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Service Stream Limited
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Date of lodgement: 30-Oct-2007

Title: Open Briefing®. Service Stream. Telstra Contract and Latest Acquisition

Record of interview:

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Service Stream Limited (ASX Code: SSM) reported proforma EBITDA for FY07 of $30.1 million, which was at the top end of market guidance. What were the main factors that contributed to the robust result?

MD & CEO Patrick Flannigan
Clearly the main factors behind the result were the growth we achieved in our existing and newly acquired operations. The Company maintained its strong organic growth profile during the period winning several new contracts. Together with the performance of businesses we acquired, the Company continued to benefit from the increased spending by telecommunications customers on essential infrastructure.

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Subsequent to the end of FY07 you announced that you were awarded the $1.2 billion Access and Associated Services (AAS) contract with Telstra and a $40 million share placement. What is the expected impact on earnings in FY08 and FY09?

MD & CEO Patrick Flannigan
We estimate the national AAS contract will contribute revenue of around $200 million in FY08, increasing to $300 million in FY09. Following the announcement of this contract we updated our EBITDA guidance to the market to at least $37 million and $48 million in FY08 and FY09 respectively.

We anticipate $5 to $7 million in one-off ramp-up costs associated with AAS in FY08, which we expect will largely offset the added EBITDA margin contribution from the contract during this period. We expect to achieve EBITDA margins over the four year life of the AAS contract consistent with existing segment margins of between 5 and 7 percent.

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Could you provide an overview of the implementation timetable for AAS. What are the key commissioning risks and how do you expect to manage these risks?

MD & CEO Patrick Flannigan
Under the move to national coverage we are establishing 13 new branches with the majority to be located in regional NSW, South Australia and the Northern Territory. Infrastructure and service capability is expected to be in place by calendar 2007 end and we expect to achieve contracted volumes in line with the formal commencement of the 4 year contract term in February 2008.

In answering your second question, we consider the key risks to successfully commissioning the AAS contract to be 'volume' and 'skills' based. Although we do not envisage either of these events occurring, we have a clearly defined process to mitigate these risks should they arise. We do not consider there to be any risk to achieving the FY09 revenue and EBITDA forecasts.

If, for example, volumes do not flow through as expected we have the ability to simply "cut the cloth" to suit the revenue and earnings streams by delaying or postponing our investment in infrastructure, training, fit-out, etc.

On the second issue of skills, we expect that up to 70 to 80 percent of our increased skills requirement will flow from the existing skills base in the market and the balance will be met by the company's internal training resource, Milcom Training. We are more than comfortable with our ability to source the estimated additional skilled people required.

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Has the recently completed integration of TCI (Total Communications Infrastructure) delivered any major benefits to the Service Stream group?

MD & CEO Patrick Flannigan
TCI has exceeded our pre-merger expectations and plans. The business delivers the group strong project management capabilities in the deployment of wireless infrastructure to customers in the telecommunications sector.

Combined with Service Stream's existing national presence and scale solutions in asset management, we are now starting to benefit from the ability to offer customers broad based solutions in fixed and wireless asset deployment and management on a national level. Clear examples of this include the recent awarding of material contracts, including Payphones and AAS.

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TCI contributed lower earnings in FY07 in line with pre-merger guidance. What can we expect from TCI in FY08 and beyond?

MD & CEO Patrick Flannigan
The major earnings driver historically for TCI has been the level of spending by telecommunications customers on wireless base station infrastructure in Australia. Consistent with our pre-merger guidance to the market, TCI contributed lower earnings in FY07 driven primarily by lower capital expenditure on wireless base station infrastructure. Similar levels of activity were forecast for the current period.

Our growth strategy for TCI is to position the business to participate in the expected growth in capex spending by telecommunication customers in Australia over the next 5 years. Additionally we aim to leverage the business' infrastructure deployment capabilities into other related wireless environments and other geographical territories.

Following a hiatus in spending, the 'long-term' pipeline of wireless infrastructure projects in Australia is now extremely solid. On this point, we are confident that projects currently on the drawing board in both wireless telephony and wireless broadband will positively impact TCI's order book in the short term.

We are also well positioned to participate in the dramatic increase in spending on wireless infrastructure over the 'medium' to 'long-term' through proposed major projects that include the Federal Government's investment in broadband, along with alternative deployment and funding options proposed by Telstra and the Opel consortium.

Going forward, the TCI business will also review opportunities in other related wireless environments, such as digital radio programs and government radio networks.

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You announced the acquisition earlier this month of utilities contractor McCourt Dando Group. What is the strategic rationale for this acquisition? How does it advance your strategy of growing your presence in the utility service sector?

MD & CEO Patrick Flannigan
The acquisition of McCourt Dando is a further step in delivering our core strategic objective of duplicating our telecommunications revenue streams in the utility sector.

McCourt Dando not only delivers a leading presence in the deployment of multi-utility infrastructure projects, it also provides the platform to deliver large-scale turnkey solutions to clients in the electricity, gas and water sectors on a national basis similar to that being achieved by the group in telecommunications.

Our target is to build annual utility sector revenues to $300 million over next three years from our initial entry in May 2007. The addition of McCourt Dando to the

two Energex construction and maintenance contracts secured in 2H FY07 takes our utilities based revenues to over $60 million per annum.

Our $300 million revenue target is before considering any revenues that may flow from the potential role our Metering business may play in the planned smart electricity meter replacement programs by the State governments commencing in calendar 2008. While as yet unquantifiable, we anticipate these would flow over a period of ten years plus.

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Last month you provided EBITDA guidance for the FY08 and FY09 periods of at least $37 million and $48 million respectively. Where do you see the potential risks in achieving this guidance?

MD & CEO Patrick Flannigan
Our guidance for the FY08 and FY09 periods was based on existing and foreseeable business activities, together with a conservative approach to contract volumes and ramp-up-costs associated with the AAS contract. The acquisition of McCourt Dando Group and the inclusion of earnings from 1 July 2007 will positively impact earnings in the current period. As such, we believe the risk to achieving guidance is on the upside.

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Thank you Patrick.

For more information about Service Stream Limited visit www.servicestream.com.au or contact Patrick Flannigan on 03 9677 8888.

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