servicestream
ESSENTIAL NETWORK SERVICES

WHO ARE YOU INVESTING IN?

2012
ANNUAL REPORT

YOU ARE INVESTING IN...

Service Stream, a leading provider of services to the telecommunications and utilities industries. Our people build, maintain and manage the vital infrastructure needed for telecommunications, electricity, solar energy and water. You could say we are the link between many of our country's largest utility companies and millions of their customers.

A leading service provider that is winning big network contracts

An organisation that is delivering sustainable growth

The right team of essential network specialists

ANNUAL GENERAL MEETING

The Annual General Meeting of Service Stream will be held at the InterContinental Melbourne The Rialto 495 Collins Street, Melbourne, 24 October 2012, 10.30am.

Local know-how

A strategy that is working and on course

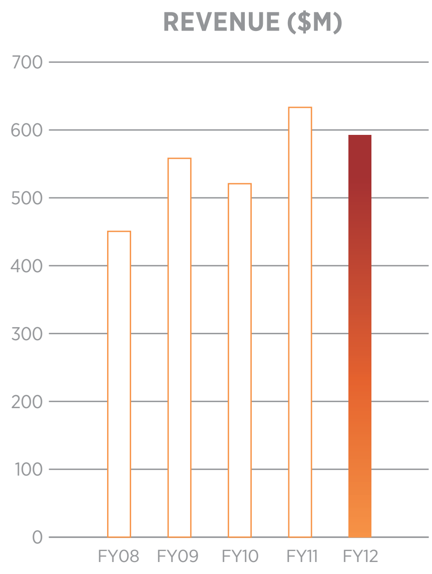
An experienced management team

A team who can deliver uniquely tailored service solutions

ESSENTIAL NETWORK SERVICES

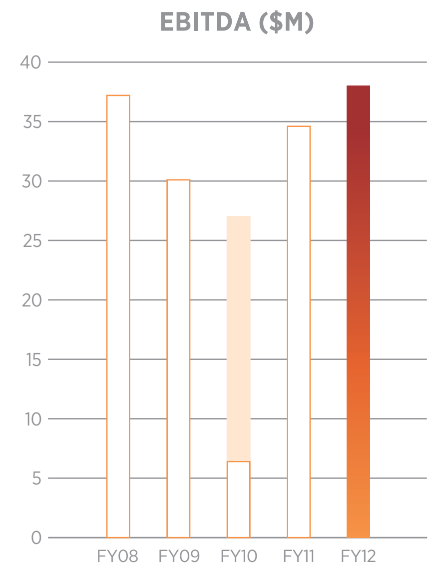
6.5%

Revenue of $592.2 million, down 6.5%



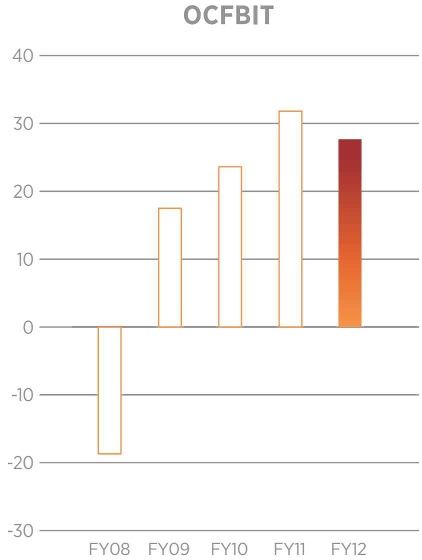
10.0%

EBITDA of $38.0 million, up 10.0%



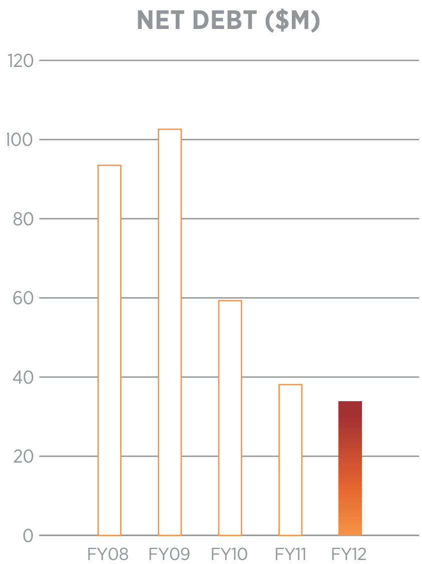
2012 FINANCIAL HIGHLIGHTS

Service Stream believes that demand for essential network services will remain strong in the medium term, with the Australian Government's investment in the National Broadband Network continuing to drive opportunities for both Service Stream and our joint venture business, Syntheo.



13.2%

Operating cashflow before interest and tax of $27.6 million, down 13.2%



11.2%

Net debt reduced by $4.3 million, to a gearing ratio of 0.89 x EBITDA

MARKET OUTLOOK REMAINS STRONG

Service Stream believes that demand for essential network services will remain strong in the medium term. The Australian government's investment in the National Broadband Network continues to drive opportunities for both Service Stream and our joint venture business, Syntheo. These opportunities span the whole gambit of essential network services, from brownfields construction and new estates build programs to maintenance and customer management services.

In the field of mobile communications, increasing consumption of mobile bandwidth will continue to drive the development of the necessary supporting infrastructure. Current industry projections are for mobile data consumption to double every nine months. Service Stream therefore expects the major carriers to aggressively develop 4G mobile services to meet this demand.

Finally, energy and water network investment profiles remain positive as transmission and distribution networks upgrade ageing asset bases and work to deliver better demand side management solutions. Service Stream is working with a number of partners on new opportunities in smart metering, energy efficiency in the home, hot water, heating solutions and solar PV installation and maintenance. As a result of continued pressure on energy prices, we remain very positive on the outlook for this sector as customers look to manage their energy consumption more effectively.

PETER DEMPSEY
Chairman

CHAIRMAN'S REVIEW

CONTINUED GROWTH IN A CHALLENGING YEAR

Dear Shareholders,

On behalf of the Board I am pleased to report that Service Stream enjoyed another solid year of earnings growth in what was a time of significant change for the company.

I noted in last year's annual report that the energy and telecommunications markets were likely to provide Service Stream with a significant range of opportunities. This has proven to be the case, with the company winning significant new work with NBN Co, Telstra and Origin Energy.

The Board was also pleased to note the progression this year from one of consolidation to one of strategic development. This has been best demonstrated in the development of Service Stream's "Essential Network Services" brand and strategy. This will provide the organisation with a stronger sense of purpose and direction in meeting our customers' future needs.

The Board and management believe that by continuing to focus in these markets Service Stream will continue to grow. While the company remains exposed to some political uncertainty concerning the future of NBN, I am of the view that the risks to Service Stream have receded significantly as the program has gained momentum. This, together with anticipated strong levels of demand in the electrical and mobile communications sectors, suggests that the future for Service Stream is a very exciting one.

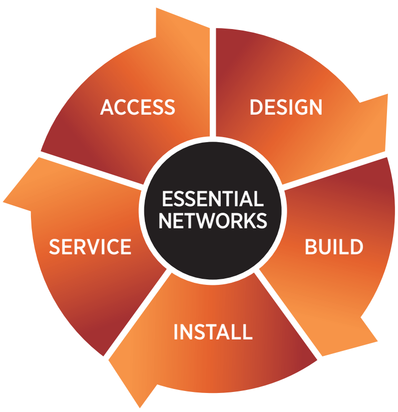
I would like to thank the Board for their service this year and congratulate the management team on the achievement of a very satisfactory result.

The development of Service Stream's "Essential Network Services" brand and strategy will provide the organisation with a stronger sense of purpose and direction in meeting our customers' future needs.

GRAEME SUMNER
Managing Director

MANAGING DIRECTOR'S REPORT

SERVICE STREAM HAS ADAPTED TO A CHANGING MARKET



The substantial levels of investment earmarked for the electricity and telecommunications sectors provide us with significant opportunities.

Fellow Shareholders,

Service Stream built on last year's strong financial performance with solid earnings growth this year. A net profit of $18.7m yielded growth of 13.8% over last year. Earnings per share of 6.60 cents rose by the same percentage.

SAFETY

Service Stream continued to make safety our number one priority. Our Lost Time Injury Frequency Rate improved for this year and we continue to invest heavily in our people and culture to drive better health and safety outcomes in the future.

OPERATIONAL HIGHLIGHTS

As a provider of essential network services, it was pleasing to note the progress we made in securing and executing work within our core competencies. Particular highlights of the past year included:

- Renewal of our Telstra Mobile Construction Contract for a further two years.
- The signing of a new direct Greenfields fibre rollout contract for NBN Co for Western Australia, Northern Territory, South Australia and New South Wales.
- The signing of network construction contracts with NBN Co for Western Australia, South Australia and Northern Territory by Syntheo, our joint venture with Lend Lease.
- The further development of our services for Origin Energy in selling and deploying solar PV panels and emergency hot water systems.

STRATEGIC DEVELOPMENT

This year also marked a good step forward towards our goal of becoming Australia's leading essential network services provider. While winning significant amounts of work with NBN Co has been a key step, the continuing development of our capability in mobile communications and low-voltage electricity services has been equally important. As a result we have shown an ability to both win and execute work in the past year that has demonstrated our competitive strengths.

OUTLOOK

Service Stream's outlook remains strong. The substantial levels of investment earmarked for the electricity and telecommunications sectors provide us with significant opportunities. In addition our strengthening project capability will open up a new range of opportunities to pursue in these areas.

Finally I would like to thank the Board, my management team and all of the Service Stream team for their unstinting efforts this year.

FIXED COMMUNICATIONS

REVIEW OF OPERATIONS

The Fixed Communications business provides a wide range of design, construction and maintenance services for copper and fibre optic telecommunications infrastructure assets. The division's principal activities are minor design and construction projects under the Telstra Access & Associated Services (A&AS) contract, the rollout of fibre into new housing estates for NBN Co, and the design and construction of the National Broadband Network (NBN) through the Syntheo Joint Venture with Lend Lease.

During the year, the division completed works worth over $200 million through the A&AS contract. The business also significantly improved its service delivery and KPI performance under the contract.

FY12 also saw the commencement of works under the Fujitsu NBN New Estates contract. During the year, the business rolled out fibre to over 10,000 homes as part of this agreement, generating new revenues of $28 million. The rollout of fibre to new estates under the NBN program is expected to be a key part of the business over the medium to long term, and the recent securing of a contract with NBN Co with associated revenues of up to $100 million over an 18 month period is further evidence of the business' capability in this area.

In FY12, Syntheo secured two design and construction contracts with NBN Co, which together have an initial value of over $300 million and cover Western Australia, South Australia and the Northern Territory, and each have an initial two-year period with two one-year options. The business worked closely with NBN Co to mobilise operations across these regions and is excited to be part of this nation-building program. Since the inception of the contracts, Syntheo has received 54 design and construction work orders throughout suburban and regional areas, including Geraldton, Mandurah and Victoria Park in WA, Darwin in the NT and suburbs in Adelaide including Aldinga, Modbury and Prospect, and these are progressing well.

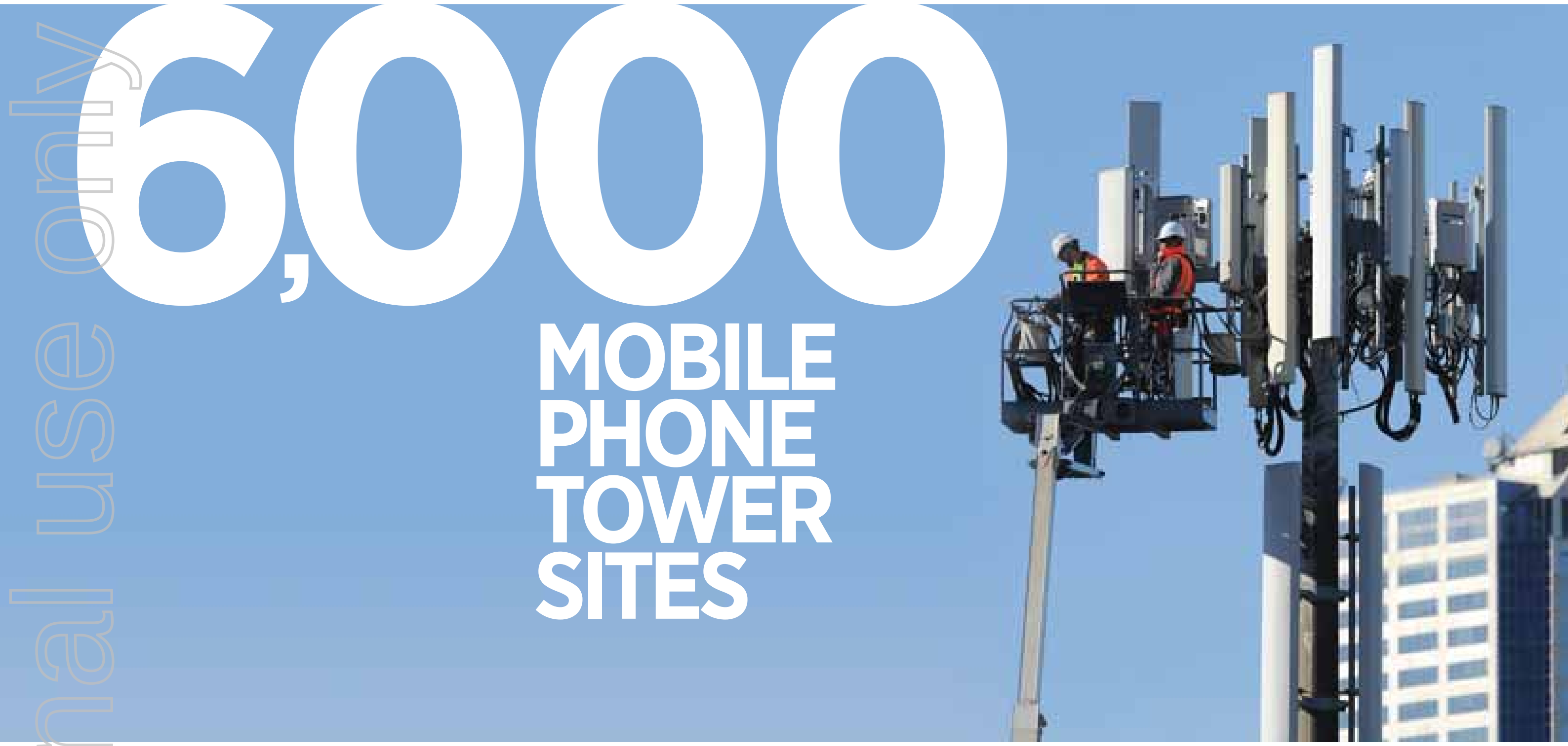
Resource acquisition and retention continues to be a major focus of the business, given the tight market for suitably skilled labour. To address this, the business has been actively exploring a number of options including enhanced training programs for the local workforce.

New contract wins with NBN Co for the design and construction of the National Broadband Network in the WA/SA/NT regions, bring a total potential value of

$825M

$300.2M

in revenue for 2012



MOBILE COMMUNICATIONS

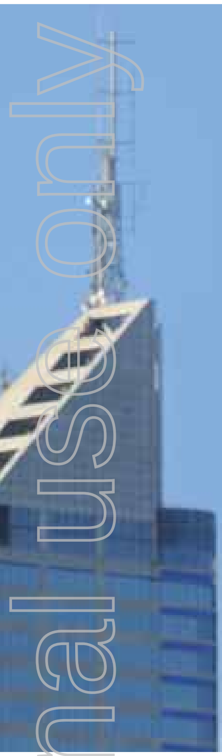
REVIEW OF OPERATIONS

Mobile Communications provides turnkey project management services for the access, design, and construction of wireless telecommunications infrastructure across Australia. The division provides these services to each of Australia's three major mobile network providers, Telstra, Vodafone Hutchison and Singtel Optus, and its capabilities make it the market leader in the provision of such services nationally.

The division has enjoyed considerable growth flowing from the increasing demand for wireless data capacity and the penetration of data-dependent portable devices such as smart phones and tablets. In FY12, the business provided turnkey services for the completion of more than 1,500 new and upgraded base station sites across a national footprint.

During the year, the business also expanded its services to the design and construction of wireless communication facilities for private networks. This included a significant program of works for Santos and Unity Water in Queensland.

Mobile Communications is optimistic regarding its prospects for future growth, given the increasing demand for mobile data capacity, the emergence of new mobile technologies such as 4G, and the rollout of the NBN across Australia.



$124.7M
in revenue
for 2012

Two-year extension to the Telstra National Wireless Construction contract, valued at approximately

$80M

The Energy and Water division provides a range of specialist metering and environmental services to utilities and government authorities nationally, and through the Customer Care business the provision of contact centre services and end-to-end customer support for key contracts.

During the year, the metering business continued to provide a range of turnkey services as part of the Victorian smart meter rollout across the Jemena, United Energy, Citipower and Powercor networks. As a market leader in smart meter and large scale infrastructure deployments, the Energy and Water business has successfully completed in excess of 460,000 smart meter installations across these networks to date. Over the past year, the metering business continued to leverage its core capabilities by moving into new market segments, in particular providing low-voltage pole and aerial inspection/maintenance services to major electrical network owners. The business has invested in providing automated asset inspection applications, including field mobility devices to improve asset inspection, collection and reporting, as well as GPS tracking and high-resolution photography.

Although the number of residential solar system installations reduced in FY12 on the back of a widespread softening in market conditions, it was pleasing to note the in-home services business continued its diversification into other growth segments in the sustainability sector. Of particular note was the commencement of in-home environmental assessments and installations as part of the Victorian Government's Victorian Energy Efficiency Target (VEET) scheme. The business also continued to develop and expand the replacement of hot water systems across a national footprint as part of the business' growing partnership with Origin Energy. The business remains optimistic regarding the residential solar system installation market, especially as a result of continued increases to domestic electricity prices and ongoing reductions in the global price of solar panel components. These two driving factors are expected to assist in making the decision to purchase solar systems attractive to a broad range of Australian households.

The Customer Care business has continued its transition from one that has been almost completely outwardly focussed to one which is increasingly dedicated to supporting the activities of key contracts in the metering and environmental areas of the Energy and Water division. This transition has been a key driver of the significant improvement recorded in Origin's residential customer satisfaction rating and is evidence of the end-to-end value-added services that Customer Care can provide in association with other divisions. In addition to the support of other internal areas, Customer Care has managed the ramp-up of the Telstra mobile phone insurance claims service, supported the Australian public through two further switchovers from analog to digital signal and handled all telephone enquiries in relation to the NBN rollout.

ENERGY AND WATER

REVIEW OF OPERATIONS

$169.1M
in revenue
for 2012

100,000 CUSTOMER CONTACTS PER WEEK

Specialist support is fundamental to every Service Stream project. We have dedicated specialists to optimise team structure, find and train the right people, engage with network end users, and manage information efficiently and effectively.

TEAM RESOURCES

Having the right people ensures that the job is done right. For each big new contract, Service Stream's strategy and growth specialists shape the project team using the ideal people and resources from across our three core divisions.

PEOPLE AND TRAINING

With over 4,000 staff needed to deliver Service Stream's ongoing contracts, we know what it takes to hire and train suitably qualified personnel.

CUSTOMER CARE

We deal with people as well as we deal with networks. Whether managing inbound calls about network issues or outbound calls about services, our Customer Care team provides vital support across a wide range of key contracts.

INFORMATION

The capture, storage, retrieval and reporting of information is crucial to every project we undertake. Upgrade of core service support platforms and development of major project specific information solutions are vital parts of our unique network's service capacity.

NETWORK SERVICE SUPPORT SPECIALISTS

REVIEW OF OPERATIONS

PEOPLE, HEALTH, SAFETY AND THE ENVIRONMENT

The organisation continued to integrate the Human Resources (HR), Safety, Quality and Environmental functions via the implementation of a distributed business partnership model to ensure business units are appropriately supported throughout all states and territories.

Resourcing will continue to be a key focus for HR for the foreseeable future. Over the past year, efforts have concentrated on developing HR processes and systems to improve our workforce planning capabilities.

Service Stream has also commenced traineeship programs in several states in an effort to build a pool of experienced and skilled employees ahead of construction requirements associated with the rollout of NBN. The focus of recruitment efforts in our traineeship programs has been the attraction and employment of Aboriginal and Torres Strait Islanders. The response to date has been pleasing with almost one-third of those employed in the traineeship programs being Aboriginal or Torres Strait Islander.

A key achievement for the year was a refresh of our employment brand, which included not only a new look and feel with respect to logos, advertising templates and on-line profiles, but also a restatement of the values that underpin Service Stream as an organisation. We now have a strong consensus view of who we are and what we stand for and this has been captured in our revised "Vision, Purpose and Values" statements which were relaunched in June.

OUR VISION

OUR PURPOSE

The number of people employed by the organisation grew by almost 200 during the past year. Service Stream currently employs 2,266 staff and uses the services of around 1,700 contracting companies and their employees.

Throughout the period, there was no time lost as a result of industrial disputes. A strong relationship management approach to industrial relations (IR) remains the cornerstone of our IR strategy and continues to be a significant factor in ensuring business continuity and growth.

During the year, a review of the Company's remuneration structures was undertaken and, as a consequence, we have developed a number of career strategies to support the resourcing and retention of staff in specialist areas of the business.

In April 2012 an Employee Engagement Survey was conducted to assess the level of employee engagement throughout the various business units and to improve the level of this engagement. The initial program had a high response rate and provided a strong platform from which to create our engagement strategies.

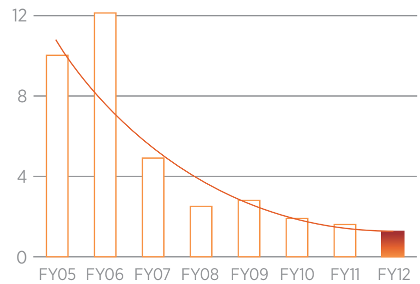
Service Stream has expanded the Operational, Health, Safety and Environmental (OHSE) resources in each state to support the increasing compliance requirements of the business. In relation to systems, our focus has been on continuous improvement to facilitate more efficient and effective management and reporting of information.

OUR VALUES

SAFETY	Zero harm, protecting our people
INTEGRITY	Doing the right thing
CAN DO	Keeping our promises, taking on the big challenges
TEAMWORK	Working together, helping each other
RESPECT	Valuing individual difference

LOST TIME INJURY FREQUENCY RATE (LTIFR)

(PER MILLION HOURS WORKED)



There was a continued focus on eliminating injury and illness during the period, resulting in an improvement of our safety performance over the past year with LTIFR reducing to 1.25. (Note: In last year's Annual Report the LTIFR was incorrectly reported as 1.2 when in fact it was 1.6). We increased our focus on workers compensation, injury management processes and systems for returning both employees and contractors to work.

The focus on improving our internal safety processes and platforms was rewarded with the achievement of Federal Safety Accreditation in our Fixed Communications division. Federal Safety Accreditation will assist the company in competing for future government funded work.

There were no environmental breaches or incidents during the year. An environmental impact study was undertaken to assess the environmental impact of activities conducted by or on behalf of Service Stream and to identify measures to minimise any negative environmental impacts.

A range of factors have combined to require a significant number of relocations of office and work premises, and environmental considerations have been an important factor in deciding on new locations. One significant initiative undertaken to reduce the Group's footprint is the combining of several offices into one head office location in Melbourne. This Melbourne office will be rated at the highest environmental level, NABERS 5. In addition, a refreshment program of our substantial fleet of vehicles is almost complete, with older and less efficient fleet being replaced with more efficient vehicles.

EXECUTIVE TEAM


[A]


[B]


[C]


[D]


[E]


[F]


[G]


[H]


[I]

DANIEL HILL [A]

B.Bus (Eco/Mkg) GradDip (Acc)

Executive General Manager – Mobile Communications

Daniel commenced with TCI in July 2006 in the role of General Manager for the Radhaz Business. Daniel was appointed to the role of National Project Manager in 2008 with responsibility for the Telstra programs and has successfully grown the scope of the contract works to include turnkey services to this client.

Daniel was appointed to the role of Executive General Manager in March 2012 and provides strong leadership operational experience to the expanding workforce in this sector.

Prior to joining TCI, Daniel worked in a General Manager role for 5 years within a large civil and road construction organisation and 8 years in commercial finance with Westpac.

STEPHEN ELLICH [B]

BE (Elec)(Honors) (UTS), GradDip Admin (credit) (UTS), MBA (UTS), GAICD

Executive General Manager – Fixed Communications

Stephen's role as Executive General Manager is to manage the Service Stream Fixed Communications business nationally.

Stephen is in his eighth year with Service Stream and started with the company in its Silverwater office. In 2009, Stephen and his family moved to Melbourne in order to establish the head office and national design group for the Fixed Communications Division.

Stephen is also a member of the board of Syntheo, Service Stream's joint venture with Lend Lease for brownfields NBN rollout work.

Stephen has over 20 years experience in the telecommunications and construction industry. His experience covers the areas of project management, design, construction and maintenance services.

In addition to his work at Service Stream, Stephen serves on the boards of two not-for-profit companies, Edmund Rice Camps (Victoria) and YMCA Victoria.

LEIGH MACKENDER [C]

BEng (Civil) (Syd)

Executive General Manager – Energy and Water

Leigh joined Service Stream when it acquired AMRS (now Energy and Water) in February 2008, and was appointed to the role of Executive General Manager in April 2011, and a director of AMRS in 2012.

Leigh is responsible for overseeing the Energy and Water business', national operations, which includes metering, asset inspection and in-home services divisions operating across the Electricity, Gas and Water markets. Leigh has over 12 years of experience working within the utilities industry specialising in contract management, financial analysis, commercial negotiations and managing complex service based operations.

Leigh is currently completing his Masters of Business Administration.

JULIET FAKE [D]

Executive General Manager – Customer Care

Juliet joined Service Stream in June 2010 as General Manager – Customer Care, bringing extensive experience in contact centre management and business process improvement. During Juliet's international career she has held various leadership roles including Director of Credit and Collections for Virgin Media (UK). Juliet assumed the role of Executive General Manager – Customer Care in July 2011.

CHAD ORR [E]

BusDip (Lakewood)

Executive General Manager – Strategy and Growth

Chad brings over 15 years' experience in large scale outsourcing projects from a range of industries. Chad is responsible for managing the strategy and the associated execution of the organisation's business growth. Over the past 6 years at Service Stream, he has been involved in the start-up and delivery of many successful projects including metering, environmental services and NBN, along with a host of other projects.

Chad is a member of the Australian Institute of Company Directors.

MURRAY OUTRAM [F]

BSC (Psych) (Newcastle)

Executive General Manager – Human Resources

Murray joined Service Stream in July 2011 and has over 30 years experience in operational and corporate human resources roles in major Australian public and private corporations. Murray has experience working in organisations that were growing rapidly through acquisition and also undergoing major workforce change.

Murray has experience in a broad cross-section of industries including manufacturing, research/technical services, logistics and health. He held significant HR roles in BHP, Linfox Australia Pty Ltd and most recently LCM Health Care, which operates the Calvary group.

JESSICA LYONS [G]

BA/LLB (Monash)

General Counsel and Company Secretary

Jessica was appointed General Counsel and Company Secretary in November 2010. Jessica brings over 12 years in-house legal and management experience to Service Stream.

Jessica has held senior legal and management positions in various industries, including in mining, steel milling and commodity sales businesses, most recently as Regional Counsel at Belgian-based Nyrstar NV, and prior to that as Contract Counsel for Smorgon Steel.

Jessica has significant experience in leading large-scale projects (including acquisitions and integration projects), managing litigation and disputes, and in contract drafting and negotiation.

Jessica is currently completing the Graduate Diploma of Applied Corporate Governance through Chartered Secretaries Australia.

CRAIG WISHART [H]

BEd, PostGradEd, MEd, PostGrad HR/IR, GradDip eBusiness, GradDip Languages

Chief Information Officer

Craig was appointed Chief Information Officer for Service Stream in March 2011. Craig's mandate as CIO is deliver and execute a conjoined Business and ICT plan and operational service management across the Business. Craig's experience extends from mining/resources, media, telecommunications, government, and banking and finance. Craig has achieved significant results throughout his career, leading global business transformations, management of large scale customer facing operations (National & International) and has provided Management Consulting to many well known ASX listed and global organisations.

VICKI LETCHER [I]

BLLP, BCom, CA.

Company Secretary

Vicki joined Service Stream in June 2010 as Group Tax Manager, and was appointed to the role of Company Secretary in August 2012. Vicki continues to be responsible for the Group's Tax function, including taxation compliance, risk management and specialist advice.

Vicki has a broad experience across a number of industries, including manufacturing, consumer goods and professional services, having previously held a range of senior finance positions with Deloitte and Foster's Group Limited.

Vicki is currently completing the Graduate Diploma of Applied Corporate Governance through the Institute of Chartered Secretaries.

BOARD OF DIRECTORS

PETER DEMPSEY
B. Tech. (Civil Eng.) (Adel) Grad. Diploma (Bus. Admin.) SAIT, FIEAust, MAICD.

Chairman since November 2010

Peter Dempsey was appointed Chairman of Service Stream Limited on 1 November 2010. Peter has extensive construction and development experience and has been involved in these industries for the last 40 years. In 2003 he retired from A W Baulderstone Pty Ltd after a 30-year career, the last five years as Managing Director. Baulderstone undertook some of Australia's largest building and civil infrastructure projects with annual revenues up to $1.5b during his tenure. The company was also involved in projects for the resources sector, with operations in all Australian mainland states, Papua New Guinea, Indonesia and Vietnam.

Peter is Chair of the Remuneration and Nomination Committee and is a member of the Audit and Risk Management Committee.

Peter is currently a Non-Executive Director of Monadelphous Limited and Becton Property Group Limited, as well as holding other Board roles with private construction and charitable organisations.

Peter has no other listed company directorships and has held no other listed company directorships in the last 3 years.

GRAEME SUMNER
B Com (Auckland), MBA (Massey), MAICD

Managing Director since January 2010

Graeme Sumner has broad experience in the information technology, telecommunications, electricity, engineering and mining services sectors. Starting his career with IBM in Sweden and the UK, Graeme went on to hold senior management positions with Telecom New Zealand, Contact Energy and Siemens NZ where he served as Managing Director for 5 years. Most recently Graeme served as the Chief Executive of Transfield Services New Zealand and Chairman of Transfield Worley NZ and Inser Transfield Services Chile.

Graeme has no other listed company directorships and has held no other listed company directorships in the last 3 years.

BRETT GALLAGHER
FAICD

Non-Executive Director since April 2010

Brett Gallagher has over 20-years experience across the utility and facilities management industries, and was Managing Director and a major shareholder of the AMRS Group of companies ("AMRS") from 2003 until 2008 when that company was acquired by Service Stream. Brett was instrumental in the growth of AMRS, establishing it as Australia's largest metering services provider.

Brett is Chair of the Environment and Safety Committee and is a member of the Audit and Risk Management Committee.

Brett also holds directorships and interests in a number of private businesses that operate predominantly in the utilities sector.

Brett has no other listed company directorships, and has held no other listed company directorships in the last 3 years.

DEBORAH PAGE AM
B Ec (Syd), FCA, MAICD

Non-Executive Director since September 2010

Deborah Page, a Chartered Accountant, has held senior executive positions with the Commonwealth Bank, Allen, Allen & Hemsley, IBM and the Lend Lease Group and is a former KPMG partner. She brings expertise developed from finance and operational executive roles and from her professional background in external audit and corporate advisory. Since 2001 she has worked exclusively as a Non-Executive Director across a range of industries, including energy, insurance, financial services and property.

Deborah is Chairman of the Audit and Risk Management Committee and is a member of the Remuneration and Nomination Committee.

Deborah is currently Chairman of Investa Listed Funds Management Limited, the responsible entity of the ASX-listed Investa Office Fund; and is a Non-Executive Director of Australian Renewable Fuels Limited. She is also a Non-Executive Director of The Colonial Mutual Life Assurance Society Limited and Commonwealth Insurance Limited, wholly owned subsidiaries of the Commonwealth Bank.

Deborah has held no other listed company directorships in the last 3 years.

STEPHE WILKS
BSc (Macq) LLM (Syd)

Non-Executive Director since September 2005

Stephe Wilks has over 20-years experience in the telecommunications industry both within Australia and overseas. He has held senior executive positions with BT Asia Pacific, Optus, Hong Kong Telecom, Nextgen Networks and Personal Broadband Australia. He was also a consulting director with investment bank, NM Rothschild.

Stephe is a member of the Audit and Risk Management Committee, the Environment and Safety Committee and the Remuneration and Nomination Committee.

Stephe is currently Chair of Eftel Limited, a Non-Executive Director of Tel.Pacific Limited and 3Q Holdings Limited, and was previously Chairman of Mooter Media Limited, and a Non-Executive Director of People Telecom Limited. Stephe is on the advisory board of the Network Insight Group and consults to a number of companies in the media and technology industries.

ROBERT GRANT
BCom (Qld), FCPA

Alternate Director since December 2010 and Chief Financial Officer since June 2010

Robert (Bob) Grant has over 20-years experience in providing financial leadership in prominent Australian and multi-national companies across numerous sectors including infrastructure services, construction, energy, downstream oil and mining. Before joining Service Stream Bob held senior finance roles in Tenix, AGL and Shell.

Bob is an Alternate Director for Graeme Sumner, ensuring continuity of executive representation at Board discussions and meetings where Graeme is not otherwise able to attend. In his capacity as Chief Financial Officer, Bob is responsible for all financial management, reporting, treasury, taxation and other finance shared services, as well as corporate services including property, supply chain and risk management.

Bob has no other listed company directorships and has held no other listed company directorships in the last 3 years.

CORPORATE GOVERNANCE STATEMENT

This corporate governance statement summarises the main corporate governance practices of Service Stream Limited ("the Company") and its subsidiaries ("the Group"). All practices, unless otherwise stated, have been in place for the 2011/12 financial year.

The Board of Directors of the Company is committed to achieving and maintaining high standards of corporate governance, and in this statement, the Board discloses the extent to which the Company has followed the recommendations set out in the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments,* 2nd edition.

The information contained in this report is current as at 15 August 2012.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board Charter sets out the Board's structure, along with its key roles and responsibilities.

The Board has also adopted a Reserved Powers Policy that sets out matters specifically reserved for determination by the Board as distinct from matters delegated to executives in order to manage the operations of the Group. The Board's focus is on representing and serving the interests of shareholders by setting the strategic direction for, and policies of, the Group and overseeing performance. As part of this function, the Board monitors financial performance, legal compliance, risk management and ethical standards. Matters specifically referred to the Board for approval include Group strategy, financial plans, major policies, issues of equity, ASX disclosures and matters involving amounts over specified limits or with potential to have a material impact on the financial position or reputation of the Group.

Responsibility for the Group's day-to-day operations, administration and management is delegated by the Board to the Managing Director. The Managing Director must consult with the Board on matters that have, or may have, a material impact on the Group in terms of value or reputation, or which are of a sensitive or strategic nature. The Managing Director is accountable to the Board and is supported by a Senior Executive Team which meets informally on a regular basis and at least monthly on a formal basis. The Managing Director and Senior Executive Team meet to progress and coordinate the development and implementation of the Group's strategies, plans, standards, policies and projects.

The Board has approved a Delegation of Authorities Manual setting out the delegation of the Managing Director's authorities to members of the Senior Executive Team and other levels of management throughout the Group as appropriate.

The Board receives comprehensive Board papers in advance of each monthly Board meeting which contain standing agenda items such as safety, financial performance, operational issues and legal issues. Members of the Senior Executive Team are regularly invited to attend Board meetings to report directly to the Board on key business issues.

[1]As required by ASX Listing Rule 4.10.3.

The Board and Senior Executive Team monitor the financial performance of the Group using monthly management accounts. These accounts are compared with monthly forecasts and budgets as well as the performance of the Group in prior corresponding periods. The Group's budgets and forecasts include key performance indicators against which performance is measured. Ongoing and consistent monitoring of the Group's performance with oversight by the Board ensures issues are identified and addressed.

Performance and accountability of the Managing Director and Senior Executive Team

Upon appointment, the Managing Director and each member of the Senior Executive Team signs a letter of engagement and is provided with an Induction Manual containing key information about the Group and its policies. Letters of engagement include terms and conditions in relation to duties, rights and responsibilities, termination, and where applicable, the period of the engagement.

In addition to regular informal mechanisms of performance evaluation and feedback, the Managing Director's performance is formally reviewed by the Board (facilitated by the Chairman) on an annual basis against key performance indicators and other performance criteria recommended by the Remuneration and Nomination Committee and approved by the Board.

The Managing Director formally assesses the performance of each Senior Executive Team member annually against key performance indicators and other performance criteria. Each Senior Executive Team member is also provided with regular, informal feedback by the Managing Director and the Board.

The Remuneration and Nomination Committee considers the performance of the Managing Director and members of the Senior Executive Team when formulating remuneration arrangements, including short-term and long-term incentive plans and annual salary reviews. The short-term incentive plan contains measurable key performance indicators with respect to the current financial year that are approved by the Board. The long-term incentive plan contains incentive targets for the financial years to which each offer made under the plan applies.

The Board Charter is available on the Group's website.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

The Board is comprised of a Non-Executive Chairman, three Non-Executive Directors and the Managing Director. An Alternate Director (Robert Grant, Chief Financial Officer) is appointed to represent the Managing Director in his absence.

The Chairman (Peter Dempsey) and two of the Non-Executive Directors (Stephe Wilks and Deborah Page) are Independent Directors. Brett Gallagher is not considered an Independent Director because within the last three years, he was employed in an executive capacity within the Service Stream group of companies. The Board believes that the current mix of Directors bring a broad range of complementary skills and experience to their responsibility of governing the Company. Further information about the Board (and the Company Secretary) is set out in the Directors' Report on pages 24–36.

Director's independence

The Board assesses whether a Director is independent on a case-by-case basis, and at least annually. Directors are required to provide the Board with the information needed to make this assessment.

The Board uses the independence and materiality tests as set out in the ASX Principles when assessing a Director's independence. The Board regards a Director as independent if he or she is a Non-Executive Director who is not a member of management (and has not been so within the last three years) and who is free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of the Director's judgement.

To the extent that any Director identified as being independent in this Statement currently has any affiliation with a customer of or supplier to the Group, or a contractual relationship with the Company or a controlled entity of the Company, all such relationships have been determined to be immaterial.

The Board has a policy of separating the role of Chairman and Managing Director and this policy is reflected in the Board's current practice with Peter Dempsey in the role of Chairman and Graeme Sumner in the role of Managing Director. The Chairman is independent and his role and responsibilities are independent from those of the Managing Director.

Under current practice, the Board meets every month, with additional meetings convened as required to consider specific or urgent matters.

Committees

The Board has established three key Committees to assist in the execution of its duties and functions being the:

- Safety and Environment Committee;
- Audit and Risk Management Committee; and
- Remuneration and Nomination Committee.

The Safety and Environment Committee, Audit and Risk Management Committee and Remuneration and Nomination Committee have their own Charters approved by the Board. The Charters are reviewed annually and include a requirement that each Committee will review its own effectiveness and make any necessary recommendations to the Board regarding improvement.

For details of membership of and attendance at Committee meetings please refer to the Directors' Report on page 29.

The Committee Charters are available on the Group's website.

Appointment of Directors

The Board actively and regularly considers the composition of the Board, taking into account the duration of each Director's tenure and the competencies required by the Company from time to time.

The Remuneration and Nomination Committee's Charter deals with Board succession planning. The Diversity Policy specifies that the Company should have balanced gender representation at the Board level and the Remuneration and Nomination Committee is responsible for Board succession. When nominating and appointing Directors, the Board takes account of its diversity objectives and recommendations of the Remuneration and Nomination Committee and seeks a balanced mix of qualifications, age, skill, gender and experience to achieve the most favourable outcome for the Company and its shareholders.

Conditions relating to appointment are provided to all Directors, in writing, prior to appointment.

Apart from the Managing Director and his Alternate, all Directors are subject to re-election by rotation at least every three years in accordance with the Company's constitution, and shareholders are encouraged to participate in the re-election of Directors.

Directors have a right of access to all relevant Group information and the Senior Executive Team. In addition, the Board Charter sets out the circumstances under which Directors may obtain independent professional advice, at the Company's expense, on matters arising in the course of their Board duties. Directors must obtain the Chairman's approval prior to seeking advice (which cannot be unreasonably withheld), and a copy of the advice is made available to all other members of the Board. Further, all Directors have access to the Company Secretary, who is accountable to the Board on all governance matters.

At the end of each financial year, the Board assesses its performance and that of its Committees and individual members, to ensure its effectiveness in meeting shareholder expectations. Responsibilities for such performance reviews and the mechanism for the performance review process are dealt with in the Remuneration and Nomination Committee Charter.

In addition to the above, the Board considers that the shareholders of the Company ultimately assess the performance of the Board, its Committees, individual Directors and the Senior Executive Team based on the financial performance of the Group and the commercial, legal and ethical framework within which the Group operates.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

The Company is committed to being a socially responsible corporate citizen. All Directors, employees and subcontractors are expected to comply with the law and act at all times with integrity.

The Company has a Standards of Behaviour Policy which contains a Code of Conduct. This Policy sets out the expected standards of behaviour, including a requirement for ethical and responsible decision-making by the Company, its officers and employees.

The Code of Conduct sets out the Company's expectations in relation to matters such as honesty, relations with customers, prevention of fraud, conflicts of interest, sexual harassment/discrimination, drug/alcohol abuse, disputes with fellow employees, and the protection of information. The Code of Conduct can be found on the Group's website.

A Whistleblower Policy has also been established to encourage a culture of reporting matters that may cause the Group financial loss or damage to its reputation. This is supported by the Company's Whistleblower Protection Program, which is designed to ensure that an employee who comes forward to disclose such matters does not suffer any adverse consequences. The program is compliant with AS:8004 a Whistleblower Protection Programs for Entities. The Whistleblower Policy can be found on the Group's website.

The Board and the Senior Executive Team, through their own actions, promote and foster an ethical corporate culture for the entire Group. To this end, the Board promotes open and honest disclosure and discussion, together with consideration and respect for the interests of all legitimate stakeholders at all Board and management meetings. In addition, the Board and the Senior Executive Team regularly consider relevant matters including conflicts of interest, strategic and business opportunities, confidentiality, fair dealing, complaints handling, proper use of the Group's assets, compliance with laws and regulations, and reporting of unlawful or unethical behaviour.

In accordance with the *Corporations Act (Cth) 2001* and the Board Charter, Directors must keep the Board advised, on an on-going basis, of any interest that could potentially conflict with that of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and does not participate when the relevant item is considered or voted on.

The Board has ultimate responsibility for resolving all matters concerning ethical and responsible decision-making, with the above policies and practices designed to ensure the integrity of the Company is maintained and investor confidence is enhanced.

Dealing in Company shares by Directors, other officers and employees

The Directors have established a Securities Trading Policy which governs dealings in securities to ensure the highest standards of corporate conduct and governance.

The Company's Constitution permits Directors to acquire an interest in securities, including shares, warrants and other financial products in the Company, and the Board encourages Directors, officers and employees to own securities in the Company to further link their interests with the interests of all security holders. The holding of, and dealing in, such securities is governed by the Securities Trading Policy.

In accordance with the provisions of the *Corporations Act (Cth) 2001* and the *ASX Listing Rules*, Directors are required to advise the Company and the ASX of any changes in their interests in the Company, including securities in the Company.

The Securities Trading Policy can be found on the Group's website.

Diversity

The Group is comprised of men and women of varying ages, ethnicities and cultural backgrounds. A Diversity Committee has been established which includes the Company Secretary and is sponsored by the Managing Director. The Diversity Committee formally reports to the Remuneration and Nomination Committee on an annual basis. The Committee has developed a Diversity Policy and Diversity Procedures that provide for the setting of measurable objectives by the Board for achieving gender diversity. The Company's progress towards achieving current gender diversity objectives is detailed below:

- Diversity awareness training has been conducted across the organisation;
- Recruitment processes are periodically reviewed to reflect a commitment towards diversity and to take account of employees' personal responsibilities. An employee engagement survey was undertaken during the year that, among other things, assessed diversity and flexibility issues within the organisation;
- The Company has undertaken an audit in relation to gender pay parity. The results of the audit will be assessed against internal and external benchmarking mechanisms to measure pay parity. Once benchmarking has concluded, the Company will develop and implement strategies to address areas of difference; and

- A process for assessing current gender diversity, in particular female participation in non-traditional sectors, has been established with analysis to follow.

The Remuneration and Nomination Committee will have the responsibility of assessing and reporting to the Board on progress towards achieving the measurable objectives on an annual basis.

Further, the Company currently requires senior managers including the Senior Executive Team to attend corporate governance training on an annual basis. This training includes a focus on diversity and the need for flexible work practices and inclusive behaviours to counteract unconscious bias in recruitment and progression.

As at 15 August 2012, women constituted 23% of the Group's employees, 20% of the Board and 20% of the Senior Executive Team.

The Diversity Policy can be found on the Group's website.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Audit and Risk Management Committee has been established to assist the Board in fulfilling its responsibilities to provide shareholders and regulatory authorities with timely and reliable financial reports of the Group.

The Board has adopted a Charter for the Committee which sets out its role and responsibilities in relation to reviewing the integrity of the Group's financial reporting and overseeing the independence of the external auditor. Among other things, the Committee reviews audit scopes, assesses the performance of and fees paid to the external auditor, liaises with the external auditor to ensure that the annual audit and half-year review are conducted in an effective, accurate and timely manner, and considers whether non-audit services provided by the external auditors are consistent with maintaining the external auditor's independence. The Committee reports to the Board on financial and audit matters at each relevant Board meeting.

The Committee is comprised of four Directors, all of whom are Non-Executive Directors and the majority of whom are independent. The Committee is chaired by Deborah Page who is an independent Non-Executive Director and not Chairman of the Board. The Board considers that this structure maintains integrity and is operationally effective for a group of Service Stream's size and composition.

The external auditor, Deloitte Touche Tohmatsu, was appointed as auditor for the Company in November 2006. Prior to this, they were the auditor for Service Stream Holdings Pty Ltd since 1 July 1992. Deloitte changes the lead audit engagement partner every five years. The current lead audit engagement partner has held this position since December 2009.

The Managing Director and Chief Financial Officer state in writing to the Board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial position and operational results and are in accordance with all relevant accounting standards.

Further information with respect to safeguarding the integrity of financial reporting, including information about the members and meetings of the Committee, is provided in the Directors' Report on page 29.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

The Company is committed to providing timely and accurate disclosure to the market of all material matters concerning the Company in accordance with the *Corporations Act (Cth) 2001* and *ASX Listing Rules*. The Company Secretary is responsible for liaison with the ASX in respect to the Company's disclosure obligations.

The Company has adopted the following mechanisms to ensure compliance and to create accountability at a senior management level for timely and balanced disclosure:

- All matters requiring disclosure by the *ASX Listing Rules* are disclosed to the ASX;
- The Directors, Managing Director, Chief Financial Officer and the Company Secretary ("Disclosure Officers") are responsible for reviewing potentially material matters and determining what information should be disclosed;
- Only a Disclosure Officer may authorise communication on behalf of the Company in relation to matters requiring disclosure by the *ASX Listing Rules*;
- Executives must inform a Disclosure Officer of any potential disclosures as soon as they become aware of the information. The Senior Executive Team is responsible for ensuring staff understand and comply with this procedure;
- ASX and media releases must be approved by a Director to ensure the disclosure is factual, includes all material information, and is expressed clearly and objectively;
- All Senior Management are trained in respect to disclosure obligations; and
- The Securities Trading Policy contains guidance on the disclosure obligations of employees and Senior Managers of the Company.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

The Company respects the rights of its shareholders and facilitates the effective exercise of those rights.

Shareholders are responsible for voting on the election of Directors at the Annual General Meeting. The Annual General Meeting also provides shareholders with the opportunity to express their views on matters concerning the Company and to vote on other items of business (such as the adoption of the Company's remuneration report). The Company's policy is to encourage effective shareholder participation at Annual General Meetings, with a notice of such meeting sent to shareholders along with the Annual Report prior to the meeting.

The Company requires the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report (which is set out on pages 38–39.

The Company has a policy of effectively communicating with shareholders using various methods such as:

- the Annual Report which is made available to shareholders;
- disclosures made to the ASX;
- information uploaded in the "Investors" section of the Group's website;
- notices of meeting and explanatory memoranda in relation to resolutions to be put to a vote of shareholders;

- Annual General Meetings at which shareholders are given an opportunity to ask questions about and comment on the performance and operations of the Company and its subsidiaries;
- responding to communications from shareholders in a timely and responsive manner; and
- regular investor presentations and briefings.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

The Company has established an Audit and Risk Management Committee to:

- assist the Board in identifying, monitoring and managing the Group's material business risks;
- review the Company's risk management policies and make recommendations to the Board from time to time to enhance the Company's risk management framework; and
- review the appropriateness and effectiveness of the Company's internal control procedures.

The Managing Director, the Audit and Risk Management Committee and the Board recognise that they have ultimate responsibility for ensuring that the risk mitigation actions and internal control environment of the Group is fit for purpose and adequate in terms of safeguarding shareholder value. The Company has put in place a comprehensive risk management framework designed to promote a culture that encourages the active management of opportunities as well as risks to the business. The framework has been developed in line with the recommendations contained within the *AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines* standard.

As part of its risk management framework, the Board has adopted a Risk Management Policy which is designed to promote a standardised Group-wide approach to the management of risks by requiring that as an organisation the Group will:

- implement a standard Group-wide approach to risk management;
- implement a structured and consistent process for identifying, assessing and managing business risks as well as opportunities;
- comply with all applicable laws, licensing and government regulations applicable to its business activities;
- promote a culture that accepts both good and bad news, encourages personal responsibility and expects proactive identification and management of risks and opportunities; and
- monitor, address and report on risk management performance measures.

In accordance with its risk management framework, the Company has in place various processes designed to safeguard the its assets, minimise its liabilities and to ensure the integrity of its reporting.

The Company has in place internal controls in relation to accounting, financial reporting, delegations of authority, payment systems, segregation of duties, contract review, ISO auditing, health and safety, property and environmental management activities.

The identification, assessment, monitoring and management of business risks and the internal controls environment is monitored by the Senior Executive Team on an ongoing basis and formally as part of regular monthly meetings. The Senior Executive Team also reports to the Board on a regular basis in relation to the Group's effectiveness in managing material risks.

The Board has received an assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the *Corporations Act (Cth) 2001* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

The Company has established a Remuneration and Nomination Committee. The Committee has three members and a majority of its members are Independent Directors. The Committee is chaired by Peter Dempsey who is an Independent Director.

The Committee has responsibility for reviewing and making recommendations to the Board in relation to remuneration, in particular ensuring that the Group offers remuneration which is fair and competitive, which is appropriately linked to performance, and which motivates the Senior Executive Team to pursue the long-term growth and success of the Group. The Committee also reviews senior management remuneration structures and succession plans, and monitors the level and nature of Directors' remuneration to ensure it is in line with current standards. The Committee provides recommendations to the Board which, in turn, has ultimate responsibility for fair and responsible remuneration for Group personnel.

As required, the Board engages appropriately qualified consultants to provide it with advice and recommendations.

Executive Directors receive salaries and employee benefits and do not receive additional fees for their services as Directors. Discussions are undertaken between Non-Executive and Executive Directors with regard to setting appropriate levels of remuneration. No Executive Director or other executive participates in any decision relating to their own remuneration.

Non-Executive Directors are remunerated by way of fees and statutory superannuation.

The Senior Executive Team is remunerated by way of fixed salary, long-term and short-term incentives and superannuation.

The remuneration report (at pages 31–36 of this annual financial report) details the remuneration of Directors and Senior Management.

Documents referred to in this Statement, unless under review, are published in the Corporate Governance section of the Group's website, **www.servicestream.com.au.**

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Service Stream Limited and its subsidiaries at the end of, or during, the year ended 30 June 2012, and in order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

INFORMATION ABOUT THE DIRECTORS AND SENIOR MANAGEMENT

The names and particulars of the Directors of the Group during or since the end of the financial year are:

Name	Particulars
Peter Dempsey B. Tech. (Civil Eng.) (Adel) Grad. Diploma (Bus. Admin.) SAIT, FIEAust, MAICD. *Chairman*	*Term of Office: Chairman since November 2010* Peter Dempsey was appointed Chairman of Service Stream Limited on 1 November 2010. Peter has extensive construction and development experience and has been involved in these industries for the last 40 years. In 2003 he retired from A W Baulderstone Pty Ltd after a 30 year career, the last five years as Managing Director. Baulderstone undertook some of Australia's largest building and civil infrastructure projects with annual revenues up to $1.5b during his tenure. The company was also involved in projects for the resources sector, with operations in all Australian mainland states, Papua New Guinea, Indonesia and Vietnam. Peter is Chair of the Remuneration and Nomination Committee and is a member of the Audit and Risk Management Committee. Peter is currently a Non-Executive Director of Monadelphous Limited and Becton Property Group Limited, as well as holding other Board roles with private construction and charitable organisations. Peter has no other listed company directorships and has held no other listed company directorships in the last 3 years.
Graeme Sumner B Com (Auckland), MBA (Massey), MAICD *Managing Director*	*Term of Office: Managing Director since January 2010* Graeme Sumner has broad experience in the information technology, telecommunications, electricity, engineering and mining services sectors. Starting his career with IBM in Sweden and the UK, Graeme went on to hold senior management positions with Telecom New Zealand, Contact Energy and Siemens NZ where he served as Managing Director for 5 years. Most recently Graeme served as the Chief Executive of Transfield Services New Zealand and Chairman of Transfield Worley NZ and Inser Transfield Services Chile. Graeme has no other listed company directorships and has held no other listed company directorships in the last 3 years.
Brett Gallagher FAICD *Non-Executive Director*	*Term of Office: Non-Executive Director since April 2010* Brett Gallagher has over 20 years experience across the utility and facilities management industries, and was Managing Director and a major shareholder of the AMRS Group of companies ("AMRS") from 2003 until 2008 when that company was acquired by Service Stream. Brett was instrumental in the growth of AMRS, establishing it as Australia's largest metering services provider. Brett is Chair of the Environment and Safety Committee and is a member of the Audit and Risk Management Committee. Brett also holds directorships and interests in a number of private businesses that operate predominately in the utilities sector. Brett has no other listed company directorships, and has held no other listed company directorships in the last 3 years.

Name	Particulars
Deborah Page AM B Ec (Syd), FCA, MAICD *Non-Executive Director*	*Term of Office: Non-Executive Director since September 2010* Deborah Page, a Chartered Accountant, has held senior executive positions with the Commonwealth Bank, Allen, Allen & Hemsley, IBM and the Lend Lease Group and is a former KPMG partner. She brings expertise developed from finance and operational executive roles and from her professional background in external audit and corporate advisory. Since 2001 she has worked exclusively as a Non-Executive Director across a range of industries, including energy, insurance, financial services and property. Deborah is Chairman of the Audit and Risk Management Committee and is a member of the Remuneration and Nomination Committee. Deborah is currently Chairman of Investa Listed Funds Management Limited, the responsible entity of the ASX-listed Investa Office Fund; and is a Non-Executive Director of Australian Renewable Fuels Limited. She is also a Non-Executive Director of The Colonial Mutual Life Assurance Society Limited and Commonwealth Insurance Limited, wholly owned subsidiaries of the Commonwealth Bank. Deborah has held no other listed company directorships in the last 3 years.
Stephe Wilks BSc (Macq) LLM (Syd) *Non-Executive Director*	*Term of Office: Non-Executive Director since September 2005* Stephe Wilks has over 20 years experience in the telecommunications industry both within Australia and overseas. He has held senior executive positions with BT Asia Pacific, Optus, Hong Kong Telecom, Nextgen Networks and Personal Broadband Australia. He was also a consulting director with investment bank, NM Rothschild. Stephe is a member of the Audit and Risk Management Committee, the Environment and Safety Committee and the Remuneration and Nomination Committee. Stephe is currently Chair of Eftel Limited, a Non-Executive Director of Tel.Pacific Limited and 3Q Holdings Limited, and was previously Chairman of Mooter Media Limited, and a Non-Executive Director of People Telecom Limited. Stephe is on the advisory board of the Network Insight Group and consults to a number of companies in the media and technology industries.
Robert Grant BCom (Qld), FCPA *Alternate Director and Chief Financial Officer*	*Term of Office: Alternate Director since December 2010 and Chief Financial Officer since June 2010* Robert (Bob) Grant has over 20 years experience in providing financial leadership in prominent Australian and multi-national companies across numerous sectors including infrastructure services, construction, energy, downstream oil and mining. Before joining Service Stream Bob held senior finance roles in Tenix, AGL and Shell. Bob is an Alternate Director for Graeme Sumner, ensuring continuity of executive representation at Board discussions and meetings where Graeme is not otherwise able to attend. In his capacity as Chief Financial Officer, Bob is responsible for all financial management, reporting, treasury, taxation and other finance shared services, as well as corporate services including property, supply chain and risk management. Bob has no other listed company directorships and has held no other listed company directorships in the last 3 years.

DIRECTORS' REPORT (CONT)

DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or related body corporate as at the date of this report.

	Service Stream Limited		
	Fully paid ordinary shares Number	Share options Number	Performance Rights Number
Directors			
P Dempsey	320,000	–	–
D Page	82,900	–	–
B Gallagher	8,792,113	–	–
S Wilks	255,000	–	–
G Sumner	350,000	–	1,560,543
R Grant	144,166	–	1,057,022

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Information about the remuneration of key management personnel is set out in the remuneration report of this Directors' report, on pages 31 to 36. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

PERFORMANCE RIGHTS GRANTED TO DIRECTORS AND SENIOR MANAGEMENT

During and since the end of the financial year, an aggregate of 2,808,897 performance rights were granted to the following Directors and to the five highest remunerated officers of the Group as part of their remuneration:

Directors and senior management	Number of rights granted	Issuing entity	Number of ordinary shares under rights
G Sumner	1,560,543	Service Stream Limited	1,560,543
R Grant[1]	430,063	Service Stream Limited	430,063
R Stanton[2]	221,267	Service Stream Limited	221,267
S Ellich	205,624	Service Stream Limited	205,624
C Orr	175,788	Service Stream Limited	175,788
L Mackender	133,577	Service Stream Limited	133,577
D Hill[3]	82,035	Service Stream Limited	82,035

1. R Grant is an Alternate Director for G Sumner.
2. R Stanton held the position of Executive General Manager until 5 March 2012.
3 D Hill was appointed to the position of Executive General Manager during the year.

COMPANY SECRETARY

Jessica Lyons joined Service Stream in September 2010 as Legal Counsel and was appointed Group Company Secretary in November 2010. As Company Secretary, she is responsible for the corporate administration, and corporate governance of the Group

Jessica has extensive experience within the legal profession, most recently as the in-house Regional Counsel for Nyrstar, the world's largest zinc producer.

Jessica has a Bachelor of Laws and Bachelor of Arts from Monash University, and is also a member of Chartered Secretaries Australia.

PRINCIPAL ACTIVITIES

The Service Stream Group is a provider of essential network services, including access, design, build, installation and maintenance. These services are provided to copper, fibre and wireless telecommunications networks as well as to a range of private and public energy and water entities nationally.

REVIEW OF OPERATIONS

Overview

For the FY12 year, Service Stream recorded revenue of $592.2 million, which was down 6.5% against the $633.3 million for FY11. Despite the reduction in revenue, the Group's EBITDA of $38.0 million was up $3.5 million or 10.0% against the prior corresponding period, with NPAT up 13.8% to $18.7 million.

Cashflow from operations of $16.0 million was down by $8.7 million against the result recorded for FY11, due to the resumption of tax payments and the impact on working capital of a change in the mix of work.

The following table provides an overview of the performance of the Group for the year, and provides a reconciliation between EBITDA and NPAT:

	Fixed Communications		Mobile Communications		Energy & Water		Elims & Unalloc Corporate Costs		Total Service Stream	
$ millions	**FY12**	**FY11**	**FY12**	**FY11**	**FY12**	**FY11**	**FY12**	**FY11**	**FY12**	**FY11**
Revenue[1,2]	300.2	326.9	124.7	81.1	169.1	232.4	(1.8)	(7.1)	592.2	633.3
EBITDA[1]	21.7	16.4	8.5	14.7	12.9	11.1	(5.1)	(7.6)	38.0	34.6
Depreciation and Amortisation[2]									(7.5)	(6.4)
EBIT									30.6	28.1
Net interest expense[3]									(3.9)	(5.5)
Tax expense[2]									(7.9)	(6.2)
NPAT[2]									18.7	16.5

Notes:
1. Per note 5 to the financial statements — segment information
2. Per Consolidated statement of comprehensive income
3. Net interest expense — FY12: Total finance costs $4.97m (per note 8) less facility costs $0.68m (per note 8) less interest revenue $0.38m (per note 6). FY11: Total finance costs $6.48m (per note 8) less facility costs $0.65m (per note 8) less interest revenue $0.31m (per note 6)

Operational Summary

Fixed Communications

Fixed Communications provides a wide range of design, construction and maintenance services to copper and fibre optic telecommunications infrastructure assets. For the year, its activities included the A&AS and payphones contracts with Telstra, the Fujitsu New Estates and Syntheo JV contracts with NBN Co, and the services provided by the Group's Recoverable Works (RWs) and South East Qld Under-road Drilling (SEQUD) businesses to other infrastructure owners.

For FY12, Fixed Communications contributed revenue of $300.2 million (down $26.7 million) and EBITDA of $21.7 million (up $5.3 million). Revenue was impacted by a $47.5 million reduction in contribution from the Telstra A&AS contract, offset by first-time revenues from NBN-related activities. Improved EBITDA margins have been assisted by lower KPI penalties under the Telstra A&AS contract and a one-off contribution from the disposal of payphones inventory.

During the year, Fixed Communications was awarded an 18-month contract by NBN Co for the construction of the National Broadband Network in new estates in WA, SA, NT and NSW, and the Syntheo Joint Venture was awarded a two-year contract by NBN Co for the construction of the National Broadband Network in WA, SA and NT.

Mobile Communications

Mobile Communications provides turnkey and project management services for the access, design, and construction of wireless telecommunications infrastructure across Australia. The division provides these services to each of the country's three major mobile network providers, Telstra, Vodafone-Hutchison and SingTel Optus.

For FY12, Mobile Communications contributed revenue of $124.7 million (up $43.7 million) and EBITDA of $8.5 million (down $6.1 million). Revenue was bolstered by significantly higher year-on-year volumes in wireless construction activity, whilst EBITDA was impacted by the higher proportion of construction activity and settlement costs associated with the Ericsson Jersey dispute.

During the year, Mobile Communications secured a two-year extension to the National Wireless Construction contract with Telstra. This extension was the second successful renewal of this contract which is primarily associated with the construction of wireless base stations for the Telstra 3G network.

DIRECTORS' REPORT (CONT)

Energy & Water

The Energy & Water division provides a range of specialist metering and environmental services to utilities and government authorities nationally, and through the Customer Care business, provides contact centre services and end-to-end customer support for key contracts.

For FY12, Energy & Water contributed revenue of $169.1 million (down $63.3 million) and EBITDA of $12.9 million (up $1.8 million). Revenue was impacted by lower residential solar system installations and the loss in Customer Care of the Optus mobile handset insurance contract. Improved EBITDA margins resulted from the lower proportion of residential solar system installation activity and successful outcomes in relation to a small number of one-off items.

During the year, Energy & Water completed 5,355 residential solar system installations (FY11: 9,667) and progressed the roll-out of smart meters for its customers in Victoria to over 460,000. Additionally, the business commenced activities in new markets including low-voltage aerial and inspection/maintenance services for electrical network owners and the installation of energy saving devices to residences in connection with the Victorian Energy Efficiency Target (VEET) scheme.

CHANGES IN STATE OF AFFAIRS

There was no significant change in the state of affairs of the Group during the financial year.

SUBSEQUENT EVENTS

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

ENVIRONMENTAL REGULATIONS

No company in the Group is required to hold any Environmental Protection Authority licenses.

DIVIDENDS

In respect of financial year ended 30 June 2012, an interim dividend of 1.0 cent per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 20 April 2012.

In respect of financial year ended 30 June 2012, the Directors propose the payment of a final dividend of 1.0 cent per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares on 18 October 2012.

No dividends were payable in respect of the financial year ended 30 June 2011.

SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Option Series	Class of shares	Exercise price of option	Expiry date of options	Number of shares under option
Service Stream Limited	Series 18	Ordinary	$1.7111	01 March 2013	40,000
					40,000

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the Company or of any other body corporate or registered scheme. No further share options have been issued during or since the end of the financial year.

SHARES UNDER PERFORMANCE RIGHTS

Issuing entity	LTIP Series	Class of shares	Exercise price of right	Vesting date	Number of shares under rights
Service Stream Limited	FY11 Tranche	Ordinary	$0.0000	30 June 2013	2,711,669
Service Stream Limited	FY12 Tranche	Ordinary	$0.0000	30 June 2014	4,063,666
					6,775,335

The holders of these rights do not have the right, by virtue of the performance right, to participate in any share issue or interest issue of the Company or of any other body corporate or registered scheme. No further share rights have been issued during or since the end of the financial year.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Group paid a premium in respect of a contract insuring the Directors of the Company (as named above), the Company Secretary, and all executive officers of the Group and of any related body corporate against a liability incurred as such a Director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee member).

	Board of Directors		Audit and Risk Management Committee		Remuneration and Nomination Committee		Safety and Environment Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
P Dempsey	16	16	4	4	3	3	4	3*
D Page	16	16	4	4	3	3	4	3*
S Wilks	16	16	4	4	3	3	4	4
B Gallagher	16	14	4	4	3	3*	4	4
G Sumner	16	16	4	4*	3	3*	4	4
R Grant[1]	16	15	4	4*	3	3*	4	–

*Attended as Standing Invitee

1. R Grant is an Alternate Director for G Sumner and has only attended Board and Committee meetings in his capacity as Chief Financial Officer.

DIRECTORS' REPORT (CONT)

NON-AUDIT SERVICES

Details of any amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 35 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf) are compatible with the general standard of independence of auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services disclosed in note 35 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Management Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the *Code of Conduct APES 110 Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the company or jointly sharing economic risks and rewards.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 37 of the annual financial report.

ROUNDING OFF OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

REMUNERATION REPORT

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of Service Stream Limited's Directors and its key management personnel for the financial year ended 30 June 2012. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity. The prescribed details of each person covered by this report are detailed below under the following headings:

- Director and key management personnel details;
- remuneration policy;
- relationship between remuneration policy and Group performance;
- remuneration of Directors and key management personnel;
- key terms of employment contracts;
- share-based payments granted as compensation; and
- use of remuneration consultants

Director and key management personnel details

The following persons acted as Directors of the Company during or since the end of the financial year:

P Dempsey (Chairman)
G Sumner (Managing Director)
B Gallagher (Non-Executive Director)
D Page AM (Non-Executive Director)
S Wilks (Non-Executive Director)
R Grant (Alternate Director, Chief Financial Officer)

The following key management personnel held their current position for the whole of the financial year and since the end of the financial year, except as noted below:

S Ellich (Executive General Manager – Fixed Communications)
R Stanton (Executive General Manager – Mobile Communications – until 5 March 2012)
D Hill (Executive General Manager – Mobile Communications – appointed 7 March 2012)
L Mackender (Executive General Manager – Energy & Water)

Remuneration policy

The Board, through the Remuneration and Nomination Committee, reviews the remuneration packages of all Directors and key management personnel on an annual basis. Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, adjusted by a performance factor to reflect changes in the performance of the Group.

To retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Group's operations, the Board seeks the advice of external advisers in connection with the structure of remuneration packages.

The Group's remuneration framework is based on the concept of Total Employee Reward ("TER"). This encompasses three components:

1. fixed remuneration;
2. variable remuneration (at risk remuneration); and
3. reward and recognition.

DIRECTORS' REPORT (CONT)

REMUNERATION REPORT (cont)

1. Fixed remuneration

The Group's principal remuneration strategy is to maintain equitable and affordable rates of pay for all employees, based on their performance and the market in which the Group operates. Fixed remuneration is expressed as Total Fixed Remuneration ("TFR"). TFR includes salary, superannuation entitlements and salary sacrifice elections, and is used as the basis for remuneration review, leave payments, and termination and redundancy payments. Benefits such as mobile phones, incentive payments and work vehicles are excluded from this figure.

The range of remuneration for each position is established by reference to the complexity of the position (determined by reference to a job evaluation methodology) and general market remuneration data. From time to time, where a need arises, other more specific market data may be used for certain positions.

2. Variable remuneration

Variable Remuneration is currently comprised of the Short Term Incentive Plan, the Long Term Incentive Plan and the Executive Option Plan.

Short Term Incentive Plan ("STIP")

Employees invited to participate in the STIP have the opportunity to earn an annual lump sum incentive payment through the achievement of annual goals established with their manager and approved by the Salary and Reward Management Committee or Remuneration and Nomination Committee (as appropriate) at the beginning of each financial year.

The annual goals that are established are considered outside the normal scope of the employee's duties and require significantly above average performance. STIP performance goals are also tied directly to the annual objectives of the Group, which are linked directly to the overall Group strategy. All eligible employees' STIP is comprised of three mandated performance criteria, with weighting relevant for their role in the Group:

1. Group earnings before interest, tax, depreciation and amortisation;
2. Divisional earnings before interest, tax, depreciation, amortisation, and corporate charges; and
3. Individual goals (that are specific, measurable, achievable, realistic and timely).

Long Term Incentive Plan ("LTIP")

From time to time employees in senior management roles and/or Directors may be invited, with approval from the Board, to participate in the LTIP. The LTIP operates within the shareholder approved Employee Share Ownership Plan ("ESOP"), under the administration of the Remuneration and Nomination Committee. The extent of individual participation and the associated number of performance rights offered is recommended by the Managing Director and reviewed by the Remuneration and Nomination Committee, which will then make recommendations to the Board, and to shareholders at the Annual General Meeting in the case of Directors, for approval.

In accordance with the provision of the ESOP and consistent with the prior year, Directors and employees in senior management roles were invited to participate in the LTIP which entitled them to receive a number of performance rights in respect of the year ending 30 June 2012 ("FY12 Tranche"). Each performance right converts into one ordinary share of Service Stream Limited on vesting. No amounts are paid or payable by the participant on receipt of the performance rights, and the performance rights carry neither rights to dividends nor voting rights. The number of performance rights granted is based on the employee's long term incentive participation rate, which is expressed as a percentage of the participant's TFR, and the volume-weighted average market price of the Company's shares over a prescribed period of time. The performance rights are subject to service and performance criteria being:

- The participant must be an employee at the vesting date;
- 50% of the performance rights granted will each vest where:
  - The Group's earnings per share ("EPS") achieves annual growth of 10% or more (full achievement) or 7.5% (pro-rata achievement) over the performance period from an agreed base EPS. The performance rights issued under the FY11 Tranche have a three year performance period to 30 June 2013 and a base EPS of 3.85 cents per share, whilst the performance rights issued under the FY12 Tranche have a three year performance period to 30 June 2014 and a base EPS of 5.80 cents per share;
  - The Group's total shareholder return ("TSR") over the performance period is such that it would rank at or above the 75th percentile (full achievement) or the 50th percentile (pro-rata achievement) of a relevant peer group of companies being those comprising the ASX 200 Industrials index.

Executive Option Plan ("EOP")

In the past employees in senior management roles were invited to participate in the Executive Option Plan ("EOP"). The EOP also operates within the Service Stream Employee Share Ownership Plan ("ESOP") under the administration of the Remuneration and Nomination Committee.

Refer page 35 for details of options in existence for the year ended 30 June 2012. No options were granted or vested under the EOP during the financial year.

3. Reward and recognition

From time to time an employee or a team of employees may work beyond the call of duty to meet a challenging objective, or may substantially exceed expectations. The Group encourages recognition and reward for such behaviours, and may choose to recognise high performance via a discretionary bonus.

Relationship between remuneration policy and Group performance

Each element of the remuneration framework is linked to the Group's financial performance. Changes to fixed remuneration are determined by an employee's performance and by the Group's capacity to fund any changes.

The Remuneration and Nomination Committee reviews the remuneration packages of all Directors and executive officers on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed with due regard to performance, data on remuneration paid by comparable companies and where appropriate, the Remuneration and Nomination Committee receives expert independent advice regarding remuneration levels required to attract and compensate Directors and executives, given the nature of their work and responsibilities.

In considering the Group's performance, the Remuneration and Nomination Committee have regard to a number of indices including the following:

	30 June 2012 $'000	30 June 2011 $'000	30 June 2010 $'000	30 June 2009 $'000	30 June 2008 $'000
Revenue	592,216	633,290	520,781	558,216	450,587
Net profit/(loss) before tax	26,643	22,631	(7,315)	15,300	25,947
Net profit/(loss) after tax	18,716	16,452	(2,555)	11,118	18,095
Share price at end of year	0.35	0.49	0.23	0.41	1.00
Interim dividend[1]	1.00 cps	–	–	3.50cps	3.50cps
Final dividend[1 & 2]	1.00 cps	–	–	–	4.00cps
Basic earnings per share[3]	6.60 cps	5.80 cps	–0.99cps	5.93cps	10.51cps
Diluted earnings per share[3]	6.54 cps	5.80 cps	–0.99cps	5.93cps	9.97cps

1. Franked to 100% at 30% corporate income tax rate.
2. Declared after the balance date and not reflected in the financial statements of that year.
3. Earnings per share for prior years have been restated to reflect the October 2009 rights issue.

The overall level of key management personnel compensation takes into account the size, complexity, financial performance and growth prospects of the Group.

DIRECTORS' REPORT (CONT)

REMUNERATION REPORT (cont)

Remuneration of Directors and key management personnel

	Short-term employee benefits			Post-employment benefits	Long-term employee benefits	Share-based payment	Total
2012	**Salary & fees $**	**Short term incentives[4] $**	**Non-monetary $**	**Super-annuation $**	**Long Service Leave $**	**Performance rights[5] $**	**$**
Non-executive directors							
P Dempsey	127,500	–	–	11,475	–	–	138,975
S Wilks[3]	102,500	–	–	9,225	–	–	111,725
B Gallagher	102,500	–	–	9,225	–	–	111,725
D Page	107,500	–	–	9,675	–	–	117,175
Key management personnel							
G Sumner	650,642	235,448	63,230	63,750	1,874	106,637	1,121,581
B Grant[6]	364,500	151,051	–	47,500	1,117	7,444	571,612
R Stanton[1]	271,066	70,359	30,529	16,986	9,077	63,970	461,987
D Hill[2]	81,563	8,151	–	7,341	4,073	8,097	109,225
S Ellich	338,395	107,550	49,390	24,598	11,369	87,493	618,795
L Mackender	234,225	71,246	–	15,775	5,734	29,219	356,199

1. R Stanton held the position of Executive General Manager – Mobile Communications until 5 March 2012 and left the employment of the Group on 1 July 2012. Due to Rod's cessation of employment the performance rights, the value of which are shown in the above table, were forfeited, effective 1 July 2012.
2. D Hill was appointed to the position of Executive General Manager – Mobile Communications on 7 March 2012. The remuneration shown in the table above reflects the period 7 March 2012 to 30 June 2012.
3. S Wilks' remuneration is paid to High Expectations Pty Ltd, a company in which Stephe has a beneficial interest.
4. This amount represents cash short term incentives payable for the year ended 30 June 2012, which are scheduled to be paid in September 2012. Included in these amounts are any variances between the 30 June 2011 estimation as included in the remuneration report for the year ended 30 June 2011 and the actual amount subsequently paid.
5. The fair value of performance rights issued under the Long Term Incentive Plan in the current and prior reporting periods, allocated on a pro-rata basis, to the current financial year.
6. In the remuneration report for the year ended 30 June 2011, the amount shown for Bob Grant's performance rights was estimated based on a grant date of 18 February 2011. The issue of these rights was however subject to shareholder approval. This approval was obtained at the Company's Annual General Meeting on 26 October 2011 and the performance rights have subsequently been revalued based on this revised grant date. Included in the amount shown above is a downwards reduction of $87,774 in relation to this revaluation.

	Short-term employee benefits				Post-employment benefits	Long-term employee benefits	Share-based payment	Termination Benefits	Total
2011	**Salary & fees $**	**Short term incentives[5] $**	**Other Bonuses[6] $**	**Non-monetary $**	**Super-annuation $**	**Long Service Leave $**	**Performance rights[7] $**	**$**	**$**
Non-executive directors									
P Dempsey[1]	85,000	–	–	–	7,650	–	–	–	92,650
S Wilks[4]	151,708	–	–	–	13,654	–	–	–	165,362
R Small[2]	43,125	–	–	–	3,881	–	–	–	47,006
B Gallagher	101,875	–	–	–	9,169	–	–	–	111,044
D Page[1]	83,077	–	–	–	7,477	–	–	–	90,554
Key management personnel									
G Sumner	630,116	446,976	800,000	61,970	63,760	468	–	–	2,003,290
R Grant[8]	375,000	239,194	–	–	25,000	301	153,605	–	793,100
R Stanton	374,182	167,765	–	44,931	37,418	15,219	79,030	–	718,545
S Ellich	326,517	134,281	–	26,123	25,000	19,567	73,442	–	604,930
R Blinko[3]	317,265	–	–	–	50,335	210	–	–	367,810
A Haynes[2]	169,177	–	–	–	11,722	5,914	–	12,012	198,825
L Mackender[1]	61,198	8,136	–	–	3,800	3,153	5,023	–	81,310

1. Became a Director or member of the key management personnel during the year.
2. Resigned from the position of Executive General Manager – Energy & Water during the year.
3. Resigned from the position of Executive General Manager – Customer Care on 30 June 2011, however remained employed by the Group at balance date.
4. S Wilks' remuneration is paid to High Expectations Pty Ltd, a company in which Stephe has a beneficial interest.
5. These amounts represent cash short term incentives payable for the year ended 30 June 2011, which are scheduled to be paid in September 2011. Included in these amounts are any variances between the 30 June 2010 estimation as included in the remuneration report for the year ended 30 June 2010 and the actual amount subsequently paid.
6. The other bonus applicable to G Sumner relates to an entitlement that is described as a long term incentive in his employment contract, but which in effect was payable in full within six months of measurement.
7. The fair value of performance rights issued during the year under the Long Term Incentive Plan, allocated on a pro-rata basis, to the current financial year.
8. Since Bob Grant is an Alternate Director, his performance rights were subject to shareholder approval at the Annual General Meeting held on 26 October 2011.

No Director or members of the key management personnel who were appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

Key terms of employment contracts

Except as detailed below, the employment contracts for key management personnel listed in the remuneration table provide for the following elements:

- base remuneration allocated between salary, non-monetary and post-employment benefits;
- payment of a short term bonus if and to the extent that the agreed short term annual targets, as determined by the Remuneration and Nomination Committee, are met.

Graeme Sumner

Graeme Sumner's contract is for 3 years commencing 4 January 2010. Either the Company or Graeme may terminate the contract by giving at least six months' notice of termination in which case the contract will terminate on the expiration of the period of notice. Graeme's contract is currently being reviewed by the Board and it is anticipated that the terms and conditions will be finalised before the expiration of his current contract. Graeme's contract also specifies his eligibility to be invited to participate in the LTIP.

Robert Grant

Bob Grant's contract specifies his eligibility to be invited to participate in the LTIP.

Rod Stanton (Executive General Manager until 5 March 2012)

Rod Stanton was provided with a motor vehicle for his personal use.

Share-based payments granted as compensation

Executive Option Plan

In previous years, the Group operated an option-based scheme for its executives and senior employees.

During the financial year, the following arrangements remained in existence:

Option Series	Grant date	Expiry date	Grant date fair value	Vesting date
Series 15	4 January 2007	31 October 2011	0.0767	Vested 4 January 2007
Series 16	4 January 2007	31 October 2011	0.1006	Vested 4 January 2007
Series 17	23 October 2007	1 March 2012	0.0823	Vested 23 October 2007
Series 18	23 October 2007	1 March 2013	0.1423	Vested 23 October 2007

During the year, no options were granted to or exercised by Directors and key management personnel as part of their remuneration.

Long Term Incentive Plan ("LTIP")

The Group operates a LTIP whereby employees in senior management roles are granted performance rights subject to service and performance criteria. During the financial year, the following LTIP arrangements were in existence:

LTIP Series	Number	Grant date	Grant date weighted average fair value	Vesting date
FY11 tranche[1]	2,237,253	18 February 2011	Relative TSR hurdle – \$0.720 EPS hurdle – \$0.750	30 June 2013
FY11 tranche (R. Grant)[1,3]	626,959	18 February 2011	Relative TSR hurdle – \$0.315 EPS hurdle – \$0.315	30 June 2013
FY12 tranche[2]	4,063,666	25 November 2011	Relative TSR hurdle – \$0.160 EPS hurdle – \$0.250	30 June 2014

1. The performance period for the FY11 tranche of LTIP performance rights commenced 1 July 2010.
2. The performance period for the FY12 tranche of LTIP performance rights commenced 1 July 2011.
3. Although the grant date for Bob Grant's performance rights was 18 February 2011, the issue of these rights was not approved until the Company's Annual General Meeting on 26 October 2011.

DIRECTORS' REPORT (CONT)

REMUNERATION REPORT (cont)

The following table outlines the performance rights issued under the LTIP to Directors and key management personnel in the current financial year:

		During the financial year				
Name	LTIP Series	No. rights granted	No. rights vested	% of grant vested	% of grant forfeited	% of compensation for the year consisting of performance rights
G Sumner	FY12 Tranche	1,560,543	–	–	–	9.51%
R Grant[1]	FY12 Tranche	430,063	–	–	–	1.30%
R Stanton[2]	FY12 Tranche	221,267	–	–	–	13.85%
D Hill[3]	FY12 Tranche	82,035	–	–	–	7.41%
S Ellich	FY12 Tranche	205,624	–	–	–	14.14%
L Mackender	FY12 Tranche	133,577	–	–	–	8.20%

1. R Grant is an Alternate Director for G Sumner.
2. R Stanton held the position of Executive General Manager until 5 March 2012.
3. D Hill was appointed to the position of Executive General Manager during the year.

Use of remuneration consultants

During the year the Board Remuneration and Nomination Committee engaged the services of the Hay Group to perform a review of the remuneration of the Board and of key management personnel, and to implement a job evaluation and classification approach within the Group. Under the terms of the engagement, Hays provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* and was paid $68,805 for these services.

The Hay Group has confirmed that the above recommendations have been made free from undue influence by member of the group's key management personnel.

To ensure the recommendations made were free from undue influence the following arrangements were made:

The Hay Group were engaged by, and reported directly to, the Chair of the Board Remuneration and Nomination Committee.

The report containing the remuneration recommendations was provided directly to the Chair of the Board Remuneration and Nomination Committee.

Management was permitted to contact the Hay Group for scoping and undertaking of individual pieces of work, provided that Key Management Personnel work was delivered according to the protocols above.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

The Directors' report is signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the Directors

P Dempsey
Chairman
Melbourne, 15 August 2012

G Sumner
Managing Director
Melbourne, 15 August 2012

AUDITOR'S DECLARATION OF INDEPENDENCE

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

The Board of Directors
Service Stream Limited
Level 1, 355 Spencer Street
WEST MELBOURNE VIC 3003

15 August 2012

Dear Board Members,

Service Stream Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Service Stream Limited.

As lead audit partner for the audit of the financial statements of Service Stream Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D. A. Watson

David A Watson
Partner
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

Independent Auditor's Report to the members of Service Stream Limited

Report on the Financial Report

We have audited the accompanying financial report of Service Stream Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 40 to 89.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONT)

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Service Stream Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Service Stream Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 31 to 36 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Service Stream Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D. A. Watson

David A Watson
Partner
Chartered Accountants
Melbourne, 15 August 2012

DIRECTORS' DECLARATION

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3 to the financial statements;

(c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(d) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 29 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Directors

P Dempsey
Chairman
Melbourne, 15 August 2012

G Sumner
Managing Director
Melbourne, 15 August 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Continuing Operations			
Revenue from the rendering of services	6	592,190	633,786
Other income	7	26	(496)
		592,216	633,290
Employee salaries and benefits		(148,991)	(133,076)
Subcontractor fees		(227,778)	(258,683)
Site and construction costs		(77,635)	(42,282)
Raw materials and consumables used		(45,312)	(113,893)
Consulting and temporary staff fees		(11,334)	(10,124)
Company administration and insurance expenses		(11,498)	(10,547)
Occupancy expenses		(9,135)	(8,480)
Technology and communication services		(8,964)	(7,535)
Motor vehicle expenses		(8,158)	(7,189)
Depreciation and amortisation	9.1	(7,486)	(6,436)
Interest expense and other finance costs	8	(4,972)	(6,482)
Other expenses		(3,574)	(5,916)
Impairment losses of investment in associate	13	(700)	–
Share of losses of investment in associate	13	(36)	(16)
Profit before tax		26,643	22,631
Income tax expense	10	(7,927)	(6,179)
Profit for the year		**18,716**	**16,452**
Other comprehensive income			
Exchange differences on translating foreign investment	23	(114)	(249)
Total comprehensive income for the year		**18,602**	**16,203**
Profit attributable to the equity holders of the parent		**18,716**	**16,452**
Total comprehensive income attributable to equity holders of the parent		**18,602**	**16,203**
Earnings per share			
Basic (cents per share)	25	6.60	5.80
Diluted (cents per share)	25	6.54	5.80

Notes to the financial statements are included on pages 45 to 89.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Assets			
Current assets			
Cash and cash equivalents	30.1	20,916	9,171
Trade and other receivables	12	63,943	101,413
Inventories		12,096	14,309
Accrued revenue		97,831	41,251
Other	17	10,200	7,781
		204,986	173,925
Assets classified as held for sale	11	330	–
Total current assets		205,316	173,925
Non-current assets			
Investments accounted for using the equity method	13	–	1,180
Property, plant and equipment	15	10,052	9,124
Deferred tax assets	10.4	6,177	7,589
Intangible assets	16	211,677	211,377
Total non-current assets		227,906	229,270
Total assets		**433,222**	**403,195**
Liabilities			
Current liabilities			
Trade and other payables	19	88,921	80,669
Borrowings	20	988	5,165
Current tax liabilities	10.3	4,891	6,374
Provisions	21	11,332	12,524
Total current liabilities		106,132	104,732
Non-current liabilities			
Borrowings	20	53,780	42,139
Provisions	21	2,643	2,191
Total non-current liabilities		56,423	44,330
Total liabilities		**162,555**	**149,062**
Net assets		**270,667**	**254,133**
Equity			
Capital and reserves			
Issued Capital	22	228,416	228,416
Reserves	23	2,372	1,720
Retained earnings	24	39,879	23,997
Total equity		**270,667**	**254,133**

Notes to the financial statements are included on pages 45 to 89.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	Note	Share capital $'000	Employee equity-settled benefits reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2010		227,106	1,540	(273)	7,545	235,918
Profit for the period		–	–	–	16,452	16,452
Other comprehensive income		–	–	(249)	–	(249)
Total comprehensive income for the year		–	–	(249)	16,452	16,203
Equity settled share based payment		–	702	–	–	702
Tax adjustment in relation to the cost of shares issued in prior periods	10.2	1,310	–	–	–	1,310
Balance at 30 June 2011		**228,416**	**2,242**	**(522)**	**23,997**	**254,133**
Profit for the period		–	–	–	18,716	18,716
Other comprehensive income		–	–	(114)	–	(114)
		–	–	(114)	18,716	18,602
Total comprehensive income for the year						
Equity settled share based payment		–	766	–	–	766
Dividends paid	26	–	–	–	(2,834)	(2,834)
Balance at 30 June 2012		**228,416**	**3,008**	**(636)**	**39,879**	**270,667**

Notes to the financial statements are included on pages 45 to 89.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (including GST)		663,595	689,548
Payments to suppliers and employees (including GST)		(636,030)	(657,777)
Cash generated from operations before interest and tax		27,565	31,771
Interest received		382	311
Interest paid		(3,989)	(5,894)
Income taxes paid		(7,998)	(1,575)
Net cash provided by operating activities	30.2	15,960	24,613
Cash flows from investing activities			
Payments for plant and equipment		(5,216)	(2,668)
Proceeds from sale of plant and equipment		144	2,265
Payment for intangible assets		(3,755)	(4,012)
Proceeds from sale of intangible assets		–	1,008
Net cash used in investing activities		(8,827)	(3,407)
Cash flows from financing activities			
Proceeds from borrowings		15,336	40,691
Repayment of borrowings		(7,890)	(52,035)
Dividends paid		(2,834)	–
Net cash provided by/(used in) financing activities		4,612	(11,344)
Net increase in cash and cash equivalents		11,745	9,862
Cash and cash equivalents at the beginning of the financial year		9,171	(691)
Cash and cash equivalents at the end of the financial year	30.1	20,916	9,171

Notes to the financial statements are included on pages 45 to 89.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

1. GENERAL INFORMATION

Service Stream Limited ("the Company") is a limited company incorporated in Australia and listed on the Australian Stock Exchange (ASX: SSM).

Service Stream Limited's registered office and its principal place of business are as follows:
Level 1
355 Spencer Street
West Melbourne
Victoria 3003

The principal activities of the Company and its subsidiaries ("the Group") are described in note 5.

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

2.1 Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements of the consolidated entity.

- Revised AASB 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards'
- AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'
- AASB 1054 'Australian Additional Disclosures' and AASB 2011-1 'Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project'
- AASB 2010-5 'Amendments to Australian Accounting Standards'
- AASB 2010-4 '2010 Annual Improvements'

2.2 Standards and Interpretations issued not yet effective

At the date of authorisation of the annual financial report, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting period beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)	1 January 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013
AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	1 January 2013	30 June 2014

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

Standard/Interpretation	Effective for annual reporting period beginning on or after	Expected to be initially applied in the financial year ending
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014	30 June 2015
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013	30 June 2014
AASB 2012-5 ‘ Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle’	30 June 2014	30 June 2015

The Group currently applies the proportionate consolidation method in accounting for their investment in Syntheo Joint Venture and the application of AASB 11 is not anticipated to have any material impact on the amounts recognised in its financial statements. Other than the application of AASB 11, the potential impact of the revised Standards/Interpretations on the Group’s financial statements is yet to be determined.

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting period beginning on or after	Expected to be initially applied in the financial year ending
‘Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance’ (Amendments to IFRS 10, IFRS 11 and IFRS 12)	30 June 2014	30 June 2015
Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	30 June 2016

The potential impact of the revised Standards/Interpretations on the Group’s financial statements is yet to be determined.

3. SIGNIFICANT ACCOUNTING POLICIES

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in individual accounting policy notes set out below.

3.1 Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards (‘IFRS’).

The financial statements were authorised for issue by the Directors on 15 August 2012.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the annual financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the annual financial report:

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The Company and its subsidiaries together are referred to in this annual financial report as the Group or Consolidated Entity.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred to the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payments' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139 'Financial Instruments', or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations that took place prior to 1 July 2009 were accounted for in accordance with the previous version of AASB 3 'Business Combinations'.

3.5 Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition. Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination.

Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired. If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units and then pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or groups of cash generating units). An impairment loss recognised for goodwill is recognised immediately in the profit or loss and is not reversed in a subsequent accounting period.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.6 Investments in associates

An associate is an entity over which the Group has significant influence and one that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

3.7 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is only satisfied when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.8 Investment in joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature.

Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group and their amount can be measured reliably. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis.

The Group's interests in assets where the Group does not have joint control are accounted for in accordance with the substance of the Group's interest. Where such arrangements give rise to an undivided interest in the individual assets and liabilities of the joint venture, the Group recognises its undivided interest in each asset and liability and classifies and presents those items according to their nature.

The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Details of the joint venture are set out in Note 14.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination (see note 3.5).

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

3.9 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Rendering of services

Revenue from a contract to provide services is recognised when probable and measurable, as labour hours or contracted services are delivered.

Revenue from construction contracts is recognised in accordance with the accounting policy set out in note 3.10.

Dividend and interest revenue

Dividend revenue from investments is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.10 Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. This is normally measured according to the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that it is probable that contract costs incurred will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont)

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work within accrued income. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work within income in advance. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as income in advance. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

3.11 Leasing

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.12 Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars ('$'), which is the functional currency of the Group and the currency used for the presentation of the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in other currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur (therefore forming part of the net investment in a foreign operation). These differences are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

3.13 Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee short-term benefits are measured at their nominal values using the remuneration rate expected to apply at the time of the settlement.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

3.14 Share-based payments

Executive Option Plan

In the past employees in senior management roles were invited to participate in the Executive Option Plan ("EOP"). Equity instruments issued under the EOP were measured at fair value at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model was adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Details regarding the determination of the fair value of the EOP are set out in note 32.

The fair value determined at the grant date of the equity instruments issued under the EOP are expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

No expense amount has been recognised in profit and loss for the year ended 30 June 2012 (2011: Nil) in respect of the EOP.

Long Term Incentive Plan

Equity-settled share-based payments to employees under the Long Term Incentive Plan ("LTIP") are measured at the fair value of the equity instrument at the grant date. As there are two separate hurdles, being relative total shareholder return ("TSR") and earnings per share ("EPS"), a fair value has been determined for each. In respect of the TSR hurdle, fair value is measured using a Monte-Carlo simulation, whilst for the EPS hurdle, fair value is measured using a Binomial tree methodology. Both valuation methodologies are underpinned by a 'risk neutral' probability framework with lognormal share prices. Details regarding the determination of the fair value of the LTIP are set out in note 32.

The fair value determined at the grant date of the LTIP is expensed on a straight-line basis over the vesting period. However, in respect of the EPS portion, at the end of each reporting period the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve. Whereas the fair value determined for TSR at the grant date expensed on a straight-line basis with no adjustments.

An expense amount of $765,732 has been recognised in profit and loss for the year ended 30 June 2012 (2011: $701,732) in respect of the LTIP.

3.15 Taxation

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation

Refer to note 10.5.

3.16 Plant and equipment

Plant and equipment, leasehold improvements and motor vehicles are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amount payable to their present value as at the date of acquisition.

Depreciation is calculated on a straight-line basis so as to write off the net costs or other revalued amount of each asset over its expected useful life to its estimated residual value. Depreciation methods, estimated useful lives and residual values are reviewed at the end of each annual accounting period, with the effect of any changes recognised on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following estimated useful lives are used in the calculation of depreciation:

- Leasehold improvements 2 – 10 years
- Plant and equipment 2 – 10 years
- Equipment under finance lease 2 – 7 years
- Motor vehicles 3 – 7 years

3.17 Intangible assets

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention and ability to complete the intangible asset and use or sell it;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired separately

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Software

Software is carried at cost less accumulated amortisation and accumulated impairment. Amortisation is recognised on a straight line basis over the estimated useful life. The estimated useful life and amortisation method are reviewed at the end of each annual accounting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful lives used in the calculation of amortisation range from between 2 and 5 years.

De-recognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is de-recognised.

3.18 Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have incurred an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.19 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first in, first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Warranties

Provisions for the expected cost of warranty obligations are recognised at the date of installation of the relevant products, at management's best estimate of the expenditure required to settle the Group's obligation.

3.21 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.21.1 Financial assets

All financial assets are recognised and de-recognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Such assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised costs of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the debt instrument or, (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if in a subsequent period the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. However this is limited to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the carrying amount would have been had the impairment not been recognised.

3.21.2 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial guarantee liabilities

A financial guarantee is a contract that requires the issuer of the guarantee to make a specified payment/s to the holder of the guarantee in the event that they suffer a loss due to the guarantee drawer's failure to make payment or otherwise satisfy their contractual obligations under an agreement with the holder. The drawer of the guarantee is required to reimburse the issuer for any loss suffered in satisfaction of the guarantee obligation to the holder.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont)

Financial guarantee liabilities are initially measured at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; and
- the amount initially recognised, less where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' ("FVTPL") or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL when the financial liability is either held for trading or it is designated at FVTPL.

A financial liability is held for trading if:

- it has been incurred principally for the purpose of re-purchasing it in the near term; or
- on initial recognition it is part of an identified portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading is designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistently that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses recognised in profit or loss. The net gain or loss arising on measurement recognised in the profit or loss incorporates any interest paid on the financial liability and is included in the other income line item in the statement of comprehensive income. Fair value is determined in the manner described in note 31.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying value on initial recognition.

De-recognition of financial liabilities

The Group de-recognises financial liabilities only when the Group's obligations are fully discharged, cancelled or otherwise expire. The difference between the carrying amount of the financial liability de-recognised and the consideration paid or payable is then recognised in profit or loss.

3.22 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

3.23 Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting polices

The following are the critical judgements that, apart from those involving estimations (see 4.2 below), the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

Under AASB 111 'Construction Contracts', where a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at balance sheet date. This is a key area of judgement and is determined through an analysis of the contracted design documents to assess the proportion of contract costs incurred for work performed to date.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Useful lives of plant and equipment

As described at 3.16, the Group reviews the depreciation method, estimated useful lives of plant and equipment and residual values at the end of each annual reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont)

Allowance for legal claims

In the ordinary course of business the Group is subject to contractual disputes and legal claims. All known liabilities have been brought to account and an allowance totalling $8.6 million has been made in Sundry Creditors and Accruals at 30 June 2012 for known or anticipated losses.

The Company has been party to arbitration with Ericsson Australia Pty Ltd in respect of a dispute regarding the value of works completed on a mobile phone network upgrade in 2005/06. Following an outcome of that arbitration, the Company paid a settlement of $8.8 million in May 2012. A decision regarding interest and costs on the matter remains outstanding.

5. SEGMENT INFORMATION

5.1 Products and services from which reportable segments derive their revenues

AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Following a number of changes to the Service Stream business and the markets in which it operates over the past twelve months, management have decided to re-align its external reporting around two new reporting segments, being Fixed Communications, Mobile Communications and Energy & Water (formerly known as "Utilities & Environmental"). The catalyst for this re-assessment has been the emergence of NBN Co and the rollout of the national broadband network, which has not only led to significant changes in the telecommunications market but has also created a blurring of the traditional boundaries within this sector. The principal products and services of each of these segments are as follows:

Fixed Communications	Access, design, construction and maintenance services to copper and fibre optic telecommunications infrastructure assets. The division's principal activities are minor design and construction (D&C) projects under the Telstra Access & Associated Services (A&AS) contract, the roll-out of fibre into new housing estates, and D&C of the National Broadband Network (NBN) through the Company's joint venture with Lend Lease, Syntheo.
Mobile Communications	Access, design and construction of wireless telecommunications infrastructure across Australia. The division provides these services to each of the country's three mobile network providers, Telstra, Vodafone-Hutchison and Singtel Optus.
Energy & Water	Provides a range of specialist metering and environmental services to utilities and government authorities nationally, including the provision of contact centre services and end to end customer support for key contracts. Major customers include Origin Energy, Jemena, ETSA, South East Water, Citipower/Powercor and other utility companies nationally.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

5.2 Segment revenues and results

	Segment revenue		Segment result	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Fixed Communications	300,202	326,892	21,734	16,395
Mobile Communications	124,732	81,079	8,534	14,672
Energy & Water	169,083	232,371	12,866	11,111
Total of all segments	594,017	640,342	43,134	42,178
Eliminations	(2,183)	(7,363)	–	–
Unallocated	–	–	(5,093)	(7,594)
Earnings before interest, tax, depreciation and amortisation			**38,041**	**34,584**
Net Interest received/(expense)	382	311	(3,912)	(5,517)
Depreciation and Amortisation			(7,486)	(6,436)
Total revenue	**592,216**	**633,290**	**–**	**–**
Profit before income tax expense			**26,643**	**22,631**
Income tax expense			(7,927)	(6,179)
Profit for the year			**18,716**	**16,452**

5.3 Segment assets and liabilities

	Segment assets		Segment liabilities	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Fixed Communications	201,398	207,909	35,542	23,441
Mobile Communications	116,124	85,262	34,739	26,612
Energy & Water	86,222	88,354	22,675	33,938
Total of all segments	**403,744**	**381,525**	**92,956**	**83,991**
Unallocated	29,478	21,670	69,599	65,071
Consolidated	**433,222**	**403,195**	**162,555**	**149,062**

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than investments in associates and tax assets; and
- all liabilities are allocated to reportable segments other than other financial liabilities, and current and deferred tax liabilities.

5.4 Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Fixed Communications	2,775	3,006	2,227	1,595
Mobile Communications	297	198	1,390	336
Energy & Water	2,746	2,351	2,596	3,272
Total of all segments	**5,818**	**5,556**	**6,213**	**5,203**
Unallocated	1,668	880	2,624	3,690
Consolidated	**7,486**	**6,436**	**8,837**	**8,893**

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

5. SEGMENT INFORMATION (cont)

5.5 Information on geographical segments

The Group carries out its business entirely within Australia except for an investment in Total Comm Infra Services Pvt Ltd incorporated in India (refer note 13).

5.6 Information about major customers

In both the current and prior reporting periods there were two customers which each contributed more than 10% of the Group's revenue. The relevant revenue by segment is shown below:

Largest customer	2012: Fixed and Mobile Communications $352.9 million (2011: Fixed and Mobile Communications $330.6 million).
Second largest customer	2012: Mobile Communications $63.7 million (2011: Energy & Water $86.6 million).

No other single customer contributed 10% or more of the Group's total revenue in 2012 and 2011.

6. REVENUE

	2012 $'000	2011 $'000
Revenue from the rendering of services	591,808	633,475
Interest revenue	382	311
	592,190	633,786

7. OTHER INCOME

	2012 $'000	2011 $'000
Gain/(loss) on disposal of plant, equipment and intangible assets	26	(496)
	26	(496)

8. FINANCE COSTS

	2012 $'000	2011 $'000
Interest on bank overdrafts and loans	2,874	4,936
Interest on obligations under finance leases	777	884
Other interest expense	643	8
Total interest expense	4,294	5,828
Facility costs	678	654
	4,972	6,482

9. PROFIT/(LOSS) FOR THE YEAR BEFORE TAX

Profit/(Loss) before income tax includes the following expenses:

9.1 Depreciation and amortisation expense

	2012 $'000	2011 $'000
Depreciation of non current assets	4,435	4,741
Amortisation of intangible assets	3,051	1,695
	7,486	6,436

9.2 Operating lease rental expenses

	2012 $'000	2011 $'000
Minimum lease payments	5,665	6,022
	5,665	6,022

9.3 Employee benefit expense

	2012 $'000	2011 $'000
Post employment benefits:		
Defined contribution plans	10,004	9,069
Share-based payments:		
Equity settled share-based payments	766	702
	10,770	9,771

10. INCOME TAXES

10.1 Income tax recognised in profit or loss

	2012 $'000	2011 $'000
Tax expense comprises:		
Current tax expense in respect of the current year	7,023	8,243
Adjustments recognised in the current year in relation to the current tax of prior years	(171)	(565)
	6,852	7,678
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	1,075	(1,499)
	1,075	(1,499)
Total tax expense relating to continuing operations	7,927	6,179

The tax expense for the year can be reconciled to accounting profit as follows:

	2012 $'000	2011 $'000
Profit from continuing activities	26,643	22,631
Income tax expense calculated at 30%	7,993	6,789
Effect of expenses that are not deductible in determining taxable profit	290	66
Items deducted for tax purposes only	(185)	(111)
	8,098	6,744
Adjustments recognised in the current year in relation to the current tax of prior years	(171)	(565)
	7,927	6,179

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

10.2 Income tax recognised directly in equity

	2012 $'000	2011 $'000
The following current amounts were charged/(credited) directly to equity during the period:		
Current tax		
Share-issue expenses	–	(1,310)
	–	(1,310)

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

10. INCOME TAXES (cont)

10.3 Current tax assets and liabilities

	2012 $'000	2011 $'000
Current tax liabilities		
Income tax payable attributable to:		
Parent entity	–	–
Entities in the tax-consolidated group	4,891	6,374
	4,891	6,374

10.4 Deferred tax balances

Deferred tax assets arise from the following:

2012	Opening balance $'000	Charged to income $'000	Timing difference related to prior periods $'000	Charged to equity $'000	Closing balance $'000
Temporary differences					
Trade and other receivables	(548)	(1,837)	–	–	(2,385)
Trade, other payables and provisions	7,782	918	(337)	–	8,363
Share issue costs	355	(156)	–	–	199
	7,589	(1,075)	(337)	–	6,177

Deferred tax balances are presented in the statement of financial position as follows:

Deferred tax assets					6,177
					6,177

2011	Opening balance $'000	Charged to income $'000	Timing difference related to prior periods $'000	Charged to equity $'000	Closing balance $'000
Temporary differences					
Trade and other receivables	(1,234)	686	–	–	(548)
Trade, other payables and provisions	6,067	1,136	579	–	7,782
Share issue costs	288	(323)	(99)	489	355
	5,121	1,499	480	489	7,589

Deferred tax balances are presented in the statement of financial position as follows:

Deferred tax assets					7,589
					7,589

10.5 Tax consolidation

Relevance of tax consolidation to the Group

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Service Stream Limited is the head entity in the tax-consolidated group. The members of the tax-consolidated group are identified in note 29. A tax funding arrangement and a tax sharing agreement has been entered into between the entities. As such a notional current and deferred tax calculation for each entity as if it were a taxpayer in its own right (except that unrealised profits, distributions made and received and capital gains and losses and similar items arising on transactions within the tax-consolidated group are treated as having no tax consequences) has been performed. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Service Stream Limited and each of the other entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

11. ASSETS CLASSIFIED AS HELD FOR SALE

During the year the decision was made to dispose of the Group's 40% investment in Total Comm Infra Services Pvt Ltd. Total Comm Infra Services Pvt Ltd is 40% owned by Total Communications Infrastructure (Singapore) Pte Ltd, a wholly owned subsidiary of the Group.

During the year the Group recognised an impairment loss of $700,000 in relation to this investment, and a sale of the shares is expected to take place within the next twelve months.

The assets classified as held for sale at the end of the reporting period are as follows:

	2012 $'000	2011 $'000
Investment in Total Comm Infra Services Pvt Ltd	330	–
	330	–

12. TRADE AND OTHER RECEIVABLES

	2012 $'000	2011 $'000
Trade receivables	60,615	100,097
Allowance for doubtful debts	(91)	(998)
	60,524	99,099
Other	3,419	2,314
	63,943	101,413
Disclosed in the financial statements as:		
Current trade and other receivables	63,943	101,413
Non-current trade and other receivables	–	–
	63,943	101,413

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

12. TRADE AND OTHER RECEIVABLES (cont)

The ageing of trade receivables as at 30 June 2012 and 30 June 2011 respectively are detailed below:

	2012		2011	
	Gross $'000	Allowance $'000	Gross $'000	Allowance $'000
Not past due	48,742	–	88,880	–
Past due 0–30 days	9,005	–	7,333	–
Past due 31–60 days	1,678	–	1,956	–
Past due 61–90 days	136	–	685	–
Past 90 days	1,054	(91)	1,243	(998)
	60,615	(91)	100,097	(998)

In the above analysis trade receivables have been aged according to their original due date.

The movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

	2012 $'000	2011 $'000
Balance at the beginning of the year	(998)	(1,429)
Impairment losses recognised on receivables	(65)	(724)
Amounts written off during the year as uncollectable	536	217
Impairment losses reversed during the year	436	938
Balance at the end of the year	(91)	(998)

All new customers are subject to an external credit check to ascertain their risk profile against both internal and industry benchmarks. Additionally, credit checks determine appropriate internal credit limits to be applied. The average credit period on sales of goods and rendering of services is 30 days.

Trade receivables are periodically assessed for recoverability on an account by account basis, with appropriate provisions made for specific impairments. All risks associated with trade receivables have been provided for in the statement of financial position. Included in the Group's trade receivables balance are debtors with a carrying amount of $11.8 million (2011: $10.2 million) which are past due at the reporting date for which the Group has not provided. These trade receivables have a good debt history and are almost exclusively 'blue-chip' ASX clients and as such are considered recoverable.

Of the trade receivables balance at the end of the year, $26 million (2011: $55 million) is due from Telstra Corporation Ltd, $9 million (2011: $11 million) is due from the Vodafone Hutchison Pty Ltd, $2 million is due from Origin Energy Limited (2011: $8 million), $7 million (2011: $7 million) is due from Jemena Asset Management Pty Ltd, $2 million (2011: $5 million) is due from SingTel Optus Pty Ltd and $2 million (2011: $2 million) is due from Powercor Australia Ltd. Of the balance, 90% is held with large ASX or multinational companies.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2012 $'000	2011 $'000
Investment in associate	–	1,180
Balance at 1 July	1,180	1,445
Share of profit/(loss) for the year	(36)	(16)
Foreign exchange currency movements	(114)	(249)
	1,030	1,180
Impairment losses recognised in the profit and loss (refer to Note 11)	(700)	–
Elimination on classification as assets held for sale	(330)	–
Balance at 30 June	–	1,180

		Ownership interest	
Name of entity	**Country of incorporation**	**2012 %**	**2011 %**
Total Comm Infra Services Pvt Ltd	India	40	40

Summarised financial information in respect of the Group's investment in associate is set out below:

	2012 $'000	2011 $'000
Financial position:		
Total assets	3,265	3,917
Total liabilities	(690)	(966)
Net assets	2,575	2,951
Group's share of associate net assets (40%)	1,030	1,180
Financial performance:		
Income	444	1,059
Expenses	(534)	(1,098)
Profit/(loss) of associate	(90)	(39)
Group's share of associate profit/(loss) (40%)	(36)	(16)

Dividends received from associates

During the year, the Group received no dividends (2011: nil) from the investment in the associate.

Capital commitments

The Group's share of capital commitments and other expenditure commitments of associates is nil.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

14. JOINT VENTURES

The Syntheo Joint Venture (“Syntheo”) is an unincorporated jointly controlled entity between Service Stream Limited and Lend Lease Project Management & Construction (Australia) Pty Ltd. The Joint Venture was established on 25 January 2011, however operations did not commence until 1 October 2011. Each joint venturer has a 50% interest in Syntheo, which is stipulated in the Syntheo Joint Venture Agreement. The Syntheo board of management comprises six representatives, with three representatives appointed by each of the joint venture parties.

In accordance with AASB 131 ‘Interests in Joint Ventures’, the Group will account for its 50 per cent interest using proportionate consolidation. Under this method, the Group will account for its share in assets and liabilities, income and expenses of Syntheo on a line-by-line basis within the Group’s financial statements.

There has been no change in the Group’s ownership or voting interests in this joint venture during the financial year ended 30 June 2012.

The following amounts are included in the Group’s consolidated financial statements as a result of the proportionate consolidation of Syntheo:

	2012 $’000	2011 $’000
Financial position:		
Current assets	15,713	–
Total assets	**15,713**	**–**
Current liabilities	15,357	–
Total liabilities	**15,357**	**–**
Net assets	**356**	**–**
Financial performance:		
Income	4,407	–
Expenses	(4,051)	–
Profit/(loss) for the year	**356**	**–**

15. PLANT AND EQUIPMENT

	Leasehold improvements at cost $'000	Plant and equipment at cost $'000	Equipment under finance lease at cost $'000	Motor Vehicles at cost $'000	Motor Vehicles under finance lease at cost $'000	Total $'000
Gross carrying amount						
Balance at 1 July 2010	5,321	10,715	11,718	3,736	1,883	33,373
Additions	676	1,919	–	758	–	3,353
Transfers	(221)	(1,135)	1,217	(1,037)	1,176	–
Disposals	(1,398)	(1,800)	(4,984)	(790)	–	(8,972)
Balance at 1 July 2011	**4,378**	**9,699**	**7,951**	**2,667**	**3,059**	**27,754**
Additions	1,478	3,441	–	163	–	5,082
Transfers[1]	784	3,838	(7,010)	2,359	(266)	(295)
Disposals	(29)	(314)	(258)	(402)	(20)	(1,023)
Balance at 30 June 2012	**6,611**	**16,664**	**683**	**4,787**	**2,773**	**31,518**
Accumulated depreciation and impairment						
Balance at 1 July 2010	(3,442)	(7,316)	(6,589)	(1,669)	(1,164)	(20,180)
Transfers	18	489	(533)	(621)	647	–
Disposals	1,213	1,390	3,009	679	–	6,291
Depreciation expense	(797)	(1,012)	(1,942)	(96)	(894)	(4,741)
Balance at 1 July 2011	**(3,008)**	**(6,449)**	**(6,055)**	**(1,707)**	**(1,411)**	**(18,630)**
Transfers[1]	(508)	(3,965)	6,908	(2,654)	917	699
Disposals	22	309	182	381	7	900
Depreciation expense	(955)	(1,182)	(1,273)	(243)	(782)	(4,435)
Balance at 30 June 2012	**(4,449)**	**(11,287)**	**(238)**	**(4,223)**	**(1,269)**	**(21,466)**
Net book value						
As at 30 June 2011	1,370	3,250	1,896	960	1,648	9,124
As at 30 June 2012	2,162	5,377	445	564	1,504	10,052

1. Transfers between categories primarily relate to the reclassification of assets no longer held under finance lease arrangements.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

16. INTANGIBLE ASSETS

	Software $'000	Software under finance lease $'000	Goodwill $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2010	2,729	2,147	205,362	210,238
Additions	3,360	2,180	–	5,540
Disposals	(189)	–	–	(189)
Balance at 1 July 2011	**5,900**	**4,327**	**205,362**	**215,589**
Additions	3,286	469	–	3,755
Transfers[1]	2,442	(2,147)	–	295
Balance at 30 June 2012	**11,628**	**2,649**	**205,362**	**219,639**
Accumulated amortisation				
Balance at 1 July 2010	(1,631)	(995)	–	(2,626)
Disposals	109	–	–	109
Amortisation expense	(479)	(1,216)	–	(1,695)
Balance at 1 July 2011	**(2,001)**	**(2,211)**	**–**	**(4,212)**
Transfers[1]	(2,750)	2,051	–	(699)
Amortisation expense	(1,623)	(1,428)	–	(3,051)
Balance at 30 June 2012	**(6,374)**	**(1,588)**	**–**	**(7,962)**
Net book value				
As at 30 June 2011	3,899	2,116	205,362	211,377
As at 30 June 2012	5,254	1,061	205,362	211,677

1. Transfers between categories primarily relate to the reclassification of assets no longer held under finance lease arrangements.

Allocation of goodwill to cash-generating units

Following a number of changes to the Service Stream business and the markets in which it operates as detailed in note 5, management have re-assessed the Group's cash-generating units ("CGUs") and have determined that for the purpose of impairment testing, goodwill should be allocated as follows:

- Fixed Communications – comprising activities involved in the design, construction and maintenance of fixed line (copper and fibre) infrastructure assets relative to the telecommunications sector – $117,490,953.
- Mobile Communications – comprising activities involved in the site acquisition, design, construction and maintenance of mobile telephony infrastructure – $45,824,205.
- Energy & Water – comprising activities involved in the provision of a range of specialist metering and environmental services to utilities and government authorities nationally. This includes the provision of contact centre services and end-to-end customer support – $42,046,387.

In re-assigning the Group's goodwill balance of $205.4m, management has been able to directly attribute the goodwill pertaining to acquisitions totalling $42.0m to the Energy & Water CGU. The balance of the Group's goodwill ($163.4m) has been apportioned based upon the discounted expected future cashflows of the Fixed Communications and Mobile Communications CGUs.

The recoverable amount of the cash-generating units is determined based on a value in use calculation which uses cash flow projections based on financial budgets and long-term strategic plans approved by the Board. The cashflow projections represent the expected margins from current and future contracts, based on past experience and forecasted margins from new contracts. Cashflows beyond the five-year period have been extrapolated using a 2.5% per annum growth rate. Cash outflows for financial years from 30 June 2013 onwards also include an estimated increase in costs arising from the introduction of the Clean Energy Legislation ('Clean Energy Act 2011' and supporting legislation) from 1 July 2012. A discount rate of 14.4% (2011: 15.5%) has been applied in order to discount expected future cashflows into present-day values.

Management has performed sensitivity analysis and believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

17. OTHER ASSETS

	2012 $'000	2011 $'000
Current		
Work in progress	7,826	5,228
Prepayments	2,148	2,366
Other	226	187
	10,200	7,781

18. ASSETS PLEDGED AS SECURITY

All companies of the Group are subject to a registered deed of cross-guarantee in relation to any debts incurred by a Group entity. A fixed and floating mortgage charge exists over the majority of assets and uncalled capital of the Group as security for all borrowings under its various bank debt and finance facilities.

19. TRADE AND OTHER PAYABLES

	2012 $'000	2011 $'000
Trade creditors[1]	34,440	33,043
Sundry creditors and accruals	39,658	38,261
Goods and services tax payable	1,389	4,849
Income in advance	13,434	4,516
	88,921	80,669

1. Typically no interest is charged by trade creditors for the first 30 days from the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

20. BORROWINGS

	2012 $'000	2011 $'000
Current		
Finance lease liabilities (i) (note 27.2)	988	5,165
	988	5,165
Non-current		
Cash Advance (ii)	53,336	–
Commercial bills (iii)	–	38,000
Finance lease liabilities (i) (note 27.2)	444	4,139
	53,780	42,139
	54,768	47,304
Disclosed in the financial statements as:		
Current borrowings	988	5,165
Non-current borrowings	53,780	42,139
	54,768	47,304

Summary of borrowings arrangements:

(i) The facility is secured by the assets leased and hire purchased, the current value of which exceeds the value of the finance lease liability.

(ii) In May 2012, the Group signed a new $140.0m two-year multi-option, multi-currency finance facility, consolidating and replacing a number of legacy finance facilities. The new facility provides the Group with more flexible cash advance, trade finance, overdraft and bank guarantee facilities.

(iii) The Commercial bill facilities were repaid and cancelled as part of the May 2012 refinancing activities.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

21. PROVISIONS

	2012 $'000	2011 $'000
Current		
Employee benefits (i)	10,504	12,034
Warranty provision (ii)	828	490
	11,332	12,524
Non-current		
Employee benefits (i)	2,643	2,191
	2,643	2,191
	13,975	14,715

(i) The provision for employee benefits represents annual leave and long service leave entitlements.
(ii) The provision for warranty claims represents the present value of the best estimate of the future outflow of economic benefits that will be required under the Group's obligation for warranties.

22. ISSUED CAPITAL

	2012 $'000	2011 $'000
283,418,867 fully paid ordinary shares (2011: 283,418,867)	228,416	228,416

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

22.1 Fully paid ordinary shares

	Number of shares '000	Share capital $'000
Balance at 1 July 2010	283,419	227,106
Tax adjustment in relation to the cost of shares issued in prior periods	–	1,310
Balance at 30 June 2011	283,419	228,416
Balance at 30 June 2012	283,419	228,416

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

22.2 Share Options

As at 30 June 2012, former employees or associates thereof have, in aggregate 40,000 options over ordinary shares issued under the Executive Option Plan ("EOP"), expiring on 1 March 2013.

Share options carry no rights to dividends and no voting rights. Further details of the EOP are contained in notes 3.14 and 32.

22.3 Performance Rights

As at 30 June 2012, employees have 6,775,355 performance rights issued under the Long Term Incentive Plan ("LTIP") in respect of the FY11 Tranche and the FY12 Tranche (2011: 2,864,212, FY11 Tranche only). These rights are due to vest on 30 June 2013 (for the FY11 Tranche) and 30 June 2014 (for the FY12 Tranche). Each performance right converts into one ordinary share, subject to satisfaction of vesting criteria.

Performance rights carry no rights to dividends and no voting rights. Further details of the LTIP are contained in notes 3.14 and 32.

23. RESERVES

	2012 $'000	2011 $'000
Employee equity-settled benefits	3,008	2,242
Foreign currency translation	(636)	(522)
	2,372	1,720

Employee equity-settled benefits reserve		
Balance at beginning of financial year	2,242	1,540
Share-based payments	766	702
Balance at end of financial year	3,008	2,242

The equity-settled employee benefits reserve arises on the grant of share options and rights to executives and senior employees under the Executive Option Plan.

Amounts are transferred out of the reserve and into issued capital if and when the options are exercised. Further information about share-based payments is disclosed in notes 3.14 and 32 to the financial statements.

Foreign currency translation reserve		
Balance at beginning of financial year	(522)	(273)
Translation of foreign investment	(114)	(249)
Balance at end of financial year	(636)	(522)

Exchange differences relating to the translation from the functional currencies of the Group's investment in associate into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

24. RETAINED EARNINGS

	2012 $'000	2011 $'000
Balance at beginning of financial year	23,997	7,545
Net profit attributable to members of the parent entity	18,716	16,452
Dividends paid	(2,834)	–
Balance at end of financial year	39,879	23,997

25. EARNINGS PER SHARE

	2012 Cents per share	2011 Cents per share
Basic earnings per share:		
Total basic earnings per share	6.60	5.80
Diluted earnings per share:		
Total diluted earnings per share	6.54	5.80

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2012 $'000	2011 $'000
Profit for the year attributable to owners of the Company	18,716	16,452
Earnings used in the calculation of basic EPS	18,716	16,452

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

25. EARNINGS PER SHARE (cont)

	2012 No. '000	2011 No. '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	283,419	283,419

Diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

	2012 $'000	2011 $'000
Profit for the year attributable to owners of the Company	18,716	16,452
Earnings used in the calculation of diluted EPS	18,716	16,452

	2012 No. '000	2011 No. '000
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	286,214	283,419

	2012 No. '000	2011 No. '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	283,419	283,419
Shares deemed to be issued for no consideration in respect of: – Long Term Incentive Plan (LTIP)	2,795	–
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	286,214	283,419

26. DIVIDENDS

	2012 Cents per share	2011 Cents per share
Recognised amounts		
Fully paid ordinary shares		
Interim dividend	1.0	–
	1.0	–

	2012 $'000	2011 $'000
Fully paid ordinary shares		
Interim dividend	2,834	–

	2012 Cents per share	2011 Cents per share
Unrecognised amounts		
Fully paid ordinary shares		
Final dividend	1.0	–
	1.0	–

	2012 $'000	2011 $'000
Fully paid ordinary shares		
Final dividend	2,834	–

An interim dividend of 1.0 cent per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 20 April 2012. In addition, on 15 August 2012, the Directors declared a fully franked final dividend of 1.0 cent per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2012, to be paid to shareholders on 18 October 2012. This dividend has not been included as a liability in these consolidated financial statements. The dividend will be paid to all shareholders on the Register of Members on 14 September 2012 and the total dividend estimated to be paid is $2,834 thousand. No dividends were payable in respect of the financial year ended 30 June 2011.

	Company	
	2012 $'000	**2011 $'000**
Adjusted franking account balance as at 30 June	21,793	16,492

27. OBLIGATIONS UNDER FINANCE LEASES

27.1 Leasing arrangements

The Group leases plant and equipment, a number of motor vehicles and software assets with lease terms of between 1 to 4 years. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

27.2 Finance lease liabilities

	Minimum future lease payments		Present value of minimum future lease payments	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Not longer than 1 year	1,032	5,810	988	5,165
Later than 1 year and not later than 5 years	449	4,597	444	4,139
Minimum future lease payments (i)	1,481	10,407	1,432	9,304
Less future finance charges	(49)	(1,103)	–	–
Present value of minimum lease payments	1,432	9,304	1,432	9,304

Included in the financial statements as: (note 20)

Current borrowings	988	5,165
Non-current borrowings	444	4,139
	1,432	9,304

(i) Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

27.3 Fair value

The fair value of the finance lease liabilities is shown at note 31.10.

28. OPERATING LEASE ARRANGEMENTS

28.1 Leasing arrangements

The Group leases a number of motor vehicles and premises throughout Australia. The rental period of each individual lease agreement varies between 1 and 7 years with the renewal options ranging from 1 to 6 years. The majority of lease agreements are subject to rental adjustments in line with movements in the Consumer Price Index or market rentals.

28.2 Non-cancellable operating lease commitments

	2012 $'000	**2011 $'000**
Not longer than 1 year	4,839	5,691
Longer than 1 year and not longer than 5 years	10,565	1,741
Longer than 5 years	5,858	–
	21,262	7,432

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

28. OPERATING LEASE ARRANGEMENTS (cont)

The increase in operating lease commitments is mainly attributable to the two new lease arrangements for 357 Collins Street in Melbourne, Victoria and 29 Christie Street in St Leonards, NSW. The lease terms for these premises are 7 years and 5 years respectively.

29. SUBSIDIARIES

Details of the Company's subsidiaries at 30 June 2012 are as follows:

Name of entity	Country of incorporation	Ownership interest 2012 %	Ownership interest 2011 %
Parent entity			
Service Stream Limited (i)	Australia		
Subsidiaries			
Service Stream Holdings Pty Ltd (ii) (viii)	Australia	100	100
Service Stream Communications Pty Ltd (ii) (iii) (viii)	Australia	100	100
Resourcing Solutions Pty Ltd (ii) (iv) (viii)	Australia	100	100
Total Communications Infrastructure Pty Ltd (ii) (iii) (viii)	Australia	100	100
Service Stream Solutions Pty Ltd (ii) (iii) (viii)	Australia	100	100
Radhaz Consulting Pty Ltd (ii) (viii)	Australia	100	100
General Purpose Group Pty Ltd (ii) (iii) (viii)	Australia	100	100
Fibercom Technology Pty Ltd (ii) (iii) (viii)	Australia	100	100
Service Stream Infrastructure Services Pty Ltd (ii) (iii) (viii)	Australia	100	100
Milcom Communications Pty Ltd (ii) (iii) (viii)	Australia	100	100
Total Communications Infrastructure (Singapore) Pte Ltd (v)	Singapore	100	100
McCourt Dando Pty Ltd (ii) (vi) (viii)	Australia	100	100
McCourt Dando Civil Pty Ltd (ii) (vi) (viii)	Australia	100	100
McCourt Dando Plant Hire Pty Ltd (ii) (vi) (viii)	Australia	100	100
Metering Services Australasia Pty Ltd (ii) (iii) (viii)	Australia	100	100
MSA Plant Pty Ltd (ii) (vii) (viii)	Australia	100	100
AMRS (Aust) Pty Ltd (ii) (vii) (viii)	Australia	100	100
Service Stream Financial Services Pty Ltd (ii) (iii) (viii)	Australia	100	100

(i) Service Stream Limited is the head entity within the tax-consolidated group.
(ii) These companies are members of the tax-consolidated group.
(iii) These companies are wholly owned subsidiaries of Service Stream Holdings Pty Ltd.
(iv) This company is a wholly owned subsidiary of Service Stream Communications Pty Ltd.
(v) This company is a wholly owned subsidiary of Total Communications Infrastructure Pty Ltd.
(vi) These companies are wholly owned subsidiaries of Service Stream Infrastructure Services Pty Ltd.
(vii) These companies are wholly owned subsidiaries of Metering Services Australasia Pty Ltd.
(viii) These wholly-owned subsidiaries have entered into a deed of cross guarantee with Service Stream Limited pursuant to ASIC Class Order 98/1418 and are relieved of the requirement to prepare and lodge an audited financial report.

The consolidated statement of comprehensive income of the entities party to the deed of cross guarantee are:

	2012 $'000	2011 $'000
Statement of comprehensive income		
Revenue from the rendering of services	587,897	633,786
Other income	(88)	(496)
	587,809	633,290
Employee salaries and benefits	(145,452)	(133,076)
Subcontractor fees	(227,707)	(258,683)
Site and construction costs	(77,635)	(42,282)
Raw materials and consumables used	(45,312)	(113,893)
Consulting and temporary staff fees	(11,325)	(10,124)
Company administration and insurance expenses	(11,182)	(10,547)
Occupancy expenses	(9,127)	(8,480)
Technology and communication services	(8,953)	(7,535)
Motor vehicle expenses	(8,152)	(7,189)
Depreciation and amortisation	(7,486)	(6,436)
Interest expense and other finance costs	(4,972)	(6,482)
Other expenses	(3,483)	(5,916)
Impairment losses of investment in associate	(700)	–
Profit before tax	**26,323**	**22,647**
Income tax expense	(7,820)	(6,179)
Profit for the year from continuing operations	**18,503**	**16,468**
Profit for the year from discontinued operations	–	–
Profit for the year	**18,503**	**16,468**
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	**18,503**	**16,468**

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

29. SUBSIDIARIES (cont)

The consolidated statement of financial position of the entities party to the deed of cross guarantee are:

	2012 $'000	2011 $'000
Statement of financial position		
Current assets		
Cash and cash equivalents	14,728	9,171
Trade and other receivables	63,927	101,413
Inventories	12,096	14,309
Accrued revenue	96,572	41,251
Other	1,949	7,781
	189,272	173,925
Assets classified as held for sale	647	–
Total current assets	**189,919**	**173,925**
Non-current assets		
Other financial assets	–	1,347
Plant and equipment	10,052	9,124
Deferred tax assets due from Parent	6,177	7,589
Intangible assets	211,677	211,377
Total non-current assets	**227,906**	**229,437**
Total assets	**417,825**	**403,362**
Current liabilities		
Trade and other payables	73,562	80,668
Borrowings	988	5,165
Current tax liabilities payable to Parent	4,784	6,374
Provisions	11,332	12,524
Total current liabilities	**90,666**	**104,731**
Non-current liabilities		
Borrowings	53,780	42,139
Provisions	2,643	2,191
Total non-current liabilities	**56,423**	**44,330**
Total liabilities	**147,089**	**149,061**
Net Assets	**270,736**	**254,301**
Equity		
Issued capital	228,416	228,416
Reserves	3,008	2,242
Retained earnings*	39,312	23,643
Total equity	**270,736**	**254,301**
*** Retained earnings**		
Retained earnings as at beginning of the financial year	23,643	7,175
Net profit	18,503	16,468
Dividends provided for or paid	(2,834)	–
Retained earnings as at end of the financial year	**39,312**	**23,643**

30. NOTES TO THE STATEMENT OF CASH FLOW

30.1 Reconciliation of cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	20,916	9,171
Bank overdraft	–	–
Cash and cash equivalents	20,916	9,171

30.2 Reconciliation of profit for the year to net cash flows from operating activities

	2012 $'000	2011 $'000
Profit for the year	18,716	16,452
(Gain)/loss on sale of disposal of non-current assets	(26)	416
Loss on sale of disposal of intangible assets	–	80
Depreciation and amortisation	7,486	6,436
Impairment losses of investment in associate	700	–
Share of investment in associates loss	36	16
Expense recognised in respect of equity-settled share-based payments	766	702
Impairment loss reversed on trade receivables	(371)	(214)
Decrease/(increase) in deferred tax balances	1,412	(2,468)
(Decrease)/increase in current tax liability	(1,483)	5,763
Movement in working capital:		
Decrease/(increase) in receivables	37,841	(34,219)
(Increase)/decrease in accrued income	(56,580)	7,224
Increase in other assets	(2,419)	(5,439)
Decrease in inventories	2,213	627
Increase in trade and other payables	8,409	24,808
(Decrease)/increase in provisions	(740)	4,429
Net cash provided by operating activities	**15,960**	**24,613**

31. FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks including credit, currency, interest rate and liquidity risk exposures.

The Group's risk management program looks to identify and quantify these exposures and where relevant reduce the sensitivity to potential adverse impacts on its financial performance.

The Group operates a centralised treasury function that is tasked with the management of its day to day exposure to financial and currency risks. The treasury function is the only area authorised by the Board to transact financial instruments on behalf of the Group in the management of these risk exposures.

The Group's use of financial instruments is controlled by documented Delegations of Authorities which are approved by the Board and which also include specific segregation of duties.

31.1 Capital risk management

The Group manages its available capital and liquidity to ensure that it is able to continue as a going concern and to maximise the potential returns to shareholders. Capital and liquidity risk management is primarily undertaken by ensuring that the Group has access to adequate borrowing facilities, by optimising the amount, tenor, serviceability and type of debt that is available and drawn at any one time as well as monitoring the ratio of debt to earnings.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

31. FINANCIAL INSTRUMENTS (cont)

The capital structure of the Group consists of net debt (borrowings as detailed in note 20 offset by cash balances at bank) and equity (comprising issued capital, reserves and retained earnings as disclosed in notes 22, 23 and 24).

As a condition of its bank-provided finance facilities, the Group is subject to various debt covenant measures including minimum equity restrictions, all of which are monitored and reported upon on a quarterly basis to its bankers.

The Board and senior management review the capital structure of the Group on an annual basis considering the relative cost and risks associated with each class of capital, as well as any restrictions or limitations that may exist in terms of the current mix of capital.

31.1.1 Gearing ratio

The gearing ratio at the end of the reporting period was as follows.

	2012 $'000	2011 $'000
Debt [i]	54,768	47,304
Cash at bank	(20,916)	(9,171)
Net debt	33,852	38,133
EBITDA	38,041	34,584
Gearing ratio	0.89×	1.10×

(i) Debt is defined as long-and short-term borrowings, as detailed in note 31.2 Significant accounting policies

31.2 Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement, and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

31.3 Categories of financial instruments

	2012 $'000	2011 $'000
Financial assets		
Cash and bank balances	20,916	9,171
Loans and receivables	63,943	101,413
Financial liabilities		
Trade and other payables	88,921	80,669
Cash advances	53,336	–
Commercial bills	–	38,000
Finance lease/hire purchase liabilities	1,432	9,304

31.4 Financial risk management objectives

The Group's central treasury function manages all of its borrowings and the provision of financial security undertakings.

The treasury function provides liquidity management, transactional banking, merchant payment, currency management and markets advice and services to all companies in the Group on a daily basis. It is also responsible for monitoring and managing the financial and operational risks relating to the Group's banking and financial market related operations.

The types of financial risks to which the Group is typically exposed include market (interest rate and currency risks specifically), liquidity and credit risk.

Treasury is the only function within the Group authorised to transact financial and derivative financial instruments for the management of the Group's financial risk exposures. The selling of naked options as well as on the use of any financial instrument for speculative purposes is currently prohibited under the Treasury Risk Management Policy.

Compliance with financial risk management policies and financial exposure limitations are reviewed by senior management on a daily basis and regular reporting on risk management strategy and policy compliance is undertaken to the Group's Audit & Risk Management Committee as well as to its Board of Directors.

31.5 Market risk

Market risk is the risk that the fair value of future cash flows or fair value of financial instruments resulting from borrowings or financial instrument positions will fluctuate due to changes in market based interest rates or security prices.

The Group's funding activities do expose it to financial risks arising from changes in market interest rates (refer note 31.6).

The Group normally has only a small exposure to currency risk as the majority of its activities are conducted within Australia in AUD and there is only a small amount of material sourced from abroad annually.

31.6 Interest rate risk management

The Group is exposed to interest rate risk through its borrowings and short-term investment activities.

Interest rate risk is managed by the use a mix of fixed rate and floating rate borrowings, and as required, by the hedging of residual risk exposure through the use of derivative financial instruments.

The sensitivity analyses below have been determined based on the Group's exposure to interest rate risk on its net borrowings as at the end of the reporting period.

Based upon a 100 basis point parallel increase in prevailing market interest rates, the Group's sensitivity to interest rate risk at 30 June 2012 was equivalent to a net profit before tax decrease of $324,196 per annum (2011: $123,290).

This sensitivity is attributable to the Group's exposure to market interest rates on its variable rate net borrowings. The Group's exposure to interest rates on financial assets and liabilities are detailed in the liquidity risk management section of this note.

31.7 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group transacts wholesale financial market transactions only with entities that have a minimum long term credit rating of Investment Grade and typically only transacts with its credit approved Banking Panel members.

The Group's wholesale credit risk is calculated based upon the summation of any investments plus accrued interest held with the counterparty together with the net positive mark to market fair valuation of any derivative financial instruments also held with that counterparty.

The Group has adopted a retail and business-to-business credit policy of only dealing with creditworthy counter parties and where appropriate, obtaining sufficient collateral as a means of mitigating the risk of financial loss from credit defaults.

Credit information is supplied by independent rating agencies where available and the Group uses publicly available financial information and its own internal trading history to internally rate its major customers. Credit exposures and credit ratings of counter-parties are monitored regularly.

As stated in note 12, a significant portion of revenue is derived from major companies such as Telstra Corporation Limited, Vodafone Hutchison Pty Ltd, Origin Energy Limited, and NBN Co Limited. These are large entities with solid credit ratings and a good trading history and therefore the credit risk associated with these receivables is classified as low. The remaining trade receivables balance consists of a large number of customers, spread across the telecommunications and utilities sectors.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

31.8 Currency risk management

Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the entity's functional currency and from the translation of net investments in foreign operations.

The Group operates predominantly within Australia and receives revenues denominated in AUD. Minor currency risk exposures arise due to a small annual volume of non-AUD denominated imports of materials as well from the translation risk on Indian Rupee arising from an investment in an associate.

Currency risk on material imports is managed predominately through the use of AUD denominated contracts or by forward foreign exchange contracts on the low volume of foreign sourced materials. At balance date the total value of foreign exchange contracts held was USD $3,427,714 with a mark to market valuation of AUD ($45,214.08).

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

31. FINANCIAL INSTRUMENTS (cont)

31.9 Liquidity risk management

Management of the Group's liquidity risk exposure is undertaken by the Group's treasury and finance functions daily and intraday by monitoring of the Group's actual cash flows and via regularly updated forecasting of payable and receivable profiles.

In order to maintain adequate liquidity, the Group typically maintains a small inter-day cash buffer as well as having access to reserve overdraft facilities and committed funding lines with two different financial institutions.

Included in note 31.9.2 are details of the borrowing facilities available to the Group at 30 June 2012.

31.9.1 Liquidity and interest rate risk tables

The following tables detail the Group's maturity profile for non-derivative financial liabilities.

The table represents the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is contracted to repay principal. Where applicable, values represent both interest and principal cash flows.

	Weighted average interest rate $'000	Carrying amount $'000	Contractual cash flow $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000
2012							
Non-derivative financial liabilities							
Trade and other payables	–	(88,921)	(88,921)	(88,921)	–	–	–
Finance lease liabilities	4.64%	(1,432)	(1,481)	(516)	(516)	(449)	–
Cash advances – variable	5.28%	(53,336)	(54,451)	(1,115)	–	(53,336)	–
		(143,689)	**(144,853)**	**(90,552)**	**(516)**	**(53,785)**	**–**
2011							
Non-derivative financial liabilities							
Trade and other payables	–	(80,669)	(80,669)	(80,669)	–	–	–
Finance lease liabilities	9.15%	(9,304)	(10,407)	(2,905)	(2,905)	(2,364)	(2,233)
Variable interest rate instruments	8.18%	(21,500)	(23,551)	(879)	(879)	(21,793)	–
Fixed interest rate instruments	8.19%	(16,500)	(18,077)	(676)	(676)	(16,725)	–
		(127,973)	**(132,704)**	**(85,129)**	**(4,460)**	**(40,882)**	**(2,233)**

31.9.2 Financing facilities

	2012 $'000	2011 $'000
Bank guarantees:		
▪ amount used	21,730	7,662
▪ amount unused	28,270	7,338
	50,000	15,000
Secured bank overdraft:		
▪ amount used	–	–
▪ amount unused	10,000	5,000
	10,000	5,000

Secured commercial bill and equipment finance lease facilities were repaid in full and cancelled in May 2012 as part of the Group's refinancing activities. The current year balance below relates to an unsecured finance lease over IT licences.

▪ amount used	1,432	47,304
▪ amount unused	–	32,684
	1,432	79,988

The secured cash advance and trade finance facilities established in May 2012 are due to mature in May 2014 and may be extended by mutual agreement:

	2012 $'000	2011 $'000
▪ amount used	53,336	–
▪ amount unused	26,664	–
	80,000	–

Financial guarantees provided in the normal course of business are shown above. Based upon current expectations as at 30 June 2012, the Group considers that it is more likely than not that such amounts will not be payable under these arrangements.

31.10 Fair value of financial instruments

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

	2012		2011	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Financial assets				
Cash	20,916	20,916	9,171	9,171
Trade and other receivables	63,943	63,943	101,413	101,413
Financial liabilities				
Trade and other payables	88,921	88,921	80,669	80,669
Cash advances – variable	53,336	53,336	–	–
Commercial bills – variable	–	–	21,500	21,500
Commercial bills – fixed	–	–	16,500	13,708
Finance lease/hire purchase liabilities	1,432	1,308	9,304	8,252

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes);
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

32. SHARE-BASED PAYMENTS

32.1 Executive option plan

The Group previously operated an Executive Option Plan ("EOP") under which executives and senior employees with more than five years service with the Group may be granted options to purchase ordinary shares in the Company.

The number of options granted was calculated in accordance with the performance-based formula approved by shareholders at a previous Annual General Meeting and was subject to approval by the Remuneration and Nomination Committee.

Executive share options carry no rights to dividends and no voting rights.

The Directors can, at their discretion, issue share options to executives and senior employees as part of the Group's remuneration policy. The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Series 12	2,020,000	4 January 2007	1 January 2011	0.9411	0.2833
Series 13	2,020,000	4 January 2007	1 January 2011	1.0311	0.2355
Series 14	2,020,000	4 January 2007	1 January 2011	1.1511	0.1815
Series 15	500,000	4 January 2007	31 October 2011	1.0761	0.0767
Series 16	730,000	4 January 2007	31 October 2011	1.6311	0.1006
Series 17	40,000	23 October 2007	1 March 2012	0.9611	0.0823
Series 18	40,000	23 October 2007	1 March 2013	1.7111	0.1423

Options were priced using a Black Scholes model. Where relevant, the expected life used in the model was adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. Expected volatility was based on the historical share price volatility over the previous two years. To allow for the effects of early exercise, it was assumed that employees would exercise the options after vesting date when the share price was two and half times the exercise price.

On 16 September 2009 the exercise prices of existing options were amended as a result of the new issue of shares under the renounceable rights offer announced to the market on 14 September 2009. The table above reflects the new exercise prices.

32.1.1 Movements in share options during the year

The following reconciles the outstanding share options granted under the EOP at the beginning and end of the financial year:

	2012		2011	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	1,310,000	1.4012	7,370,000	1.1051
Expired during the financial year	(1,270,000)	–	(6,060,000)	–
Balance at end of the financial year	40,000	1.7111	1,310,000	1.4012
Exercisable at end of the financial year	40,000	1.7111	1,310,000	1.4012

32.1.2 Share options exercised during the year

No share options granted under the EOP were exercised during the current financial year.

32.1.3 Share options outstanding at the end of the year

The share options outstanding at the end of the year had a weighted average exercise price of $1.7111 (2011: $1.4012) and a weighted average remaining contractual life of 244 days (2011: 142 days).

32.2 Long Term Incentive Plan ("LTIP")

From time to time employees in senior management roles and/or Directors may be invited, with approval from the Board, to participate in the LTIP. The LTIP operates within the shareholder approved Employee Share Ownership Plan ("ESOP"), under the administration of the Remuneration and Nomination Committee. The extent of individual participation and the associated number of performance rights offered is recommended by the Managing Director and reviewed by the Remuneration and Nomination Committee, which will then make recommendations to the Board, and to shareholders at the Annual General Meeting in the case of Directors, for approval.

In accordance with the provision of the ESOP and consistent with the prior year, Directors and employees in senior management roles were invited to participate in the LTIP which entitled them to receive a number of performance rights in respect of the year ending 30 June 2012 ("FY12 Tranche"). Each performance right converts into one Service Stream Limited ordinary share on vesting. No amounts are paid or payable by the participant on receipt of the performance rights, and the performance rights carry neither rights to dividends nor voting rights. The number of performance rights granted is based on the employee's long term incentive participation rate, which is expressed as a percentage of the participant's TFR, and the volume-weighted average market price of the Company's shares over a prescribed period of time. The performance rights are subject to service and performance criteria being:

- The participant must be an employee at the vesting date;
- 50% of the performance rights granted will each vest where:
  - The Group's earnings per share ("EPS") achieves annual growth of 10% or more (full achievement) or 7.5% (pro-rata achievement) over the performance period from an agreed base EPS. The performance rights issued under the FY11 Tranche have a three year performance period to 30 June 2013 and a base EPS of 3.85 cents per share, whilst the performance rights issued under the FY12 Tranche have a three year performance period to 30 June 2014 and a base EPS of 5.80 cents per share;
  - The Group's total shareholder return ("TSR") over the performance period is such that it would rank at or above the 75th percentile (full achievement) or the 50th percentile (pro-rata achievement) of a relevant peer group of companies being those comprising the ASX 200 Industrials index.

The following LTIP performance right arrangements were in existence during the current period:

LTIP Series	Number	Grant date	Grant date weighted average fair value	Vesting date
FY11 tranche[1]	2,237,253	18 February 2011	Relative TSR hurdle – $0.720 EPS hurdle – $0.750	30 June 2013
FY11 tranche (R. Grant)[1,3]	626,959	18 February 2011	Relative TSR hurdle – $0.315 EPS hurdle – $0.315	30 June 2013
FY12 tranche[2]	4,063,666	25 November 2011	Relative TSR hurdle – $0.160 EPS hurdle – $0.250	30 June 2014

1. The performance period for the FY11 tranche of LTIP performance rights commenced 1 July 2010.
2. The performance period for the FY12 tranche of LTIP performance rights commenced 1 July 2011.
3. Although the grant date for Bob Grant's performance rights was 18 February 2011, the issue of these rights was not approved until the Company's Annual General Meeting on 26 October 2011

32.2.1 Fair value of performance rights via the LTIP granted in the year

The performance rights with the relative TSR hurdle vesting condition have been valued using a Monte-Carlo simulation. The performance rights with the EPS hurdle vesting condition have been valued using a Binomial tree methodology. Both valuation methodologies are underpinned by a 'risk neutral' probability framework with lognormal share prices. Key assumptions of the framework that underpin the valuations performed are: arbitrage free markets, complete and liquid markets, stationary lognormal share price return distributions, no trading costs or taxes, risk neutral probability framework, short selling is possible, continuous trading and perfectly divisible securities.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

32. SHARE-BASED PAYMENTS (cont)

32.2.2 Key inputs into the model

Grant date – FY12 Tranche	25 November 2011	
Award type	Performance rights	Performance rights
Vesting conditions	Relative TSR hurdle	EPS hurdle
Vesting date	30 June 2014	30 June 2014
Share price at the grant date	$0.30	$0.30
Expected life	2.6 years	2.6 years
Volatility	60%	60%
Risk free interest rate	3.06%	3.06%
Dividend yield	6.7%	6.7%
Grant date – FY11 Tranche	**18 February 2011**	
Award type	Performance rights	Performance rights
Vesting conditions	Relative TSR hurdle	EPS hurdle
Vesting date	30 June 2013	30 June 2013
Share price at the grant date	$0.77	$0.77
Expected life	2.4 years	2.4 years
Volatility	60%	60%
Risk free interest rate	5.04%	5.04%
Dividend yield	1%	1%

32.2.3 Movements in the LTIP performance rights during the year

The following reconciles the outstanding performance rights granted under the LTIP at the beginning and end of the financial year:

	2012		2011	
	Number of performance rights	Grant date weighted average fair value $	Number of performance rights	Grant date weighted average fair value $
Balance at beginning of the financial year	2,864,212	0.604	–	–
Forfeited during the year	(152,543)	–	–	–
Granted during the year	4,063,666	0.205	2,864,212	0.604
Balance at end of the financial year	6,775,335	0.378	2,864,212	0.604
Exercisable at end of the financial year	–	–	–	–

The grant date weighted average fair value of $0.378 is the result of the separate criteria as set out at note 32.2.

No performance rights granted under the LTIP vested during the current financial year. The performance rights outstanding at the end of the year have a weighted average fair value of $0.378 and a remaining contractual life of two years (FY12 Tranche) and one year (FY11 Tranche).

33. KEY MANAGEMENT PERSONNEL COMPENSATION

Details of key management personnel

The Directors of the Company and key management personnel of the Group during the year were:

- P Dempsey (Chairman)
- G Sumner (Managing Director)
- B Gallagher (Non-Executive Director)
- D Page AM (Non-Executive Director)
- S Wilks (Non-Executive Director)
- R Grant (Alternate Director, Chief Financial Officer)
- S Ellich (Executive General Manager – Fixed Communications)
- R Stanton (Executive General Manager – Mobile Communications – until 5 March 2012)
- D Hill (Executive General Manager – Mobile Communications – appointed 7 March 2012)
- L Mackender (Executive General Manager – Energy & Water)

Key management personnel compensation

The aggregate compensation made to Directors and key management personnel of the Group is set out below:

	2012 $	2011 $
Short-term employee benefits	3,167,345	4,647,616
Post-employment benefits	215,550	258,866
Other long-term benefits	33,244	44,832
Termination benefits	–	12,012
Share-based payments	302,860	311,100
	3,718,999	5,274,426

The compensation of each member of the key management personnel of the Group is set out in the Remuneration Report.

34. RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling party of the Group is Service Stream Limited.

Balances and transactions between the Company and its controlled entities, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

34.1 Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 29 to the financial statements.

Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in notes 13 and 14 to the financial statements.

34.2 Transactions with key management personnel

34.2.1 Key management personnel compensation

Details of key management personnel compensation are disclosed in note 33 to the financial statements.

34.2.2 Loans to key management personnel

There are no outstanding loan balances with key management personnel of the Group or to their related parties. These balances do not include loans that are in-substance options and are non-recourse to the Group.

34.2.3 Key management personnel equity holdings

Fully paid ordinary shares of Service Stream Limited

The numbers of shares in the Company held during the financial year by each Director key management personnel member of the Group, including their personally related parties, are set out below.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

34. RELATED PARTY DISCLOSURES (cont)

	Balance at 1 July No.	Granted as compensation No.	Balance as at date of appointment No.	Net other change No.	Balance as at date of resignation No.	Balance at 30 June No.
2012						
P Dempsey	200,000	–	–	120,000	–	320,000
D Page	27,400	–	–	55,500	–	82,900
B Gallagher	8,792,113	–	–	–	–	8,792,113
S Wilks	–	–	–	255,000	–	255,000
G Sumner	350,000	–	–	–	–	350,000
R Grant	144,166	–	–	–	–	144,166
S Ellich	367,655	–	–	–	–	367,655
D Hill[1]	–	–	1,134	–	–	1,134
L Mackender	49,434	–	–	–	–	49,434
2011						
P Dempsey	–	–	–	200,000	–	200,000
D Page	–	–	–	27,400	–	27,400
B Gallagher	9,914,661	–	–	(1,122,548)	–	8,792,113
G Sumner	300,000	–	–	50,000	–	350,000
R Grant	104,166	–	–	40,000	–	144,166
R Stanton	460,000	–	–	(460,000)	–	–
R Small[2]	4,406,461	–	–	–	(4,406,461)	–
S Ellich	367,655	–	–	–	–	367,655
R Blinko[2]	50,000	–	–	–	(50,000)	–
A Haynes[2]	241,288	–	–	–	(241,288)	–
L Mackender[1]	–	–	49,434	–	–	49,434

The movement in equity holdings disclosed reflects only those movements which took place during the period that persons were regarded as key management personnel.

1. The balance of securities held as at 1 July is nil as this person was not a key management person at that date.
2. The balance of securities held as at 30 June is nil as this person is no longer a key management person.

The numbers of options over ordinary shares in the Company held during the financial year by each Director and other key management personnel of the Group, including their personally related parties, are set out below.

Share options of Service Stream Limited

	Balance at 1 July No.	Granted as compensation No.	Balance as at date of resignation No.	Net other change No.	Balance at 30 June No.	Balance vested at 30 June No.	Vested but not exercisable No.	Vested and exercisable No.	Vested during year No.
2012									
R Stanton	500,000	–	–	(500,000)	–	–	–	–	–
2011									
R Stanton	2,000,000	–	–	(1,500,000)	500,000	500,000	–	500,000	–

During the financial year, no share options were issued to key management personnel.

During the financial year, no share options (2011: nil) were exercised by key management personnel.

Performance Rights of Service Stream Limited

	Balance at 1 July No.	Granted as compensation No.	Balance as at date of resignation No.	Net other change No.	Balance at 30 June No.	Balance vested at 30 June No.	Vested but not exercisable No.	Vested and exercisable No.	Vested during year No.
2012									
G Sumner	–	1,560,543	–	–	1,560,543	–	–	–	–
R Grant[1]	626,959	430,063	–	–	1,057,022	–	–	–	–
R Stanton[2]	322,571	221,267	–	(543,838)	–	–	–	–	–
S Ellich	299,765	205,624	–	–	505,389	–	–	–	–
L Mackender	82,006	133,577	–	–	215,583	–	–	–	–
D Hill[3]	–	82,035	–	87,789	169,824	–	–	–	–

1. R Grant is an Alternate Director for G Sumner
2. R Stanton held the position of Executive General Manager until 5 March 2012.
3. D Hill was appointed to the position of Executive General Manager during the year.

All performance rights issued to key management personnel during the financial year were made in accordance with the provisions of the LTIP.

During the financial year, no performance rights (2011: nil) were exercised by key management personnel.

Further details of the LTIP and of performance rights granted during 2012 and 2011 financial years are contained in notes 32 to the financial statements.

34.2.4 Other transactions with key management personnel of the Group

Brett Gallagher is a Director of Techsafe Australia Pty Ltd (“Techsafe”), which is currently performing inspections and certifications of residential solar panel installations for the Group. The terms under which Techsafe provides services are standard, arms length and of low value (approximately $24,205 per month) (2011: approximately $20,000 per month). In addition, the Company leases an office/warehouse in which Brett holds an interest. The terms of the lease have been independently reviewed and are standard arms length and at market value.

During the year the Group provided services to Tel.Pacific Limited, a company of which Stephe Wilks is a Director, in relation to the transition of the Mobile Real Time Monitoring (“MRTM”) Intelligent Network Platform, which was sold to Tel.Pacific on 30 June 2010. The value of the services provided during the year was $67,381 (2011: $686,469) of which no amount was outstanding at year end.

34.3 Transactions with other related parties

34.3.1 Transactions between Service Stream Limited and its related parties

During the financial year, the following transactions occurred between the Company and its other related parties:

- The Company recognised tax payable in respect of the tax liabilities of its wholly-owned subsidiaries. Payments to/from the Company are made in accordance with the terms of the tax funding arrangement.
- The Group provided design and project management services to the Syntheo Joint Venture. The costs incurred for the provision of these services have been recouped during the year.

The following balances arising from transactions between the Company and its other related parties are outstanding at the reporting date:

- Loans receivable totalling $101,054,404 are receivable from subsidiaries (2011: $103,932,471).
- Trade receivables totalling $2,473,501 being 50% of the unpaid portion of amounts the Group has invoiced the Syntheo Joint Venture for costs incurred on its behalf during the year.
- Other current assets totalling $143,858 being 50% of the costs incurred by the Group, yet to be invoiced to the Syntheo Joint Venture.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

34. RELATED PARTY DISCLOSURES (cont)

All amounts advanced to or payable to related parties are unsecured and are subordinate to other liabilities.

The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Transactions and balances between the Company and its controlled entities were eliminated in the preparation of consolidated financial statements of the Group.

34.3.2 Parent entities

The ultimate parent entity in the Group is Service Stream Limited. Service Stream Limited is incorporated in Australia.

35. REMUNERATION OF AUDITORS

Auditor of the parent entity

	2012 $	2011 $
Audit or review of the financial report	315,000	362,000
Preparation of the tax return	20,000	23,875
Other assurance services	6,500	–
Tax advice	26,000	20,650
Technical advice	–	21,100
	367,500	427,625

The auditor of Service Stream Limited is Deloitte Touche Tohmatsu.

36. COMMITMENTS FOR EXPENDITURE

Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in notes 27 and 28 to the financial statements.

37. CONTINGENT ASSETS AND LIABILITIES

Contingent and claims, indeterminable in amount, exist in the ordinary course of business. All known liabilities have been brought to account and adequate provision has been made for any known and anticipated losses.

38. EVENTS AFTER THE REPORTING PERIOD

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

39. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 3 for a summary of the significant accounting policies relating to the Group.

39.1 Financial position

	2012 $'000	2011 $'000
Current Assets	15,730	–
Non-current assets	222,665	223,407
Total Assets	**238,395**	**223,407**
Current liabilities	20,357	6,384
Non-current liabilities	–	–
Total liabilities	**20,357**	**6,384**
Net Assets	**218,038**	**217,023**
Issued capital	211,779	211,779
Retained earnings	3,291	3,042
Reserves – Equity settled employee benefits	2,968	2,202
Equity	**218,038**	**217,023**

39.2 Financial performance

	2012 $'000	2011 $'000
Profit for the year	249	–
Other comprehensive income	–	–
Total comprehensive income	249	–

39.3 Guarantees entered into by the parent entity

The parent entity is party to the Group's bank debt facilities as a security provider under the Security Trust Deed.

In addition, there are cross guarantees given by the parent entity as described in note 29.

ASX ADDITIONAL INFORMATION

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

A. DISTRIBUTION OF SHAREHOLDERS NUMBER AS AT 1 SEPTEMBER 2012

Category (size of holding)	Holders
1-1,000	561
1,001-5,000	1,158
5,001-10,000	716
10,001-100,000	1,688
100,001+	247
	4,370

B. THERE ARE 4,370 HOLDERS OF FULLY PAID ORDINARY SHARES.

The Company has no other class of shares issued.

C. THE NUMBER OF SHAREHOLDINGS HELD IN LESS THAN MARKETABLE PARCELS IS 718.

D. THE NAMES OF THE SUBSTANTIAL SHAREHOLDERS LISTED IN THE HOLDING COMPANY'S REGISTER, AND THEIR SHAREHOLDINGS (INCLUDING SHAREHOLDINGS OF THEIR ASSOCIATES), AS AT 1 SEPTEMBER 2012 ARE:

Shareholder	Ordinary	%
Thorney Investment Group Australia Pty Ltd	39,056,628	13.78
Maple-Brown Abbott	28,038,834	9.89
Gandel Springwest Pty Ltd	16,297,924	5.75

E. VOTING RIGHTS

The voting rights attached to each class of equity security are as follows:

Ordinary shares

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Options

These securities have no voting rights.

F. NET TANGIBLE ASSETS

The net tangible assets per security is $0.2081 (2011: $0.1509).

G. 20 LARGEST SHAREHOLDERS AS AT 1 SEPTEMBER 2012 – ORDINARY SHARES

Name of 20 largest shareholders in each class of share	Ordinary shares Fully paid number of shares held	% Held
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	48,012,267	16.95
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	26,084,177	9.21
NATIONAL NOMINEES LIMITED	22,361,310	7.89
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	18,476,302	6.52
GANDEL SPRINGWEST PTY LTD <THE GANDEL INVEST NO 1 A/C>	15,797,924	5.58
CITICORP NOMINEES PTY LIMITED	8,141,127	2.87
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	5,810,564	2.05
UBS NOMINEES PTY LTD	3,960,212	1.40
J P MORGAN NOMINEES AUSTRALIA LIMITED	3,084,785	1.09
DR ROGER GRAHAM BROOKE + MRS SALLY ANN BROOKE <SALROG SUPER FUND A/C>	2,766,905	0.98
BLAZZED PTY LTD <GAUNT MANAGEMENT A/C>	1,911,881	0.67
AUST EXECUTOR TRUSTEES NSW LTD <TEA CUSTODIANS LIMITED>	1,801,519	0.64
AUST EXECUTOR TRUSTEES LTD <CHARITABLE FOUNDATION>	1,673,224	0.59
MICLOD HOLDINGS PTY LTD <MICLOD SUPER FUND A/C>	1,241,630	0.44
MR ANGELOS GIANNAKOPOULOS + MRS ANASTASIA GIANNAKOPOULOS	1,220,177	0.43
MRS MAREE HELEN THEILER	1,117,760	0.39
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C>	1,049,024	0.37
QUEENSLAND INVESTMENT CORPORATION	1,003,749	0.35
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,002,258	0.35
MR ANTHONY JOHN ANDREATTA + MRS HELEN MARION ANDREATTA <ANDREATTA SUPER FUND A/C>	1,000,000	0.35
	167,516,795	59.13

CORPORATE DIRECTORY

DIRECTORS

Peter Dempsey
Graeme Sumner
Brett Gallagher
Deborah Page AM
Stephe Wilks
Robert Grant

COMPANY SECRETARY

Jessica Lyons
Vicki Letcher

REGISTERED OFFICE

Level 1
355 Spencer Street
West Melbourne
Victoria, 3003
Tel: +61 3 9677 8888
Fax: +61 3 9677 8877
www.servicestream.com.au

BANKERS

Westpac Banking Corporation
Australia & New Zealand Banking Group

SHARE REGISTRY

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford, Victoria 3067
Tel: 1300 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)
Fax: +61 3 9473 2500

AUDITORS

Deloitte Touche Tohmatsu

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