servicestream
ESSENTIAL NETWORK SERVICES

For personal use only



2020
Annual Report

For personal use only

Annual General Meeting

The Annual General Meeting of Service Stream Limited
will be held as a virtual meeting which will conducted online on
Wednesday 21 October 2020, 10.00am

For personal use only

Service Stream Limited

ABN 46 072 369 870

Annual report for the financial year ended
30 June 2020

Service Stream Limited ABN 46 072 369 870

Annual Report

for the year ended 30 June 2020

For personal use only

Contents

Directors' report	Page 1
Auditor's independence declaration	Page 24
Consolidated statement of profit or loss and other comprehensive income	Page 25
Consolidated balance sheet	Page 26
Consolidated statement of changes in equity	Page 27
Consolidated statement of cash flows	Page 28
Notes to the consolidated financial statements	Page 29
Directors' declaration	Page 68
Independent auditor's report to the members	Page 69

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 Australian dollars.

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 4 to 11, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 18 August 2020. 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.

For personal use only

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 2020, and in order to comply with the provisions of the *Corporations Act 2001*. The Directors report is 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 brings to the Board extensive commercial and operational expertise, and strategic leadership gained in the telecommunications, utilities, infrastructure and technical services industries. He has spent over 25 years as a senior executive, director and owner of businesses within these sectors. Brett has specific experience in service delivery, contract management, business development, health, safety & environment, corporate finance and mergers & acquisitions.

Brett is an experienced company director and has experience in governance and compliance, reporting and investor relations. His current directorships include not-for-profit and several private businesses that operate predominantly in the utilities and services sector.

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

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), MAICD.

Leigh Mackender joined Service Stream Limited when it acquired AMRS (now Energy & Water) in February 2008, and has worked predominantly within the telecommunications, utilities and infrastructure industries, through roles in both private and public businesses. Prior to being appointed Managing Director, Leigh had executive responsibility for the Energy and Water division's national operations. Leigh has specific expertise in strategic leadership, development and implementation of business strategy, operational and financial management, commercial negotiations, client service and business development. He also has extensive experience in health, safety & environment, governance and compliance, investor relations, mergers & acquisitions, technology, human resources and remuneration practices.

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 brings to the Board extensive commercial and operational expertise developed from senior executive roles at Concrete Constructions, Telstra Corporation and nbn co, where he was the Chief Operating Officer. He has specific experience in strategic leadership, large scale infrastructure and construction, telecommunications technology, health, safety & environment, risk management and human resources.

Greg has served on numerous Boards throughout his executive career and has experience in governance and compliance, corporate finance and mergers & acquisitions.

Greg is Chairman of the Sustainability, Safety, Health & Environment Committee, a member of the Audit and Risk Committee, and was a member of the Remuneration and Nomination Committee until 30 June 2020.

Greg is currently a non-executive director of OptiComm Limited and has held no other listed company directorships in the last three years.

Tom Coen

Non-Executive Director

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

Qualifications: GAICD.

Tom Coen brings to the Board extensive commercial and operational expertise following a 35-year career at Comdain Infrastructure where he served as Managing Director and Chairman. He has specific experience in strategic leadership, civil construction, contract and project management, health, safety & environment, and joint ventures across the utilities, engineering and infrastructure services industries, particularly in the water and gas sectors.

Tom has served on numerous Boards throughout his executive career and has experience in governance, compliance and reporting.

Tom is a member of the Sustainability, Safety, Health and Environment Committee, and from 1 July 2020, the Remuneration and Nomination Committee.

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

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

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

Peter Dempsey brings to the Board extensive construction and development expertise following a 40-year career in those industries. He spent 30 years at Baulderstone, including five years as Managing Director. He has specific expertise in engineering, strategic leadership, health, safety & environment, corporate finance, mergers & acquisitions and human resources.

Peter has extensive experience as a company director gained across ASX listed and private companies over the last 15 years. His relevant sector experience includes engineering, construction, utilities and telecommunications. Peter's experience includes Board leadership, governance and compliance, risk management, reporting and remuneration practices.

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

Peter is currently a Non-Executive Director of Monadelphous Limited and has held no other listed company directorships in the last three years.

Deborah Page AM

Non-Executive Director

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

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

Deborah Page brings to the Board extensive financial expertise from her time at Touche Ross/KPMG including as a Partner, and subsequently from senior finance and operating executive roles with the Lendlease Group, Allen, Allen & Hemsley and the Commonwealth Bank. She has specific experience in corporate finance, accounting, audit, mergers & acquisitions, capital markets, insurance and joint venture arrangements.

Deborah has extensive experience as a company director gained across ASX listed, private, public sector and regulated entities since 2001. Her relevant sector experience includes telecommunications, utilities, insurance, technology, renewables and infrastructure. Deborah's experience includes Board leadership, governance and compliance, risk management, remuneration practices, technology, investor relations and health, safety & environment.

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 and Pendal Group Limited. During the last three years, Deborah held a listed company directorship with GBST Holdings Limited (retired as entity delisted in November 2019).

For personal use only

For personal use only

Raelene Murphy

Non-Executive Director

Term of Office: Non-Executive Director from November 2015 to October 2019.

Raelene Murphy held the role of Non-Executive Director from November 2015 to her retirement from the Company on 23 October 2019.

Directors' shareholdings

The following table sets out each Director's relevant interest in shares and rights in shares of the Company as at the date of this report.

	Service Stream Limited	
	Fully paid ordinary shares	Performance rights
Directors	Number	Number
B Gallagher	3,299,673	-
G Adcock	50,000	-
T Coen	38,444,918	-
P Dempsey	1,050,000	-
D Page	443,293	-
L Mackender [1]	1,100,700	238,544

[1] As L Mackender is a Director of the Company, the issuance of performance rights under the FY20 LTIP Tranche was approved by shareholders at the Company's Annual General Meeting on 23 October 2019.

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 14 to 22. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any Director (whether executive or otherwise) of the consolidated entity.

Performance rights granted to Directors and senior management

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

	Service Stream Limited	
Director and senior executives	Number of rights granted	Number of ordinary shares under rights
L Mackender	238,544	238,544
R Grant [1]	-	-
J Ash	75,114	75,114
P McCann	76,776	76,776
K Smith	106,903	106,903
	497,337	**497,337**

[1] During the year, R Grant retired from the role of Chief Financial Officer and did not participate in the FY20 LTIP Tranche.

Company secretaries

Chris Chapman

Qualifications: LLB BA (Politics) and GAICD.

Chris Chapman was appointed General Counsel for the 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 Company Secretary in February 2019.

For personal use only

Vicki Letcher

Qualifications: BLaw, BCom (major in Accounting), CA, FGIA FCIS.

Vicki Letcher joined Service Stream Limited in June 2010 and was appointed Company Secretary in August 2012 until her resignation from the company on 29 July 2020.

Principal activities

Service Stream 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.

Review of operations and financial performance

Financial overview

$'000	FY20	FY19	Change		
Revenue	**929,133**	**852,178**	**76,955**	**9.0%**	▲
EBITDA [1]	**105,588**	**89,543**	**16,045**	**17.9%**	▲
Depreciation & amortisation	(20,673)	(8,801)	(11,872)	134.9%	▼
Amortisation of customer contracts / relationships	(11,005)	(7,425)	(3,580)	48.2%	▼
EBIT	**73,910**	**73,317**	**593**	**0.8%**	▲
Net financing costs	(3,445)	(1,202)	(2,243)	186.6%	▼
Income tax expense	(21,150)	(22,256)	1,106	(5.0%)	▲
Net profit after tax	**49,315**	**49,859**	**(544)**	**(1.1%)**	▼
Statutory EPS (cents)	12.13	13.09	(0.96)	(7.4%)	▼
Dividends declared per share (cents)	9.00	9.00	-		-
Adjusted profitability [2]**:**					
EBITDA from Operations	**108,115**	**93,266**	**14,849**	**15.9%**	▲
EBITDA from Operations %	*11.6%*	*10.9%*	0.7%		▲
Adjusted EBIT (EBITA)	**87,442**	**84,465**	**2,977**	**3.5%**	▲
Adjusted NPAT (NPATA)	**58,787**	**57,663**	**1,124**	**1.9%**	▲
Adjusted EPS (cents)	**14.46**	**15.14**	**(0.68)**	**(4.5%)**	▼

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

[2] *Adjusted for relevant non-operational expenditure and amortisation of customer contracts / relationships. Refer to reconciliation between IFRS and non-IFRS financial information for further details on page 5.*

The Group's FY20 results include the impact from the application of AASB 16 *Leases* with effect from 1 July 2019. FY19 prior year comparatives have not been restated in line with the transitional arrangements permitted by the Standard.

Group results

Group revenue improved by 9.0% to $929.1 million from $852.2 million with Telecommunications reporting a net decrease of 7.7% and Utilities revenue increasing by 45.3%.

Group earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 17.9% from $89.5 million to $105.6 million. This includes a $10.3 million benefit from the adoption of AASB 16. Earnings growth was achieved across both the Telecommunications and Utilities segments. EBITDA from Operations excludes $2.5m of non-operational expenditure associated with the integration of Comdain Infrastructure and assessment of M&A opportunities.

For personal use only

Depreciation & amortisation expense increased by $11.9 million to $20.7 million, with $9.5 million of the increase due to depreciation on capitalised right of use assets from the adoption of AASB 16. The balance of the increase was largely due to the full year impact of Comdain Infrastructure.

Amortisation of customer contracts / relationships expense relates to the Techsafe (2017) and Comdain Infrastructure (2019) acquisitions. The increase from FY19 of $3.6 million is primarily due to a full year impact from the amortisation of Comdain Infrastructure customer contracts / relationships. This non-operational expense is excluded from the calculation of Adjusted Profitability metrics EBITA and NPATA.

Group earnings before interest and tax (EBIT) was $73.9 million, an increase of $0.6 million on FY19. This is due to the aforementioned increases in EBITDA, offset by the higher depreciation & amortisation expense.

The Group's net financing costs increased by $2.2 million to $3.4 million, with $0.9 million of the increase due to the adoption of AASB 16, and the balance reflective of the full-year impact of the debt facilities established to fund the Comdain Infrastructure acquisition.

Tax expense for the year was $21.2 million, which is an effective tax rate of 30.0%.

Group net profit after tax (NPAT) decreased from $49.9 million, to $49.3 million, however NPATA which excludes non-operational items and the amortisation of customer contracts / relationships expenses increased by $1.1 million from $57.7 million to $58.8 million. Within this result the net impact from the adoption of AASB 16 was a net reduction of $0.1 million to NPAT.

Adjusted earnings per share (Adjusted EPS) reduced from 15.1 cents to 14.5 cents due to the full year impact of shares issued as part of the Comdain Infrastructure acquisition.

A final dividend of 5.0 cents per share (fully franked) has been declared in respect of FY20, taking total FY20 dividends to 9.0 cents per share (fully franked), which is consistent with total FY19 dividend of 9.0 cents per share (fully franked).

Reconciliations between IFRS and non-IFRS financial information

$'000	FY20	FY19
Reported EBITDA	**105,588**	**89,543**
Add-back adjustments:		
- Due diligence costs on potential acquisitions	1,312	-
- Acquisition costs (Comdain)	-	2,473
- Integration costs (Comdain)	1,215	1,250
EBITDA from Operations	**108,115**	**93,266**
Statutory NPAT	49,315	49,859
Add-back adjustments:		
- As above for EBITDA	2,527	3,723
- Amort. of cust. contracts / relationships	11,005	7,425
- Tax effect of above (as relevant)	(4,060)	(3,344)
Adjusted NPAT (NPATA) [1]	**58,787**	**57,663**
Avg number of shares on issue (millions)	406.647	380.877
Statutory EPS (cents)	12.13	13.09
Adjusted EPS (cents)	**14.46**	**15.14**

[1] *Adjusted net profit after tax.*

For personal use only

Impact to the Group from COVID-19 pandemic

Service Stream provides essential infrastructure services to gas, electricity, water and telecommunications network owners and operators nationally. To date, these industries have been allowed to continue operations under various lock-down restrictions imposed to manage the pandemic. Although there have been some negative impacts to Service Stream's operations from the pandemic, demand for essential network services has remained firm, and the Group's earnings to date have not been significantly impacted. Servicing these networks is core to the Group's strategy, with exposure to these sectors providing a solid revenue base and sustained resilience through the pandemic and subsequent economic recession.

To date, restrictions on people movement have not had a significant impact on the Group's field-based operations. The Group has implemented appropriate safety and hygiene protocols and procedures designed to minimise the risk of any spread of the COVID-19 virus. The majority of our office-based staff have moved to working from home arrangements with the company's IT infrastructure and other support networks capable of supporting these arrangements effectively.

The Group's balance sheet, cash flow and liquidity remain very strong. Service Stream has not drawn upon JobKeeper or other government support packages. The business has continued to pay our suppliers and contractors as and when due, and has not entered into any factoring arrangement of its working capital. The nature of the Group's customers, which includes government enterprises and large private sector corporations, is such that the risk of default of receivables is low. Due to uncertainty at the time, the Group did seek payment deferral on a limited number of leaseholds at the onset of the pandemic with some of the concessions granted remedied by 30 June 2020. The Group also sought and received a $5.0 million income tax payment deferral from the Australian Tax Office as part of its initial response to managing potential risks from the COVID-19 pandemic. This amount will be paid in Q1 FY21.

The impacts to earnings to date are described below:

- Increased costs to support specific safety-related protocols across business operations. This includes additional expenditure on protective equipment and hygiene, including operating distinct shifts across our warehouse operations with additional cleaning incurred between each shift;
- Customer determined moratoriums on electricity and gas disconnections (and subsequent reconnections) impacting meter reading operations;
- Reduced residential land development activity (new housing estates);
- Deferral of proactive maintenance activities by asset owners to ensure networks remain available to consumers working from home;
- Delays in projects due to availability of client-supplied free-issue materials; and
- Deferral of some projects due to travel and access restrictions across remote locations.

At this point in time, and on the basis that the Utilities and Telecommunications sectors will continue to be classified as essential services, it is not expected that COVID-19 will have a material adverse impact to the carrying value of the Group's assets.

Although impacts to the Group's operations to date have not been significant, the evolution of the pandemic and any escalation of the government's response, including but not limited to, increased restriction of workforce movement, increased safety protocols, and/or reduction in demand from the Group's customers may further negatively impact the Group's operations.

For personal use only

Segment Results

$'000	FY20	FY19	Change		
Telecommunications	544,170	589,388	(45,218)	(7.7%)	▼
Utilities	384,083	264,284	119,799	45.3%	▲
Eliminations, interest & other revenue	880	(1,494)	2,374		
Total Revenue	**929,133**	**852,178**	**76,955**	**9.0%**	▲
Telecommunications	83,125	77,096	6,029	7.8%	▲
Utilities	30,810	22,538	8,272	36.7%	▲
Unallocated corporate costs	(5,820)	(6,368)	548		
EBITDA from Operations	**108,115**	**93,266**	**14,849**	**15.9%**	▲
Non-operational costs	(2,527)	(3,723)	1,196		
EBITDA	**105,588**	**89,543**	**16,045**	**17.9%**	▲
Telecommunications	15.3%	13.1%	2.2%		▲
Utilities	8.0%	8.5%	(0.5%)		▼
EBITDA margin	**11.4%**	**10.5%**	**0.9%**		▲

Telecommunications

The Group's Telecommunications segment 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 and Telstra.

- During the year, the business successfully concluded and demobilised design and construct (D&C) operations with nbn under the Multi-Technology Integrated Master Agreement (MIMA) and Design and Construction Master Agreement (DCMA) contracts.
- During the year, the Network Maintenance and Restoration Activities (NMRA) agreement with nbn was extended to June 2021, with a potential further extension to December 2021. The Operations & Maintenance Master Agreement (OMMA) was extended to December 2020, and the Company is currently in negotiation with nbn for a further 6-month term extension to the end of June 2021, with a further option for nbn to extend for another 6 months.

Telecommunications' financial performance in FY20 improved over the prior year, delivering revenue of $544.2 million and an EBITDA of $83.1 million (15.3% margin), compared with revenue of $589.4 million and EBITDA of $77.1 million (13.1% margin) in the prior year.

Revenue decreased by $45.2 million (7.7%) compared to FY19 due to:

- conclusion of nbn D&C activities following the successful completion of the program during H2 FY20 resulting in revenue reduction of $89.1 million;
- increase in revenue associated with nbn activation and maintenance activities, despite COVID-19 reducing some operations & maintenance (O&M) activities; and
- Wireless revenue was lower than FY19, due to the slow ramp-up of 5G expenditure by mobile carriers and COVID-19 impacts delaying the commencement of some project works.

Telecommunications' EBITDA was $83.1 million, an increase of 7.8% against prior year:

- EBITDA margin grew to 15.3% and was aided by the adoption of AASB 16, the profitable wind-up of nbn D&C operations and favourable O&M work mix.

Utilities

The Group's Utilities segment provides a wide range of specialist metering, new energy, inspection & compliance, operations, maintenance, design & construction services to utility network owners and operators and other customers in Australia.

- During the year, Comdain Infrastructure, as a 30% partner in the Delivering for Customers (D4C) Joint Venture, secured a 10-year asset management agreement with Sydney Water. This contract was successfully mobilised during H2 FY20 with operations commencing on 1 July 2020. D4C's revenue from service delivery is expected to be in the order of $200 million per annum.

- There has been strong demand for utility services and projects, despite delays to some commencements in H2 FY20 due to COVID-19 restrictions and client-initiated delays.

Utilities achieved further growth in FY20, delivering revenue of $384.1 million and an EBITDA of $30.8 million (8.0% margin) compared with revenue of $264.3 million and EBITDA of $22.5 million (8.5% margin) in the prior year.

Revenue increased by $119.8 million (45.3%) compared to FY19:

- The increase was largely due to the inclusion of Comdain Infrastructure for the full year;
- Metering services revenue was flat against the prior year, which was a good outcome noting COVID-19 related reduced activity due to the moratorium on electrical and gas disconnections and reduced residential land development activity; and
- Lower revenue from New Energy due to fluctuating volumes across commercial solar and battery storage work programs.

Utilities' EBITDA was $30.8 million, an increase of 36.7% against prior year:

- The EBITDA margin reduction of 0.5% was due to work-mix and inclusion of a full year of lower margin Comdain Infrastructure operations.

Cashflow and Financial Position

$'000	FY20	FY19	Change
Reported EBITDA	**105,588**	**89,543**	**16,045**
+/- non-cash items & change in working capital	(19,142)	(9,840)	(9,302)
OCFBIT [1]	**86,446**	**79,703**	**6,743**
EBITDA to OCFBIT [1] *conversion %*	**81.9%**	**89.0%**	**(7.1%)**
Net interest and financing paid	(3,586)	(1,366)	(2,220)
Income taxes paid	(25,177)	(18,814)	(6,363)
Operating cashflow	**57,683**	**59,523**	**(1,840)**
Capital expenditure (net of proceeds from sales)	(6,485)	(9,416)	2,931
Business acquisitions (net of cash acquired)	-	(82,752)	82,752
Free cashflow	**51,198**	**(32,645)**	**83,843**
Dividends paid	(36,303)	(29,816)	(6,487)
Principal elements of lease payments	(9,655)	(369)	(9,286)
Lease incentives received	4,164	-	4,164
Purchase of shares (net of costs)	(741)	(59)	(682)
Proceeds from borrowings	-	60,000	(60,000)
Net increase / (decrease) in cash	**8,663**	**(2,889)**	**11,552**
Net cash [2]	**19,472**	**10,521**	**8,951**

[1]Operating cashflow before interest & tax.

[2]Net cash at 30 June 20 excludes lease liabilities arising from the application of AASB 16 Leases.

Cash Flow

Cash flow from operations for the year was $57.7 million compared to $59.5 million in FY19, with key components being:

- Operating cash flow from operations before interest and tax (OCFBIT) was $86.4 million, representing an 81.9% cash flow conversion rate which is consistent with the Group's long-term cash flow conversion target;
- Net interest and financing cash outflows were $3.6 million, $2.2 million higher than FY19 due to the full year impact of increased debt facilities and debt drawn for the Comdain Infrastructure acquisition; and

For personal use only

For personal use only

- Tax paid of $25.2 million was $6.4 million higher than FY19, with the increase due to payment of the Comdain Infrastructure stub tax return, and adjustment for final FY19 tax payable against the Group's tax instalment regime over FY19. The Group received a $5.0 million tax payment deferral from the Australian Tax Office as part of its initial response to managing potential risks from the COVID-19 pandemic. This amount will be paid in Q1 FY21.

Net investing cash outflows were $6.5 million and comprised:

- $7.8 million of capital expenditure investment in technology and plant & equipment. The IFS ERP implementation across Comdain Infrastructure was placed on hold due to COVID-19, and is due to recommence in Q1 FY21; offset by
- $1.3 million of proceeds from the sale of minor assets.

Net financing outflows for the year were $42.5 million and included:

- Payment of leases of $9.7 million, which are now reported outside of cash flow from operations following the adoption of AASB 16;
- $36.3 million paid in dividends, an increase of $6.5 million over the previous year;
- Lease incentives of $4.2 million were received in relation to the renewal of rental arrangements of the Group's corporate offices in Melbourne; and
- $0.7 million expended to acquire shares in Service Stream Limited to satisfy the Group's obligation under certain share-based incentive arrangements.

Financial position

The financial position of the Group improved during the year, with Net Assets at 30 June 2020 of $321.8 million compared to $307.8 million at 30 June 2019. At 30 June 2020, Current Assets exceeded Current Liabilities by $69.2 million (30 June 2019: $48.9 million).

Net cash and financing facilities

- The Group ended the year with Net Cash (excluding lease liabilities) of $19.5 million, an increase of $9.0 million against the prior period end. Net Cash at 30 June 2020 comprised cash of $79.5 million less borrowings of $60.0 million;
- Bank guarantee utilisation at year-end of $36.7 million, as compared to $42.5 million at the prior year end;
- The Group's finance facilities at 30 June 2020 comprised a Term Loan of $60.0 million (drawn: $60.0 million), cash advance lines totalling $45.0 million (drawn: nil) and overdraft facilities totalling $40.0 million (drawn: nil); and
- 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.

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, other assets, trade & other payables and provisions) at 30 June 2020 was a net asset position of $12.7 million. The closing balance represents an increase of $20.9 million from the prior year's closing net liability balance of $8.2 million, and is predominantly due to the cessation of the nbn D&C activities;
- Plant and equipment at 30 June 2020 was $15.2 million compared to $20.1 million at 30 June 2019;
- Intangibles at 30 June 2020 were $313.2 million compared to $323.6 million with the decrease primarily attributable to amortisation of customer contracts/ relationships, net of additional capitalised IT software; and
- Right-of-use assets and liabilities recognised in respect of AASB 16 of $29.1 million and $33.4 million respectively.

Overall Group strategy, prospects and risks

The financial performance of the Group further improved during the year, and the Group has continued to deliver on its strategic plan in line with the Board's expectations.

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.

In the Telecommunications segment, the securing of the OMMA and NMRA contract extensions continues to position the company well as the leading service provider in this segment, with further future prospects in 5G design and construction opportunities.

In the Utilities segment, the Board notes the positive progress achieved with the integration of Comdain Infrastructure and its continued strong future prospects including securing a major ten-year Sydney Water contract as part of the D4C consortium, in joint venture with Lendlease Services, John Holland and WSP Australia.

For personal use only

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

COVID-19 pandemic	The COVID-19 pandemic has created an unprecedented level of uncertainty. Although impact to the Group's operations to date have not been significant, the evolution of the pandemic and any escalation of the government's response, including but not limited to, increased restriction of workforce movement, increased safety protocols, and reduction in demand from the Group's customers may further negatively impact the Group's operations.
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 and Telstra 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. The acquisition of Comdain Infrastructure which provides a range of operations, maintenance, design and construction service to gas and water network operators in Australia has assisted with diversifying the Group's revenue base and managing this risk. 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.
Customer demand	Many of the Group's customer contracts do not contain volume commitments and are therefore dependent on the customer's demand requirements which can change at any time. The rate of adoption of new technology by the Group's customers, such as 5G technology, can also provide variability against expected future earnings. Whilst Management and the Board take a balanced view on the level of customer demand that is expected to arise when forecasting financial performance, there is a risk that the level of customer demand may change over time. In addition, the potential variability in 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 Group's 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 well-established Group Commercial function is now 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.
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 FY20, the Group did not lose any major contracts and was successful in securing extensions of its contracts with nbn co. The Group was also successful in winning a number of new contracts across the Telecommunications and Utilities segments. The Group is currently tendering for a number of material contracts, which includes: • nbn Unify Networks (NMRA replacement) for a term of 4 years + 2x2 year options; and • nbn Unify Services (OMMA replacement) for a term of 4 years + 2x2 year options. The Board is confident that the Group's superior performance and consistency of service delivery will underpin successful award of those contracts, but failure to do so would have a material impact on the Group.

For personal use only

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. 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 FY20, 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 market leading IT-related platforms which assist with the engagement, deployment, daily management and retention of the Group's 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. During FY20, 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 ensure that funds are sufficient and made available to maintain fit-for-purpose system applications and infrastructure, and that IT investments are appropriately prioritised and undertaken effectively as part of the Group's annual strategic planning process. During FY20, the Group has further expanded 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 19 to the financial statements and further set out below:

	Final 2020	Interim 2020	Final 2019
Per share (cents)	5.00	4.00	5.50
Total amount ($'000)	20,401[1]	16,299	22,384
Franked	100%	100%	100%
Payment date	1 October 2020	19 March 2020	2 October 2019

[1] This is the estimated total amount of dividend to be paid in respect of the current shares on issue at 30 June 2020.

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.

For personal use only

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.

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
FY18 LTIP Tranche	Ordinary	$0.00	September 2020	614,932
FY19 LTIP Tranche	Ordinary	$0.00	September 2021	731,108
FY20 LTIP Tranche	Ordinary	$0.00	September 2022	1,078,007
				2,424,047

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) 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	16[1]	4	4	4	
No of meetings attended by					
B Gallagher	15	4*	4*	4	10 years
G Adcock	15	4[#]	4	4	4 years
T Coen	15	4*	4*	4	1 year
P Dempsey	16	4	4	4*	10 years
D Page	16	4	4	4*	10 years
R Murphy [2]	5	1	1	1	4 years
L Mackender	16	4*	4*	4	6 years

* Attended as Standing Invitee.

[1] The number of board meetings held during the year comprised eleven regular monthly meetings, and five unscheduled meetings that related to large contract tender submissions.

[2] R Murphy retired from the Company on 23 October 2019.

[#] G Adcock was appointed as a member of the Audit and Risk Committee on 20 November 2019. He attended three meetings in the financial year as a committee member and another as standing invitee.

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*.

For personal use only

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 33 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 33 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 24 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 4th edition ASX Corporate Governance Principles and Recommendations. Service Stream is materially 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 18 August 2020 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 18 August 2020 and has been approved by the Board.

For personal use only

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 2020 (FY20). 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	Non-Executive Director
Peter Dempsey	Non-Executive Director
Deborah Page AM	Non-Executive Director
Raelene Murphy (retired 23 October 2019)	Non-Executive Director
Executive Director	
Leigh Mackender	Managing Director
Senior Executives	
Linda Kow (appointed 4 May 2020)	Chief Financial Officer
Robert Grant (retired 4 May 2020)	Chief Financial Officer
John Ash [1]	Executive General Manager, Network Construction
Peter Coen (resigned 28 January 2020)	Executive General Manager, Comdain Infrastructure
Shannon Laffey (appointed 28 January 2020)	Acting Executive General Manager, Energy & Water
Paul McCann [2]	Executive General Manager, Comdain Infrastructure
Kevin Smith	Executive General Manager, Fixed Communications

[1] J Ash resigned from his position as the Executive General Manager, Network Construction effective 6 July 2020.

[2] P McCann was the Executive General Manager of Energy & Water until 27 January 2020, before becoming the Executive General Manager of Comdain Infrastructure on 28 January 2020.

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.

Whilst the RNC periodically seeks independent advice from external consultants on various remuneration-related matters to assist in performing its duties and making recommendations to the Board, no external consultants were engaged by the Group during the financial year.

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 potential remuneration components that apply to the Managing Director and Senior Executives who are in the KMP position for the entire financial period.

Fixed remuneration	Incentive remuneration
Managing Director: 44% of total remuneration Senior Executives: 53% of total remuneration	Managing Director: 56% of total remuneration Senior Executives: 47% of total remuneration
> Fixed salary set by reference to appropriate benchmark information and individual performance	> Performance hurdle linked to annual EPS target and Relative Total Shareholder Return (TSR) under a Long-Term Incentive Plan (LTIP)
> Includes superannuation and salary-sacrificed non-monetary benefits	> Cash bonus paid under the Short-Term Incentive Plan (STIP)

Full details of each component payable to all KMPs are set out in section 5 of this remuneration report.

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 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	2016	2017	2018	2019	2020
Revenue ($'000)	438,940	501,810	632,946	852,178	929,133
EBITDA [1] ($'000)	35,818	48,352	67,296	89,543	105,588
Net profit after tax ($'000)	19,983	28,370	41,107	49,859	49,315
Earnings per share (cents)	5.20	7.78	11.29	13.09	12.13
Dividends per share [2] (cents)	2.50	4.50	7.50	9.00	9.00
Share price 30 June ($)	0.79	1.32	1.51	2.81	1.91

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

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

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 2020, Managing Director and Senior Executives incentive remuneration consisted of participation in the Group's LTIP and STIP as set out in the table below.

For personal use only

Summary of incentive plan participation

	2020		2019		
	LTIP	STIP	ESBIP [1]	LTIP	STIP
L Mackender	Yes	Yes	Yes	-	-
L Kow [2]	-	-	n/a	n/a	n/a
R Grant [3]	-	-	Yes	-	-
J Ash	Yes	Yes	-	Yes	Yes
P McCann	Yes	Yes	Yes	-	-
P Coen [4]	-	-	-	-	Yes
K Smith	Yes	Yes	Yes	-	-
S Laffey	Yes	Yes	n/a	n/a	n/a

[1] Details of the Group's Executive Share Based Incentive Plan (ESBIP) that operated in FY19 was disclosed in the FY19 annual report.

[2] L Kow was appointed as Chief Financial Officer with effect from 4 May 2020, and was not eligible to participate in the FY20 LTIP and FY20 STIP.

[3] During the period, R Grant retired from the role of Chief Financial Officer and did not participate in the FY20 LTIP and FY20 STIP.

[4] P Coen was appointed as Executive General Manager, Comdain Infrastructure with effect from 2 January 2019, and resigned on 28 January 2020 and forfeited his entitlements to the FY20 LTIP and FY20 STIP.

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 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.

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 FY20 are subject to service and performance criteria being:

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

B 80% of the performance rights granted with respect to the FY20 tranche will vest where the Group's adjusted earnings per share (Adjusted EPS) achieves the target as set by the Board of Directors. For FY18 and FY19 tranches, 50% of the performance rights granted will vest where the Group's earnings per share achieves an annual growth of 10% or more over the performance period, commencing with growth from an agreed base EPS; and

C 20% of the performance rights granted with respect to the FY20 tranche (50% for FY18 and FY19 tranches) will vest where 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.

For personal use only

Why was this performance condition chosen?

The Board considered the Adjusted EPS and TSR hurdles to be appropriate measures on the basis that they were relevant measures of increase in shareholder value, after adjusting for non-operational expense and both outcomes are highly correlated with the effectiveness of LTIP participants. In addition, Adjusted EPS was calculated based on the figures in the financial statements after giving effect for Board approved non-operational costs, 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 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.

For personal use only

For personal use only

Summary of grants under ESBIP and LTIP

	Balance at 1 July 2019	Granted as compensation	Vested	Forfeited	Balance at 30 June 2020	Fair value when granted [2]	Value of shares at vesting
	Number	Number	Number	Number	Number	$	$
L Mackender							
FY19 ESBIP	1,000,000	-	(1,000,000)	-	-	1,487,100	2,760,000
FY20 LTIP [3]	-	238,544	-	-	238,544	524,838	n/a
Total	**1,000,000**	**238,544**	**(1,000,000)**	**-**	**238,544**		
R Grant							
FY19 ESBIP	700,000	-	(700,000)	-	-	1,040,970	1,932,000
Total	**700,000**	**-**	**(700,000)**	**-**	**-**		
J Ash							
FY17 LTIP	123,411	-	(123,411)	-	-	76,774	312,230
FY18 LTIP [1]	90,299	-	-	-	90,299	98,530	n/a
FY19 LTIP	81,140	-	-	-	81,140	89,618	n/a
FY20 LTIP [5]	-	75,114	-	(75,114)	-	161,876	n/a
Total	**294,850**	**75,114**	**(123,411)**	**(75,114)**	**171,439**		
S Laffey [4]							
FY20 LTIP	-	13,262	-	-	13,262	28,581	n/a
Total	**-**	**13,262**	**-**	**-**	**13,262**		
P McCann							
FY19 ESBIP	650,000	-	(650,000)	-	-	966,615	1,794,000
FY20 LTIP	-	76,776	-	-	76,776	165,458	n/a
Total	**650,000**	**76,776**	**(650,000)**	**-**	**76,776**		
K Smith							
FY19 ESBIP	650,000	-	(650,000)	-	-	966,615	1,794,000
FY20 LTIP	-	106,903	-	-	106,903	230,384	n/a
Total	**650,000**	**106,903**	**(650,000)**	**-**	**106,903**		

Plan	Grant dates	Vesting dates
FY17 LTIP	14 September 2016	13 September 2019
FY18 LTIP	14 September 2017	September 2020
FY19 LTIP	21 September 2018	September 2021
FY20 LTIP	18 September 2019	September 2022
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 FY20 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 2020 in line with each of the tranche's performance periods.

[3] As L Mackender is a Director of the Company, the issuance of performance rights under the FY20 LTIP Tranche was approved by shareholders at the Company's Annual General Meeting on 23 October 2019, with relative TSR hurdle valued at $1.311 and EPS hurdle at $2.422.

[4] S Laffey was appointed Acting Executive General Manager, Energy & Water on 28 January 2020 and such only the FY20 LTIP Tranche has been included.

[5] J Ash resigned from his position as the Executive General Manager, Network Construction effective 6 July 2020, and forfeited his eligibility from participating in the FY20 LTIP Tranche.

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
FY17 LTIP [1]	14 September 2016	13 September 2019	62.2 cents	100%	100%
FY18 LTIP [2]	14 September 2017	September 2020	109.1 cents	To be determined	To be determined
FY19 ESBIP [1]	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 FY20 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	> 6 months either party (or payment in lieu) > Immediate for serious misconduct or breach of contract > Statutory requirements only for termination with cause
Chief Financial Officer and other Senior Executives	> 1 to 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

The remuneration arrangements of the Managing Director and a small number of other key executives were reviewed during the year to coincide with the cessation of Service Stream's ESBIP. Participation in the ESBIP was conditional on each invited Executive agreeing to forgo participation in the STIP and LTIP applicable to that five-year period. During that period, the Group delivered a Total Shareholder Return of 1441%, with the participating Executives' total remuneration reflective of this.

In line with the Group's policy to periodically review its remuneration framework, Service Stream's Board of Directors engaged external remuneration consultants to perform a broad review of the Company's executive arrangements encompassing appropriate levels of fixed and at risk remuneration. These revised remunerations arrangements applied to the FY20 year, and were expected to be lower in value than the previous legacy arrangement.

For personal use only

		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	2020	878,997	427,500	-	21,003	104,857	174,946	1,607,303	63%	37%
	2019	529,469	50,000[1]	-	20,531	18,228	1,487,100	2,105,328	27%	73%
L Kow [2]	2020	94,202	-	-	3,417	81	-	97,700	100%	0%
R Grant [3]	2020	888,826	-	-	17,732	29,651	-	936,209	100%	0%
	2019	464,300	50,000[1]	-	20,531	14,078	1,040,970	1,589,879	31%	69%
J Ash	2020	365,445	22,655	-	21,003	12,008	55,541	476,652	84%	16%
	2019	365,415	84,117	-	20,531	10,272	88,307	568,642	70%	30%
P Coen [4]	2020	513,648	-	-	17,502	-	-	531,150	100%	0%
	2019	262,816	20,625	-	10,191	227	-	293,859	93%	7%
S Laffey [5]	2020	111,882	11,258	-	8,895	11,808	9,764	153,607	86%	14%
P McCann	2020	393,815	47,250	24,384	21,003	35,301	55,153	576,906	82%	18%
	2019	298,847	-	24,384	20,531	15,602	966,615	1,325,979	27%	73%
K Smith	2020	528,997	179,506	-	21,003	68,939	76,795	875,240	71%	29%
	2019	376,548	-	-	20,531	12,823	966,615	1,376,517	30%	70%
Total	**2020**	**3,775,812**	**688,169**	**24,384**	**131,558**	**262,645**	**372,199**	**5,254,767**	**80%**	**20%**
	2019	2,297,395	204,742	24,384	112,846	71,230	4,549,607	7,260,204	35%	65%

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

[2] L Kow was appointed as Chief Financial Officer with effect from 4 May 2020, and was not eligible to participate in FY20 LTIP and FY20 STIP.

[3] During the year, R Grant retired from the role of Chief Financial Officer and did not participate in the FY20 STIP & FY20 LTIP Tranche. Included in his salary and fees is a retention bonus amounting to $400,000.

[4] P Coen was appointed as Executive General Manager, Comdain Infrastructure with effect from 2 January 2019, resigned on 28 January 2020 and forfeited his entitlements to the FY20 LTIP and FY20 STIP.

[5] S Laffey was appointed Acting Executive General Manager, Energy & Water with effect from 28 January 2020.

For personal use only

For personal use only

6 Non-Executive remuneration

Overview

Aggregate fees approved by shareholders

The current maximum aggregate fee pool for the Non-Executive Directors is $1,000,000 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.

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	2020	182,648	17,352	200,000
	2019	146,119	13,881	160,000
G Adcock [1]	2020	125,000	-	125,000
	2019	113,734	4,266	118,000
T Coen [2]	2020	107,763	10,237	118,000
	2019	44,901	4,266	49,167
P Dempsey	2020	118,721	11,279	130,000
	2019	107,763	10,237	118,000
R Murphy [3]	2020	39,333	-	39,333
	2019	118,000	-	118,000
D Page	2020	124,361	5,639	130,000
	2019	114,155	10,845	125,000
Total	**2020**	**697,826**	**44,507**	**742,333**
	2019	644,672	43,495	688,167

[1] Since December 2018, G Adcock's remuneration 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 was paid to Wealth For Toil Pty Ltd, a company in which Mrs Murphy has a beneficial interest, up to the date of her retirement.

7 Shareholdings of key management personnel

	Balance at 1 July	Received on vesting of performance rights	(Disposed)/ acquired during the year	Balance at date of appointment	Balance at date of resignation	Balance at 30 June
	No.	No.	No.	No.	No.	No.
2020						
Non-Executives						
B Gallagher	3,150,986	-	148,687	-	-	3,299,673
G Adcock	50,000	-	-	-	-	50,000
T Coen	38,444,918	-	-	-	-	38,444,918
P Dempsey	1,000,000	-	50,000	-	-	1,050,000
R Murphy	20,000	-	-	-	(20,000)	-
D Page	409,268	-	34,025	-	-	443,293
Executives						
L Mackender	1,050,000	1,000,000	(949,300)	-	-	1,100,700
L Kow	-	-	-	70,000	-	70,000
R Grant	1,000,000	700,000	(1,200,000)	-	(500,000)	-
J Ash	-	123,411	-	-	-	123,411
S Laffey	-	-	-	-	-	-
P McCann	1,138,522	650,000	(1,250,000)	-	-	538,522
K Smith	2,036,998	650,000	(205,068)	-	-	2,481,930
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

8 Voting and comments made at the Company's 2019 Annual General Meeting

The Company received 97% of “yes” votes on its Remuneration Report for the 2019 financial year.

For personal use only

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
18 August 2020



Leigh Mackender
Managing Director
18 August 2020

For personal use only

For personal use only

Auditor's Independence Declaration

As lead auditor for the audit of Service Stream Limited for the year ended 30 June 2020, 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
18 August 2020

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June

	Notes	2020 $'000	2019 $'000
Revenue from continuing operations			
Revenue from contracts with customers	3	**927,951**	850,959
Other income	4	**1,182**	1,219
		929,133	852,178
Expenses			
Employee salaries and benefits		**(217,726)**	(193,567)
Subcontractor fees		**(499,801)**	(474,919)
Raw materials and consumables used		**(54,513)**	(37,196)
Consulting and temporary staff fees		**(9,448)**	(8,860)
Company administration and insurance expenses		**(7,193)**	(5,631)
Occupancy expenses		**(2,002)**	(8,897)
Technology and communication services		**(15,843)**	(14,639)
Motor vehicle expenses		**(12,163)**	(12,669)
Depreciation and amortisation	6	**(31,678)**	(16,226)
Interest expense and other finance costs	5	**(3,548)**	(1,899)
Other expenses		**(4,753)**	(5,560)
Profit before tax		**70,465**	72,115
Income tax expense	7	**(21,150)**	(22,256)
Profit for the year		**49,315**	49,859
Total comprehensive income for the year		**49,315**	49,859
Profit attributable to the equity holders of the parent		**49,315**	49,859
Total comprehensive income attributable to equity holders of the parent		**49,315**	49,859
Earnings per share			
Basic (cents per share)	8	**12.13**	13.09
Diluted (cents per share)	8	**12.09**	12.89

Notes to the financial statements are included on pages 29 to 67

For personal use only

Consolidated balance sheet
at 30 June

	Notes	2020 $'000	2019[1] $'000
ASSETS			
Current assets			
Cash and cash equivalents	20	**79,472**	70,809
Trade and other receivables	9	**39,204**	54,385
Inventories	10	**6,259**	8,868
Accrued revenue	11	**101,801**	125,988
Other assets	12	**4,520**	7,448
Total current assets		**231,256**	267,498
Non-current assets			
Plant and equipment	13	**15,156**	20,119
Right-of-use assets	15	**29,090**	-
Intangible assets	14	**313,179**	323,550
Total non-current assets		**357,425**	343,669
Total assets		**588,681**	611,167
LIABILITIES			
Current liabilities			
Trade and other payables	16	**103,055**	162,131
Provisions	17	**29,458**	36,995
Borrowings	21	**9,000**	9,000
Lease liabilities	15	**9,900**	288
Current tax liabilities	7	**10,670**	10,136
Total current liabilities		**162,083**	218,550
Non-current liabilities			
Deferred tax liability (net)	7	**23,807**	28,045
Provisions	17	**6,531**	5,808
Borrowings	21	**51,000**	51,000
Lease liabilities	15	**23,464**	-
Total non-current liabilities		**104,802**	84,853
Total liabilities		**266,885**	303,403
Net assets		**321,796**	307,764
EQUITY			
Capital and reserves			
Contributed equity	18	**314,741**	297,757
Reserves		**(11,109)**	2,475
Retained earnings		**18,164**	7,532
Total equity		**321,796**	307,764

[1] The 30 June 2019 balance sheet has been restated to reflect the final fair value of the purchase price allocation balances of Comdain Infrastructure, which was acquired on 2 January 2019. Refer to note 27.

Notes to the financial statements are included on pages 29 to 67

For personal use only

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

	Contributed equity	Employee equity-settled benefits reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000
Balance at 1 July 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
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
Profit for the period	-	-	49,315	49,315
Total comprehensive income for the year	-	-	49,315	49,315
Equity-settled share-based payments, inclusive of tax adjustments	-	1,761	-	1,761
Issue of shares (net of transaction costs)	14,604	-	-	14,604
Acquisition of treasury shares	(15,345)	-	-	(15,345)
Issue of treasury shares to employees	15,345	(15,345)	-	-
Dividends paid	2,380	-	(38,683)	(36,303)
Balance at 30 June 2020	**314,741**	**(11,109)**	**18,164**	**321,796**

Notes to the financial statements are included on pages 29 to 67

For personal use only

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

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers (including GST)		**1,028,079**	942,053
Payments to suppliers and employees (including GST)		**(941,633)**	(862,350)
Cash generated from operations		**86,446**	79,703
Interest received		**103**	697
Interest and facility costs paid		**(3,689)**	(2,063)
Income taxes paid		**(25,177)**	(18,814)
Net cash provided by operating activities	20	**57,683**	59,523
Cash flows from investing activities			
Payments for plant and equipment		**(2,185)**	(3,581)
Proceeds on the sale of plant and equipment		**1,336**	452
Payment for intangible assets		**(5,636)**	(6,287)
Payments for businesses		**-**	(82,752)
Net cash used in investing activities		**(6,485)**	(92,168)
Cash flows from financing activities			
Purchase of shares (net of transaction costs)		**(741)**	-
Payment for share issue costs		**-**	(59)
Lease incentives received		**4,164**	-
Principal elements of lease payments		**(9,655)**	(369)
Dividends paid		**(36,303)**	(29,816)
Proceeds from borrowings		**-**	60,000
Net cash (used in)/provided by financing activities		**(42,535)**	29,756
Net increase/(decrease) in cash held		**8,663**	(2,889)
Cash at the beginning of the year		**70,809**	73,698
Cash at the end of the period	20	**79,472**	70,809

Notes to the financial statements are included on pages 29 to 67

For personal use only

Service Stream Limited

Notes to the consolidated financial statements

for the year ended 30 June 2020

For personal use only

Notes to the consolidated financial statements

1	General information	Page 30

Section A: Business performance

2	Segment information	Page 30
3	Revenue from contracts with customers	Page 32
4	Other income	Page 34
5	Finance costs	Page 34
6	Other expense items	Page 34
7	Income tax expense	Page 35
8	Earnings per share	Page 37

Section B: Operating assets & liabilities

9	Trade and other receivables	Page 38
10	Inventories	Page 38
11	Accrued revenue	Page 38
12	Other assets	Page 39
13	Plant and equipment	Page 39
14	Intangible assets	Page 40
15	Leases	Page 42
16	Trade and other payables	Page 43
17	Provisions	Page 44

Section C: Capital and financing

18	Contributed equity	Page 44
19	Dividends	Page 45
20	Notes to the statement of cash flow	Page 46
21	Financial instruments	Page 46
22	Capital risk management	Page 49
23	Share-based payments	Page 50

Section D: Group structure

24	Subsidiaries	Page 53
25	Deed of cross guarantee	Page 53
26	Joint operations	Page 53
27	Business combinations	Page 54
28	Related party transactions	Page 54
29	Parent entity information	Page 55

Section E: Unrecognised items

30	COVID-19 impact	Page 56
31	Contingent assets and liabilities	Page 56
32	Events after the reporting period	Page 56

Section F: Other

33	Remuneration of auditors	Page 56
34	Significant accounting policies	Page 57
35	Critical accounting judgements	Page 67

Notes to the financial statements
for the financial year ended 30 June 2020

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

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 includes 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.

During the period, the Group's call centre function was transferred from the Utilities to Telecommunications reportable segment in order to enhance the provision of customer support and field scheduling services of nbn operations. The segment reporting is based on this revised segment structure for the first time in this annual financial report. To enable comparisons with prior period performance, historical segment information for the prior reporting period ended 30 June 2019 has been restated.

Information regarding the reportable segments is presented below.

For personal use only

2 Segment information (continued)

(b) Segment revenues and results

	Segment revenue		Segment EBITDA	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Telecommunications [1]	**544,170**	589,388	**83,125**	77,096
Utilities [1]	**384,083**	264,284	**30,810**	22,538
Total of all segments	**928,253**	853,672	**113,935**	99,634
Other income	**1,079**	522		
Eliminations [1]	**(302)**	(2,713)		
Unallocated			**(8,347)**	(10,091)
EBITDA [2]			**105,588**	89,543
Depreciation of plant and equipment			**(6,204)**	(4,547)
Depreciation of right-of-use assets			**(9,467)**	-
Amortisation of software			**(5,002)**	(4,254)
Amortisation of customer contracts / relationships			**(11,005)**	(7,425)
EBIT			**73,910**	73,317
Interest revenue	**103**	697		
Net financing costs			**(3,445)**	(1,202)
Total revenue	**929,133**	852,178		
Profit before tax			**70,465**	72,115
Income tax expense			**(21,150)**	(22,256)
Profit for the year			**49,315**	49,859

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

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

(c) Segment assets and liabilities

	Segment assets		Segment liabilities	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Telecommunications [1]	**162,062**	192,507	**70,867**	113,744
Utilities [1]	**345,944**	335,030	**81,037**	111,545
Total of all segments	**508,006**	527,537	**151,904**	225,289
Unallocated	**80,675**	83,630	**114,981**	78,114
Consolidated	**588,681**	611,167	**266,885**	303,403

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

For personal use only

2 Segment information (continued)

(d) Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Telecommunications [1]	**5,175**	1,804	**2,035**	1,190
Utilities [1]	**19,707**	9,701	**5,027**	2,249
Total of all segments	**24,882**	11,505	**7,062**	3,439
Unallocated	**6,796**	4,721	**8,349**	6,429
Consolidated	**31,678**	16,226	**15,411**	9,868

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

(e) Information about major customers

In the current reporting period, there was one customer (2019: two customers) which contributed more than 10% of the Group's revenue. The relevant revenue by segment is shown below:

Largest customer	2020: Telecommunications $442.7 million (2019: Telecommunications $463.3 million).
Second largest customer	2020: Not applicable (2019: Telecommunications $96.9 million).

No other single customer contributed 10% or more of the Group's total revenue in 2020 and 2019.

3 Revenue from contracts with customers

(a) Revenue from contracts with customers

	2020 $'000	2019 $'000
Revenue	**927,951**	850,959
	927,951	850,959

(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 2020	Fixed Communications	Network Construction	Energy & Water	Comdain Infrastructure	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue	432,494	111,676	96,096	288,131	-	928,397
Intra / Inter-segment revenue	-	-	(144)	-	(302)	(446)
Revenue from contracts with customers	432,494	111,676	95,952	288,131	(302)	927,951
Timing of revenue recognition						
At point in time	380,164	-	87,893	56,957	483	525,497
Over time	52,330	111,676	8,059	231,174	(785)	402,454
	432,494	111,676	95,952	288,131	(302)	927,951

For personal use only

3 Revenue from contracts with customers (continued)

(b) Disaggregation of segment revenue (continued)

30 June 2019	Fixed Communications [1]	Network Construction	Energy & Water [1]	Comdain Infrastructure	Other [1]	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue	381,764	215,255	104,175	160,222	-	861,416
Intra / Inter-segment revenue	(7,631)	-	(113)	-	(2,713)	(10,457)
Revenue from contracts with customers	374,133	215,255	104,062	160,222	(2,713)	850,959
Timing of revenue recognition						
At point in time	313,405	-	89,371	19,271	116	422,163
Over time	60,728	215,255	14,691	140,951	(2,829)	428,796
	374,133	215,255	104,062	160,222	(2,713)	850,959

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

(c) Assets and liabilities related to contracts with customers

	2020 $'000	2019 $'000
Revenue recognised that was included in contract liability balance at the beginning of the period	37,703	27,726
Revenue (reversed) / recognised from performance obligations satisfied in previous periods	(596)	644

(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 17.

For personal use only

4 Other income

	2020 $'000	2019 $'000
Gain on disposal of assets	**411**	422
R&D tax incentives	**136**	81
Interest revenue	**103**	697
Other	**532**	19
	1,182	1,219

5 Finance costs

	2020 $'000	2019 $'000
Interest expense: leases	939	21
Interest expense: borrowings	1,029	817
Other interest expense	35	51
Facility fees: bank overdraft and loans	823	579
Facility fees: bank guarantees	434	262
Total interest expense and facility fees	**3,260**	**1,730**
Facility establishment costs	288	169
Interest expenses and other finance costs	**3,548**	**1,899**

6 Other expense items

(a) Depreciation and amortisation expense

	Notes	2020 $'000	2019 $'000
Depreciation of plant and equipment	13	**6,204**	4,547
Depreciation of right-of-use assets	15	**9,467**	-
Amortisation of software	14	**5,002**	4,254
Amortisation of customer contracts / relationships	14	**11,005**	7,425
		31,678	16,226

(b) Employee benefit expense

Post-employment benefits plans	**16,359**	11,905
Equity-settled share-based payments	**2,004**	7,873
	18,363	19,778

(c) Operating lease rental expenses

Minimum lease payments	**-**	10,875
	-	10,875

From 1 July 2019, the Group has recognised right-of-use assets for these leases, except for short-term leases, refer to notes 15(b) and 34(a) for further information.

For personal use only

7 Income tax expense

(a) Income tax recognised in profit or loss

	2020 $'000	2019 $'000
Tax expense comprises:		
Current tax expense in respect of the current year	**24,852**	22,855
Deferred tax	**(3,702)**	(599)
Income tax expense	**21,150**	22,256

(b) Reconciliation of income tax expense to tax payable

	2020 $'000	2019 $'000
Profit from continuing operations	**70,465**	72,115
Tax at the Australian tax rate of 30%	**21,140**	21,635
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
R&D tax incentives	**(41)**	(24)
Pre-acquisition costs	**-**	556
Other non-deductible expenses	**51**	89
Income tax expense as per statement of comprehensive income	**21,150**	22,256
Movement through deferred tax (note: 7c)	**3,702**	599
Tax payable	**24,852**	22,855
Less current year tax instalments paid during the year	**(14,182)**	(15,561)
Net income tax payable	**10,670**	7,294
Effective tax rate	***30.01%***	*30.86%*

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.

For personal use only

7 Income tax expense (continued)

(c) Deferred tax balances

Deferred tax balances arise from the following:

2020	Opening balance	AASB 16 Adoption	Timing difference related to prior periods [1]	Charged to income	Charged to equity	Closing balance
	$'000	$'000	$'000	$'000	$'000	$'000
Temporary differences						
Trade and other receivables	554	-	(182)	(82)	-	**290**
Accrued revenue	(25,686)	-	-	4,022	-	**(21,664)**
Trade, other payables and provisions	6,188	-	1,328	(2,309)	-	**5,207**
Share issue costs	97	-	-	(27)	-	**70**
Employee benefits	13,491	-	(183)	(3,126)	(243)	**9,939**
Plant and equipment	(154)	-	-	331	-	**177**
Customer contracts / relationships	(23,088)	-	-	3,301	-	**(19,787)**
Right of use assets	-	(9,293)	-	566	-	**(8,727)**
Lease liabilities	-	9,293	-	716	-	**10,009**
Other	553	-	(184)	310	-	**679**
	(28,045)	**-**	**779**	**3,702**	**(243)**	**(23,807)**

[1] The prior period timing difference arose from a true-up of deferred tax and tax payable position at balance date to the subsequent tax return lodgement date.

2019	Opening balance	Charged to income	Charged to equity	Timing difference related to prior periods	DTL (net) acquired through business combination	Closing balance
	$'000	$'000	$'000	$'000	$'000	$'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)	-	-	1,971	6,188
Share issue costs	26	71	-	-	-	97
Employee benefits	6,128	2,729	2,591	-	2,043	13,491
Plant and equipment	(410)	256	-	-	-	(154)
Customer contracts	(1,353)	2,227	-	-	(23,962)	(23,088)
Other	878	(619)	-	-	294	553
	(12,111)	599	2,591	-	(19,124)	(28,045)

Deferred tax assets and liabilities have been set-off by the Company and are presented in the balance sheet as a deferred tax liability.

For personal use only

For personal use only

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 24. 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

	2020 Cents per share	2019 Cents per share
Basic earnings per share:		
Total basic earnings per share	**12.13**	13.09
Diluted earnings per share:		
Total diluted earnings per share	**12.09**	12.89

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:

	2020 $'000	2019 $'000
Profit for the year attributable to owners of the Company	**49,315**	49,859
Earnings used in the calculation of basic EPS	**49,315**	49,859

	2020 No.'000	2019 No.'000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**406,647**	380,877
Shares deemed to be issued for no consideration in respect of employee share schemes	**1,134**	5,963
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**407,781**	386,840

For personal use only

9 Trade and other receivables

	Trade receivables	Expected credit loss	Total	Trade receivables	Expected credit loss	Total
	2020 $'000	2020 $'000	2020 $'000	2019 $'000	2019 $'000	2019 $'000
Current	32,211	(146)	**32,065**	45,121	(27)	45,094
1 month	2,975	(65)	**2,910**	4,058	(25)	4,033
2 months	1,220	(244)	**976**	1,876	(48)	1,828
3 months	200	(74)	**126**	1,070	(88)	982
Over 3 months	946	(440)	**506**	284	(26)	258
	37,552	(969)	**36,583**	52,409	(214)	52,195
Other receivables			**2,621**			2,190
			39,204			54,385

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, then 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 21(d).

10 Inventories

	2020 $'000	2019 $'000
Inventories	**6,259**	8,868
	6,259	8,868

Inventories recognised as an expense during the year ended 30 June 2020 amounted to $54,513,000 (2019: $37,196,000). 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 (2019: nil).

11 Accrued revenue

	2020 $'000	2019 $'000
Accrued revenue	**101,801**	125,988
	101,801	125,988

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 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 which has historically resulted 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 34(f) revenue recognition. Details about the Group's impairment policy and assessment of the loss allowance are provided in note 21(d).

Accrued revenue has decreased during the year predominantly due to the conclusion of nbn design and construction activities.

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

	2020 $'000	2019 $'000
Work in progress	-	789
Prepayments	**3,947**	5,837
Financing facility establishment costs	**332**	571
Other	**241**	251
	4,520	7,448

13 Plant and equipment

	Leasehold improvements $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
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
Year Ended 30 June 2020				
Opening net book value	1,725	11,464	6,930	20,119
Additions	6	2,179	-	2,185
Disposals [1]	-	(839)	(105)	(944)
Depreciation charge	(599)	(3,345)	(2,260)	(6,204)
Closing net book value	**1,132**	**9,459**	**4,565**	**15,156**
At 30 June 2020				
Cost	9,892	30,129	8,110	48,131
Accumulated depreciation	(8,760)	(20,670)	(3,545)	(32,975)
Net book value	**1,132**	**9,459**	**4,565**	**15,156**

[1] Disposals are net of accumulated depreciation.

For personal use only

For personal use only

14 Intangible assets

	Software	Customer contracts	Customer relationships	Goodwill	Total
	$'000	$'000	$'000	$'000	$'000
Year Ended 30 June 2019					
Opening net book value	14,621	4,512	-	129,698	148,831
Acquisition through business combination	-	25,310	54,562	100,285	180,157
Additions	6,287	-	-	-	6,287
Disposals	(46)	-	-	-	(46)
Amortisation charge	(4,254)	(4,945)	(2,480)	-	(11,679)
Closing net book value	16,608	24,877	52,082	229,983	323,550
At 30 June 2019					
Cost [1]	42,937	32,209	54,562	229,983	359,691
Accumulated amortisation	(26,329)	(7,332)	(2,480)	-	(36,141)
Net book value	16,608	24,877	52,082	229,983	323,550
Year Ended 30 June 2020					
Opening net book value	16,608	24,877	52,082	229,983	323,550
Additions	5,636	-	-	-	5,636
Amortisation charge	(5,002)	(6,045)	(4,960)	-	(16,007)
Closing net book value	**17,242**	**18,832**	**47,122**	**229,983**	**313,179**
At 30 June 2020					
Cost [1]	48,541	32,209	54,562	229,983	365,295
Accumulated amortisation	(31,299)	(13,377)	(7,440)	-	(52,116)
Net book value	**17,242**	**18,832**	**47,122**	**229,983**	**313,179**

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

(a) Impairment tests for goodwill

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

	2020 $'000	2019 $'000
Fixed Communications	**27,691**	27,691
Network Construction	**43,759**	43,759
Energy & Water	**58,248**	58,248
Comdain Infrastructure	**100,285**	100,285
	229,983	229,983

(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 units (CGUs) 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)

Acknowledging that there have been changes in the observable markets over the years, an independent valuation expert was engaged during the period to perform a WACC rate review for the Group. From the review undertaken, they concluded that:

(i) The majority of the risks and assumptions embedded across the 4 CGUs are the same, and therefore a single discount rate can be applied across all 4 CGUs; and

(ii) There are observable differences in the market that justify the reduction in WACC rates adopted by the Group from the prior period. These primarily relates to a reduction in the observed 10-year Australian Government Bond rate (the 'risk free' rate) and a reduction in the Company's asset beta and post-tax cost of debt.

The Group have adopted a nominal discount rate in this year's impairment calculation in line with the underlying financial forecast assumptions. In prior period a real discount rate was used in line with the underlying financial forecast assumptions adopted in the impairment models at that time.

Cash flows beyond the next four-year period have been extrapolated where relevant using a 2.5% per annum nominal growth rate (FY19: 0% per annum real growth rate). A pre-tax discount rate of 12.9% nominal for each CGU (FY19 pre-tax discount rate: 12.9% real for Fixed Communications, Network Construction and Energy & Water and 13.6% real for Comdain Infrastructure) 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 forecast period from a base of FY20 is 0%. 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 wireless telecommunication carriers in Australia and the forecast compound average annual nominal revenue growth over the forecast period from a base of FY20 is 19%. This assumes existing wireless contracts are extended, new contracts are awarded and margins remain stable. No cash flows have been included for the nbn design and construction activities.

(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 forecast period from a base of FY20 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, battery storage, 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 forecast period from a base of FY20 is 12%. This assumes existing contracts are extended, new contracts are awarded and margins remain stable.

The recoverable amount of all CGUs is sensitive to changes in customer contractual arrangements. Should any material contracts not be renewed, material tenders not be won, or volumes assigned from contracts be lower than expected it will result in a reduction to the recoverable amount and may result in an impairment.

For personal use only

For personal use only

15 Leases

(a) Amount recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	30 Jun 2020 $'000	1 Jul 2019 $'000
Properties	23,066	27,462
Motor vehicles	4,486	3,227
Equipment	1,538	288
Total right-of-use assets	**29,090**	**30,977**
Current lease liabilities	9,900	5,789
Non-current lease liabilities	23,464	25,188
Total lease liabilities	**33,364**	**30,977**

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 July 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

Additions to the right-of-use assets during the 2020 financial year were $6,677,000.

(b) Amounts recognised in the profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2020 $'000
Depreciation of right-of-use assets	
Properties	7,488
Motor vehicles	1,889
Equipment	90
	9,467
Interest expense (included in interest expense and other finance costs)	939
Expense relating to short-term leases (included in the occupancy and motor vehicle expenses)	1,458

The total cash outflow for leases in 2020 was $10,594,000.

(c) The Group's leasing activities and how these are accounted for

The Group leases various properties, equipment and motor vehicles. Rental contracts are typically made for fixed periods of two to five years but may have extension options as described in (ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2019 financial year, leases of properties, equipment and motor vehicles were predominantly classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- amounts expected to be payable by the Group under residual value guarantees;
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option.

15 Leases (continued)

(c) The Group's leasing activities and how these are accounted for (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

(i) Variable lease payments

There are no variable lease payments requiring estimations.

(ii) Extension and termination options

Extension and termination options are included in a number of properties, equipment and motor vehicles leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

(d) Significant estimates

In determining the lease term, management consider all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. Potential future cash outflows of approximately $40,800,000 (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended or not terminated.

16 Trade and other payables

	2020 $'000	2019 $'000
Trade creditors [1]	**45,092**	52,723
Sundry creditors and accruals	**41,186**	60,124
Goods and services tax payable	**3,103**	6,057
Income in advance	**13,674**	43,227
	103,055	162,131

[1] Typically, no interest is charged by trade creditors. The Group has financial risk management policies in place to ensure that all payable 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 decreased during the year predominantly due to the conclusion of nbn design and construction activities.

For personal use only

For personal use only

17 Provisions

	2020 $'000	2019 $'000
Current		
Employee benefits [1]	**19,210**	16,471
Provision for contractual obligations [2]	**9,490**	16,340
Provision for onerous contracts [3]	**65**	1,541
Provision for contractual disputes [4]	**693**	2,643
	29,458	36,995
Non-current		
Employee benefits [1]	**6,531**	5,808
	6,531	5,808
	35,989	42,803

[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 with its various customers.

[3] The provision for onerous contracts represents best estimation on loss-making projects where total cost is expected to exceed total revenue.

[4] The provision for contractual disputes represents the present value of an estimate for the future outflow that may be required 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. These assurance-type warranties are accounted for in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

(a) Movement in provision

	Contractual obligations $'000	Onerous contracts $'000	Contractual disputes $'000
Balance at 1 July 2019	16,340	1,541	2,643
Charged / (credited) to profit or loss			
Additional provisions recognised	910	33	-
Unused amounts reversed	(6,496)	-	(1,950)
Amounts used during the year	(1,264)	(1,509)	-
Balance at 30 June 2020	**9,490**	**65**	**693**

(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.

18 Contributed equity

	Number of shares		Share capital	
	2020 No.'000	2019 No.'000	2020 $'000	2019 $'000
Fully paid ordinary shares	**408,026**	401,620	**314,741**	297,757
Treasury shares	**-**	-	**-**	-
	408,026	401,620	**314,741**	297,757

For personal use only

18 Contributed equity (continued)

(a) Fully paid ordinary shares

	Number of shares '000	Share capital $'000
Balance at 1 July 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
Issue of shares	5,353	14,604
Dividend reinvestment plan	1,053	2,380
Balance at 30 June 2020	**408,026**	**314,741**

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 23.

(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 a first-in-first-out basis.

	Number of shares '000	Share capital $'000
Balance at 1 July 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	-	-
Acquisition of treasury shares (average price: $2.73 per share)	(5,629)	(15,345)
Shares issued under employee share schemes	5,629	15,345
Balance at 30 June 2020	**-**	**-**

19 Dividends

Recognised amounts	2020 Cents per share	2019 Cents per share	2020 $'000	2019 $'000
Fully paid ordinary shares				
Interim dividend	**4.00**	3.50	**16,299**	14,049
	4.00	3.50	**16,299**	14,049

Unrecognised amounts	2020 Cents per share	2019 Cents per share	2020 $'000	2019 $'000
Fully paid ordinary shares				
Final dividend [1]	**5.00**	5.50	**20,401**	22,384
	5.00	5.50	**20,401**	22,384

[1] The FY19 final fully-franked dividend was paid on 2 October 2019.

For personal use only

19 Dividends (continued)

In respect of current year's earnings, an interim dividend of 4.00 cent per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 19 March 2020. In addition, on 18 August 2020, the Directors declared a fully-franked final dividend of 5.00 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2020, to be paid to shareholders on 1 October 2020. 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 15 September 2020 and the total dividend estimated to be paid in respect of the current shares on issue is $20,401,000.

	Company	
	2020 $'000	2019 $'000
Adjusted franking account balance at 30 June	**38,763**	29,631

20 Notes to the statement of cash flow

(a) Reconciliation of cash and cash equivalents

	2020 $'000	2019 $'000
Cash and cash equivalents	**79,472**	70,809
Balance per consolidated statement of cash flows	**79,472**	70,809

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

	2020 $'000	2019 $'000
Profit for the year	**49,315**	49,859
Gain on sale of disposal of non-current assets	**(411)**	(409)
R&D tax incentives	**(136)**	(81)
Depreciation and amortisation	**31,678**	16,226
Equity-settled share-based payments expense	**2,004**	7,873
(Decrease) / increase in tax balances & other tax adjustments	**(3,782)**	3,546
Movement in working capital:		
Decrease in trade and other receivables	**15,181**	12,425
Decrease / (increase) in accrued income	**24,187**	(15,820)
Decrease / (increase) in other assets	**2,928**	(2,635)
Decrease / (increase) in inventories	**2,609**	(3,826)
Decrease in trade and other payables	**(59,076)**	(11,017)
(Decrease) / increase in provisions	**(6,814)**	3,382
Net cash provided by operating activities	**57,683**	59,523

(c) Debt reconciliation

$'000	2019	AASB 16 Adoption	Additions / Remeasurement	Net Cash flows	2020
Borrowings	60,000	-	-	-	**60,000**
Lease liabilities	288	30,977	7,590	(5,491)	**33,364**
Debt at 30 June	60,288	30,977	7,590	(5,491)	**93,364**

21 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.

21 Financial instruments (continued)

(b) Categories of financial instruments

	2020 $'000	2019 $'000
Financial assets at amortised cost		
Cash and cash equivalents	**79,472**	70,809
Accrued revenue	**101,801**	125,988
Trade and other receivables	**39,204**	54,385
	220,477	251,182
Financial liabilities at amortised cost		
Lease liabilities	**33,364**	288
Borrowings	**60,000**	60,000
Trade and other payables	**103,055**	162,131
	196,419	222,419

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 2020, the Group's sensitivity to interest rate risk would be equivalent to a $194,720 per annum unfavourable impact to profit before tax (2019: $105,210 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 had led 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.

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.

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. This historical loss rate is adjusted to reflect current and forward-looking information affecting the ability of specific customers to settle their receivables. The nature of the Group's customers, which includes government enterprises and large private sector corporations, is such that the risk of default of receivables is low. To date, the Group have not observed or expect to see material decline on its customers' ability to pay as a result of the COVID-19 pandemic. Accordingly, no additional expected credit loss allowance pertaining to COVID-19 have been included.

For personal use only

21 Financial instruments (continued)

(d) Credit risk management (continued)

When applying the impairment requirements of AASB 9 to contract assets, the Group recognises that the ageing 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, before adjusting for any specific forward-looking factors. 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 was determined as follows.

	Current $'000	> 30 days $'000	> 60 days $'000	> 90 days $'000	> 120 days $'000	Total $'000
30 June 2020						
Expected loss rate [1]	**0.45%**	**2.17%**	**19.99%**	**36.88%**	**46.51%**	
Gross carrying amount - trade receivables	**32,211**	**2,975**	**1,220**	**200**	**946**	**37,552**
Loss allowance [1]	**146**	**65**	**244**	**74**	**440**	**969**

	Current $'000	> 30 days $'000	> 60 days $'000	> 90 days $'000	> 120 days $'000	Total $'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	52,409
Loss allowance	27	25	48	88	26	214

[1] The increase in expected loss rates and loss allowance is due to specific factors included in the current period's assessment.

The loss allowances for trade receivables at 30 June 2020 reconciles to the opening loss allowances as follows:

	2020 $'000	2019 $'000
Opening balance	**214**	136
Additional provision recognised	**783**	166
Receivables written off during the year as uncollectible	**(28)**	(38)
Unused amount reversed	**-**	(50)
Closing balance	**969**	214

(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 21(e)(ii) are details of the financing facilities available to the Group at 30 June 2020.

(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.

For personal use only

21 Financial instruments (continued)

(e) Liquidity risk management (continued)

(i) Liquidity and interest rate risk tables (continued)

	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
2020							
Financial liabilities							
Lease liabilities	2.78%	(33,364)	(35,081)	(5,519)	(5,134)	(8,983)	(15,445)
Borrowings	0.94%	(60,000)	(60,744)	(3,282)	(6,261)	(51,201)	-
Trade and other payables	-	(103,055)	(103,055)	(103,055)	-	-	-
		(196,419)	**(198,880)**	**(111,856)**	**(11,395)**	**(60,184)**	**(15,445)**
2019							
Financial liabilities							
Lease liabilities	-	(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)

(ii) Financing facilities

	Term loan	Bank guarantees	Bank overdraft	Cash advance
	$'000	$'000	$'000	$'000
Amount used	60,000	36,660	-	-
Amount unused	-	8,340	40,000	45,000
Balance at 30 June 2020	**60,000**	**45,000**	**40,000**	**45,000**
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

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 2020 was less than the specified hurdle meaning that no repayment will be required at 30 September 2020. 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.

Performance guarantees provided in the normal course of business are shown above. Based upon current expectations as at 30 June 2020, the Group considers that it is more likely than not that such amounts will not be payable under these arrangements.

22 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.

For personal use only

22 Capital risk management (continued)

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 2020 and 2019 financial reporting periods.

23 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 (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.

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 2020 (FY20). 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 80% of the performance rights granted with respect to the FY20 tranche will vest where the Group's adjusted earnings per share (Adjusted EPS) achieves the target as set by the Board of Directors. For the FY18 and FY19 tranches, 50% of the performance rights will vest where the Group's earnings per share achieves an annual growth of 10% or more over the performance period, commencing with growth from an agreed base EPS, as detailed below:

LTIP tranches	FY18 [1]	FY19 [2]	FY20 [3]
Performance period	3 years	3 years	3 years
Vesting date	September 2020	September 2021	September 2022

[1] 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.

[2] The FY19 LTIP targets, from base of 11.29 cps are: Year 1: 12.42 cps, Year 2: 14.40 cps, Year 3: 13.34 cps.

[3] The FY20 LTIP targets, Year 1: 15.02 cps, Year 2: 13.65 cps, Year 3: not yet determined.

Subject to the following proportional vesting:

Percentage of performance rights that vest	FY20 EPS target	FY18 & FY19 EPS target
0%	Below PY Adjusted EPS [1]	Below 75%
40%	At PY Adjusted EPS [1]	At 75%
Proportional vesting	Greater than PY Adjusted EPS [1] and less than 100%	Greater than 75% and less than 100%
100%	100% of target and above	100% and above

[1] Where the previous year's Adjusted EPS is less than the current year's Adjusted EPS target.

For personal use only

23 Share-based payments (continued)

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

C 20% of the performance rights granted (50% for FY18 and FY19 tranches) will vest where 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
FY18 LTIP	614,932	14 September 2017	Relative TSR hurdle - 92.5 cps EPS hurdle - 125.8 cps	September 2020	1 July 2017 - 30 June 2020
FY19 LTIP	731,108	21 September 2018	Relative TSR hurdle - 81.8 cps EPS hurdle - 139.1 cps	September 2021	1 July 2018 - 30 June 2021
FY20 LTIP [1]	1,078,007 [2]	18 September 2019	Relative TSR hurdle - 128.4 cps EPS hurdle - 237.3 cps	September 2022	1 July 2019 - 30 June 2022

[1] As L Mackender is a Director of the Company, the issuance of performance rights under the FY20 LTIP Tranche was approved by shareholders at the Company's Annual General Meeting on 23 October 2019, with relative TSR hurdle valued at $1.311 and EPS hurdle at $2.422.

[2] J Ash resigned from his position as the Executive General Manager, Network Construction effective 6 July 2020, and forfeited his eligibility from participating in the FY20 LTIP Tranche.

Fair value of performance rights

The FY20 LTIP performance rights with the relative TSR hurdle vesting condition have been valued by an independent expert using a Monte-Carlo simulation. The FY20 LTIP performance rights with the Adjusted 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, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option and the correlations and volatilities of the peer group companies. 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 [1]	Risk-free interest rate	Dividend yield	Vesting date
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
FY20 LTIP	$2.600	2.78 years	30%	0.82%	4.04%	September 2022
FY20 LTIP - CEO	$2.650	2.69 years	30%	0.72%	3.96%	September 2022

[1] The expected volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes in future volatility due to publicly available information.

For personal use only

For personal use only

23 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:

	2020		2019	
	Number of rights	Grant date weighted avg FV $	Number of rights	Grant date weighted avg FV $
Balance at start of the financial year	**2,331,855**	**0.924**	3,130,497	0.538
Granted during the year	**1,315,056**	**2.163**	836,231	1.104
Vested during the year	**(853,073)**	**0.622**	(1,548,419)	0.243
Forfeited during the year	**(369,791)**	**1.776**	(86,454)	0.893
Balance at end of the financial year	**2,424,047**	**1.573**	2,331,855	0.924

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 FY18 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 FY20 financial statements.

As at 30 June 2020, 614,932 performance rights granted under the FY18 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 (FY20 Tranche) and one year (FY19 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 RNC. The number of performance rights offered to participating executives was endorsed by the RNC 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.

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:

	2020		2019	
	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**	**1.487**	4,500,000	1.326
Granted during the year	**-**	**-**	4,500,000	1.487
Vested during the year	**(4,500,000)**	**1.487**	(4,500,000)	1.326
Balance at end of the financial year	**-**	**-**	4,500,000	1.487

The relevant number of shares for the FY19 tranche has been delivered to the participants during the year.

For personal use only

24 Subsidiaries

Details of the Company's subsidiaries at 30 June 2020 are as follows:

Name of entity	Country of incorporation	Ownership interest 2020 %	Ownership interest 2019 %
Parent entity			
Service Stream Limited	Australia		
Subsidiaries			
Service Stream Holdings Pty Ltd (i)	Australia	100	100
Service Stream Fixed Communications Pty Ltd (i)	Australia	100	100
Service Stream Mobile Communications Pty Ltd (i)	Australia	100	100
Service Stream Customer Care Pty Ltd (i)	Australia	100	100
Radhaz Consulting Pty Ltd (i)	Australia	100	100
Service Stream Infrastructure Services Pty Ltd (i)	Australia	100	100
Service Stream Energy & Water Pty Ltd (i)	Australia	100	100
Service Stream Nominees Pty Ltd (i)	Australia	100	100
Service Stream Operations Pty Ltd (i)	Australia	100	100
TechSafe Australia Pty Ltd (i)	Australia	100	100
TechSafe Management Pty Ltd (i)	Australia	100	100
Ayrab Pty Ltd (i)	Australia	100	100
Comdain Infrastructure Pty Ltd (i)	Australia	100	100
Comdain Civil Constructions Pty Ltd (i)	Australia	100	100
Comdain Civil Constructions (QLD) Pty Ltd (i)	Australia	100	100
Comdain Services Pty Ltd (i)	Australia	100	100
Comdain Asset Management Pty Ltd (i)	Australia	100	100
Comdain Gas (Aust) Pty Ltd (i)	Australia	100	100
Comdain Services (AMS) Pty Ltd (i)	Australia	100	100
Comdain Corporate Pty Ltd (i)	Australia	100	100
Comdain Assets Pty Ltd (i)	Australia	100	100

(i) 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.

25 Deed of cross guarantee

The parties to a deed of cross guarantee for the Group as listed in note 24 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.

26 Joint operations

The Delivering for Customers (D4C) is an unincorporated jointly controlled entity between Comdain Infrastructure Pty Ltd, Lendlease Services Pty Ltd, John Holland Pty Ltd and WSP Australia Pty Ltd. This arrangement was established on 18 December 2019. The principal place of business of the joint operation is in Australia.

Comdain Infrastructure Pty Ltd is a wholly owned subsidiary of Service Stream Holdings Pty Ltd. It holds a 30% direct interest in D4C.

The Joint Venture Deed in relation to the D4C requires unanimous consent from all joint venture parties for all relevant activities. The four partners have direct rights to the assets of the partnership and are jointly and severally liable for the liabilities incurred by the partnership. In accordance with AASB 11 *Joint Arrangements*, this entity is therefore classified as a joint operation and the group recognises its direct right to the jointly held assets, liabilities, revenues and expenses as described in note 34(c).

For personal use only

27 Business combinations

Year ended 30 June 2019 acquisition

On 2 January 2019, 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). Fair values of acquired assets and liabilities as at acquisition were reported on a provisional basis in the prior year's financial statements and have been adjusted within the twelve-month measurement period as outlined below.

The final fair values of the assets and liabilities of Comdain Infrastructure as at acquisition date are as follows:

Purchase consideration at fair value	Provisional fair value $'000	Adjustments to provisional fair value $'000	Final fair value $'000
Cash and cash equivalents	37	-	**37**
Trade and other receivables	23,489	-	**23,489**
Accrued revenue	27,795	-	**27,795**
Inventories	1,997	-	**1,997**
Other assets	2,086	(42)	**2,044**
Plant and equipment	17,167	-	**17,167**
Customer contracts	79,872	-	**79,872**
Trade and other payables	(61,550)	-	**(61,550)**
Provisions	(11,493)	(4,401)	**(15,894)**
Current tax liabilities	(2,907)	-	**(2,907)**
Deferred tax asset	4,433	405	**4,838**
Deferred tax liability on customer contracts	(23,962)	-	**(23,962)**
Net identifiable assets acquired	56,964	(4,038)	**52,926**
Add: goodwill	96,247	4,038	**100,285**
Net assets acquired	153,211		**153,211**

In completing the provisional purchase price allocation in the prior financial period, management was required to make judgements relating to the fair value of certain liabilities. During the financial year, management has finalised its assessment over these uncertain liabilities, most notably those relating to employment related obligations, onerous contracts and project WIP, which are reflected in an adjustment to provisions.

The 30 June 2019 balance sheet and relevant notes within the financial statements have been restated to reflect the final adjustments to fair value detailed above.

28 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:

	2020 $	2019 $
Short-term employee benefits	**5,186,191**	3,171,193
Post-employment benefits	**176,065**	156,341
Other long-term benefits	**262,645**	71,230
Share-based payments [1]	**372,199**	4,549,607
	5,997,100	7,948,371

[1] The fair value of performance rights issued under the LTIP are 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.

28 Related party transactions (continued)

(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 also had a beneficial interest in one of these commercial properties that the Group occupied. Total rental income paid to the landlord is approximately $580,000 across these three properties (2019: $367,500). At the onset of the COVID-19 pandemic, the Group sought and received payment deferrals from its related parties in relation to these properties with $195,000 timing benefit remaining at balance date. The terms of the leases have been reviewed and are at arm's length with the duration of lease for one property expiring in December 2024 and the other two properties expiring in August 2025.

29 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 34 for a summary of the significant accounting policies relating to the Group.

(a) Financial position

	2020 $'000	2019[1] $'000
Current assets	**134**	73
Non-current assets	**273,794**	262,400
Total assets	**273,928**	262,473
Current liabilities	**10,668**	7,477
Non-current liabilities	**-**	-
Total liabilities	**10,668**	7,477
Net assets	**263,260**	254,996
Issued capital	**293,205**	276,221
Reserves – equity-settled employee benefits	**(11,108)**	2,475
Accumulated losses	**(18,837)**	(23,700)
Equity	**263,260**	254,996

[1] The 30 June 2019 financial position has been restated to reflect the re-classification of tax related balances.

(b) Financial performance

	2020 $'000	2019 $'000
Profit for the year	**43,546**	37,519
Total comprehensive income	**43,546**	37,519

(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 24 and 25, and the parent entity guarantees to certain clients in relation to subsidiary contract performance obligations.

For personal use only

For personal use only

29 Parent entity information (continued)

(c) Determining the parent entity financial information (continued)

(iii) Share-based payments

The grant by the Company of shares over its equity instruments to the employees of subsidiaries 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.

30 COVID-19 impact

The Group provides essential infrastructure services to gas, electricity, water and telecommunications network owners and operators nationally. To date, these industries have been allowed to continue operations under various lock-down restrictions imposed to manage the pandemic. Although there have been some negative impacts to Service Stream's operations from the pandemic, demand for essential network services has remained firm. In addition, the Group's balance sheet, cash flow and liquidity have not been materially impacted.

The impacts to earnings to date are described below:

- Increased costs to support specific safety-related protocols across business operations. This includes additional expenditure on protective equipment and hygiene, including operating distinct shifts across our warehouse operations with additional cleaning incurred between each shift;
- Customer determined moratoriums on electricity and gas disconnections (and subsequent reconnections) impacting meter reading operations;
- Reduced residential land development activity (new housing estates);
- Deferral of proactive maintenance activities by asset owners to ensure networks remain available to consumers working from home;
- Delays in projects due to availability of client-supplied free-issue materials; and
- Deferral of some projects due to travel and access restrictions across remote locations.

Servicing the Utilities and Telecommunications networks is core to the Group's strategy, with exposure to these sectors providing a solid revenue base and sustained resilience through the pandemic and subsequent economic recession. In relation to the Group's operations, restrictions on people movement have not had a significant impact on the Group's field-based operations. The Group has implemented appropriate safety and hygiene protocols and procedures designed to minimise the risk of any spread of the COVID-19 virus. The majority of our office-based staff have moved to working from home arrangements with the company's IT infrastructure and other support networks capable of supporting these arrangements effectively.

At this point in time, and on the basis that the Utilities and Telecommunications sectors will continue to be classified as essential services, it is not expected that COVID-19 will have a material adverse impact to the carrying value of the Group's assets.

31 Contingent assets and liabilities

The Group is not aware of any material contingent assets and liabilities at balance date that have not been disclosed in these financial statements (2019: nil).

32 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.

33 Remuneration of auditors

	2020 $	2019 $
Audit and review of the financial report	**693,000**	682,000
Other assurance services	**60,000**	-
Review of income tax return	**33,000**	21,000
Services relating to the acquisition of Comdain Infrastructure	**12,250**	144,000
Services relating to the GST Streamline Assurance Review	**142,837**	-
Review of executive long-term incentive plan	**-**	60,180
Tax advice and other services	**48,000**	25,000
	989,087	932,180

The auditor of Service Stream Limited is PricewaterhouseCoopers.

For personal use only

34 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 16, which is effective from 1 July 2019. 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 18 August 2020.

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.

New and amended standards adopted by the Group

The Group adopted AASB 16 retrospectively from 1 July 2019 and has not restated comparatives for the prior reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

Changes in accounting policy

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 July 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

(i) Impact on profitability and earnings per share

EBITDA has increased by $10.3 million with immaterial impact to earnings per share for the period ending 30 June 2020 as a result of the adoption of AASB 16.

(ii) Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than twelve months as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(iii) 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.

	2020 $'000	2019 $'000
Not longer than 1 year	-	9,671
Longer than 1 year and not longer than 5 years	-	21,449
Longer than 5 years	-	2,033
	-	**33,153**

For personal use only

34 Significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) Operating lease commitments (continued)

From 1 July 2019, the Group has recognised right-of-use assets for these leases, except for short-term leases, refer to reconciliation below (iv) and note 15(b) for further information.

(iv) Measurement of lease liabilities

	1 Jul 2019 $'000
Operating lease commitments at 30 June 2019	33,153
Discounted using Group's incremental borrowing rate at date of initial application	29,771
Add: finance lease at 30 June 2019	288
Less: short-term leases recognised on straight-line basis as expense	(448)
Add: contracts reassessed as leases	1,366
Lease liability recognised at 1 July 2019	**30,977**
Of which were:	
Current lease liabilities	5,789
Non-current lease liabilities	25,188
	30,977

(v) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Early adoption of standards

The Group has not elected to early adopt the Standards and Interpretations issued but not yet effective.

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 35.

(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.

For personal use only

34 Significant accounting policies (continued)

(c) Joint arrangements

Under AASB 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has a joint operation in place during the year.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements. Details of the joint operation is set out in note 26.

(d) 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-rate 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.

(e) 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.

(f) 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.

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)*.

For personal use only

34 Significant accounting policies (continued)

(f) Revenue recognition (continued)

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 is recognised as an expense and onerous contract provision as set out in note 17.

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 assets and contract liabilities to describe what the Group refers to as accrued revenue and income in advance respectively. 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.

For personal use only

34 Significant accounting policies (continued)

(f) 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 reimbursed 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 separate 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.*

(g) Leases

Until 30 June 2019, 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.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income.

(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 23.

For personal use only

34 Significant accounting policies (continued)

(i) Share-based payments (continued)

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.

(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, 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.

For personal use only

34 Significant accounting policies (continued)

(k) Business combinations (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised over the net identifiable assets acquired. 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.

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: 5 - 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 as software. Any costs associated with maintaining this software 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 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 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 3 to 8 years for software, 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.

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.

For personal use only

34 Significant accounting policies (continued)

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

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

The Group classifies its financial assets and liabilities in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (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, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss (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 fair value through other comprehensive income (FVOCI) are not reported separately from other changes in fair value.

(iv) Impairment

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.

For personal use only

34 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 21(d) for further details.

(v) Borrowings

Borrowings are initially 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) 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.

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.

For personal use only

34 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 21(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.

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

34 Significant accounting policies (continued)

(x) Earnings per share (continued)

- 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.

35 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 34.

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 uncertainties and judgements made in relation to lease accounting - note 15(d);
- Estimation of provision for contractual obligations, contractual disputes and onerous contracts - note 17(b); and
- Estimation of fair value of assets and liabilities in business combination - note 27.

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.

For personal use only

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 2020 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 24 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 25.

Note 34 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
18 August 2020



Leigh Mackender
Managing Director
18 August 2020

For personal use only

For personal use only

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 2020 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 2020
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows 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 (including Independence Standards)* (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.

For personal use only

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	*Audit scope*
• For the purpose of our audit we used overall Group materiality of $3.5 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.	• 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 audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

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

For personal use only

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) $230.0 million* The Group is required by Australian Accounting Standards to test goodwill 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 ($100.3 million). The CGUs are tested for impairment using a discounted cash flow model. In undertaking impairment testing, the following assumptions require estimation: • expected cash flows, as taken from Board approved budgets and strategic plans, including assumptions regarding extending existing and winning new contracts • discount rates used to discount the estimated cash flows • the long term growth rate to be applied to the forecast cash flows in the terminal year. This was a key audit matter because of the level of estimation required by the Group in determining the assumptions used to perform the impairment testing.	We assessed whether the Group's identification of CGUs was consistent with our knowledge of the operations and internal reporting lines. We compared actual historical results to budget to assess the level of the Group's accuracy in forecasting cash flows. We checked that the four-year forecasts used in the impairment models were based on the Board approved budgets and strategic plans. 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: • evaluated the reasonableness of the Group's discount rate assumptions with the assistance of PwC valuation experts • evaluated the underlying cash flow assumptions in the impairment models for key customer contracts with reference to historical results and expected project pipelines, and considered external industry information • evaluated the reasonableness of the Group's long term growth rate based on relevant external market data • tested the calculations in the model for mathematical accuracy. We considered the adequacy of the Group's disclosures on goodwill impairment in light of the requirements of Australian Accounting Standards.
Revenue recognition *(Refer to note 3 and 34 (f)) $928.0 million* For the year ended 30 June 2020, the Group recognised $928.0 million of revenue from contracts with customers. Revenue from provision of ticket of work services involves a high volume of transactions and is	We evaluated the design and implementation of relevant key internal controls over the recognition of revenue. For revenue from the provision of ticket of work services, amongst other procedures and for a sample of transactions, we obtained evidence of completed subcontractor claims and/or work orders and compared the revenue amount recognised to the

For personal use only

Key audit matter	*How our audit addressed the key audit matter*
recognised at a point in time 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 costs, and • variable consideration. This was a key audit matter because of its significance to profit, the high volume of revenue transactions associated with ticket of work services and the estimation required in recognising revenue from the delivery of projects.	contracted rate with the customer for the type of service. For revenue from the delivery of projects, amongst other procedures and for a sample of contracts, we: • obtained an understanding of the terms and conditions of contracts • obtained an understanding, and agreed to supporting documents, the estimates of total contract revenue and forecast contract costs and evaluated the percentage of completion based on the actual costs incurred to date • assessed the Group's forecasting accuracy by comparing historical actual costs incurred relative to the forecast of those costs • assessed the accrued revenue or income in advance balance at 30 June by assessing the amounts billed up to 30 June 2020 relative to the revenue recognised to that date • considered the status of projects to assess the allocation of revenue to the periods before and after 30 June 2020. For all categories of revenue our procedures included identifying a sample of journal entries impacting revenue based on specific criteria and obtaining source documents to determine the journals were reasonable.
Recoverability of accrued revenue *(Refer to note 11) $101.8 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 revenue balance at 30 June 2020 was $101.8 million. Judgement was required in order to determine if accrued revenue will be recoverable. This included considering the nature of transactions and the aging of claims. Only revenue that is highly probable of not reversing can be recorded. The recoverability of accrued revenue was a key audit matter because judgement was required to evaluate	We evaluated the aging of accrued revenue to identify areas of higher risk. Whilst each segment has aged accrued revenue balances, the Fixed Communications segment had the most significant balance. We therefore directed the majority of our audit effort to that segment. We performed the following procedures, amongst others, in relation to the recoverability of accrued revenue: • for a sample of accrued revenue transactions, we obtained evidence to assess if the work had been completed and the Group was entitled to the accrued revenue balance • assessed the reliability of accrued revenue aging reports by obtaining source documents and using the date of the transaction to verify

For personal use only

Key audit matter	How our audit addressed the key audit matter
whether revenue is highly probable of not reversing.	the aging of the amount • assessed the long-term average claim rejection rate which we compared to actual experience, including recent trends • for claims that reached an outcome subsequent to 30 June 2020 we obtained evidence of the outcome.

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 2020, 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.

For personal use only

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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 14 to 22 of the Directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Service Stream Limited for the year ended 30 June 2020 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
18 August 2020

ASX Additional Information for the financial year ended 30 June 2020

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

For personal use only

A. Distribution of Shareholders Number as at 17 August 2020

Category (size of holding)	Holders
1-1,000	2,943
1,001- 5,000	3,966
5,001-10,000	1,809
10,001-100,000	2,076
100,001+	137
	10,931

B. There are 10,931 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 552.

D. The names of the substantial shareholders listed in the holding company's register, and their shareholdings (including shareholdings of their associates), as at 17 August 2020 are:

Shareholder	Ordinary	%
Comdain nominees Pty Ltd <Coen Family A/C>	38,444,918	9.42%
FIL Limited	23,853,483	5.85%
Thorney Opportunities Ltd(1)	6,396,590	1.57%
Tiga Trading Pty Ltd(1)	15,432,787	3.78%
Jasforce Pty Ltd (as trustee for the Alex Waislitz Retirement Plan)(1)	316,000	0.08%
Waislitz Charitable Corporation Pty Ltd (as trustee for the Waislitz Family Foundation)(1)	177,500	0.04%

(1) The Company treats Thorney Opportunities Ltd, Tiga Trading Pty Ltd, Jasforce Pty Ltd (as trustee for the Alex Waislitz Retirement Plan) and Waislitz Charitable Corporation Pty Ltd (as trustee for the Waislitz Family Foundation) with an aggregated holding of 5.47%, 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 $0.0211 (2019: ($0.0393))

G. 20 Largest Shareholders as at 17 August 2020 - 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	100,939,482	24.74
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	47,137,196	11.55
COMDAIN NOMINEES PTY LTD <COEN FAMILY A/C>	38,444,918	9.42
CITICORP NOMINEES PTY LIMITED	30,897,568	7.57
UBS NOMINEES PTY LTD	23,808,536	5.84
NATIONAL NOMINEES LIMITED	17,921,517	4.39
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	8,740,019	2.14
RUBI HOLDINGS PTY LTD <JOHN RUBINO S/F A/C>	6,000,000	1.47
BNP PARIBAS NOMS PTY LTD <DRP>	5,658,203	1.39
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	4,377,423	1.07
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	3,918,687	0.96
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,715,381	0.42
MR KEVIN ASHLEY SMITH	1,500,000	0.37
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,370,894	0.34
CRISTATUS PTY LTD <DEMPSEY FAMILY S/F A/C>	1,050,000	0.26
MACKENDER HOLDINGS PTY LTD <LGM INVESTMENT TRUST>	1,000,000	0.25
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	963,172	0.24
MR KEVIN ASHLEY SMITH	953,002	0.23
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	900,089	0.22
MR ASHLEY HAYNES <HAYNES INVESTMENTS A/C>	890,081	0.22
	298,186,168	**73.08**

For personal use only

Corporate Directory

Directors

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

Company Secretary

Chris Chapman

Registered Office

Level 4
357 Collins Street
Melbourne Victoria 3000
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

Auditor

PricewaterhouseCoopers

For personal use only

For personal use only

Service Stream Limited

ABN: 46 072 369 870
Level 4, 357 Collins Street, Melbourne, Victoria 3000

www.servicestream.com.au