 No. of shares under option/PR |
|---|---|---|
| 05/04/2006 | 241,000 | - |
| 15/11/2006 | 288,000 | - |
| 02/11/2007 | 36,000 | 56,000 |
| 21/10/2008 | 121,000 | - |
| | **686,000** | **56,000** |

**Performance rights**

| | | |
|---|---|---|
| 19/11/2009 | **26,300** | **-** |

### (v) Balance at the end of the financial year

**Share options**

**2010**

| Grant date | No. of shares under option | Vested no. | Unvested no. | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|---|---|
| 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** | | | |
| **2009** | | | | | | |
| 05/04/2006 | 639,000 | 639,000 | - | 04/04/2012 | 4.92 | 1.18 |
| 15/11/2006 | 327,000 | 327,000 | - | 14/11/2012 | 5.81 | 1.62 |
| 15/11/2006 | 1,553,000 | - | 1,553,000 | 14/11/2012 | 5.81 | 1.62 |
| 02/11/2007 | 2,085,000 | - | 2,085,000 | 01/11/2013 | 5.29 | 1.47 |
| 21/10/2008 | 5,508,000 | - | 5,508,000 | 20/10/2014 | 2.52 | 0.71 |
| | **10,112,000** | **966,000** | **9,146,000** | | | |

**Performance rights**

| Grant date | No. of shares under PR | Vested no. | Unvested no. | Expiry date | Exercise price $ | Fair value $ |
|---|---|---|---|---|---|---|
| **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 3 of the Remuneration Report within the Directors' Report, includes the value of share options granted under the ELTI 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 (2009: $nil) was recognised in issued capital arising from the exercise of executive options.

## 32. Reserves

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Employee equity-settled benefits reserve | 1,450 | 1,284 |
| Hedging reserve | (3,811) | (8,183) |
| Foreign currency translation reserve | (1,116) | 107 |
| | **(3,477)** | **(6,792)** |
| **Employee equity-settled benefits reserve** | | |
| Balance at the beginning of the financial year | 1,284 | 3,647 |
| Share based payments – amortisation of executive share options and performance rights | 166 | (2,363) |
| **Balance at the end of the financial year** | **1,450** | **1,284** |

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Hedging reserve** | | |
| Balance at the beginning of the financial year | (8,183) | 372 |
| Foreign currency forward contracts | 161 | - |
| Interest rate swaps | 5,926 | (12,210) |
| Income tax related to gains/losses recognised in equity | (1,826) | 3,663 |
| Transferred to profit or loss: | | |
| Forward exchange contracts | - | 15 |
| Interest rate swaps | 159 | (27) |
| Income tax related to amounts transferred to profit or loss | (48) | 4 |
| **Balance at the end of the financial year** | **(3,811)** | **(8,183)** |

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.

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Foreign currency translation reserve** | | |
| Balance at the beginning of the financial year | 107 | 254 |
| Translation of foreign operations | (1,223) | (147) |
| **Balance at the end of the financial year** | **(1,116)** | **107** |

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.

# Notes to the Financial Statements continued
for the financial year ended 30 June 2010

## 33. Retained earnings

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | 54,153 | 54,041 |
| Net profit attributable to members of the parent entity | 12,701 | 28,254 |
| Dividends provided for or paid | (2,856) | (28,142) |
| **Balance at the end of the financial year** | **63,998** | **54,153** |

## 34. Superannuation contributions

Superannuation contributions provided for employees via the following superannuation funds:

| | | |
|---|---|---|
| Complying superannuation funds (i) | **91,379** | **103,826** |

(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

| | | |
|---|---|---|
| Bank guarantees for various contracts | **19,718** | **23,265** |

## 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

| Name of entity | Note | Country of incorporation | Ownership interest 2010 % | Ownership interest 2009 % |
|---|---|---|---|---|
| **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 079 433 597 Pty Ltd | (f) | Australia | - | 100 |
| ACN 079 433 613 Pty Ltd | (f) | Australia | - | 100 |
| ACN 093 034 916 Pty Ltd | (f) | Australia | - | 100 |
| ACN 078 748 746 Pty Ltd | (f) | Australia | - | 100 |
| ACN 088 989 922 Pty Ltd | (f) | Australia | - | 100 |
| ACN 074 594 880 Pty Ltd | (f) | Australia | - | 100 |
| ACN 115 032 383 Pty Ltd | (f) | Australia | - | 100 |
| ACN 115 032 865 Pty Ltd | (f) | Australia | - | 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 | (b) | 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 |
| 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 |
| ACN 103 080 155 Pty Ltd | (f) | Australia | - | 100 |
| ACN 099 032 176 Pty Ltd | (f) | Australia | - | 100 |
| ACN 082 845 430 Pty Ltd | (f) | Australia | - | 100 |
| ACN 007 053 741 Pty Ltd | (f) | Australia | - | 100 |

| Name of entity | Note | Country of incorporation | Ownership interest 2010 % | 2009 % |
|---|---|---|---|---|
| ACN 094 897 186 Pty Ltd | (f) | Australia | - | 100 |
| ACN 090 739 585 Pty Ltd | (f) | Australia | - | 100 |
| ACN 083 162 967 Pty Ltd | (f) | Australia | - | 100 |
| ACN 077 927 020 Pty Ltd | (f) | Australia | - | 100 |
| ACN 006 799 319 Pty Ltd | (f) | Australia | - | 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 |
| Offshore Marine Services 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 (formerly Skilled Group Training Services 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 | (d) | 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 |
| ACN 099 808 634 Pty Ltd | (f) | Australia | - | 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 Employee Share Acquisition Plan.
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.

(f) Deregistered during the 2010 financial year.

# Notes to the Financial Statements continued
## for the financial year ended 30 June 2010

### 37. Subsidiaries *(continued)*

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| 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: | | |
| **Income statement** | | |
| Revenue | 1,230,171 | 1,412,546 |
| Other revenue | 256 | 16,302 |
| Gain/(loss) on sale of fixed assets | 40 | (42) |
| Employee and sub-contractor related costs | (1,106,582) | (1,256,008) |
| Raw materials and consumables used | (6,649) | (7,325) |
| Office occupancy related costs | (15,272) | (15,406) |
| Depreciation and amortisation expense | (13,974) | (13,930) |
| Finance costs | (25,213) | (24,971) |
| Other expenses | (73,714) | (85,889) |
| (Loss)/profit before income tax expense | (10,937) | 25,277 |
| Income tax benefit/(expense) | 14,994 | (1,422) |
| **Profit attributable to members of the parent entity** | **4,057** | **23,855** |
| **Balance sheet** | | |
| **Current assets** | | |
| Cash and cash equivalents | 513 | 4,580 |
| Trade and other receivables | 153,721 | 139,435 |
| Other financial assets | 503 | - |
| Current tax assets | 3,695 | 6,076 |
| Inventories | 306 | 113 |
| Other | 4,866 | 7,175 |
| **Total current assets** | **163,604** | **157,379** |
| **Non-current assets** | | |
| Trade and other receivables | 1,688 | 1,521 |
| Other financial assets | 165,250 | 201,349 |
| Property, plant and equipment | 17,569 | 23,115 |
| Goodwill | 186,759 | 183,825 |
| Other intangibles | 53,259 | 51,130 |
| Deferred tax assets | 11,994 | 16,745 |
| **Total non-current assets** | **436,518** | **477,685** |
| **Total assets** | **600,122** | **635,064** |

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current liabilities** | | |
| Trade and other payables | 81,326 | 113,716 |
| Borrowings | 17,056 | 2,116 |
| Other financial liabilities | 3,441 | 6,602 |
| Provisions | 24,515 | 22,483 |
| **Total current liabilities** | **126,339** | **144,917** |
| **Non-current liabilities** | | |
| Trade and other payables | 10,057 | 29,288 |
| Borrowings | 151,335 | 245,019 |
| Other financial liabilities | 2,600 | 5,089 |
| Provisions | 10,770 | 15,314 |
| **Total non-current liabilities** | **174,762** | **294,710** |
| **Total liabilities** | **301,101** | **439,627** |
| **Net assets** | **299,021** | **195,437** |
| **Equity** | | |
| Issued capital | 279,129 | 180,170 |
| Reserves | (3,476) | (6,899) |
| Retained earnings | 23,368 | 22,166 |
| **Total equity** | **299,021** | **195,437** |
| **Retained earnings** | | |
| Balance at the beginning of the financial year | 22,167 | 25,046 |
| Adjustment to opening retained earnings for changed entities subject to deed of cross guarantee | - | 1,407 |
| Net profit | 4,057 | 23,855 |
| Dividends provided for or paid | (2,856) | (28,142) |
| **Balance at the end of the financial year** | **23,368** | **22,166** |

## 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)

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Short-term employee benefits | 4,204,924 | 3,843,649 |
| Post-employment benefits | 210,646 | 407,343 |
| Share-based payments | 90,718 | (1,634,331) |
| Termination benefits | 450,429 | - |
| Other long-term employee benefits | 84,049 | - |
| | **5,040,766** | **2,616,661** |

Details of directors' and other key management personnel compensation are disclosed in Section 3 of the Remuneration Report contained in the Directors' Report.

### (c) Directors' and other key management personnel equity holdings

(1) Fully paid ordinary shares issued by Skilled Group Limited held by directors and other key management personnel including their personally related parties:

| 2010 | Balance at 1/7/2009 No. | Granted as compen-sation 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 the year.
(ii) Mr MJ Findlay was appointed on 23 March 2010.

| 2009 | Balance at 1/7/2008 No. | Granted as compen-sation No. | Received on exercise of options No. | Net other change No. | Balance at 30/6/2009 No. | Balance held nominally No. |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| KV Loughnan AO | 227,394 | - | - | 27,146 | 254,540 | - |
| JB Dixon | 183,740 | - | - | 1,784 | 185,524 | - |
| GM Hargrave | 61,785,503 | - | - | 238,387 | 62,023,890 | - |
| RN Herbert AM | 10,000 | - | - | 1,098 | 11,098 | - |
| KW Hughes | 14,875 | - | - | 1,633 | 16,508 | - |
| TB Janes | 116,593 | - | - | 175 | 116,768 | - |
| VA McFadden | - | - | - | - | - | - |
| PA Gregg | - | - | - | 10,000 | 10,000 | - |
| | **62,338,105** | **-** | **-** | **280,233** | **62,618,328** | **-** |
| **Other key management personnel** | | | | | | |
| KW Bieg | 51,000 | - | - | - | 51,000 | - |
| CW Chalwell (i) | 23,153 | - | - | (23,153) | - | - |
| PR McCormick (i) | 1,094 | - | - | (1,094) | - | - |
| J Caporale | - | - | - | - | - | - |
| NJ Daly | - | - | - | - | - | |
| TW Punchard | 3,000 | - | - | 1,000 | 4,000 | |
| CA Renner | 9,500 | - | - | - | 9,500 | - |
| | **87,747** | **-** | **-** | **(23,247)** | **64,500** | **-** |

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

# Notes to the Financial Statements continued
## for the financial year ended 30 June 2010

### 38. Related party disclosures *(continued)*

(2) Executive share options and performance rights issued by Skilled Group Limited:

| 2010 | Balance at 1/7/2009 No. | Granted as compensation No. | Exercised 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** | **-** | **(992,100)** | **568,800** | **59,000** | **59,000** | **-** |

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

| 2009 | Balance at 1/7/2008 No. | Granted as compensation No. | Exercised No. | Other change No. | Balance at 30/6/2009 No. | Balance vested at 30/6/2009 No. | Balance exercisable at 30/6/2009 No. | Options vested during year No. |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| GM Hargrave | 721,000 | 791,000 | - | - | 1,512,000 | 146,000 | 146,000 | 146,000 |
| JB Dixon | 664,000 | 461,000 | - | - | 1,125,000 | 100,000 | 100,000 | 100,000 |
| TB Janes | 512,000 | 341,000 | - | - | 853,000 | 81,000 | 81,000 | 81,000 |
| **Total** | **1,897,000** | **1,593,000** | **-** | **-** | **3,490,000** | **327,000** | **327,000** | **327,000** |
| **Other key management personnel** | | | | | | | | |
| KW Bieg | 184,000 | 157,000 | - | - | 341,000 | 60,000 | 60,000 | 60,000 |
| CW Chalwell (i) | 264,000 | 320,000 | - | (584,000) | - | - | - | - |
| PR McCormick (i) | 219,000 | 176,000 | - | (395,000) | - | - | - | - |
| J Caporale | - | - | - | - | - | - | - | - |
| NJ Daly | 179,000 | 144,000 | - | - | 323,000 | 59,000 | 59,000 | 59,000 |
| TW Punchard | 192,000 | 167,000 | - | - | 359,000 | 58,000 | 58,000 | 58,000 |
| CA Renner | 68,000 | 170,000 | - | - | 238,000 | - | - | - |
| **Total** | **1,106,000** | **1,134,000** | **-** | **(979,000)** | **1,261,000** | **177,000** | **177,000** | **177,000** |

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

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 a specified number of Skilled Group Limited ordinary shares on exercise.

During the financial year $nil (2009: $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 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 | Terms and conditions of type of transaction 2010 | 2009 | Class of related party | Amount 2010 $ | 2009 $ |
|---|---|---|---|---|---|---|
| Larkfield Property Holdings Pty Ltd | Payment for rental of office accommodation | Normal commercial terms & conditions | Normal commercial terms & conditions | Company of which Mr GM Hargrave is the sole director | 1,148,974 | 1,218,305 |
| Hughes Engineering Services Pty Ltd | Consulting services | Normal commercial terms & conditions | Normal commercial terms & conditions | Company of which Mr KW Hughes is a director | 22,600 | 75,011 |

## 39. Remuneration of auditors

| | 2010 $ | 2009 $ |
|---|---|---|
| **Deloitte Touche Tohmatsu Australian firm** | | |
| Audit and review of the financial report | 561,000 | 570,000 |
| Other assurance and advisory services | 21,158 | 6,000 |
| Income, indirect and employment-related tax services | 76,150 | 205,090 |
| | **658,308** | **781,090** |
| **Other Deloitte Touche Tohmatsu international firms** | | |
| Audit and review of the financial report | 88,487 | 79,949 |
| Other assurance and advisory services | - | - |
| Income, indirect and employment-related tax services | 74,130 | 48,160 |
| | **162,617** | **128,109** |
| | **820,925** | **909,199** |

## 40. Notes to the cash flow statement

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **(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: | | |
| Cash | 2,577 | 4,202 |
| Bank overdraft | (5,047) | - |
| **Cash assets/(liabilities)** | **(2,470)** | **4,202** |

### (b) Non-cash financing and investing activities

During the financial year, the consolidated entity:

(i) Acquired plant and equipment under finance lease with an aggregate value of $nil (2009: $1,078,000).

(ii) Operated a Dividend Reinvestment Plan in which dividends paid during the year to 30 June 2010 of $285,000 (2009: $3,338,000) were reinvested in ordinary shares.

### (c) Financing facilities

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Bank overdraft facility, payable at call: | | |
| Amount used | 5,047 | - |
| Amount unused | 1,778 | 11,929 |
| | **6,825** | **11,929** |
| Syndicated bank debt facility and market rate advance facility subject to periodic roll-over: | | |
| Amount used | 180,629 | 258,690 |
| Amount unused | 59,371 | 106,310 |
| | **240,000** | **365,000** |

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 reviewable in September 2010. At 30 June 2010, the syndicated bank debt facility was in a single tranche of $230 million reviewable in August 2012.

# Notes to the Financial Statements continued
for the financial year ended 30 June 2010

## 40. Notes to the cash flow statement *(continued)*

### (d) Businesses acquired

During the financial year, the consolidated entity did not make any acquisitions (2009: nil).

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Net outflow of cash for prior year acquisitions** | | |
| Payment of deferred consideration | 12,394 | 64,312 |
| **Net outflow of cash for acquisitions** | **12,394** | **64,312** |

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 Tradeforce. In addition, 3,233,333 shares were issued to the vendors of OMS Australia as part of the deferred consideration settlement at a value of $4,849,999.

## 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 management remains unchanged from 2009.

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:

- 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:

| | 2010 | 2009 |
|---|---|---|
| Leverage | 2.94 | 3.05 |
| Interest cover | 2.53 | 3.43 |
| Gearing | 35% | 53% |

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 2009.

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 2,577 | 4,202 |
| Loans and receivables | 255,013 | 211,866 |
| Derivatives held for trading | 105 | - |
| Derivatives in hedge relationships | 462 | - |
| **Financial liabilities** | | |
| Loans and payables | 332,187 | 420,104 |
| Derivatives held for trading | 135 | - |
| Derivatives in hedge relationships | 5,906 | 11,691 |

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 sections.

### 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 manages its interest rate risk in accordance with Board-approved policy and its overall strategy relating to interest rate risk management remains unchanged from 2009.

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 requires hedging a proportion of the consolidated entity's floating interest rate exposure throughout a rolling five-year period. The consolidated entity is exposed to interest rate risk as entities within the consolidated entity borrow funds at both fixed and floating rates.

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

| 2010 | Average interest rate* % | 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 – NZ$ (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** |

** Excluding impact of hedging*

The following table details the consolidated entity's non-derivative exposure to interest rate risk as at 30 June 2009.

| 2009 | Average interest rate* % | 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 $'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash | 2.6 | 4,202 | - | - | - | - | 4,202 |
| Trade receivables | - | - | - | - | - | 202,442 | 202,442 |
| Other receivables | - | - | - | - | - | 9,424 | 9,424 |
| | | **4,202** | **-** | **-** | **-** | **211,866** | **216,068** |
| **Financial liabilities** | | | | | | | |
| Payables | - | - | - | - | - | 157,245 | 157,245 |
| Bank loans – A$ | 6.8 | 243,000 | - | - | - | - | 243,000 |
| Bank loans – NZ$ (in A$) | 6.8 | 15,690 | - | - | - | - | 15,690 |
| Finance lease liabilities | 8.4 | - | 2,150 | 2,019 | - | - | 4,169 |
| | | **258,690** | **2,150** | **2,019** | **-** | **157,245** | **420,104** |

** Excluding impact of hedging*

# Notes to the Financial Statements continued
for the financial year ended 30 June 2010

## 41. Financial instruments *(continued)*

### 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.

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **200 basis point increase in interest rates** | | |
| Hedge reserve | 2,360 | 4,366 |
| Profit | (670) | (1,123) |
| **100 basis point decrease in interest rates** | | |
| Hedge reserve | (1,220) | (2,348) |
| Profit | 334 | 561 |

### Interest rate derivatives

The consolidated entity manages its interest rate risk in accordance with Board-approved policy and its overall strategy relating to interest rate risk management remains unchanged from 2009. This policy provides for the management of interest rate risk throughout a rolling five years using interest rate swap and forward rate agreement contracts.

Under interest rate swap and forward rate agreement 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 and forward rate agreement contracts settle on a quarterly basis based upon the difference between the fixed rate under each contract and the Australian Dollar (Bank Bill Swap Rate) BBSY. These differences are settled on a net basis.

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

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

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

| Maturity | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | 2010 % | 2009 % | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| Less than 1 year | 7.9 | 6.8 | 45,000 | 25,000 | (660) | (173) |
| 1 to 5 years | 7.9 | 7.8 | 100,000 | 185,000 | (4,946) | (11,518) |

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 2009.

The consolidated entity is principally exposed to US Dollars (USD), Euro (EUR) and Pounds Sterling (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 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2010 | | 2009 | |
| | FC'000 | A$'000 | FC$'000 | A$'000 | FC$'000 | A$'000 | FC$'000 | A$'000 |
| GBP | 255 | 450 | 97 | 200 | 344 | 607 | 496 | 1,018 |
| EUR | 1,172 | 1,679 | 27 | 48 | 91 | 130 | 51 | 88 |
| USD | 1,386 | 1,626 | 1,182 | 1,456 | 7,443 | 8,732 | 8,501 | 10,477 |
| SGD | 54 | 45 | 1,646 | 1,401 | - | - | - | - |

## 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 2009. 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. 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Maturity | | | FC$'000 | FC$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **Buy USD** | | | | | | | | |
| Less than 1 year | 0.8289 | - | 6,036 | - | 7,285 | - | (101) | - |
| 1 to 5 years | 0.8355 | - | 1,836 | - | 2,198 | - | 64 | - |
| **Sell USD** | | | | | | | | |
| Less than 1 year | 0.8284 | - | 18,274 | - | 22,088 | - | 347 | - |
| 1 to 5 years | 0.8326 | - | 5,257 | - | 6,314 | - | (178) | - |

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

## Foreign currency sensitivity

The following tables detail the consolidated entity's sensitivity to a 5% change in the Australian Dollar against the respective foreign currency monetary assets and monetary liabilities outstanding at balance date. 5% 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2010 A$'000 | 2009 A$'000 | 2010 A$'000 | 2009 A$'000 | 2010 A$'000 | 2009 A$'000 | 2010 A$'000 | 2009 A$'000 |
| **5% Increase** | | | | | | | | |
| Hedge reserve | 465 | - | - | - | - | - | - | - |
| Profit | (4) | (316) | (5) | (29) | 54 | (1) | 2 | 49 |
| **5% Decrease** | | | | | | | | |
| Hedge reserve | (523) | - | - | - | - | - | - | - |
| Profit | (26) | 316 | 5 | 29 | (54) | 1 | (2) | (49) |

## 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 2009.

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 | 1-3 months | 3 months to 1 year | 1-5 years | Total |
|---|---|---|---|---|---|---|
| | % | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2010** | | | | | | |
| Bank overdraft facility | 9.3 | 5,061 | - | - | - | 5,061 |
| Short-term borrowing | 6.5 | 8,442 | - | - | - | 8,442 |
| Bank loans – A$ | 9.8 | 987 | 2,541 | 10,721 | 171,338 | 185,587 |
| Bank loans – NZ$ (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 |
| **2009** | | | | | | |
| Bank loans – A$ | 8.0 | 1,001 | 3,017 | 13,026 | 267,825 | 284,869 |
| Bank loans – NZ$ (in A$) | 8.8 | 284 | 166 | 557 | 17,088 | 18,095 |
| Finance lease liabilities | 8.4 | 376 | 540 | 1,443 | 2,212 | 4,571 |

# Notes to the Financial Statements continued

for the financial year ended 30 June 2010

## 41. Financial instruments *(continued)*

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 | 1-3 months | 3 months to 1 year | 1-5 years | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **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 |
| **2009** | | | | | |
| Net settled: | | | | | |
| – interest rate swaps | 461 | 1,912 | 5,330 | 5,459 | 13,162 |
| Gross settled: | | | | | |
| – foreign exchange forward contracts | - | - | - | - | - |

### 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 2009. 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, where available, 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 (EPS)

| | 2010 Cents | 2009 Cents |
|---|---|---|
| Basic earnings per share | 7.27 | 23.01 |
| Diluted earnings per share | 7.25 | 23.01 |

**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:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Earnings | 12,701 | 28,254 |

| | 2010 No. '000 | 2009 No. '000 |
|---|---|---|
| Weighted average number of shares | 174,835 | 122,809 |

**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:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Earnings | 12,701 | 28,254 |

| | 2010 No. '000 | 2009 No. '000 |
|---|---|---|
| Weighted average number of shares (a), (b) | 175,151 | 122,809 |
| (a) 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 EPS | 174,835 | 122,809 |
| Shares deemed to be issued for no consideration in respect of: | | |
| Executive share options (i) | 316 | - |
| | 175,151 | 122,809 |

(i) Executive share options 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.

| | 2010 No. '000 | 2009 No. '000 |
|---|---|---|
| (b) Weighted average number of converted, lapsed or cancelled potential ordinary shares used in the calculation of diluted earnings per share: | | |
| Executive share options | - | - |

# Notes to the Financial Statements continued
## for the financial year ended 30 June 2010

### 44. Segment reporting

| 2010 | Workforce Services $'000 | Other Staffing Services $'000 | Engineering & Marine Services $'000 | Business Services $'000 | Eliminations $'000 | Unallocated $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **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 | - | 20,631 | 719,360 |
| Liabilities | 60,918 | 22,552 | 97,289 | 5,962 | - | 192,990 | 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 |
| **2009** | | | | | | | |
| **Segment result** | | | | | | | |
| Revenue | 953,542 | 393,077 | 529,487 | 70,758 | (3,606) | - | 1,943,258 |
| Other income | - | - | - | - | - | 335 | 335 |
| EBITDA | 46,503 | 13,760 | 35,476 | 8,726 | - | (18,382) | 86,083 |
| Depreciation and amortisation | (7,984) | (7,140) | (4,119) | (1,477) | - | (757) | (21,477) |
| Earnings before interest and tax | 38,519 | 6,620 | 31,357 | 7,249 | (3,606) | (19,139) | 64,606 |
| Net interest expense | | | | | | (27,122) | (27,122) |
| Profit before tax | | | | | | | 37,484 |
| Income tax expense | | | | | | | (9,230) |
| Profit for the period | | | | | | | 28,254 |
| **Segment assets and liabilities** | | | | | | | |
| Assets | 244,177 | 130,067 | 289,063 | 15,571 | - | 24,670 | 703,548 |
| Liabilities | 60,908 | 24,713 | 106,847 | 9,035 | - | 274,514 | 476,017 |
| **Other segment information** | | | | | | | |
| Share of profit of jointly controlled entities | | | | | | | - |
| Carrying value of investments accounted for using the equity method | | | | | | | - |
| Acquisition of segment assets | 7,708 | 4,326 | 7,421 | 3,209 | - | - | 22,664 |

The consolidated entity has adopted AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker.

In prior years, segment information reported was presented in a summarised form under two segments, Workforce Services and Other Brands. Following a reorganisation of our structure in July 2009, information presented to the Board of Directors changed to reflect the restructure. As a result of this, following the adoption of AASB 8, the identification of the consolidated entity's reportable segments has also changed.

## 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 in this segment include SKILLED, TESA, Extraman and Longhill Group.

**Other Staffing Services** — Provision of nursing, white-collar, engineering and technical professional staff. Brands in this segment include Origin Healthcare and its subsidiaries, PeopleCo., Mosaic, Swan, Skilled Technical Professionals and Damstra Mining Services.

**Engineering and Marine Services** — Provision of contract maintenance and engineering services and offshore marine staffing and vessel chartering and management services. Brands in this segment include ATIVO and Offshore Marine Services.

**Business Services** — Provision of customer contact solutions for third-party clients provided through our 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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Current assets | 153,106 | 135,420 |
| Total assets | 569,996 | 561,020 |
| Current liabilities | 109,041 | 86,990 |
| Total liabilities | 269,551 | 363,597 |
| **Net assets** | **300,445** | **197,423** |
| Equity | | |
| Issued capital | 279,129 | 180,170 |
| Hedging reserve | (3,811) | (8,183) |
| Foreign currency translation reserve | (9) | (9) |
| Employee equity-settled benefits reserve | 1,450 | 1,284 |
| Retained earnings | 23,686 | 24,161 |
| **Total equity** | **300,445** | **197,423** |
| Profit for the year | 2,382 | 39,022 |
| Other comprehensive income | 4,372 | (8,555) |
| **Total comprehensive income** | **6,754** | **30,467** |
| **Contingent liabilities** | | |
| Bank guarantees for various contracts | 17,980 | 15,431 |
| As detailed in Note 37, the Company has entered into a deed of cross guarantee with certain wholly owned 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. The total liabilities of these wholly owned entities (excluding amounts owed to the Company) are: | 31,550 | 76,030 |
| | 49,530 | 91,461 |

**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.

# Notes to the Financial Statements continued
## for the financial year ended 30 June 2010

### 46. Subsequent events

On 26 August 2010, Skilled Group Limited announced the results of the strategic review of the Group's business portfolio, performance and prospects. As a result of the strategic review the Board has decided to divest Swan Contract Personnel (Swan). In 2010 Swan, which forms part of the Other Staffing Services segment, generated sales of approximately $170 million and EBITDA of $8.5 million. The sale of Swan will have the dual benefits of strengthening the consolidated entity's balance sheet through debt reduction and placing the Company in a strong position for its next phase of growth.

Other than this event, there has been no matter of 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.

# Your SKILLED Shareholding

There are several convenient ways to access details of your SKILLED Group shareholding via our share registry, Computershare Investor Services. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), which may be obtained from your holding statement or a recent dividend statement. Please contact the registry if you require further assistance.

## By telephone

InvestorPhone is a secure, convenient and easy-to-use automated telephone service that gives you access to your details 24 hours a day, seven days a week. To access your share information, follow these steps:

1. Dial 1300 850 505
2. State the company that you are calling about e.g. SKILLED Group
3. Follow the prompts

## World Wide Web

You may also access your details at www.computershare.com with either read-only or update access. To access your details, go to www.computershare.com.au/investors and follow the navigation for *Holding Enquiry, Bank Detail Update, Address Change, Statement Viewing or Payments Enquiry.* Update access is available to Investor Centre members. To join, click on the Register button, follow the prompts and choose your own secure PIN and password. If your holding is over a certain amount, you may also receive a verification password, which will need to be entered as well.

## Dividends

For taxation purposes shareholders should retain full details of dividend payments. The following options are available to shareholders for the payment of dividends.

1. The Company has established a Dividend Reinvestment Plan (DRP) to enable shareholders to receive their payment in the form of additional shares. Plan rules and nomination forms are available from the registry on request.
2. Dividends may be paid directly to bank, building society or credit union accounts in Australia. Payments are electronically credited on the dividend date and confirmed by mailed payment advice. Shareholders who want their dividends to be paid in this way should either advise the share registry in writing (download a form from the website) or update their details via Investor Centre.
3. Dividend cheques can be sent to your registered address. Lost or stolen cheques should be reported immediately to the registry, in writing, to enable stop payment and replacement.

## Annual Report

Recent legislative changes to the *Corporations Act* have changed the obligation for companies to issue their Annual Report to shareholders. As a shareholder, you can choose to receive your Annual Report in the mail by contacting Computershare, SKILLED's share registry, or by downloading it from SKILLED's website. SKILLED Group encourages shareholders to access the Annual Report online as this will reduce the environmental impact of producing and mailing an Annual Report.

## Plant trees and reduce paper waste

As a participating member of eTree, SKILLED is proud to support this environmental initiative encouraging shareholders to receive shareholder communications electronically.

You can help reduce paper waste and company cost by electing to receive all your SKILLED Group shareholder information (including the Annual Report) online. For every email address registered at www.eTree.com.au, up to $1 will be donated.

With your support, SKILLED Group is already helping to facilitate the planting of more than 2,500 native trees across Australia and New Zealand. Your effort goes a long way towards building a more sustainable future.

## SKILLED Group's share registry

c/o Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067
Telephone: 1300 850 505
Facsimile: +61 3 9473 2500
Website: www.computershare.com.au
Email: web.queries@computershare.com.au

# Shareholder Information

## Number of shareholders
As at 13 August 2010, 6,877 shareholders held the Company's 190,738,408 fully paid ordinary shares.

## Voting rights of ordinary shares
The Company's Constitution provides for votes to be cast:

- on show of hands — one vote for each shareholder; and
- on a poll — one vote for each fully paid ordinary share held.

## Options
As at 13 August 2010, 31 individual option holders held 9,889,000 options.

## Distribution of holdings as at 13 August 2010

| Range | No. of holders | |
|---|---|---|
| | Ordinary shares | Options |
| 1 – 1000 | 1,793 | - |
| 1,001 – 5,000 | 2,995 | - |
| 5,001 – 10,000 | 1,007 | - |
| 10,001 – 100,000 | 1,019 | 4 |
| 100,001 to max | 63 | 27 |
| **Total:** | **6,877** | **31** |

As at 13 August 2010, there were 402 holdings of ordinary shares of less than a marketable parcel.

## 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 13 August 2010, are as follows:

| | Fully paid ordinary shares | |
|---|---|---|
| | Number of shares | Percentage |
| Gregory Mackenzie Hargrave | 57,725,283 | 30.26 |
| Thorney Holdings Pty Ltd | 21,848,980 | 11.45 |
| Orbis Investment Management (Australia) Limited | 19,167,804 | 10.05 |

## 20 Largest holders of ordinary shares as at 13 August 2010

| | Fully paid ordinary shares | |
|---|---|---|
| Name | Number of shares | Percentage |
| Hedonsax Pty Ltd | 30,938,802 | 16.22 |
| HSBC Custody Nominees (Australia) Limited | 25,574,742 | 13.41 |
| National Nominees Limited | 16,213,797 | 8.50 |
| ANZ Nominees Limited | 13,626,650 | 7.14 |
| Larkfield Nominees Pty Ltd | 11,752,641 | 6.16 |
| J P Morgan Nominees Australia Limited | 11,247,124 | 5.90 |
| Citicorp Nominees Pty Limited | 7,383,345 | 3.87 |
| Embershell Pty Ltd | 5,010,000 | 2.63 |
| Rixi Pty Ltd | 5,010,000 | 2.63 |
| Junere Holdings Pty Ltd | 5,010,000 | 2.63 |
| Cogent Nominees Pty Limited | 2,230,897 | 1.17 |
| Mr Robert Kelvin Biddle | 1,800,000 | 0.94 |
| Meadowcroft Investments Pty Ltd | 1,500,000 | 0.78 |
| Morgan Ocean Contracting Pty Ltd | 1,296,020 | 0.68 |
| R A T Investments Pty Ltd | 1,200,000 | 0.62 |
| Mr Victor John Plummer | 800,000 | 0.42 |
| BKI Investment Company Limited | 644,826 | 0.34 |
| AMP Life Limited | 630,839 | 0.33 |
| Allskills Pty Ltd | 408,250 | 0.21 |
| Bell Potter Nominees Ltd | 367,725 | 0.19 |
| | **142,645,658** | **74.77** |

# Five-Year Financial Summary

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Income statement** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Revenue | 968,382 | 1,384,811 | 1,929,530 | 1,943,258 | 1,697,994 |
| Other income | 279 | 5,701 | 8,181 | 335 | 2,323 |
| Total revenue & other income | 968,661 | 1,390,512 | 1,937,711 | 1,943,593 | 1,700,317 |
| EBITDA | 47,458 | 69,352 | 101,114 | 86,083 | 62,125 |
| Depreciation & amortisation | 8,824 | 14,239 | 19,885 | 21,477 | 21,829 |
| EBIT | 38,634 | 55,113 | 81,229 | 64,606 | 40,296 |
| Net interest expense | 2,139 | 9,671 | 23,038 | 27,122 | 26,469 |
| Profit from ordinary activities before income tax | 36,495 | 45,442 | 58,191 | 37,484 | 13,827 |
| Income tax expense | 11,713 | 15,643 | 18,863 | 9,230 | 1,126 |
| Net profit | 24,782 | 29,799 | 39,328 | 28,254 | 12,701 |
| EBITDA margin | 4.9% | 5.0% | 5.2% | 4.4% | 3.7% |
| EPS (undiluted): cents per share | 24.0 | 28.6 | 34.5 | 23.0 | 7.3 |
| Dividend per share: interim | 7.0 | 8.0 | 9.0 | 9.0 | - |
| Final | 12.0 | 14.0 | 14.0 | 1.5 | - |
| Total | 19.0 | 22.0 | 23.0 | 10.5 | - |
| Dividend payout ratio for year | 79% | 77% | 67% | 46% | 0% |
| Gearing (net debt / net debt + equity) | 7% | 57% | 51% | 53% | 35% |
| Interest cover (EBITDA / interest expense) | 28.6 | 7.4 | 4.8 | 3.4 | 2.5 |
| Return on average equity | 23% | 26% | 22% | 12% | 4% |

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Balance sheet** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Cash and cash equivalents | 5,950 | 5,531 | - | 4,202 | 2,577 |
| Trade and other receivables | 117,079 | 190,022 | 285,344 | 210,345 | 253,326 |
| Inventories | 4,020 | 3,507 | 1,141 | 1,168 | 911 |
| Current tax assets | - | - | - | 6,112 | 3,829 |
| Other financial assets | - | 22 | 59 | - | 503 |
| Other | 3,594 | 5,898 | 9,062 | 12,447 | 8,754 |
| **Total current assets** | **130,643** | **204,980** | **295,606** | **234,274** | **269,900** |
| Receivables | 1,119 | 2,910 | 3,986 | 1,521 | 1,687 |
| Property, plant and equipment | 10,156 | 20,143 | 27,102 | 26,420 | 18,117 |
| Investments in joint ventures | - | - | - | - | 1,938 |
| Other financial assets | - | 150 | 1,177 | - | 64 |
| Goodwill | 41,922 | 177,818 | 348,404 | 352,511 | 343,851 |
| Other intangibles | 45,546 | 62,341 | 74,582 | 75,356 | 70,873 |
| Deferred tax assets | 5,883 | 11,295 | 10,048 | 13,466 | 12,930 |
| **Total non-current assets** | **104,626** | **274,657** | **465,299** | **469,274** | **449,460** |
| **Total assets** | **235,269** | **479,637** | **760,905** | **703,548** | **719,360** |
| Payables | 74,077 | 109,940 | 177,130 | 120,124 | 133,292 |
| Borrowings | 6,736 | 76,012 | 17,891 | 2,150 | 17,861 |
| Other financial liabilities | - | - | 47 | 6,602 | 3,441 |
| Current tax liabilities | 3,152 | 11,815 | 3,423 | - | - |
| Provisions | 22,828 | 33,665 | 34,377 | 28,185 | 31,593 |
| **Total current liabilities** | **106,793** | **231,432** | **232,868** | **157,061** | **186,187** |
| Payables | 3,415 | 5,660 | 49,359 | 37,121 | 11,946 |
| Borrowings | 2,419 | 99,516 | 226,982 | 260,709 | 169,088 |
| Other financial liabilities | - | - | 657 | 5,089 | 2,600 |
| Provisions | 6,494 | 12,381 | 16,357 | 16,037 | 9,889 |
| **Total non-current liabilities** | **12,328** | **117,557** | **293,355** | **318,956** | **193,523** |
| **Total liabilities** | **119,121** | **348,989** | **526,223** | **476,017** | **379,710** |
| **Net assets** | **116,148** | **130,648** | **234,682** | **227,531** | **339,650** |
| Issued capital | 84,189 | 88,137 | 176,368 | 180,170 | 279,129 |
| Reserves | 622 | 2,202 | 4,273 | (6,792) | (3,477) |
| Retained profits | 31,337 | 40,309 | 54,041 | 54,153 | 63,998 |
| **Total equity** | **116,148** | **130,648** | **234,682** | **227,531** | **339,650** |

Notes

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