servicestream
ESSENTIAL NETWORK SERVICES

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2019 ANNUAL REPORT

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Annual General Meeting

The Annual General Meeting of
Service Stream Limited will be held at
RACV City Club
Level 2, 501 Bourke Street, Melbourne
23 October 2019, 10.00am

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Service Stream Limited

ABN 46 072 369 870

Annual report for the financial year ended
30 June 2019

Service Stream Limited ABN 46 072 369 870

Consolidated financial statements

for the year ended 30 June 2019

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These financial statements are the consolidated financial statements of the consolidated entity consisting of Service Stream Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Service Stream Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 4, 357 Collins Street Melbourne VIC 3000.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and financial performance on pages 5 to 12, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 20 August 2019. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All media releases, financial reports and other information are available on our website: www.servicestream.com.au.

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Directors' report

Your Directors present their report on the consolidated entity (the Group) consisting of Service Stream Limited and entities it controlled at the end of, or during, the year ended 30 June 2019, and in order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Information about the Directors

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

Brett Gallagher

Chairman

Term of Office: Non-Executive Director from April 2010 to April 2013 and from November 2013 to May 2014, Managing Director from April 2013 to November 2013, Executive Director from May 2014 to February 2015, Chairman since March 2015.

Qualification: FAICD.

Brett Gallagher has over 20 years' experience across the utility and facilities management industries, and was Managing Director and a shareholder of AMRS (now Energy & Water) from 2003 until 2008 when that Group was acquired by Service Stream.

Brett is a member of the Sustainability, Safety, Health & Environment Committee and holds directorships and interests in a number of private businesses that operate predominately in the utilities sector.

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

Leigh Mackender

Managing Director

Term of Office: Managing Director since May 2014.

Qualification: MBA (VU).

Leigh Mackender joined Service Stream Limited when it acquired AMRS (now Energy & Water) in February 2008, prior to which he held various management roles within the business since joining in 2005.

Prior to being appointed Managing Director, Leigh was responsible for overseeing the Energy & Water division's national operations.

Leigh has over 15 years of experience working within the industrial services sector and held various roles in private and public organisations, specialising in the development and implementation of business strategy, operational and financial management, commercial negotiations and business development.

Leigh is a member of the Sustainability, Safety, Health & Environment Committee.

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

Greg Adcock

Non-Executive Director

Term of Office: Non-Executive Director since June 2016.

Qualifications: MAICD, MAIPM.

Greg Adcock was appointed as Non-Executive Director of Service Stream Limited on 1 June 2016. Greg brings commercial and operational expertise developed from senior executive roles at Telstra Corporation where his career spanned more than 20 years, and more recently at nbn co where he was the Chief Operating Officer responsible for the key operational and commercial elements of Australia's largest infrastructure project.

Greg brings to Service Stream a broad telecommunications and operational management background with a strong focus on commercial and project discipline.

Greg's roles at Telstra included overseeing business and capital planning, contract establishment, operational process optimisation, regulatory compliance, strategic projects and the group's productivity initiative program. His experience includes developing and implementing construction contracting strategies as well as having been the Superintendent on major construction contracts.

Greg is Chair of the Sustainability, Safety, Health & Environment Committee and is a member of the Remuneration and Nomination Committee.

Greg currently has no other listed company directorships and has held no other listed company directorships in the last three years, however Greg is a director of OptiComm Ltd, a non-listed public company that operates in the telecommunications sector and which is expected to list on the Australian Securities Exchange on or about 22 August 2019.

Tom Coen

Non-Executive Director

Term of Office: Non-Executive Director since February 2019.

Tom Coen was appointed as a Non-Executive Director of Service Stream Limited on 1 February 2019. Tom was a founding member of Comdain Infrastructure and led the business as Managing Director for 20 years and then Chairman for the following 8 years.

Tom has over 35 years' experience in the Australian utility sector. He brings to Service Stream an intimate knowledge of both the water and gas sectors and provides unique insight into civil construction, procurement, program coordination, scheduling, operations management and contract management.

Tom brings to the Board a demonstrated ability to form productive and collaborative partnerships evident in the numerous Joint Ventures he has successfully crafted.

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

Peter Dempsey

Non-Executive Director

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

Term of Office: Chairman from November 2010 to February 2015, Non-Executive Director since March 2015.

Peter Dempsey was appointed as Non-Executive Director of Service Stream Limited on 1 November 2010 and held the role of Chairman until February 2015. Peter has extensive construction and development experience and has been involved in these industries for the last 40 years. In 2003, he retired from A W Baulderstone Pty Ltd after a 30 year career, the last five years as Managing Director. Baulderstone undertook some of Australia's largest building and civil infrastructure projects with annual revenues up to $1.5 billion during his tenure. The company was also involved in projects for the resources sector, with operations in all Australian mainland states, Papua New Guinea, Indonesia and Vietnam.

Peter is Chairman of the Remuneration and Nomination Committee, a member of the Audit and Risk Committee and the Sustainability, Safety, Health and Environment Committee and is the lead Independent Director.

Peter is currently a Non-Executive Director of Monadelphous Limited.

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

Raelene Murphy

Non-Executive Director

Term of Office: Non-Executive Director since November 2015.

Qualifications: BBus (FUA), FCA, GAICD.

Raelene Murphy has a proven track record in financial and operational performance improvement both as an advisor and in CFO and CEO roles across a number of industry sectors in the private and public arena.

Raelene's industry experience includes senior roles locally and internationally with Mars Inc., one of the largest food manufacturers globally, in planning, finance and supply chain management and as CEO of the Delta Group, a leading diversified recycling and construction industry service provider employing over 1,000 people Australia-wide. Her advisory career has been with PwC and as a partner in a national accounting firm where she led financial and operational advisory. In that capacity, she was a lead partner on the Federal Government's strategic review of the nbn.

Raelene is a member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

Raelene is a Non-Executive Director of Bega Cheese Limited, Altium Limited, Integral Diagnostics Limited and Clean Seas Seafood Limited. During the last three years, Raelene held a listed company directorship with Tassal Group Limited (retired March 2018).

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Deborah Page AM

Non-Executive Director

Term of Office: Non-Executive Director since September 2010.

Qualifications: B Ec (Syd), FCA, FAICD.

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 Committee and is a member of the Remuneration and Nomination Committee.

Deborah is currently a Non-Executive Director of Brickworks Limited, Pendal Group Limited and GBST Holdings Limited.

Deborah has 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 and rights in shares of the Company or related body corporate as at the date of this report.

	Service Stream Limited	
	Fully paid ordinary shares	Performance rights
Directors	Number	Number
B Gallagher	3,150,986	-
G Adcock	50,000	-
T Coen[1]	38,444,918	-
P Dempsey	1,000,000	-
R Murphy	20,000	-
D Page	409,268	-
L Mackender	1,050,000	1,000,000

[1]Comdain Nominees Pty Ltd, a company in which Tom Coen has a beneficial interest, received 38,444,918 shares as part of the consideration for the Comdain Infrastructure acquisition.

Remuneration of key management personnel

Information about the remuneration of key management personnel is set out in the remuneration report of this Directors' report, on pages 15 to 23. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any Director (whether executive or otherwise) of the consolidated entity.

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Performance rights granted to Directors and senior management

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

Director and senior executives	Service Stream Limited	
	Number of rights granted	Number of ordinary shares under rights
L Mackender	1,000,000	1,000,000
R Grant	700,000	700,000
J Ash	81,140	81,140
P McCann	650,000	650,000
K Smith	650,000	650,000
	3,081,140	**3,081,140**

Company secretaries

Vicki Letcher

Vicki Letcher joined Service Stream Limited in June 2010 and was appointed Company Secretary in August 2012. Vicki holds a Bachelor of Laws and a Bachelor of Commerce and is also a fellow Chartered Accountants Australia and New Zealand and of the Governance Institute. Vicki is responsible for the corporate administration, governance and risk management of the Group, along with having the responsibility for the Internal Audit department of the Group.

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

Vicki commenced maternity leave with effect from 31 May 2019.

Chris Chapman

Chris Chapman was appointed General Counsel for the Service Stream Group in August 2015. Chris has significant in-house experience having held senior legal positions at large private and listed construction and infrastructure businesses. Chris was appointed Co-Company Secretary in February 2019 and holds a Bachelor of Laws and Bachelor of Arts and is a graduate of the Australian Institute of Company Directors.

Nicole Goding

Nicole Goding held the role of Co-Company Secretary from December 2016 until her resignation from the company on 22 February 2019.

Principal activities

The Service Stream Group is a provider of essential network services, including access, design, build, installation and maintenance. These services are provided across fixed-line and wireless telecommunications networks as well as to a range of water, gas and electricity network owners and operators nationally.

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Review of operations and financial performance

Financial overview

Service Stream has delivered another year of growth with significant improvements recorded for the financial year ended 30 June 2019 (FY19) across key profitability measures. The year was highlighted by the acquisition of Comdain Infrastructure on 2 January 2019, and its contribution to Group earnings for the second-half of the financial year.

Key financial measures

$'000	FY19	FY18	Change		
Profitability:					
Revenue	852,178	632,946	219,232	35%	▲
EBITDA[1]	89,543	67,296	22,247	33%	▲
EBITDA %	10.5%	10.6%	(0.1%)		▼
EBIT	73,317	57,851	15,466	27%	▲
EBIT %	8.6%	9.1%	(0.5%)		▼
Net profit after tax	49,859	41,107	8,752	21%	▲
Cashflow & Capital Management:					
Operating Cashflow	59,523	79,677	(20,154)	(25%)	▼
Net Cash	10,521	73,041	(62,520)	(86%)	▼
Earnings per share (cents)	13.09	11.29	1.80	16%	▲
Dividends declared per share (cents)	9.00	7.50	1.50	20%	▲
Adjusted Profitability[2]:					
EBITDA from Operations	93,266	66,296	26,970	41%	▲
NPATA[3]	57,663	41,459	16,204	39%	▲
Adjusted EPS (cents)	15.14	11.39	3.75	33%	▲

[1]Earnings before interest, tax, depreciation and amortisation.
[2]Adjusted as relevant for one-off non-operational items and amortisation of customer contracts and customer relationships. Refer to the reconciliation between IFRS and non-IFRS financial information for further details on page 9.
[3]Adjusted net profit after tax.

All financial measures and period-on-period changes thereto, are rounded to the displayed number of decimal places.

Changes to the Group's reportable segments

Following the acquisition of Comdain Infrastructure during the year, the Group has reviewed its operating segments, cash generating units and reportable segments. That review concluded that:

- the Group's existing operating segments and cash generating units remain the same (Fixed Communications, Network Construction, and Energy & Water) with the addition of Comdain Infrastructure;
- Fixed Communications and Network Construction have been assessed as having similar economic characteristics and being similar in terms of each of the other aggregation criteria set out in AASB 8 *Operating Segments* including the nature of services, the type of customers and the methods by which services are provided, such that they have been aggregated into a single Telecommunications reportable segment; and
- Energy & Water and Comdain Infrastructure have been assessed as having similar economic characteristics and being similar in terms of each of the other aggregation criteria set out in AASB 8 *Operating Segments* including the nature of services, the type of customers and the methods by which services are provided, such that they have been aggregated into a single Utilities reportable segment.

Group results

Group revenue improved to $852.2 million from $632.9 million with the 35% year-on-year increase attributable to growth in each of the two reporting segments of Telecommunications (+10%) and Utilities (+156%) with the acquisition of Comdain Infrastructure contributing $160.2 million (+150%) of the latter.

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Group earnings before interest, tax, depreciation and amortisation (EBITDA) improved to $89.5 million from $67.3 million with the 33% year-on-year increase following average annual growth in the same metric of 38% over the preceding three financial years. As with revenue, EBITDA growth was achieved by each of Telecommunications (+22%) and Utilities (+127%) with the acquisition of Comdain Infrastructure contributing $11.1 million (+106%) of the latter.

Group earnings before interest and tax (EBIT) improved to $73.3 million from $57.9 million with the 27% year-on-year increase attributable to the increase in EBITDA offset by the impact of additional depreciation and amortisation charges (including the amortisation of customer contracts and customer relationships) associated with Comdain Infrastructure.

Group net profit after tax (NPAT) improved to $49.9 million from $41.1 million with the 21% increase attributable to the aforementioned improvement in EBIT offset by higher net financing costs associated with an increase in the size and utilisation of the Group's financing facilities arising from the acquisition of Comdain Infrastructure.

Basic earnings per share (EPS) improved to 13.09 cents from 11.29 cents with the increase primarily attributable to the increase in NPAT despite the impact of higher average shares on issue during the period including that arising from the issue of 40.189 million shares as part consideration for the acquisition of Comdain Infrastructure.

Group operating cashflow before interest and tax (OCFBIT) of $79.7 million represents a 20% decrease on FY18. The Group achieved an EBITDA to OCFBIT conversion of 89% for the period.

Operating cashflow was $59.5 million after factoring in tax payments of $18.8 million (FY18: $20.6 million) and net financing payments of $1.4 million (FY18: $0.4 million receipt).

A final dividend of 5.5 cents (fully-franked) has been declared in respect of FY19, taking total dividends in respect of the year to 9.0 cents (fully-franked) compared to 7.5 cents (fully-franked) in respect of FY18.

Other cash outflows for the year included $82.8 million for cash consideration associated with the acquisition of Comdain Infrastructure, $9.4 million associated with capital expenditure net of proceeds from the sale of assets and $0.1 million associated with share issue costs.

The Group concluded the year with Net Cash of $10.5 million (FY18: $73.0 million).

Segment Results

Information on the Group's reportable segment results is summarised below:

$'000	FY19		FY18		Change	
Telecommunications	587,815		535,182		52,633	
Utilities	273,417		106,734		166,683	
Eliminations, interest & other revenue	(9,054)		(8,970)		(84)	
Total Revenue	852,178		632,946		219,232	
Telecommunications	75,852	12.9%	62,326	11.6%	13,526	1.3%
Utilities	23,782	8.7%	10,471	9.8%	13,311	(1.1%)
Unallocated corporate costs	(6,368)	(0.7%)	(6,501)	(1.0%)	133	0.3%
One-off non-operational costs	(3,723)	(0.4%)	1,000	0.2%	(4,723)	(0.6%)
Total EBITDA	89,543	10.5%	67,296	10.6%	22,247	(0.1%)
Depreciation & amortisation	(8,801)	(1.0%)	(7,513)	(1.2%)	(1,288)	0.2%
Amort. of cust. contracts / relationships	(7,425)	(0.9%)	(1,932)	(0.3%)	(5,493)	(0.6%)
EBIT	73,317	8.6%	57,851	9.1%	15,466	(0.5%)
Net financing costs	(1,202)		421		(1,623)	
Income tax expense	(22,256)		(17,165)		(5,091)	
Net profit after tax	49,859	5.9%	41,107	6.5%	8,752	(0.6%)

All financial measures and period-on-period changes thereto, are rounded to the displayed number of decimal places.

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Revenue

Revenue increased by $219.2 million compared to the prior corresponding period driven primarily by:

- Telecommunications revenue was up (+$52.6 million) with a breakdown of revenue from the key business activities detailed in the table below. The increase in revenue was related to customer connections and related services being performed for nbn co under the various Activation & Assurance, Minor Projects and Design & Construction contracts, offset by a volume-related decline in fixed-line activities for other customers and in Wireless operations.

$'000	FY19	FY18	Change
nbn Activations & Assurance	276,059	218,048	58,011
nbn Minor Projects	59,569	34,940	24,629
Other fixed-line customers	36,932	48,315	(11,383)
nbn Design & Construction	127,678	106,284	21,394
Wireless	87,577	127,595	(40,018)
Total Revenue: Telecommunications	587,815	535,182	52,633

- Utilities revenue was up (+$166.7 million) with a breakdown of revenue from the key business activities detailed in the table below. The increase in revenue was primarily due to the inclusion of revenue from Comdain Infrastructure following its acquisition in January 2019. Increases in revenue, albeit of more modest quantum, also arose in each of metering services, new energy and inspection services.

$'000	FY19	FY18	Change
Metering services	71,143	65,293	5,850
New energy	15,649	13,775	1,874
Inspection services	17,303	16,974	329
Comdain Infrastructure	160,222	-	160,222
Other	9,100	10,692	(1,592)
Total Revenue: Utilities	273,417	106,734	166,683

Earnings before interest, tax, depreciation and amortisation

The Group's EBITDA of $89.5 million for the year was an increase over the prior year by $22.2 million.

- Telecommunications achieved an EBITDA of $75.9 million for FY19 which represents an improvement of $13.5 million over the prior year. The higher EBITDA resulted from the increase in revenue detailed above coupled with a 1.3 percentage point increase in margin on the back of improved productivity and a greater proportion of revenue from nbn activities under a free issue materials commercial framework.
- Utilities reported an EBITDA of $23.8 million for FY19, an increase of $13.3 million over the prior year. The higher EBITDA resulted from the increase in revenue detailed above offset by a 1.1 percentage point decrease in margin arising from the inclusion of lower margin revenue from Comdain Infrastructure.
- Unallocated corporate costs were $6.4 million for FY19, a decrease of $0.1 million over the prior year.
- One-off non-operational costs were $3.7 million for FY19, including transaction and integration costs associated with the acquisition of Comdain Infrastructure. This compares to a one-off non-operational benefit in FY18 arising from the write-back to profit of the $1.0 million allowance for contingent consideration that was booked in the prior year in relation to the TechSafe acquisition.

Depreciation and amortisation

- Depreciation and amortisation charges totalling $8.8 million were recorded for the period in relation to the Group's plant and equipment and acquired/internally-developed IT systems. This was $1.3 million higher than the charge in the prior year largely due to the depreciation and amortisation charges applicable to the acquired Comdain Infrastructure assets.
- A charge of $1.8 million was recorded for the period in relation to the amortisation of customer contracts acquired as part of the TechSafe acquisition in May 2017. This was $1.9 million in the prior year.
- A first-time charge of $5.7 million was recorded for the period in relation to the amortisation of customer contracts and customer relationships acquired as part of the Comdain Infrastructure acquisition in January 2019.

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Net financing costs

- The Group incurred line fees, interest expense and other financing costs totalling $1.9 million for the year, offset by interest income of $0.7 million. This compared to a $0.4 million net financing benefit in the previous year.

Tax

- An income tax expense of $22.3 million was recorded for the period, representing an effective tax rate for the year of 30.9% which was in line with expectations and prior years.

Cashflow

Key movements in cashflow compared to the prior period are as follows:

- Net cashflow from operations was $59.5 million compared to $79.7 million in the prior period. The $20.2 million decrease can be attributed to:
    - Service Stream operations generated $79.7 million in operating cashflow before interest and tax (OCFBIT) for the year compared to $99.9 million in the prior period due to the impact of an increase in net working capital, particularly that associated with the nbn design and construction contracts as they near physical completion;
    - Cash flows associated with financing for the year were a net cash outflow of $1.4 million compared to a net cash inflow of $0.4 million in the previous year; and
    - Tax payments totalling $18.8 million were made during the year in accordance with the Group's tax instalment regime, compared to $20.6 million in the prior year.
- Net investing cash outflows for the year increased to $92.2 million compared to $8.2 million in the previous year and comprised:
    - $82.8 million associated with the cash consideration paid during the year for the Comdain Infrastructure acquisition, compared to $0.7 million associated with the post-completion Purchase Price Adjustment for the TechSafe acquisition in the prior year;
    - $9.9 million of capital expenditure investment in technology and plant & equipment compared to $7.7 million in the previous year; net of
    - $0.5 million of proceeds from the sale of assets compared to $0.2 million in the previous year.
- Net financing outflows for the year included:
    - $29.8 million paid in dividends, an increase of $8.1 million over the previous year;
    - Nil expended to acquire shares in Service Stream Limited to satisfy the Group's obligations under certain share-based incentive arrangements compared to $18.6 million in the prior period;
    - Nil expended to acquire shares as part of the Group's on-market share buy-back compared to $8.0 million in the prior period;
    - $60.0 million of new borrowings to partly fund the cash consideration of the Comdain Acquisition compared to Nil in the prior period; and
    - $0.4 million paid in respect of finance lease repayments consistent with the prior period.

Financial position

The financial position of the Group improved during the year, with Net Assets at 30 June 2019 of $307.8 million compared to $206.9 million at 30 June 2018. $70.4 million of the increase was due to the issuance of 40.189 million shares as part consideration for the acquisition of Comdain Infrastructure. At 30 June 2019, Current Assets exceeded Current Liabilities by $53.4 million (30 June 2018: $71.2 million).

Net cash and financing facilities

- The Group ended the year with Net Cash of $10.5 million, a decrease of $62.5 million over the $73.0 million balance at the prior period end. Net Cash at 30 June 2019 comprised cash of $70.8 million less borrowings of $60.0 million and the outstanding balance under the IT Infrastructure finance lease of $0.3 million.
- Bank guarantee utilisation at year-end of $42.5 million was significantly higher than the prior year-end's $19.3 million due to the bank guarantee requirements of Comdain Infrastructure.
- The Group's finance facilities at 30 June 2019 comprised a Term Loan of $60.0 million (drawn: $60.0 million), cash advance lines totalling $30.0 million (drawn: Nil) and overdraft facilities totalling $40.0 million (drawn: Nil).
- The Group was in compliance with, and had substantial headroom on each of the financial covenants that applied during the year under the Syndicated Facilities Agreement with its bankers Australia & New Zealand Banking Group and HSBC Bank Australia Limited.

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Other Balance Sheet items / movements

Other key balance sheet movements during the year included:

- Working capital (comprising the net of trade & other receivables, inventories, accrued revenue, trade & other payables, income in advance, provisions and lease incentives) at 30 June 2019 was a net liability position of $3.8 million. The closing balance represents an increase of $0.2 million from the prior year's closing net liability balance of $3.6 million.
- Plant and equipment at 30 June 2019 was $20.1 million compared to $3.9 million at 30 June 2018 with the bulk of the increase attributable to plant & equipment acquired as part of the Comdain Infrastructure acquisition.
- Intangibles at 30 June 2019 were $319.5 million compared to $148.8 million with the increase primarily attributable to customer contracts, customer relationships and goodwill arising from the Comdain Infrastructure acquisition.

Reconciliations between IFRS and non-IFRS financial information

$'000	FY19	FY18
Reported EBITDA	89,543	67,296
Add-back adjustments:		
- Write-back of deferred consideration (TechSafe)	-	(1,000)
- Acquisition costs (Comdain)	2,473	-
- Integration costs (Comdain)	1,250	-
EBITDA[1] from Operations	**93,266**	**66,296**
Statutory NPAT	49,859	41,107
Add-back adjustments:		
- As above for EBITDA	3,723	(1,000)
- Amort. of cust. contracts / relationships	7,425	1,932
- Tax effect of above (as relevant)	(3,344)	(580)
Adjusted NPAT (NPATA)[2]	**57,663**	**41,459**
Avg number of shares on issue (millions)	380.877	363.952
Statutory EPS (cents)	13.09	11.29
Adjusted EPS (cents)	**15.14**	**11.39**

[1]Earnings before interest, tax, depreciation and amortisation.
[2]Adjusted net profit after tax.

Business activities

Telecommunications

Through the Group's Fixed Communications and Network Construction businesses, Telecommunications provides a wide range of operations, maintenance, installation, design and construction services to the owners of fixed-line and wireless telecommunication networks in Australia. Principal customers include nbn co, Telstra and Vodafone Hutchison Australia (VHA).

- Telecommunications' financial performance in FY19 improved over the prior year, delivering an EBITDA of $75.9 million and revenue of $587.8 million (12.9% margin), compared with EBITDA of $62.3 million and revenue of $535.2 million (11.6% margin) in the prior year.
- During the year, Fixed Communications continued to deliver services to nbn co under the Operations and Maintenance Master Agreement (OMMA) and Network MACs and Restoration Activities (NMRA) contracts to Telstra under the Asset Relocation & Commercial Works (ARCW) contract and to Telstra, nbn co and other customers under various minor works contracts. The business completed the activation of 727,000 new customers for nbn co under the OMMA contract compared to 787,000 in the previous year, and commenced activities during the year for nbn co under the new Business Deployment on Demand (BDoD) contract.

- During the year, Network Construction continued its delivery of predominantly fibre-to-the-node (FTTN) construction activity to nbn co under the Multi-Technology Integrated Master Agreement (MIMA) contract, and predominantly fibre-to-the-curb (FTTC) design and construction activity to nbn co under the Design and Construction Master Agreement (DCMA) contract, and continued its delivery of site acquisition, engineering, design and construction services to wireless customers including Telstra, VHA and Nokia Solutions and Networks Australia Pty Ltd on the Optus wireless network.

Utilities

Through the Group's Energy & Water and Comdain Infrastructure businesses, Utilities provides a wide range of specialist metering, new energy, inspection & compliance, operations, maintenance, design & construction services to utility network owners and operators and to other customers in Australia.

- Utilities' financial performance in FY19 also saw improvement with EBITDA of $23.8 million and revenue of $273.4 million (8.7% margin) compared with EBITDA of $10.5 million and revenue of $106.7 million (9.8% margin) in the prior year.
- During the year Energy & Water completed 89 (FY18: 135) commercial solar PV installations with an average size of 108.1kw (FY18: 69.6kw) representing total installed capacity of 9.6 megawatts (FY18: 9.4 megawatts) as well as 437 (FY18: 569) residential solar PV installations at an average size of 5.6kw (FY18: 4.3kw) representing total installed capacity of 2.5 megawatts (FY18: 2.4 megawatts).
- Comdain Infrastructure, the acquisition of which was completed on 2 January 2019, contributed six months revenue ($160.2 million) and EBITDA ($11.1 million) to Utilities' financial performance for the year.
- During the year, Comdain Infrastructure undertook operations and maintenance work in Victoria by its Asset Management Services and Multinet Gas business units, small gas and water infrastructure projects in Victoria by its Land Development business unit, specialist activities nationally by its Electrical and Mechanical Instrumentation business unit, and gas and water-related projects nationally by its Victorian Engineering, New South Wales, Queensland and Regional business units. During the year, Comdain Infrastructure substantially completed one of its largest projects to date, being the approximately $18.0 million Nimmie-Caira wetlands restoration project which is part of the Murray Darling Basin Plan.

Overall Group strategy, prospects and risks

The financial performance of the Group further improved during the year, and the Group delivered on its strategic plan in line with the Board's expectation.

The Board is particularly pleased to have completed the acquisition of Comdain Infrastructure on 2 January 2019 and for the Company's admission to the S&P ASX200 Index with effect from 24 June 2019.

The Board also notes the continued consistency of service delivery under Telecommunications' various contracts with nbn co during the year, the winning of the nbn BDoD contract during the year, the future prospects of the Wireless business in respect of 5G design and construction opportunities, and the future prospects of the Comdain Infrastructure business.

The Board believes that demand for essential network services is expected to remain strong in the medium term, and that the Group remains well placed to continue to take advantage of both organic and acquisitive growth opportunities as they present.

Given the Group's strong financial position, the Board continues to review the Group's capital management strategy to ensure it remains effective at maximising shareholder value. In this context, the Board has declared an increased final dividend of 5.5 cents per share (fully-franked) taking total dividends in respect of FY19 to 9.0 cents per share (fully-franked) in line with the Group's progressive dividend policy approach.

The achievement of the Group's business objectives in the near term may be impacted by the following risks:

Customer concentration	Management and the Board are conscious of the Group's exposure to a small number of key customers and infrastructure programs particularly within the telecommunications sector as a source of revenue and profitability, but accepts that concentration to customers such as nbn co, Telstra and VHA is a natural consequence of operating in this market in Australia. In that context, Management and the Board remain alert to factors that could disrupt or delay the flow of work from its major customers, and implement strategies to actively pursue the diversification of income streams both within and separate to those customers by developing and offering a broad range of services and geographic coverage. In January 2019, the Group acquired Comdain Infrastructure which provides a wide range of operations, maintenance, design and construction services to gas and water network owners and operators in Australia. The Board believes that this acquisition will add significant diversification to the Group's revenue stream and will lessen the risk posed by customer concentration. The Board supports Management's continued identification and assessment of further acquisition opportunities within strict criteria, which may further improve the diversification of the Group's revenue streams.

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Customer demand	Many of the Group's customer contracts, including those of Comdain Infrastructure, do not contain volume commitments and are therefore dependent on the customer's demand requirements which can change at any time. Whilst Management and the Board take a balanced view on the level of customer demand that is expected to arise under each of these contracts when forecasting financial performance, there is a risk that the level of customer demand may change over time. In addition, the potential variability in that customer demand presents operational challenges to the Group. In this regard, Management and the Board are conscious of the need to maximise the variability of the business' cost-base and structures by maintaining an appropriate balance between a self-perform workforce and the use of subcontractors. Processes are therefore established and maintained to attract, mobilise and retain key resources to ensure that they are available at the right time and right place to match customers' forecasts of volume as they change over time.
Contract management	Given that Service Stream's operating model is premised on the provision of infrastructure-related services to customers under periodically renewed contracts, Management and the Board are conscious of the risks that can arise through the acceptance of sub-optimal conditions in customer contracts and through the ineffective commercial administration of these contracts over their term. Management and the Board therefore remain focused on ensuring that appropriate contract management disciplines are effectively embedded in the organisation to manage contract risks and to maximise contract entitlements. In that context, a now well-established Group Commercial function is in place, reporting directly to the Managing Director. Group Commercial is responsible for the development and maintenance of a Bid Management Framework in respect of winning new business and a Commercial Health-Check Program in respect of existing business, and generally for ensuring that sound contract management disciplines are embedded across the Group. Management's current focus is on embedding the Group's bidding and contract management disciplines into the recently acquired Comdain Infrastructure business.
Renewal of customer contracts	Whilst the Group has been successful in renewing and extending the majority of all customer contracts that have recently expired, the renewal of contracts remains a risk that Management and the Board continues to actively monitor and manage. Service Stream operates in a limited number of market segments in which there are relatively few competitors. Management and the Board are therefore particularly conscious of the risks related to the loss of business to competitors either through their ability to potentially leverage more cost-effective business platforms or as a consequence of their potential adoption of loss-leading strategies to maintain or increase market share. During FY19, the Group did not lose any major contracts and was successful in securing extensions of its wireless contracts with both Telstra and VHA. The Group was also successful in winning a number of new meter reading and meter replacement contracts in Energy & Water and the Business Deployment on Demand contract with nbn co. During FY20, the Group's OMMA and NMRA contracts with nbn co come up for renewal. The Board expects that the Group's superior performance and consistency of service delivery will underpin extension of those contracts.
Project management	Management and the Board are conscious that the acquisition of Comdain Infrastructure increases the Group's exposure to risks arising from undertaking a portion of project works which are fixed-price / lump-sum in nature. In that context, the Group has engaged an independent expert to assess the effectiveness of Comdain Infrastructure's project management controls and systems, and is currently working with Comdain Infrastructure to implement a number of recommendations coming out of that review. Planning is progressing to transition Comdain Infrastructure onto the Group's core business system and project management platform during FY20, to enhance the systemisation and scalability of project management controls.
Retention of key personnel and sourcing of subcontractors	The talents of a growing, yet relatively small number of key personnel contribute significantly to the Group's operational effectiveness. Management and the Board have implemented strategies to retain those personnel, including participation in appropriate incentive arrangements and participation in the Group's employee development, talent identification and succession programs. The Board notes that the Executive Share-based Incentive Plan (ESBIP) that was established in 2014 to operate for a five-year period from FY15 to FY19 and that was offered to the Managing Director and a small number of other key executives, has now concluded. In consultation with external remuneration advisers, the Board has developed and implemented revised remuneration arrangements for the Managing Director and executives to apply from FY20, and believes those arrangements will be effective in retaining and incentivising those key personnel.

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Access to an appropriately skilled and resourced pool of subcontractors across Australia is also critical to Service Stream's ability to successfully secure and complete field-based work for its customers. Throughout FY19, Management continued to focus on mobilising large numbers of subcontractors to undertake an increased volume of work for clients such as nbn co. The business continues to make appropriate capital investments in IT-related platforms which assist with the engagement, deployment, daily management and retention of the business' growing subcontractor base.

Working with potential safety hazards

In undertaking work and delivering programs for its customers, Service Stream's employees and subcontractors can operate in potentially hazardous environments and perform potentially hazardous tasks.

Management and the Board remain alert to the safety risks posed to employees and subcontractors, devote significant time to monitoring the effectiveness of the Group's safety framework, and have implemented a wide range of controls and proactive programs to increase awareness of significant hazards and prevent injuries to employees and subcontractors.

In that context, the Group has engaged an independent expert to assess the effectiveness of Comdain Infrastructure's safety management systems, and is currently working with Comdain Infrastructure to implement a number of recommendations coming out of that review.

During FY19, the Group maintained its Lost Time Injury Frequency Rate (LTIFR) and Total Reportable Incident Frequency Rate (TRIFR) at industry-leading levels.

Digital disruption

As technology continues to change and evolve at a rapid pace, it is possible that such advances may cause disruptions to certain elements of the markets in which Service Stream operates, or to services that Service Steam provides.

Management and the Board spend time each year during a planning cycle to update the Group Strategic Plan which extends across a four-year horizon. This planning process includes a detailed assessment of relevant external factors, including digital disruption or technological changes, which may have a bearing on the Group's current markets and service offerings.

Information technology systems and cyber security

The Group's operational agility, overall cost effectiveness and ability to convert works to cash in a timely manner are becoming increasingly reliant on a number of business-critical systems and in turn, the appropriate management of data and information and risks associated with cyber security and malicious emails.

Management and the Board remain alert to ensuring that sufficient funds are made available to maintain fit-for-purpose system applications and infrastructure, and that IT investments are appropriately prioritised as part of the Group's annual strategic planning process and are undertaken effectively.

During FY19, the Group has further expanded the scope of its core ERP application, and has continued to enhance its IT infrastructure redundancy, implemented and tested disaster recovery capability, and invested in improved email scanning and firewall protections.

Dividends

Dividends paid or declared by the Company during and since the end of the year are set out in note 18 to the financial statements and further set out below:

	Final 2019	Interim 2019	Final 2018
Per share (cents)	5.50	3.50	4.50
Total amount ($'000)	22,089	14,049	16,242
Franked	100%	100%	100%
Payment date	2 October 2019	21 March 2019	27 September 2018

Significant changes in the state of affairs

Except for as stated in the review of operations and financial performance, there was no significant change in the state of affairs of the Group during the financial year.

Matters subsequent to the end of financial year

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.

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Environmental regulation

Other than compliance with general obligations under Federal and State environmental laws and regulations, the Group's operations are not subject to any particular or significant environmental regulation under a Commonwealth, State or Territory law.

Shares under performance rights

Details of unissued shares under performance rights at the date of this report are:

Series	Class of shares	Exercise price of right	Vesting date	Number of shares under rights
FY17 LTIP Tranche	Ordinary	$0.00	September 2019	853,073
FY18 LTIP Tranche	Ordinary	$0.00	September 2020	665,889
FY19 LTIP Tranche	Ordinary	$0.00	September 2021	812,893
FY19 ESBIP Tranche	Ordinary	$0.00	August 2019	4,500,000
				6,831,855

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

In accordance with the Employee Share Ownership Plan the shares relating to the Long Term Incentive Plan (LTIP) and Executive Share-based Incentive Plan (ESBIP) tranches will be issued to participants after release of the financial statements in the relevant financial year, to the extent that the vesting criteria has been satisfied.

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).

		Meetings of Committees			
	Board meetings	Audit and Risk	Remuneration and Nomination	Sustainability, Safety, Health & Environment	Term of Directorship
NO OF MEETINGS HELD	19[2]	4	3	3	
No of meetings attended by					
B Gallagher	18	4*	3*	3	9 years
G Adcock	19	3*	3	3	3 years
T Coen	7[1]	2*	2*	1*	5 months
P Dempsey	19	4	3	3	9 years
R Murphy	19	4	3	1*	4 years
D Page	17	4	3	3*	9 years
L Mackender	19	4*	3*	3	5 years

* Attended as Standing Invitee.

[1] T Coen was appointed on 1 February 2019 and did not participate in one Board meeting since date of appointment due to a conflict of interest.

[2] The number of board meetings held during the year comprised ten regular monthly meetings, two general meetings of shareholders and seven unscheduled meetings that related to the Comdain Infrastructure acquisition or large contract tender submissions.

Indemnification of officers and auditors

During the financial year, the Group paid a premium in respect of a contract insuring the Directors of the Company (as named above), the Company Secretaries, and all officers of the Group and any related body corporate against a liability incurred as a Director, Secretary or officer to the extent permitted under the *Corporations Act 2001*.

The contract of insurance prohibits the general disclosure of the terms and conditions, nature of the liability insured and the amount of the deductible or premium paid for the contract.

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

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001.*

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 31 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 31 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk 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 25 of the annual financial report.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the rounding-off of amounts in the Directors' report and the financial report. Amounts in the Directors' report and the financial report have been rounded-off to the nearest thousand dollars, in accordance with that Instrument.

Corporate governance statement

Service Stream Limited and the Board are committed to achieving and demonstrating the highest standards of corporate governance. Service Stream Limited has reviewed its corporate governance practices against the 3rd edition ASX Corporate Governance Principles and Recommendations. Service Stream is compliant with all ASX Corporate Governance Principles and Recommendations.

A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at http://www.servicestream.com.au/investors/corporate-governance. The corporate governance statement is accurate and up to date as at 20 August 2019 and has been approved by the Board.

Sustainability report

Service Stream Limited and the Board recognise the importance of driving long-term sustainable practices which support and enhance the environment, social and economic performance for both the Company and our wider stakeholders.

The Group's current sustainability report can be viewed at http://www.servicestream.com.au/investors/corporate-governance. The sustainability report is accurate and up to date as at 20 August 2019 and has been approved by the Board.

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Remuneration report

1 Introduction and scope

The Service Stream Limited remuneration report sets out information about the remuneration of Service Stream Limited's key management personnel (KMP) for the year ended 30 June 2019 (FY19). The term KMP refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any Director (whether executive or otherwise) of the consolidated entity.

The following table depicts the Directors and Senior Executives of the Group who were classified as KMP for the entire financial year unless otherwise indicated.

Non-Executive Directors	
Brett Gallagher	Chairman
Greg Adcock	Non-Executive Director
Tom Coen (appointed on 1 February 2019)	Non-Executive Director
Peter Dempsey	Non-Executive Director
Raelene Murphy	Non-Executive Director
Deborah Page AM	Non-Executive Director
Executive Director	
Leigh Mackender	Managing Director
Senior Executives	
Robert Grant	Chief Financial Officer
John Ash	Executive General Manager, Network Construction
Peter Coen (appointed on 2 January 2019)	Executive General Manager, Comdain Infrastructure
Paul McCann	Executive General Manager, Energy & Water
Kevin Smith	Executive General Manager, Fixed Communications

2 Role of the Remuneration and Nomination Committee

The Board's Remuneration and Nomination Committee (RNC) is responsible for reviewing and making recommendations to the Board on the remuneration arrangements for the Non-Executive Directors, the Managing Director and the executive management team including the Senior Executives. Information on the RNC's role and responsibilities is contained in its charter, which is available on the Group's website at www.servicestream.com.au.

To assist in performing its duties and making recommendations to the Board, the RNC periodically seeks independent advice from external consultants on various remuneration-related matters. In such cases, the RNC follows protocols around the engagement and use of external remuneration consultants to ensure compliance with the relevant executive remuneration legislation. All remuneration recommendations are provided by the external consultant directly to the RNC.

During FY19, the RNC engaged Korn Ferry to provide benchmarking data for salaried roles across the Group. Recommendations for salary adjustments arising from the benchmarking data were considered by the RNC and submitted to the Board for approval where appropriate. Korn Ferry was paid $63,000 for these services.

Also during FY19, the RNC engaged PricewaterhouseCoopers (PwC) to review the Executive's long-term incentive plan design. PwC was paid $60,180 for these services. PwC was not engaged to provide direct remuneration recommendations, but to provide insight to current executive remuneration and incentive practices, prevalent in the market. As a result of this engagement, the RNC has recommended the adoption of the STIP and LTIP to replace the ESBIP for the relevant Executives with effect from FY20.

3 Executive remuneration policy and framework

Remuneration policy and principles

The Board, through the RNC, reviews the remuneration packages of all KMP on an annual basis. Remuneration packages are set and reviewed with due regard to current market rates and are benchmarked, where relevant, against comparable industry salaries.

The objectives of the Group's remuneration policy are to ensure that the Group:

- Attracts, retains and motivates talented employees;
- Aligns employee activities to the achievement of business objectives;
- Creates a high performance culture that delivers shareholder value;

- Maintains fair, equitable and affordable rates of pay for all employees, based on their performance and the markets in which the Group operates;
- Encourages, recognises and rewards individual, team and group performance on the basis of ability-to-pay and alignment with shareholder returns; and
- Operates a remuneration system that is transparent, accountable, scalable, flexible and consistent, enabling comparison with the external market.

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

Overview of remuneration components

The table below depicts the components of the executive remuneration framework that apply to the Managing Director and Senior Executives. Further details on each of the components are set out in section 5 of this remuneration report.

Fixed remuneration	Incentive remuneration
FY19: Average 35% of total remuneration [1]	FY19: Average 65% of total remuneration [1]
> Fixed salary set by reference to appropriate benchmark information and individual performance > Includes superannuation and salary-sacrificed non-monetary benefits	> Fixed number of performance rights issued under an Executive Share-based Incentive Plan (ESBIP) > Performance hurdle linked to annual EPS growth >Discretionary cash bonuses [2] Or [3] > Variable number of performance rights issued under a Long Term Incentive Plan (LTIP) > Performance hurdle linked to annual EPS growth and Relative Total Shareholder Return > Cash bonus paid under the Short Term Incentive Plan (STIP)

[1] The percentage allocation of remuneration between Fixed and Incentive is based on a fair value for each performance right issued under the FY19 ESBIP and the FY17, FY18 and FY19 LTIPs.

[2] Discretionary cash bonuses would only be approved by the Board in one-off circumstances for recognition of exceptional outcomes and effort by the relevant Executive.

[3] Executives not eligible to participate in the ESBIP as detailed on page 17 may be eligible to participate in the LTIP and the STIP.

4 Linking performance to executive remuneration

The above elements of the executive remuneration framework are linked to the Group's financial performance. Changes to fixed remuneration are determined by an individual's performance and by the Group's capacity to fund any changes. Vesting of performance rights issued under the ESBIP and LTIP is directly linked to the satisfaction of relevant Group financial measures and cash paid under the STIP is linked to the satisfaction of relevant Group financial measures as well as relevant individual measures.

The RNC reviews the remuneration packages of all Directors and Senior Executives on an annual basis and makes recommendations to the Board in respect to any changes thereto. Remuneration packages are reviewed with due regard to performance, the relativity of remuneration to comparable companies and the level of remuneration required to attract and compensate Directors and Senior Executives, given the nature of their work and responsibilities.

In considering the Group's financial performance, the RNC has regard to a number of measures including the following:

Key Indicators	2015	2016	2017	2018	2019
Revenue ($'000)	411,270	438,940	501,810	632,946	852,178
EBITDA[1] ($'000)	25,389	35,818	48,352	67,296	89,543
Net profit after tax ($'000)	11,720	19,983	28,370	41,107	49,859
Earnings per share (cents)	3.03	5.20	7.78	11.29	13.09
Dividends per share[2] (cents)	1.50	2.50	4.50	7.50	9.00
Share price 30 June ($)	0.30	0.79	1.32	1.51	2.81

[1] Earnings before interest, tax, depreciation and amortisation.

[2] Franked to 100% at 30% corporate income tax rate.

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

5 Managing Director and Senior Executive remuneration

Fixed remuneration

Fixed remuneration consists of base compensation and statutory superannuation contributions. Executives may also elect to have other benefits provided out of their fixed remuneration, including additional superannuation and the provision of a motor vehicle.

Incentive remuneration

During the financial year ended 30 June 2019, Managing Director and Senior Executive incentive remuneration consisted of participation in either the Group's Executive Share-Based Incentive Plan (ESBIP), Long-Term Incentive Plan (LTIP) or Short-Term Incentive Plan (STIP) as set out in the table below.

Summary of incentive plan participation

	2019			2018		
	ESBIP	LTIP	STIP	ESBIP	LTIP	STIP
L Mackender	Yes	-	-	Yes	-	
R Grant	Yes	-	-	Yes	-	
J Ash	-	Yes	Yes	-	Yes	Yes
P Coen[1]	-	-	Yes	n/a	n/a	n/a
P McCann	Yes	-	-	Yes	-	-
K Smith	Yes	-	-	Yes	-	-

[1] Peter Coen was appointed as Executive General Manager - Comdain Infrastructure with effect from 2 January 2019 following the completion of Service Stream's acquisition of Comdain Infrastructure, and participated in the FY19 STIP on a pro-rata basis from that date.

ESBIP

What was the ESBIP and who participated?

The ESBIP was a share-based incentive plan established by the Board in 2014 to operate for a five-year period from FY15 to FY19 and offered to the Managing Director and to a small number of other key executives of the time. In establishing the ESBIP, the Board's aims were to recognise the efforts and loyalty of those individuals during the immediately preceding period of operating challenges and financial instability, provide a retention incentive for those executives identified as being key to leading the Group's return to sustainable profitability, and link their reward with the creation of shareholder value. Participation in ESBIP was conditional on each invited executive agreeing to forego participation in the Short-Term Incentive Plan (STIP) and the Long-Term Incentive Plan (LTIP) applicable to that five-year period.

The Managing Director and the Senior Executives listed in the table above were participants in the ESBIP.

How did the ESBIP operate?

The ESBIP operated via the allocation of performance rights that were subject to satisfaction of earnings per share (EPS) performance conditions. Upon admission to the ESBIP, each participating executive was provided with an ESBIP invitation that set out the rules and mechanics of the plan, and provided details regarding the number of rights that would be offered to that executive on an annual basis (by way of an annual offer letter) over the plan's term. Each performance right converted into one ordinary share of Service Stream Limited upon vesting. No amounts were paid or payable by the participant on receipt of the performance rights, and the performance rights carried neither rights to dividends nor voting rights.

The number of performance rights offered to the Managing Director and relevant Senior Executives under the ESBIP were endorsed by the RNC and approved by the Board and by shareholders in the case of the Managing Director.

What was the performance period?

ESBIP performance rights were issued in respect of a particular financial year and were subject to the satisfaction of performance hurdles over an initial one-year performance period. Any performance rights which did not vest at the end of the initial performance period would be tested again at the end of year two, and if necessary the end of year three (Aggregate Period). Any rights which did not vested at the end of the Aggregate Period would lapse.

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What were the performance hurdles?

The performance hurdles for each ESBIP grant were based on the following:

- The participant must have been an employee at the latter of the date on which the Group released its results for the financial year to which the ESBIP grant applied or otherwise determined that the vesting conditions have been satisfied during the Aggregate Period; and
- at least 10% growth in EPS for the initial performance period was achieved; or
- an average of at least 10% compound growth in EPS per annum for the Aggregate Period was achieved.

Why was this performance condition chosen?

The Board considered the EPS hurdle to be an appropriate measure on the basis that it was a relevant measure of increase in shareholder value, it was a financial outcome that was highly correlated with the effectiveness of ESBIP participants, and it was a financial metric the calculation of which was independently verified by virtue of the audit of the financial statements.

How has the ESBIP performed since it was established?

As depicted in the following table, performance rights issued in respect each of the FY15, FY16, FY17, FY18 and FY19 tranches of ESBIP have vested in full with annual Reported EPS growth over that period ranging from 16% to 299% relative to the 10% per annum performance hurdle. Over this five-year period, the Group's share price has increased by approximately 1400% from a base of $0.186 per share on 30 June 2014 to a closing price of $2.810 on 30 June 2019. Over this same period, dividends per share have increased from Nil in respect of FY14 to 9.0 cents in respect of FY19, with an average dividend yield based on year-end share prices averaging 4.0% (full-franked).

ESBIP Vesting & Shareholder Returns	FY15	FY16	FY17	FY18	FY19
Reported earnings per share (EPS) (cents)	3.03	5.20	7.78	11.29	13.09
Growth in Reported EPS	299%	72%	50%	45%	16%
Adjusted[1] earnings per share (EPS) (cents)	3.03	5.20	7.97	11.39	15.14
Growth in Adjusted EPS	299%	72%	53%	43%	33%
Growth in EPS - ESBIP hurdle	10%	10%	10%	10%	10%
ESBIP vesting	Yes	Yes	Yes	Yes	Yes
Shareholder Returns					
Share price as at 30 June ($)	0.30	0.79	1.32	1.51	2.81
Growth in share price	60%	164%	68%	14%	86%
Dividends per share (cents)	1.5	2.5	4.5	7.5	9.0
Dividend yield based on share price as at 30 June	5.1%	3.2%	3.4%	5.0%	3.2%

[1] Adjusted for the tax-effected impact of the amortisation of customer contracts and customer relationships arising from the TechSafe and Comdain Infrastructure acquisitions, transaction and integration costs associated with those acquisitions, and the write-back of TechSafe contingent consideration.

LTIP

What is the LTIP and who participates?

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

How does the LTIP operate?

In accordance with the provisions of the ESOP, certain employees in senior management roles may be invited to participate in the LTIP which entitles them to receive a number of performance rights. Each performance right converts into one ordinary share of Service Stream Limited on vesting. No amounts are paid or payable by the participant on receipt of the performance rights, and the performance rights carry neither rights to dividends nor voting rights. The number of performance rights granted is based on the employee's long term incentive participation rate, which is expressed as a percentage of the participant's total fixed remuneration (TFR), and the volume-weighted average market price of the Group's shares over a prescribed period of time or other issue price as deemed appropriate by the Board.

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What is the performance period?

LTIP performance rights are subject to the satisfaction of performance hurdles over a three-year performance period. Any rights which have not vested at the end of the Performance Period will lapse.

What are the performance hurdles?

Performance rights for each of the LTIP tranches relevant to FY19 are subject to service and performance criteria being:

A The participant must be an employee at the conclusion of the performance period; and

B 50% of the performance rights granted will each vest where:

(i) The Group's earnings per share (EPS) achieves annual growth of 10% or more over the performance period, commencing with growth from an agreed base EPS, subject to proportional vesting which commences at annual growth of 7.5%.

(ii) The Group's total shareholder return (TSR) over the performance period is such that it would rank at or above the 75th percentile (full achievement) or the 50th percentile (pro-rata achievement) of a relevant peer group of companies being those comprising the ASX 200 Industrials index.

Performance rights will vest to the extent that the participant remains employed by the Group on the vesting date and to the extent that the Group's performance over the relevant period satisfies the vesting conditions.

Why was this performance condition chosen?

The Board considered the EPS and TSR hurdles to be appropriate measures on the basis that they were relevant measures of increase in shareholder value and they were both outcomes which are highly correlated with the effectiveness of LTIP participants. In addition, EPS was a financial metric the calculation of which was independently verified by virtue of the audit of the financial statements, whilst TSR performance was independently assessed by third-party experts.

STIP

What is the STIP and who participates?

Eligible employees invited to participate in the STIP have the opportunity to earn an annual lump sum cash-based incentive payment through the achievement of pre-determined goals established with both the Remuneration and Nomination Committee (RNC) and relevant line managers at the beginning of each financial year.

How does the STIP operate?

The employee's maximum STIP entitlement is based on the employees' short-term incentive participation rate, which is expressed as a percentage of the employee's total fixed remuneration (TFR).

What is the performance period?

STIP payments are subject to the satisfaction of group and individual goals in respect of a particular financial year.

What are the performance hurdles?

Payment of STIP-related bonuses are subject to the achievement of at least 90% of the Group's EBITDA target for the financial year for all participants, regardless of their personal performance. Once this criterion is satisfied, bonus payments are based equally on Group performance and achievement of individual goals as illustrated below.

50% Group Financial Performance[1]	
Performance to Budget	Percentage paid out
90 - 100%	Pro-rata between 50% and 100% and at RNC discretion
100%	100%

50% Individual Performance	
KPI Quadrant-individual goals	Example percentage allocation
Financial	50%
Market & Customer	20%
Safety & People	20%
Risk & Governance	10%

[1] Additionally, the Managing Director has the discretion to withhold or pro-rate the Group Financial Performance component if individual financial KPIs are not met.

Individual goals are tied directly to the annual objectives of the Group, which are linked directly to the overall Group strategy categorised into the four quadrants of Financial, Market & Customer, Safety & People and Risk & Governance. The weighting applied to each of these quadrants varies depending on the role and responsibilities of each individual employee.

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Summary of grants under ESBIP and LTIP

	Balance as at 1 July 2018	Granted as compensation	Vested	Forfeited	Balance as at 30 June 2019	Fair value when granted [2]	Value of shares at vesting
	Number	Number	Number	Number	Number	$	$
L Mackender							
FY18 ESBIP	1,000,000	-	(1,000,000)	-	-	1,326,200	1,591,900
FY19 ESBIP[1]	-	1,000,000	-	-	1,000,000	1,487,100	n/a
Total	**1,000,000**	**1,000,000**	**(1,000,000)**		**1,000,000**		
R Grant							
FY18 ESBIP	700,000	-	(700,000)	-	-	928,340	1,114,330
FY19 ESBIP[1]	-	700,000	-	-	700,000	1,040,970	n/a
Total	**700,000**	**700,000**	**(700,000)**		**700,000**		
J Ash							
FY16 LTIP	296,989	-	(296,989)	-	-	72,020	518,127
FY17 LTIP[1]	123,411	-	-	-	123,411	76,774	n/a
FY18 LTIP	90,299	-	-	-	90,299	98,530	n/a
FY19 LTIP	-	81,140	-	-	81,140	89,618	n/a
Total	**510,699**	**81,140**	**(296,989)**		**294,850**		
K Smith							
FY18 ESBIP	650,000	-	(650,000)	-	-	862,030	1,034,735
FY19 ESBIP[1]	-	650,000	-	-	650,000	966,615	n/a
Total	**650,000**	**650,000**	**(650,000)**		**650,000**		
P McCann							
FY18 ESBIP	650,000	-	(650,000)	-	-	862,030	1,034,735
FY19 ESBIP[1]	-	650,000	-	-	650,000	966,615	n/a
Total	**650,000**	**650,000**	**(650,000)**		**650,000**		

Plan	Grant dates	Vesting dates
FY16 LTIP	11 September 2015	11 September 2018
FY17 LTIP	14 September 2016	September 2019
FY18 LTIP	14 September 2017	September 2020
FY19 LTIP	21 September 2018	September 2021
FY18 ESBIP	31 October 2017	15 August 2018
FY19 ESBIP	31 August 2018	20 August 2019

[1] The relevant number of shares will be issued to the participants after the release of these FY19 financial statements, to the extent that the vesting criteria has been satisfied.

[2] The grant date fair value of all rights on issue to KMP has been expensed as at 30 June 2019 in line with each of the tranche's performance periods.

Performance outcomes

The table below sets out the details of the percentage performance achieved against the applicable share plans, where the rights under the plan either vested or the assessment of the achievement of the relevant performance hurdles were assessed in the current financial year.

Plan	Grant date	Vesting date	Fair value of each performance right at grant date	% of performance hurdles achieved	% of rights vested
FY16 LTIP [1]	11 September 2015	11 September 2018	24.3 cents	100%	100%
FY17 LTIP [2]	14 September 2016	September 2019	62.2 cents	To be determined	To be determined
FY18 ESBIP [1]	31 October 2017	15 August 2018	132.6 cents	100%	100%
FY19 ESBIP [3]	31 August 2018	20 August 2019	148.7 cents	100%	100%

[1] Rights have vested and shares have been delivered to plan participants.

[2] Measurement of the Relative TSR for year three and the three-year period will not be completed until after the release of FY19 results.

[3] Both the service and performance criteria have been assessed as met. The relevant number of shares will be delivered to the participants after the release of the FY19 results.

Service agreements

The table below sets out the main terms and conditions of the employment contracts of the Managing Director and Senior Executives.

Title	Notice periods and termination payments
Managing Director and Chief Financial Officer	> 6 months either party (or payment in lieu) > Immediate for serious misconduct or breach of contract > Statutory requirements only for termination with cause
Other Senior Executives	> 3 months either party (or payment in lieu) > Immediate for serious misconduct or breach of contract > Statutory requirements only for termination with cause

Executive remuneration table

		Short-term employee benefits			Post-employment benefits	Long-term employee benefits	Share-based payments			
	Year	Salary and fees	Short-term incentive	Non-monetary	Super	LSL	Performance rights	Total	Fixed	At Risk
L Mackender	2019	529,469	50,000 [1]	-	20,531	18,228	1,487,100	2,105,328	27%	73%
	2018	509,959	-	-	20,049	12,679	1,326,200	1,868,887	29%	71%
R Grant	2019	464,300	50,000 [1]	-	20,531	14,078	1,040,970	1,589,879	31%	69%
	2018	455,276	-	-	20,049	9,852	928,340	1,413,517	34%	66%
J Ash	2019	365,415	84,117 [2]	-	20,531	10,272	88,307	568,642	70%	30%
	2018	358,020	81,380	-	20,049	6,659	82,441	548,549	70%	30%
P McCann	2019	298,847	-	24,384	20,531	15,602	966,615	1,325,979	27%	73%
	2018	275,672	-	27,001	20,049	5,821	862,030	1,190,573	28%	72%
K Smith	2019	376,548	-	-	20,531	12,823	966,615	1,376,517	30%	70%
	2018	358,122	-	-	20,049	12,873	862,030	1,253,074	31%	69%
P Coen [3]	2019	262,816	20,625 [2]	-	10,191	227	-	293,859	93%	7%
Total	**2019**	**2,297,395**	**204,742**	**24,384**	**112,846**	**71,230**	**4,549,607**	**7,260,204**	**35%**	**65%**
	2018	1,957,049	81,380	27,001	100,245	47,884	4,061,041	6,274,600	34%	66%

[1] These amounts represent one-off discretionary cash bonuses approved by the Board in respect of Service Stream's acquisition of Comdain Infrastructure.

[2] These amounts represent cash short-term incentives payable for the year ended 30 June 2019, which are scheduled to be paid in September 2019.

[3] Peter Coen was appointed as Executive General Manager, Comdain Infrastructure with effect from 2 January 2019 following completion of Service Stream's acquisition of Comdain Infrastructure.

6 Non-Executive remuneration

Overview

Aggregate fees approved by shareholders

The current maximum aggregate fee pool for the Non-Executive Directors is $750,000 as approved by shareholders. Board and committee fees (inclusive of superannuation where applicable) are included in the aggregate pool.

Promote independence and objectivity

Non-Executive Directors are remunerated only by way of fixed fees (inclusive of superannuation where applicable). To preserve independence and impartiality, Non-Executive Directors do not receive any performance related compensation.

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Regular reviews of remuneration

Fees are reviewed annually taking into account comparable roles and market data provided by the Board's independent remuneration advisor.

Non-Executive Directors' remuneration

	Year	Board and Committee fees	Super	Total
B Gallagher	2019	146,119	13,881	160,000
	2018	141,552	13,447	154,999
G Adcock	2019	113,734 [1]	4,266	118,000
	2018	105,023	9,977	115,000
T Coen [2]	2019	44,901	4,266	49,167
P Dempsey	2019	107,763	10,237	118,000
	2018	105,023	9,977	115,000
R Murphy [3]	2019	118,000	-	118,000
	2018	115,000	-	115,000
D Page	2019	114,155	10,845	125,000
	2018	109,589	10,411	120,000
Total	**2019**	**644,672**	**43,495**	**688,167**
	2018	576,187	43,812	619,999

[1] G Adcock's remuneration for 7 months of the year was paid to Ausadcock Pty Ltd, a company in which Mr Adcock has a beneficial interest.

[2] T Coen was appointed to the position of Non-Executive Director on 1 February 2019.

[3] R Murphy's remuneration is paid to Wealth For Toil Pty Ltd, a company in which Mrs Murphy has a beneficial interest.

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7 Shareholdings of key management personnel

	Balance as at 1 July	Received on vesting of performance rights	(Disposed)/ acquired during the year	Balance as at date of appointment	Balance as at date of resignation	Balance as at 30 June
	No.	No.	No.	No.	No.	No.
2019						
Non-Executives						
B Gallagher	5,376,126	-	(2,225,140)	-	-	3,150,986
G Adcock	50,000	-	-	-	-	50,000
T Coen	-	-	-	38,444,918	-	38,444,918
P Dempsey	1,441,775	-	(441,775)	-	-	1,000,000
R Murphy	20,000	-		-	-	20,000
D Page	409,268	-	-	-	-	409,268
Executives						
L Mackender	1,450,000	1,000,000	(1,400,000)	-	-	1,050,000
R Grant	1,608,759	700,000	(1,308,759)	-	-	1,000,000
J Ash	103,256	296,989	(400,245)	-	-	-
P McCann	988,522	650,000	(500,000)	-	-	1,138,522
K Smith	1,801,438	650,000	(414,440)	-	-	2,036,998
2018						
Non-Executives						
B Gallagher	5,376,126	-	-	-	-	5,376,126
G Adcock	50,000	-	-	-	-	50,000
P Dempsey	1,441,775	-	-	-	-	1,441,775
R Murphy	-	-	20,000	-	-	20,000
D Page	409,268	-	-	-	-	409,268
Executives						
L Mackender	1,749,499	1,000,000	(1,299,499)	-	-	1,450,000
R Grant	2,124,719	700,000	(1,215,960)	-	-	1,608,759
J Ash	-	292,986	(189,730)	-	-	103,256
P McCann	838,522	650,000	(500,000)	-	-	988,522
K Smith	1,500,752	650,000	(349,314)	-	-	1,801,438

8 Voting and comments made at the Company's 2018 Annual General Meeting

The Company received 96% of “yes” votes on its Remuneration Report for the 2018 financial year.

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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



Brett Gallagher
Chairman
20 August 2019



Leigh Mackender
Managing Director
20 August 2019

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Auditor's Independence Declaration

As lead auditor for the audit of Service Stream Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Service Stream Limited and the entities it controlled during the period.



Trevor Johnston
Partner
PricewaterhouseCoopers

Melbourne
20 August 2019

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Revenue from continuing operations			
Revenue from contracts with customers	3	**850,959**	629,584
Other income	4	**1,219**	3,362
		852,178	632,946
Expenses			
Employee salaries and benefits		**(193,567)**	(148,592)
Subcontractor fees		**(474,919)**	(360,253)
Raw materials and consumables used		**(37,196)**	(11,138)
Consulting and temporary staff fees		**(8,860)**	(5,416)
Company administration and insurance expenses		**(5,631)**	(4,082)
Occupancy expenses		**(8,897)**	(7,898)
Technology and communication services		**(14,639)**	(12,298)
Motor vehicle expenses		**(12,669)**	(9,476)
Depreciation and amortisation	6	**(16,226)**	(9,445)
Interest expense and other finance costs	5	**(1,899)**	(504)
Other expenses		**(5,560)**	(5,572)
Profit before tax		**72,115**	58,272
Income tax expense	7	**(22,256)**	(17,165)
Profit for the year		**49,859**	41,107
Total comprehensive income for the year		**49,859**	41,107
Profit attributable to the equity holders of the parent		**49,859**	41,107
Total comprehensive income attributable to equity holders of the parent		**49,859**	41,107
Earnings per share			
Basic (cents per share)	8	**13.09**	11.29
Diluted (cents per share)	8	**12.89**	11.10

Notes to the financial statements are included on pages 30 to 68

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Consolidated balance sheet
as at 30 June 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents	21	**70,809**	73,698
Trade and other receivables	9	**54,385**	43,321
Inventories	10	**8,868**	3,045
Accrued revenue	11	**125,988**	82,373
Other assets	12	**7,490**	2,769
Total current assets		**267,540**	205,206
Non-current assets			
Plant and equipment	13	**20,119**	3,948
Intangible assets	14	**319,512**	148,831
Total non-current assets		**339,631**	152,779
Total assets		**607,171**	357,985
LIABILITIES			
Current liabilities			
Trade and other payables	15	**161,737**	110,474
Current tax liabilities		**10,136**	3,197
Provisions	16	**32,594**	19,111
Borrowings	22	**9,000**	-
Finance lease	19	**288**	369
Lease incentives		**394**	847
Total current liabilities		**214,149**	133,998
Non-current liabilities			
Deferred tax liability (net)	7	**28,450**	12,111
Provisions	16	**5,785**	4,393
Borrowings	22	**51,000**	-
Finance lease	19	**-**	288
Lease incentives		**23**	301
Total non-current liabilities		**85,258**	17,093
Total liabilities		**299,407**	151,091
Net assets		**307,764**	206,894
EQUITY			
Capital and reserves			
Contributed equity	17	**297,757**	217,281
Reserves		**2,475**	1,651
Retained earnings / (accumulated losses)		**7,532**	(12,038)
Total equity		**307,764**	206,894

Notes to the financial statements are included on pages 30 to 68

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Consolidated statement of changes in equity
for the financial year ended 30 June 2019

	Contributed equity	Employee equity-settled benefits reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000
Balance at 1 July 2017	233,151	4,590	(31,421)	206,320
Profit for the period	-	-	41,107	41,107
Total comprehensive income for the year	-	-	41,107	41,107
Equity-settled share-based payments, inclusive of tax adjustments	-	7,795	-	7,795
Issue of treasury shares to employees	10,734	(10,734)	-	-
Buy-back of shares, net of tax	(8,007)	-	-	(8,007)
Acquisition of treasury shares	(18,597)	-	-	(18,597)
Dividends paid	-	-	(21,724)	(21,724)
Balance at 30 June 2018	217,281	1,651	(12,038)	206,894
Profit for the period	-	-	49,859	49,859
Total comprehensive income for the year	-	-	49,859	49,859
Equity-settled share-based payments, inclusive of tax adjustments	-	10,464	-	10,464
Issue of shares as consideration for business combination (net of transaction costs)	70,363	-	-	70,363
Issue of shares (net of transaction costs)	1,777	-	-	1,777
Acquisition of treasury shares	(1,777)	-	-	(1,777)
Issue of treasury shares to employees	9,640	(9,640)	-	-
Dividends paid	473	-	(30,289)	(29,816)
Balance at 30 June 2019	**297,757**	**2,475**	**7,532**	**307,764**

Notes to the financial statements are included on pages 30 to 68

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Consolidated statement of cash flows
for the financial year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (including GST)		**942,053**	706,810
Payments to suppliers and employees (including GST)		**(862,350)**	(606,899)
Cash generated from operations before interest and tax		**79,703**	99,911
Interest received		**697**	925
Interest and facility costs paid		**(2,063)**	(526)
Income taxes paid		**(18,814)**	(20,633)
Net cash provided by operating activities	21	**59,523**	79,677
Cash flows from investing activities			
Payments for plant and equipment		**(3,581)**	(1,574)
Proceeds from sale of plant and equipment		**452**	238
Payments for intangible assets		**(6,287)**	(6,166)
Payments for businesses	20	**(82,752)**	(690)
Net cash used in investing activities		**(92,168)**	(8,192)
Cash flows from financing activities			
Proceeds from borrowings		**60,000**	-
Dividends paid		**(29,816)**	(21,724)
Repayment of finance lease		**(369)**	(353)
Purchase of shares (net of transaction costs)		**-**	(18,594)
On market share buy-back		**-**	(8,013)
Payment for share issue costs		**(59)**	-
Net cash provided / (used) by financing activities		**29,756**	(48,684)
Net (decrease) / increase in cash and cash equivalents		**(2,889)**	22,801
Cash and cash equivalents at the beginning of the financial year		**73,698**	50,897
Cash and cash equivalents at end of the financial year	21	**70,809**	73,698

Notes to the financial statements are included on pages 30 to 68

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Service Stream Limited

Notes to the consolidated financial statements

for the year ended 30 June 2019

Notes to the consolidated financial statements

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Notes to the financial statements
for the financial year ended 30 June 2019

1 General information

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

Service Stream Limited's registered office and its principal place of business is Level 4, 357 Collins Street, Melbourne, Victoria 3000.

The principal activities of the Company and its subsidiaries (the Group) are described in note 2.

2 Segment information

(a) Products and services from which reportable segments derive their revenues

Following the acquisition of Comdain Infrastructure during the year, the Group has reviewed its operating segments, cash generating units and reportable segments. That review concluded that the Group's existing operating segments and cash generating units remain the same (Fixed Communications, Network Construction, and Energy & Water) with the addition of Comdain Infrastructure.

The Group's operating segments have been determined based on the nature of the business activities undertaken by the Group and by reference to the structure of internal reporting that is prepared and provided to the chief operating decision maker, being the Chief Executive Officer who provides the strategic direction and management oversight of the company in terms of monitoring results and approving strategic planning for the business.

The principal services of the Group's four operating segments are as follows:

Fixed Communications	Fixed Communications provides a wide range of operations, maintenance, installation, design and construction services to the owners of fixed-line telecommunication networks in Australia. Service capability includes customer connections; service and network assurance; design, construction and installation of broadband services, as well as minor projects for asset remediation, augmentation and relocation. Principal customers include nbn co and Telstra.
Network Construction	Network Construction provides a wide range of design, construction and associated services to the owners of fixed-line and wireless telecommunications networks in Australia. Service capability includes site acquisition, engineering, design and construction of wireless and fixed-line projects. Principal customers include nbn co, Telstra and other wireless carriers.
Energy & Water	Energy & Water provides a wide range of specialist metering, new energy and inspection services to gas, water and electricity network owners and other customers in Australia. Service capability include meter reading and asset replacement; engineering, design and construction of energy-related products; as well as specialist inspection, auditing and compliance services.
Comdain Infrastructure	Comdain Infrastructure provides a wide range of operations, maintenance, design and construction services to gas and water network owners and operators in Australia. Service capability includes network assurance; asset upgrades and replacement; engineering, design and construction of network assets; as well as specialist electrical and mechanical instrumentation services.

Fixed Communications and Network Construction have been assessed as having similar economic characteristics and being similar in terms of each of the other aggregation criteria set out in AASB 8 *Operating Segments* including the nature of services, the type of customers and the methods by which services are provided, such that they have been aggregated into a single Telecommunications reportable segment.

Energy & Water and Comdain Infrastructure have been assessed as having similar economic characteristics and being similar in terms of each of the other aggregation criteria set out in AASB 8 *Operating Segments* including the nature of services, the type of customers and the methods by which services are provided, such that they have been aggregated into a single Utilities reportable segment.

Unallocated costs, unallocated assets and liabilities, and unallocated depreciation, amortisation and additions to non-current assets relate to certain head office functions and commonly used resources that are not considered appropriate to be allocated to the Group's reportable segments.

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2 Segment information (continued)

(a) Products and services from which reportable segments derive their revenues

Information regarding the Telecommunications and Utilities reportable segments is presented below:

(b) Segment revenues and results

	Segment revenue		Segment EBITDA	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Telecommunications [2]	**587,815**	535,182	**75,852**	62,326
Utilities [2]	**273,417**	106,734	**23,782**	10,471
Total of all segments	**861,232**	641,916	**99,634**	72,797
Other income	**522**	2,437		
Eliminations [2]	**(10,273)**	(12,332)		
Unallocated			**(10,091)**	(5,501)
EBITDA [1]			**89,543**	67,296
Depreciation			**(4,547)**	(3,427)
Amortisation of software			**(4,254)**	(4,086)
Amortisation of customer contracts / relationships			**(7,425)**	(1,932)
EBIT			**73,317**	57,851
Interest revenue	**697**	925		
Net financing costs			**(1,202)**	421
Total revenue	**852,178**	632,946		
Profit before tax			**72,115**	58,272
Income tax expense			**(22,256)**	(17,165)
Profit for the year			**49,859**	41,107

[1] Earnings before interest, tax, depreciation and amortisation.

[2] The prior year comparatives have been restated to reflect the change in reportable segments including eliminations of intra / inter-segment transactions.

(c) Segment assets and liabilities

	Segment assets		Segment liabilities	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Telecommunications	**192,483**	186,854	**113,087**	107,377
Utilities	**331,058**	78,619	**108,206**	13,895
Total of all segments	**523,541**	265,473	**221,293**	121,272
Unallocated	**83,630**	92,512	**78,114**	29,819
Consolidated	**607,171**	357,985	**299,407**	151,091

(d) Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Telecommunications	**1,804**	1,898	**1,173**	812
Utilities	**9,701**	2,790	**2,266**	433
Total of all segments	**11,505**	4,688	**3,439**	1,245
Unallocated	**4,721**	4,757	**6,429**	6,496
Consolidated	**16,226**	9,445	**9,868**	7,741

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2 Segment information (continued)

(e) Information about major customers

In the current reporting period, there were two customers (2018: two customers) which each contributed more than 10% of the Group's revenue. The relevant revenue by segment is shown below:

Largest customer	2019: Telecommunications $463.3 million (2018: Telecommunications $359.3 million).
Second largest customer	2019: Telecommunications $96.9 million (2018: Telecommunications $136.4 million).

No other single customer contributed 10% or more of the Group's total revenue in 2019 and 2018.

3 Revenue from contracts with customers

(a) Revenue from contracts with customers

	2019 $'000	2018 $'000
Revenue	**850,959**	629,584
	850,959	629,584

(b) Disaggregation of segment revenue

The Group derives revenue from the transfer of goods and services over time and at a point in time. The table below provides a disaggregation of operating segment revenues from contracts with customers.

30 June 2019	Fixed Communications	Network Construction	Energy & Water	Comdain Infrastructure	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue	372,631	215,255	113,308	160,222	-	861,416
Intra / Inter-segment revenue	(71)	-	(113)	-	(10,273)	(10,457)
Revenue from contracts with customers	372,560	215,255	113,195	160,222	(10,273)	850,959
Timing of revenue recognition						
At point in time	311,832	-	98,504	19,271	(7,444)	422,163
Over time	60,728	215,255	14,691	140,951	(2,829)	428,796
	372,560	215,255	113,195	160,222	(10,273)	850,959

30 June 2018	Fixed Communications	Network Construction	Energy & Water	Comdain Infrastructure	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue	301,371	233,879	106,734	-	-	641,984
Intra / Inter-segment revenue	(68)	-	-	-	(12,332)	(12,400)
Revenue from contracts with customers	301,303	233,879	106,734	-	(12,332)	629,584
Timing of revenue recognition						
At point in time	232,158	-	94,678	-	(11,251)	315,585
Over time	69,145	233,879	12,056	-	(1,081)	313,999
	301,303	233,879	106,734	-	(12,332)	629,584

(c) Assets and liabilities related to contracts with customers

30 June 2019	Total
	$'000
Revenue recognised that was included in contract liability balance at the beginning of the period	27,726
Revenue recognised from performance obligations satisfied in previous periods	644

3 Revenue from contracts with customers (continued)

(d) Significant estimates

The Group's revenue is recognised when and as the control of the goods and services are transferred to its customers.

Ticket of work services and cost reimbursable contract

Revenue is recognised based on the transaction price as specified in the contract, net of the estimated achievements of the variable considerations. Judgement is required in determining the Group's total transaction price. Accumulated experience is used to estimate and provide for the variable considerations applicable, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

Project delivery

Revenue is recognised based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs (percentage of completion method). Judgement is required in determining the Group's total progress and total contract costs, net of variable considerations on each project delivery. Accumulated experience is used to estimate this progress and total contract costs. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

No element of financing is deemed present as sales are generally made with credit terms of 30 days, which is consistent with market practice. The Group's obligation to warranty claims under the standard warranty terms is recognised as a provision, see note 16.

4 Other income

	2019 $'000	2018 $'000
Gain on disposal of assets	**422**	181
R&D tax incentives	**81**	165
Insurance claim [1]	**-**	1,091
Write back of contingent consideration [2]	**-**	1,000
Interest revenue	**697**	925
Other	**19**	-
	1,219	3,362

[1] The insurance claim related to a warehouse incident that occurred in January 2018. The claim was to recover the loss of stock, damage repair and associated costs, the expense of which was recognised as at 30 June 2018. The claim was subsequently settled in July 2018.

[2] In the financial year ending 30 June 2017, the Group acquired 100% of the issued shares capital of TechSafe Australia Pty Ltd and TechSafe Management Pty Ltd (together TechSafe) and recognised a contingent consideration of $1,000,000. Based on the FY18 audited result, the contingent consideration was not earned and was written back to other income. There was no other contingent consideration as at 30 June 2018.

5 Finance costs

	2019 $'000	2018 $'000
Interest expense: finance lease	21	40
Interest expense: borrowings	817	-
Other interest expense	51	5
Facility fees: bank overdraft and loans	579	218
Facility fees: bank guarantees	262	217
Total interest expense and facility fees	**1,730**	**480**
Facility establishment costs	169	24
Interest expenses and other finance costs	**1,899**	**504**

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6 Other expense items

(a) Depreciation and amortisation expense

	Notes	2019 $'000	2018 $'000
Depreciation of plant and equipment	13	**4,547**	3,427
Amortisation of software	14	**4,254**	4,086
Amortisation of customer contracts / relationships	14	**7,425**	1,932
		16,226	9,445

(b) Operating lease rental expenses

	2019 $'000	2018 $'000
Minimum lease payments	**10,875**	9,909
	10,875	9,909

(c) Employee benefit expense

	2019 $'000	2018 $'000
Post-employment benefits plans	**11,905**	10,842
Equity-settled share-based payments	**7,873**	6,932
	19,778	17,774

7 Income tax expense

(a) Income tax recognised in profit or loss

	2019 $'000	2018 $'000
Tax expense comprises:		
Current tax expense in respect of the current year	**22,855**	14,094
Deferred tax	**(599)**	3,071
Income tax expense	**22,256**	17,165

(b) Reconciliation of income tax expense to tax payable

	2019 $'000	2018 $'000
Profit from continuing operations	**72,115**	58,272
Tax at the Australian tax rate of 30%	**21,635**	17,482
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
R&D tax incentives	**(24)**	(49)
Pre-acquisition costs	**556**	-
Write back of earn out	**-**	(297)
Other non-deductible expenses	**89**	29
Income tax expense as per statement of comprehensive income	**22,256**	17,165
Movement through deferred tax (note: 7c)	**599**	(3,071)
Tax payable	**22,855**	14,094
Less current year tax instalments paid during the year	**(15,561)**	(10,897)
Net income tax payable	**7,294**	3,197
Effective tax rate	***30.86%***	*29.46%*

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.

7 Income tax expense (continued)

(c) Deferred tax balances

Deferred tax balances arise from the following:

2019	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Timing difference related to prior periods $'000	DTL (net) acquired through business combination $'000	Closing balance $'000
Temporary differences						
Trade and other receivables	40	287	-	-	227	**554**
Accrued revenue	(23,087)	(2,902)	-	-	303	**(25,686)**
Trade, other payables and provisions	5,667	(1,450)	-	-	1,566	**5,783**
Share issue costs	26	71	-	-	-	**97**
Employee benefits	6,128	2,729	2,591	-	2,043	**13,491**
Property, plant and equipment	(410)	256	-	-	-	**(154)**
Customer contracts / relationships	(1,353)	2,227	-	-	(23,962)	**(23,088)**
Other	878	(619)	-	-	294	**553**
	(12,111)	**599**	**2,591**	**-**	**(19,529)**	**(28,450)**

2018	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Timing difference related to prior periods $'000	DTL (net) acquired through business combination $'000	Closing balance $'000
Temporary differences						
Trade and other receivables	119	(79)	-	-	-	40
Accrued revenue	(20,213)	(2,874)	-	-	-	(23,087)
Trade, other payables and provisions	4,101	1,566	-	-	-	5,667
Share issue costs	95	(79)	10	-	-	26
Employee benefits	8,155	(2,891)	864	-	-	6,128
Property, plant and equipment	(595)	494	-	(309)	-	(410)
Customer contracts	(1,933)	580	-	-	-	(1,353)
Other	666	212	-	-	-	878
	(9,605)	(3,071)	874	(309)	-	(12,111)

Deferred tax assets and liabilities have been set-off by the Company and are presented in the statement of financial position as a deferred tax liability.

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7 Income tax expense (continued)

(d) 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 25. A tax funding arrangement and a tax sharing agreement have 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 has been performed (except for unrealised profits, distributions made and received and capital gains and losses and similar items arising on transactions within the tax-consolidated group which are treated as having no tax consequences). Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Nature of tax funding arrangements and tax sharing agreements

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

(e) Significant estimates

Judgement is required in determining the Group's provision for income taxes. The Group estimates its tax liabilities based on its current understanding of the income tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the future period in which such determination is made.

8 Earnings per share

	2019 Cents per share	2018 Cents per share
Basic earnings per share:		
Total basic earnings per share	**13.09**	11.29
Diluted earnings per share:		
Total diluted earnings per share	**12.89**	11.10

Basic and diluted earnings per share

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

	2019 $'000	2018 $'000
Profit for the year attributable to owners of the Company	**49,859**	41,107
Earnings used in the calculation of basic EPS	**49,859**	41,107

	2019 No.'000	2018 No.'000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**380,877**	363,952
Shares deemed to be issued for no consideration in respect of employee share schemes	**5,963**	6,324
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**386,840**	370,276

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9 Trade and other receivables

	Trade receivables	Expected credit loss	Total	Trade receivables	Allowance for doubtful debt	Total
	2019 $'000	2019 $'000	2019 $'000	2018 $'000	2018 $'000	2018 $'000
Current	45,121	(27)	**45,094**	40,723	-	40,723
1 month	4,058	(25)	**4,033**	1,108	-	1,108
2 months	1,876	(48)	**1,828**	229	-	229
3 months	1,070	(88)	**982**	180	(89)	91
Over 3 months	284	(26)	**258**	47	(47)	-
	52,409	(214)	**52,195**	42,287	(136)	42,151
Insurance claim[1]			**-**			1,091
Other receivables			**2,190**			79
			54,385			43,321

[1] The insurance claim related to a warehouse incident that occurred in January 2018. The claim was to recover the loss of stock, damage repair and associated costs, the expense of which was recognised as at 30 June 2018. The claim was subsequently settled in July 2018.

Trade receivables are amounts due from customers for good sold or services performed in the ordinary course of business. All new customers are subject to credit checks using external credit reporting agency information to ascertain their risk profile against both internal and industry benchmarks and are used in determination of appropriate credit limits. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 22(d).

10 Inventories

	2019 $'000	2018 $'000
Inventories	**8,868**	3,045
	8,868	3,045

Inventories recognised as an expense during the year ended 30 June 2019 amounted to $37,196,000 (2018: $11,138,000). These were included in the raw materials and consumables used line item in the consolidated statement of profit or loss.

There were no write-downs of inventories to net realisable value in the current period (2018: $61,000). The write-downs in the prior period were recognised as an expense and included in the raw materials and consumables used line in the consolidated statement of profit or loss.

11 Accrued revenue

	2019 $'000	2018 $'000
Accrued revenue	**125,988**	82,373
	125,988	82,373

Accrued revenue is defined as a contract asset under AASB 15. The accrued revenue balance represents revenue which has yet to be invoiced to customers at year-end, due to work not yet reaching a stage where it can be invoiced and where the Group's customers require payment claims to be submitted and approved prior to invoices being issued. The Group adopts the principle consistent with AASB 15 and will not recognise revenue until it is considered to be highly probable and historically it does result in a high level of recoverability of amounts invoiced. Where work has not yet reached a stage where it can be invoiced, revenue is accrued in line with the Group's accounting policies as outlined at note 32(e) revenue recognition. Details about the Group's impairment policy and assessment of the loss allowance are provided in note 22(d).

Accrued revenue has increased by approximately $30.0 million following the acquisition of Comdain Infrastructure, with the remainder of the increase relating to higher volume of services provided to customers.

11 Accrued revenue (continued)

The Group is not subject to any significant financing component and the transaction price within the customer contacts have not been adjusted. The Group has opted to apply the practical expedient available under AASB 15.121 whereby the financing component of the performance obligations are not disclosed further as they have an original expected duration of one year or less.

12 Other assets

	2019 $'000	2018 $'000
Work in progress	**831**	139
Prepayments	**5,837**	2,468
Financing facility establishment costs	**571**	-
Other	**251**	162
	7,490	2,769

13 Plant and equipment

	Leasehold improvements $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Year Ended 30 June 2018				
Opening net book value	2,588	2,324	945	5,857
Additions	279	1,296	-	1,575
Disposals [1]	-	(4)	(53)	(57)
Depreciation charge	(1,588)	(1,389)	(450)	(3,427)
Closing net book value	1,279	2,227	442	3,948
At 30 June 2018				
Cost	10,376	18,832	2,626	31,834
Accumulated depreciation	(9,097)	(16,605)	(2,184)	(27,886)
Net book value	1,279	2,227	442	3,948
Year Ended 30 June 2019				
Opening net book value	1,279	2,227	442	3,948
Acquisition through business combination	1,075	8,640	7,452	17,167
Additions	548	2,998	35	3,581
Disposals [1]	(22)	(8)	-	(30)
Depreciation charge	(1,155)	(2,393)	(999)	(4,547)
Closing net book value	**1,725**	**11,464**	**6,930**	**20,119**
At 30 June 2019				
Cost	11,633	29,854	9,763	51,250
Accumulated depreciation	(9,908)	(18,390)	(2,833)	(31,131)
Net book value	**1,725**	**11,464**	**6,930**	**20,119**

[1] Disposals are net of accumulated depreciation.

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14 Intangible assets

	Software	Customer contracts	Customer relationships	Goodwill	Total
	$'000	$'000	$'000	$'000	$'000
Year Ended 30 June 2018					
Opening net book value	12,541	6,444	-	129,698	148,683
Additions	6,166	-	-	-	6,166
Amortisation charge	(4,086)	(1,932)	-	-	(6,018)
Closing net book value	14,621	4,512	-	129,698	148,831
At 30 June 2018					
Cost [1]	36,697	6,899	-	129,698	173,294
Accumulated amortisation	(22,076)	(2,387)	-	-	(24,463)
Net book value	14,621	4,512	-	129,698	148,831
Year Ended 30 June 2019					
Opening net book value	14,621	4,512	-	129,698	148,831
Acquisition through business combinations	-	25,310	54,562	96,247	176,119
Additions	6,287	-	-	-	6,287
Disposals [2]	(46)	-	-	-	(46)
Amortisation charge	(4,254)	(4,945)	(2,480)	-	(11,679)
Closing net book value	**16,608**	**24,877**	**52,082**	**225,945**	**319,512**
At 30 June 2019					
Cost [1]	42,937	32,209	54,562	225,945	355,653
Accumulated amortisation	(26,329)	(7,332)	(2,480)	-	(36,141)
Net book value	**16,608**	**24,877**	**52,082**	**225,945**	**319,512**

[1] The cost of goodwill represents the net carrying value at balance date.

[2] Disposals are net of accumulated amortisation.

(a) Impairment tests for goodwill

Goodwill is monitored by management at an operating segment level. The goodwill allocation is presented below.

	2019 $'000	2018 $'000
Fixed Communications	**27,691**	27,691
Network Construction	**43,759**	43,759
Energy & Water	**58,248**	58,248
Comdain Infrastructure	**96,247**	-
	225,945	129,698

(b) Significant estimates

The Group tests whether goodwill is subject to any impairment on an annual basis. The Group's operating segments and cash generating unit (CGU) are one and the same. The recoverable amount of a CGU is determined based on value-in-use calculations which require the use of assumptions. For key assumptions used in the value-in-use calculations refer to note 14(c).

(c) Key assumptions used for value-in-use calculations

The recoverable amount of each CGU is determined based on a value-in-use calculation which uses cash flow projections based on financial forecasts covering a four-year period. These forecasts are based on historical performance combined with management's expectations of future performance based on prevailing and anticipated market factors.

14 Intangible assets (continued)

(c) Key assumptions used for value-in-use calculations (continued)

Cash flows beyond the next four-year period have been extrapolated where relevant using a 0% per annum real growth rate. A pre-tax discount rate of 12.9% (FY18: 12.9%) for Fixed Communications, Network Construction and Energy & Water and 13.6% for Comdain Infrastructure (FY18: n/a) has been applied in order to discount expected future cash flows into present-day values.

The cash flow assumptions that are significant to the determination of the recoverable amounts for each CGU are as follows:

(i) Fixed Communications

The critical cash flow assumption in Fixed Communications is that Service Stream continues to undertake significant work with its major customers and the forecast compound average annual nominal revenue growth over the four-year period from a base of FY19 is 6%. This assumes existing contracts are extended, new contracts are awarded and margins remain stable as fixed-line telecommunications networks are connected and maintained.

(ii) Network Construction

The critical cash flow assumption for the wireless component of Network Construction is that Service Stream continues to undertake significant work for or on behalf of the major mobile telecommunication carriers in Australia and the forecast compound average annual nominal revenue growth over the four-year period from a base of FY19 is 26%. This assumes existing wireless contracts are extended, new contracts are awarded and margins remain stable. No cash flows have been included for nbn design and construction activities beyond the existing MIMA & DCMA programs.

(iii) Energy & Water

The critical cash flow assumption in Energy & Water is that Service Stream continues to undertake significant work with its existing and new customers and the forecast compound average annual nominal revenue growth over the four-year period from a base of FY19 is 11%. This assumes that customers continue to pursue improved demand-side management, creating opportunities in smart metering, new energy products and services including residential & commercial solar and battery storage, and asset maintenance, and achieving growth in the electrical inspections / audit sector.

(iv) Comdain Infrastructure

The critical cash flow assumption in Comdain Infrastructure is that Service Stream continues to undertake significant design, maintenance and construction services with its existing and new customers in the gas and water sectors and the forecast compound average annual nominal revenue growth over the four-year period from a base of FY19 is 7%. This assumes existing contracts are extended, new contracts are awarded and margin growth is achieved in the short term with margins remaining stable thereafter.

The Directors and management have considered and assessed reasonably possible changes in the key assumptions and have not identified any instances that could cause the carrying amount of any CGU to exceed its recoverable amount.

15 Trade and other payables

	2019 $'000	2018 $'000
Trade creditors[1]	**52,723**	20,521
Sundry creditors and accruals	**59,730**	53,742
Goods and services tax payable	**6,057**	2,777
Income in advance	**43,227**	33,434
	161,737	110,474

[1] Typically, no interest is charged by trade creditors. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Income in advance is defined as contract liabilities under AASB 15. A contract liability pertains to the Group's obligation to transfer services to its customer for which it has already received payment. The amounts included in income in advance reflect a significant portion of the aggregate performance obligation amounts not yet satisfied as at the end of the reporting period. The Group has opted to apply the practical expedient available under AASB 15.121 whereby the performance obligations are not disclosed further as they have an original expected duration of one year of less.

Income in advance has predominantly increased following the acquisition of Comdain Infrastructure.

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16 Provisions

	2019 $'000	2018 $'000
Current		
Employee benefits[1]	**16,471**	9,266
Provision for contractual obligations[2]	**11,614**	9,845
Provision for onerous contracts[3]	**1,866**	-
Provision for contractual disputes[4]	**2,643**	-
	32,594	19,111
Non-current		
Employee benefits[1]	**5,785**	4,393
	5,785	4,393
	38,379	23,504

[1] The provision for employee benefits represents annual leave, RDO and long service leave entitlements.

[2] The provision for contractual obligations represents the present value of an estimate for the future outflow of economic benefits that may be required under the Group's obligations for warranties, rectification and rework, and data and artefact quality, with its various customers under various contracts.

[3] The provision for onerous contracts arises from the Group's acquisition of Comdain Infrastructure during the year and represents best estimation on loss-making projects where total cost is expected to exceed total revenue.

[4] The provision for contractual disputes includes amounts arising from the Group's acquisition of Comdain Infrastructure during the year and represents an allowance to settle a number of contractual matters with customers and major subcontractors.

The Group does not offer its customers the option to purchase warranties as a separate service. Warranties simply relate to rectifications and rework performed on completed services. In line with the prior period, these assurance-type warranties are accounted for in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and are disclosed within the provision for contractual obligations in the note of the financial statement.

(a) Movement in provision

	Contractual obligations $'000	Onerous contracts $'000	Contractual disputes $'000
Balance at 1 July 2018	9,845	-	-
Acquired through business combination	823	2,542	1,225
Additional provisions reclassified from sundry creditors and accruals	-	-	648
Charged / (credited) to profit or loss			
Additional provisions recognised	2,370	-	770
Unused amounts reversed	(1,424)	-	-
Amounts used during the year	-	(676)	-
Balance at 30 June 2019	**11,614**	**1,866**	**2,643**

(b) Significant estimates

Management estimates the provision for future claims based on the value of work historically performed and the claims of any on-going disputes. Actual claim amounts in the next reporting period are likely to vary from management's estimates. Amounts may be reversed if it is determined they are no longer required.

17 Contributed equity

	Number of shares		Share capital	
	2019 No.'000	2018 No.'000	2019 $'000	2018 $'000
Fully paid ordinary shares	**401,620**	360,210	**297,757**	225,144
Treasury shares	**-**	(5,322)	**-**	(7,863)
	401,620	354,888	**297,757**	217,281

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17 Contributed equity (continued)

(a) Fully paid ordinary shares

	Number of shares '000	Share capital $'000
Balance at 1 July 2017	365,189	233,151
Shares bought back on-market and cancelled [1]	(4,979)	(7,995)
Buy-back transaction costs	-	(18)
Current tax credit recognised directly in equity	-	6
Balance at 30 June 2018	360,210	225,144
Issue of shares	1,006	1,777
Dividend reinvestment plan	215	473
Consideration for business combination (net of transaction costs)	40,189	70,363
Balance at 30 June 2019	**401,620**	**297,757**

[1] During FY18 the company purchased and cancelled 4,979,231 ordinary shares on-market as part of the company's on-going capital management. The shares were acquired at an average price of $1.61 per share, with prices ranging from $1.50 to $1.69.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(b) Employee share schemes

Information relating to the employee share schemes is set out in note 24.

(c) Treasury shares

Treasury shares are shares in Service Stream Limited that are held by the Service Stream Employee Share Trust for the purpose of issuing shares under various share-based incentives plans. Shares issued to employees are recognised on the first-in-first-out basis.

	Number of shares '000	Share capital $'000
Balance at 1 July 2017	-	-
Acquisition of treasury shares (average price: $1.47 per share)	(12,690)	(18,597)
Shares issued under employee share schemes	7,368	10,734
Balance at 30 June 2018	(5,322)	(7,863)
Acquisition of treasury shares (average price: $1.77 per share)	(1,006)	(1,777)
Shares issued under employee share schemes	6,328	9,640
Balance at 30 June 2019	**-**	**-**

18 Dividends

Recognised amounts	2019 Cents per share	2018 Cents per share	2019 $'000	2018 $'000
Fully paid ordinary shares				
Interim dividend	**3.50**	3.00	**14,049**	10,820
	3.50	3.00	**14,049**	10,820

Unrecognised amounts	2019 Cents per share	2018 Cents per share	2019 $'000	2018 $'000
Fully paid ordinary shares				
Final dividend [1]	**5.50**	4.50	**22,089**	16,242
	5.50	4.50	**22,089**	16,242

[1] The FY18 final fully-franked dividend was paid on 27 September 2018.

18 Dividends (continued)

In respect of current year's earnings, an interim dividend of 3.50 cent per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 21 March 2019. In addition, on 20 August 2019, the Directors declared a fully-franked final dividend of 5.50 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2019, to be paid to shareholders on 2 October 2019. This dividend has not been included as a liability in these consolidated financial statements. The dividend will be paid to all shareholders on the Register of Members on 17 September 2019 and the total dividend estimated to be paid in respect of the current shares on issue is $22,089,095.

	Company	
	2019 $'000	2018 $'000
Adjusted franking account balance as at 30 June	**19,495**	13,718

19 Lease arrangements

(a) Finance lease commitments

The Group leases various plant and equipment and software with a carrying amount of $288,000 (2018: $657,000) under a finance lease expiring within two years. Under the terms of the lease, the ownership of the assets transfers to the Group at no cost at the conclusion of the lease term.

	2019 $'000	2018 $'000
Commitments in relation to finance lease are payable as follows:		
Not longer than 1 year	**293**	391
Longer than 1 year and not longer than 5 years	**-**	293
Minimum lease payments	**293**	684
Future finance charges	**(5)**	(27)
Recognised as finance lease liability	**288**	657
The present value of finance lease liabilities is as follows:		
Not longer than 1 year	**288**	369
Longer than 1 year and not longer than 5 years	**-**	288
Minimum lease payments	**288**	657

(b) Operating lease commitments

The Group leases a number of motor vehicles and premises throughout Australia. The remaining rental period of each individual lease agreement varies between one and seven years with the renewal options ranging from one to five years. The lease agreements are non-cancellable and the majority of these agreements are subject to rental adjustments in line with movements in the Consumer Price Index or market rentals.

	2019 $'000	2018 $'000
Not longer than 1 year	**9,671**	8,851
Longer than 1 year and not longer than 5 years	**21,449**	18,113
Longer than 5 years	**2,033**	5,818
	33,153	32,782

20 Business combinations

(a) Summary of acquisition

On 2 January 2019 (Transaction Date), the Group acquired 100% of the issued share capital of Comdain Infrastructure Pty Ltd and Ayrab Pty Ltd and 100% of the issued units of the Ayrab Unit Trust (together Comdain Infrastructure) under the terms of a Share and Unit Sale Deed (SUSD).

Comdain Infrastructure provides a wide range of operations, maintenance, design and construction services to gas and water network owners and operators in Australia. The business' service capabilities include network assurance; asset upgrades and replacement; engineering, design and construction of network assets; as well as specialist electrical and mechanical instrumentation services.

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20 Business combinations (continued)

(a) Summary of acquisition (continued)

The acquisition provides further diversification to the Group's revenue stream and Comdain Infrastructure's service offering is highly complementary to the Group's Energy & Water business, strengthening the Group's market position in the utilities sector.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration	Fair value at 2 Jan 2019 $'000
Cash consideration paid	**82,789**
Ordinary shares issued	**70,422**
Total purchase consideration	**153,211**

Assets and liabilities acquired	Fair value at 2 Jan 2019 $'000
Cash and cash equivalents	**37**
Trade and other receivables	**23,489**
Accrued revenue	**27,795**
Inventories	**1,997**
Other assets	**2,086**
Plant and equipment	**17,167**
Customer contracts / relationships	**79,872**
Trade and other payables	**(61,550)**
Provisions	**(11,493)**
Current tax liabilities	**(2,907)**
Deferred tax asset	**4,433**
Deferred tax liability on customer contracts / relationships	**(23,962)**
Net identifiable assets acquired	**56,964**
Add: goodwill	**96,247**
Net assets acquired	**153,211**

The accounting for the acquisition is provisional and will be finalised in the next accounting period. In completing the purchase price allocation, management has been required to make judgements relating to the fair value of assets and liabilities, in particular the valuation of certain liabilities.

(i) Cash consideration

Cash consideration comprised $91,690,154 paid on the Transaction Date net of a refund of ($8,901,391) received in June 2019 arising from Working Capital and Income Tax Liability adjustments in accordance with the relevant mechanisms prescribed in the SUSD.

(ii) Ordinary shares issued

40,189,126 ordinary shares were issued to the sellers of Comdain Infrastructure as scrip consideration, determined by dividing $68,000,000 by $1.6920 per share in accordance with the relevant mechanisms prescribed in the SUSD.

The value ascribed to these ordinary shares for the purpose of the purchase consideration is $70,422,039 based on a share price of $1.7523 being the volume-weighted average price of Service Stream's ordinary shares on the Transaction Date.

(iii) Acquired receivables

The fair value of acquired trade receivables is $23,334,000. The gross contractual amount for trade receivables due is $23,941,000, of which $607,000 is expected to be uncollectible.

(iv) Revenue and profit contribution

Comdain Infrastructure contributed revenues of $160,222,000, EBITDA of $11,118,270 and profit before tax of $3,442,485 to the Group from the Transaction Date to 30 June 2019.

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20 Business combinations (continued)

(a) Summary of acquisition (continued)

If the acquisition had occurred on 1 July 2018, consolidated pro-forma revenue and profit for the year ended 30 June 2019 would have been revenues of approximately $340,000,000, EBITDA of approximately $18,900,000 and profit before tax of approximately $3,410,000 respectively. These amounts have been calculated using Comdain Infrastructure's results and adjusting them for:

- differences in the accounting policies between the group and the acquired subsidiaries,
- an estimate of the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to plant and equipment and intangible assets had applied from 1 July 2018, and
- an estimate of the additional amortisation of customer contracts and customer relationships that would have been charged from 1 July 2018.

(v) Acquisition-related costs

Acquisition-related costs of $2,473,000 are included in the consulting and temporary staff as well as in the employee salaries and benefits fees line item in the consolidated statement of profit or loss and in operating cash flows within the statement of cash flows.

(b) Purchase consideration - cash outflow

Cash outflow with respect to the acquisition	2019 $'000
Cash consideration paid	**82,789**
Less: Cash acquired	**(37)**
Net outflow of cash - investing activities	**82,752**

There were no acquisitions in the year ending 30 June 2018.

21 Notes to the statement of cash flow

(a) Reconciliation of cash and cash equivalents

	2019 $'000	2018 $'000
Cash and cash equivalents	**70,809**	73,698
Balance per consolidated statement of cash flows	**70,809**	73,698

(b) Reconciliation of profit for the year to net cash flows from operating activities

	2019 $'000	2018 $'000
Profit for the year	**49,859**	41,107
Gain on sale of non-current assets	**(409)**	(181)
R&D tax incentives	**(81)**	(165)
Depreciation and amortisation	**16,226**	9,445
Equity-settled share-based payments	**7,873**	6,932
Increase / (decrease) in tax balances & other tax adjustments	**3,546**	(3,478)
Movement in working capital:		
Decrease in trade and other receivables	**12,425**	5,600
Increase in accrued revenue	**(15,820)**	(11,529)
(Increase) / decrease in other assets	**(2,635)**	235
(Increase) / decrease in inventories	**(3,826)**	521
(Decrease) / increase in trade and other payables	**(10,286)**	27,748
Increase in provisions	**3,382**	4,176
Decrease in lease incentives	**(731)**	(734)
Net cash inflow from operating activities	**59,523**	79,677

(c) Debt reconciliation

	2018 $'000	Cash flows	2019 $'000
Borrowings	-	60,000	**60,000**
Finance lease	657	(369)	**288**
Debt as at 30 June	657	59,631	**60,288**

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22 Financial instruments

(a) Overview

The Group's activities expose it to a variety of financial risks including interest rate, credit 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 which manages all financing facilities and external payments on behalf of the Group. Compliance with financial risk management policies, financial exposures and compliance with risk management strategy are reviewed by senior management and reported to the Group's Audit and Risk Committee and Board on a regular basis.

(b) Categories of financial instruments

	2019 $'000	2018 $'000
Financial assets at amortised cost		
Cash and cash equivalents	**70,809**	73,698
Accrued revenue	**125,988**	82,373
Trade and other receivables	**54,385**	43,321
	251,182	199,392
Financial liabilities at amortised cost		
Finance lease	**288**	657
Borrowings	**60,000**	-
Trade and other payables	**161,737**	110,474
	222,025	111,131

The Group consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

(c) Market risk - Interest rate risk management

During the year, the Group's exposure to the risk of change in market interest rates related primarily to its floating rate borrowings and short-term cash investment activities.

The Group has managed its interest rate risk during the year in part by maximising the interest earned from available funds balanced against its working capital needs.

Based upon a 100 basis point decrease in prevailing market interest rates as applied to the Group's net cash balance at 30 June 2019, the Group's sensitivity to interest rate risk would be equivalent to a $105,210 per annum unfavourable impact to profit before tax (2018: $736,975 unfavourable).

(d) Credit risk management

Credit risk of the Group arises predominately from outstanding receivables and unbilled accrued revenue to its customers. Refer below for details of the Group's impairment of financial assets assessment.

The Group will not recognise revenue until it is considered to be highly probable. Historically unbilled accrued revenue leads to a high level of recoverability.

Receivable balances are monitored on an ongoing basis and the Group has a policy of only dealing with creditworthy counterparties and where appropriate, obtaining credit support as means of mitigating the risk of financial loss from credit defaults.

Credit reporting information is supplied by independent credit rating agencies where available and the Group uses publicly available financial information and its own internal trading history to credit-assess customers.

A significant portion of the Group's revenue is derived from highly credit rated companies including nbn co and Telstra Corporation Ltd as well as various state utilities and Commonwealth agencies.

Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- Trade receivables; and
- Accrued revenue (contract assets) relating to its customer contracts.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the expected credit loss is immaterial.

22 Financial instruments (continued)

(d) Credit risk management (continued)

Trade receivables and contract assets

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

The expected loss rates on trade receivables are based on the payment profiles of sales over a period of 12 months and the corresponding historical credit losses experienced within this period.

When applying the impairment requirements of AASB 9 to contract assets, the Group recognises that the aging of accrued revenue is not indicative of its recoverability profile, rather the ability to complete work in progress and/or pending customers' approval in order to invoice. Under the expected credit loss principle adopted, the Group assessed that the accrued revenue balance carries a similar expected loss profile as those trade receivables aged as current. Applying the associated expected loss rate to the accrued revenue balance results in an immaterial impairment loss.

On that basis, the loss allowance as at 30 June 2019 was determined as follows.

	Current $'000	> 30 days $'000	> 60 days $'000	> 90 days $'000	> 120 days $'000
30 June 2019					
Expected loss rate	**0.06%**	**0.61%**	**2.55%**	**8.19%**	**9.19%**
Gross carrying amount - trade receivables	**45,121**	**4,058**	**1,876**	**1,070**	**284**
Less allowance	**27**	**25**	**48**	**88**	**26**

The closing loss allowances for trade receivables as at 30 June 2019 reconcile to the opening loss allowances as follows:

	2019 $'000
Opening balance[1]	**136**
Additional provision recognised	**166**
Receivables written off during the year as uncollectible	**(38)**
Unused amount reversed	**(51)**
Closing balance	**214**

[1] No change was recognised on the allowance opening balance upon adoption of AASB 9, refer to note 32(a).

(e) Liquidity risk management

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

In order to maintain adequate liquidity, the Group typically maintains an at-call cash buffer as well as having access to overdraft facilities and syndicated funding lines.

Included in note 22(e)(ii) are details of the financing facilities available to the Group at 30 June 2019.

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22 Financial instruments (continued)

(e) Liquidity risk management (continued)

(i) Liquidity and interest rate risk tables

The following table detail the Group's maturity profile for financial liabilities.

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

	Weighted average interest rate	Carrying amount	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years
		$'000	$'000	$'000	$'000	$'000	$'000
2019							
Financial liabilities							
Finance lease	-	(288)	(288)	(191)	(97)	-	-
Borrowings	2.06%	(60,000)	(62,349)	(3,618)	(6,572)	(12,958)	(39,201)
Trade and other payables	-	(161,737)	(161,737)	(161,737)	-	-	-
	-	**(222,025)**	**(224,374)**	**(165,546)**	**(6,669)**	**(12,958)**	**(39,201)**
2018							
Financial liabilities							
Finance lease	-	(657)	(657)	(183)	(186)	(288)	-
Trade and other payables	-	(110,474)	(110,474)	(110,474)	-	-	-
	-	(111,131)	(111,131)	(110,657)	(186)	(288)	-

(ii) Financing facilities

	Term loan	Bank guarantees	Bank overdraft	Cash advance
	$'000	$'000	$'000	$'000
Amount used	60,000	42,525	-	-
Amount unused	-	17,475	40,000	30,000
Balance at 30 June 2019	**60,000**	**60,000**	**40,000**	**30,000**
Amount used	-	19,319	-	-
Amount unused	-	10,681	5,000	25,000
Balance at 30 June 2018	-	30,000	5,000	25,000

The Group's financing facilities are due to expire on 30 September 2021.

Under the terms of the Group's Syndicated Facility Agreement, the term loan is required to be repaid by $3.0 million at the end of each calendar quarter, except that no repayment is required at the end of a calendar quarter where the most recent compliance certificate reports that the Group's net leverage ratio is less than a specified hurdle. The net leverage ratio per the compliance certificate as at 30 June 2019 was less than the specified hurdle meaning that no repayment will be required at 30 September 2019. Under the Interpretation of AASB 101 *Presentation of Financial Statements*, the Group does not have the unconditional right to defer payment of these quarterly instalments, and has therefore classified the $9.0 million aggregate pertaining to the subsequent three calendar quarter-ends over the next 12 months as current borrowings.

Financial guarantees provided in the normal course of business are shown above. Based upon current expectations as at 30 June 2019, the Group considers that it is more likely than not that such amounts will not be payable under these arrangements.

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23 Capital risk management

The Group manages its capital to ensure that it is able to continue as a going concern and to maximise returns to shareholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends and return capital paid to shareholders or issue new shares. Capital is managed in order to maintain a strong financial position and ensure that the Group's funding needs can be optimised at all times in a cost-efficient manner to support the goal of maximising shareholder wealth.

The Board and senior management review the capital structure of the Group at least annually considering any restrictions or limitations that may exist under current financing arrangements with regard to mix of capital.

The Group is subject to various financial debt covenants under its Syndicated Facilities Agreement regarding minimum levels of equity, gearing, fixed charge cover and borrowing base; all of which are regularly monitored and reported upon. The Group has complied with the financial debt covenants of its borrowing facilities during the 2019 and 2018 financial reporting periods.

24 Share-based payments

(a) Long Term Incentive Plan (LTIP)

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

In accordance with the provisions of the ESOP, certain employees in senior management roles were invited to participate in the LTIP which entitles them to receive a number of performance rights in respect of the year ending 30 June 2019 (FY19). Each performance right converts into one ordinary share of Service Stream Limited on vesting. No amounts are paid or payable by the participant on receipt of the performance rights, and the performance rights carry neither rights to dividends nor voting rights. The number of performance rights granted is based on the employee's long term incentive participation rate, which is expressed as a percentage of the participant's total fixed remuneration (TFR), and the volume-weighted average market price of the Company's shares over a prescribed period of time or other issue price as deemed appropriate by the Board.

Performance rights for each of the LTIP tranches are subject to service and performance criteria being:

A The participant must be an employee at the conclusion of the performance period;

B 50% of the performance rights granted will each vest where:

(i) The Group's earnings per share (EPS) achieves annual growth of 10% or more over the performance period, commencing with growth from an agreed base EPS, as detailed below.

LTIP tranches	FY17 [1]	FY18 [2]	FY19 [3]
Performance period	3 years	3 years	3 years
Vesting date	September 2019	September 2020	September 2021

[1] The FY17 LTIP targets, from base of 5.20 cps are: Year 1: 5.72 cps, Year 2: 8.56 cps, Year 3: 12.42 cps.

[2] The FY18 LTIP targets, from base of 7.78 cps are: Year 1: 8.56 cps, Year 2: 12.42 cps, Year 3: 14.40 cps.

[3] The FY19 LTIP targets, from base of 11.29 cps are: Year 1: 12.42 cps, Year 2: 14.40 cps, Year 3: not yet determined.

Subject to the following proportional vesting:

Percentage of performance rights that vest	EPS target
0%	Below 75%
40%	At 75%
Proportional vesting	Greater than 75% and less than 100%
100%	100% and above

24 Share-based payments (continued)

(a) Long Term Incentive Plan (LTIP) (continued)

(ii) The Group's total shareholder return (TSR) over the performance period is such that it would rank at or above the 75th percentile (full achievement) or the 50th percentile (pro-rata achievement) of a relevant peer group of companies being those comprising the ASX 200 Industrials index, as detailed below:

Percentage of performance rights that vest	TSR ranking
0%	Below the 50th percentile
50%	At the 50th percentile
Proportional vesting	Above the 50th percentile but below the 75th percentile
100%	75th percentile or above (top quartile)

Performance rights will vest to the extent that the participant remains employed by the Company on the vesting date and to the extent that the Company's performance over the relevant period satisfies the vesting conditions.

The following LTIP performance rights arrangements were in existence at the end of the current period:

Series	Number	Grant date	Grant date fair value	Vesting date	Performance period
FY17 LTIP	853,073	14 September 2016	Relative TSR hurdle - 45.2 cps EPS hurdle - 79.3 cps	September 2019	1 July 2016 - 30 June 2019
FY18 LTIP	665,889	14 September 2017	Relative TSR hurdle - 92.5 cps EPS hurdle - 125.8 cps	September 2020	1 July 2017 - 30 June 2020
FY19 LTIP	812,893	21 September 2018	Relative TSR hurdle - 81.8 cps EPS hurdle - 139.1 cps	September 2021	1 July 2018 - 30 June 2021

Fair value of performance rights

The FY19 LTIP performance rights with the relative TSR hurdle vesting condition have been valued by an independent expert using a Monte-Carlo simulation. The FY19 LTIP 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.

Key inputs into the model

The table below details the key inputs to the valuation models.

Tranche	Share price at grant date	Expected life	Volatility	Risk-free interest rate	Dividend yield	Vesting date
FY17 LTIP	$0.850	2.87 years	50%	1.37%	4.00%	September 2019
FY18 LTIP	$1.480	2.87 years	45%	1.91%	4.80%	September 2020
FY19 LTIP	$1.774	2.87 years	35%	2.06%	5.90%	September 2021

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24 Share-based payments (continued)

(a) Long Term Incentive Plan (LTIP) (continued)

Movements in the LTIP performance rights during the year

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

	2019		2018	
	Number of rights	Grant date weighted avg FV $	Number of rights	Grant date weighted avg FV $
Balance at start of the financial year	**3,130,497**	**0.538**	4,562,526	0.290
Granted during the year	**836,231**	**1.104**	767,765	1.091
Vested during the year	**(1,548,419)**	**0.243**	(1,930,951)	0.162
Forfeited during the year	**(86,454)**	**0.893**	(268,843)	0.609
Balance at end of the financial year	**2,331,855**	**0.924**	3,130,497	0.538

Included in the balance at the end of the financial year are rights which have reached their vesting date but where the performance vesting criteria is yet to be calculated.

In accordance with the Employee Share Ownership Plan the shares relating to the FY17 Tranche will be issued to the extent that vesting criteria have been satisfied following final calculations of the Relative TSR measure after release of the FY19 financial statements.

As at 30 June 2019, 812,893 performance rights granted under the FY17 Tranche remain unforfeited and subject to vesting criteria.

The balance of performance rights outstanding at the end of the year have a remaining contractual life of two years (FY19 Tranche) and one year (FY18 Tranche).

(b) Executive Share-based Incentive Plan (ESBIP)

The ESBIP is a share-based incentive plan that was established by the Board in 2014 to operate for a five-year period from FY15 to FY19 and offered to the Managing Director and to a small number of other key executives of the time. By accepting the offer to participate in the ESBIP, these executives forfeited their entitlement to participate in both the LTIP and the Short Term Incentive Plan (STIP). ESBIP operated within the shareholder-approved Employee Share Ownership Plan (ESOP), under the administration of the Remuneration and Nomination Committee. The number of performance rights offered to participating executives was endorsed by the Remuneration and Nomination Committee and approved by the Board and by shareholders in the case of the Managing Director.

The ESBIP invitation letter provided to participants set out their rights and obligation under the plan, and provided details regarding the number of rights that would be offered to them on an annual basis (by way of an annual offer letter) over a period of up to five years. Each performance right would convert into one ordinary share of Service Stream Limited on vesting. No amounts were paid or payable by the participant on receipt of the performance rights, and the performance rights carried neither rights to dividends nor voting rights.

The FY19 ESBIP performance rights were subject to service and performance criteria being:

A The participant must have been an employee at the latter of the date on which the Company released its results for the financial year ending 30 June 2019 or otherwise determined that the vesting conditions have been satisfied; and

B(i) at least 10% growth in earnings per share (EPS) for the performance period was achieved; or

B(ii) an average of at least 10% compound growth in EPS per annum for the aggregate period is achieved.

ESBIP tranche	FY19
Performance period	1 year to 30 June 2019
Vesting date	20 August 2019
Aggregate period end date	30 June 2021
EPS base (cents per share)	11.29

Performance rights will vest to the extent that the participant remained employed by the Company on the vesting date and to the extent that the Company's performance over the relevant period satisfied the vesting conditions.

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24 Share-based payments (continued)

(b) Executive Share-based Incentive Plan (ESBIP) (continued)

The following ESBIP performance rights arrangements were in existence at the end of the current period.

Series	Number	Grant date	Grant date fair value	Vesting date	Performance period start date
FY19 ESBIP	4,500,000	31 August 2018	148.7 cps	20 August 2019	1 July 2018

Fair value of ESBIP performance rights

The FY19 ESBIP performance rights with the EPS hurdle vesting condition have been valued by an independent expert using a Binomial tree methodology. This methodology is 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.

Key inputs into the ESBIP valuation model

The table below details the key inputs to the valuation models.

Series	Share price at grant date	Expected life	Volatility	Risk-free interest rate	Dividend yield	Vesting date
FY19 ESBIP	$1.757	0.87 years	35%	1.54%	5.28%	20 August 2019

Movements in the ESBIP performance rights during the year

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

	2019		2018	
	Number of rights	Grant date weighted avg FV	Number of rights	Grant date weighted avg FV
Balance at beginning of the financial year	**4,500,000**	**1.326**	5,150,000	0.825
Granted during the year	**4,500,000**	**1.487**	4,500,000	1.326
Vested during the year	**(4,500,000)**	**1.326**	(5,150,000)	0.825
Balance at end of the financial year	**4,500,000**	**1.487**	4,500,000	1.326

Included in the balance as at 30 June 2019 are rights which have reached their vesting date and both the service and performance criteria have been met (number of rights 4,500,000). The relevant number of shares will be delivered to the participants after the release of the FY19 financial statements.

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25 Subsidiaries

Details of the Company's subsidiaries at 30 June 2019 are as follows:

Name of entity	Country of incorporation	Ownership interest 2019 %	Ownership interest 2018 %
Parent entity			
Service Stream Limited (i)	Australia		
Subsidiaries			
Service Stream Holdings Pty Ltd (ii) (iv)	Australia	100	100
Service Stream Fixed Communications Pty Ltd (ii) (iii) (iv)	Australia	100	100
Service Stream Mobile Communications Pty Ltd (ii) (iii) (iv)	Australia	100	100
Service Stream Customer Care Pty Ltd (ii) (iii) (iv)	Australia	100	100
Radhaz Consulting Pty Ltd (ii) (iv)	Australia	100	100
Service Stream Infrastructure Services Pty Ltd (ii) (iii) (iv)	Australia	100	100
Service Stream Energy & Water Pty Ltd (ii) (iii) (iv)	Australia	100	100
Service Stream Nominees Pty Ltd (ii) (iii) (iv)	Australia	100	100
Service Stream Operations Pty Ltd (ii) (iii)	Australia	100	100
TechSafe Australia Pty Ltd (ii) (iii) (iv)	Australia	100	100
TechSafe Management Pty Ltd (ii) (iii) (iv)	Australia	100	100
Ayrab Pty Ltd (ii) (iii) (iv)	Australia	100	-
Comdain Infrastructure Pty Ltd (ii) (iii) (iv)	Australia	100	-
Comdain Civil Constructions Pty Ltd (ii) (iv)	Australia	100	-
Comdain Civil Constructions (QLD) Pty Ltd (ii) (iv)	Australia	100	-
Comdain Services Pty Ltd (ii) (iv)	Australia	100	-
Comdain Asset Management Pty Ltd (ii) (iv)	Australia	100	-
Comdain Gas (Aust) Pty Ltd (ii) (iv)	Australia	100	-
Comdain Services (AMS) Pty Ltd (ii) (iv)	Australia	100	-
Comdain Corporate Pty Ltd (ii) (iv)	Australia	100	-
Comdain Assets Pty Ltd (ii) (iv)	Australia	100	-

(i) Service Stream Limited is the head entity within the tax-consolidated Group.
(ii) These companies are members of the tax-consolidated Group.
(iii) These companies are wholly owned subsidiaries of Service Stream Holdings Pty Ltd.
(iv) These wholly-owned subsidiaries have entered into a deed of cross guarantee with Service Stream Limited pursuant to *ASIC Corporations (wholly-owned companies) Instrument 2016/785* (Instrument) and are relieved of the requirement to prepare and lodge an audited financial and Directors' report.

26 Deed of cross guarantee

The parties to a deed of cross guarantees for the Group as listed in note 25 represent a 'closed group' for the purposes of the Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Service Stream Limited, they also represent the 'extended closed group'. A separate consolidated statement of comprehensive income and consolidated balance sheet of the parties to the deed of cross guarantees have not been disclosed separately as it is not materially different to those of the Group.

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27 Related party transactions

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

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

(a) Key management personnel compensation

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

	2019 $	2018 $
Short-term employee benefits	**3,171,193**	2,641,617
Post-employment benefits	**156,342**	144,057
Other long-term benefits	**71,230**	47,884
Share-based payments[1]	**4,549,607**	4,061,041
	7,948,372	6,894,599

[1] The fair value of performance rights issued under the ESBIP and LTIP, allocated on a pro-rata basis to the current financial year.

The compensation of each member of the key management personnel of the Group is set out in the remuneration report.

(b) Other transaction with key management personnel of the Group

During the period, Tom Coen had a beneficial interest in three of the commercial properties and Peter Coen had a beneficial interest in one commercial property that the Group occupied. Total rental income paid to the landlord is approximately $367,500 across the three premises (2018: nil). The terms of the lease have been reviewed and are at arm's length.

28 Parent entity information

The accounting policies of the parent entity, which have been applied in determining the financial information of the parent entity shown below, are the same as those applied in the consolidated financial statements. Refer to note 32 for a summary of the significant accounting policies relating to the Group.

(a) Financial position

	2019 $'000	2018 $'000
Current assets	**73**	49
Non-current assets	**256,318**	169,821
Total assets	**256,391**	169,870
Current liabilities	**1,395**	3,415
Non-current liabilities	**-**	-
Total liabilities	**1,395**	3,415
Net assets	**254,996**	166,455
Issued capital	**276,221**	203,609
Reserves – equity-settled employee benefits	**2,475**	(6,212)
Accumulated losses	**(23,700)**	(30,942)
Equity	**254,996**	166,455

(b) Financial performance

	2019 $'000	2018 $'000
Profit for the year	**37,519**	43,814
Total comprehensive income	**37,519**	43,814

28 Parent entity information (continued)

(c) Determining the parent entity financial information

(i) Investment in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Service Stream Limited. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

(ii) Guarantees entered into by the parent entity

The parent entity is party to the Group's financing facilities as a security provider under the Security Trust Deed. In addition, the parent entity provides cross guarantees as described in notes 25 and 26, and the parent entity guarantees to certain clients in relation to subsidiary contract performance obligations.

(iii) Share-based payments

The grant by the Company of shares over its equity instruments to the employees of subsidiary is treated as a capital contribution to that subsidiary. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

29 Contingent assets and liabilities

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

30 Events after the reporting period

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

31 Remuneration of auditors

	2019 $	2018 $
Audit and review of the financial report	**682,000**	315,000
Review of income tax return	**21,000**	27,000
Services relating to the acquisition of Comdain Infrastructure	**144,000**	-
Review of executive long-term incentive plan	**60,180**	-
Tax advice and other services	**25,000**	59,640
	932,180	401,640

The auditor of Service Stream Limited is PricewaterhouseCoopers.

32 Significant accounting policies

This note provides a list of significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, except for the change in accounting requirements of AASB 9 and AASB 15, which is effective from 1 July 2018. The financial statements are for the consolidated entity consisting of Service Stream Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Service Stream Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue by the Directors on 20 August 2019.

Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards as issued by the International Accounting Standard Board.

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32 Significant accounting policies (continued)

(a) Basis of preparation (continued)

New and amended standards adopted by the Group

The Group has applied the following standard and amendment for the first time for their annual reporting period commencing 1 July 2018:

- AASB 9 *Financial Instruments.* This Standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets. It also carries forward guidance on recognition and de-recognition of financial instruments from AASB 139. The Group has applied AASB 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

  To assess for any expected credit losses under AASB 9, there is consideration around the probability of default upon initial recognition of the asset, the subsequent consideration as to whether there have been any significant increases in credit risk on an ongoing basis at each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. There were no adjustments recognised upon transition.

- AASB 15 *Revenue from Contracts with Customers* replaces AASB 118 and is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Group adopted the new accounting standard in the financial year using the modified retrospective approach. There were no adjustments recognised upon transition.

  Management has undertaken a detailed review of AASB 15 together with a detailed review of all material revenue contracts. This review included assessing all contract types for the entire revenue base in Fixed Communications, Network Construction, Energy & Water and Comdain Infrastructure against the 5-step model for recognising revenue outlined in AASB 15. The review considered potential changes in the timing of revenue recognition, measurement of the amount of revenue and note disclosure changes between the current standard, AASB 15, and AASB 118. The key revenue types that were assessed under AASB 15 for each of the Group's operating segments were as follows:

  (a) Fixed Communications provides services to owners of fixed line telecommunication networks. The revenue types within this segment include ticket of work, minor projects and overhead allowances.

  (b) Network Construction provides turnkey services associated with engineering, design and construction in the telecommunication sector. Key revenue components include design, construction and overhead allowances.

  (c) Energy and Water provides a range of new energy services, meter reading, inspection and compliance services to electricity networks owners and regulators. Key revenue components include ticket of work and minor projects.

  (d) Comdain Infrastructure provides a wide range of operations, maintenance, design and construction services to gas and water network owners and operators in Australia. Key revenue components include ticket of work, design and construction projects and cost reimbursement contracts.

Early adoption of standards

The Group has not elected to early adopt the Standards and Interpretations issued but not yet effective. Refer to note 32(z).

Historical cost convention

The consolidated financial statements have been prepared on the basis of historical cost, except for certain assets and liabilities 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.

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 33.

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32 Significant accounting policies (continued)

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to consolidate an entity, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Goodwill

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

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

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

(d) Segment reporting

Operating segments are determined based on the nature of the business activities undertaken by the Group and by reference to the structure of internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments. Where operating segments have been assessed as bearing similar economic characteristics and being similar in terms of each of the aggregation criteria set out in AASB 8 *Operating Segments* including the nature of services, the type of customers and the method by which services are provided, they may be aggregated into a single reportable segment. Details of the Group's segment reporting is set out in note 2.

(e) Revenue recognition

The Group has four distinct revenue streams, being (i) revenue from the provision of ticket of work services, (ii) revenue from the delivery of projects, (iii) revenue from cost reimbursable contract and (iv) revenue from overhead recovery.

Ticket of work services

Ticket of work services are repetitive, high volume tasks performed by the Group such as the provision of:

- operations and maintenance services to the owners and operators of telecommunications, gas and water networks including customer connections and service assurance;
- specialist metering, in-home and new energy services in respect of electricity, gas and water networks;
- inspection, auditing and compliance services to electricity network owners and regulators, government entities and electrical contractors; and
- contact centre services and workforce management support for key contracts.

32 Significant accounting policies (continued)

(e) Revenue recognition (continued)

The benefits provided to customers under this category of work type do not transfer to the customer until the completion of the service and as such revenue is recognised upon completion *(At point in time)*.

Project delivery

Project works relate primarily to:

- turnkey services associated with the engineering, design and construction of infrastructure projects in the telecommunications and utilities sectors. Service capability includes program management, site acquisition, town planning, design, engineering and construction management for projects in wireless and fixed-line telecommunications networks, and gas and water utilities networks; and
- minor work services such as asset remediation, augmentation and relocation.

The benefits provided to customers under this category of work transfer to the customer as the work is performed and as such revenue is recognised over the duration of the project based on percentage complete. The Group's performance obligation is fulfilled over time and as such revenue is recognised over time *(Over time)*.

Percentage complete 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. Where this is the case, stage of completion is measured on a milestone basis.

As work is performed on the assets being constructed they are controlled by the customer and have no alternative use to the Group, with the Group having a right to payment for performance to date. Project revenue earned is typically invoiced monthly or in some cases on achievement of milestones. Invoices are paid on standard commercial terms, which may include the customer withholding a retention amount until finalisation of the construction.

Where recognised project revenues exceed progress billings, the surplus is shown in the consolidated balance sheet as an asset, under accrued revenue. Where progress billings exceed recognised revenues, the surplus is shown in the consolidated balance sheet, as a liability, as income in advance under trade and other payables. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet, as an asset, under trade and other receivables.

When it is probable that total contract costs will exceed total contract revenue, the expected loss (onerous) is recognised as an expense and provisions as set out in note 16.

Cost reimbursable

The Group recognises revenue (and its associated margins) on all direct, indirect and overhead related costs, as prescribed under the cost reimbursable contract.

The work performed has no alternative use for the Group and there is an enforceable right to payment, including a profit margin, when the costs are incurred, as such revenue is recognised over time *(Over time)*.

Overhead recovery

Certain customer contracts allow for the recovery of specified overhead costs.

The benefits provided to the customer under this revenue stream are simultaneously received and consumed by the customer and as such revenue is recognised over the period the services are provided *(Over time)*.

Variable consideration

It is common for contracts to have variable considerations such as variations, performance bonuses or penalties and other performance constraints related KPIs. The expected value of revenue is only recognised when the uncertainty associated with the variable consideration is subsequently resolved, or when it becomes highly probable. The Group assesses the variable consideration to be included in the transaction price periodically. This assessment involves judgements and is based on all available information including historical performance and any variations that are entered into.

Contract assets and liabilities

AASB 15 uses the terms 'contract asset' and 'contract liability' to describe what is commonly known as 'accrued revenue' and 'income in advance'. Trade receivable represent receivables in respect of which the Group's right to consideration is unconditional subject only to the passage of time. Contract assets represent the Group's right to consideration for services provided to customers for which the Group's right remains conditional on something other than the passage of time. Contract liabilities arise where payment is received prior to the work being performed. Contract assets and contract liabilities are recognised and measured in accordance with this accounting policy.

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32 Significant accounting policies (continued)

(e) Revenue recognition (continued)

Contract fulfilment costs

Costs incurred prior to the commencement of a contract may arise due to mobilisation/site set-up costs, feasibility studies, environmental impact studies and preliminary design activities as these are costs incurred to fulfil a contract. Where these costs are expected to be recovered, they are capitalised and amortised over the course of the contract consistent with the transfer of service to the customer. Where the costs, or a portion of these costs, are reimbursement by the customer, the amount received is recognised as deferred revenue and allocated to the performance obligations within the contract and recognised as revenue over the course of the contract.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer represents a financing component. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Warranties and defect periods

Construction and services contracts generally include defect and warranty periods following completion of the project. These obligations are not deemed to be separated performance obligations and therefore estimated and included in the total costs of the contracts. Where required, amounts are recognised accordingly in line with AASB 137 *Provision, Contingent Liabilities and Contingent Assets.*

Revenue in the comparative period is recognised when the amount of revenue can be reliably measured and when it is probable that the future economic benefit will flow to the entity. The Group base its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue from construction contracts in the comparative period is recognised in accordance with the accounting policy set out in note 32(f).

(f) Revenue accounting policies applied until 30 June 2018

(i) Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

Revenue from operations

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

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

Interest revenue

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.

(ii) Construction contracts

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 the end of reporting period. This is normally measured according to the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Where this is the case, stage of completion is measured on a milestone basis. 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.

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32 Significant accounting policies (continued)

(f) Revenue accounting policies applied until 30 June 2018 (continued)

Where recognised revenues exceed progress billings, the surplus is shown as accrued revenue. For contracts where progress billings exceed recognised revenues, the surplus is shown as income in advance. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as income in advance under trade and other payables. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet, as an asset, under trade and other receivables.

Judgements made in the application of AASB 111 include:

- determination of stage of completion;
- estimation of total contract revenue and contract costs; and
- assessment of the probability of customer approval of variations and acceptance of claims.

It is reasonably possible on the basis of existing knowledge that outcomes within the next financial year are different from the estimates and assumptions listed above.

(g) Leases

Leases of plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the lease's fair value at inception or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the asset's useful life.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

(h) Employee benefits

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

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

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows in respect of services provided by employees up to reporting date. Expected future payments falling due more than 12 months after the end of the reporting period are discounted using corporate bonds market yields. Remeasurements as a result of employment status and changes in actuarial assumptions are recognised in profit or loss.

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy where applicable.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

(i) Share-based payments

Equity-settled share-based payments to executives and Directors are measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of the equity instruments are set out in note 24.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period. 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.

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32 Significant accounting policies (continued)

(j) Taxation

Current tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by any changes in the deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted by the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

R&D tax incentive

R&D tax incentives are accounted for in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* whereby the additional 8.5% incentive from the Government to invest in specific R&D activities is classified as revenue. Where R&D relates to capital items, the incremental 8.5% incentive is recognised as revenue over the period that the asset is amortised.

(k) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred is the sum of the acquisition-date fair values of assets transferred, liabilities incurred and any equity instruments issued. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating and accounting policies and other pertinent conditions in existence at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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32 Significant accounting policies (continued)

(k) Business combinations (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to the present value as at the date of exchange. Contingent consideration is classified as a financial liability. Amounts classified as financial liabilities are subsequently remeasured to fair value with changes to fair value recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

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, 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.

(l) Plant and equipment

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

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

Plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of 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 - 7 years
- Plant and equipment: 1 - 10 years
- Motor vehicles: 4 - 10 years

(m) Intangible assets

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation or cost reduction are capitalised to software and systems. Any costs associated with maintaining software and systems are recognised as an expense as incurred. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset. The amount initially recognised includes direct costs of materials and service and direct payroll and other payroll-related costs of employees' time spent on the project.

Customer contracts and customer relationships acquired in a business combination are initially recognised at their fair value at the acquisition date, which is regarded as their cost.

Software, customer contracts and customer relationships have finite lives and are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is recognised on a straight-line basis over each asset's estimated useful life. The estimated useful life and amortisation method are reviewed at the end of each annual accounting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful lives used in the calculation of amortisation range from between 3 to 8 years for software and from 1 to 11 years for customer contracts and 11 years for customer relationships.

(n) 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.

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32 Significant accounting policies (continued)

(n) Impairment of tangible and intangible assets excluding goodwill (continued)

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 of disposal 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.

(o) 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. The inventory balance is comprised of purchased inventory, the cost of which is determined after deducting rebates and discounts.

(p) Provisions

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

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

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

(q) Financial instruments

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

(i) Classification

From 1 July 2018, the Group classifies its financial assets and liabilities in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and liabilities and the contractual terms of the cash flows.

For assets and liabilities measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

(ii) Recognition and derecognition

Commonly purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

From 1 July 2018, the Group assesses, on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

32 Significant accounting policies (continued)

(q) Financial instruments (continued)

(iv) Impairment (continued)

For trade receivables and contracts assets, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from the date of initial recognition, see note 22(d) for further details.

(v) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(vi) Accounting policies applied until 30 June 2018

The Group has applied AASB 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until 30 June 2018, the Group classified its financial assets and liabilities in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

Financial assets

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

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

Effective interest method

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

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32 Significant accounting policies (continued)

(q) Financial instruments (continued)

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.

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

(vii) Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial guarantee liabilities

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

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

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

Financial liabilities

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

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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

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

De-recognition of financial liabilities

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

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32 Significant accounting policies (continued)

(r) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. See note 9 for further information about the Group's accounting for trade receivables and note 22(d) for an assessment of the Group's impairment methodology.

(s) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and are not discounted if the effect of discounting is immaterial.

(t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or other payables in the consolidated balance sheet as applicable.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

(u) Cash and cash equivalents

Cash comprises cash on hand and outstanding deposits less any unpresented cheques. 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 Group's consolidated balance sheet.

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based incentive scheme, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Service Stream Limited as treasury shares until the shares are cancelled or reissued.

Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Service Stream Limited.

Shares held by the Service Stream Employee Share Trust are disclosed as treasury shares and deducted from contributed equity.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(x) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year.

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32 Significant accounting policies (continued)

(x) Earnings per share (continued)

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(y) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and the financial report. Amounts in the Directors' report and the financial report have been rounded off to the nearest thousand dollars, in accordance with that Instrument.

(z) New accounting standards and interpretations

- AASB 16 *Leases* (effective from annual reporting period beginning on or after 1 January 2019).

  AASB 16 modifies accounting for leases by removing the current distinction between operating and financing leases. The standard requires recognition of an asset and a financial liability for all leases, with exemptions for short term and low value leases. The standard will primarily affect the accounting for the Group's operating leases in respect of motor vehicles and premises. As at 30 June 2019, the Group had non-cancellable operating lease commitments of $33.2 million as disclosed in note 19 of the financial statements.

  On transition to AASB 16 and moving forward, for operating leases for which payments are currently required to be expensed, the Group will recognise right of use assets and corresponding liabilities for the principal amount of lease payments, which will then result in amortisation and interest expenses being recognised in the income statement (replacing operating lease expenses). Certain performance metrics and ratios may be impacted as a result of the above changes, including EBITDA and to lesser extent EPS which are measures used to assess senior executive performance as part of the Group's remuneration framework.

  If AASB 16 was adopted from 1 July 2018 and the cost model was applied subsequently:

  - EBITDA would have increased by approximately $10.1 million due to lower lease charges to motor vehicle expense and occupancy expense, whilst Depreciation would have increased by approximately $10.0 million and Interest Expense would have increased by approximately $1.1 million, resulting in a minor adverse impact to net profit before tax and earnings per share; and
  - Leasehold assets on the balance sheet as at 30 June 2019 would have increased by approximately $30.2 million representing the present value of the Group's motor vehicle and property leases, with lease liabilities increasing by approximately $31.2 million.

33 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies as described in note 32.

The areas involving a higher degree of judgement or estimates are:

- Recognition of revenue from contracts with customers - note 3(d);
- Estimation of current tax payable and deferred tax balances - note 7(e);
- Testing of goodwill for impairment - notes 14(b) and 14(c);
- Estimation of provision for contractual obligations, contractual disputes and onerous contracts - note 16(b); and
- Estimation of fair value of assets and liabilities in business combination - note 20(a).

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

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Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 25 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 26.

Note 32 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



Brett Gallagher
Chairman
20 August 2019



Leigh Mackender
Managing Director
20 August 2019

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Independent auditor's report

To the members of Service Stream Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Service Stream Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2019
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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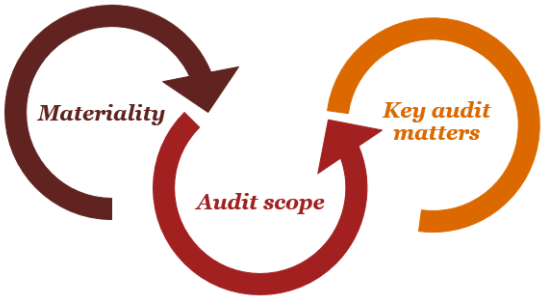
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of $3.61 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because it is a generally accepted benchmark for profit making companies.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- The Group operates across Australia in its key operating segments being Fixed Communications, Network Construction, Energy & Water and Comdain Infrastructure, and has a corporate accounting function based in Melbourne.
- Our work is performed predominantly in Melbourne and we perform site visits to the Group's warehouse locations annually, on a rotational basis, to attend an inventory count based on our risk assessment. As part of the current year audit we attended inventory counts in Victoria, New South Wales and Queensland.
- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	***How our audit addressed the key audit matter***

Goodwill impairment assessment
(Refer to note 14) $225.9 million
 	
The Group's goodwill is required by Australian Accounting Standards to be tested annually for impairment at the cash generating unit (CGU) level.
 	
The CGUs which have goodwill allocated are: Fixed Communications ($27.7 million), Network Construction ($43.8 million), Energy & Water ($58.2 million) and Comdain Infrastructure ($96.2 million).
 	
This is a key audit matter as assessing the carrying value of goodwill inherently requires making estimates of uncertain future cash flows. For example, the Group is subject to customer concentration risk and the volume of work is uncertain as many of the Group's contracts do not contain volume commitments, therefore are dependent on the customer's future demand. In addition, there is uncertainty relating to the extension, renewal or replacement of key contracts.
 	
Discounted cash flow models (the impairment models) are used by the Group to assess potential impairment in each CGU. The recoverable amount is estimated using a four year forecast based on the Board approved business plan for Fixed Communications, Network Construction, Energy & Water and Comdain Infrastructure. The significant estimates relate to revenue and EBITDA assumptions along with the discount rate applied to the forecast cash flows within the model.
	• We assessed whether the Group's identification of CGUs was consistent with our knowledge of the operations, internal reporting lines and the level of integration of the newly acquired business.
	
	• We compared the FY19 forecast with the actual FY19 results to assess the accuracy of forecasting. Where there were any deviations from forecast, we assessed how these were considered in forecasts used in the impairment models.
	
	• We checked that the four year forecasts used in the impairment models were based on the Board approved business plan.
	
	• We assessed the assumptions and methodology used in the impairment models, in particular, those relating to revenue, EBITDA and discount rates. To do this we:
	  ○ assessed the discount rate adopted with the assistance of PwC valuation experts;
	  ○ evaluated the underlying cash flow assumptions in the impairment models for all key customer contracts with reference to current year results and expected project pipelines, and considered external industry information and market data;
	  ○ tested the calculations in the model for mathematical accuracy; and,
	  ○ considered the sensitivity of the calculations by varying key assumptions within a reasonably possible range.
	
	• We considered the adequacy of the Group's disclosures on goodwill impairment.

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Key audit matter	*How our audit addressed the key audit matter*
Revenue recognition *(Refer to note 3 and 32 (e)) $851.0 million* The Group adopted a new revenue accounting policy during the year due to the mandatory introduction of Accounting Standard AASB 15 *Revenue from Contracts with Customers*. The new policy is disclosed in Note 32 (e). Revenue from provision of ticket of work services involves a high volume of transactions and is recognised once services or activities have been completed. Revenue recognition in relation to the delivery of projects is complex because it is based on the Group's estimates of: • the stage of completion of the contract activity; • total forecast contract revenue and costs; • the probability of customer approval of variations and claims; and, • project completion dates. This is a key audit matter because of its significance to profit, the high volume of revenue transactions associated with ticket of work services and the judgment required in recognising revenue from the delivery of projects.	For selected revenue streams we evaluated the group's processes and controls with respect to the recognition of revenue. For revenue from the provision of ticket of work services, we: • tested a sample of transactions by sighting evidence of completed subcontractor claims and/or work orders and compared the revenue amount recognised to the contracted rate with the customer for the type of service. For revenue from the delivery of projects, we: • obtained an understanding of the terms and conditions of a sample of contracts; • assessed, for a sample of contracts, the Group's estimates of total contract revenue and forecast contract costs and evaluated the percentage of completion based on actual costs incurred to date; • assessed, for a sample of contracts, the accrued revenue or income in advance balance at 30 June by assessing the amounts billed up to 30 June 2019 relative to the revenue recognised to that date; • assessed the group's forecasting accuracy by comparing actual costs incurred relative to the forecast of those costs; • tested a sample of transactions by sighting evidence of milestone completion; and, • performed retrospective analysis of a selection of incomplete projects at year end to assess the allocation of revenue between periods. For all categories of revenue, our procedures included, amongst others, performing testing over a sample of manual journals.
Recoverability of accrued revenue *(Refer to note 11) $126.0 million* Several of the Group's customers require payment claims to be submitted and approved prior to invoices being issued. This process can extend the time that revenue is classified as accrued. The total accrued	We evaluated the aging of accrued revenue to identify areas of higher risk. Whilst each segment has aged accrued revenue balances, the Fixed Communications and Network Construction segments had the most significant balances. We therefore directed the majority of our audit effort to these segments.

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Key audit matter	*How our audit addressed the key audit matter*
revenue balance at 30 June 2019 is $126.0 million. Payment claims may be rejected by customers for a variety of reasons, for example, the claim's adherence to contractual obligations. Rejected claims are commonly revised, resubmitted and subsequently approved for payment. However, there is a risk that not all claims will be recovered in full, particularly those that have significantly aged since the original services were provided. To address this risk, an assessment is made regarding the revenue that is highly probable of not reversing and revenue not meeting this criteria is not recognised. The recoverability of accrued revenue is a key audit matter because judgement is required to evaluate whether revenue is highly probable of being recovered.	We performed the following procedures in relation to the recoverability of accrued revenue: • assessed the reliability of accrued revenue aging reports by testing that the aging profile was accurate; • assessed that revenue had not been accrued if it was considered that it was not highly probable of being recovered; and, • assessed the group's key assumptions such as the long term average claim rejection rate which we compared to actual experience, including recent trends. We also performed sample testing over individual accrued revenue balances to test the Group's entitlement to the accrued revenue balances.

Business Combinations / Acquisition Accounting
(Refer to note 20) $153.2 million
 	
On 2 January 2019 the Group acquired Comdain Infrastructure for a total considerations of $153.2 million, as described in note 20 of the financial report.
 	
The accounting for the acquisition is a key audit matter because it is a significant transaction in the year given the financial and operational impacts on the Group. In addition, the Group made complex judgements when accounting for the acquisition, including:
• identifying all assets and liabilities of the newly acquired business and estimating the fair value of each asset and liability for initial recognition by the Group, particularly the customer contracts and relationships. The Group was assisted by an external valuation expert in this process.
 	
The accounting for the acquisition is provisional at the time of authorisation of the financial report.
	Assisted by PwC valuation experts in aspects of our work, our procedures included the following, amongst others:
	• evaluating the identification of the assets and liabilities acquired against the requirements of Australian Accounting Standards, key transaction agreements, our understanding of the business acquired and selected legal correspondence;
	• assessing the fair values of the acquired assets and liabilities recognised, including:
	  ○ considering key assumptions used in estimating the fair values of customer contracts and relationships;
	  ○ considering the discount rates used in estimating the fair value of customer contracts and relationships in light of the specific assets being valued;
	  ○ considering the valuation methodologies applied against the requirements of Australian Accounting Standards; and,
	  ○ assessing the competence and capability of the group's experts.
	• considering the adequacy of the business combination disclosures in light of the requirements of Australian Accounting Standards.

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the directors' report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 15 to 23 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Service Stream Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

PricewaterhouseCoopers

Trevor Johnston
Partner

Melbourne
20 August 2019

ASX Additional Information for the financial year ended 30 June 2019

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

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A. Distribution of Shareholders Number as at 16 August 2019

Category (size of holding)	Holders
1-1,000	1,129
1,001- 5,000	1,924
5,001-10,000	971
10,001-100,000	1,338
100,001+	138
	5,500

B. There are 5,500 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 183.

D. The names of the substantial shareholders listed in the holding company's register, and their shareholdings (including shareholdings of their associates), as at 16 August 2019 are:

Shareholder	Ordinary	%
Thorney International Pty Ltd (1)	15,356,432	3.82%
Thorney Opportunities Ltd (1)	5,552,220	1.38%
Comdain nominees Pty Ltd <Coen Family A/C>	38,444,918	9.57%

(1) The Company treats Thorney International Pty Ltd and Thorney Opportunities Ltd with an aggregated holding of 5.2% as associated entities as defined in the Corporations Act.

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 ($0.0293) (2018: $0.1612).

G. 20 Largest Shareholders as at 16 August 2019 - Ordinary Shares

Name of 20 largest shareholders in each class of share	Ordinary shares Fully paid number of shares held	% Held
HSBC Custody Nominees (Australia) Limited	103,740,949	25.83
J P Morgan Nominees Australia Limited	56,312,350	14.02
Comdain Nominees Pty Ltd <Coen Family A/C>	38,444,918	9.57
Citicorp Nominees Pty Limited	35,392,714	8.81
National Nominees Limited	34,573,739	8.61
Bnp Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	7,048,571	1.76
UBS Nominees Pty Ltd	5,747,357	1.43
Rubi Holdings Pty Ltd <John Rubino S/F A/C>	5,500,000	1.37
Dr Roger Graham Brooke + Mrs Sally Ann Brooke <Salrog Super Fund A/C>	4,145,805	1.03
Bnp Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd DRP	3,386,679	0.84
Netwealth Investments Limited <Wrap Services A/C>	3,216,423	0.80
HSBC Custody Nominees (Australia) Limited - A/C 2	3,028,405	0.75
Bnp Paribas Noms Pty Ltd <DRP>	2,978,734	0.74
AMP Life Limited	2,653,341	0.66
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,402,838	0.60
Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	2,294,462	0.57
Mr Kevin Ashley Smith	2,000,000	0.50
James Gaha	1,744,208	0.43
Brispot Nominees Pty Ltd <House Head Nominee A/C>	1,209,197	0.30
Hullbridge Investments Pty Ltd <McCann Discretionary A/C>	1,138,522	0.28
	316,959,212	**78.92**

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Corporate Directory

Directors

Brett Gallagher
Leigh Mackender
Greg Adcock
Tom Coen
Peter Dempsey
Raelene Murphy
Deborah Page AM

Company Secretaries

Vicki Letcher
Chris Chapman

Registered Office

Level 4
357 Collins Street
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Tel: +61 3 9677 8888
Fax: +61 3 9677 8877
www.servicestream.com.au

Bankers

Australia & New Zealand Banking Group
HSBC Bank Australia Limited

Share Registry

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

Auditors

PricewaterhouseCoopers

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