

ASX & Media Release

17 February 2014

Service Stream first half results

Leading essential network services company Service Stream Limited (ASX: SSM) today announced its results for the half-year ended 31 December 2013.

Overview

- Half year results in line with expectations
- Fixed Communications segment on the road to recovery
- EBITDA of \$7.5 million, NPAT of \$0.5 million, EPS of 0.18 cents
- Strong Operating Cashflow result of \$14.8 million.

Results Commentary

For the six months ended 31 December 2013, Service Stream delivered EBITDA of \$7.5 million, in line with expectations. Under new leadership, the Fixed Communications segment focused heavily on reducing its cost base and optimising its operating structures during the period. Whilst its operating result after corporate allocations was a loss of (\$3.2) million, Fixed Communications made substantial progress towards sustainable profitability and materially outperformed its performance in the preceding six month period. The Group's two other segments, Mobile Communications and Energy & Water performed well in delivering a combined EBITDA of \$13.1 million being \$2.9 million or 28.9% favourable to the prior corresponding period which was negatively impacted by the finalisation of the Ericsson legal dispute. Cashflow from operations of \$14.8 million was strong and, after adjusting the prior comparative period for the one-off impact of a \$12.0 million tax refund, represents a \$4.3 million increase period on period.

Operational Summary

Segment restructuring

To assist Fixed Communications with its operational recovery, Management took a decision to transfer all non-NBN related activities to the Mobile Communications segment with effect from July 2013. The relevant prior period comparatives have been adjusted to reflect these transfers.

Fixed Communications

Fixed Communications contributed revenue of \$42.7 million, reflecting the conclusion of the New Estates Fujitsu contract, the cessation of accounting for 50% of the Syntheo Joint Venture revenue and the impact of lower volumes within the Telstra remediation contract, partially offset by higher revenue from the NBN Direct New Estates and FSD / NARA contracts. The EBITDA loss for the period of (\$3.2) million was adversely impacted by the legacy cost structure carried over from FY13 and subsequent restructuring costs. Profitability was also impacted by low volumes in relation to Telstra's pit and pipe remediation program following on from the nation-wide temporary cessation of activities in late FY13 as a result of concerns regarding standardised procedures for the safe handling of potentially asbestos containing material, costs associated with the finalisation of the Fujitsu contract together with a finalisation of costs in relation to sub-contractor services provided to the Syntheo Joint Venture.

Mobile Communications

Mobile Communications contributed revenue of \$99.2 million. This segment was impacted by the winding down of fixed-line services provided to Telstra under the former A&AS contract, which are now reported under the Mobile Communications segment. The traditional Mobile Communications business saw a substantial increase in revenue from wireless construction activity offset by a decrease in site acquisition and design works. The segment recorded EBITDA of \$6.5 million for the period, a strong improvement on the prior comparative period which was negatively impacted by the finalisation of the Ericsson legal dispute. The margin achieved for the half-year of 6.5% reflects the dilutionary impacts of the activities transferred from Fixed Communications, the greater proportion of lower-margin construction activity undertaken during the period, and the general trend of price competitiveness in the sector.

Energy & Water

Energy & Water contributed revenue of \$73.5 million with lower revenue from in-home services programs such as solar PV and hot water system installations; partially offset by higher revenue from metering services, Customer Care and other services. 1,546 residential solar PV installations were completed during the half-year at an average system size of 3.4kw. The segment recorded EBITDA of \$6.6 million for the six months ended 31 December 2013 with margins improving to 9.0% .

Capital Management

Net Debt at 31 December 2013 was \$38.1 million, an improvement of \$13.9 million from 30 June 2013. Net debt at period end comprised (\$50.1) million of cash advance and overdraft facilities offset by \$12.0 million of cash on hand. The full amount of borrowings has been classified as current liability since the Group's banking facilities had less than 12 months of remaining term at balance date.

On 24 January 2014 the Company announced its proposal to make a share placement of \$9.35 million to Thorney Opportunities Ltd, Thorney International Pty Ltd and certain other sophisticated and professional investors; and to conduct a 2 for 11 rights issue of \$10.7 million to eligible shareholders. The placement and rights issue are fully underwritten and are subject to the approval of shareholders at a general meeting to occur on Wednesday, 19 March 2014.

No dividends have been declared in relation to the Group's half-year result.

Outlook

Commenting on the outlook for the year, Managing Director Mr Terry Sinclair said: *"We are working particularly closely with our customers to secure greater certainty over the timing of volumes arising from major build programs for the second half and for FY15. Subject to the phasing of volume, we confirm EBITDA guidance for FY14 at approximately \$20 million. The recently announced capital raising proposal is seeking shareholder approval for a funds injection of around \$19.0m. This will materially strengthen the Company's balance sheet, enable the Company to explore new growth opportunities and to undertake its next refinancing on more favourable terms."*

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About Service Stream Limited:

Service Stream is a public company listed on the Australian Securities Exchange (Code: SSM) with annual revenue in excess of \$500 million. The Service Stream Group is a provider of essential network services to the telecommunications, energy and water industries. Service Stream operates out of more than 25 locations nationwide and maintains a workforce of more than 3,000 employees and contractors. For more information please visit www.servicestream.com.au.