

ASX ANNOUNCEMENT: 27 August 2010**MD on FY10 Results and
Outlook**

Open Briefing with MD Graeme Sumner

Service Stream Limited
Level 1, 355 Spencer Street,
West Melbourne, VIC, 3003**In this Open Briefing[®], Managing Director Graeme Sumner discusses**

- EBITDA expectations for 2011 to exceed the underlying 2010 result
- Growth opportunities for the re-focused business
- Rising market demand for Specialist Field Services

Open Briefing interview:**openbriefing.com**

Service Stream Limited reported a net loss of \$2.6 million for the year ended 30 June 2010 versus profit of \$11.1 million for the previous year. Underlying EBITDA was \$27.0 million, down from \$30.1 million, reflecting a decline in project volumes, partially offset by an increase in AMRS earnings. What visibility do you have regarding project flow and earnings for the current year ending June 2011?

MD Graeme Sumner

Visibility on projects and market demand has improved for the coming year and we expect market demand for our core services to grow. We expect rising demand from the environmental services sector, further smart meter installation activity and strong requirements for mobile infrastructure. Irrespective of which party has formed government, we also expect increased demand for fixed line broadband services. As a result, we expect EBITDA for 2011 to exceed the underlying 2010 result.

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In June, as part of its strategy to focus on core business activities, Service Stream sold the MRTM Intelligent Network Platform for \$3.9 million. What was the rationale for the re-focus, how will the profile of earnings change as a result, and are further asset sales likely?

MD Graeme Sumner

The rationale for the sale of MRTM was that it was a non-core business activity. We intend to focus on our core business of providing specialist field services, underpinned by value added customer care services. Our earnings profile is unlikely to change significantly as a result of the sale and at this time we don't believe further asset sales are likely.

In focusing on core business activities, we have also wound down our involvement in large civil contracting as previously advised.

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What are the growth opportunities for the re-focused business?

MD Graeme Sumner

Growth opportunities are principally in environmental services, mobile infrastructure and fixed line broadband services. Growth in environmental services will stem from rising solar panel installations, solar hot water programs and other programs to improve energy efficiency. The level of growth will be subject to successive governments remaining committed to these programs. Linked to this is the continuing roll-out of smart meters which will enable delivery of electricity and services to homes in a more energy efficient manner.

Secondly, we see growing demand for mobile infrastructure, evidenced through public announcements from the major carriers. We're well placed to deliver mobile infrastructure design, project management and construction services to the industry.

Thirdly, fixed-line platforms in Australia for delivering broadband services will continue to develop irrespective of the party that holds office. We're in a position to provide a wide range of services in the delivery of the network through a range of channels.

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Operating cash flow rose to \$16.8 million for FY10, up from \$8.2 million in FY09, reflecting a reduction in working capital, with second half cash flow significantly better than forecast. What were the key contributors to the better than expected outcome in the second half? What scope is there for further working capital improvement going forward?

MD Graeme Sumner

We discontinued unprofitable projects and focused on converting service performance into cash outcomes which contributed to the improved result in the second half. While subject to funding requirements and growth opportunities, we expect that our focus on managing working capital will continue to produce strong cash outcomes in the future.

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Net debt at June 2010 was \$59.3 million, down from \$102.6 million a year earlier, primarily due to your \$31.4 million (net of costs) rights issue in September 2009. Are you comfortable with this level of debt? What are your debt targets for the re-focused business?

MD Graeme Sumner

We are comfortable with the current level of debt. Continued focus on cash flow performance will give us the flexibility to either reduce debt or reinvest in growth opportunities within the business. In the medium term we expect to maintain around a 4 times interest cover ratio (EBIT/interest expense). Going forward, debt levels will depend on the cash requirements of the many growth opportunities available.

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Underlying EBITDA in Specialist Field Services was \$27.3 million in FY10, down 14.8 percent on revenue of \$446.8 million, down 6.7 percent. Margin was 6.1 percent, down from 6.7 percent. What will be the key contributors to recovery in revenue and margins?

MD Graeme Sumner

The key to a recovery in revenue will be our ability to meet rising market demand better than our competitors. Margins will increase as we improve the mix of work we undertake and capitalise on the value added services we provide in addition to our core transaction services. Reduced revenue from lower margin construction activity will be replaced by higher margin specialist services.

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In the Customer Care business, underlying EBITDA fell 17.8 percent to \$5.6 million on revenue of \$79.8 million, up 2.0 percent. Margin dropped to 7.0 percent from 8.7 percent. To what extent is the margin deterioration attributable to the loss of the Vodafone contract? What are the growth opportunities for the realigned business?

MD Graeme Sumner

The loss of the Vodafone contract didn't contribute meaningfully to the margin reduction. Growth opportunities lie in the ability of Customer Care to provide value added front-end services to our Specialist Field Service operations. Customer Care can achieve growth by providing specialist contact centre and fulfilment services to a broadening range of major clients.

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Service Stream has provided a total of \$20.0 million against two projects. This includes the reversal of claims totalling \$14.8 million to recognise the potential non-payment by the client on the McCourt Dando Gold Coast Desalination project. It also includes a \$5.2 million prior year provision recognising a recovery claim by the client on the TCI Ericsson Jersey dispute. When do you expect these cases to be finalised, and are they expected to have any further financial impact on the company?

MD Graeme Sumner

We anticipate no further losses associated with the McCourt Dando project. We'll continue pursuing the claim in the coming year but have not recognised any revenue or earnings associated with it. We anticipate legal proceedings from the dispute to be dealt with in the coming financial year.

Having completed the process of arbitration, the TCI Ericsson dispute is anticipated to be finalised in November 2010. We don't anticipate any further provisions associated with that dispute.

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Thank you Graeme.

For more information about Service Stream Limited, visit www.servicestream.com.au or call Graeme Sumner on +613 9677 8817

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