



# ANNUAL REPORT 2006



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Service Stream has generated significant growth over the past 12 months by leveraging our unique capabilities as a provider of end-to-end industrial services.

## Highlights

- Revenue of \$171.0 million, +182.3%
- EBITDA of \$8.7 million, +288.5%
- NPAT of \$4.4 million, +317.7%
- Maiden interim dividend for the year of 0.75 cents per share
- Final dividend of 1.12 cents per share
- Acquisition of Milcom Communications in January 2006 on 4 times forecast EBITDA for 2006/07
- Oversubscribed capital raising of \$10.3 million in November 2005
- Major contracts won and renewed to 2009, totalling approximately \$500 million
- Growth in ticket of work volumes from 2,000 per day in 2005 to more than 4,000 per day by 2006
- National footprint expanded to 15 locations across Australia
- Subsequent to year end announced merger with Total Communications Infrastructure (expected completion December 2006)
- Acquisition of Fibercom Technology in August 2006
- On track to achieve annual revenue of \$300 million by end 2007
- Strong outlook underpinned by existing major contracts, strong balance sheet, expanded service offering and expected large-scale infrastructure investment in the communications sector.



‘After only two years in operation, Service Stream has developed a significant national presence and a strong reputation as a provider of high-quality industrial services solutions for major communications businesses and utilities. With the right business model for the times, we have built an excellent platform for further growth in the years ahead.’



# Chairman's Review



*John Llewellyn (Lyn) Davies, Independent Chairman*

As a key provider of outsourced services to major corporations, particularly in the telecommunications industry, Service Stream has continued to pursue an aggressive growth strategy aimed at significant expansion, whilst further developing its uniquely integrated services offering.

As part of this strategy, in January 2006 Service Stream acquired Milcom Communications Pty Ltd, Australia's largest privately owned Registered Training Organisation to the communications and utilities sector. This was an important strategic acquisition both for Service Stream and our customer base, with our corresponding training needs in rapidly changing, highly technical fields.

Service Stream gained further traction within the communications sector during the year, working with the three major carriers and several emerging carriers. We won three large new communications contracts and renewed a number of others, all with extended delivery periods of between one and four years. With our experience and capabilities working with copper, fibre and wireless technologies we continue to seek new opportunities in this field.

We intend to consolidate our position within the communications sector focusing on the evolving needs of our major customers. In addition, with further restructuring and increased competition expected in the utilities sector, we will be actively seeking new opportunities to meet the growing outsourcing needs of these industries.

On behalf of the Company I would like to express my appreciation to our valued customers for their ongoing support and the confidence they have shown in our service delivery.

Also, on behalf of our shareholders and directors I thank our Managing Director, Patrick Flannigan, and his senior management team for their strong leadership and sound financial management throughout another exciting year of growth for the business.

I acknowledge and thank our employees, who through their skills and personal efforts, have helped us develop a substantial business with excellent capabilities and financial performance.

I wish to acknowledge and thank my fellow directors for their support, commitment and vision so professionally given over the last twelve months.

So, to the future. In the coming year, I look forward to seeing the business continue to achieve the growth that is enshrined in Service Stream's strategy while continuing to develop further major inroads into key infrastructure markets.

A handwritten signature in dark ink, appearing to read 'John Llewellyn (Lyn) Davies'. The signature is fluid and cursive, with a long horizontal stroke at the end.

**John Llewellyn (Lyn) Davies**  
**Independent Chairman**

# Managing Director's Review

## Service Stream's objective

To generate superior returns to shareholders by leveraging our capabilities across a range of major infrastructure-based industries.

## Service Stream's vision

Our key strategic focus is on developing the capabilities which meet the needs of identified growth sectors for outsourced services, particularly telecommunications and, moving forward, utilities.

One of Service Stream's major achievements over the last two years has been our demonstrated ability to grow the businesses acquired. Organically, the company has grown from an annualised turnover of \$90 million at the time of the first two acquisitions to \$171 million today. Through the integration of these successful businesses, we have developed a comprehensive range of customer service/care, logistics and field services capabilities.

Service Stream acquired Milcom Communications in January 2006 in order to extend our services offering to include training and to ensure consistently high service delivery standards across the business. Milcom is a Registered Training Organisation with a 15-year track record of delivering quality training services to the communications and utilities sectors. They also provide a sophisticated web-based Recognition of Prior Learning service. This important strategic acquisition has been strongly supported by our customer base.

## Our key achievements

In 2005-06 Service Stream achieved significant growth in revenues to \$171.0 million by end June. This strong growth path, which we anticipated from the commencement of operations in late 2004, was largely due to the valuable synergies we have extracted from our Service Stream Solutions (Solutions) and Service Stream Communications (Communications) businesses by optimising best of breed systems.

In addition to the operational efficiencies which Service Stream has achieved by integrating these businesses, we have successfully leveraged our combined services capabilities to enable us to win a number of significant contracts and renew several large existing contracts, with a total estimated value of around \$500 million out to December 2009.



*Patrick J. Flannigan, Managing Director and CEO*

Another key example of the growth in the business during the year was the increase in installations and maintenance tickets of work to in excess of 4,000 individual jobs per day completed in the June quarter. This is more than double the corresponding level for the same period a year earlier.

Importantly, these achievements have enabled Service Stream to strengthen its balance sheet, with a significant reduction in overall debt/capital ratios. This reduction was also facilitated by an oversubscribed capital raising of \$10.3 million in November 2005.

## Our people

Service Stream has a combined workforce of around 1,600 people nationwide who provide a range of essential infrastructure services for our customers. Our people are a major asset of the company, and a key objective of the company is to provide opportunities to develop our human capital as the business grows.

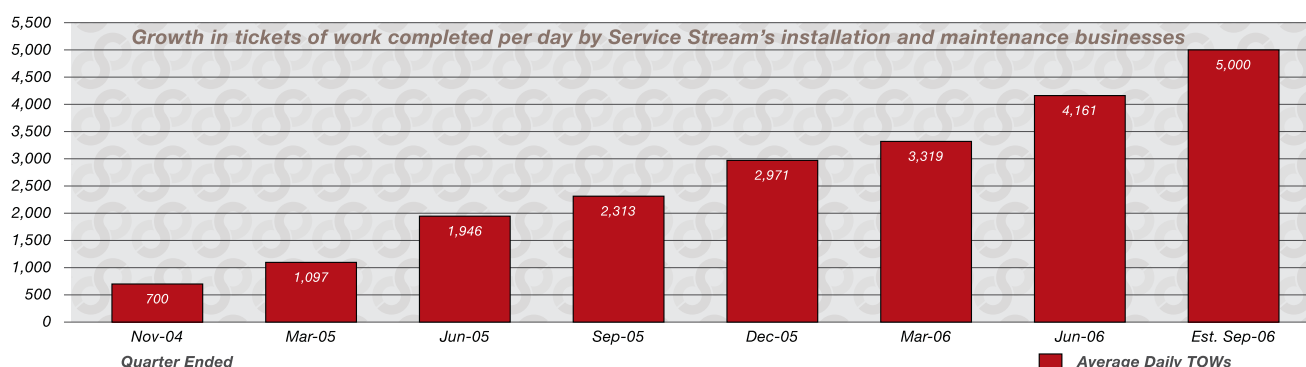
New branches were opened in North Sydney, North Ryde, Sydney and Bowen Hills, Brisbane. These branches are well placed to service existing customers and prospects. We will continue to grow our branch network on a national basis where we can achieve real strategic value.

The current success of the business is a reflection of the outstanding capabilities of Service Stream's managers and staff and I would like to take this opportunity to acknowledge and sincerely thank them for their dedication and commitment to developing our businesses.

Our customers provide a strong foundation to the business and we will continue to work hard to reward their loyalty with dedication and innovation.



'As projected, Service Stream achieved significant growth in market penetration and profitability in 2005-06. By effectively leveraging our combined capabilities and strengthening the range and quality of our services offering, we continue to build solid foundations for further strong growth.'



### A growth industry

Over the next few years, significant investments are expected to be made in telecommunications infrastructure in areas such as broadband and wireless. Australia is lagging behind many of its international competitors both in terms of broadband take-up and speed. This has been widely recognised by telecommunications carriers in this country and the Government also understands the urgent need to resolve this issue to enhance future economic activity and competitiveness.

Currently working with the three major telecommunications carriers as well as the emerging carriers, Service Stream is well positioned to take advantage of the likely growth in the communications sector in the near future, including the large investments in the 3rd Generation (3G) of mobile phone networks. Service Stream is also at the forefront of the emerging fibre and wireless communications technology and we look forward to participating in the growth of this industry as further technological advances are made available to both urban and rural markets in Australia.

Significant growth opportunities for Service Stream have also been identified in the utilities sector with restructuring and the development of smart meters in the electricity industry now well under way. Service Stream's capabilities in contact centres, logistics, installations and recoverable works mean we are well placed to help with the transition occurring in the utilities sector, and are now beginning to leverage our existing capabilities to optimise these opportunities in future years.

### Outlook

Service Stream's business and financial performance during 2005-06 has strongly endorsed our business model. This reinforces our commitment to develop the business further to meet the emerging needs of our customers and seek new opportunities which will continue to deliver sustainable growth.

Following the strategic merger with Total Communications Infrastructure Ltd (TCI) announced in late July 2006, and the acquisition of Fibercom Technology in August 2006, Service Stream is well positioned for further significant earnings growth in the next 12 months with:

- increased national coverage and the ability to leverage existing customer relationships;
- broader (fixed and wireless) capabilities in telecommunications;
- continued sound management of the balance sheet;
- several large contracts in hand; and
- expected strong infrastructure investment by major communications carriers.

Finally, I would like to thank my fellow board members for their support and direction over the last 12 months and, of course, our loyal shareholders for their commitment to the Service Stream vision.

**Patrick J. Flannigan**  
Managing Director and CEO

# Financial Performance

## Key Results

	2006	2005	% change
Revenues from ordinary activities \$'000	170,983	60,576	182.3
Earnings Before Interest, Tax, Depreciation and Amortisation \$'000	8,741	2,250	288.5
Net Profit after Tax before abnormals \$'000	4,352	1,042	317.7
Basic earnings per share (EPS) (cents)	2.79	1.03	170.9
Total dividend cents per share (cents)	1.87	n/a	n/a

**Strong synergies from integrating our strategic acquisitions lifted profit after tax by 317.7 per cent. Full year dividends were 1.87 cents per share.**

Service Stream's key revenue and earnings targets were exceeded during 2005-06.

Total revenue for the period was \$171.0 million, an increase of 182.3 per cent on the previous year.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) and Net Profit after Tax (NPAT) were \$8.7 million (+288.5%) and \$4.4 million (+317.7%) respectively.

Revenue from the Communications business totalled \$90.7 million for the period.

All activities within the Communications business were profitable and achieved growth. The strongest contribution to earnings was provided by the Construction area. The Installations and Maintenance area experienced impressive growth through the year associated with an increased volume of work and increased market share, which we see as a reward for the quality services we provide. Revenue from Resourcing Solutions remained strong and we anticipate further growth in this area.

The Solutions business achieved \$79.4 million in revenue for the period.

All activities within the Solutions business were profitable and achieved growth. Field Services experienced strong growth as a result of its expansion into the Queensland market where we have very quickly achieved significant market share. Contact Centre Operations met all operational targets for the year and continues to develop and grow.



'Service Stream's performance going forward will be underpinned by the company's strong balance sheet and its significant base of ongoing contracts with our major customers.'



*Adrian Field*

*Stephen Campbell*

*John Llewellyn (Lyn) Davies*

*Patrick J Flannigan*

*Michael Doery*

*Russell Small*

Service Stream acquired Milcom in January 2006 at a cost of \$2.1 million, the consideration being a cash outlay of \$1.3 million and the issue of ordinary shares in Service Stream to the value of \$500,000. Based on an earnout, the final anticipated acquisition price represents a multiple of approximately four times Milcom's expected EBITDA for FY07.

Milcom provided a six-month contribution of \$0.8 million in revenue assisted by several new contracts won during the period.

Service Stream welcomed a number of new shareholders as part of a \$10.3 million capital raising completed in November 2005. This capital raising, in combination with the company's financial performance through the year, produced a strengthening in the balance sheet, which will, in turn, support our ambitious growth plans. The gearing ratio was reduced from 51.6% as at end-June 2005 to 18.5% as at end-June 2006.

### **Dividends and EPS Performance**

Earnings per share reached 2.79 cents, with a return on average equity of 20.3%.

Based on the solid financial performance and outlook for Service Stream, shareholders received a fully franked interim dividend of 0.75 cents per share for the first half of 2005-06, paid in April 2006. In addition, shareholders were given the opportunity to participate in a dividend reinvestment plan.

A final fully franked dividend of 1.12 cents per share with a record date of 6 October 2006 will be paid on 20 October 2006. Pending the previously announced merger with Total Communications Infrastructure Limited the dividend reinvestment plan has been suspended for this final dividend.

### **Outlook**

Service Stream's performance going forward will be underpinned by the company's strong balance sheet and its significant base of ongoing contracts with our major customers.

In late July 2006 Service Stream announced its intention to merge with Total Communications Infrastructure Limited (to be completed by December 2006). This proposed merger provides the combined companies with a sound footing to continue to grow and reward shareholders and staff.

In August 2006, Service Stream announced it had reached an agreement to acquire Fibercom Technologies Pty Ltd. The synergies and benefits derived from the acquisition will develop and grow Service Stream's offerings in the area of fibre technologies.

With a significantly enhanced services offering (particularly in the identified growth area of managed services) and an expanded national footprint, the merged entity is expected to produce total annualised revenues of \$300 million.

# Operational Review

## Broad-based growth occurred across Service Stream's three major businesses

### Communications

#### Installations and Maintenance

Working for the major telecommunications carriers and several emerging carriers, our core business is 'ticket of work' involving activities such as phone installations, repairing faults to phone networks, broadband installations and plasma television installations.

The Installations and Maintenance (I&M) team receives calls through our contact centre, places the order into our system, processes the equipment requirements through our warehouse and logistics centre and delivers the job through our technical workforce.

With the ongoing development of our capabilities as an end-to-end supplier in the 'ticket of work' environment, the I&M business

has achieved higher than expected growth through 2005-06. In September 2006 Service Stream expects to complete its 1 millionth ticket of work on the Telstra I&M contract since it commenced in June 2004.

In January 2006, the new three-year Specialist Contract (incorporating minor works, pole changes and optic fibre installation) was signed involving ongoing maintenance of the Telstra infrastructure network.

In addition, Service Stream was awarded a four-year extension (two years plus two one-year extensions at Telstra's option) to its current contract involving the installation and maintenance of telephone and ADSL products and services. This contract extension commenced on 1 July 2006.

## A major milestone

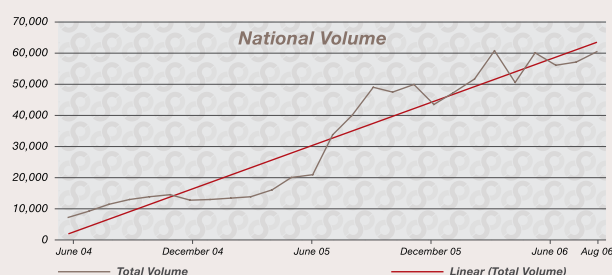
*Our Communications team is close to completing its 1 millionth ticket of work for the Telstra I&M contract.*

Since June 2004, Service Stream Communications has held an Installation and Maintenance Services contract with Telstra. The contract, which was renewed for a further two years in 2006, covers residential and business telephone services, ADSL installation, and maintenance services in Brisbane, Sydney, Adelaide and Perth.

While around 7,000 tickets of work were completed in the first few months of the contract, over 60,000 tickets of work were completed in August 2006 alone.

'These results are due to the dedication of our state-based field operations teams and the National Work Management Centre located in Brisbane', says John Ryan, General Manager - Telstra Business, and State Manager Queensland.

'Our enthusiastic staff, together with our own proprietary system FIT & FIX (which manages a job from issuing the work through to completion and invoicing) enable Service Stream to deliver a consistently high-quality service to our client.'





### **Construction and Recoverable Works**

Key customers in this area include telecommunications carriers, power companies, road traffic authorities, local council and construction companies with recoverable works focusing on asset relocations (for example, moving power and telecommunication assets associated with road widening).

The high-quality work carried out by our construction team has made this a fast-growth area of the Communications business. The demand for design and construction work has increased, as well as niche activities such as pit replacements and commercial upgrades.

#### **Major projects during the year included:**

- VERNet - the design, land access, construction, 24/7 maintenance and dial-before-you-dig services for around 20 kilometres of the Victorian Education and Research Network;
- Tullamarine-Calder Interchange, Melbourne, VIC - asset relocation activities (completed in May);
- Samantha Riley Drive, Kellyville, NSW - relocating LV and HV power assets to allow completion of the road works; and
- Springbrook Road, Merrimac, QLD - relocating telco assets to allow completion of the road works.

In May 2006, Service Stream won several contracts to complete the next major section of the VERNet project over the next two years.

### **Resourcing Solutions (formerly Managed Labour Services)**

On 1 February 2006, Managed Labour Services was rebranded as Resourcing Solutions Pty Ltd, a newly created subsidiary of Service Stream Limited.

Key activities during the year focused on the rollout of the 3G project for the major telecommunications carriers. Resourcing Solutions supplies a variety of technical staff to the carriers, major service providers and vendors.

Our Technical Labour Services Contract with Telstra is entering its second year and we continue to supply high quality, accredited technical staff nationally, with our Victorian office supporting the Tasmanian region.

Optus continues to require maintenance of its hybrid fibre coax (HFC) network for which we have provided dedicated resources and equipment (including vehicles and tools) for the past seven years.

We also have a service agreement entering its second year for the installation of customer DSL equipment using our team of technicians with vans, laptops and tool kits.

### **Solutions**

#### **Field Services**

Our field services team has had ongoing relationships with the major telecommunications carriers for around 10 years within the broadband and cellular market sectors. We provide a range of installation, maintenance and logistics services to both internal and external customers utilising our proprietary systems.

Significant revenue growth was achieved through 2005-06, with the team processing in excess of 20,000 tasks per month by financial year-end. This performance was underpinned by a 75% increase in work from 2005 via new digital migration activities and penetration within the Queensland market.

The digital migration activity was a significant contributor to this result and was completed for one of our major customers, Singtel Optus. This installation and service support activity was integral to the success of the customer, and was supported by other services provided by Solutions to achieve sales conversion and workload scheduling results. This 'end-to-end' solution contributed to the success of the migration programme.

#### **Contact Centre Operations (customer care, business process outsourcing and sales acquisition)**

Based in Melbourne, this team delivers customer administration functions nationwide including directory assistance, customer care, new service registrations, sales acquisitions functions (including inbound and outbound calls and retention campaigns) and complete end-to-end back office functions.

Working for multiple customers utilising uniquely developed systems and processes, this facility provides a discrete and highly flexible outsourcing solution to satisfy each customer's specific requirements. With over two million customer queries

# Operational Review (cont'd)

being handled on a monthly basis, this 24 x 7 facility offers the latest in technology solutions with a high focus on security to meet customers' individual needs.

All operational targets were met through the year. The team's excellent results for the year reflected the continued strong relationships the Operations team has with our customers. These results also support the anticipated growth in this key area with our existing customers and the development of new opportunities in new market segments.

## **Order Management Solutions (customer claims and logistics)**

The Customer Claims unit performed very well through the year and experienced strong insurance claim activity, particularly over the second half of the year. As part of the Solutions group's constant drive for performance improvement, a major milestone was achieved during the year with the launching of Project Aurora in March 2006, involving an upgrade of the claims management software.

This has produced significant improvement in interactions with customers and will help to ensure that high levels of customer service are maintained over the coming years. Other positive results from this project were the reduction in costs and general improvement in day-to-day analysis of performance.

The logistics team plays an integral role in the end-to-end solutions provided to our customers and the small team of dedicated staff delivered excellent results during 2005-06. Receiving orders processed by the contact centre and field services divisions, the team picks, packs and ships products for internal and external customers. The team produced outstanding results with all key service targets met during the year.

The use of intelligent technology throughout Order Management Solutions to improve customer satisfaction and reduce costs is seen as strategically important to support our customers.

## **Milcom Communications**

### **Training**

With the aim of developing a pool of the best people for the industry, Service Stream's acquisition of Milcom Communications in January 2006 has complemented our previous services offering and facilitated effective group-wide training.

Milcom has training centres in Sydney, Melbourne, Brisbane and Canberra. It is the preferred training provider of the National Electrical and Communications Association (NECA) in those states. It is also accredited by Telstra to deliver over 40 courses designed to meet their specific requirements.

Milcom performed consistently well through the second half of 2005-06, winning a new contract with the Reserve Bank of Australia to train a new intake of IT trainees. In June 2006, Milcom signed a contract with a major supplier to participate in Telstra's future outsourcing training requirements and entered into a co-provider agreement with Brisbane North Institute of TAFE to deliver a range of telecommunications training and recognition of prior learning services.

## **Streamlining insurance claims**

*The Customer Claims Unit has significantly increased customer service through a major IT upgrade in 2006.*

Brett Whiting, National Operations Support Services Manager says 'The Customer Claims Unit (CCU) bundles a number of complex functions together to provide an end-to-end insurance solution to a major telecommunications provider. It is important we that use 'best in class' technology to service our customers and maintain the standards set by the insurance regulator, APRA'.

The streamlined process has reduced the overall time required to process insurance claims, through:

- more efficient information collection;
- automated fraud indicators;
- reduced stock ordering times with tighter logistics control and tracking; and
- computer telephony integration.

This, coupled with improved financial control throughout the application (with automated financial accounting), has greatly enhanced the stability, reliability and security of our insurance services.





## Corporate Services

Service Stream's business and financial performance through the year enabled further investment in our people, safety and systems.

### *Our people*

Service Stream has a combined workforce of around 1,600 people, working in 15 locations across the country. Our human resources team has worked hard to keep pace with the growth in the business to integrate the businesses and bring the people and culture together. The human resources team has developed standardised processes, policies and procedures based on the best from each business.

Service Stream is a people business, and our key objective is to create new opportunities for our people to expand their capabilities and roles alongside the growth in the business.

Following the acquisition of Milcom, our staff and subcontractors now have easy access to excellent training opportunities and an online Recognition of Prior Learning service. An outstanding example of this is TEL-TEQ Pty Ltd, a subcontractor working for both the Communications and Solutions businesses installing ADSL. (Refer 'Milcom provides stepping stones for contractors' in boxed text).

## Milcom provides stepping stones for contractors

*Registered Training Organisation, Milcom Communications, trains around 90 per cent of Service Stream's subcontractors.*

Milcom delivers courses covering a range of industries, with over 40 courses designed and accredited specifically for Telstra.

Jeremy Mateo of TEL-TEQ Pty Ltd provides subcontractor services to both the Communications and Solutions businesses in NSW. His team of four install ADSL services and provide installation and maintenance services on the Telstra network. Jeremy's current and previous employees have been through Milcom's stringent training programs.

Jeremy says, 'Milcom is very proactive and provides detailed and thorough teaching modules. They also provide workplace training and assessment, which is great for people like me who run their own business'.

'Their training gives you enough information to get your feet on the ground and a good feel for the job. Completing each course and obtaining a telecommunications industry qualification is a great stepping stone to the future.'



# Operational Review (cont'd)

## *Health and Safety*

Service Stream is committed to ensuring the occupational health and safety (OH&S) of our workers and meeting the needs of our customers. We have incorporated OH&S consultation provisions into our procedures as part of the national certification process and have encouraged participation on OH&S committees by both employees and subcontractors.

We undertake regular safety audits and maintain stringent safety measures with our goal being zero lost time injuries (LTI).

An LTI is an injury that results in a person being unable to return to work on their next shift. During another year of significant growth, we achieved an LTI rate of 12.1 per million hours worked. While this is slightly higher than the previous year, three of the last six months were incident and injury free. With further staff training and the achievement of company-wide accreditation by late 2006, we expect to achieve greatly improved results in the year ahead.

## *Environmental*

Service Stream is committed to ensuring world's best practice in environmentally responsible operations. We recognise the growing expectations of the community in terms of corporate social responsibility. We also understand that maintaining environmentally responsible operations is important for our relationships with key stakeholders such as employees, customers, regulators and the communities in which we operate.

Our environmental management system operates company-wide and is a key component of our overall accreditation process. Sustainable Green Procurement is this year's main initiative to demonstrate Service Stream's perpetual commitment to social responsibility and environmental stewardship.

## *System Certification*

During the year Service Stream implemented a range of compliance procedures in order to ensure consistently high levels of safety in the workplace and maintain high standards in health and safety, environmental and quality practices. The Communications division's certified management systems were implemented across the company with a plan to achieve company-wide health and safety, environmental and quality accreditation by late 2006.

The compliance team has worked diligently towards this target by revising and implementing procedures, conducting training and carrying out regular audits. This process also uses induction, education and training programs to reinforce (to employees and subcontractors) our OH&S, quality and environmental goals.

## *Technology*

Our technology team has been a pivotal part of the integration of our businesses and continue to improve our systems to enhance efficiency. We have undertaken a significant upgrade of our insurance claims system, and implemented an automation platform that enables contractors to close off jobs without human interaction. The team continues to enhance our billing, call switching and web portal solutions that are used by a number of customers including Vodafone and Macquarie Telecom.

Service Stream adopted a uniform financial management system across our business lines. We have also implemented an efficient new recruitment management system and a web-based job board, which allows jobseekers to search our job database, register their interest in working for Service Stream and apply for jobs online.

## *Community involvement*

Service Stream has developed a partnership with Western Chances, an organisation that provides a 'hand up' to talented, self-motivated young people in Melbourne's western suburbs. Working with Western Chances and a number of other partnering organisations including The Song Room, Service Stream is currently involved in a programme that identifies young people in the west with a passion and talent for music, but who need extra encouragement or support to enable them to reach their potential.

'Billions will soon be spent on the telecommunications infrastructure. Service Stream has the experience and capabilities to work with copper, fibre and wireless technologies.'



# Board of Directors



**John Llewellyn (Lyn) Davies**

Independent Chairman

Mr Lyn Davies joined Service Stream on 25 August 2005 as

Chairman. He is a member of the company's Audit and Governance Committee and is Chairman of the Remuneration and Nomination Committee.

Mr Davies is a Company Director and a Business Consultant. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Institute of Management and a Life Member of the Australian Institute of Agricultural Science and Technology.

Mr Davies is Chairman of Citywide Service Solutions Pty Ltd and is a Director of Mackay Consolidated Industries Pty Limited. He is also Chairman of the Board of Yarra Valley Grammar and a Director of ParaQuad Victoria.

He has previously been Chairman of HRL Limited, The Nordia Group, Floriana Pty Limited and Collins Booksellers Group and was a Director of Castle Bacon Pty Ltd.

Mr Davies has acted as an advisor on commercial matters to boards in a wide range of industries and he brings highly developed commercial and corporate governance skills to the Board.

His previous business experience includes more than 20 years at executive director level with Elders IXL Limited, Wattie Limited and Goodman Fielder Limited.

Mr Davies holds a Diploma of Agriculture and an Advanced Diploma from the Institute of Company Directors.



**Patrick J Flannigan**

Managing Director & Chief Executive Officer

Mr Flannigan joined Service Stream in January 2004 and was

appointed Managing Director & Chief Executive Officer on 3 September 2004. He is an ex officio member of all board committees. Mr Flannigan has more than 20 years commercial experience across a broad range of industries.

Before joining Service Stream he was co-founder and non-executive chairman of Integrated Maintenance Services, a successful maintenance services company specialising in the manufacturing, aviation and construction industries. Prior to this he spent 11 years with Skilled Engineering Ltd in various roles including General Manager.

Mr Flannigan's wide experience in project management, customer service, financial management and industrial relations is coupled with in-depth knowledge of the installation and maintenance services industry in Australia.

Mr Flannigan has been instrumental in the identification and successful negotiation of Service Stream's acquisitions. He played a key role in the highly successful capital raising in November 2005.

He has a business degree from Victoria University, is a Director of the Australian Grand Prix Corporation, Director and Chairman of the Finance Committee for Western Chances, a Fellow of the Australian Institute of Management and a Fellow of the Australian Institute of Company Directors.



**Michael Doery**  
Executive Director  
& Chief Financial  
Officer

Mr Doery joined  
Service Stream in

July 2004 as an Executive Director and Chief Financial Officer. He is an ex officio member of the Audit and Governance Committee, the Environment and Safety Committee and the Investment and Strategy Committee.

Mr Doery has a Bachelor of Financial Administration from the University of New England and is a Fellow of the Institute of Chartered Accountants in Australia with 24 years experience at KPMG, including 14 years as a partner.

Mr Doery's focus has been in the telecommunications, IT and services sectors with significant exposure to the areas of customer service, outsourcing and infrastructure projects. He has a wealth of experience in capital raisings, mergers and acquisitions, risk management, change management, corporate governance and general management. This focus involved Mr Doery developing and managing corporate strategic, financial and operational activities.

Mr Doery has been instrumental in the management and integration of Service Stream's acquisitions. He played a key role in the highly successful capital raising in November 2005.

Aside from his corporate responsibilities, Mr Doery is actively involved at director level with various charities including the Australian Drug Foundation.



**Adrian Field**  
Non-Executive  
Director

Mr Field was a  
co-founding Director  
of Service Stream

when it listed in January 2004. He is the Chairman of the Environment and Safety Committee and a member of the Investment and Strategy Committee. He is the former Chairman of the Audit and Governance Committee.

Mr Field has extensive experience in the telecommunications, electrical and construction industries with over 20 years in the areas of business ownership, general management, operations management, sales and account management with Skilled Communications Services Pty Ltd and Communications Services Australia Pty Ltd.

Over the past 12 months Mr Field has co-founded Hyperion Capital, a private equity fund operating in the small cap market place.

Previously, Mr Field successfully ventured into the banking industry with the co-founding of Direct Cash Pty Ltd. After only a short number of years this business became one of the most successful privately owned ATM businesses in Australia culminating with its sale to Cashcard.



**Russell Small**  
Non-Executive  
Director

Mr Small was a  
co-founding Director  
of Service Stream

when it listed in January 2004. Prior to the Independent Chairman being appointed he held the position of Chairman of the Board. He is Chairman of the Company's Audit and Governance Committee and the Investment and Strategy Committee and a member of the Remuneration and Nomination Committee, and the Environment and Safety Committee.

Mr Small has extensive experience in the telecommunications industry with over 20 years in the areas of business ownership, general management, operations management, sales and account management with Fujitsu, Honeywell, Skilled Communications Services Pty Ltd and Communications Services Australia Pty Ltd.

Over the past 12 months Mr Small has co-founded Hyperion Capital, a private equity fund operating in the small cap market place.

Previously, Mr Small successfully ventured into the banking industry with the co-founding of Direct Cash Pty Ltd. After only a short number of years this business became one of the most successful privately owned ATM businesses in Australia culminating with its sale to Cashcard. Mr Small holds a Diploma of Business Studies (Valuations).



# Executive Team



**Joseph Caporale**  
Executive General  
Manager  
Service Stream  
Communications

Mr Caporale joined the Service Stream Group in November 2004 at the time Skilled Communications Services Pty Ltd was acquired from the Skilled Engineering Group. He previously worked with Skilled Communications for around nine years.

Located in Sydney, Mr Caporale is Executive General Manager of Service Stream Communications and Resourcing Solutions. His key responsibilities are to drive the strategic, operational and profitable financial management of the two businesses and develop new business opportunities within the telecommunications and industrial services areas.

With has over ten years experience in key leadership roles within the power, telecommunications and customer contact industries, Mr Caporale's specialist skills in service provision and contracting for the infrastructure sector have led him to play a major role in the strategic direction and development of the Communications businesses.



**John Gramc**  
Executive General  
Manager  
Service Stream  
Solutions

Mr Gramc joined the Service Stream Group at the time of the acquisition of the Pracom operating businesses in March 2005. He had been with Pracom since 1999.

Located in Melbourne, Mr Gramc is responsible for the management of Service Stream Solutions' outsourced customer operations across Australia. His key focus is the consistent delivery of end-to-end products and services that Solutions provide to existing customers. He is also responsible for the development of new business opportunities within non telecommunications market segments.

Mr Gramc has over 25 years experience managing products and services in the telecommunications industry within Australia and Asia and has tertiary qualifications in electronics and a Master of Business Administration from the Swinburne University of Technology.



**Ian Millner**  
Executive General  
Manager  
Milcom  
Communications  
Pty Ltd

Mr Millner joined the Service Stream Group when Milcom Communications was acquired in January 2006. His 26 years experience in the training and engineering fields has ensured Milcom's success as the leading Registered Training Organisation in Australia for telecommunications, security and electrotechnology.

Located in Sydney, Mr Millner is responsible for ensuring Milcom continues to deliver quality training services to all its corporate and individual clients as well as being a support network to its alumni.

With a Bachelor of Arts from the Macquarie University, Sydney and a Certificate in Electronics and Communications from the North Sydney Technical College, Mr Millner was instrumental in the development of a Post Graduate Degree Course at the Catholic University (FEI) in Sao Paulo. He has had a number of technical articles published and contributes monthly to the National Electrical and Communications Association's (NECA) newsletters.

Mr Millner is the Chairman of NECA NSW judging committee for their Excellence awards and a Fellow of the Australian Institute of Company Directors.





**Stephen Campbell**  
Company Secretary  
and Group Financial  
Controller  
Service Stream  
Limited

Mr Campbell joined the Service Stream Group in January 2005 and was appointed Company Secretary on 22 March 2005. As Group Financial Controller and Company Secretary, he is responsible for the corporate administration, accounting and corporate governance practices of the Group.

Mr Campbell has over 19 years experience in various senior roles within the accounting profession, and more recently in commerce, with listed organisations as well as large proprietary companies. Over this time he has worked extensively across a broad range of industries including manufacturing, distribution, property, gaming and financial services. He has also been involved with capital raisings, due diligence reports, acquisitions and prospectus forecasts.

With a Bachelor of Business in Accounting (B.Bus) from RMIT and a Master of Business Administration (Advanced) from Adelaide University, Mr Campbell is also a Chartered Accountant (CA) and an Affiliate of the Chartered Secretaries Australia. He is currently completing a Graduate Diploma in Applied Corporate Governance.



**Dawn Lackie**  
Group Human  
Resources  
Executive  
Service Stream  
Limited

Ms Lackie joined the Service Stream Group at the time of the acquisition of Pracom in March 2005, having been with Pracom since 2000.

Ms Lackie's primary aim is to plan, develop and direct all aspects of the organisation's human resources policies, objectives and initiatives to achieve the most effective use of human resources to meet Service Stream's strategic goals. Ms Lackie is directly involved in developing and implementing industrial relations strategies at an operational level, particularly on matters such as organisational change, workforce restructuring and employment arrangements.

With 15 years in senior management positions in both the telecommunications and FMCG industries in New Zealand, Australia and the United Kingdom, Ms Lackie brings a wealth of experience in risk management, customer service and human resources.



**Alistair Legge**  
Group Technology  
Executive  
Service Stream  
Limited

Mr Legge joined the Service Stream Group as Group Technology Executive in March 2005. He is responsible for setting and implementing the Group's technology strategy and overseeing the development, implementation and operations of technology solutions for Service Stream customers.

Mr Legge brings over 15 years experience in designing and delivering complex technology solutions primarily for utilities, telecommunications and financial services organisations. Having consulted to more than 50 organisations on business and IT strategy development, together with experience in managing IT departments of more than 150 staff, Mr Legge has a strong reputation for aligning technology solutions with business strategies and operational improvement opportunities.

Mr Legge has an honours degree in Electrical Engineering from the University of Melbourne and a Masters of Business Administration from the Australian Graduate School of Management.

# Corporate Governance Statement

This statement summarises the main Corporate Governance practices of the Company.

The Board of Directors of Service Stream Limited ("the Company") is committed to high standards of corporate governance and supports the principles of good corporate governance and best practice recommendations as published by the ASX Corporate Governance Council in March 2003.

ASX Listing Rule 4.10 requires the Company to disclose the extent to which it has followed these best practice recommendations. This statement outlines the key corporate governance practices of the Company as they relate to the recommendations of the ASX Corporate Governance Council.

The Board recognises that some practices are more relevant to larger companies. The Board has adopted those practices that it believes will maximise long term shareholder value given the Company's specific circumstances.

## 1. Roles of the Board and Management

The Board of Directors guide and monitor the business and affairs of the Company on behalf of shareholders, by whom the Directors are elected and to whom they are accountable.

The Board is focussed on setting the strategic direction for the Company and overseeing its long-term performance. It monitors financial performance, legal compliance and ethical standards. The Board is also involved in assessing business risk, providing broad policy guidelines and setting objectives for and monitoring the performance of the Managing Director and the senior management team.

The agenda for meetings is prepared in conjunction with the Chairman and the Managing Director. Standing items include financial and operational reports. Submissions are circulated in advance.

The responsibility for the day-to-day operation of and administration of the economic entity is delegated by the Board to the Managing Director who is accountable to the Board. The Managing Director is supported by a senior management team who meet regularly (usually at least weekly) to review progress and initiate or co-ordinate the development and implementation of the Company's strategies, plans, standards, policies and programmes.

## 2. Structure of the Board

Currently, the Board is composed of an independent chairman, two non-executive directors and two executive directors. The Board believes that, at present, this structure combines the skills, experience and efficiency of operation best suited to governing the Company.

The Board regards a director as independent if he or she is free from any material interest in, or other material relationship with, the Company, other than as a director, which could reasonably be perceived to materially interfere with the director's ability to exercise independent judgement with respect to the matter being considered. Independence and materiality are considered by the Board in the context of all of the relevant circumstances.

The Board has a policy of separating the role of chairman and chief executive.

The Board acknowledges the recommendation of the ASX Corporate Governance Council that the Board should comprise a majority of independent directors. However, the Board believes that the wealth of knowledge and expertise of the current non-executive directors make the composition appropriate at present.

The Board believes that all of its directors exercise due care and skill with respect to the matters which they consider, and bring independent judgement to bear in decision making.

The Board has adopted a retirement age for directors of 72 years although this may be varied with approval of shareholders on a year to year basis beyond the age of 72 years.

Under current practice, there is a minimum of 11 scheduled board meetings per year. Other meetings are convened as required to consider specific or urgent matters.

### Committees

The Board of Directors, as part of its responsibility to oversee the strategic direction of the Company, has established guidelines and will use committees to ensure that its business operates ethically and fairly and to ensure that the assets of the Company are properly protected.

The Board established an Audit and Governance Committee in 2005.

Early in 2006 the Board established a Remuneration and Nomination Committee and have recently established an Investment and Strategy Committee and an Environment and Safety Committee.

The Board's formal charter states that as appropriate the Company shall establish a Risk Management Committee. During the year ended 30 June 2006 the full Board had the responsibility for the functions and responsibilities of the Risk Management Committee.

### Appointment of Directors

At present, all directors consider the composition of the Board and the nomination and appointment of new directors. Given the size of the Company and its requirements, the Board has considered this to be a satisfactory arrangement to date.

In appointing directors, the Board aims at obtaining a mix of qualifications, age, skill and experience desirable to achieving the most favourable outcome for the Company in the context of its future requirements. The conditions relating to a director's appointment are provided to the director in writing prior to appointment. Apart from the Managing Director and executive director, all directors are subject to re-election by rotation at least every three years in accordance with the Company's constitution. Shareholders are encouraged to participate in the re-election of directors.

Each director has the right of access to all relevant company information and to the Company's executives. In addition, the Company's policy is to allow directors to obtain independent professional advice, at the Company's expense, on matters arising in the course of their board duties after obtaining the Chairman's approval, which cannot be unreasonably withheld.

A copy of the advice received by the Director is made available to all other members of the Board.

The other information with respect to the structure of the Board noted in The ASX Guide to Reporting on Principle 2 has been provided in the Director's Report as the Board believes this a more appropriate place to disclose such information.

### 3. Ethical Business Practices

The Company is committed to being a socially responsible corporate citizen, using honest and fair business practices of the highest standard.

The Company has a formal Code of Conduct actively promoting ethical and responsible decision-making. During the year ended 30 June 2006 the Company implemented a 'Whistle Blower Protection' policy. The Company maintains that the Board and the senior management team, through their own actions, promote and foster an ethical corporate culture. To this end, the Board promotes open and honest disclosure and discussion, together with consideration and respect for the interests of all legitimate stakeholders, at all board and management meetings.

In addition, the Board and the senior management of the Company regularly consider relevant matters including conflicts of interest, corporate opportunities, confidentiality, fair dealing, complaints handling, protection and proper use of the Company's assets, compliance with laws and regulations and reporting unlawful and unethical behaviour.

In accordance with the Corporations Act 2001 and the Company's constitution, directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the relevant item is considered.

The Board has ultimate responsibility for resolving all matters concerning ethical and responsible decision-making.

These procedures are designed to ensure that the integrity of the Company is maintained and that investor confidence is enhanced.

#### *Dealing in Company shares by Directors, Officers and Employees*

The Constitution permits the Directors to acquire shares in the Company and the Board encourages directors, officers and employees to own shares in the Company to further link their interests with the interests of all shareholders. However, all directors, officers and employees are prohibited from buying or selling shares within one month prior to, and the day of, an announcement by the Company of its full year and half year results (unless approval is obtained from the Chairman to deal in the Company's shares during these periods) or when the individual is in possession of price sensitive information.

In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of Australian Stock Exchange Limited ("ASX"), directors advise the ASX of any transactions conducted by them in shares in the Company.

### 4. Safeguard Integrity

The Board established an Audit and Governance Committee to assist the Board in fulfilling its responsibilities relating to the accounting, reporting and compliance obligations of the Company, to examine matters of financial and regulatory significance and monitor corporate risk assessment processes. This committee also reviews audit scopes, assesses the performance of and fees paid to the external auditors, liaises with the external auditors to ensure that the annual audit and half-year statutory review are conducted in an effective manner and considers whether non-audit services provided by the external auditors are consistent with maintaining the external auditors' independence.

The Audit and Governance Committee of the Company is composed of non-executive directors. The Board considers that this structure maintains integrity and has been operationally effective for a company at its present size and board composition. The Independent Chairman is now a member of the Audit and Governance Committee.

The external auditors were appointed on 1 July 1992. The lead external audit engagement partner has led the engagement from 2005. The external audit firm has a policy of rotating off the engagement the lead external audit engagement partner every five years.

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

The other information with respect to safeguarding the integrity of financial reporting noted in The ASX Guide to Reporting on Principle 4 has been provided in the Directors' Report as the Board believes this is a more appropriate place at which to disclose such information.

### 5. Timely and Balanced Disclosure of Material Matters

The Company's aim is to ensure timely, balanced and continuous disclosure to the market of all material matters concerning the Company in accordance with the Corporations Act and the ASX continuous disclosure regime. The Board believes that all shareholders and investors should have equal access to the Company's information.

The policies and procedures designed to ensure compliance with the Corporations Act and the ASX continuous disclosure requirements and to ensure accountability at a senior management level for that compliance are as follows:

- the Company must notify the market, via the ASX continuous disclosure regime, of any price sensitive information;
- the Directors and the Company Secretary are designated as disclosure officers who are responsible for reviewing potential disclosures and deciding what information should be disclosed;
- only a disclosure officer may authorise communication with external parties on behalf of the Company thereby safeguarding confidentiality of corporate information;

# Corporate Governance Statement (cont'd)

- the onus is on all executives to inform a disclosure officer of all potential disclosures as soon as they become aware of the information. The senior management team is responsible for ensuring staff understand and comply with this policy; and
- ASX and media releases must be approved by a director who is a disclosure officer.

## 6. Rights of Shareholders

The shareholders of the Company are responsible for voting on the election of directors at the Annual General Meeting in accordance with the Company's constitution. The Annual General Meeting also provides shareholders with the opportunity to express their views on matters concerning the Company and to vote on other items of business for resolution by shareholders. The Company's policy is to encourage effective shareholder participation at general meetings.

The Company requests that the engagement partner of the firm of external auditors attends the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditors' Report.

The Company has a policy of effective communication with shareholders through:

- the Annual Report which is distributed to all shareholders;
- disclosures made to the ASX;
- notices and explanatory memoranda in relation to resolutions to be put to a vote; and
- Annual General Meetings at which shareholders are given an opportunity to participate.

## 7. Risk Management

The Company has in place procedures designed to safeguard the Company's assets and interests and ensure the integrity of its reporting. These include accounting, financial reporting, internal control, safety and health, property and environmental procedures. Policies also specify who may authorise transactions and segregate duties amongst those carrying them out.

At present, the identification, assessment, monitoring and management of business risks and these internal control procedures are considered by the senior management team of the Company on an ongoing basis as part of their regular (usually at least weekly) meetings.

The Managing Director and ultimately the Board have the responsibility for ensuring that the risk mitigation actions and internal controls recommended at these meetings are implemented.

## 8. Encourage Enhanced Performance

The Board of the Company and the senior management team monitor the performance of the Company utilising monthly management accounts. The monthly management accounts are compared with monthly budgets and the performance of the Company in previous corresponding periods. The

Company's budgets include key performance indicators against which the monthly performance of the Company is measured. The monitoring of the Company's performance by the Board and management assists in identifying the areas where additional attention is required.

The Board undertakes to objectively assess its performance and that of its committees and individual members. During the year ended 30 June 2006, the Board conducted performance reviews on an informal basis. Similarly, the Board and the Managing Director evaluate the performance of the senior management team on an informal basis throughout the year and on a formal basis once per year.

The Board believes that the shareholders of the Company ultimately assess the performance of the Board, its committees, individual directors and senior management based on the financial performance of the Company in the context of the commercial, legal and ethical framework within which the Company operates.

## 9. Fair and Responsible Remuneration

The Remuneration and Nomination Committee review senior executive remuneration structures, review senior management succession plans and monitor directors' remuneration levels to ensure they are in line with current standards. The Remuneration and Nomination Committee then provides a recommendation to the Board which in turn has ultimate responsibility for fair and responsible remuneration.

The Board may engage appropriately qualified consultants to provide it with advice and recommendations.

Executive directors receive salaries and employee benefits. They do not receive additional fees for their services as directors. No executive director or other executive participates in any decision relating to their own remuneration.

Non-executive directors are remunerated by way of fees, statutory superannuation, and reasonable retirement benefits. Non-executive directors do not participate in any decision relating to their own remuneration.

Additional information with respect to remuneration noted in The ASX Guide to Reporting on Principle 9 has been provided in the Directors' Report as the Board believes this is a more appropriate place to disclose such information.

## 10. Stakeholder Interests

The Company is aware of its legal and other obligations to all legitimate stakeholders. The Board believes that appropriate recognition of these interests will enhance shareholder value in the long term.


In terms of a formal Code of Conduct, the Board refers to its earlier statements in Section 3 of this Corporate Governance Statement under the heading Ethical Business Practices.

# **Financial Report**

for the year ended 30 June 2006







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# Directors' Report

## for the year ended 30 June 2006

### Directors

The names and particulars of the Directors of the Company at any time during or since the end of the financial year are:

**Adrian Field**

(Appointed 12 January 2004)

**Russell Small**

(Appointed 12 January 2004)

**Michael Doery**

(Appointed 27 July 2004)

**Patrick J Flannigan**

(Appointed 3 September 2004)

**John Llewellyn (Lyn) Davies**

(Appointed 25 August 2005)

### Current Directors:

#### *Names, Particulars & Qualifications*

Details of the Directors of the Company as at the date of this report are included in the Board of Directors section of the Annual Report.

### Directorships of other listed companies

No current director has held a directorship of another listed company in the 3 years immediately before the end of the financial year.

### Company Secretary

**Stephen Campbell**

B. Bus, MBA(A), CA. Joined Service Stream Limited on 27 January 2005. Experienced in corporate governance and public company management.

### Principal activities

The consolidated entity operates within the industrial services area, providing outsourced services to major corporations predominantly in the telecommunications industry within Australia.

### Review of operations

Service Stream's key revenue and earnings targets were exceeded during 2005-06.

Total revenue for the period was \$171.0 million, an increase of 182.3 per cent on the previous year.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) and Net Profit after Tax (NPAT) were \$8.7 million (+288.5%) and \$4.4 million (+317.7%) respectively.

Revenue from Communications totalled \$90.7 million.

All activities within the Communications business were profitable and achieved growth. The strongest contribution to earnings was provided by the Construction area. This is due to the high-quality work carried out by our construction team. The Installations and Maintenance area also experienced sharp growth through the year associated with an increased volume

of work and increased market share, which we see as a reward for the quality services we provide. Revenue from Labour Services remained strong and we anticipate further growth in this area.

Solutions achieved \$79.4 million in revenue.

All activities within the Solutions business were profitable and achieved growth. Field Services experienced strong growth as a result of its expansion into the Queensland market where we have very quickly achieved significant market share. The Contact Centre Operations met all operational targets for the year and continues to develop and grow.

Service Stream acquired Milcom Communications Pty Ltd in January 2006 at a cost of \$2.1 million, including a cash outlay of \$1.3 million and the issue of ordinary shares in Service Stream to the value of \$500,000. The cash component was funded from existing cash reserves and the acquisition price represented a multiple of approximately 4 times Milcom's expected future EBITDA for 2007.

Milcom provided a six-month contribution of \$0.8 million in revenue assisted by several new contracts won during the period.

Service Stream welcomed a number of new shareholders as part of a \$10.3 million capital raising completed in November 2005. This capital raising, in combination with the company's financial performance through the year, produced a strengthening in the balance sheet, which will, in turn, support our ambitious growth plans. The gearing ratio was reduced from 51.6% as at end-June 2005 to 18.5% as at end-June 2006.

### Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

### Subsequent events

On 27 July 2006 the Directors of Service Stream Limited (STR) and Total Communications Infrastructure Limited (TCI) agreed to a merger of both companies (subject to shareholder approval and final signed agreement). The merged group will create a leading technical and industrial services group, with managed service capabilities across the telecommunications, energy and other utility sectors.

The merger will be achieved by:

- a scheme of arrangement under which TCI will acquire all of the shares in STR;
- the acquisition by STR of a substantial shareholding in TCI;
- the subsequent cancellation of the STR stake.

STR and TCI have entered into an agreement to implement the merger under a scheme of arrangement.

STR shareholders will receive 2 TCI shares for every 5 STR shares they own.

# Directors' Report (cont'd)

## for the year ended 30 June 2006

The Directors of STR and TCI unanimously support the merger. Shareholder meetings to consider the merger will be scheduled in the final quarter of 2006.

On 21 August 2006 the Company announced its intention to acquire Fibercom Technology Pty Ltd (Fibercom). Fibercom specialises in telecommunication infrastructure design, build and maintenance offering clients a wide range of services for both internal and external networks including optical fibre, coaxial cable, copper cable and wireless solutions. Consideration for the acquisition is approximately \$2.5m with this acquisition price representing a multiple of approximately 5 times Fibercom's normalised earnings before interest and tax for the year ended 30 June 2006. The acquisition will be funded by vendor terms over 2 years, and from Service Stream's existing cash reserves and facilities.

### Future developments

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

### Environmental regulations

The consolidated entity is not required to hold any Environmental Protection Authority licenses.

### Dividends

In respect of the financial year ended 30 June 2005, as detailed in the Directors' Report for that financial year, no dividends were paid.

In respect of the financial year ended 30 June 2006, an interim dividend of 0.75 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 13 April 2006.

In respect of the financial year ended 30 June 2006, the Directors recommend the payment of a final dividend of 1.12 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares on 6 October 2006 (to be paid on 20 October 2006).

### Share options

#### *Share options granted to directors and executives*

During and since the end of the financial year an aggregate of 100,000 share options were granted to the following directors and executives of the company:

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
Stephen Campbell	100,000	Service Stream Limited	100,000

The holder of such options does not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

Please refer to note 5 to the Financial Statements for details of Share Options on issue at year end and exercised during the year.

### Indemnification of officers and auditors

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

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

## Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 13 board meetings, 4 audit and governance committee and 2 remuneration and nomination committee meetings were held.

Directors	Board of Directors		Audit and Governance committee		Remuneration and Nomination committee	
	Held	Attended	Held	Attended	Held	Attended
JL Davies	12	12*	4	4	2	2
PJ Flannigan	13	13	-	-	-	-
M Doery	13	13	-	-	-	-
A Field	13	13	1	1**	-	-
R Small	13	13	4	4	2	2

\* JL Davies was a Director for 12 meetings and attended 12.

\*\* A Field was a member for 1 meeting and attended 1.

## Directors' shareholdings

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

Directors	Fully paid ordinary shares	Executive share options
PJ Flannigan	1,007,630	4,500,000
M Doery	1,507,630	4,100,000
A Field	15,427,565	5,666,667
R Small	15,555,565	5,666,667
	<b>33,498,390</b>	<b>19,933,334</b>

## Remuneration report

### Remuneration policy for directors and executives

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

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

Service Stream's Remuneration Framework is based on the concept of Total Employee Reward (TER). This encompasses the three components of:

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

### Fixed Remuneration

Service Stream's principal remuneration strategy is to align fixed remuneration with the medians of comparable industry positions.

Fixed remuneration is expressed as total fixed remuneration (TFR). TFR includes salary and superannuation entitlements, and is used as a basis for remuneration review, leave payments on termination and redundancy payments.

Benefits such as mobile phones, incentive payments, work vehicles etc. are excluded from this figure. Salary sacrifice choices that an employee may choose to make out of pre-tax salary do not impact overall TFR.

The range of remuneration for each position is determined by market data, which the job evaluation has determined the role to fit within. From time to time, where a need arises, other more specific market data may be used for certain positions. Service Stream does not incorporate cost of living differentials into its remuneration policy.

### Variable Remuneration

Variable remuneration is comprised of short and long term incentive plans.

# Directors' Report (cont'd)

## for the year ended 30 June 2006

### Short Term Incentive Plan (STIP)

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

The annual goals that are established are considered outside the normal scope of the employee's duties and/or requiring performance significantly above the average.

The STIP performance goals are tied directly to annual objectives of Service Stream, which are linked directly to the overall group strategy. All eligible employees' STIP is comprised of four set performance goals:

1. group financial goals;
2. company financial goals;
3. business unit goals; and
4. individual goals.

### Long Term Incentive Payments (LTIP)

From time to time employees in senior management roles may be invited, with approval from the Board, to participate in a LTIP. The LTIP utilises the facility known as the Service Stream Executive Option Plan (EOP). The Salary and Reward Committee administer the LTIP and EOP.

The size of individual options grants is recommended by the CEO and reviewed by the Remuneration and Nomination Committee, which will then, if appropriate, make recommendations to the Board for approval.

### Reward and recognition or non-financial reward

#### High Performance Recognition

From time to time an employee or team of employees, may work beyond the call of duty to meet a challenging objective, or may substantially exceed expectations. Service Stream encourages recognition and reward for such behaviours.

Service Stream may choose to recognise high performance in a number of ways.

#### Discretionary bonuses

A discretionary bonus may be payable where performance has been well above and beyond the expectations of an employee's usual position and has a significant positive financial impact on Service Stream.

A business case needs to be prepared showing a clear connection between the employee's contribution, the financial results achieved and the proposed bonus.

### Director and executive details

**The Directors of Service Stream Limited during the year were:**

- JL Davies (appointed 25 August 2005)  
(Independent Chairman)
- PJ Flannigan (Managing Director & Chief Executive Officer)
- M Doery (Executive Director & Chief Financial Officer)
- A Field (Non-executive Director)
- R Small (Non-executive Director)

**The group Executives of Service Stream Limited during the year were:**

- S Campbell (Company Secretary & Group Financial Controller, Service Stream Limited)
- J Caporale (Executive General Manager, Service Stream Communications Pty Ltd)
- J Gramc (Executive General Manager, Service Stream Solutions Pty Ltd)
- D Lackie (Group Human Resources Executive, Service Stream Limited)
- A Legge (Group Technology Executive, Service Stream Limited)
- I Millner (appointed 4 Jan 2006) (Executive General Manager, Milcom Communications Pty Ltd)

### Elements of director and executive remuneration

Remuneration packages contain the following key elements:

- primary benefits - salary/fees and bonuses;
- post-employment benefits - including superannuation; and
- equity - share options granted under the executive share option plan as disclosed in note 5 to the financial statements.



The following table discloses the remuneration of the Directors of the Company:

2006	Primary			Post-employment superannuation \$	Equity options \$	Total \$
	Salary & fees \$	Bonus \$	Non-monetary \$			
JL Davies	120,000	-	-	10,800	-	130,800
PJ Flannigan (i)	307,930	200,000	45,101	12,139	-	565,170
M Doery (i)	273,921	200,000	14,760	12,139	-	500,820
A Field	18,349	-	-	1,651	-	20,000
R Small	18,349	-	-	1,651	-	20,000
	<b>738,549</b>	<b>400,000</b>	<b>59,861</b>	<b>38,380</b>	<b>-</b>	<b>1,236,790</b>

(i) Includes a bonus of \$100,000 each, related to the successful completion of the acquisition of Milcom Communications Pty Ltd.

All other bonuses have been made in line with the Company's policy in relation to remuneration.

The following table discloses the remuneration of the 6 highest remunerated executives of the Company and group executives of the consolidated entity:

2006	Primary			Post-employment superannuation \$	Equity options \$	Total \$
	Salary & fees \$	Bonus \$	Non-monetary \$			
S Campbell	80,918	50,000	-	9,082	1,493	141,493
J Caporale	169,601	172,000	57,711	12,686	-	411,998
J Gramc	192,534	87,500	30,577	38,569	-	349,180
D Lackie	150,361	55,000	-	12,139	-	217,500
A Legge	155,964	34,000	-	14,036	-	204,000
I Millner*	79,129	-	-	7,121	-	86,250
	<b>828,507</b>	<b>398,500</b>	<b>88,288</b>	<b>93,633</b>	<b>1,493</b>	<b>1,410,421</b>

\*appointed on 4 January 2006

All bonuses have been made in line with the Company's policy in relation to remuneration.

#### Elements of remuneration related to performance

No director or executive has elements of remuneration related to performance included within their contract of employment.

The Board does have the discretion however to issue bonuses to directors and executives as it deems necessary or options as per the executive share option plan.

Remuneration for non-executive directors comprises fixed fees, which may be in the form of cash, non-cash benefits and superannuation. Whilst the founding shareholders, who are non-executive directors, may hold options in the Company, no part of the remuneration is incentive-based, for example, bonuses and share options.

#### Value of options issued to directors and executives

The following table discloses the value of options granted, exercised or lapsed during the year:

	Options granted	Options exercised	Options lapsed	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options %
	Value at grant date \$	Value at exercise date \$	Value at time of lapse \$	Value at time of lapse \$	Value at time of lapse \$	Value at time of lapse \$
S Campbell	1,493	-	-	1,493	1,493	1.05%

#### Value of options - basis of calculation

The value of options were calculated using the Black Scholes model.

#### Non-audit services

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) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Details of amounts paid or payable to the Auditor for non-audit services provided during the year by the Auditor are outlined in note 6 to the financial statements.

# Directors' Report (cont'd)

## for the year ended 30 June 2006

### Auditor's independence declaration

The Auditor's independence declaration is included on page 29 of the financial report.

### Rounding off of amounts

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

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



JL Davies  
**Independent Chairman**  
Melbourne  
25 August 2006



PJ Flannigan  
**Managing Director**  
Melbourne  
25 August 2006

# Auditor's Independence Declaration

for the year ended 30 June 2006

**Deloitte**

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

180 Lonsdale Street  
Melbourne VIC 3000  
GPO Box 78B  
Melbourne VIC 3001 Australia

DX 111  
Tel: +61 (0) 3 9208 7000  
Fax: +61 (0) 3 9208 7001  
[www.deloitte.com.au](http://www.deloitte.com.au)

The Board of Directors  
Service Stream Limited  
555 Lonsdale Street  
MELBOURNE VIC 3000

25 August 2006

Dear Board Members

**Service Stream Limited**

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

As lead audit partner for the audit of the financial statements of Service Stream Limited for the financial year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU

*S Pelusi*

**S Pelusi**  
Partner  
Chartered Accountants

Member of  
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

# Independent Audit Report

for the year ended 30 June 2006

## Deloitte

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

180 Lonsdale Street  
Melbourne VIC 3000  
GPO Box 78B  
Melbourne VIC 3001 Australia

DX 111  
Tel: +61 (0) 3 9208 7000  
Fax: +61 (0) 3 9208 7001  
[www.deloitte.com.au](http://www.deloitte.com.au)

### Independent audit report to the members of Service Stream Limited

#### *Scope*

#### The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Service Stream Limited (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 32 to 70. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Member of  
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.



# Independent Audit Report

for the year ended 30 June 2006

## Deloitte.

### *Audit Opinion*

In our opinion, the financial report of Service Stream Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*SPe.*

S PELUSI  
Partner  
Chartered Accountants

Melbourne, 25 August 2006

# Directors' Declaration

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and consolidated entity; and
- (c) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the Directors



JL Davies  
**Independent Chairman**  
Melbourne  
25 August 2006



PJ Flannigan  
**Managing Director**  
Melbourne  
25 August 2006

# Income Statement

for the financial year ended 30 June 2006

	Note	Consolidated		Company	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue	2	170,847	60,444	5,657	38
Other income	2	136	132	-	-
Company administration and insurance expenses		(3,400)	(2,496)	(839)	(425)
Salaries and employee benefits		(51,578)	(24,227)	(1,428)	(285)
Temporary staff costs and subcontractor fees		(66,930)	(25,746)	-	(74)
Changes in inventory of finished goods		(28,306)	-	-	-
Motor vehicles expenses		(1,586)	(1,233)	(13)	(8)
Consulting and directors' fees		(407)	(975)	(181)	(735)
External technology services		(1,251)	(465)	-	-
Occupancy expenses		(2,721)	(1,125)	(77)	(56)
Finance costs	2	(998)	(587)	(867)	(525)
Depreciation	2	(1,547)	(601)	(6)	(4)
Other expenses		(5,999)	(2,010)	(362)	(211)
<b>Profit/(loss) before income tax expense</b>		<b>6,260</b>	<b>1,111</b>	<b>1,884</b>	<b>(2,285)</b>
Income tax (expense)/benefit	3	(1,908)	(69)	1,109	704
<b>Profit/(loss) attributable to members of the parent entity</b>		<b>4,352</b>	<b>1,042</b>	<b>2,993</b>	<b>(1,581)</b>
Earnings per share:					
Basic (cents per share)	23	2.79	1.03		
Diluted (cents per share)	23	2.32	0.82		

Notes to the financial statements are included on pages 37 to 70.

# Balance Sheet

as at 30 June 2006

		Consolidated		Company	
	Note	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Current assets</b>					
Cash	32	2,048	1,475	3,517	876
Trade and other receivables	7	24,889	19,860	55	53
Inventories	8	838	619	-	
Other	9	7,265	4,444	71	139
<b>Total current assets</b>		<b>35,040</b>	<b>26,398</b>	<b>3,643</b>	<b>1,068</b>
<b>Non-current assets</b>					
Trade and other receivables	10	-	-	11,893	14,015
Investments	11	962	-	15,964	13,380
Property, plant and equipment	12	3,467	3,234	12	12
Deferred tax assets	3	1,040	1,086	247	1,086
Goodwill	13	18,551	16,379	-	-
Other intangibles	14	348	-	-	-
<b>Total non-current assets</b>		<b>24,368</b>	<b>20,699</b>	<b>28,116</b>	<b>28,493</b>
<b>Total assets</b>		<b>59,408</b>	<b>47,097</b>	<b>31,759</b>	<b>29,561</b>
<b>Current liabilities</b>					
Trade and other payables	15	20,726	16,278	766	4,039
Borrowings	16	707	628	-	-
Current tax payable	3	1,197	-	1,197	-
Provisions	17	1,652	1,231	90	-
<b>Total current liabilities</b>		<b>24,282</b>	<b>18,137</b>	<b>2,053</b>	<b>4,039</b>
<b>Non-current liabilities</b>					
Borrowings	18	5,798	14,449	5,000	14,000
Provisions	19	643	366	3	-
<b>Total non-current liabilities</b>		<b>6,441</b>	<b>14,815</b>	<b>5,003</b>	<b>14,000</b>
<b>Total liabilities</b>		<b>30,723</b>	<b>32,952</b>	<b>7,056</b>	<b>18,039</b>
<b>Net assets</b>		<b>28,685</b>	<b>14,145</b>	<b>24,703</b>	<b>11,522</b>
<b>Equity</b>					
Issued capital	20	25,867	14,412	25,867	14,412
Reserves	21	65	27	65	27
Retained earnings	22	2,753	(294)	(1,229)	(2,917)
<b>Total equity</b>		<b>28,685</b>	<b>14,145</b>	<b>24,703</b>	<b>11,522</b>

Notes to the financial statements are included on pages 37 to 70.

# Statement of Changes in Equity

## for the financial year ended 30 June 2006

	Note	Consolidated		Company	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>(a) Retained earnings</b>	<b>22</b>				
Balance at beginning of the year		(294)	(25,494)	(2,917)	(25,494)
Transfer from share capital (refer to note 20)		-	24,161	-	24,161
Transfer to the employee equity-settled benefits reserve		-	(3)	-	(3)
Net profit/(loss) attributable to members for the period *		4,352	1,042	2,993	(1,581)
Dividends paid		(1,305)	-	(1,305)	-
Balance at end of financial year		2,753	(294)	(1,229)	(2,917)
<b>(b) Reserves</b>	<b>21</b>				
Reserves at beginning of year		27	-	27	-
Equity-settled share based payment		38	24	38	24
Shared based payment recognised directly in equity		-	3	-	3
Balance at end of financial year		65	27	65	27
<b>(c) Issued capital</b>	<b>20</b>				
Share capital at beginning of year - 123,475,979 fully paid ordinary shares		14,412	26,161	14,412	26,161
Capitalisation of carried forward losses		-	(24,161)	-	(24,161)
Net costs associated with share issues		(289)	(388)	(289)	(388)
Issue of share capital		9,490	11,250	9,490	11,250
Exercise of options		-	50	-	50
Issue of shares as partial consideration for acquisition of Service Stream Communications Pty Ltd		1,477	1,500	1,477	1,500
Issue of shares for acquisition of Milcom Communications Pty Ltd		500	-	500	-
Issue of shares in dividend reinvestment plan		277	-	277	-
Share capital at end of year - 174,794,445 fully paid ordinary shares		25,867	14,412	25,867	14,412

\* This includes total recognised income and expenses for the period

Notes to the financial statements are included on pages 37 to 70.



# Cash Flow Statement

## for the financial year ended 30 June 2006

Note	Consolidated		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Cash flows from operating activities</b>				
Receipts from customers	165,971	53,194	-	-
Payments to suppliers and employees	(156,764)	(53,390)	(177)	(2,436)
Dividends received	-	-	5,600	-
Interest received	64	49	57	38
Interest and other costs of finance paid	(923)	(726)	(791)	(664)
Income tax paid	(659)	-	(65)	-
Net cash provided by/(used in) operating activities	32(e) 7,689	(873)	4,624	(3,062)
<b>Cash flows from investing activities</b>				
Payment for equity instruments	(962)	-	(4,749)	(7,538)
Payment for property, plant and equipment	(1,877)	(1,077)	(6)	(10)
Proceeds from sale of property, plant and equipment	295	232	-	-
Payment for intangible assets	(348)	-	-	-
Payment for businesses	32(b) (3,774)	(17,253)	-	-
Net cash (used in) investing activities	(6,666)	(18,098)	(4,755)	(7,548)
<b>Cash flows from financing activities</b>				
Proceeds from share issue	9,490	11,300	9,490	11,300
Payment for share issue costs	(340)	(511)	(340)	(511)
Proceeds from borrowings	24,029	16,645	23,200	16,000
Repayment of borrowings	(32,200)	(7,552)	(32,200)	(2,000)
Finance lease repayments	(401)	(148)	-	-
Loans from/(payment to) related parties	-	-	3,650	(14,015)
Dividends paid	(1,028)	-	(1,028)	-
Net cash (used in)/provided by financing activities	(450)	19,734	2,772	10,774
<b>Net increase in cash and cash equivalents</b>	<b>573</b>	<b>763</b>	<b>2,641</b>	<b>164</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>1,475</b>	<b>712</b>	<b>876</b>	<b>712</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>32(a) 2,048</b>	<b>1,475</b>	<b>3,517</b>	<b>876</b>

Notes to the financial statements are included on pages 37 to 70.

# Notes to the Financial Statements

## for the financial year ended 30 June 2006

### 1. Summary of accounting policies

#### **Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the Directors on 25 August 2006.

#### **Basis of preparation**

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

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

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to

A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the company's and consolidated entity's financial position, financial performance and cash flows is discussed in note 34.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006. The comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 34), the consolidated entity's date of transition.

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

#### **(a) Borrowings**

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

#### **(b) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

#### **(c) Employee benefits**

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

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

#### **Defined contribution plans**

Contributions to defined contribution superannuation plans are expensed when incurred.

#### **(d) Financial assets**

##### **Loans and receivables**

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 1. Summary of accounting policies (cont'd)

#### (e) *Financial instruments issued by the company*

##### Debt and equity instruments

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

##### Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

##### Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

#### (f) *Goods and services tax*

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

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

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

#### (g) *Goodwill*

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. Refer also note 1(h).

#### (h) *Impairment of assets*

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered 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 the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, 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. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

#### (i) *Income tax*

##### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

##### Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

## 1. Summary of accounting policies (cont'd)

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### Tax consolidation

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. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using a 'group allocation method'. 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).

The Directors have an informal tax funding arrangement (TFA) in place between the entities in the tax-consolidated group. Based on this amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 3 to the financial statements.

### (j) Intangible assets

#### Intangible assets acquired in a business combination

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

#### Software

Software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives of 3 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

### (k) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### (l) Leased assets

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

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs.

# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 1. Summary of accounting policies (cont'd)

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

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

#### Lease incentives

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

#### (m) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

#### (n) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 27 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

#### (o) Plant and equipment

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

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

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

• leasehold improvements	2 - 5 years
• plant and equipment	4 - 5 years
• equipment under finance lease	2 - 5 years
• motor vehicles	3 - 7 years

#### (p) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

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

#### Onerous contracts

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.



## 1. Summary of accounting policies (cont'd)

### Restructuring

Provision for restructurings are recognised when the consolidated entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by:

- starting to implement the plan; or
- announcing its main features to those affected by it.

### (q) Revenue recognition

#### Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

#### Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

#### Recoverable works

Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the financial year plus the percentage of fees earned. Percentage of fees earned is measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Where a loss is expected to occur it is recognised immediately and is made for both work in progress completed to date and for future work on the contract.

#### Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

### (r) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

### *New and Revised Accounting Standards and Interpretations*

Service Stream Limited has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2005.

The Directors have given due consideration to new and revised standards and interpretations issued by the AASB that are not yet effective and do not believe they will have any material impact on the financial statements of the Company or the Consolidated entity.

# Notes to the Financial Statements (cont'd)

for the financial year ended 30 June 2006

## 2. Profit from operations

### (a) Revenue

Revenue from continuing operations consisted of the following items:

Revenue from the rendering of services

Dividends:

Subsidiaries

Sundry revenue

Interest revenue:

Bank interest

**Total revenues from ordinary activities**

### (b) Profit before income tax

Profit/(loss) before income tax has been arrived at after crediting/(charging) the following gains and losses:

Profit/(loss) from sales of plant & equipment

Profit/(loss) before income tax has been arrived at after charging the following expenses:

Changes in inventory of finished goods

Finance costs:

Interest paid to other entities

Finance lease/hire purchase charges

Other

**Total finance costs expensed**

Depreciation of non-current assets

Operating lease rental expenses:

Minimum lease payments

Net bad and doubtful debts arising from:

Other entities

Employee benefit expense:

Post employment benefits:

Defined contribution plans

Share-based payments:

Equity settled share-based payments

	Consolidated		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from the rendering of services	170,699	60,391	-	-
Dividends:				
Subsidiaries	-	-	5,600	-
Sundry revenue	84	4	-	-
Interest revenue:				
Bank interest	64	49	57	38
<b>Total revenues from ordinary activities</b>	<b>170,847</b>	<b>60,444</b>	<b>5,657</b>	<b>38</b>
Profit/(loss) from sales of plant & equipment	136	132	-	(2)
Profit/(loss) before income tax has been arrived at after charging the following expenses:				
Changes in inventory of finished goods	28,306	-	-	-
Finance costs:				
Interest paid to other entities	847	460	847	460
Finance lease/hire purchase charges	99	35	-	-
Other	52	92	20	65
<b>Total finance costs expensed</b>	<b>998</b>	<b>587</b>	<b>867</b>	<b>525</b>
Depreciation of non-current assets	1,547	601	6	4
Operating lease rental expenses:				
Minimum lease payments	1,997	816	48	-
Net bad and doubtful debts arising from:				
Other entities	147	87	-	-
Employee benefit expense:				
Post employment benefits:				
Defined contribution plans	3,174	1,490	52	12
Share-based payments:				
Equity settled share-based payments	38	24	38	24

### 3. Income taxes

#### (a) Income tax recognised in profit or loss

##### Tax expense/(income) comprises:

Current tax expense/(income)

Deferred tax expense/(income) relating to the origination and reversal of temporary differences

Adjustments recognised in the current year in relation to the current tax of prior years

##### Total tax expense/(income)

The prima facie income tax expense/(benefit) on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense/(benefit) in the financial statements as follows:

Profit/(loss) from ordinary activities

Income tax expense/(benefit) calculated at 30%

Non-deductible expenses

Items deducted for tax purposes only

Dividend income

Restructuring costs

Other

Under provision of income tax in previous year

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.

#### (b) Current tax liabilities

##### Current tax payable:

Income tax payable attributable to:

Parent entity

Entities in the tax-consolidated group

#### (c) Deferred tax balances

##### Deferred tax assets comprise:

Tax losses - revenue

Temporary differences

Parent entity

Entities in the tax-consolidated group

	Consolidated		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
	1,770	1,032	(1,999)	259
	97	(963)	890	(963)
	41	-	-	-
	<b>1,908</b>	<b>69</b>	<b>(1,109)</b>	<b>(704)</b>
	6,260	1,111	1,884	(2,285)
	1,878	333	565	(685)
	76	24	57	12
	(51)	(31)	(51)	(31)
	-	-	(1,680)	-
	-	(211)	-	-
	(36)	(46)	-	-
	1,867	69	(1,109)	(704)
	41	-	-	-
	<b>1,908</b>	<b>69</b>	<b>(1,109)</b>	<b>(704)</b>
	(1,140)	-	(1,140)	-
	2,337	-	2,337	-
	<b>1,197</b>	<b>-</b>	<b>1,197</b>	<b>-</b>
	-	77	-	77
	247	135	247	135
	793	874	-	874
	<b>1,040</b>	<b>1,086</b>	<b>247</b>	<b>1,086</b>

# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 3. Income taxes (cont'd)

#### (d) Income tax recognised directly in equity

The following current and deferred amounts were charged directly to equity during the period:

Deferred tax:

Share issue expenses deductible over 5 years

Consolidated		Company	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
174	123	174	123

Taxable and deductible temporary differences arise from the following:

Consolidated 2006	Opening balance \$'000	Charged to income \$'000	Closing balance \$'000
Gross deferred tax assets:			
Trade and other receivables	35	58	93
Other intangible assets	-	368	368
Trade, other payables and provisions	928	(523)	405
	<b>963</b>	<b>(97)</b>	<b>866</b>
Company 2006			
Gross deferred tax assets:			
Trade and other receivables	35	(35)	-
Trade, other payables and provisions	928	(855)	73
	<b>963</b>	<b>(890)</b>	<b>73</b>

#### Tax consolidation

##### Relevance of tax consolidation to the consolidated entity

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 November 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Service Stream Limited. The members of the tax-consolidated group are identified at note 27.

##### Nature of tax funding arrangements and tax sharing agreements

An informal tax funding arrangement (TFA) is in place between the entities in the tax-consolidated group. Under the terms of the TFA, Service Stream Limited and each of the entities in the tax-consolidated group will agree to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group will provide for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

#### 4. Key management personnel compensation

The key management personnel of Service Stream Limited during the year were:

- JL Davies (Independent Chairman)
- PJ Flannigan (Managing Director & Chief Executive Officer)
- M Doery (Executive Director & Chief Financial Officer)
- A Field (Non-executive Director)
- R Small (Non-executive Director)
- S Campbell (Company Secretary & Group Financial Controller, Service Stream Limited)
- J Caporale (Executive General Manager, Service Stream Communications Pty Ltd)
- J Gramc (Executive General Manager, Service Stream Solutions Pty Ltd)
- D Lackie (Group Human Resources Executive, Service Stream Limited)
- A Legge (Group Technology Executive, Service Stream Limited)
- I Millner\* (Executive General Manager, Milcom Communications Pty Ltd)

\*appointed on 4 January 2006.

##### (a) Key management personnel compensation

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

The aggregate compensation of the key management personnel of the consolidated entity and the Company is set out below:

	Consolidated		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Short-term employee benefits	2,513	1,184	1,329	770
Post-employment benefits	132	33	47	10
Share-based payment	2	243	2	234
	<b>2,647</b>	<b>1,460</b>	<b>1,378</b>	<b>1,014</b>

	Short-term employee benefits			Post-employment Superannuation	Equity Options	Total
2006	Salary & fees \$	Bonus \$	Non-monetary \$	\$	\$	\$
JL Davies	120,000	-	-	10,800	-	130,800
PJ Flannigan (i)	307,930	200,000	45,101	12,139	-	565,170
M Doery (i)	273,921	200,000	14,760	12,139	-	500,820
A Field	18,349	-	-	1,651	-	20,000
R Small	18,349	-	-	1,651	-	20,000
S Campbell	80,918	50,000	-	9,082	1,493	141,493
J Caporale	169,601	172,000	57,711	12,686	-	411,998
J Gramc	192,534	87,500	30,577	38,569	-	349,180
D Lackie	150,361	55,000	-	12,139	-	217,500
A Legge	155,964	34,000	-	14,036	-	204,000
I Millner	79,129	-	-	7,121	-	86,250
	<b>1,567,056</b>	<b>798,500</b>	<b>148,149</b>	<b>132,013</b>	<b>1,493 *</b>	<b>2,647,211</b>

(i) Includes a bonus of \$100,000 each, related to the successful completion of the acquisition of Milcom Communications Pty Ltd. All other bonuses have been made in line with the Company's policy in relation to remuneration.



# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 4. Key management personnel compensation (cont'd)

2005	Short-term employee benefits			Post-employment Superannuation	Equity Options	Total
	Salary & fees \$	Bonus \$	Non-monetary \$			
PJ Flannigan	299,167	50,000	9,472	3,862	125,740	488,241
M Doery	257,925	50,000	3,980	3,862	108,675	424,442
A Field	20,000	-	-	-	-	20,000
R Small	20,000	-	-	-	-	20,000
S Campbell	38,944	20,000	-	3,014	-	61,958
J Caporale	96,469	20,000	29,141	7,723	-	153,333
J Gramc	60,436	98,000	4,461	6,337	8,703	177,937
D Lackie	42,190	18,000	-	3,964	-	64,154
A Legge	41,390	5,100	-	3,725	-	50,215
D Steinepreis **	-	-	-	-	-	-
H Warner **	-	-	-	-	-	-
	<b>876,521</b>	<b>261,100</b>	<b>47,054</b>	<b>32,487</b>	<b>243,118*</b>	<b>1,460,280</b>

All bonuses have been made in line with the company's policy in relation to remuneration linked to performance.

\* Options were granted under the executive share options plan. Further details on the options are included in note 5 to the financial statements.

\*\* D Steinepreis and H Warner resigned 27 July 2004.

### 5. Executive share option plan

Executive share options carry no rights to dividends and no voting rights. In accordance with the terms of the executive share option scheme, options issued during the year ended 30 June 2006 vest at various times up to 1 January 2007.

The Directors can, at their discretion, issue share options to key management personnel as part of the group's remuneration policy.

The following share-based payment arrangements were in existence during the year:

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
20/01/2004	17,000,000	10/02/2004	31/12/2007	0.250	-
20/10/2004	8,380,000	04/11/2004	31/10/2009	0.250	341,458
20/10/2004	2,310,000	04/11/2004	31/10/2009	0.375	5,820
20/10/2004	2,310,000	04/11/2004	31/10/2009	0.500	6*
01/01/2005	120,000	12/05/2005	01/01/2010	0.250	5,120
01/01/2005	40,000	12/05/2005	01/01/2010	0.375	101
01/01/2005	40,000	12/05/2005	01/01/2010	0.500	-**
01/03/2005	500,000	12/05/2005	01/03/2011	0.250	26,253
07/03/2005	200,000	12/05/2005	07/03/2010	0.260	9,876
09/09/2005	120,000	09/09/2005	01/01/2010	0.250	5,120
09/09/2005	40,000	09/09/2005	01/01/2010	0.375	101
09/09/2005	40,000	09/09/2005	01/01/2010	0.500	-**
30/01/2006	500,000	30/01/2006	31/10/2009	0.390	7,465
30/01/2006	50,000	30/01/2006	31/10/2009	0.250	6,393

\* These options vest on 04/11/2006.

\*\* These options vest on 01/01/2007.

All other options have vested.

The weighted average fair value of the share options granted during the financial year is \$0.0254 (2005: \$0.0199). Options were priced using a Black Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option) and behavioral considerations. Expected volatility is based on the historical share price volatility over the past 2 years. To allow for the effects of early exercise, it was assumed that employees would exercise the options after vesting date when the share price was two and half times the exercise price.

## 5. Executive share option plan (cont'd)

Inputs into the model	Option series				
	Series 1	Series 2	Series 3	Series 4	Series 5
Grant date share price (cents)	0.220	0.220	0.220	0.350	0.350
Exercise price	0.250	0.375	0.500	0.390	0.250
Expected volatility	40%	40%	40%	40%	30%
Option life (years)	4.3	4.3	4.3	3.7	3.7
Dividend yield	0%	0%	0%	0%	0%
Risk-free interest rate	5.5%	5.5%	5.5%	5.5%	5.5%

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

	2006		2005	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	30,900,000	0.231	95,576,330	-
Post 1:5 consolidation	-	-	19,115,266	0.226
Granted during the financial year	750,000	0.363	13,900,000	0.313
Exercised during the financial year (i)	-	-	(1,995,500)	0.025
Expired during the financial year	-	-	(119,766)	1.675
Balance at end of the financial year (ii)	31,650,000	0.280	30,900,000	0.231
<b>Exercisable at end of the financial year</b>	<b>29,260,000</b>	<b>0.262</b>	<b>25,580,000</b>	<b>0.220</b>

### (i) Exercised during the financial year

The following share options granted under the executive share option plan were exercised during the financial year:

2006 Options series	Number exercised	Exercise date	Share price at exercise date \$
Nil	-	-	-

### 2005

Options series			
31/10/2004	9,977,500 *	31/10/2004	0.025

\* Pre 1:5 consolidation

Fair value of consideration received is measured at the normal value of cash receipts on conversion.

The fair value of shares at the date on their issue is measured as the market value at close of trade on the date of their issue.

# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 5. Executive share option plan (cont'd)

#### (ii) Balance at end of the financial year

The share options outstanding at the end of the financial year had a weighted average exercise price of \$0.280 and a weighted average remaining contractual life of 868 days.

Options series	No. of holders	No.	Grant Date	Expiry Date	Exercise Price \$
20/01/2004	3	17,000,000	10/02/2004	31/12/2007	0.250
20/10/2004	4	8,380,000	04/11/2004	31/10/2009	0.250
20/10/2004	3	2,310,000	04/11/2004	31/10/2009	0.375
20/10/2004	3	2,310,000	04/11/2004	31/10/2009	0.500
01/01/2005	1	120,000	12/05/2005	01/01/2010	0.250
01/01/2005	1	40,000	12/05/2005	01/01/2010	0.375
01/01/2005	1	40,000	12/05/2005	01/01/2010	0.500
01/03/2005	1	500,000	12/05/2005	01/03/2011	0.250
07/03/2005	1	200,000	12/05/2005	07/03/2010	0.260
09/09/2005	1	120,000	09/09/2005	01/01/2010	0.250
09/09/2005	1	40,000	09/09/2005	01/01/2010	0.375
09/09/2005	1	40,000	09/09/2005	01/01/2010	0.500
30/01/2006	5	500,000	30/01/2006	31/10/2009	0.390
30/01/2006	1	50,000	30/01/2006	31/10/2009	0.250
		<b>31,650,000</b>	<b>Weighted average</b>		<b>0.280</b>

### 6. Remuneration of auditors

#### Auditor of the parent entity

Audit or review of the financial report

Other assurance services

The Auditor of Service Stream Limited is Deloitte Touche Tohmatsu.

Consolidated		Company	
2006	2005	2006	2005
\$	\$	\$	\$
198,076	103,200	60,000	57,200
-	178,605	-	178,605
<b>198,076</b>	<b>281,805</b>	<b>60,000</b>	<b>235,805</b>
\$'000	\$'000	\$'000	\$'000
23,743	19,082	-	-
(311)	(115)	-	-
23,432	18,967	-	-
1,184	785	18	47
273	108	37	6
<b>24,889</b>	<b>19,860</b>	<b>55</b>	<b>53</b>
838	619	-	-

### 7. Current trade and other receivables

Trade receivables (i)

Allowance for doubtful debts

Goods and services tax (GST) recoverable

Other receivables

(i) The average credit period on sales of goods is 30 days.

No interest is charged on trade receivables.

### 8. Current inventories

#### Finished goods:

At cost

## 9. Other current assets

Accrued income  
Prepayments  
Other

Consolidated		Company	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
7,046	4,128	-	-
23	312	-	139
196	4	71	-
<b>7,265</b>	<b>4,444</b>	<b>71</b>	<b>139</b>

## 10. Non-current trade and other receivables

Amounts receivable from wholly-owned controlled entities

-	-	11,893	14,015
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## 11. Non-current investments

Shares in controlled entities - at cost  
Shares in other entities - at fair value

-	-	15,002	13,380
962	-	962	-
<b>962</b>	<b>-</b>	<b>15,964</b>	<b>13,380</b>

## 12. Plant and equipment

### Consolidated

	Leasehold improvements at cost \$'000	Plant and equipment at cost \$'000	Equipment under finance lease at cost \$'000	Motor vehicles at cost \$'000	Total \$'000
<b>Gross carrying amount</b>					
Balance at 1 July 2004	-	8	-	-	8
Additions	44	325	-	708	1,077
Disposals	(15)	(2)	-	(194)	(211)
Acquisitions through business combinations	952	831	641	426	2,850
<b>Balance at 1 July 2005</b>	<b>981</b>	<b>1,162</b>	<b>641</b>	<b>940</b>	<b>3,724</b>
Additions	15	1,046	158	658	1,877
Disposals	(3)	(57)	(125)	(256)	(441)
Acquisitions through business combinations	21	29	-	12	62
<b>Balance at 30 June 2006</b>	<b>1,014</b>	<b>2,180</b>	<b>674</b>	<b>1,354</b>	<b>5,222</b>
<b>Accumulated depreciation</b>					
Balance at 1 July 2004	-	-	-	-	-
Disposals	1	-	-	110	111
Depreciation expense	(98)	(246)	(79)	(178)	(601)
<b>Balance at 1 July 2005</b>	<b>(97)</b>	<b>(246)</b>	<b>(79)</b>	<b>(68)</b>	<b>(490)</b>
Disposals	3	57	35	187	282
Depreciation expense	(414)	(576)	(138)	(419)	(1,547)
<b>Balance at 30 June 2006</b>	<b>(508)</b>	<b>(765)</b>	<b>(182)</b>	<b>(300)</b>	<b>(1,755)</b>
<b>Net book value</b>					
As at 30 June 2005	884	916	562	872	3,234
<b>As at 30 June 2006</b>	<b>506</b>	<b>1,415</b>	<b>492</b>	<b>1,054</b>	<b>3,467</b>

# Notes to the Financial Statements (cont'd)

for the financial year ended 30 June 2006

## 12. Plant and equipment (cont'd)

### Company

	Leasehold improvements at cost \$'000	Plant and equipment at cost \$'000	Equipment under finance lease at cost \$'000	Motor vehicles at cost \$'000	Total \$'000
<b>Gross carrying amount</b>					
Balance at 1 July 2004	-	8	-	-	8
Additions	-	10	-	-	10
Disposals	-	(2)	-	-	(2)
<b>Balance at 1 July 2005</b>	<b>-</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>16</b>
Additions	-	6	-	-	6
<b>Balance at 30 June 2006</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>22</b>
<b>Accumulated depreciation</b>					
Balance at 1 July 2004	-	-	-	-	-
Depreciation expense	-	(4)	-	-	(4)
<b>Balance at 1 July 2005</b>	<b>-</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>(4)</b>
Depreciation expense	-	(6)	-	-	(6)
<b>Balance at 30 June 2006</b>	<b>-</b>	<b>(10)</b>	<b>-</b>	<b>-</b>	<b>(10)</b>
<b>Net book value</b>					
As at 30 June 2005	-	12	-	-	12
<b>As at 30 June 2006</b>	<b>-</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>12</b>

### Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in notes 16 and 18 to the financial statements, Service Stream Limited has granted a registered mortgage debenture over all assets and uncalled capital in favour of Westpac Banking Corporation. Each wholly-owned subsidiary of Service Stream Limited has granted a guarantee and indemnity of the obligations of Service Stream Limited to Westpac Banking Corporation.

Assets under lease are pledged as security for the associated lease liability.



### 13. Goodwill

*Gross carrying amount*

Balance at beginning of financial year

Additional amounts recognised from business combinations occurring during the period

Balance at end of financial year

### Net book value

At beginning of financial year

At end of financial year

The recoverable amount of goodwill was assessed by reference to the cash-generating units' value in use. A discount factor of 9.5% (2005: 9%) was applied in the value in use model.

### Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to 3 groups of cash-generating units, as follows:

## Groups of cash-generating units

- Service Stream Communications Pty Ltd
- Service Stream Solutions Pty Ltd
- Milcom Communications Pty Ltd

## 14. Other intangibles

**Software:**

Gross carrying amount

Balance at beginning of financial year

## Additions

Balance at end of financial year

### Accumulated amortisation

Balance at beginning of financial year

Amortisation expense

Balance at end of financial year

### Net book value

At beginning of financial year

At end of financial year

Consolidated		Company	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
16,379	-	-	-
2,172	16,379	-	-
18,551	16,379	-	-
16,379	-	-	-
18,551	16,379	-	-
-	-	-	-
348	-	-	-
348	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
348	-	-	-

The software was installed and ready for use on 1 July 2006.  
There is no amortisation expense for the year ended 30 June 2006.

# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 15. Current trade and other payables

Trade creditors (i)
Deferred purchase consideration (note 32(b))
Goods and services tax (GST) payable
Sundry creditors & accruals
Income in advance

Consolidated		Company	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000
6,587	6,360	181	64
-	3,858	-	3,791
2,600	1,153	-	-
10,468	4,907	585	184
1,071	-	-	-
<b>20,726</b>	<b>16,278</b>	<b>766</b>	<b>4,039</b>

(i) No interest is charged on the trade payables for the first 30 days from the date of the invoice. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

### 16. Current borrowings

#### Secured

#### At amortised cost (2005: cost):

Finance lease liabilities (i) (note 25)
Hire purchase liabilities (i) (note 25)

372	476	-	-
335	152	-	-
<b>707</b>	<b>628</b>	<b>-</b>	<b>-</b>

(i) Secured by the assets leased and hire-purchased, the current value of which exceeds the value of the finance lease liability and hire purchase liability.

### 17. Current provisions

Employee benefits
-------------------

1,652	1,231	90	-
-------	-------	----	---

### 18. Non-current borrowings

#### Secured

#### At amortised cost (2005: cost):

Commercial bills (i)
Finance lease liabilities (ii) (note 25)
Hire purchase liabilities (ii) (note 25)

5,000	14,000	5,000	14,000
120	-	-	-
678	449	-	-
<b>5,798</b>	<b>14,449</b>	<b>5,000</b>	<b>14,000</b>

(i) Commercial bills secured have maturity dates ranging from 30 to 60 days. Details of the security are set out in note 12.

(ii) Secured by the assets hire-purchased, the current value of which exceeds the value of the hire purchase liability.

### 19. Non-current provisions

Employee benefits
-------------------

643	366	3	-
-----	-----	---	---

## 20. Issued capital

174,794,445 fully paid ordinary shares (2005: 123,475,979)

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

### Fully paid ordinary shares

Balance at beginning of financial year

Reduction of share capital

Consolidation of capital on a 1 for 5 basis

Capitalisation of carried forward losses

Issue of shares during the year

Costs associated with issue of shares

Issues of shares on conversion of options

Issues of shares as partial consideration for the acquisition of Communication Services Australia Consulting Pty Ltd, and in facilitating the acquisition of Service Stream Communications Pty Ltd

Issue of shares on acquisition of Milcom Communications Pty Ltd

Dividend reinvestment plan

**Balance at end of financial year**

Consolidated		Company	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000
25,867	14,412	25,867	14,412

2006		2005	
Shares	\$'000	Shares	\$'000
123,476	14,412	288,652	26,161
-	-	(230,922)	-
123,476	14,412	57,730	26,161
-	-	-	(24,161)
42,178	9,490	56,250	11,250
-	(289)	-	(388)
-	-	1,996	50
6,591	1,477	7,500	1,500
1,736	500	-	-
813	277	-	-
<b>174,794</b>	<b>25,867</b>	<b>123,476</b>	<b>14,412</b>

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

### Share options

In accordance with the provisions of the share based payment scheme, as at 30 June 2005, founders and employees had 30,900,000 options over ordinary shares (of which 5,320,000 were unvested), in aggregate, with 17,000,000 of those options expiring up to 31 December 2007, and the remainder (unvested) expiring on various dates up to 1 March 2011.

As at 30 June 2006, founders and employees have 31,650,000 options over ordinary shares (of which 2,390,000 are unvested), in aggregate, with 17,000,000 of those options expiring up to 31 December 2007, and the remainder expiring on various dates up to 1 March 2011.

31,650,000 share options carry no rights to dividends and no voting rights. Further details of the share-based payment scheme are contained in note 5 to the financial statements.

# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 21. Reserves

Employee equity-settled benefits reserve

Balance at beginning of financial year

Share-based payment

Share-based payment recognised directly in equity

**Balance at end of financial year**

The employee equity-settled benefits reserve arises on the grant of share options to executives under the executive share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 5 to the financial statements.

Consolidated		Company	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
27	-	27	-
38	24	38	24
-	3	-	3
<b>65</b>	<b>27</b>	<b>65</b>	<b>27</b>

### 22. Retained earnings

Balance at beginning of financial year

Transfer from share capital (note 20)

Share based payment recognised directly in equity

Restated balance at beginning of financial year

Net profit attributable to members of the parent entity

Dividends paid (note 24)

**Balance at end of financial year**

(294)	(25,494)	(2,917)	(25,494)
-	24,161	-	24,161
-	(3)	-	(3)
(294)	(1,336)	(2,917)	(1,336)
4,352	1,042	2,993	(1,581)
(1,305)	-	(1,305)	-
<b>2,753</b>	<b>(294)</b>	<b>(1,229)</b>	<b>(2,917)</b>

### 23. Earnings per share (EPS)

**Basic earnings per share:**

Total basic earnings per share

**Diluted earnings per share:**

Total diluted earnings per share

Consolidated	
2006 Cents per share	2005 Cents per share
2.79	1.03
2.32	0.82

**Basic earnings per share**

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

**Earnings (a)**

2006 \$'000	2005 \$'000
<b>4,352</b>	<b>1,042</b>

**Weighted average number of shares**

2006 No '000	2005 No '000
<b>156,013</b>	<b>101,500</b>

## 23. Earnings per share (EPS) (cont'd)

- (a) Earnings used in the calculation of total basic earnings per share and basic earnings reconciles to net profit in the income statement as follows:

	Consolidated	
	2006 \$'000	2005 \$'000
Net profit	4,352	1,042
<b>Earnings used in the calculation of basic EPS</b>	<b>4,352</b>	<b>1,042</b>

### Diluted earnings per share

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

	2006 \$'000	2005 \$'000
<b>Earnings (a)</b>	<b>4,352</b>	<b>1,042</b>
	2006 No '000	2005 No '000
<b>Weighted average number of shares (b)</b>	<b>187,302</b>	<b>127,670</b>

- (a) Earnings used in the calculation of total diluted earnings per share reconciles to net profit in the income statement as follows:

	2006 \$'000	2005 \$'000
Net profit	4,352	1,042
<b>Earnings used in the calculation of diluted EPS</b>	<b>4,352</b>	<b>1,042</b>

- (b) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Consolidated	
	2006 No '000	2005 No '000
Weighted average number of ordinary shares used in the calculation of basic EPS	156,013	101,500
Shares deemed to be issued for no consideration in respect of:		
Employee options	10,289	6,387
Founders options	21,000	19,783
Weighted average number of ordinary shares used in the calculation of diluted EPS	187,302	127,670



# Notes to the Financial Statements (cont'd)

for the financial year ended 30 June 2006

## 24. Dividends

### Recognised amounts

#### Fully paid ordinary shares

Interim dividend:

Franked to 100% (Prior year: N/A)

### Unrecognised amounts

#### Fully paid ordinary shares

Final dividend

Franked to 100% (Prior year: N/A)

2006		2005	
Cents per share	Total \$'000	Cents per share	Total \$'000
0.75	1,305	-	-
1.12	1,958	-	-

Adjusted franking account balance as at 30 June

Impact on franking account balance of dividends not recognised

Income tax consequences of unrecognised dividends

Company	
2006 \$'000	2005 \$'000
620	507
(840)	-
-	-

## 25. Capital expenditure, leases and commitments

### Finance leases

#### Leasing arrangements

The consolidated entity leases a number of motor vehicles with lease terms of between 1 to 4 years.

The consolidated entity has options to purchase the vehicles for a nominal amount at the conclusion of the lease agreements.

#### Finance lease commitments

	Minimum future lease payments				Present value of minimum future lease payments			
	Consolidated		Company		Consolidated		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Not later than 1 year	411	498	-	-	411	498	-	-
Later than 1 year and not later than 5 years	138	-	-	-	138	-	-	-
Total minimum lease payment*	549	498	-	-	549	498	-	-
Less future finance charges	(57)	(22)	-	-	(57)	(22)	-	-
Lease liability	492	476	-	-	492	476	-	-
Included in the financial statements as:								
Interest-bearing liabilities								
Current liabilities (note 16)					372	476	-	-
Non-current liabilities (note 18)					120	-	-	-
					492	476	-	-

\* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

## 25. Capital expenditure, leases and commitments (cont'd)

### Operating leases

Leasing arrangements

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

### Non-cancellable operating lease payments

Not later than 1 year

Later than 1 year and not later than 5 years

### Hire purchases

Hire purchases pertain primarily to motor vehicles. The repayment period of the individual hire purchase contracts vary between 3 and 5 years.

Not later than 1 year

Later than 1 year and not later than 5 years

Later than 5 years

Total minimum lease payments

Less future finance charges

Lease liability

Current liabilities (note 16)

Non-current liabilities (note 18)

Consolidated		Company	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
1,367	1,577	77	-
325	1,104	105	-
<b>1,692</b>	<b>2,681</b>	<b>182</b>	<b>-</b>
396	191	-	-
725	489	-	-
-	-	-	-
1,121	680	-	-
(108)	(79)	-	-
1,013	601	-	-
335	152	-	-
678	449	-	-
<b>1,013</b>	<b>601</b>	<b>-</b>	<b>-</b>

## 26. Contingent liabilities and contingent assets

### Contingent liabilities

During the year the Company acquired all of the shares in Milcom Communications Pty Ltd. Under the share sale agreement a final cash consideration is to be determined under an earn-out clause based on the future performance of Milcom Communications Pty Ltd over a 2 year period. The maximum liability under this contract is \$1m.

# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 27. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2006 %	2005 %
<b>Parent entity</b>			
Service Stream Limited (i)	Australia		
<b>Subsidiaries</b>			
Service Stream Communications Pty Ltd (ii) (iv)	Australia	100	100
Resourcing Solutions Pty Ltd (formerly Service Stream Resources Pty Ltd) (ii) (iii) (v)	Australia	100	100
Communication Services Australia Consulting Pty Ltd (ii) (iii)	Australia	100	100
Service Stream Solutions Pty Ltd (ii) (iv)	Australia	100	100
Milcom Communications Pty Ltd (ii) (iii)	Australia	100	-

(i) Service Stream Limited is the head entity within the tax consolidated group.

(ii) These companies are members of the tax consolidated group.

(iii) These controlled entities are classified as small proprietary companies and, in accordance with the Corporations Act 2001, are relieved from the requirement to prepare, audit and lodge financial reports.

(iv) These controlled entities are classified as large proprietary companies and, in accordance with the Corporations Act 2001, are required to prepare, audit and lodge financial reports.

(v) Resourcing Solutions Pty Ltd is a wholly owned subsidiary of Service Stream Communications Pty Ltd.

### 28. Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition \$'000
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#### 2006:

Milcom Communications Pty Ltd	Registered Training Organisation	4 Jan 2006	100%	2,054
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The cost of the acquisition comprises cash of \$1.3m, shares of \$0.5m and costs yet to be paid of \$0.2m. An additional purchase consideration of up to \$1m is contingent upon the business achieving certain performance targets.

Included in the net profit for the period is \$0.1 million attributable to the additional business generated by Milcom Communications Pty Ltd. Had this business combination been effected at 1 July 2005, the revenue of the consolidated entity would increase to \$1.614 million and net profit would increase to \$0.15 million.

	Milcom Communications Pty Ltd			Total fair value on acquisition \$'000
	Book value \$'000	Fair value adjustment \$'000	Fair value on acquisition \$'000	
Current assets	288	-	288	288
Non-current assets	62	13	75	75
Current liabilities	(363)	-	(363)	(363)
Non-current liabilities	-	-	-	-
	(13)	13	-	-
<b>Goodwill on acquisition</b>				<b>2,054</b>
				<b>2,054</b>

Further details of the businesses acquired during the financial year are disclosed in note 32(b).

As at 30 June 2006 the acquisition has been provisionally determined.

## 28. Acquisition of businesses (cont'd)

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition \$'000
<b>2005:</b>				
<b>Entities acquired:</b>				
Service Stream Communications Pty Ltd and Communication Services Australia Consulting Pty Ltd	Services in telecommunications industry	1 November 2004	100%	12,829
<b>Businesses acquired:</b>				
Operating businesses of Pracom Limited, Service Stream Solutions Pty Ltd and Oasis Systems Pty Ltd*	Services in telecommunications industry	1 March 2005		9,742
				<b>22,571</b>

Consideration for the acquisition of Service Stream Communications Pty Ltd and Communication Services Australia Consulting Pty Ltd was represented by \$9.852 million in cash and the issue of ordinary shares in Service Stream to the value of \$2.977 million, with further consideration of \$0.118 million paid during the financial year ended 30 June 2006.

Included in the net profit for the period was \$0.83 million attributable to the additional business generated by Service Stream Communications Pty Ltd and Communication Services Australia Consulting Pty Ltd. Had these business combinations been effected at 1 July 2004, the revenue of the consolidated entity would increase to \$66.006 million, and net profit would increase to \$1.246 million.

Consideration for the acquisition of the operating businesses of Pracom Limited was represented by \$9.742 million in cash. Included in the net profit for the period is \$1.435 million attributable to the additional business generated by Service Stream Solutions Pty Ltd and Oasis Systems Pty Ltd \*. Had these business combinations been effected at 1 July 2004, the revenue of the consolidated entity would increase to \$47.508 million and net profit would increase to \$4.305 million.

\* During the year ended 30 June 2005 Oasis Systems Pty Ltd was sold for \$1. The net assets of the company amounted to \$1.

	Service Stream Communications Pty Ltd and Communication Services Australia Consulting Pty Ltd			Service Stream Solutions Pty Ltd and Oasis Systems Pty Ltd			
	Book value \$'000	Fair value adjustment \$'000	Fair value on acquisition \$'000	Book value \$'000	Fair value adjustment \$'000	Fair value on acquisition \$'000	Total fair value on acquisition \$'000
Current assets	16,294	(522)	15,772	632	-	632	16,404
Non-current assets	4,205	(3,064)	1,141	2,741	-	2,741	3,882
Current liabilities	(5,230)	(385)	(5,615)	(1,622)	-	(1,622)	(7,237)
Non-current liabilities	(6,128)	-	(6,128)	(729)	-	(729)	(6,857)
	9,141	(3,971)	5,170	1,022	-	1,022	6,192
Goodwill on acquisition							<b>16,379</b>
							<b>22,571</b>

Further details of the businesses acquired during the financial year are disclosed in note 32(b).

## 29. Segment Information

The Company operates within the industrial services area currently providing outsourced services to major corporations predominantly in the telecommunication industry within Australia.

# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 30. Related party disclosures

#### (a) Equity interests in related parties

##### Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 27 to the financial statements.

#### (b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 4 to the financial statements.

#### (c) Loan disclosures

2006 : Nil

2005

Service Stream Limited borrowed \$150,000 from Small Enterprises (Aust) Pty Ltd as trustee of the Small Management Trust on 20 August 2004, in which Mr Small has a beneficial interest. A full repayment of the loan together with interest expense of \$2,626 was made on 11 November 2004.

Service Stream Limited borrowed \$150,000 from Field Enterprises (Aust) Pty Ltd as trustee of the Field Management Trust on 20 August 2004, in which Mr Field has a beneficial interest. A full repayment of the loan together with interest expense of \$2,626 was made on 11 November 2004.

#### (d) Key management personnel equity holdings

Fully paid ordinary shares issued by Service Stream Limited:

	Balance at 1/7/05	Granted as remuneration	Received on exercise of options	Net other change	Balance at 30/06/06	Balance held nominally
2006	No.	No.	No.	No.	No.	No.
PJ Flannigan	500,000	-	-	507,630	1,007,630	-
M Doery	1,000,000	-	-	507,630	1,507,630	-
A Field	13,502,565	-	-	1,800,000	15,302,565	-
R Small	13,502,565	-	-	1,800,000	15,302,565	-
S Campbell	147,957	-	-	-	147,957	-
J Caporale	2,500,000	-	-	2,991,031	5,491,031	-
J Gramc	-	-	-	8,687	8,687	-
I Millner	-	-	-	1,736,111	1,736,111	-
<b>Total</b>	<b>31,153,087</b>	<b>-</b>	<b>-</b>	<b>9,351,089</b>	<b>40,504,176</b>	<b>-</b>

	Balance at 1/7/04	Options converted	Post 1:5 consolidation	Purchased as part of public offer or on market	Other issue (i)	Shares sold	Balance at 30/06/05
2005	No.	No.	No.	No.	No.	No.	No.
PJ Flannigan	-	-	-	500,000	-	-	500,000
M Doery	-	-	-	1,000,000	-	-	1,000,000
A Field	41,736,151	1,200,000	8,587,231	2,415,334	2,500,000	-	13,502,565
R Small	41,736,151	1,200,000	8,587,231	2,415,334	2,500,000	-	13,502,565
S Campbell	-	-	-	147,957	-	-	147,957
J Caporale	-	-	-	-	2,500,000	-	2,500,000
*D Steinepreis (ii)	19,780,283	-	3,956,057	-	-	(3,956,057)	-
*H Warner (ii)	22,980,283	4,500,000	5,496,059	-	-	(5,496,059)	-
<b>Total</b>	<b>126,232,868</b>	<b>6,900,000</b>	<b>26,626,578</b>	<b>6,478,625</b>	<b>7,500,000</b>	<b>(9,452,116)</b>	<b>31,153,087</b>

\* D Steinepreis and H Warner resigned 27 July 2004

(i) Issued as part of consideration for the acquisition of Communications Services Australia Consulting Pty Ltd, which was part of the overall acquisition of Service Stream Communications Pty Ltd during the 2005 financial year.

(ii) Options were held by Ascent Capital Pty Ltd, an entity that both D Steinepreis and H Warner have a beneficial interest in.

### 30. Related party disclosures (cont'd)

#### (ii) Executive share options of Service Stream Limited

	Balance at 30/06/05	Granted as remuneration	Exercised	Net other change	Balance at 30/06/06	Balance vested at 30/06/06	Vested but not exercisable	Balance vested and exercisable	Options vested during year 2006
2006	No.	No.	No.	No.	No.	No.	No.	No.	No.
PJ Flannigan	4,500,000	-	-	-	4,500,000	3,700,000	-	3,700,000	800,000
M Doery	4,100,000	-	-	-	4,100,000	3,300,000	-	3,300,000	800,000
A Field	5,666,667	-	-	-	5,666,667	5,666,667	-	5,666,667	-
R Small	5,666,667	-	-	-	5,666,667	5,666,667	-	5,666,667	-
S Campbell	-	100,000	-	-	100,000	100,000	-	100,000	100,000
J Gramc	500,000	-	-	-	500,000	500,000	-	500,000	500,000
<b>Total</b>	<b>20,433,334</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>20,533,334</b>	<b>18,933,334</b>	<b>-</b>	<b>18,933,334</b>	<b>2,200,000</b>

	Balance at 1/7/04	Exercised 28/10/04	Granted as remuneration	Post 1:5 consolidated	Balance at 30/06/05	Balance vested at 30/06/05	Vested but not exercisable	Balance vested and exercisable	Options vested during year 2005
2005	No.	No.	No.	No.	No.	No.	No.	No.	No.
PJ Flannigan	-	-	4,500,000	-	4,500,000	2,900,000	-	2,900,000	2,900,000
M Doery	-	-	4,100,000	-	4,100,000	2,500,000	-	2,500,000	2,500,000
A Field	29,533,333	(1,200,000)	-	5,666,667	5,666,667	5,666,667	-	5,666,667	-
R Small	29,533,333	(1,200,000)	-	5,666,667	5,666,667	5,666,667	-	5,666,667	-
J Gramc	-	-	500,000	-	500,000	-	-	-	-
D Steinepreis	-	-	-	-	-	-	-	-	-
H Warner	4,500,000	(4,500,000)	-	-	-	-	-	-	-
<b>Total</b>	<b>63,566,666</b>	<b>(6,900,000)</b>	<b>9,100,000</b>	<b>11,333,334</b>	<b>20,433,334</b>	<b>16,733,334</b>	<b>-</b>	<b>16,733,334</b>	<b>5,400,000</b>

All executive share options issued to key management personnel during the financial year were made in accordance with the provisions of the executive share option plan.

During the financial year ended 30 June 2006, no options were exercised by directors and executives.

Further details of the executive share option plan and of share options granted during the financial year is contained in notes 4 and 5 to the financial statements.

#### (e) Other transactions with key management personnel (and their related parties) of Service Stream Limited

The company issued 2,991,031 (2005 : 2,500,000) shares with a market value of \$667,000 (2005 : \$500,000) to Mr Caporale in consideration for his services in facilitating the acquisition of Service Stream Communications Pty Ltd.

Consulting fees of \$360,000 (2005 : \$360,000) was paid to Communication Services Australia (Holdings) Pty Ltd, in which Mr Small and Mr Field have a beneficial interest. This is in accordance with the consultancy agreement signed during the prior financial year.

Included within the acquisition cost of Service Stream Communications Pty Ltd, through the related acquisition of Communication Services Australia Consulting Pty Ltd, is an amount of \$405,000 payable to Mr Field via the issue of 1,800,000 (2005 : 2,500,000) in ordinary shares and cash payment of \$261,500 plus interest of \$8,078 (2005 : nil). The sum of cash payment and the value of shares issued were included in deferred purchase consideration as at 30 June 2005. Mr Field was a Director of, and previously had a beneficial interest in, Communications Services Australia Consulting Pty Ltd.

Included within the acquisition cost of Service Stream Communications Pty Ltd, through the related acquisition of Communication Services Australia Consulting Pty Ltd, is an amount of \$405,000 payable to Mr Small via issue of 1,800,000 (2005 : 2,500,000) in ordinary shares and cash payment of \$261,500 plus interest of \$8,078 (2005 : nil). The sum of cash payment and the value of shares issued were included in deferred purchase consideration as at 30 June 2005. Mr Small was a Director of, and previously had a beneficial interest in, Communication Services Australia Consulting Pty Ltd.



# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 30. Related party disclosures (cont'd)

#### (f) Transactions with other related parties

##### Other related parties include:

- the parent entity;
- subsidiaries; and
- other related parties.

Details of write-downs of receivables in respect of transactions with these related parties are disclosed in note 2 to the financial statements. No amounts were provided for doubtful debts relating to debts due from related parties at reporting date (2005 : nil).

Service Stream Limited received a dividend of \$1.6m from Service Stream Communications Pty Ltd and a dividend of \$4m from Service Stream Solutions Pty Ltd.

##### Transactions involving the parent entity

During the financial year, Service Stream Limited recognised a net receivable of \$2.3m (2005: nil) from its wholly-owned subsidiaries for their tax payable for the current period.

During the financial year, Service Stream Limited rented premises from an associate at commercial rates totaling \$77,000 (2005: \$56,000).

#### (g) Parent entity

The parent entity in the consolidated entity is Service Stream Limited.

### 31. Subsequent events

On 27 July 2006 the Directors of Service Stream Limited (STR) and Total Communications Infrastructure Limited (TCI) agreed to a merger of both companies (subject to shareholder approval and final signed agreement). The merged group will create a leading technical and industrial services group, with managed service capabilities across the telecommunications, energy and other utility sectors.

The merger will be achieved by:

- a scheme of arrangement under which TCI will acquire all of the shares in STR;
- the acquisition by STR of a substantial shareholding in TCI;
- the subsequent cancellation of the STR stake.

STR and TCI have entered into an agreement to implement the merger under a scheme of arrangement.

STR shareholders will receive 2 TCI shares for every 5 STR shares they own.

The Directors of STR and TCI unanimously support the merger. Shareholder meetings to consider the merger will be scheduled in the final quarter of 2006.

On 21 August 2006 the company announced its intention to acquire Fibercom Technology Pty Ltd (Fibercom). Fibercom specialises in telecommunication infrastructure design, build and maintenance offering clients a wide range of services for both internal and external networks including optical fibre, coaxial cable, copper cable and wireless solutions. Consideration for the acquisition is approximately \$2.5m with this acquisition price representing a multiple of approximately 5 times Fibercom's normalised earnings before interest and tax for the year ended 30 June 2006. The acquisition will be funded by vendor terms over 2 years and from Service Stream's existing cash reserves and facilities.

## 32. Notes to the cash flow statement

(a) Reconciliation of cash

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

## Cash

(b) Businesses acquired

During the financial year, a controlled entity was acquired. Details of the acquisition are as follows (note 28):

## Consideration

Cash paid

## Ordinary shares

Deferred purchase consideration (note 15)

### Further purchase consideration

### Additional associated costs

## Fair value of net assets acquired

Current assets

Non-current assets

Current liabilities

Non-current liabilities

Net assets acquired

Goodwill on acquisition

## Net cash outflow on acquisition

Cash paid

Cash paid (last year deferred purchase consideration)

Cash paid (further purchase consideration)

Less cash balance acquired

Plus bank overdraft acquired

Reconciled to the cash outflows related to purchase of businesses

Consolidated		Company	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
2,048	1,475	3,517	876
1,354	17,213	-	-
500	1,500	-	-
-	3,858	-	-
118	-	-	-
200	-	-	-
2,172	22,571	-	-
288	16,404	-	-
75	3,882	-	-
(363)	(7,237)	-	-
-	(6,857)	-	-
-	6,192	-	-
2,172	16,379	-	-
2,172	22,571	-	-
1,354	17,213	-	-
2,381	-	-	-
118	-	-	-
(79)	(5)	-	-
-	45	-	-
3,774	17,253	-	-

## for the financial year ended 30 June 2006

### 32. Notes to the cash flow statement (cont'd)

## (c) Non-cash financing and investing activities

During the year ended 30 June 2006, the Company issued 1,736,111 shares with a market value of \$500,000 for acquisition of share capital in Milcom Communications Pty Ltd. The Company also issued 2,991,031 shares with a market value of \$667,000 to Joseph Caporale and 3,600,000 shares with a market value of \$810,000 to the Directors of Communication Services Australia Consulting Pty Ltd in consideration for their services in facilitating the acquisition of Service Stream Communications Pty Ltd.

#### (d) Financing facilities

Bank guarantee:

- amount used
- amount unused

Bank bill facilities with various maturity dates through to 31 August 2006 and which may be extended by mutual agreement:

- amount used
- amount unused

(e) Reconciliation of profit from ordinary activities after related income tax to net cash flow from operating activities

Profit for the period

Net (profit)/loss on disposal of fixed assets

## Depreciation and amortisation of non-current assets

Equity settled share-based payment

### Doubtful debts

(Increase)/decrease in deferred tax assets

Increase/(decrease) in current tax liability

Add back/(subtract) changes in operating assets and liabilities:

(Increase)/decrease in assets:

Current receivables

## Current inventories

Other current assets

Increase/(decrease) in liabilities:

Current payables

## Current provisions

Non-current provisions:

Other non-current liabilities

Consolidated		Company	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
1,395	650	1,395	650
605	-	605	-
<b>2,000</b>	<b>650</b>	<b>2,000</b>	<b>650</b>
5,000	14,000	5,000	14,000
13,000	4,750	13,000	4,750
<b>18,000</b>	<b>18,750</b>	<b>18,000</b>	<b>18,750</b>
4,352	1,042	2,993	(1,581)
(136)	(132)	-	2
1,547	601	6	4
38	24	38	24
201	(187)	-	-
97	69	(61)	(1,514)
1,120	-	1,169	-
(5,060)	(7,320)	29	(101)
(219)	5	-	-
(1,911)	(897)	38	-
5,800	5,583	311	104
1,583	405	98	-
277	(66)	3	-
<b>7,689</b>	<b>(873)</b>	<b>4,624</b>	<b>(3,062)</b>

### 33. Financial instruments

#### (a) Financial risk management objectives

The consolidated entity's corporate treasury function provides services to the business and manages the financial risks relating to the operations of the consolidated entity.

The consolidated entity does not currently enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Directors on a continuous basis.

#### (b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

#### (c) Interest rate risk management

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts.

#### Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2006:

	Weighted average effective interest	Variable interest rate	Fixed maturity dates						Non interest bearing	Total
			Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years		
2006	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets:</b>										
Cash	3.0	2,042	-	-	-	-	-	-	6	2,048
Receivables		-	-	-	-	-	-	-	24,889	24,889
Investments		-	-	-	-	-	-	-	962	962
		<b>2,042</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,857</b>	<b>27,899</b>
<b>Financial liabilities:</b>										
Trade payables		-	-	-	-	-	-	-	19,455	19,455
Commercial bills	6.7	-	-	-	5,000	-	-	-	-	5,000
Finance lease/hire purchase liabilities	7.9	-	-	-	1,505	-	-	-	-	1,505
Employee benefits		-	-	-	-	-	-	-	2,295	2,295
		<b>-</b>	<b>-</b>	<b>-</b>	<b>6,505</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,750</b>	<b>28,255</b>

# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 33. Financial instruments (cont'd)

	Weighted average effective interest	Variable interest rate	Maturity dates			Non interest bearing	Total
			Less than 1 year	1-5 years	More than 5 years		
2005	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets:</b>							
Cash	3.8	1,468	-	-	-	7	1,475
Receivables	-	-	-	-	-	19,860	19,860
		<b>1,468</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,867</b>	<b>21,335</b>
<b>Financial liabilities:</b>							
Payables	-	-	-	-	-	16,278	16,278
Commercial bills	8.0	-	-	14,000	-	-	14,000
Finance lease/hire purchase liabilities	7.4	-	-	1,077	-	-	1,077
Employee benefits	-	-	-	-	-	1,597	1,597
		<b>-</b>	<b>-</b>	<b>15,077</b>	<b>-</b>	<b>17,875</b>	<b>32,952</b>

#### (d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the audit committee annually. The consolidated entity measures credit risk on a fair value basis.

Trade accounts receivable consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

#### (e) Fair value of financial instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2005: net fair value).

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

### 33. Financial instruments (cont'd)

#### (e) Fair value of financial instruments (cont'd)

The financial statements include holdings in unlisted subsidiaries (note 27). Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. Changes in these assumptions do not significantly change the fair value recognised.

Transaction costs are included in the determination of net fair value.

#### (f) Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

### 34. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

An explanation of how the transition from superseded policies to A-IFRS has affected the Company and consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

#### Effect of A-IFRS on the balance sheet as at 1 July 2004

	Consolidated			Company		
	Super-seded policies*	Effect of transition to A-IFRS	A-IFRS	Super-seded policies*	Effect of transition to A-IFRS	A-IFRS
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Current assets</b>						
Cash	712	-	712	712	-	712
Trade and other receivables	91	-	91	91	-	91
<b>Total current assets</b>	<b>803</b>	<b>-</b>	<b>803</b>	<b>803</b>	<b>-</b>	<b>803</b>
<b>Non-current assets</b>						
Property, plant and equipment	8	-	8	8	-	8
<b>Total non-current assets</b>	<b>8</b>	<b>-</b>	<b>8</b>	<b>8</b>	<b>-</b>	<b>8</b>
<b>Total assets</b>	<b>811</b>	<b>-</b>	<b>811</b>	<b>811</b>	<b>-</b>	<b>811</b>
<b>Current liabilities</b>						
Trade and other payables	144	-	144	144	-	144
<b>Total current liabilities</b>	<b>144</b>	<b>-</b>	<b>144</b>	<b>144</b>	<b>-</b>	<b>144</b>
<b>Total liabilities</b>	<b>144</b>	<b>-</b>	<b>144</b>	<b>144</b>	<b>-</b>	<b>144</b>
<b>Net assets</b>	<b>667</b>	<b>-</b>	<b>667</b>	<b>667</b>	<b>-</b>	<b>667</b>
<b>Equity</b>						
Issued capital	26,161	-	26,161	26,161	-	26,161
Accumulated losses	(25,494)	-	(25,494)	(25,494)	-	(25,494)
<b>Total equity</b>	<b>667</b>	<b>-</b>	<b>667</b>	<b>667</b>	<b>-</b>	<b>667</b>

\* Reported financial position for the financial year ended 30 June 2004



# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 34. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the balance sheet as at 30 June 2005

	Note	Consolidated			Company		
		Super-seded policies*	Effect of transition to A-IFRS	A-IFRS	Super-seded policies*	Effect of transition to A-IFRS	A-IFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Current assets</b>							
Cash		1,475	-	1,475	876	-	876
Trade and other receivables		19,860	-	19,860	53	-	53
Inventories		619	-	619	-	-	-
Other		4,444	-	4,444	139	-	139
<b>Total current assets</b>		<b>26,398</b>	<b>-</b>	<b>26,398</b>	<b>1,068</b>	<b>-</b>	<b>1,068</b>
<b>Non-current assets</b>							
Trade and other receivables		-	-	-	14,015	-	14,015
Investments	(e)	-	-	-	12,829	551	13,380
Plant and equipment		3,234	-	3,234	12	-	12
Goodwill	(a) (e)	15,363	1,016	16,379	-	-	-
Deferred tax assets	(e)	1,514	(428)	1,086	1,514	(428)	1,086
<b>Total non-current assets</b>		<b>20,111</b>	<b>588</b>	<b>20,699</b>	<b>28,370</b>	<b>123</b>	<b>28,493</b>
<b>Total assets</b>		<b>46,509</b>	<b>588</b>	<b>47,097</b>	<b>29,438</b>	<b>123</b>	<b>29,561</b>
<b>Current liabilities</b>							
Trade and other payables		16,278	-	16,278	4,039	-	4,039
Current tax payables		-	-	-	-	-	-
Borrowings		628	-	628	-	-	-
Provisions		1,231	-	1,231	-	-	-
<b>Total current liabilities</b>		<b>18,137</b>	<b>-</b>	<b>18,137</b>	<b>4,039</b>	<b>-</b>	<b>4,039</b>
<b>Non-current liabilities</b>							
Borrowings		14,449	-	14,449	14,000	-	14,000
Provisions		366	-	366	-	-	-
<b>Total non-current liabilities</b>		<b>14,815</b>	<b>-</b>	<b>14,815</b>	<b>14,000</b>	<b>-</b>	<b>14,000</b>
<b>Total liabilities</b>		<b>32,952</b>	<b>-</b>	<b>32,952</b>	<b>18,039</b>	<b>-</b>	<b>18,039</b>
<b>Net assets</b>		<b>13,557</b>	<b>588</b>	<b>14,145</b>	<b>11,399</b>	<b>123</b>	<b>11,522</b>
<b>Equity</b>							
Issued capital	(e)	14,289	123	14,412	14,289	123	14,412
Employee equity-settled benefits reserve(b)		-	27	27	-	27	27
Accumulated losses	(d)	(732)	438	(294)	(2,890)	(27)	(2,917)
<b>Total equity</b>		<b>13,557</b>	<b>588</b>	<b>14,145</b>	<b>11,399</b>	<b>123</b>	<b>11,522</b>

\* Reported financial position for the financial year ended 30 June 2005

### 34. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the income statement for the financial year ended 30 June 2005

	Note	Consolidated			Company		
		Super-seded policies*	Effect of transition to A-IFRS	A-IFRS	Super-seded policies*	Effect of transition to A-IFRS	A-IFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	(c)	60,676	(100)	60,576	38	-	38
Company administration and insurance expenses		(2,496)	-	(2,496)	(425)	-	(425)
Salaries and employee benefits	(b)	(24,203)	(24)	(24,227)	(261)	(24)	(285)
Temporary staff costs and subcontractor fees		(25,746)	-	(25,746)	(74)	-	(74)
Motor vehicle expenses		(1,233)	-	(1,233)	(8)	-	(8)
Consulting and directors' fees		(975)	-	(975)	(735)	-	(735)
External technology services		(465)	-	(465)	-	-	-
Occupancy expenses		(1,125)	-	(1,125)	(56)	-	(56)
Finance costs		(587)	-	(587)	(525)	-	(525)
Depreciation and amortisation	(a)	(1,066)	465	(601)	(4)	-	(4)
Other expenses	(c)	(2,110)	100	(2,010)	(211)	-	(211)
<b>Profit/(loss) before income tax expenses</b>		670	441	1,111	(2,261)	(24)	(2,285)
Income tax (expense)/benefit		(69)	-	(69)	704	-	704
Net profit/(loss)		601	441	1,042	(1,557)	(24)	(1,581)
<b>Profit attributable to members of the parent entity</b>		<b>601</b>	<b>441</b>	<b>1,042</b>	<b>(1,557)</b>	<b>(24)</b>	<b>(1,581)</b>

\* Reported financial results for the year ended 30 June 2005.

Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005.

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

#### Notes to the reconciliations of income and equity

##### (a) Goodwill

Goodwill, which was amortised under superseded policies, is not amortised under A-IFRS from the date of transition.

The effect of the change is an increase in the carrying amount of goodwill by \$465,000 and an increase in net profit before tax of \$465,000 for the financial year ended 30 June 2005.

There is no tax effect as deferred taxes are not recognised for temporary differences arising from goodwill for which amortisation is not deductible for tax purposes.

##### (b) Share-based payments

For the financial year ended 30 June 2005, share-based payments of \$27,000 (included in 'employee benefit expenses') which were not recognised under the superseded policies were recognised under A-IFRS, with a corresponding increase in the employee equity-settled benefits reserve.

These adjustments had no material tax or deferred tax consequences.

# Notes to the Financial Statements (cont'd)

## for the financial year ended 30 June 2006

### 34. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

#### (c) Revenue

Under superseded policies, the consolidated entity recognised the gain or loss on disposal of property, plant and equipment on a 'gross' basis by recognising the proceeds from sale as revenue, and the carrying amount of the property, plant and equipment disposed as an expense.

Under A-IFRS, the gain or loss on disposal is recognised on a 'net' basis, and is classified as income, rather than revenue. Accordingly, the 'gross' amounts have been reclassified within the income statement for A-IFRS reporting purposes.

#### (d) Retained earnings

The effect of the above adjustments on retained earnings is as follows:

	Consolidated		Company	
	1 July 2004 \$'000	30 June 2005 \$'000	1 July 2004 \$'000	30 June 2005 \$'000
Goodwill no longer amortised	-	465	-	-
Expensing share-based payments	-	(24)	-	( 24)
Share based payment recognised directly in equity	-	(3)	-	(3)
<b>Total adjustment to retained earnings</b>	<b>-</b>	<b>438</b>	<b>-</b>	<b>(27)</b>

#### (e) Other adjustments

Adjustments to goodwill as a result of reviewing provisional acquisition accounting for Service Stream Communications Pty Ltd, which was acquired in November 2004, under full retrospective application of AASB3 Business Combinations.

In addition to this, a deferred tax asset of \$123,000 has been recognised in regards to share issue costs.

### 35. Additional company information

Service Stream Limited is a listed public company, incorporated and operating in Australia.

#### Registered office

555 Lonsdale Street  
Melbourne, VIC 3000

#### Principal place of business

555 Lonsdale Street  
Melbourne, VIC 3000

# ASX Additional Information

## For listed public companies for year ended 30 June 2006

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

**a) Distribution of Shareholders Number as at 13 September 2006**

Category (size of Holding)	Holders
1 – 1,000	270
1,001 – 5,000	190
5,001 – 10,000	143
10,001 – 100,000	481
100,001	142
	<b>1,226</b>

**b) There are 1,226 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 265.**

**d) The names of the substantial shareholders listed in the holding company's register, and their shareholdings (including shareholdings of their associates), as at 13 September 2006 are:**

Shareholder	Ordinary	%
Gandel Springwest Pty Ltd	19,540,918	11.18
Small Enterprises (Aust) Pty Ltd	15,555,565	8.90
Field Enterprises (Aust) Pty Ltd	15,427,565	8.83
Monterrey Investment Management Limited	12,463,500	7.13
Blazzed Pty Ltd	11,002,562	6.29

**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 are \$0.056 (2005: (\$0.018)).

# ASX Additional Information (cont'd)

For listed public companies for year ended 30 June 2006

**g) 20 Largest Shareholders as at 13 September 2006 — Ordinary Shares**

Name of 20 largest shareholders in each class of share		Ordinary Shares Fully Paid No. of Shares Held	% Held
1	Gandel Springwest Pty Ltd	19,540,918	11.18
2	Field Enterprises (Aust) Pty Ltd	11,127,565	6.37
3	Small Enterprises (Aust) Pty Ltd	11,002,565	6.29
4	Blazzed Pty Ltd	11,002,562	6.29
5	National Nominees Limited	8,578,215	4.91
6	Invia Custodian Pty Ltd	6,591,500	3.77
7	Mr Joseph James Caporale	5,491,031	3.14
8	AJF Investments Pty Ltd	4,300,000	2.46
9	Prilo Pty Ltd	4,300,000	2.46
10	Citicorp Nominees Pty Limited	4,121,212	2.36
11	ANZ Nominees Limited	3,951,513	2.26
12	M F Custodians Ltd	3,736,241	2.14
13	UBS Nominees Pty Ltd	3,622,611	2.07
14	Aurisch Investments Pty Ltd	3,050,170	1.75
15	Westpac Custodian Nominees Limited	2,430,000	1.39
16	RBC Dexia Investor Services Australia Nominees Pty Limited	2,251,079	1.29
17	Jaspar Investments Pty Ltd	2,150,174	1.23
18	Invia Custodian Pty Limited	2,024,557	1.16
19	Tubbin Investments Pty Ltd	1,828,280	1.05
20	RBC Dexia Investor Services Australia Nominees Pty Limited	1,744,866	1.00
		<b>112,845,059</b>	<b>67.57%</b>

## **Service Stream Limited**

### ***Directors***

Mr John Llewellyn (Lyn) Davies

Mr Patrick J Flannigan

Mr Michael Doery

Mr Adrian Field

Mr Russell Small

### ***Company Secretary***

Mr Stephen Campbell

### ***Registered Office***

Level 12

555 Lonsdale Street

Melbourne, VIC 3000

Tel: +61 3 9677 8888

Fax: +61 3 9677 8877

Web: [www.servicestream.com.au](http://www.servicestream.com.au)

### ***Bankers***

Westpac Banking Corporation

### ***Share Registry***

Computershare Investor Services Pty Limited

Yarra Falls

452 Johnson Street

Abbotsford, VIC 3067

Tel: 1300 850 505 (within Australia)

+61 3 9415 4000 (outside Australia)

Fax: +61 3 9473 2500

### ***Auditors***

Deloitte Touche Tohmatsu



Capability + Ambition + Growth

## Office Locations

### VICTORIA

#### Head Office

L12, 555 Lonsdale Street  
Melbourne VIC 3000  
Ph: (03) 9677 8888  
Fax: (03) 9677 8877

#### Springvale

Hallmark Business Park  
2A, Unit C6 Westall Road  
(Cnr Center Rd)  
Springvale VIC 3171  
Ph: (03) 9541 3700  
Fax: (03) 9545 5391

#### Collins Street

568 Collins Street  
Melbourne VIC 3000  
Ph: (03) 9937 6006  
Fax: (03) 9937 6024

#### Preston

110 Chifley Drive  
Preston VIC 3072  
Ph: (03) 9227 2661  
Fax: (03) 9227 2557

#### North Melbourne

72-92 Langford Street  
North Melbourne VIC 3051  
Ph: (03) 9933 8999  
Fax: (03) 9933 8900

#### Fibercom Technology Pty Ltd

34A Trade Park Drive  
Tullamarine VIC 3043  
Ph: (03) 9338 7473  
Fax: (03) 9338 5512

### NEW SOUTH WALES

#### North Sydney

Suite 905, 121 Walker Street  
North Sydney, NSW 2060  
Ph: (02) 9954 7876  
Fax: (02) 9922 7235

#### Silverwater

2 Coal Street  
Silverwater NSW 2128  
Ph: (02) 8756 4100  
Fax: (02) 9737 9041

#### Silverwater

C/- Optus  
Unit 49, Slough Business Park  
Cnr Silverwater Road  
and Holker Street  
Silverwater NSW 2128  
Ph: (02) 9735 5731  
Fax: (02) 9735 5700

#### Milcom Communications Pty Ltd

Unit 10, 64 Talavera Road  
North Ryde NSW 2113  
Ph: 1300 369 320  
Fax: (02) 9889 1188

### SOUTH AUSTRALIA

#### Fullarton

288 Glen Osmond Road  
Fullarton SA 5063  
Ph: (08) 8202 9000  
Fax: (08) 8202 9001

#### Welland

116 Frederick Street  
Welland SA 5007  
Ph: (08) 8440 1000  
Fax: (08) 8340 4480

### WESTERN AUSTRALIA

#### Welshpool

Unit 5, 30-34 Adams Drive  
Welshpool WA 6106  
Ph: (08) 9355 5000  
Fax: (08) 9355 5100

### QUEENSLAND

#### Geebung

356 Bilsen Road  
Geebung QLD 4034  
Ph: (07) 3265 0800  
Fax: (07) 3265 0811

#### Resourcing Solutions Pty Ltd

L3, 100 Campbell Street  
Bowen Hills QLD 4006  
Ph: (07) 3252 8277  
Fax: (07) 3252 8077