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ASX & Media Release

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31 December 2009 Interim Result Update

Service Stream is currently completing its half year results to 31 December 2009. In view of the Company's commitment to ongoing shareholder disclosure, and ASX guidelines as to market expectations, the Board has chosen to release its interim view of that result.

The Company expects to report underlying operating earnings of \$13.7 million, a number of one off adjustments to operating earnings, as well as a substantial non-cash provision in relation to the disputed claim on the Gold Coast Desalination Project (GCDA Project).

	31 Dec 2009 \$ million	31 Dec 2008 \$ million
Underlying EBITDA	13.7	15.3
Non-recurring adjustments	(3.0)	
EBITDA from operations	10.7	
Provision for GCDA claim and associated costs	(15.8)	
Anticipated EBITDA (Loss) for the half year	(5.1)	

Principal among the other non-recurring adjustments to operating earnings is a \$1.9 million charge for penalties under a major telecommunications contract, which were higher than originally anticipated. The Company will be adopting a more conservative position in relation to the likelihood of future penalty payments and has, in addition, sought to continue negotiations with the telecommunications carrier to ensure that it remains appropriately compensated for work done under this contract. Service Stream continues to understand that it is a well regarded and strong performer under this contract.

The result was also impacted by delays in the Company's anticipated commencement of the NBN project. This impacted both the potential for the Company to win work directly related to the NBN project (for which the Board believes the Company remains well positioned), and also led to a general softening in the communications industry, with major customers delaying expected capital expenditure programs as well as essential maintenance activities to assets that may become redundant with the NBN rollout. As Service Stream is a key supplier to a number of companies in this position, the slow down affects the Company's near term performance. However, the Board remains of the view that much of the required work is being deferred rather than cancelled, and anticipates capturing a large proportion of that deferred work in future periods.

The result also includes one-off costs associated with the termination of the former CEO and recruitment costs for the new CEO totalling \$1.1 million. In addition, the result for the period is also impacted by the cancellation of the Vodafone directory assistance and contact centre contract as advised to the market on 14 September 2009.



GCDA Project / McCourt Dando Claim provision to be taken up

As disclosed in February 2009, the Company has an outstanding claim for \$14.6 million on the GCDA Project.

At this stage the other party has failed to provide an acceptable settlement offer to the Company to resolve the outstanding dispute, effectively forcing us into full litigation (by way of arbitration) to obtain the full entitlement as a sub-contractor. As is the case with any legal proceeding there are numerous costs and uncertainties in pursuing the claim, and an increasing risk that (regardless of the underlying merits) the Company may not be fully successful in any arbitration or court proceeding.

Whilst the Company continues to vigorously pursue this claim, management believes it is prudent to make a provision for \$15.8 million against this claim (including costs associated with the claim). Irrespective of need to consider this provision, management and the Board will continue to pursue the claim, and remains committed to driving a successful outcome to this unfortunate dispute.

Financing facilities substantially reduced, full compliance with all banking covenants

Service Stream has managed a general reduction in its debt from \$95.0 million at 30 June 2009, to an anticipated \$57.5 million at 30 June 2010.

The Company has completed an extension of its facility arrangements with its bankers, with facilities now extending to July 2012.

The group traditionally experiences negative cash flow in the first half of the financial year as projects are taken up and working capital is extended. It is particularly pleasing, therefore, that in the six months to December 2009, the group's operating cash flow (before interest and taxation) has been neutral. The Company is on track to see a year on year reduction in working capital and positive cash flow from operations.

The Company continues to meet all of its banking covenants.

Full year guidance

Service Stream regularly reviews its detailed reforecast of management's expectations of financial performance.

Management and the Board have now completed the most recent reforecast, and Service Stream now expects to report underlying EBITDA (prior to the GCDA Project provision and 31 December 2009 adjustments) of \$27.3 million for the 2010 financial period.

	FY2010 \$ million	FY2009 \$ million
Forecast Underlying EBITDA	27.3	30.1
31 December 2009 non-recurring adjustments	(3.0)	
Forecast EBITDA from operations	24.3	
Provision for GCDA claim and associated costs	(15.8)	
Forecast reported EBITDA for the year	8.5	
Forecast reported NPAT for the year	(3.6)	11.1

Preliminary Half Year Result Commentary and Management Changes

Service Stream will release its first half results to the market on 26 February 2010. Subject to final review by its auditors, the Company expects to report revenue of \$266 million and an EBITDA loss of approximately \$5.1 million for the six months to 31 December 2009.



The Company continues to operate within its banking covenants and has sufficient headroom within its debt facilities to fund growth in the business. Its main senior debt has now been extended to July 2012.

Finally, Michael Doery (Service Stream's COO and CFO) has indicated to the Board his intention to resign from his roles as an executive and from the Board, with timing to be confirmed with the CEO and the Board in the coming week. Michael will continue to assist the Company with all outstanding current matters.

Lyn Davies, Chairman, said "The Board and I wish to thank Michael for his dedicated service to the Company over the last five years, and in particular over the transition period prior to the appointment of Graeme as Chief Executive Officer. Michael's commitment and dedication to the Service Stream business has been exemplary and we wish him well with all his future endeavours."

For further details contact:

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About Service Stream Limited:

Service Stream is a public company listed on the Australian Stock Exchange (Code: SSM) with annualised revenues approaching A\$560 million. The company is an industrial services enterprise with proven outsourced infrastructure deployment, management and service capabilities across 60 locations throughout Australia. Service Stream's technical staff of over 4,000 supports large asset owners on the deployment, management and servicing of essential network infrastructure in the telecommunication, electricity, water and gas sectors. For more information please visit the Company's website at www.servicestream.com.au.