servicestream

Annual Report 2011

About Service Stream

Service Stream is 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.

Annual General Meeting
The Annual General Meeting of Service Stream will be held at InterContinental Melbourne The Rialto
495 Collins Street, Melbourne
26 October 2011, 10.30am

Service Stream Limited
ABN 46 072 369 870

Telecommunications

We are a specialist in telecommunications infrastructure design, build, installation and maintenance, offering clients a wide range of services for both internal and external networks.

Utilities

We deliver flexible, low-cost meter reading, installation, connection and maintenance services for Australia's largest water, gas and electrical utility companies.

Environmental Services

We implement federal and state government renewable energy programs and install commercial and residential solar solutions for both general consumption and specialist hot water applications.

Customer Care

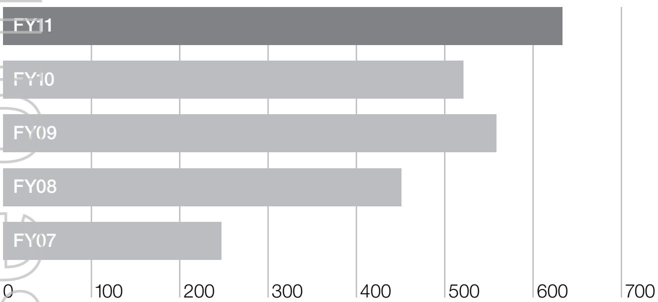
Our Customer Care division is a leading provider of outsourced Contact Centre based solutions, delivering a wide range of services from short-term campaigns through to complex multi-faceted customer interactions.

2011 Highlights

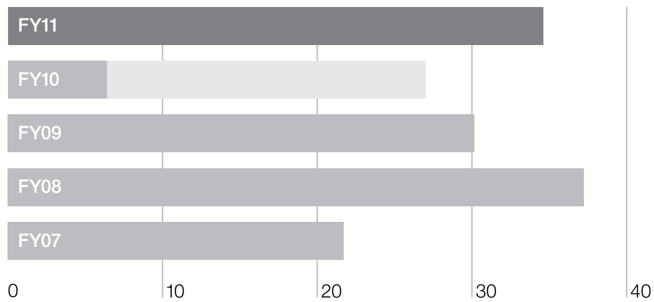
up 21.6%

up 28.1%

Revenue ($m)



EBITDA ($m)



Revenue of $633.3 million, up 21.6%

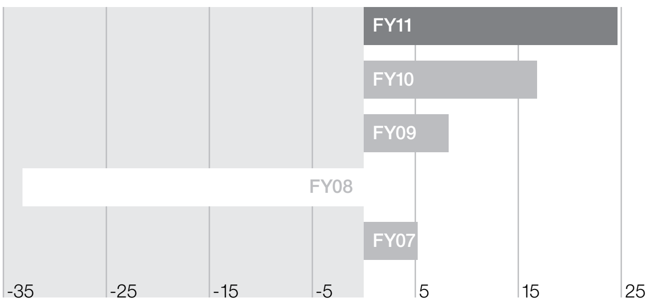
EBITDA of $34.6 million, up 28.1% on the underlying 2010 result

Strong revenue growth in AMRS with revenue up 134.1% due to new environmental programs

Increase in EBITDA margin from 5.2% (underlying June 2010) to 5.5%

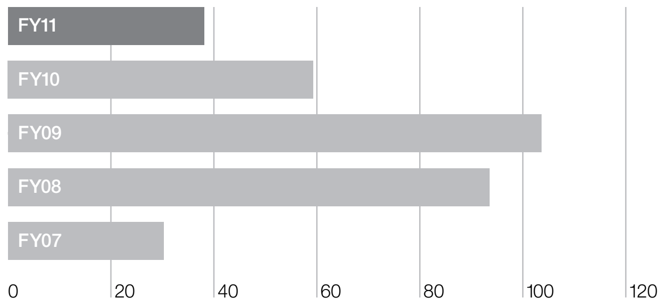
Revenues from the Telstra A&AS contract up 12.7% on the back of new Western Region patches up 46.4%

Operating Cash Flow ($m)



down 35.7%

Net Debt ($m)



Operating cash flow of $24.6 million, up 46.4%

Net debt reduced by $21.2 million, to a leverage ratio of 1.1x EBITDA

Investments in the National Broadband Network and mobile infrastructure create significant opportunities.

Government and Private Sector Outlook

Service Stream views the conditions in key telecommunication markets as the most favourable since its inception in October 2004. Government and private sector investments in the National Broadband Network (NBN) and mobile infrastructure are expected to create significant opportunities.

While the investment dimensions of the NBN have been well documented, Service Stream is also capitalising on the growth of the mobile phone market. Demand for smart phone services continues to grow at exceptional rates and this in turn is driving significant infrastructure expansion.

In the short run, the outlook for the solar industry is mixed, however Service Stream believes that the use of solar power will come into its own as the cost of panels falls and the costs of other electricity services rise. Service Stream believes that solar panels will be self-sustaining within the next two to three years, when government subsidies are due to finish.

The broader market for utility services and the case for demand side management solutions (such as smart meters) remain strong. Ageing networks will also create further opportunities for maintenance and augmentation services that Service Stream is well equipped to provide.

Chairman's Review

Dear Shareholders,

Since joining the Board in November 2010, I have been pleased with the significant progress that Service Stream has made in its operational and financial performance. The 2010/11 year by any measure has proved to be a strong turnaround from the disappointments of recent years. It is the task of the Board and management to ensure that this momentum is maintained in the coming year.

Governance and management strengthened

In addition to my appointment as Chairman, this year the Board welcomed Deborah Page to the Board to head the Audit and Risk Management Committee. Together with existing Non-Executive Directors Brett Gallagher and Stephe Wilks, Service Stream is now served by a Board with a good mix of skills and experience to meet the needs of its business activities.

Following the appointment of Graeme Sumner as Managing Director in January 2010, the Board has worked with Graeme on additional key leadership appointments in Finance, Legal, Human Resources, Customer Care and Operations over the past 12 months. This process of management renewal has been completed and the Board believes the company now has the management team in place that will ensure Service Stream delivers to its full potential.

Market outlook

The industry landscape over the past year has been dominated by the environmental debate and planning for the rollout of the National Broadband Network (NBN). Both of these developments, though not without their risks, provide a wide range of opportunities for Service Stream. Additionally, Service Stream continues to see good demand in its traditional utilities and telecommunications lines of business. Irrespective of the progress of the NBN, copper-based telecommunications services will be required for many years to come.

I would like to take the opportunity to thank the Board for their service this year and look forward to the Board and management delivering a further improved performance for shareholders in the coming year.

Peter Dempsey
Chairman

The 2010/11 year by any measure has proved to be a strong turnaround from the disappointments of recent years.

Managing Director's Report

As a result of the unprecedented level of investment earmarked for the telecommunications industry, Service Stream has great potential for further growth.

Fellow Shareholders,

Service Stream produces an improved performance

Service Stream made significant progress in the 2010/11 financial year. All of our company's key financial metrics were sharply improved. Revenue of $633.3m was up 22% on last year, net profit of $16.5m compared to a loss of $2.6m in 2009/10, and operating cash flow of $24.6m improved by 46% compared with the previous year's result. These results were testimony to the hard work of the Board, management and the entire Service Stream workforce.

Safety

While it was encouraging to see the improvement in our financial performance, it was important that we continued to deliver our services safely. It was therefore pleasing to see our Lost Time Injury Frequency Rate continue to decline during the year to just 1.2 injuries per million hours worked, from 2.0 injuries per million hours worked a year ago. Nonetheless, delivering our services with no injuries remains our goal.

Operational highlights

Service Stream made strong progress in securing and delivering new work over the past year. Highlights included:

- The signing of a two year agreement with Origin Energy for the installation of solar panels
- The significant growth in mobile infrastructure services provided to Vodafone and Telstra
- A solid year of service delivery under our Access and Associated Services contract with Telstra
- The extension of our contract with Local Government Infrastructure Services in Queensland
- The securing of a two year contract with Fujitsu for the provision of fibre for new estates as part of the National Broadband Network rollout
- The establishment of a 50/50 joint venture with Lend Lease Group called Syntheo, to bid for NBN design and construction work.
- Since the end of the financial year, Syntheo has secured a contract with NBN Co for the rollout of the passive fibre network in Western Australia.

A focus on specialist field services and telecommunications projects

Service Stream continues to remain principally a field services organisation, delivering technical services, programs and small projects to the telecommunications and utility sectors. These are enhanced by a range of customer care options. Over the past year we continued to focus on these activities and it is this focus that has yielded the improved result. In the coming year we will be adding greater capability to our organisation to cope with the demand for larger project activity, principally as a result of the NBN rollout.

Growth opportunities remain significant

As a result of the unprecedented level of investment earmarked for the telecommunications industry, Service Stream has great potential for further growth.

I would like to thank all Board members, employees and customers for their support through a year of significant development for Service Stream.

Graeme Sumner
Managing Director

Operational Report

The large amount of activity in the telecommunications sector provides a strong positive outlook for Communications. The business is uniquely positioned to assist both Telstra and NBN Co to achieve their customer and corporate objectives.

Communications

This division provides a range of fixed line network design, construction and maintenance services to the telecommunications industry. Its principal customers are Telstra, Fujitsu and NBN Co.

The Telstra Access & Associated Services (A&AS) contract that Communications is responsible for delivering remains our largest single contract. It is currently in its fifth year and runs to June 2012. The A&AS contract covers the whole of Western Australia, South Australia, the Australian Capital Territory, Tasmania and the Northern Territory, plus approximately half of Queensland, New South Wales and Victoria.

Communications provides over 60% of Telstra's outsourced services for installation, maintenance and construction of copper, fibre and broadband networks from the exchange to the customers' premises. Service Stream delivered over $250 million worth of services under the A&AS contract in the year to 30 June 2011. Our KPI performance under this contract has been good and improves each quarter. We are therefore positive about retaining this business into the future.

The Telstra payphones contracts were extended by Telstra under the existing terms. These contracts have been extended for up to a further 12 months to 30 June 2012. Under these contracts, Service Stream cleans, maintains, installs and manages Telstra's national payphones network. The Communications business is now in its fifth year of managing Telstra's payphones and during this time the KPI performance has been managed above target. We are very pleased with this level of service performance.

The Communications business has invested resources to secure work associated with NBN. Recently, Communications completed over 400 customer lead-ins for ETSA Utilities at the NBN First Release Site of Willunga, South Australia.

Communications was also successful in winning NBN Co's greenfields design and construction work through Fujitsu Australia. The greenfields work is national and includes the design and construction of all NBN Co's fibre in new estate developments throughout Australia. The project also includes the review and acceptance of the civil pit and pipe networks being deployed by estate developers in advance of the NBN.

In addition to the activity being directly undertaken by Communications, Service Stream is party to an unincorporated joint venture with Lend Lease, called 'Syntheo'. Syntheo has been actively tendering for the brownfields design and construction packages being let by NBN Co, and has recently been awarded a contract by NBN Co for the design and construction of the passive fibre network in Western Australia. Syntheo will continue to bid for additional NBN design and construction work as it becomes available.

To ensure the safe and commercially sound delivery of the division's work, Communications has invested in Prince 2 training for its project team, as well as hosted systems such as Primavera and ConSol to manage our work activities.

Resource acquisition and retention is a major focus of the Communications business. Communications management believes that this will be the major industry challenge in 2012 and beyond. To mitigate this issue, the business has invested in trainees in the field workforce and design groups. Further, in the design area we have centralised the team and brought the work in-house. This change over the past 12 months has delivered improvements in quality, project delivery and resource certainty.

The large amount of activity in the telecommunications sector provides a strong positive outlook for Communications. The business is uniquely positioned to assist both Telstra and NBN Co to achieve their customer and corporate objectives, thus providing a stable platform on which Communications will build its future.

Total Communications Infrastructure (TCI)

TCI provides turnkey and project management services for the site design, acquisition and construction of wireless telecommunications infrastructure.
TCI experienced considerable growth in 2010/11, responding to its clients' network capacity and expansion programs. These programs are driven by the continuing demand for data services delivered wirelessly through the high market penetration of smart phones and other portable wireless devices such as iPads.

These works include providing both new site and existing site upgrades to Vodafone Hutchison Australia, Telstra and Optus. Work has also been undertaken on the installation of Long Term Evolution (LTE) or 4G technology in trials by several carriers. The business anticipates continued strong activity in the wireless market supported by the existing mobile carriers, the introduction of new technology, utilities wireless network deployment and the NBN project.

TCI has also identified and commenced work in non telco related markets, which uses its technical and project management skill base. This includes commercial solar power installations, energy saving programs and renewable energy solutions.

Australian Meter Reading Services (AMRS)

AMRS is a market leader providing a range of specialised metering and environmental field services to utilities and local councils nationally.

The Metering Services division provides meter reading, meter installation, reconnection and disconnection, credit management and asset replacement services across gas, water and electricity industries. The Environmental division focuses on the provision of energy efficiency services including the installation of solar panels, in home displays and energy saving technologies.

AMRS' environmental division completed another solid year in which strong growth drove the business' continued expansion. The installation of approximately 9,800 solar panel systems throughout Victoria, South Australia, New South Wales and Queensland on behalf of Origin Energy, coupled with the expansion into new services including emergency hot water replacement, further demonstrated our national capabilities as a leader in the provision and installation of energy saving products and technologies.

This year AMRS renewed its contract with Local Government Infrastructure Services in Queensland for the continued provision of field and contact centre services as part of the Queensland Government's ClimateSmart Home Service Program. The 18 month extension to December 2012, valued at $30 million, will see the provision of an expected 150,000 in home energy audits and the installation of energy efficient products delivered throughout Queensland. AMRS was also pleased to confirm the renewal of long standing contracts for the provision of meter reading and associated services with WA Gas Networks in Western Australia, and SA Water in South Australia.

AMRS continued to provide a range of services as part of the Victorian smart meter rollout, across the United Energy, Jemena, CitiPower and Powercor networks over the past 12 months. AMRS has now installed more than 250,000 smart meters across these networks to date, and AMRS has cemented itself as a dominant player in the provision of large scale asset installation and exchange programs.

Finally it was pleasing to see the Metering Services division continuing to expand the range of services provided to the electricity industry to include the provision of low voltage aerial services. These services incorporate fault detection, LV repairs and service line replacement, provided through AMRS' ever-growing network of contractors and service partners.

Operational Report

Customer Care

Customer Care has continued to provide enhanced service options to clients in the telecommunications, financial services, government and environmental services sectors.

In the direct outsource market Customer Care secured a five year contract for the Telstra mobile phone insurance claims service, with the new product going to market in May 2011. This service is provided in partnership with CGU and is supported by our newly developed claims management technology platform. Customer Care has a dedicated team for this service which will grow over the coming months and years, building on our 16 years of expertise in this area.

Another success was the securing of a 12 month contract with NBN Co for the management of customer enquiries, an exciting acquisition for Customer Care and one we hope to renew at the end of the initial term.

Outstanding performance in the Contact Centre telesales area has resulted in plaudits from Origin Energy and AEGON Insurance, and both of these services continue into the new financial year.

Customer Care continued to manage the Do Not Call Register on behalf of the Australian Communications and Media Authority (ACMA) and secured a three year extension to this contract. We also continued to support the Digital Ready service on behalf of the Department of Broadband Communications and Digital Economy (DBCDE).

Working collaboratively with other divisions, Customer Care has been able to contribute to delivering high value solutions to clients requiring an end-to-end service. A real success story this year has been the development of the Origin Solar Customer Care model, implemented in partnership with AMRS, ensuring a significant uplift in the customer satisfaction rating. Origin Energy has grown into a strategic partner for Service Stream and we are currently working with the team to implement customer support services for additional Origin Energy projects.

Customer Care also maintains its support to the field-based teams on the Telstra A&AS contract (Communications), Smart Meter installations and ClimateSmart Home Service Program for Local Government Infrastructure Services Pty Ltd in Queensland (AMRS).

People, Health, Safety and the Environment

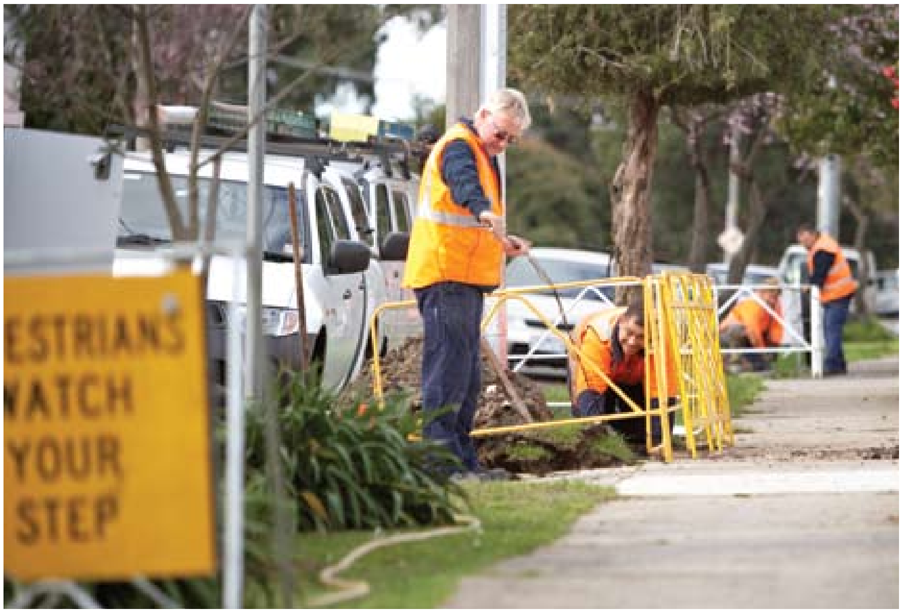
The organisation focused on streamlining the delivery of human resource and compliance services throughout the reporting period. We commenced a review of specialist roles and moved towards a state-based, multi-business service delivery model for the human resource function. The organisation will continue to progress the implementation of this model throughout the coming year.

The number of people employed or engaged by the organisation grew during the past year. Service Stream currently employs 2,068 staff and engages up to 2,483 contracting companies.

Sound industrial relations management strategies continue to be a key factor in supporting business growth and continuity. No time was lost as a result of industrial disputes throughout the period.

During the year we reviewed our remuneration strategy, revised our organisation structure and improved our short term incentive program.

Service Stream continued work on integrating our Human Resource, Safety and Environmental management systems to improve the processes that provide the information required for the effective and efficient management of the Company and the delivery of services across all businesses.



Service Stream maintained its focus on eliminating personal injury and occupational illness arising from our work activities. This was not confined to our workforce but included visitors, clients and the community. We have continued the work that delivered a significant reduction in LTIFR and have increased our focus on injury management and getting injured employees back to work sooner.

Significant improvement continued to be made in our safety and environment performance this year.

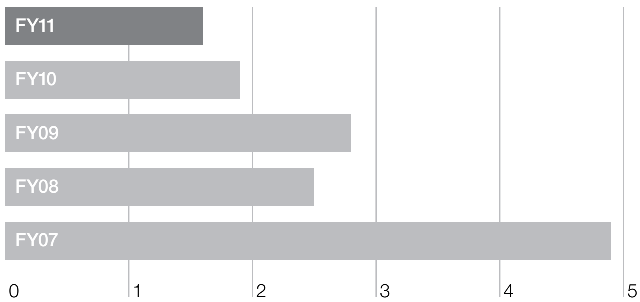
Over the past six months there has also been a strong commitment to improving our internal safety processes and platforms, making us ready for future government funded work.

Service Stream's initial 'Carbon Reduction Project' has been quite successful and will conclude shortly. However, we will continue to monitor our carbon emissions and review cost-effective alternatives that reduce the carbon footprint and environmental impact of our offices and warehouse, and reduce our energy bills.

Service Stream is committed to meeting its reporting obligations for the National Greenhouse and Energy Report calculation and reporting system. Compliance is a key component in meeting the expectations of our large clients.

Lost Time Injury Frequency Rate (LTIFR)

(per million hours worked)



Significant improvement continued to be made in our safety and environment performance this year.

Executive Team

Rod Stanton

BEng (Civil) (Syd)

Executive General Manager – TCI

Rod commenced with TCI in September 1998 and held the role of National Project Manager prior to being appointed Operations Director in 2002 and then CEO when TCI listed as a public company in 2004. Rod then joined Service Stream as an Executive Director when TCI merged with the Company in December 2006. Rod maintains responsibility for the performance of TCI as Executive General Manager and continues to apply his extensive commercial expertise in the telecommunications industry sectors within the business.

Prior to joining TCI, Rod spent 12 years with Lend Lease in their construction division.

Stephen Ellich

BEng (Elec) (UTS), Grad. Dip. Admin. (UTS), MBA (UTS), GAICD

Executive General Manager – Communications

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

Stephen is in his seventh 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 Communications division.

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.

Leigh Mackender

Executive General Manager – AMRS

Leigh joined Service Stream when it acquired AMRS in February 2008, and was recently appointed to the role of Executive General Manager in March 2011.

Leigh is responsible for overseeing the AMRS business' national operations, including the environmental and metering service divisions. Leigh has over 10 years of experience working within the utilities industry including contract management, financial analysis, commercial negotiations and field operations across the gas, water and electricity sectors.

Leigh is currently completing his Masters of Business Administration.

Juliet Fake

Executive General Manager – Customer Care

Juliet joined Service Stream in June 2010 as General Manager for 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 for Customer Care in July 2011.

Chad Orr
Dip. Bus. (Lakewood)

Executive General Manager – Strategy and Growth

Chad brings over 14 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 five 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.

Murray Outram
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 resource 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 has held significant HR roles in BHP, Linfox Australia Pty Ltd and most recently LCM Health Care, which operates the Calvary Group.

Paul Le Feuvre
BSc (Hons) (Staffordshire)

Chief Technology Officer

Paul has been Service Stream's Chief Technology Officer since October 2009. Paul has over 30 years experience across all aspects of information technology.

Paul's career includes over 20 years IT consulting in project management, managed services, quality assurance, strategy and architecture, as well as experience in sales and training.

Before joining Service Stream, his career in Australia has embraced a wide variety of lead roles and industries, including project management of a safety-critical development in the transport industry, business development for an international IT services company, and management of a major Victorian utility company's IT department.

Jessica Lyons
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.

Board of Directors

Peter Dempsey
BTech (Civil Eng.) (Adel), Grad. Dip. (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 development and construction experience and has been involved in the property industry 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 and in property development activities, with operations in all Australian mainland states, Papua New Guinea, Indonesia and Vietnam.

Peter is Chairman 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 related organisations.

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

Graeme Sumner
BCom (Auckland), MBA (Massey), MAICD

Managing Director since January 2010

Graeme comes to Service Stream with 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 five years. Most recently Graeme served as the Chief Executive of Transfield Services New Zealand and Chairman of Transfield Worley NZ and INSER Transfield Services S.A.

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

Brett Gallagher
FAICD

Non-Executive Director since April 2010

Brett has over 20 years experience across the utility and facilities management industries, and was Managing Director and a major shareholder of 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. He also led the negotiations and ultimate integration of AMRS into Service Stream, where it has continued to grow strongly in difficult economic times.

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

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

Deborah Page AM
BEc (Syd), FCA, MAICD

Non-Executive Director since September 2010

Deborah, 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 ASX Listed Investa Office Fund; and a Non-Executive Director of The Colonial Mutual Life Assurance Society Limited, Commonwealth Insurance Limited and Macquarie Generation.

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

Stephe Wilks
BSc (Macq), LLM (Syd)

Non-Executive Director since September 2005 and Chairman from April 2010 to October 2010

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 Safety and Environment Committee, and the Remuneration and Nomination Committee.

Stephe is currently 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

Bob 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 Mr Sumner 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 three years.

Corporate Governance Statement

This corporate governance statement ("Statement") summarises the main corporate governance practices of Service Stream Limited ("the Company") and its controlled entities ("the Group"). All practices, unless otherwise stated, have been in place for the 2010/11 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 ASX Principles") in accordance with rule 4.10.3 of the ASX Listing Rules.

The Board actively reviews Australian and international developments in corporate governance and considers the views of shareholders, regulators (such as ASIC and the ASX), and other stakeholders prior to the adoption of any new arrangements. The Board has adopted practices that it believes will maximise long-term shareholder value given the Company's specific circumstances.

Principle 1 – Lay solid foundations for management and oversight

The Board has adopted a Board Charter which sets out the Board's role, responsibilities, structure and processes and the manner in which its performance, and that of the Directors and committees, will be evaluated. 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 its performance. As part of this function, the Board monitors financial performance, legal compliance, risk management and ethical standards.

Responsibility for the Group's day-to-day operations and administration is delegated by the Board to the Managing Director. The Managing Director is required to consult with the Board on matters that have, or may have, a material impact on the Group in terms of value, reputational risk and/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 who meet 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.

Board meeting agendas are proposed by the Managing Director and Chief Financial Officer and approved by the Chairman of the Board. Standing items include safety, financial performance, operational and legal issues. Comprehensive Board papers are provided to the Directors in advance of all meetings. These papers are compiled from reports submitted by the Senior Executive Team, who may, from time to time, attend Board meetings to report directly to the Board on an as-required basis.

The Board and Senior Executive Team monitor the financial performance of the Group using monthly management financial 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 areas needing attention are identified and addressed.

Performance and accountability of the Senior Executive Team

Upon appointment, the Managing Director and each member of the Senior Executive Team sign a letter of engagement and are provided with an induction manual containing key Group information and 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 Chairman on an annual basis against the Managing Director's key performance indicators and other performance criteria specified by the Board from time to time.

The Managing Director formally assesses the performance of each Senior Executive Team member annually against the executive's key performance indicators and other criteria. The Senior Executive Team 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 budget 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.

For personal use only

Principle 2 – Structure the Board to add value

The Board is composed of a Non-Executive Chairman, three Non-Executive Directors and the Managing Director. During the year the Company engaged in a process of Board renewal, including a review of the mix and skills required of its Directors, and as a consequence there were various changes to the composition of the Board. In addition, between 8 October 2010 and 1 November 2010, the Company did not have a majority of Independent Directors. On 23 December 2010, the Board announced that it had approved the appointment of an Alternate Director (Robert Grant, Chief Financial Officer) 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 brings 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 19 to 32.

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 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 judgment.

To the extent that any Directors identified as being independent in this Statement have 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 are immaterial as determined by this standard.

The Board has a policy of separating the role of Chairman and Managing Director. The Chairman is independent and his role and responsibilities are independent from those of the Managing Director.

Under current practice, there is a minimum of 11 scheduled Board meetings per year, with other 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 Audit and Risk Management Committee and the Remuneration and Nomination Committee have their own Charter approved by the Board. The Board is in the process of reviewing the Charter for the Safety and Environment Committee.

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.

The Remuneration and Nomination Committee has three members who are all independent Directors. The Committee is also chaired by an independent Director.

Appointment of Directors

While the Board does not have a formal procedure in place in relation to the selection, appointment and re-appointment of Board members, Directors actively and regularly consider 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.

When nominating and appointing Directors, the Board seeks a balanced mix of qualifications, age, skill, gender and experience in order to achieve the most favourable outcome for the Company and its shareholders. The Board has appointed three new Directors in the past year, giving careful consideration to these matters in the context of the Company's requirements.

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 Company's policy is to allow Directors to 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.

During the year, the Board assessed its performance and that of its Committees and individual members, to ensure its effectiveness in meeting shareholder expectations. The Board is also reviewing its process for such performance evaluations to use in future appraisals.

Corporate Governance Statement

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, using honest and fair business practices of the highest standard. All Directors, employees and sub-contractors 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 Directors 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.

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 Whistleblower Protection Programs for Entities.

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, corporate opportunities, confidentiality, fair dealing, complaints handling, the 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 and the Company's Board Charter, Directors must keep the Board advised, on an ongoing 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 is not present at meetings 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 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 Company's Securities Trading Policy.

In accordance with the provisions of the Corporations Act 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.

Diversity

The Group is comprised of men and women of varying ages, ethnicities and cultural backgrounds. The Board has established a Diversity Committee which includes the Company Secretary and is sponsored by the Managing Director. The Committee is currently formalising a policy on diversity which includes measurable objectives for achieving gender diversity at all levels within the Group. These objectives will be assessed annually by the Board to assess progress in achieving them. The Company's diversity policy will be available on the Company's website and the Company will report to shareholders annually on its performance and progress in relation to diversity.

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

As at 31 March 2011, women constituted 25% of the Group's employees, 20% of the Board and 17% of the Senior Executive Team.

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 Company.

The Board has adopted a Charter for the Committee which sets out its role and responsibilities in relation to reviewing the integrity of the Company's financial reporting and overseeing the independence of the Company's external auditors. Among other things, the Committee reviews audit scopes, assesses the performance of and fees paid to the external auditors, liaises with the external auditors 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 company of its size and composition.

The external auditors, Deloitte Touche Tohmatsu, were appointed as auditors for the Company in November 2006. Prior to this, they had been auditors for Service Stream Holdings Pty Ltd since 1 July 1992. Deloitte changes the lead audit engagement partner for the Company 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 Company's financial reports present a true and fair view, in all material respects, of the Company'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 pages 19 to 32.

Principle 5 – Make timely and balanced disclosure

The Board has delegated to the Company Secretary day-to-day responsibility for monitoring compliance with the ASX Listing Rules and communications with the ASX.

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 and ASX Listing Rules. All information disclosed to the ASX is posted on the Company's website following confirmation from the ASX that the information has been disclosed to the market.

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 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 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; and
- 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.

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 engagement partner of the firm of external auditors (or other representative from that firm) 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 34 and 35).

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 Company'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 participate in, ask questions about and comment on the performance and operations of the Company and its subsidiaries; and
- responding to communications from shareholders in a timely and responsive manner.

Corporate Governance Statement

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. That 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 Group's assets, minimise its liabilities and ensure the integrity of its reporting.

The Company is currently in the process of implementing a management reporting program to assist with reporting on the adequacy and effectiveness of its internal risk management and controls environment.

The Company has put in place appropriate internal controls in relation to accounting, financial reporting, delegations of authority, payment systems, segregation of duties, contract review, ISO auditing, safety and health, 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 of the Group 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 effective management of risk.

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 2001* is founded on a sound system of 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 26 to 32 of this annual financial report) sets out information relating to the Committee and its meetings, and the remuneration of Directors and the Senior Executive Team.

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

Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Service Stream Limited and the entities it controlled at the end of, or during, the year ended 30 June 2011. 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 Company during or since the end of the financial year are:

Name	Particulars
Peter Dempsey BTech (Civil Eng.) (Adel), Grad. Dip. (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 development and construction experience and has been involved in the property industry 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 and in property development activities, with operations in all Australian mainland states, Papua New Guinea, Indonesia and Vietnam. Peter is Chairman 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 related organisations. Peter has no other listed company directorships and has held no other listed company directorships in the last three years.
Graeme Sumner BCom (Auckland), MBA (Massey), MAICD Managing Director	*Term of Office: Managing Director since January 2010* Graeme Sumner comes to Service Stream with 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 five years. Most recently Graeme served as the Chief Executive of Transfield Services New Zealand and Chairman of Transfield Worley NZ and INSER Transfield Services S.A. Graeme has no other listed company directorships and has held no other listed company directorships in the last three 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 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. He also led the negotiations and ultimate integration of AMRS into Service Stream, where it has continued to grow strongly in difficult economic times. Brett is Chairman of the Safety and Environment Committee and is a member of the Audit and Risk Management Committee. Brett has no other listed company directorships, and has held no other listed company directorships in the last three years.

Directors' Report

Name	Particulars
Deborah Page AM BEc (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 ASX Listed Investa Office Fund; and a Non-Executive Director of The Colonial Mutual Life Assurance Society Limited, Commonwealth Insurance Limited and Macquarie Generation. Deborah has held no other listed company directorships in the last three years.
Stephe Wilks BSc (Macq), LLM (Syd) Non-Executive Director	*Term of Office: Non-Executive Director since September 2005* *Chairman from April 2010 to October 2010* 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 Safety and Environment Committee and the Remuneration and Nomination Committee. Stephe is currently 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. Stephe has no other listed company directorships and has held no other listed company directorships in the last three years.
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* 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 Mr Sumner 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 three years.
Russell Small DBus (Valuations) Non-Executive Director	*Term of Office: Non-Executive Director since December 2006, resigned in October 2010* Russell Small was a co-founding Director who brought extensive telecommunications industry knowledge to the Company, with over 20 years experience in the areas of business ownership, general management, operations management, and sales and account management with Fujitsu, Honeywell, Skilled Communications Services Pty Ltd and Communication Services Australia Pty Ltd. Russell was Chairman of the Audit and Risk Management Committee and was a member of the Remuneration and Nomination, and Safety and Environment Committees. Russell was also Chairman of the Investment and Strategy Committee while it was operational. Russell had no other listed company directorships and held no other listed company directorships in the last three years.

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		
Directors	Fully paid ordinary shares Number	Share options Number	Performance rights Number
P Dempsey	200,000	–	–
D Page AM	27,400	–	–
B Gallagher	8,792,113	–	–
G Sumner	350,000	–	–
R Grant (Alternate Director to G Sumner)	144,166	–	626,959

The issuance of 626,959 performance rights to Mr Grant is subject to approval by the shareholders at the 2011 Annual General Meeting. Refer page 31 for further details.

Remuneration of Directors and senior management

Information about the remuneration of Directors and senior management is set out in the remuneration report of this Directors' report, on pages 26 to 32.

Performance rights granted to Directors and senior management

During and since the end of the financial year, an aggregate of 1,587,571 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
R Grant[1]	626,959	Service Stream Limited	626,959
R Stanton	322,571	Service Stream Limited	322,571
S Ellich	299,765	Service Stream Limited	299,765
C Orr	256,270	Service Stream Limited	256,270
L Mackender	82,006	Service Stream Limited	82,006

1 R Grant is an Alternate Director for G Sumner.

Company Secretary

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

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

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

Principal activities

Service Stream continues to service all aspects of the telecommunications industry, providing specialist end-to-end services including fixed line and wireless infrastructure design, maintenance, deployment and management, contact centre activities and logistics. The Group has added capabilities in the utilities sector in the reading, maintaining, installing and exchanging of meters in the water, gas and electricity sectors and recently extended its capabilities through the installation of solar energy and hot water systems.

Directors' Report

Review of operations

Revenue for the Group for the 30 June 2011 financial year was $633.3 million, up $112.5 million or 21.6% against the prior corresponding period. The lift in revenue was primarily the result of strong growth in the Specialist Field Services segment, driven by:

- The full year effect of new lines of business within the environmental sector;
- Expanded regions and continued strong maintenance demand which underpinned strong revenue growth in the Telstra Access and Associated Services (A&AS) contract; and
- Continued strong demand for increased mobile telephony capacity.

The Group reported EBITDA of $34.6 million, up $28.2 million on the reported result for the previous corresponding period.

Strong underlying performance by the business and a continued focus on working capital management has resulted in cash flows from operating activities increasing year on year by 46.4% to $24.6 million.

Specialist Field Services

The Specialist Field Services segment continued its strong first half performance and delivered an EBITDA contribution of $39.6 million on operating revenue of $580.7 million. The EBITDA margin of 6.8% was a significant improvement on the 1.0% recorded in 2010 when a one time charge relating to an infrastructure project significantly impacted the earnings of the segment.

AMRS provided the greatest contribution to the lift in revenue within the segment, with revenue increasing by $98.0 million or 134.1% to $171.1 million. This increase was due to new environmental programs with Origin Energy and Local Government Infrastructure Services (LGIS). During the year AMRS signed a number of significant contracts:

- A new two-year contract with Origin Energy, Australia's largest electricity and gas retailer, for the installation of solar panel systems to its customers. AMRS completed nearly 10,000 residential solar installations for the year, compared to the 500 installations completed in 2010;
- An 18-month extension to its contract with LGIS to continue providing environmental services as part of the Queensland Government's ClimateSmart Home Services program. Under this extension, worth up to $30 million in contract revenue, AMRS will provide an anticipated 150,000 in-home services, including infield energy and water assessments and the provision of energy efficient products. To date AMRS has performed over 50,000 in-home services across Queensland;
- A four-year meter reading contract with ATCO Gas Australia (formerly WA Gas Networks), a two-year extension with Sydney Water for water meter replacement services and a two-year extension with SA Water for the provision of meter reading services worth a total of $14.5 million. Over the course of the 2011 financial year, AMRS completed over 31 million meter reads for electricity, gas and water utilities across Australia; and
- Extensions to contracts for the installation of smart meters and associated services across the Jemena, United Energy and CitiPower/Powercor distribution networks as part of the Victorian Government's Advanced Metering Infrastructure (AMI) rollout to be completed by June 2013. In FY11, AMRS installed over 160,000 smart meters across Victoria.

The Communications business delivered revenue of $291.2 million, up $18.9 million or 7.0% on 2010. Increased volumes were achieved under the A&AS contract through contributions from new geographic patches in Western Australia and South Australia and solid demand for installation and maintenance services across most regions. In addition, the Communications business achieved two significant milestones during the year in relation to the National Broadband Network rollout:

- First, it signed a contract with Fujitsu Australia to provide network provisioning and fibre deployment services to new estates as part of Fujitsu's partnership with NBN Co. The contract is for 12 months with an option to extend for a second year and has an estimated value of $35 million p.a.
- Secondly, ETSA Utilities awarded Service Stream the contract to perform the lead-ins to the first release site that it was constructing for NBN Co at Willunga in South Australia. The work was successfully completed in June this year.

The TCI business (including Infrastructure Services) delivered revenue of $118.5 million, an increase of $17.0 million or 16.8% from last year. The business has seen continued strong demand for mobile telephony infrastructure as carriers continue to improve network capability and capacity in the wake of strong market growth for comparatively data-hungry smart phones. During the year, the business undertook a range of network enhancement programs for Vodafone and Telstra and completed 412 new sites and 888 site upgrades. The General Purpose Group (GPG) business was closed during the year, continuing the Group's strategy of exiting under-performing infrastructure activities.

The overall EBITDA contribution of the Specialist Field Services segment of $39.6 million was up $35.2 million on last year, reflecting a period of significantly improved performance across the segment.

Customer Care

The Customer Care segment achieved an EBITDA contribution of $2.5 million on revenue of $59.6 million. Revenue was down 25.4%, largely due to the loss of the Vodafone contract part way through the previous year following the relocation of its call centre operations. EBITDA fell 71.8%, largely as a result of reduced margins in the mobile handset insurance business and the one-time profit from the sale of the MRTM platform of $3.4 million that was recorded in the prior year's results. Pleasingly, however, during the year the Customer Care segment has reinforced the value of its role in scheduling many of the activities of the Group's Specialist Field Services programs of work, and has won and commenced a number of key contracts which will bolster the growth prospects of this segment going forward, namely:

- Origin Energy – contract to provide the end-to-end customer interface for its solar panel program, including sales, scheduling and post-installation contact. Service Stream's ability to offer this range of customer care is unique within the residential solar industry and provides Service Stream with a key point of differentiation;
- NBN Co – contract to operate the public contact centre and manage all inbound call enquiries about the NBN rollout, including how the technology operates and what it will mean for homes and businesses right across the country; and
- CGU – contract to provide call centre services for Telstra's new mobile "Premium Care" offering, which provides Telstra customers with an insurance program via CGU for their mobile handset.

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 licences.

Dividends

No dividends have been paid during the year. No dividends are payable in respect of the financial year ended 30 June 2011.

Directors' Report

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 15	Ordinary	$1.0761	31 October 2011	500,000
Service Stream Limited	Series 16	Ordinary	$1.6311	31 October 2011	730,000
Service Stream Limited	Series 17	Ordinary	$0.9611	1 March 2012	40,000
Service Stream Limited	Series 18	Ordinary	$1.7111	1 March 2013	40,000
					1,310,000

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 option
Service Stream Limited	FY11 Tranche	Ordinary	$0.0000	30 June 2013	2,864,212
					2,864,212

The holders of these rights do not have the right, by virtue of the 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. The above balance includes 626,959 performance rights issued to Mr Grant (Alternate Director for Mr Sumner), which are subject to approval by shareholders.

Indemnification of officers and auditors

During the financial year, the Company 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 Company 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 Company 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). During the financial year, thirteen Board meetings, four Audit and Risk Management Committee meetings, three Remuneration and Nomination Committee meetings and two Safety and Environment Committee meetings were held.

	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	8	7	3	3	2	2	–	–
D Page AM	11	11	3	3	2	2	–	–
R Small	3	3	1	1	1	1	–	–
S Wilks	13	13	4	4	3	3	2	2
B Gallagher	13	12	4	4	–	–	2	2
G Sumner	13	12	–	–	–	–	–	–
R Grant[1]	–	–	–	–	–	–	–	–

1 Mr Grant is an Alternate Director for Mr Sumner.

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 32 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 32 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 33 of the annual financial report.

Rounding off of amounts

The Company is a company 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 Directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Directors' Report

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 senior management for the financial year ended 30 June 2011. The prescribed details of each person covered by this report are detailed below under the following headings:

- Director and senior management details;
- Remuneration policy;
- Relationship between remuneration policy and Company performance;
- Remuneration of Directors and senior management;
- Key terms of employment contracts; and
- Share-based payments granted as compensation.

Director and senior management details

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

Mr P Dempsey (Chairman – appointed 1 November 2010)
Mr S Wilks (Non-Executive Director; resigned as Chairman 1 November 2010)
Mr G Sumner (Managing Director)
Mr R Small (Non-Executive Director – resigned 7 October 2010)
Mr B Gallagher (Non-Executive Director)
Mrs D Page AM (Non-Executive Director – appointed 21 September 2010)
Mr R Grant (Alternate Director, Chief Financial Officer – appointed as Alternate Director 23 December 2010)

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:

Mr R Stanton (Executive General Manager – TCI)
Mr S Ellich (Executive General Manager – Service Stream Communications)
Mr R Blinko (Executive General Manager – Customer Care – resigned from position 30 June 2011)
Ms J Fake (Executive General Manager – Customer Care – appointed 1 July 2011)
Mr A Haynes (Executive General Manager – AMRS – resigned 18 March 2011)
Mr L Mackender (Executive General Manager – AMRS – appointed 21 March 2011)

The term 'senior management' is used in this remuneration report to refer to the key management personnel and other executives.

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 Company.

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

Service Stream Limited'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.

1. Fixed remuneration

Service Stream's principal remuneration strategy is to align fixed remuneration with the medians of comparable industry positions. Fixed remuneration will be 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 on 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 will be determined by market data, which the job evaluation has determined the role to fit within. From time to time, where a need arises, other more specific market data may be used for certain positions. Service Stream does not incorporate cost of living differentials into its remuneration policy.

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/or require significantly above average performance. STIP performance goals are also tied directly to the annual objectives of Service Stream, 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 Company:

1. Group earnings before interest, tax, deprecation and amortisation;
2. Divisional earnings before interest, tax, deprecation and amortisation; 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 Long Term Incentive Plan ("LTIP"). The LTIP operates within the Service Stream 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 for approval.

In accordance with the provision of the ESOP, 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 2011 ("FY11 Tranche"). Each performance right converts into one ordinary share of Service Stream Limited on vesting. No amounts are paid or payable by the recipient on receipt of the performance right. 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:
  - Service Stream's earning 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 in the year ending 30 June 2011 have a three year performance period to 30 June 2013 and a base EPS of 3.85 cents per share;
  - Service Stream'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 31 for details of options in existence for the year ended 30 June 2011. No options were granted or vested under the EOP during the financial year.

Directors' Report

Remuneration report continued

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. Service Stream encourages recognition and reward for such behaviours, and may choose to recognise high performance via a discretionary bonus.

Relationship between remuneration policy and Company performance

Each element of the remuneration framework is linked to the Group's financial performance. Changes to fixed remuneration is 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 and benefits for shareholder wealth, the Remuneration and Nomination Committee have regard to a number of indices, including the following:

	30 June 2011 $'000	30 June 2010 $'000	30 June 2009 $'000	30 June 2008 $'000	30 June 2007 $'000
Revenue	633,290	520,781	558,216	450,587	247,108
Net profit/(loss) before tax	22,631	(7,315)	15,300	25,947	16,598
Net profit/(loss) after tax	16,452	(2,555)	11,118	18,095	11,235
Share price at end of year[3,5]	0.49	0.23	0.41	1.00	1.88
Interim dividend[1]	–	–	3.50cps	3.50cps	3.00cps
Final dividend[1,2]	–	–	–	4.00cps	4.50cps
Basic earnings per share[3,4]	5.80 cps	-0.99cps	5.93cps	10.51cps	10.20cps
Diluted earnings per share[3,4]	5.80 cps	-0.99cps	5.93cps	9.97cps	9.16cps

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 On 20 December 2006, the merger between Service Stream Limited and Service Stream Holdings Limited became effective. The transaction has been accounted for as a reverse acquisition using the guidelines set out in AASB 3 'Business Combinations'. In accordance with this standard the comparative period earnings per share and share price have been recalculated using the number of ordinary shares issued by Service Stream Limited to the owners of Service Stream Holdings Limited.
4 Earnings per share for prior years has been restated to reflect the October 2009 rights issue.
5 Share price as at 1 July 2006 was $0.925.

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

Remuneration of Directors and senior management

	Short-term employee benefits				Post-employment benefits	Other long-term employee benefits	Share-based payment	Termination benefits	Total
2011	Salary & fees $	Short term incentives[6] $	Other bonuses[7] $	Non-monetary $	Superannuation $	Long service leave $	Performance rights $	$	$
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
Executive officers									
G Sumner	630,116	446,976	800,000	61,970	63,760	468	–	–	2,003,290
R Grant[9]	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
M Doery[2,5]	366,232	–	–	6,821	8,806	–	–	189,370	571,229
C Orr[5]	283,230	190,964	–	26,585	27,000	8,068	62,786	–	598,633
M Stackpool[5]	309,895	96,653	–	–	28,068	6,374	–	–	440,990

1 Appointed as Director/senior manager during the year.
2 Resigned from position of Director/senior manager during the year.
3 Resigned from position of Director/senior manager at 30 June 2011, however still remains employed by Service Stream.
4 Mr Wilks' remuneration is paid to High Expectations Pty Ltd, a company in which Mr Wilks has a beneficial interest.
5 These executives do not qualify as key management personnel but are included in the above table as they are among the five relevant Group executives with the highest remuneration for the year.
6 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.
7 For the current financial year, the other bonus applicable to Mr Sumner relates to an entitlement that is described as a long term incentive in his employment contract, but which in effect is payable in full within six months of measurement. Refer page 31 for further details.
8 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.
9 Since Mr Grant is an Alternate Director, his performance rights are subject to shareholder approval at the next Annual General Meeting.

Directors' Report

Remuneration report continued

	Short-term employee benefits				Post-employment benefits	Other long-term employee benefits	Share-based payment	Termination benefits	Total
2010	Salary & fees $	Short term incentives $	Other bonuses $	Non-monetary $	Superannuation $	Long service leave $	Performance rights $	$	$
Non-Executive Directors									
S Wilks[3]	130,333	–	–	–	11,730	–	–	–	142,063
R Small	153,333	–	–	–	13,800	–	–	–	167,133
B Gallagher[1]	16,771	–	–	–	1,509	–	–	–	18,280
J L Davies[2]	203,646	–	–	–	18,328	–	–	–	221,974
A Field[2]	55,583	–	–	–	5,002	–	–	–	60,585
Executive officers									
G Sumner[1]	351,267	158,844	–	7,252	12,401	176	–	–	529,940
R Grant[1]	32,128	–	–	–	1,205	20	–	–	33,353
R Stanton	363,636	80,000	–	40,007	36,364	11,455	–	–	531,462
S Ellich	339,705	288,000	–	5,954	14,462	10,016	–	–	658,137
R Blinko[1]	73,957	–	–	–	2,966	34	–	–	76,957
A Haynes[1]	81,519	106,350	–	–	7,231	3,277	–	–	198,377
M Doery[7]	370,731	–	–	12,188	8,436	13,606	–	–	404,961
P J Flannigan[2,5]	85,611	–	–	6,322	1,205	31,119	–	685,208	809,465
C Boutas[4]	285,538	150,000	–	–	14,462	9,335	–	–	459,335
J Gramc[2]	293,002	–	–	17,527	17,607	6,805	–	–	334,941
J Ryan[2,6]	195,846	–	–	14,211	10,847	6,823	–	–	227,727

1 Appointed as Director/senior manager during the year.
2 Resigned from position of Director/senior manager during the year.
3 Mr Wilks' remuneration is paid to High Expectations Pty Ltd, a company in which Mr Wilks has a beneficial interest.
4 This executive does not qualify as key management personnel but is included in the above table as he is among the five relevant Group executives with the highest remuneration for the year.
5 The termination benefits relate to payment in lieu of notice period.
6 This executive did not receive a termination payment as he acted as an employee/consultant after ceasing to be a member of senior management.
7 This executive resigned from his key management personnel position during the year, however remained as an employee of the Company.

No Director or senior management person 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 the senior managers listed in the remuneration table provide for the following key specific performance related elements:

- Base remuneration including 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;
- Eligibility to be invited to participate in the LTIP.

Graeme Sumner

Mr Sumner's contract is for three years commencing 4 January 2010. Either the Company or Mr Sumner 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.

Mr Sumner's employment contract provides for the payment of a bonus of up to $800,000 in respect of the year ending 30 June 2011 dependant upon achievement by the Company of two performance criteria:

- Service Stream's earnings per share ("EPS") for the year ending 30 June 2011 achieves growth of 10% or more (full achievement) or 7.5% (pro-rata achievement) from a base of 3.85 cents per share;
- Service Stream's total shareholder return ("TSR") in respect of the year ending 30 June 2011 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.

This bonus is payable 50% within one month of measurement, with the balance payable within six months of measurement. At least 25% of the post-tax amount paid to Mr Sumner under the arrangement must be used to purchase shares in the Company.

Mr Sumner's employment contract stipulates that he will subsequently participate in the LTIP commencing in the year ending 30 June 2012.

Robert Grant

The issuance of performance rights under the FY11 Tranche of the LTIP to Mr Grant requires approval by shareholders due to Mr Grant's status as an Alternate Director, failing which the amount payable will revert to a cash-equivalent upon vesting. This remuneration report has been prepared on the basis that the shareholders will approve the issuance of performance rights at the 2011 Annual General Meeting.

Rod Stanton

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

Share-based payments granted as compensation

Executive Option Plan

In previous years, Service Stream Limited operated an option-based scheme for executives and senior employees of the Group.

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

Option series	Grant date	Expiry date	Grant date fair value	Vesting date
Series 12	4/01/2007	1/01/2011	0.2833	Vested 30 September 2007
Series 13	4/01/2007	1/01/2011	0.2355	Vested 30 September 2008
Series 14	4/01/2007	1/01/2011	0.1815	Vested 30 September 2009
Series 15	4/01/2007	31/10/2011	0.0767	Vested 4 January 2007
Series 16	4/01/2007	31/10/2011	0.1006	Vested 4 January 2007
Series 17	23/10/2007	1/03/2012	0.0823	Vested 23 October 2007
Series 18	23/10/2007	1/03/2013	0.1423	Vested 23 October 2007

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

Directors’ Report

Remuneration report continued

Long Term Incentive Plan (“LTIP”)

Service Stream Limited operates an 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	Grant date[1]	Grant date fair value	Vesting date
FY11 Tranche	18 February 2011	Relative TSR hurdle – \$0.72 EPS hurdle – \$0.75	30 June 2013

1 The performance period for the FY11 tranche of LTIP performance rights commenced 1 July 2010. At least one employee had a grant date different to the grant date above.

The following table outlines the performance rights issued under the LTIP to Directors and senior management 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
R Grant[1]	FY11 Tranche	626,959	–	–	–	19.4%
R Stanton	FY11 Tranche	322,571	–	–	–	11.0%
S Ellich	FY11 Tranche	299,765	–	–	–	12.1%
L Mackender[2]	FY11 Tranche	82,006	–	–	–	6.2%
C Orr	FY11 Tranche	256,270	–	–	–	10.5%

1 R Grant is an Alternate Director for G Sumner.
2 L Mackender was appointed to Executive General Manager during the year.

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, 24 August 2011

G Sumner
Managing Director
Melbourne, 24 August 2011

Auditor's Independence Declaration

Deloitte.

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

24 August 2011

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 2011, 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

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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 2011, 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 36 to 82.

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 2.1, 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.

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 2011 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 2.1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 32 of the directors' report for the year ended 30 June 2011. 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 2011, 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, 24 August 2011

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 2 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 26 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, 24 August 2011

G Sumner
Managing Director
Melbourne, 24 August 2011

Financial Statements

for the financial year ended 30 June 2011

Consolidated Statement of Comprehensive Income

for the financial year ended 30 June 2011

	Note	2011 $'000	2010 $'000
Continuing Operations			
Revenue	5	633,786	517,746
Other income	6	(496)	3,035
		633,290	520,781
Share of profits/(losses) of investment in associate	11	(16)	(11)
Company administration and insurance expenses		(10,547)	(11,977)
Consulting and temporary staff fees		(10,124)	(6,731)
Employee salaries and benefits		(133,076)	(123,025)
Motor vehicles expenses		(7,189)	(6,913)
Occupancy expenses		(8,480)	(8,129)
Raw materials and consumables used		(113,893)	(53,240)
Site and construction costs		(42,282)	(40,105)
Subcontractor fees		(258,683)	(231,478)
Technology and communication services		(7,535)	(5,398)
Finance costs	7	(6,482)	(7,198)
Depreciation and amortisation	8.1	(6,436)	(7,339)
Write down in respect to McCourt Dando GCDA claim	8.4	–	(14,814)
Other expenses		(5,916)	(11,738)
Profit/(Loss) before tax		**22,631**	**(7,315)**
Income tax benefit/(expense)	9	(6,179)	4,760
Profit/(Loss) for the year		**16,452**	**(2,555)**
Other comprehensive income			
Exchange differences on translating foreign investment		(249)	247
Total comprehensive income for the year		**16,203**	**(2,308)**
Profit/(Loss) attributable to the equity holders of the parent		**16,452**	**(2,555)**
Total comprehensive income attributable to equity holders of the parent		**16,203**	**(2,308)**
Earnings per share			
Basic (cents per share)	22	5.80	(0.99)
Diluted (cents per share)	22	5.80	(0.99)

Notes to the Financial Statements are included on pages 42 to 82.

Consolidated Statement of Financial Position

as at 30 June 2011

	Note	2011 $'000	2010 $'000
Assets			
Current assets			
Cash and cash equivalents	27.1	9,171	–
Trade and other receivables	10	105,428	72,003
Inventories		14,309	14,936
Other	14	43,804	50,817
Total current assets		172,712	137,756
Non-current assets			
Investments accounted for using the equity method	11	1,180	1,445
Plant and equipment	12	9,124	13,193
Deferred tax assets	9	7,589	5,121
Intangible assets	13	211,377	207,612
Total non-current assets		229,270	227,371
Total assets		**401,982**	**365,127**
Liabilities			
Current liabilities			
Trade and other payables	16	79,456	58,973
Borrowings	17	5,165	4,917
Current tax liabilities	9	6,374	611
Provisions	18	12,524	8,308
Total current liabilities		**103,519**	**72,809**
Non-current liabilities			
Borrowings	17	42,139	54,422
Provisions	18	2,191	1,978
Total non-current liabilities		44,330	56,400
Total liabilities		147,849	129,209
Net assets		**254,133**	**235,918**
Equity			
Capital and reserves			
Issued capital	19	228,416	227,106
Reserves	20	1,720	1,267
Retained earnings	21	23,997	7,545
Total equity		**254,133**	**235,918**

Notes to the Financial Statements are included on pages 42 to 82.

Consolidated Statement of Changes in Equity

for the financial year ended 30 June 2011

	Note	Share capital $'000	Employee equity-settled benefits reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2009		**191,960**	**1,540**	**(520)**	**10,100**	**203,080**
Loss for the period		–	–	–	(2,555)	(2,555)
Other comprehensive income		–	–	247	–	247
Total comprehensive income for the period		**–**	**–**	**247**	**(2,555)**	**(2,308)**
Issue of share capital		32,908	–	–	–	32,908
Issue of shares as consideration for business combinations		4,000	–	–	–	4,000
Costs associated with the issue of shares		(1,517)	–	–	–	(1,517)
Income tax associated with issue of shares		(245)	–	–	–	(245)
Balance at 30 June 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 period		**–**	**–**	**(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	9.2	1,310	–	–	–	1,310
Balance at 30 June 2011		**228,416**	**2,242**	**(522)**	**23,997**	**254,133**

Notes to the Financial Statements are included on pages 42 to 82.

Consolidated Statement of Cash Flows

for the financial year ended 30 June 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers (including GST)		689,548	571,887
Payments to suppliers and employees (including GST)		(657,777)	(548,289)
Cash generated from operations before interest and tax		31,771	23,598
Interest received		311	19
Interest paid		(5,894)	(6,396)
Income taxes paid		(1,575)	(408)
Net cash provided by operating activities	27.3	24,613	16,813
Cash flows from investing activities			
Payments for plant and equipment		(2,668)	(3,418)
Proceeds from sale of plant and equipment		2,265	1,550
Payments for intangible assets		(4,012)	(1,110)
Proceeds from sale of intangible assets		1,008	2,888
Payments for businesses	27.2	–	(4,900)
Net cash used in investing activities		(3,407)	(4,990)
Cash flows from financing activities			
Proceeds from issues of shares		–	32,908
Payments for share issue costs		–	(1,517)
Proceeds from borrowings		40,691	10,000
Repayment of borrowings		(52,035)	(62,939)
Net cash used in financing activities		(11,344)	(21,548)
Net increase/(decrease) in cash and cash equivalents		**9,862**	**(9,725)**
Cash and cash equivalents at the beginning of the financial year		**(691)**	**9,034**
Cash and cash equivalents at the end of the financial year	27.1	**9,171**	**(691)**

Notes to the Financial Statements are included on pages 42 to 82.

Notes to the Financial Statements

for the financial year ended 30 June 2011

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 4.

2. 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 below.

2.1 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 complies 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 Company and the Group comply with International Financial Reporting Standards ('IFRS').

2.2 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 a company 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.

2.3 Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

2.4 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.

- AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'
- AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions'
- AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'

The following standards have been adopted in advance of the effective date of 1 January 2011:

- Amendments to AASB 7 'Financial Instruments: Disclosure'
- AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'

2.5 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 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
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 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013

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

2.6 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.

2.7 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.

Notes to the Financial Statements
for the financial year ended 30 June 2011

2. Significant accounting policies continued

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.

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'.

2.8 Investments in associates

Investments in entities where the Group has significant influence are accounted for using the equity method. 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.

2.9 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 Service Stream and 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).

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.10 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.

2.11 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Rendering of services

Revenue from a contract to provide services is recognised when probable and measurable, by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at reporting date
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Revenue from construction contracts is recognised in accordance with the accounting policy set out in note 2.12.

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.

2.12 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 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.

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

2. Significant accounting policies continued

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. 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. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. 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.

2.13 Share-based payments

Executive Option Plan ("EOP")

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 29.

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 Company's estimate of shares that will eventually vest.

At the end of each reporting period, the Company 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 2011 (2010: nil) in respect of the EOP.

Long Term Incentive Plan ("LTIP")

Equity-settled share-based payments to employees under the 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 29.

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 $701,732 has been recognised in profit and loss for the year ended 30 June 2011 (2010: nil) in respect of the LTIP.

2.14 Income tax

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.

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 9.5.

2.15 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.

2.16 Financial assets

All financial assets are recognised and derecognised 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) through 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.

2. Significant accounting policies continued

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 uncollectible, 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.

When an 'available-for-sale' (AFS) financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, 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.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

2.17 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.

2.18 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 are reviewed at the end of each annual accounting period, with 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.

The gain or loss arising on disposal or retirement of an item of 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
• Motor vehicles under finance lease	3–7 years

2.19 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.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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.

2.20 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 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.

2.21 Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Internally-generated intangible assets

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.

Software

Software is carried at cost less accumulated amortisation and accumulated impairment. Amortisation is recognised on a straight-line basis over the estimated useful lives. 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 two and four years.

2. Significant accounting policies continued

2.22 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (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 decrease.

2.23 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 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.

2.24 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.

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.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation recognised in accordance with AASB 118 'Revenue'.

2.25 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 Company are recognised at the proceeds received, net of direct issue costs.

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 repurchasing 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 28.

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.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, 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.

3. Critical accounting judgements and key sources of estimation uncertainty continued

3.1 Critical judgements in applying accounting polices

The following are the critical judgements that, apart from those involving estimations (see 3.2 below), the Directors have made in the process of applying the Company'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.

3.2 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 2.18 above, the Group reviews the estimated useful lives of plant and equipment at the end of each annual reporting period.

TCI Ericsson Jersey dispute

In 2006, TCI, a Group company and Ericsson Australia Pty Limited ("Ericsson") entered into a contract for the installation of telecommunications services at sites in Queensland and New South Wales.

Ericsson has sought to recover part of the $50 million remitted to Service Stream for this project. Whilst the Company expects to be successful at arbitration, it has not yet recognised the full amount received as revenue, with only $45 million recognised to date. The balance of $5 million has been provided in trade and other payables as at balance date.

The Company believes that these claims have been appropriately recorded in the financial statements in accordance with its principles of revenue recognition.

4. Segment information

4.1 Products and services from which reportable segments derive their revenues

For management purposes, the Group is organised into two main operating segments – Specialist Field Services and Customer Care. These segments are the basis on which the Group reports its primary segment information. The principal products and services of each of these segments are as follows:

Specialist Field Services	Maintenance, provision and construction of infrastructure assets relative to the telecommunications and utilities sector.
Customer Care	Specialist end-to-end services management; Contact Centre activities and logistics services.

4.2 Adoption of AASB 8 'Operating Segments'

The Group has adopted AASB 8 'Operating Segments' with effect from 1 July 2009. AASB 8 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 segments and to assess their performance.

4.3 Segment revenues and results

	Segment revenue		Segment revenue	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Customer Care	59,596	79,846	2,538	9,008
Specialist Field Services	580,746	446,764	39,640	4,428
Total of all segments	**640,342**	**526,610**	**42,178**	**13,436**
Eliminations	(7,363)	(5,848)	–	–
Unallocated			(7,594)	(7,035)
Earnings before interest, tax, depreciation and amortisation			**34,584**	**6,401**
Net Interest received/(paid)	311	19	(5,517)	(6,377)
Depreciation/Amortisation			(6,436)	(7,339)
Total Revenue	**633,290**	**520,781**	**–**	**–**
Profit/(Loss) before income tax expense			**22,631**	**(7,315)**
Income tax benefit/(expense)			(6,179)	4,760
Profit/(Loss) for the period			**16,452**	**(2,555)**

4.4 Other Segment information

	Depreciation and amortisation		Additions to non-current assets	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Customer Care	992	1,571	988	362
Specialist Field Services	4,564	5,372	4,215	3,552
Total of all segments	**5,556**	**6,943**	**5,204**	**3,914**
Unallocated	880	396	3,690	628
Consolidated	**6,436**	**7,339**	**8,893**	**4,542**

Information about major customers

Included in revenues arising from rendering of services of $633,475,000 are revenues of approximately $330,607,000 which arose from sales to the Group's largest customer.

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 11).

5. Revenue

	2011 $'000	2010 $'000
Revenue from the rendering of services	633,475	517,727
Interest revenue	311	19
	633,786	**517,746**

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6. Other income

	2011 $'000	2010 $'000
Gain/(Loss) on disposal of plant, equipment and intangible assets	(496)	3,035
	(496)	**3,035**

7. Finance costs

	2011 $'000	2010 $'000
Interest on bank overdrafts and loans	4,936	5,146
Interest on obligations under finance leases	884	1,214
Facility costs	654	802
Other interest expense	8	36
	6,482	**7,198**

8. Profit/(Loss) for the year before tax

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

8.1 Depreciation and amortisation expense

	2011 $'000	2010 $'000
Depreciation of plant and equipment	4,741	5,255
Amortisation of intangible assets	1,695	1,284
Impairment of assets	–	800
	6,436	**7,339**

8.2 Operating lease rental expenses

	2011 $'000	2010 $'000
Minimum lease payments	6,022	5,982
	6,022	**5,982**

8.3 Employee benefit expense

	2011 $'000	2010 $'000
Post employment benefits:		
Defined contribution plans	9,069	8,294
Share-based payments:		
Equity-settled share-based payments	702	–
	9,771	**8,294**

8.4 Write down in respect to McCourt Dando GCDA claim

Included in the prior year's result is a substantial non-cash provision in relation to the disputed claim on the McCourt Dando Gold Coast Desalination Project (GCDA Project). As is the case with any legal proceeding, there are numerous costs and uncertainties in pursuing the claim, and an increasing risk that (regardless of the underlying merits) the Company may not be fully successful in any arbitration or court proceeding. Whilst the Company continues to pursue the $14.8 million claim, management believed it was prudent to make a provision for this amount. Legal fees relating to this claim are shown within the category of company administration and insurance expenses.

9. Income taxes

9.1 Income tax recognised in profit or loss

	2011 $'000	2010 $'000
Tax expense comprises:		
Current tax expense in respect of the current year	8,243	3,704
Adjustments recognised in the current year in relation to the current tax of prior years	(565)	(1,303)
	7,678	**2,401**
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(1,499)	(7,161)
	(1,499)	**(7,161)**
Total tax expense/(benefit) relating to continuing operations	**6,179**	**(4,760)**

The tax expense/(benefit) for the year can be reconciled to accounting profit as follows:

	2011 $'000	2010 $'000
Profit/(loss) from continuing activities	22,631	(7,315)
Income tax expense/(benefit) calculated at 30%	6,789	(2,195)
Effect of expenses that are not deductible in determining taxable profit	66	83
Items deducted for tax purposes only	(111)	(332)
Accounting profit on sale of assets not assessable for tax purposes	–	(1,005)
Other	–	(8)
Adjustments recognised in the current year in relation to the current tax of prior years	(565)	(1,303)
	6,179	**(4,760)**

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.

9.2 Income tax recognised directly in equity

The following current amounts were charged/(credited) directly to equity during the period:

	2011 $'000	2010 $'000
Current tax		
Share-issue expenses	(1,310)	245
	(1,310)	**245**

9.3 Current tax assets and liabilities

	2011 $'000	2010 $'000
Current tax liabilities		
Income tax payable attributable to:		
Parent entity	–	–
Entities in the tax-consolidated group	6,374	611
	6,374	**611**

9. Income taxes continued

9.4 Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

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

2010	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	863	987	(3,084)	–	(1,234)
Trade, other payables and provisions	(107)	6,174	–	–	6,067
Share issue costs	533	–	–	(245)	288
	1,289	**7,161**	**(3,084)**	**(245)**	**5,121**

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

Deferred tax assets	5,121
	5,121

9.5 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 26. 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 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.

10. Trade and other receivables

	2011 $'000	2010 $'000
Trade receivables	100,097	67,368
Allowance for doubtful debts	(998)	(1,429)
	99,099	**65,939**
Goods and services tax recoverable	4,015	3,616
Other	2,314	2,448
	105,428	**72,003**
Disclosed in the financial statements as:		
Current trade and other receivables	105,428	72,003
Non-current trade and other receivables	–	–
	105,428	**72,003**

The ageing of trade receivables as at 30 June 2011 and 30 June 2010 respectively is detailed below:

	2011		2010	
	Gross $'000	Allowance $'000	Gross $'000	Allowance $'000
Not past due	88,880	–	58,372	–
Past due 0–30 days	7,333	–	4,675	–
Past due 31–60 days	1,956	–	1,723	–
Past due 61–90 days	685	–	808	–
Past 90 days	1,243	(998)	1,790	(1,429)
	100,097	**(998)**	**67,368**	**(1,429)**

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:

	2011 $'000	2010 $'000
Balance at the beginning of the year	(1,429)	(1,792)
Impairment losses recognised on receivables	(724)	–
Amounts written off during the year as uncollectible	217	–
Impairment losses reversed during the year	938	363
Balance at the end of the year	**(998)**	**(1,429)**

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 $10.2 million (2010: $7.6 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 considered recoverable.

Of the trade receivables balance at the end of the year, $55 million (2010: $29 million) is due from Telstra Corporation Ltd, $11 million (2010: $6 million) is due from the Vodafone Hutchison group, $8 million (2010: $3 million) is due from Origin Electricity Limited, $7 million (2010: $2 million) is due from Jemena Asset Management Pty Ltd, $5 million (2010: $12 million) is due from SingTel Optus Pty Ltd and $2 million (2010: $1 million) is due from Powercor Australia Ltd. Of the balance, 90% is held with large ASX or multinational companies.

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11. Investments accounted for using the equity method

	2011 $'000	2010 $'000
Investment in associate	**1,180**	**1,445**
Balance at 1 July	1,445	1,209
Share of profit/(loss) for the year	(16)	(11)
	1,429	**1,198**
Foreign exchange currency movements	(249)	247
Balance at 30 June	**1,180**	**1,445**

		Ownership interest	
Name of entity	Country of incorporation	2011 %	2010 %
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:

	2011 $'000	2010 $'000
Financial position:		
Total assets	3,917	5,774
Total liabilities	(966)	(2,162)
Net assets	**2,951**	**3,612**
Group's share of associate net assets (*40%*)	1,180	1,445
Financial performance:		
Income	1,059	6,540
Expenses	(1,098)	(6,568)
Profit/(loss) of associate	**(39)**	**(28)**
Group's share of associate profit/(loss) (*40%*)	(16)	(11)

Dividends received from associates
During the year, the Group received no dividends (2010: nil) from the investment in the associate.

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

12. 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 2009	5,095	10,065	14,175	2,529	1,930	33,794
Additions	212	1,502	3	1,715	–	3,432
Transfers	17	(138)	154	(33)	–	–
Disposals	(3)	(714)	(2,614)	(475)	(47)	(3,853)
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 30 June 2011	**4,378**	**9,699**	**7,951**	**2,667**	**3,059**	**27,754**
Accumulated depreciation and impairment						
Balance at 1 July 2009	(2,531)	(5,463)	(5,867)	(1,373)	(911)	(16,145)
Disposals	3	385	1,224	383	25	2,020
Impairment losses recognised in the profit or loss	–	(690)	–	(110)	–	(800)
Depreciation expense	(914)	(1,548)	(1,946)	(569)	(278)	(5,255)
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 30 June 2011	**(3,008)**	**(6,449)**	**(6,055)**	**(1,707)**	**(1,411)**	**(18,630)**
Net book value						
As at 30 June 2010	1,879	3,399	5,129	2,067	719	13,193
As at 30 June 2011	**1,370**	**3,250**	**1,896**	**960**	**1,648**	**9,124**

Impairment losses recognised in the year

In the prior year, a review of the recoverable amount of heavy earth moving equipment and related motor vehicles used in the Group's Specialist Field Services segment led to the recognition of an impairment loss of $0.8 million, which has been recognised in the statement of comprehensive income as depreciation and amortisation. The recoverable amount of the relevant assets has been determined on the basis of fair value less cost to sell approach.

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13. Intangible Assets

	Software $'000	Software under finance lease $'000	Goodwill $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2009	3,290	2,147	205,368	210,805
Additions	1,110	–	–	1,110
Disposals	(1,671)	–	–	(1,671)
Balance at 1 July 2010	**2,729**	**2,147**	**205,368**	**210,244**
Additions	3,360	2,180	–	5,540
Disposals	(189)	–	–	(189)
Balance at 30 June 2011	**5,900**	**4,327**	**205,368**	**215,595**
Accumulated amortisation				
Balance at 1 July 2009	(2,629)	(234)	–	(2,863)
Disposals	1,521	–	–	1,521
Amortisation expense	(523)	(761)	–	(1,284)
Reduction in deferred consideration on business combinations previously recognised[1]	–	–	(6)	(6)
Balance at 1 July 2010	**(1,631)**	**(995)**	**(6)**	**(2,632)**
Disposals	109	–	–	109
Amortisation expense	(479)	(1,216)	–	(1,695)
Balance at 30 June 2011	**(2,001)**	**(2,211)**	**(6)**	**(4,218)**
Net book value				
As at 30 June 2010	1,098	1,152	205,362	207,612
As at 30 June 2011	**3,899**	**2,116**	**205,362**	**211,377**

1 During the previous financial year, the Group determined that the deferred consideration associated with the acquisition of Radhaz Consulting Pty Ltd (acquired in December 2006) be reduced from the earn-out payable as calculated at the time of acquisition.

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Customer Care, including customer Contact Centre operations – $8,718,678
- Specialist Field Services, including maintenance and construction of infrastructure assets – $196,642,867

The recoverable amount of the cash-generating units is determined based on a value in use calculation which uses cash flow projections based on past experience and financial budgets approved by the Board. A discount rate of 15.5% has been applied (2010: 14.4%).

Cash flow projections in the budget for each cash-generating unit are based on the expected gross margins for the budget period and the consumer price inflation during the budget period. The cash flows beyond the end of the budget period have been extrapolated reflecting the expected growth in current contracts. Management 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.

14. Other assets

	2011 $'000	2010 $'000
Current		
Accrued Income	41,251	48,475
Prepayments	2,366	2,146
Other	187	196
	43,804	**50,817**

15. 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 all assets and uncalled capital of the Group as security for all borrowings under its various bank debt and finance facilities. Assets held under lease are secured by a superior charge against the underlying asset to which they relate.

16. Trade and other payables

	2011 $'000	2010 $'000
Current		
Trade creditors[1]	33,043	22,620
Sundry creditors and accruals	33,033	28,471
Goods and services tax payable	8,864	6,278
Income in advance	4,516	1,604
	79,456	**58,973**

1 Typically no interest is charged on 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.

17. Borrowings

	2011 $'000	2010 $'000
Secured – at amortised cost		
Current		
Bank overdrafts	–	691
Finance lease liabilities[1]	5,165	4,226
	5,165	**4,917**
Non-current		
Commercial bills[2]	38,000	49,000
Finance lease liabilities[1]	4,139	5,422
	42,139	**54,422**
	47,304	**59,339**
Disclosed in the financial statements as:		
Current borrowings	5,165	4,917
Non-current borrowings	42,139	54,422
	47,304	**59,339**

Summary of borrowing arrangements:
1 Secured by the assets leased and hire purchased, the current value of which exceeds the value of the finance lease liability. Refer note 24.
2 The Commercial bill facility matures in September 2012. See note 15 in relation to assets pledged as security.

18. Provisions

	2011 $'000	2010 $'000
Current		
Employee benefits	12,034	8,308
Warranty provision	490	–
	12,524	8,308
Non-current		
Employee benefits	2,191	1,978
	2,191	1,978
	14,715	**10,286**

19. Issued capital

283,418,867 fully paid ordinary shares (2010: 283,418,867)	228,416	227,106

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.

19.1 Fully paid ordinary shares

	Number of shares '000	Share capital $'000
Balance at 1 July 2009	186,432	191,960
Issue of shares as partial consideration for business combinations	10,387	4,000
Issue of shares during the year – rights issue	86,600	32,908
Net costs associated with issue of shares	–	(1,762)
Balance 30 June 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**

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

19.2 Share Options

As at 30 June 2011, employees, former employees or associates thereof have 1,310,000 options over ordinary shares in aggregate, with 1,230,000 of those options expiring on 31 October 2011, 40,000 expiring on 1 March 2012 and the remainder expiring on 31 March 2013.

Share options carry no rights to dividends and no voting rights. Further details of the executive option plan are contained in note 29.

19.3 Performance Rights

As at 30 June 2011, employees have 2,864,212 performance rights issued under the Long Term Incentive Plan. These rights are due to vest on 30 June 2013 whereby 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 Long Term Incentive Plan are contained in note 29.

20. Reserves

	2011 $'000	2010 $'000
Equity-settled employee benefits	2,242	1,540
Foreign currency translation	(522)	(273)
	1,720	**1,267**

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

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the executive option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments is disclosed in note 29 to the financial statements.

Foreign currency translation reserve		
Balance at beginning of financial year	(273)	(520)
Translation of foreign investment	(249)	247
Balance at end of financial year	**(522)**	**(273)**

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

21. Retained earnings

	2011 $'000	2010 $'000
Balance at beginning of financial year	7,545	10,100
Net profit attributable to members of the parent entity	16,452	(2,555)
Balance at end of financial year	**23,997**	**7,545**

Notes to the Financial Statements

for the financial year ended 30 June 2011

22. Earnings per share

	2011 Cents per share	2010 Cents per share
Basic earnings per share:		
Total basic earnings per share	**5.80**	**(0.99)**
Diluted earnings per share:		
Total diluted earnings per share	**5.80**	**(0.99)**

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:

	2011 $'000	2010 $'000
Profit/(loss) for the year attributable to owners of the Company	16,452	(2,555)
Earnings used in the calculation of basic EPS	**16,452**	**(2,555)**

	2011 No.'000	2010 No.'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**283,419**	**257,002**

Diluted earnings per share[1]

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

	2011 $'000	2010 $'000
Profit/(loss) for the year attributable to owners of the Company	16,452	(2,555)
Earnings used in the calculation of diluted EPS	**16,452**	**(2,555)**

	2011 No.'000	2010 No.'000
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**283,419**	**257,002**

1 Neither the options nor the performance rights issued have a dilutive impact on earnings per share.

23. Dividends

There were no dividends declared, paid or proposed during the year.

	Company	
	2011 $'000	2010 $'000
Adjusted franking account balance as at 30 June	16,492	7,048

The above amount represents the balance of the dividend franking account at year end adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

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24. Obligations under finance leases

24.1 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.

24.2 Finance lease liabilities

	Minimum future lease payments		Present value of minimum future lease payments	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Not longer than 1 year	5,810	4,928	5,165	4,226
Later than 1 year and not later than 5 years	4,597	5,941	4,139	5,422
Minimum future lease payments[1]	10,407	10,869	9,304	9,648
Less future finance charges	(1,103)	(1,221)	–	–
Present value of minimum lease payments	9,304	9,648	9,304	9,648
Included in the financial statements as:[2]				
Current borrowings			5,165	4,226
Non-current borrowings			4,139	5,422
			9,304	**9,648**

1 Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.
2 Refer note 17.

24.3 Fair value

The fair value of the finance lease liabilities is shown at note 28.10.

25. Operating lease arrangements

25.1 Leasing arrangements

The Group leases a number of premises throughout Australia. The rental period of each individual lease agreement varies between 1 and 6 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.

25.2 Non-cancellable operating lease commitments

	2011 $'000	2010 $'000
Not longer than 1 year	5,691	4,352
Longer than 1 year and not longer than 5 years	1,741	3,044
Longer than 5 years	–	69
	7,432	**7,465**

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for the financial year ended 30 June 2011

26. Subsidiaries

Details of the Company's subsidiaries at 30 June 2011 are as follows:

		Ownership interest	
Name of entity	Country of incorporation	2011 %	2010 %
Parent entity			
Service Stream Limited[1]	Australia		
Subsidiaries			
Service Stream Holdings Pty Ltd[2,8]	Australia	100	100
Service Stream Communications Pty Ltd[2,3,8]	Australia	100	100
Resourcing Solutions Pty Ltd[2,4,8]	Australia	100	100
Total Communications Infrastructure Pty Ltd[2,3,8]	Australia	100	100
Service Stream Solutions Pty Ltd[2,3,8]	Australia	100	100
Radhaz Consulting Pty Ltd[2,8]	Australia	100	100
General Purpose Group Pty Ltd[2,3,8]	Australia	100	100
Fibercom Technology Pty Ltd[2,3,8]	Australia	100	100
Service Stream Infrastructure Services Pty Ltd[2,3,8]	Australia	100	100
Milcom Communications Pty Ltd[2,3,8]	Australia	100	100
Total Communications Infrastructure (Singapore) Pte Ltd[5]	Singapore	100	100
McCourt Dando Pty Ltd[2,6,8]	Australia	100	100
McCourt Dando Civil Pty Ltd[2,6,8]	Australia	100	100
McCourt Dando Plant Hire Pty Ltd[2,6,8]	Australia	100	100
Metering Services Australasia Pty Ltd[2,3,8]	Australia	100	100
MSA Plant Pty Ltd[2,7,8]	Australia	100	100
AMRS (Aust) Pty Ltd[2,7,8]	Australia	100	100
Service Stream Financial Services Pty Ltd[2,3,8]	Australia	100	100

1 Service Stream Limited is the head entity within the tax-consolidated group.
2 These companies are members of the tax-consolidated group.
3 These companies are wholly owned subsidiaries of Service Stream Holdings Pty Ltd.
4 This company is a wholly owned subsidiary of Service Stream Communications Pty Ltd.
5 This company is a wholly owned subsidiary of Total Communications Infrastructure Pty Ltd.
6 These companies are wholly owned subsidiaries of Service Stream Infrastructure Services Pty Ltd.
7 These companies are wholly owned subsidiaries of Metering Services Australasia Pty Ltd.
8 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:

	2011 $'000	2010 $'000
Statement of comprehensive income		
Revenue	633,786	517,746
Other income	(496)	3,035
	633,290	**520,781**
Company administration and insurance expenses	(10,547)	(11,977)
Consulting and temporary staff fees	(10,124)	(6,731)
Employee salaries and benefits	(133,076)	(123,025)
Motor vehicles expenses	(7,189)	(6,913)
Occupancy expenses	(8,480)	(8,129)
Raw materials and consumables used	(113,893)	(53,240)
Site and construction costs	(42,282)	(40,105)
Subcontractor fees	(258,683)	(231,478)
Technology and communication services	(7,535)	(5,398)
Finance costs	(6,482)	(7,198)
Depreciation and amortisation	(6,436)	(7,339)
Write down in respect to McCourt Dando GCDA claim	–	(14,814)
Other expenses	(5,916)	(11,738)
Profit before tax	**22,647**	**(7,304)**
Income tax expense	(6,179)	4,760
Profit for the year from continuing operations	**16,468**	**(2,544)**
Profit for the year from discontinued operations	–	–
Profit for the year	**16,468**	**(2,544)**
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	**16,468**	**(2,544)**

Notes to the Financial Statements

for the financial year ended 30 June 2011

26. Subsidiaries continued

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

	2011 $'000	2010 $'000
Statement of financial position		
Current assets		
Cash and cash equivalents	9,171	–
Trade and other receivables	105,428	72,003
Inventories	14,309	14,936
Other	43,804	50,817
Total current assets	**172,712**	**137,756**
Non-current assets		
Other financial assets	1,347	1,347
Plant and equipment	9,124	13,193
Deferred tax assets	7,589	5,121
Intangible assets	211,377	207,612
Total non-current assets	**229,437**	**227,273**
Total assets	**402,149**	**365,029**
Current liabilities		
Trade and other payables	79,455	58,972
Borrowings	5,165	4,917
Current tax liabilities	6,374	611
Provisions	12,524	8,308
Total current liabilities	**103,518**	**72,808**
Non-current liabilities		
Borrowings	42,139	54,422
Provisions	2,191	1,978
Total non-current liabilities	**44,330**	**56,400**
Total liabilities	**147,848**	**129,208**
Net assets	**254,301**	**235,821**
Equity		
Issued capital	228,416	227,106
Reserves	2,242	1,540
Retained earnings*	23,643	7,175
Total equity	**254,301**	**235,821**

***Retained earnings**		
Retained earnings as at beginning of the financial year	7,175	9,719
Net profit/(loss)	16,468	(2,544)
Retained earnings as at end of the financial year	**23,643**	**7,175**

27. Notes to the statement of cash flow

27.1 Reconciliation of cash and cash equivalents

	2011 $'000	2010 $'000
Cash at bank	9,171	–
Bank overdraft	–	(691)
Cash and cash equivalents	**9,171**	**(691)**

27.2 Businesses acquired

The net cash outflow on deferred consideration payments in the prior period of $4,900,000 relates to acquisitions made during the year ended 30 June 2009.

27.3 Reconciliation of profit/(loss) for the period to net cash flows from operating activities

Profit/(loss) for the year	16,452	(2,555)
(Gain)/loss on sale of disposal of non-current assets	416	265
(Gain)/loss on sale of disposal of intangible assets	80	(3,300)
Depreciation and amortisation	6,436	7,339
Share of joint venture arrangements' (profit)/loss	16	11
Expense recognised in respect of equity-settled share-based payments	702	–
Write down in respect to McCourt Dando GCDA claim	–	14,814
Impairment loss (reversed)/recognised on trade receivables	(214)	2,094
(Increase) in deferred tax balances	(2,468)	(4,077)
(Decrease)/increase in current tax liability	5,763	(1,091)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in receivables	(34,219)	4,067
Decrease/(increase) in other assets	7,013	(1,380)
Decrease/(increase) in inventories	627	(1,476)
Increase/(decrease) in trade and other payables	19,580	(466)
Increase in provisions	4,429	2,568
Net cash provided by operating activities	**24,613**	**16,813**

Notes to the Financial Statements

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28. 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 manages its day-to-day exposure to financial risks. Treasury is the only area of the Group authorised to transact financial instruments on its behalf to manage these financial risk exposures.

The Group's use of financial instruments to manage its financial risks is controlled by formally approved delegations of authority and appropriate segregation of duties.

28.1 Capital risk management

The Group manages its available capital to ensure that it is able to continue as a going concern and to maximise the returns to shareholders. Capital 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 drawn upon and the ratio of debt to equity capital that is employed by it.

The capital structure of the Group consists of net debt (borrowings as detailed in note 17, offset by cash and bank balances) and equity (comprising issued capital, reserves and retained earnings as disclosed in notes 19, 20 and 21).

The Group is subject to externally imposed minimum equity capital restrictions and borrowing related covenants as conditions of its bank debt financing facilities.

The Board and senior management review the capital structure of the Group on a regular basis and consider the relative cost of each form of capital, the risks associated with each class of capital as well as any restrictions or limitations that exist on the mix of capital.

The Group's target levels of debt and equity are determined after considering the various covenants and undertakings applicable under its bank debt facility arrangements, the certainty of future earnings to service that debt, as well as its forecast of capital required to fund future growth.

28.1.1 Gearing ratio

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

	2011 $'000	2010 $'000
Debt[1]	47,304	58,648
Bank overdraft	–	691
Cash at bank	(9,171)	–
Net debt	**38,133**	**59,339**
Equity[2]	254,133	235,918
Net debt to net debt plus equity ratio	13.0%	20.1%

1 Debt is defined as long- and short-term borrowings, as detailed in note 17.
2 Equity includes all capital and reserves.

28.2 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 2.

28.3 Categories of financial instruments

	2011 $'000	2010 $'000
Financial assets		
Cash and bank balances	9,171	–
Loans and receivables	105,428	72,003
Financial liabilities		
Amortised costs	117,456	108,664
Finance lease/hire purchase liabilities	9,304	9,648

28.4 Financial risk management objectives

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

The treasury function provides specialist financial advice and transactional banking and merchant payment services to the Group as well as monitoring and managing financial and operational risks relating to its market operations.

The financial risks of the Group include market (including interest rate and currency), liquidity and bank counterparty credit risk.

Only the treasury function is authorised to use financial and derivative financial instruments for the management of the Group's financial risk exposures but is prohibited from using such instruments for speculative purposes.

Compliance with financial risk management policies and financial exposures is reviewed by senior management regularly with reporting on risk treatment strategy and policy compliance undertaken to the Company's Audit and Risk Management Committee as well as to its Board of Directors.

28.5 Market risk

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

The Group's funding activities expose it to financial risk arising from changes in market interest rates (refer note 28.6).

The Group currently has only limited currency risk exposure as the majority of its activities are conducted within Australia and the small amount of foreign materials sourced from abroad are typically contracted in Australian dollars ("AUD").

28.6 Interest rate risk management

The Group is exposed to interest rate risk through its term 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 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 2011 was equivalent to a net profit before tax decrease of $123,290 (2010: $325,000).

This sensitivity is attributable to the Group's exposure to market interest rates on its variable rate borrowings and has decreased from the prior period due to the decrease in 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.

Notes to the Financial Statements
for the financial year ended 30 June 2011

28. Financial instruments continued

28.7 Credit risk management
Credit risk refers to the risk that the 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 of a long term investment grade credit rating. The Company's wholesale financial market 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 counterparties 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 10, a significant portion of revenue is derived from major telecommunications companies such as Telstra Corporation Ltd, Vodafone Hutchison Group, and SingTel Optus Group. 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.

28.8 Currency risk management
Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency, as well as 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 the Indian Rupee arising from an investment in an associate.

Currency risk is managed predominantly through the use of AUD denominated contracts on the low volume of foreign sourced materials.

28.9 Liquidity risk management
Management of the Group's liquidity risk exposure is undertaken by the Group's treasury and finance functions via the daily monitoring of the Group's cash flows and the regular forecasting of its payable and receivable profiles.

In order to maintain adequate and cost-effective liquidity, the Group maintains a daily cash reserve buffer, has committed bank facilities with two financial institutions as well as maintaining a reserve overdraft borrowing capacity.

Included in note 28.9.1 and 28.9.2 is a listing of the borrowing facilities available to the Group at 30 June 2011.

28.9.1 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
2011							
Non-derivative financial liabilities							
Trade and other payables	–	(79,456)	(79,456)	(79,456)	–	–	–
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)	–
		(126,760)	**(131,491)**	**(83,916)**	**(4,460)**	**(40,882)**	**(2,233)**
2010							
Non-derivative financial liabilities							
Trade and other payables	–	(58,973)	(58,973)	(58,973)	–	–	–
Finance lease liabilities	8.33%	(9,648)	(10,869)	(2,464)	(2,464)	(3,788)	(2,153)
Variable interest rate instruments	8.14%	(32,500)	(37,791)	(1,323)	(1,323)	(2,645)	(32,500)
Fixed interest rate instruments	8.19%	(16,500)	(19,203)	(676)	(676)	(1,351)	(16,500)
		(117,621)	**(126,836)**	**(63,436)**	**(4,463)**	**(7,784)**	**(51,153)**

28.9.2 Financing facilities

	2011 $'000	2010 $'000
Secured bank guarantees:		
Amount used	7,662	8,624
Amount unused	7,338	1,376
	15,000	**10,000**
Secured bank overdraft:		
Amount used	–	691
Amount unused	5,000	9,309
	5,000	**10,000**
Secured commercial bill and equipment finance facilities mature in September 2012 and may be extended by mutual agreement:		
Amount used	47,304	58,648
Amount unused	32,684	22,626
	79,988	**81,274**

The amounts included above for financial guarantees are the maximum amounts that the Group could be forced to settle under the arrangements for the full amount if claimed by the counterparty to the guarantee. Based upon current expectations as at 30 June 2011, the Group considers that it is more likely than not that such amounts will not be payable under these arrangements.

28. Financial instruments continued

28.10 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.

	2011		2010	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Financial assets				
Cash	9,171	9,171	–	–
Trade and other receivables	105,428	105,428	72,003	72,003
Financial liabilities				
Trade and other payables	79,456	79,456	58,973	58,973
Bank overdraft	–	–	691	691
Commercial bills – variable	21,500	21,500	32,500	32,500
Commercial bills – fixed	16,500	13,708	16,500	14,710
Finance lease/hire purchase liabilities	9,304	8,252	9,648	8,189

The fair values and net 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.

29. Share-based payments

29.1 Executive option plan

The Group previously operated an ownership-based compensation scheme for executives and senior employees. In accordance with the terms of the plan 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. In accordance with the terms of the executive option scheme all options have vested.

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

Option series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Series 2	2,320,000	04/01/07	31/10/09	0.5761	–
Series 3	640,000	04/01/07	31/10/09	0.8886	0.0063
Series 4	640,000	04/01/07	31/10/09	1.2011	–
Series 5	96,000	04/01/07	01/01/10	0.5761	0.1067
Series 6	32,000	04/01/07	01/01/10	0.8886	0.0063
Series 7	32,000	04/01/07	01/01/10	1.2011	–
Series 9	80,000	04/01/07	07/03/10	0.6011	0.1235
Series 10	200,000	04/01/07	31/10/09	0.9261	0.0373
Series 11	20,000	04/01/07	31/10/09	0.5761	0.3197
Series 12	2,020,000	04/01/07	01/01/11	0.9411	0.2833
Series 13	2,020,000	04/01/07	01/01/11	1.0311	0.2355
Series 14	2,020,000	04/01/07	01/01/11	1.1511	0.1815
Series 15	500,000	04/01/07	31/10/11	1.0761	0.0767
Series 16	730,000	04/01/07	31/10/11	1.6311	0.1006
Series 17	40,000	23/10/07	01/03/12	0.9611	0.0823
Series 18	40,000	23/10/07	01/03/13	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 price.

29. Share-based payments continued

29.1.1 Movements in share options during the year

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

	2011		2010	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	7,370,000	1.1051	11,430,000	0.995
Expired during the financial year	(6,060,000)	–	(4,060,000)	–
Balance at end of the financial year	1,310,000	1.4012	7,370,000	1.1051
Exercisable at end of the financial year	1,310,000	1.4012	4,350,000	1.1111

29.1.2 Exercised during the financial year

No share options granted under the executive option plan were exercised during the current financial year.

29.1.3 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 $1.4012 (2010: $1.1051) and a weighted average remaining contractual life of 142 days (2010: 491 days).

29.2 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 Long Term Incentive Plan ("LTIP"). The LTIP operates within the Service Stream 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 for approval.

In accordance with the provision of the ESOP, 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 2011 ("FY11 Tranche"). Each performance right converts into one Service Stream Limited ordinary share on vesting. No amounts are paid or payable by the recipient on receipt of the performance right. 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:
  - Service Stream's earning 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 in the year ending 30 June 2011 have a three year performance period to 30 June 2013 and a base EPS of 3.85 cents per share;
  - Service Stream'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[1]	Grant date fair value	Vesting date
FY11 Tranche	2,864,212	18 February 2011	Relative TSR hurdle – $0.72 EPS hurdle – $0.75	30 June 2013

1 The performance period for the FY11 tranche of LTIP performance rights commenced 1 July 2010. At least one employee had a grant date different to the grant date above.

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29.2.1 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.

29.2.2 Key inputs into the model

Grant date	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%

29.2.3 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:

	2011		2010	
	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	–	–	–	–
Granted during the year	2,864,212	0.735	–	–
Balance at end of the financial year	**2,864,212**	**0.735**	**–**	**–**
Exercisable at end of the financial year	**–**	**–**	**–**	**–**

The grant date weighted average fair value of $0.735 is the result of the separate criteria below:

- 50% of the performance rights granted will each vest where:
  - Service Stream's earning 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 in the year ending 30 June 2011 have a three year performance period to 30 June 2013 and a base EPS of 3.85 cents per share;
  - Service Stream'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.

No performance rights granted under the LTIP vested during the current financial year. The performance rights outstanding at the end of the year had a weighted average fair value of $0.735 and a remaining contractual life of two years.

Notes to the Financial Statements

for the financial year ended 30 June 2011

30. Key management personnel compensation

Details of key management personnel

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

- Mr P Dempsey (Chairman – appointed 1 November 2010)
- Mr S Wilks (Non-Executive Director; resigned as Chairman 1 November 2010)
- Mr G Sumner (Managing Director)
- Mr R Small (Non-Executive Director – resigned 7 October 2010)
- Mr B Gallagher (Non-Executive Director)
- Mrs D Page AM (Non-Executive Director – appointed 21 September 2010)
- Mr R Grant (Alternate Director, Chief Financial Officer – appointed as Alternate Director 23 December 2010)
- Mr R Stanton (Executive General Manager – TCI)
- Mr S Ellich (Executive General Manager – Service Stream Communications)
- Mr R Blinko (Executive General Manager – Customer Care – resigned 30 June 2011)
- Mr A Haynes (Executive General Manager – AMRS – resigned 18 March 2011)
- Mr L Mackender (Executive General Manager – AMRS – appointed 21 March 2011)

Key management personnel compensation

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

	2011 $	2010 $
Short-term employee benefits	4,647,616	3,483,725
Post-employment benefits	258,866	163,093
Other long-term benefits	44,832	83,331
Termination benefits	12,012	685,208
Share-based payments	311,100	–
	5,274,426	**4,415,357**

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

The remuneration of Directors and key executives is determined by the Remuneration and Nomination Committee, having regard to the performance of individuals and market trends.

31. Related party disclosures

31.1 Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 26 to the financial statements.

Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in note 11 to the financial statements.

31.2 Transactions with key management personnel

31.2.1 Key management personnel compensation

Details of key management personnel compensation are disclosed in note 30 to the financial statements.

31.2.2 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.

31.2.3 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 of Service Stream Limited and other key management personnel of the Group, including their personally related parties, are set out below:

	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.
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
2010						
B Gallagher[1]	–	–	9,914,661	–	–	9,914,661
G Sumner	–	–	–	300,000	–	300,000
R Grant	–	–	–	104,166	–	104,166
R Stanton	460,000	–	–	–	–	460,000
S Ellich	356,521	–	–	11,134	–	367,655
J Gramc[2]	105,406	–	–	–	(105,406)	–
J Ryan[2]	101,747	–	–	(100,000)	(1,747)	–
R Blinko[1]	–	–	–	50,000	–	50,000
A Haynes[1]	–	–	1,134	240,154	–	241,288
JL Davies[2]	341,771	–	–	150,380	(492,151)	–
PJ Flannigan[2]	1,003,052	–	–	–	(1,003,052)	–
M Doery[2]	1,242,764	–	–	499	(1,243,263)	–
A Field[2]	5,631,555	–	–	1,042,685	(6,674,240)	–
R Small	5,791,954	–	–	(1,385,493)	–	4,406,461

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

31. Related party disclosures continued

The numbers of options over ordinary shares in the Company held during the financial year by each Director of the Company 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.
2011									
R Stanton	2,000,000	–	–	(1,500,000)	500,000	500,000	–	500,000	–
2010									
PJ Flannigan	4,200,000	–	(4,200,000)	–	–	–	–	–	–
M Doery	3,800,000	–	(3,800,000)	–	–	–	–	–	–
R Stanton	2,000,000	–	–	–	2,000,000	2,000,000	1,500,000	500,000	–
S Ellich	120,000	–	–	(120,000)	–	–	–	–	–
J Gramc	80,000	–	(80,000)	–	–	–	–	–	–
J Ryan	160,000	–	–	(160,000)	–	–	–	–	–

All share options issued to key management personnel during the financial year were made in accordance with the provisions of the Executive Option Plan.

During the financial year, no options (2010: nil) were exercised by key management personnel.

Further details of the Executive Option Plan and of share options granted during 2011 and 2010 financial years are contained in note 29.

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.
2011									
S Ellich	–	299,765	–	–	299,765	–	–	–	–
R Grant[1]	–	626,959	–	–	626,959	–	–	–	–
L Mackender	–	82,006	–	–	82,006	–	–	–	–
R Stanton	–	322,571	–	–	322,571	–	–	–	–

1 R Grant is an Alternate Director for G Sumner.

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 (2010: nil) were exercised by key management personnel.

Further details of the LTIP and of performance rights granted during 2011 and 2010 financial years are contained in note 29 to the financial statements.

31.2.4 Other transactions with key management personnel of the Group

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

During the year, the Company provided services to Tel.Pacific Limited, a company of which Mr 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 $686,469 of which $90,024 was outstanding at year end.

31.3 Transactions with other related parties

31.3.1 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:

- Service Stream Limited 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 following balances arising from transactions between the Company and its other related parties are outstanding at the reporting date:

- Loans receivable totalling $103,932,471 are receivable from subsidiaries (2010: $105,394,003).

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 subsidiaries were eliminated in the preparation of consolidated financial statements of the Group.

31.3.2 Parent entities

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

32. Remuneration of auditors

Auditor of the parent entity	2011 $	2010 $
Audit or review of the financial report	362,000	359,000
Preparation of the tax return	23,875	–
Tax advice	20,650	15,000
Technical advice	21,100	–
	427,625	**374,000**

The auditor of Service Stream Limited is Deloitte Touche Tohmatsu.

33. Commitments for expenditure

Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in notes 24 and 25 to the financial statements.

34. Contingent assets and liabilities

Tax Consolidation

The Company has lodged a series of Objections with the Australian Tax Office in relation to the tax treatment of acquisitions made in the past, following an amendment to the income tax legislation in 2010. The amount of the additional tax deductions being claimed by the Company in respect of prior years is $40.5 million, which, if approved in full, would result in a tax refund to the Company of $12.1 million. The amount of the tax claim relevant to current and future years' deductions is $0.5 million.

The processing by the Australian Tax Office of Objections like Service Stream's was temporarily suspended following a request by the Federal Assistant Treasurer for the Board of Taxation to review the amendments to the tax consolidation legislation, and as such the Company continues to await the outcome of its Objections.

The Group is yet to record any amounts in the consolidated entity's financial statements in relation to this matter.

35. 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.

36. Parent entity disclosures

36.1 Financial position

	2011 $'000	2010 $'000
Current Assets	–	–
Non-current assets	223,407	215,521
Total Assets	**223,407**	**215,521**
Current liabilities	6,384	632
Non-current liabilities	–	–
Total liabilities	**6,384**	**632**
Net Assets	**217,023**	**214,889**
Issued capital	211,779	210,346
Retained earnings	3,042	3,042
Reserves – Equity-settled employee benefits	2,202	1,501
Equity	**217,023**	**214,889**

36.2 Financial performance

	2011 $'000	2010 $'000
Profit for the year	–	–
Other comprehensive income	–	–
Total comprehensive income	**–**	**–**

ASX Additional Information

for the financial year ended 30 June 2011

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 2011

Category (size of holding)	Holders
1–1,000	575
1,001–5,000	1,250
5,001–10,000	721
10,001–100,000	1,587
100,001+	241
	4,374

B. There are 4,374 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 578.

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 2011 are:

Shareholder	Ordinary	%
Thorney Investment Group Australia Pty Ltd	38,080,470	13.44
Maple-Brown Abbott	26,788,518	9.45
Gandel Springwest Pty Ltd	15,797,924	5.57

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 $0.1509 (2010: $0.0999).

ASX Additional Information

for the financial year ended 30 June 2011

G. 20 Largest Shareholders as at 1 September 2011 – Ordinary Shares

	Name of 20 largest shareholders in each class of share	Ordinary shares Fully paid number of shares held	% Held
1	HSBC Custody Nominees (Australia) Limited	48,583,188	17.14
2	RBC Dexia Investor Services Australia Nominees Pty Limited	26,084,177	9.20
3	National Nominees Limited	22,361,310	7.89
4	UBS Wealth Management Australia Nominees Pty Ltd	17,976,302	6.34
5	Gandel Springwest Pty Ltd <The Gandel Invest No 1 A/C>	15,797,924	5.57
6	Citicorp Nominees Pty Limited	8,103,309	2.86
7	RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C>	5,810,564	2.05
8	UBS Nominees Pty Ltd	3,943,359	1.39
9	J P Morgan Nominees Australia Limited	3,092,727	1.09
10	Dr Roger Graham Brooke & Mrs Sally Ann Brooke <SALROG Super Fund A/C>	2,766,905	0.98
11	Blazzed Pty Ltd <Gaunt Management A/C>	1,911,881	0.67
12	Aust Executor Trustees NSW Ltd <Tea Custodians Limited>	1,801,519	0.64
13	Aust Executor Trustees Ltd <Charitable Foundation>	1,673,224	0.59
14	Miclod Holdings Pty Ltd <Miclod Super Fund A/C>	1,241,630	0.44
15	Mr Angelos Giannakopoulos & Mrs Anastasia Giannakopoulos	1,220,177	0.43
16	Mrs Maree Helen Theiler	1,117,760	0.39
17	RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	1,049,024	0.37
18	Queensland Investment Corporation	1,003,749	0.35
19	HSBC Custody Nominees	1,003,130	0.35
20	Mr Anthony John Andreatta & Mrs Helen Marion Andreatta <Andreatta Super Fund A/C>	1,000,000	0.35
		167,541,859	**59.11**

Corporate Directory

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Graeme Sumner
Brett Gallagher
Deborah Page AM
Stephe Wilks
Robert Grant

Company Secretary
Jessica Lyons

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