



Annual General Meeting

28 October 2010

Managing Director's Address to Shareholders

Fellow Shareholders,

Since joining Service Stream in January of 2010, I have been very pleased to discover an organisation that has a lot of underlying capability and strength. While the overall result this year was disappointing, there was much to celebrate in the achievements of our individual business units and in the consolidation of our support structures.

Financial Results

2009/10 was a difficult year with Service Stream recording a Net Loss after Tax of \$2.6m. The result was substantially impacted by write downs associated with our McCourt Dando acquisition.

As a result, Service Stream moved to restructure the business in the second half of the financial year, exiting the larger civil contracting market and significantly realigning the remaining small project activity under the leadership of the TCI management team. It was therefore encouraging to end the year with a significantly improved net cash flow from operations of \$16.8m, up from \$8.2m in 2008/09 an EBITDA of \$6.4m and an underlying EBITDA of \$27.0m.

Highlights

The year has not been without some very important successes including:

- Securing a two-year, \$250 million per annum extension to the Telstra Access and Associated Services ("AAS") contract including expansion of services to include all of SA and WA.
- Securing new contracts and renewing existing contracts in our core business with clients such as Western Power, CitiPower and ETSA utilities.
- Winning a new contract to provide field services for Origin Energy to install PV Solar and hot water systems.
- Winning a new contract to provide field and contract services for the Queensland Government's ClimateSmart Home Service Program.

Core services

At its core Service Stream is a field services organisation, delivering technical services, programs and small projects to the telecommunications and utility sectors. These are enhanced by a range of customer care options.

This is where we intend to focus our efforts in the medium term. In these core activities we made significant progress this year. A highlight has been our extension into environmental work which sees us installing green technology into homes across the country. Provided government incentives remain in place, we see this as a strong growth opportunity for Service Stream.

Similarly, we have become the leading installer of smart meters nationally. While this uses the same systems and skills we have deployed for years, it places us at the forefront of this market.

Customer Care

Customer Care - previously known as Service Stream Solutions - provides enhanced customer service options to the telecommunications, government and corporate marketplace. Customer Care maintained its key relationships with Optus, The Australian Communications & Media Authority (ACMA), and AEGON throughout the year. The group also restructured its operation in the wake of the departure of Vodafone's call centre services to India. This has enabled it to focus on the real strength of Service Stream Customer Care, which is the delivery of services in combination with other divisions, such as Communications.

By working together, call centre and field capabilities will continue to deliver high value solutions for our clients, providing substantial efficiencies for our clients and a good financial reward for our business.

In the year a good example of the combined services offering of field services and Customer Care help desk was by winning the McDonalds maintenance contract for Australia and New Zealand against strong competition. This gives us further credibility in the Managed Services space and opportunity to expand further.

As part of the new focus for Customer Care it was determined that the Hosted Solutions were not core business. As a result it was decided to sell if possible. We were successful in selling this platform in June 2010. This sale contributed \$3.2 million to the years' result.

Federal government projects are still producing good income streams with the Do Not Call Register having its three year anniversary. Changes in legislation to include fax numbers and the extension of the life of registered numbers have been made in the past year. Digital Ready - the conversion of Analog to Digital TV reception - has had another one year extension with expansion in services offered, and Cyber Safety has also taken another one year extension due to our ongoing solid performance.

This year we also established ourselves in the growing Environmental Services market with telesales programs for Clear Solar, Origin Energy, Enact and Tech 2 Home-Harvey Norman.

Communications

This division provides a range of fixed line network design, construction and maintenance services to the telecommunications industry, principally Telstra. The Telstra A&AS (Access & Associated Services) contract that Communications is responsible for delivering is our largest single contract. It was therefore very pleasing to be awarded a two year extension to June 2012 for this major national contract. The renewed A&AS contract covers the existing areas in Queensland, New South Wales, the Australian Capital Territory, Victoria, Tasmania, Northern Territory, South Australia and Western Australia. In addition, the A&AS contract renewal resulted in the remaining areas of Western Australia and South Australia being awarded to Communications, giving Service Stream sole coverage for the A&AS in Western Region.

Communications will now provide over 60% of Telstra's outsourced services for Installation, Maintenance and Construction of copper, fibre and broadband networks from the exchange to the customers' premises. Service Stream estimates that it will undertake services worth over \$250 million per annum under the contract, up from \$220 million in the current year.

The Telstra payphones contracts that the Communications business has responsibility for were also renewed by Telstra under the existing terms. These contracts have been extended for 12 months to June 2011. Under these contracts, Service Stream cleans, maintains, installs and manages Telstra's national payphones network.

The Communications business is now in the fourth year of managing Telstra's payphones and during this time the KPI performance has been managed above target. We are therefore positive about retaining this business in the future.

This vote of confidence in Service Stream augurs well for our role in new infrastructure investment underway or planned for the near future, such as increased broadband services.

Service Stream has already undertaken two of the designs for National Broadband Network first release sites at Armidale and Minnamurra, and has successfully participated in NBN Co's Request for Capability Statement. Service Stream continues to participate in tenders for further design work, as well as the construction arising from that design work.

AMRS

AMRS completed another excellent year in which the business grew significantly. AMRS was this year appointed as the new provider of field and contact centre services for the Queensland Government's ClimateSmart Home Service Program. This well recognized program, with overall project delivery contracted to Local Government Infrastructure Services Pty Ltd (LGIS), is part of the Queensland Government's efforts to reduce the state's carbon footprint by one-third by 2020. Service Stream will deliver the program to 95,000 Queensland residences in metropolitan, regional and rural areas by 31 December 2010.

Service Stream was also awarded environmentally focused contracts with major energy retailers. Service Stream will work with Origin Energy to provide field services for the installation of solar PV and solar hot water systems.

Our continued leadership in the emerging Smart Meter installation space means that we are, unquestionably, well positioned for more aggressive rollouts into the future. The Victorian Smart Meter rollout progressed as expected this year and in addition to installing more than 75,000 meters on the Jemena contract, Service Stream also extended our services to those states trialing smart meters through the provision of field services for Ergon Energy in Queensland, Country Energy in New South Wales and Western Power in WA.

This year AMRS also renewed its longstanding contracts with three of the country's major electricity distribution businesses. ETSA Utilities in South Australia, Western Power in Western Australia and CitiPower/Powercor in Victoria all re-signed four plus year contracts with AMRS.

These three meter reading contracts are worth an estimated \$95m over a four year period.

Finally it was pleasing to see the emergence of a new partnership with Ingenico to maintain and service eftpos machines across the country for companies like Target, McDonalds and ANZ. This further underscored the efficiency with which we can deliver complex national solutions for our clients.

TCI

Infrastructure Services – Telco

TCI continued to perform well in a subdued market, providing turnkey and project management services in the design, acquisition and construction of wireless telecommunications infrastructure. Notably it expanded and improved the mix of work it undertook and is now a significant supplier to the main carriers including Telstra, Optus and Vodafone Hutchison.

TCI is well positioned to capitalise on the forecast growth in network capacity as carriers respond to the ever increasing consumer demand for data, delivered both wirelessly through the uptake of smart phones and over fibre to the home and businesses nationally. This includes new base station sites to improve coverage, upgrade and infill sites to improve capacity and trial sites for the fourth generation of wireless technology.

Corporate Services, People, Health, Safety and the Environment

Delivering our services with no injuries remains our goal. Our Lost Time Injury rate reduced from 2.5 per million hours worked to 2.0 per million hours worked in the past year. We will continue to drive for an injury free workplace.

Over the course of this year, Service Stream has been very focused on integrating and centralizing our Human Resources, Safety and Environmental systems. This leads to better results for our Company and cost savings across the business.

In particular, we have commenced rollout of the HR21 Self Service learning platform. The first module using this platform is our safety induction process – allowing staff and contractors to learn about our safety procedures even before their first day on the job – saving money, increasing safety and lowering injury rates.

Indeed, from a corporate services perspective, we have had a very strong year:

- Industrial Relations – No days lost to workplace disputes.
- Environmental – No environmental breaches
- Safety – No safety breaches

But there is always more to do to make our workplace safer, more rewarding and efficient.

Going forward

My commitment is to focus Service Stream on producing good quality earnings through the provision of high quality services for our clients. In doing this I believe we can restore the capacity of the Company to pay dividends and invest in existing business unit growth.

Service Stream has an optimistic view of most of the major markets that it operates in. In particular, the development of national broadband capacity, projected increases in mobile network construction and continued buoyancy in environmental services suggests that we could be entering a significant growth phase.

We remain conscious though that it will only matter if we can continue to deliver excellent service, every day, safely and profitably.

Finally, I would like to thank the Board for their support through this challenging period and I would like to pay tribute to my fellow employees for their leadership, dedication, and relentlessly positive attitude. I look forward to working with you to realise our Company's potential.



Graeme Sumner
Managing Director