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Skilled Group Limited
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Melbourne, 3004

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SKILLED Group Limited (ASX: SKE) recently reported NPAT of $21.4 million for the six months ending December 2008, up 48 percent from the previous corresponding period. What were the key drivers behind the increase in NPAT and is it sustainable in light of a slowing economy?

CEO & MD Greg Hargrave
The NPAT growth demonstrates the benefits of our diversified portfolio of industries and clients and the strong market position held by our businesses.

The key driver behind the strong increase in NPAT was the 46 percent revenue growth in our "other Brands" segment mainly due to growth in the Offshore Marine Services (OMS) businesses. This recent acquisition has met all our expectations. Swan Contract Personnel and Excelior, our call centre business also contributed strongly. In addition, we've paid close attention to operating costs throughout the business and moved early to reduce cost and remove non-critical expenditure.

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You've announced a fully franked interim dividend of 9 cents per share. What is the outlook for dividends and franking for the full year?

CEO & MD Greg Hargrave
We feel comfortable about the sustainability of our dividend as we have strong cash flows, declining capex, declining earn-out payments and net debt is now expected to track lower.

Assuming our earnings outcome is in line with our expectations, we would expect to be able to maintain our full year dividend at around the same level as last year. However, we will need to assess this in light of conditions prevailing at the time. We have ample franking credits so our dividends will continue to be fully franked.

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What efficiency improvements are you targeting and what are the potential benefits to earnings?

CEO & MD Greg Hargrave
The implementation of our shared services and IT back office infrastructure is now 80 percent complete and has been rolled out across staff HR, procurement, credit and business unit accounting. The centralisation of resources and processes has created consistency and enabled our business units to focus on their core business operations.

We expect delivery of our payroll and billing system within the next six months and the cost benefits will begin to flow through in 2010 and beyond. Importantly, this back office system will enable us to continue to grow our business and as our long-term intent is to continue to consolidate the fragmented staffing services market, it will enable strong synergies in future acquisitions.

In November, we restructured our Workforce Services business (SKILLED, Tesa and Extraman brands) from a state-based operation to a regional focus enabling the business to become more customer focused. In the process, several surplus branches have been closed, merged or relocated to better service our clients and employees.

Going forward, we will be looking to streamline and simplify our operations to become 'smarter' at the way we do business and we expect to achieve cost savings when this project has been completed.

To date, we have reduced headcount by about 140 people representing approximately 10 percent of our overall staff headcount across SKILLED. This has resulted in an annualised cost savings of more than $12 million.

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You generate more than 30 percent of your revenue from the oil and gas and mining and resources industries. Is there any evidence of the slowdown in the resources industry or new project delays impacting the business?

CEO & MD Greg Hargrave
Our industry diversification provides insulation during an economic downturn and we have been more aggressively pursuing sectors such as infrastructure that are counter-cyclical. Demand continues to be solid across oil and gas, fast moving consumer goods (FMCG), rail and utilities. We are quickly able to redeploy employees to other clients in other sectors and as our field employees are employed on a casual basis we only pay them when they work.

Within mining and resources, we are primarily exposed to iron ore and thermal coal and as we predominantly work in the operations, we are not impacted by expansion projects. We have been impacted by a downturn in production levels for zinc and nickel, such as the closure of BHP Billiton's Ravensthorpe operations where we had about 75 contractors employed.

We have good visibility for about the next 12 months on OMS Australia's opportunities in the oil and gas exploration and production activities as we have a number of contracts stretching out for periods of one to five years.

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You've confirmed your EBITDA guidance for FY09 in the range of $100 million to $110 million and have upgraded NPAT guidance by $3 million to the range of $34 million to $41 million. What assumptions underlie the FY09 EBITDA expectation and what visibility do you have in relation to FY10 earnings?

CEO & MD Greg Hargrave
We've maintained our full year EBITDA guidance for 2009 based upon our results to date, known work in hand, observations of the market place, likely level of clients' demand for our services over the next second half of FY09 and outcome of the initiatives we've taken with regard to our own cost base. We have assumed that there will be some reduction in revenue levels in the second half compared to the first half as a result of the continuing slowing in economic growth.

The increase in our NPAT guidance is based on a reassessment of depreciation and amortisation, interest and taxation expense for the full year.

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Operating cash flows were $50.7 million for the half year reflecting both higher operating earnings, a reduction in working capital and lower tax payments. What underpins the improved working capital position and is it sustainable?

CEO & MD Greg Hargrave
Our working capital position has returned to more normal levels in the current period. The first half of the prior financial year was affected by a significant post acquisition investment in working capital in OMS plus funding of initial working capital for the Hudson Trade & Industrial and Tradeforce NZ acquisitions.

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You indicated your capital expenditure requirements have peaked. What minimum level of capex is needed to sustain the business going forward and will there be any capex for growth in the short-term?

CEO & MD Greg Hargrave
We're not a capital intensive business and we don't have significant plant and equipment to maintain. We had higher than normal capital expenditure in the past two to three years as a result of our investment in our new back office IT system. The bulk of this expenditure is now behind us. We would expect capex in the

second half to be around $8 million (or $22 million for the full year) and capex in FY10 and beyond to be around $10 million per annum.

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Net debt was up $54.2 million to $299.1 million over the six months ending December 2008. What were the key factors behind the increase in net debt? What will be your priorities for use of capital in the current year?

CEO & MD Greg Hargrave
Our debt levels increased during the period to fund deferred acquisition payments in relation to the OMS, Swan, and Longhill acquisitions of $64 million. Our priorities in the coming months will be to maximise cash generation, sustain profitability, and reduce debt. There are no substantial earn out payments remaining in the current financial year. There are, however, further smaller payments due in September, but the amount is completely dependent on the performance of these businesses.

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Interest cover on a 12-month rolling basis expressed as EBITDA/Interest expense excluding interest on earn-out liabilities, was 5 times compared with 4.8 times for the 12 months ending June 2008. What level of comfort do you have with interest cover at these levels?

CEO & MD Greg Hargrave
We are very comfortable with our interest cover position and believe it is an appropriate level for our business, which has low "on going" capex requirements, a largely flexible cost base and strong operating cash flows.

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Thank you Greg.

For more information about SKILLED, visit www.skilledgroup.com.au or call Susan Frost, Group Manager Corporate Affairs on 03 8646 6417.

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