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PearlStreet



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Date of lodgement: 30-Jun-2008

Title: Open Briefing® . PearlStreet. MD on Capital Management Initiatives

Record of interview:

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PearlStreet Limited (ASX Code: PST) has integrated three acquisitions over the last 12 months. How have the acquisitions changed the company's operating and service capabilities?

MD Anthony Wooles

The acquisitions have brought some exciting changes, and they fall into three key categories. The first is the clear synergies we've achieved through having a fully national footprint and a much larger scale. We've successfully removed significant costs from our operating and corporate overheads, so we now have much greater scale leverage.

The second category is in the sales area, where we're now in a position to offer clients a full national response capability and to mobilise resources from around the country, which we weren't able to do before. That's clearly a positive as we talk more and more to larger clients. This capability is increasing our ability to talk about longer-term alliance contracts with our clients. This partnership approach is a primary focus of our business model, and we're now having discussions with our clients that we wouldn't have been capable of having when we were a smaller operation.

The final category is recruiting. The skilled labour market is very tight, and having a national capability, alliance contracts and a larger scale allows us to talk to potential trainees and recruits about building a career in the company and providing them with the opportunity to work across different geographies, industry sectors and client assets. We haven't been able to offer that range of opportunity before. We've got approximately 50 new trainees coming on board as we enter FY09 and we regard this as a clear strategic investment in our skilled resource base.

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PearlStreet expects revenue to exceed \$80 million for the year ended June 30, 2008, up from \$37.3 million in the previous year. Apart from the acquisitions, what factors are driving revenue growth across your businesses and are you seeing any slowdown in demand for your services?

MD Anthony Wooles

Our revenue growth is being driven by the underlying activity in the energy, resources and infrastructure space, which remains very, very buoyant. That means the capacity levels the major asset owners are running at, and the output levels of the engineering shops and fabricators and support businesses, continue to be extremely high. On top of that, major construction projects continue to arise, and we're increasingly getting access to participation in those. At the same time, the length, breadth and complexity of the big energy asset shut-downs is increasing and they're becoming more critical to the plants' performance. All these factors contribute to extremely strong demand, and we're not seeing any slowdown at all. With the buoyancy of demand, we'd be able to achieve double digit revenue growth if we could get the resources – the engineers, skilled trades and technically trained people. As it is, we continue to target high single digit organic growth and we will be very pleased to achieve that given capacity utilisation at most of our facilities is well north of 80 percent.

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You've indicated recently that you are likely to achieve an EBITDA/revenue margin of 12 percent in FY09. Why is that a realistic target?

MD Anthony Wooles

We're in a value-add sector of the engineering services industry and our people are strongly skilled. We're not a labour-hire shop or a cost-based outsourcer. On that basis, we think our sector should be able to achieve sustainable double digit EBIT margins. With depreciation and amortisation charges stabilising at 2 to 4 percent of revenue, that means a 12 percent EBITDA margin should be sustainable.

We've led the rationalisation of the testing and inspection industry and today we're the number one player in the market. We're now seeking to bring very strong commercial disciplines, more robust pricing models and a stronger focus on utilisation to the business. We're only a year into that rationalisation, but as I mentioned earlier, we're already seeing the benefits of scale, and have been able to achieve significant cost reductions and scale synergies. We're confident that when we've had some time to get our acquisitions settled down and operating optimally, we'll achieve that sort of EBITDA return on an annualised basis.

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Debt has recently reduced to \$45.4 million from \$47.3 million in December 2007, following equity raisings of \$6.5 million. What are the terms of your borrowings and what is your approach to the management of your gearing?

MD Anthony Wooles

It's important to understand that our borrowings are long term; our term facilities run out through September 2012. As such, we don't have any significant short-term debt refinancing obligations.

In this capital market environment we maintain an active but measured approach to the management of our gearing and that's why, on the back of the recent April placement we've done a directors' placement and an underwritten share purchase plan. That process will further reduce our borrowings by about \$3.5 million, to \$41.9 million as we progress into FY09.

We're very conscious of the current capital market turbulence and the management of our debt position remains a central focus. We're continuing to work at reducing our gearing position over time in a measured fashion without making a significant placement that would be extremely dilutive to existing shareholders. We continue to pay back the principal of our debt on a quarterly basis and as a result the most recent placements, those payments will reduce from \$1.25 million a quarter to \$750,000 going forward. We've also applied some recent equity funding to what is a stronger working capital requirement given the size of our business. As a final recent step we will soon list \$0.50 options on a 1:3 basis which, given improved performance and capital market conditions, sets the platform for a major equity capital injection in late FY09.

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Can you manage this level of leverage?

MD Anthony Wooles

About 40 percent of our underlying revenue stream is locked in to major alliance contracts and significant schedule of rates contracts i.e. three to five year contracts. On top of established long-term contracts with Alcoa, Esso, BP, Verve Energy and CS Energy, we've been successful over the last six months in winning further long-term contracts with the likes of Pilbara Iron in Western Australia and Rio Tinto Aluminium Ltd at its Yarwun Stage 2 expansion in Queensland. We expect to shortly announce further contract wins and contract renewals with significant blue chip clients in the energy and resources sector and we're also working on some major projects including the APA Bonaparte Gas Pipeline project in the Northern Territory and the Dalrymple Bay Coal Terminal in Queensland.

As a result, we have a very stable, robust revenue and earnings stream – we're not at all a project-led business with a great deal of unpredictability attaching to earnings. With the cost reductions and scale synergies I articulated earlier, we expect to see solid EBITDA growth in the new financial year. And of course over time as we continue to reduce our debt position and increase our EBITDA, our coverage ratios and global debt covenants will improve. We have excellent relationships with our bankers and the Board and I have a long-term view of the

company and the potential of our market leadership position. On this basis, we're very comfortable taking an active but measured medium to longer-term view of our capital structure.

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Thank you Anthony.

For more information about PearlStreet, visit www.pearlstreet.com.au or call MD Anthony Wooles on +61 8 9327 7536

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