

# 2014 Annual Report



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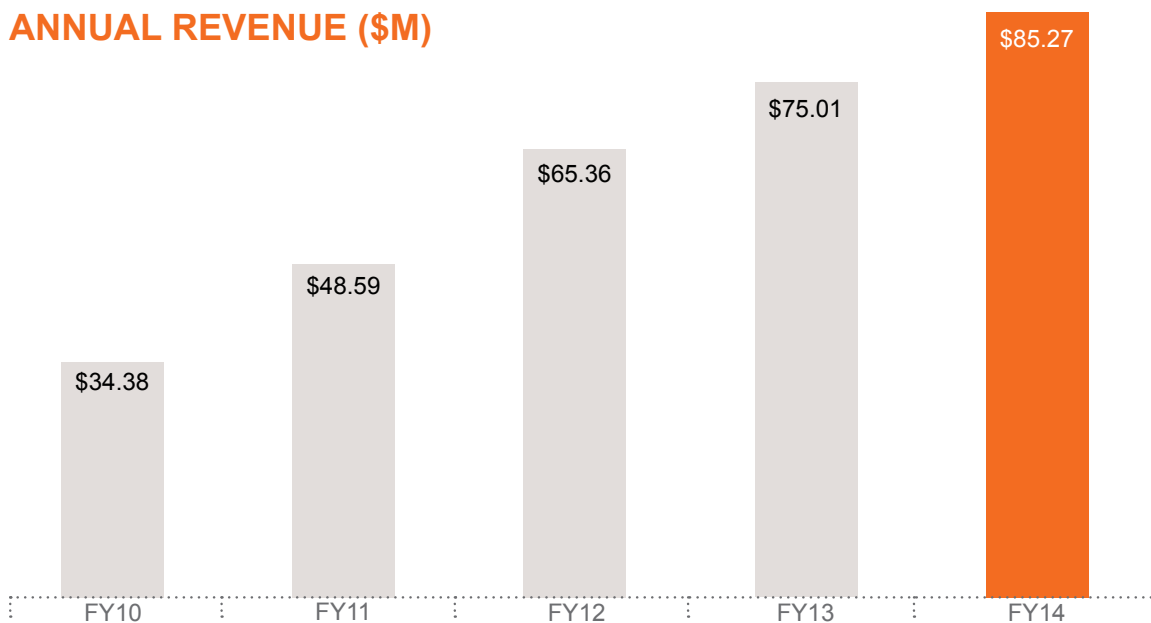
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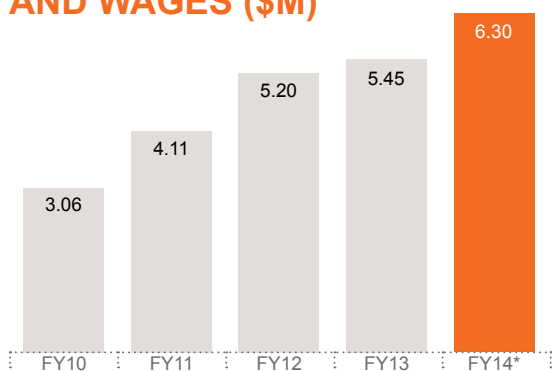


# Key Highlights

## ANNUAL REVENUE (\$M)

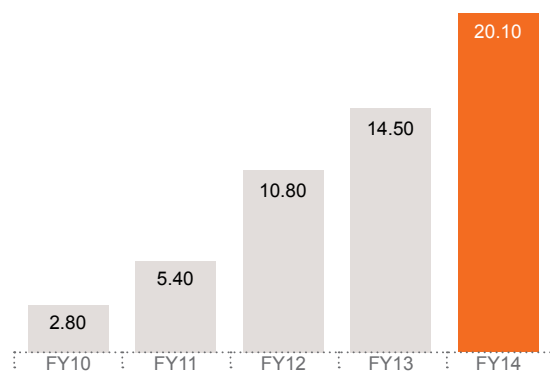


## EMPLOYEE SALARIES AND WAGES (\$M)

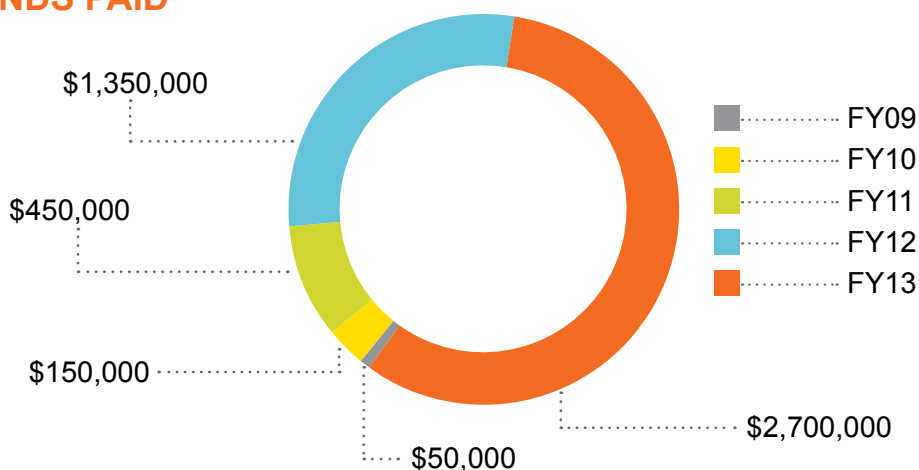


\*Adjusted for extraordinary items

## NET ASSETS (\$M)



## DIVIDENDS PAID



# Key Highlights

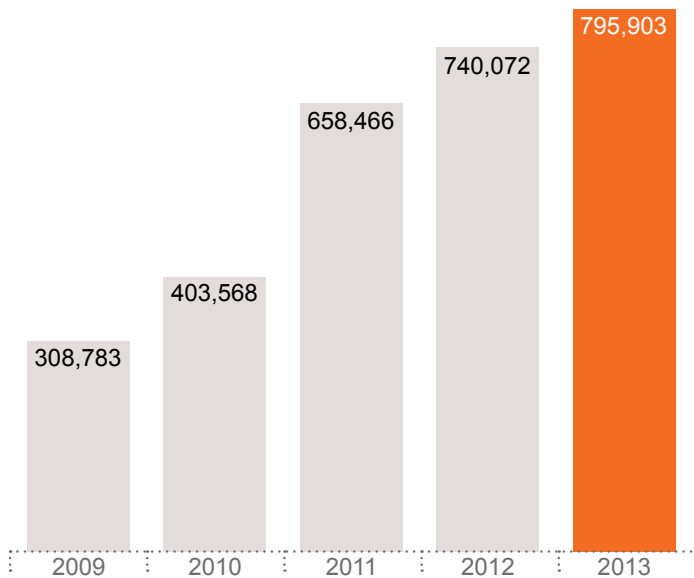
## CUSTOMER SATISFACTION AWARD Home Phone Provider of the Year for 2013

Southern Phone won the prestigious Roy Morgan Customer Satisfaction Award for Home Phone Provider of the Year for 2013.

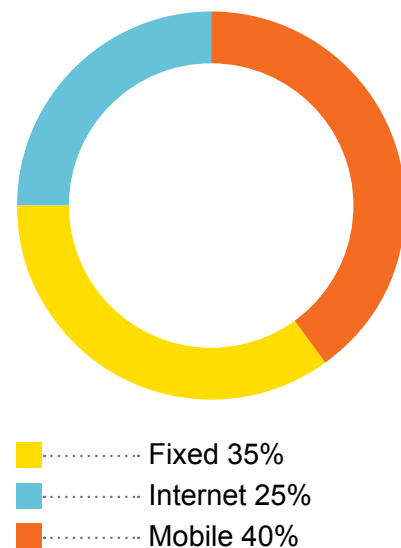
The award was based on 52,000 consumer interviews and over 20,000 interviews with leading businesses around Australia. Southern Phone outranked companies such as Telstra and Optus to win this award.



## INBOUND CALL VOLUMES



## SALES BY SERVICE TYPE FY14





# Chairman's Report



Bill Hilzinger

As Chairman, I'm keenly aware that Southern Phone exists not only to provide excellent service and money-saving telecommunications products, but also to provide our shareholders with the best possible return.

In a very challenging environment we achieved excellent returns this year for our shareholders.

## A record year

Once again we had a record year and as a result we have declared a record dividend of \$3,000,000. This year's dividend compares to \$2,700,000 in 2012/13.

With this year's dividend our payout to shareholders since we opened for business will total \$7,700,000. Under our Constitution an equal share of 20 per cent of the dividend is given to all shareholders while the remaining 80 per cent is returned in proportion to the amount of business generated in each shareholder local government area.

Total revenue this year was \$85,271,655 compared to \$75,012,489 in 2012/13 and \$65,358,298 in 2011/12.

## Working in a changing landscape

This year saw the National Broadband Network rollout gain traction and a significant number of households connected. We see the NBN as a significant opportunity for Southern Phone and have developed market leading products to win business.

In our business we have seen customers continuing to move from fixed line to mobile services as people seek convenience for their communication needs. We have also seen major growth in the demand for data on both mobile and fixed internet platforms.

## Our service is our secret ingredient

Our market research tells us Southern Phone is now the second largest supplier of home phone services and third largest supplier of mobile services in regional Australia.

Our growth is built on our customer service. Our customers want to speak to a regional Australian. It's as simple as that.

Roy Morgan Research presented Southern Phone with the Award for Best Customer Service in Australia in 2013. They surveyed 50,000 Australians to determine the winner and we beat all our competitors including Telstra, iinet, TPG and Optus to take out the coveted prize.

## Leadership change

At the end of the financial year our founding CEO, Phil Herrick, retired. Phil developed the idea of Southern Phone during his time at Eurobodalla Shire Council. As we all know we have seen the company grow to be a major provider delivering not only jobs, but competition to the regional market and excellent returns to shareholders, all of whom contributed just \$2 each to the venture.

On behalf of our shareholders I have thanked Phil for his contribution and vision.

After a national search we appointed Mark Warren as the new Managing Director.

Mark's last senior role was at Australia Post. He has significant experience retailing products and services to customers in regional and rural areas, including telephony. He brings strong existing business relationships with our most important partners and suppliers.

We look forward to Mark leading Southern Phone to the next level of success and cementing our position as a leader in our industry delivering exceptional service to our customers and excellent returns for our shareholders.

## Diversifying the business

The Board recognises the fundamental importance of job creation in regional Australia as part of Southern Phone's reason to exist.

To deliver this the company is constantly assessing options to create new jobs. As we are market leaders in delivering call centre service our search is focused on developing this area of the business as it is very labour intensive.

## An exciting year ahead

The telecommunications industry continually presents challenges. We relish taking these challenges on. With your support we look forward to continuing to grow the value of your company and your returns into the future.

Bill Hilzinger  
Chairman

# Managing Director's Report



Mark Warren

The 2013-2014 Financial Year was once again a period of rapid change in the telecommunications industry.

As our industry evolves, so do our customer expectations. Not so long ago each household had only one telephone line. Now, each household has several communications devices, including fixed lines, mobile phones, computers, televisions and games consoles. Southern Phone has continued to offer new products and services to meet those changing customer expectations.

That said, we have once again had another strong performance for the year. This is true for all our financial key measures and all our customer experience measures.

## **A great opportunity**

Since becoming Managing Director in July 2014, the team and I have spent a great deal of time looking at our current business. We realise that we have a great opportunity to set our course into the future.

The next year will see Southern Phone make some exciting product and service announcements.

We will lift the engagement with our shareholder Local Government community. There are compelling reasons for us to work together more closely.

We will continue to increase our focus on our customers. We know that this focus has been a key ingredient to our success over the last 12 years. Our performance in this area continues to stand us out from the crowded telecommunications marketplace and the other providers.

## **Our competitive advantage**

I am equally as convinced that in our people we have a fantastic competitive advantage. The team at Southern Phone are enthusiastic and very keen to explore ways to keep our business growing and successful.

Our aim to continue to provide quality employment opportunities to people in Rural and Regional Australia remains at the forefront of everything we do.

## **Change is a constant**

As I look forward past 2015 to 2020, some things appear certain. We will continue to see changes in the way our customers use our products and services. And Southern Phone will remain focussed on providing great value products and services to people who live and work in Regional and Rural Australia. Our aim is to double the size of our business, by 2020.

I am proud to be a new member of the Southern Phone team, and together with the Board of Directors, I look forward to sharing our continued success with you.



Mark Warren  
Managing Director

# Corporate Governance Statement



## Board of Directors

### Role of the Board

The Board is responsible for the overall corporate governance of the company including its strategic direction, establishing goals for management and monitoring the achievement of those goals.

### Board Process

The Board currently holds scheduled meetings plus any additional meetings as may be necessary to address any specific significant matters that may arise.

Important functions of the Board include;

- Ensuring major strategies, plans and policies are explicit and are rigorously examined before being approved for implementation.
- Regularly measuring performance of adopted strategies against the defined goals.
- Reviewing operating information, especially financial information, to enhance the well-being of the company.
- Ensuring that the company acts legally, responsibly and ethically on all matters.

### Board Composition

There are currently seven directors on the Board. Six directors, including the Chairman, are independent non-executive directors.

An independent director is a non-executive Director who is not a member of management and who is free of any business or other relationship that could materially interfere with - or could reasonably be perceived to materially interfere with - the independent exercise of their judgement.

Independent Directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the Chairman prior to incurring any expense on behalf of the company.

As noted in the table below, the role of the Chairman and the Managing Director are not exercised by the same individual.

Bill Hilzinger	Chairman, Independent non-executive director
Mark Warren	Managing Director
Holly Kramer	Independent non-executive director
Nigel Hennessy	Independent non-executive director
Rod Oxley	Independent non-executive director
Brian Johns	Independent non-executive director
Andrew Riley	Independent non-executive director

The Board annually reviews its composition, including the mix of skills, experience, expertise and diversity of directors and the Board.

### Ethical Standards

Directors acknowledge the need for continued maintenance of the highest standards of corporate governance practice and ethical conduct by all directors and employees of the company.

### Internal Control

The Board is responsible for the establishment and maintenance of the internal control structure of the company.

Financial reporting is primarily in the form of the development of a detailed annual budget, which is subject to the approval of directors. Actual monthly and year-to-date results for the company are reported to the Board to enable it to monitor performance against the pre-approved budget. Forecasts for the company are regularly updated and reported to the Board.

### Performance Evaluation

The Chairman is responsible for evaluating the Board's performance. The Chairman may also speak to each director individually regarding their role as director. The directors have open access to all relevant information. Directors may meet independently at any time with management to discuss areas of interest or concern.

## Board Committees

To assist in the execution of its responsibilities, the Board has established the Audit and Finance Committee, the Governance and Risk Committee and the Nomination and Remuneration Committee.

### *Nomination and Remuneration Committee*

The Nomination and Remuneration Committee is charged with reviewing the composition of the Board and identifying skills and desirable competencies for the Board and Board Committees. The Committee also oversees processes for electing and inducting non-executive directors. The Committee also reviews and makes recommendations regarding the remuneration and benefits of non-executive directors, the Managing Director and the Company Secretary.

### *Governance and Risk Committee*

The Committee advises on the Board's operating and Corporate Governance guidelines. The Committee also reviews training and education of the board on governance roles and responsibilities. The Committee also oversees the development of the company's risk framework by identifying and quantifying the types of risks and exposure to those risks the company faces and the level of risk the company is prepared to accept.

### *Audit and Finance Committee*

The Audit and Finance Committee reviews significant accounting and reporting issues and maintains a dialogue with management and the external auditor on the appropriateness of accounting principles and financial disclosure practices used by or proposed for the Company. The Committee also reviews the annual financial statements and the performance of the external auditor. The Committee also reviews the company's cash forecasts and cash investment plans.

The attendance of Committee members at Committee Meetings is included in the Directors' Report.

### **Remuneration and Expenses**

The Remuneration Policy, which sets the terms and conditions for the Managing Director and other senior executives, was developed after seeking professional advice from independent consultants and was approved by the Board.

All executives receive a base salary, superannuation, fringe benefits and performance incentives. The performance of executives is measured against criteria based on the forecast growth of the company. The policy is designed to attract the highest calibre executives and reward them for performance which results in long-term growth in shareholder value. All bonuses and incentives must be linked to predetermined performance criteria.

The Board can exercise discretion in relation to approving incentives and bonuses.

Payments made in 2013-14 to independent directors were:

<b>Name</b>	<b>Salary</b>	<b>Superannuation</b>	<b>Total</b>
Bill Hilzinger	\$74,583.23	\$6,898.94	\$81,482.17
Holly Kramer*	\$19,166.64	\$1,772.91	\$20,939.55
Nigel Hennessy	\$34,999.94	\$3,237.47	\$38,237.41
Rod Oxley	\$40,000.04	\$3,700.01	\$43,700.05
Brian Johns	\$40,666.60	\$3,761.64	\$44,428.24
Andrew Riley	\$43,166.70	N/A	\$43,166.70
Greg Malavey**	\$15,625.04	N/A	\$15,625.04

\* Joined the board on 18 November 2013

\*\* Served as director between 1 July 2013 and 18 November 2013

These payments are in accordance with approval given at the 2013 Annual General Meeting.

Directors were also reimbursed an aggregate amount of \$19,780.35 for expenses incurred in carrying out their duties and responsibilities as directors in accordance with the Directors Expense Reimbursement Policy. This

amount included any fringe benefits tax paid where such tax was applicable.

The amount of remuneration including all monetary and non-monetary components, are detailed in Note 4 to the financial report. All remuneration paid to executives is valued at the cost to the company and expensed.

### **Directors Expense Reimbursement Policy**

Directors will be entitled to be reimbursed for expenses that they incur in carrying out their duties and responsibilities as a director within the following categories:

- Professional development and training
- Subscriptions/membership to professional associations relevant to the role of director
- IT and communication expenses including telephone, broadband service, electronic devices including computer hardware/software
- Office supplies/stationery
- Travel, accommodation and sustenance

The above expenses must be directly related to the role of the director.

An annual maximum amount of \$5,000 (subject to periodic review) applies. However, reasonable costs incurred by directors when attending scheduled meetings, events or functions in the role as a director will not be subject to the annual maximum limit. This includes travel/car expenses, accommodation, meals and the like.

### *Fringe Benefits Tax*

In relation to the reimbursement of expenses the 'Otherwise Deductible Rule' will apply. Under this rule the taxable value of the payment may be reduced by the amount the director would have been entitled to claim as an income tax deduction if they had not been reimbursed.

Each director when making a claim for reimbursement of expenses is required to complete the company claim form which includes a declaration signed by the director. Any FBT costs that the company is required to pay will not be included for the purpose of determining the annual maximum expense limit for each director.

### *Goods and Services Tax*

Claims for expenses are inclusive of GST and where a director is making a claim through a corporate entity then it is the responsibility of the company to claim any GST credit as it relates to that claim.

### *Reporting*

The aggregate amount of expenses reimbursed to directors, including any FBT payments made by the company in relation to expenses reimbursed is disclosed in the annual report for the financial year in which they were incurred.





## Board of Directors



**Bill Hilzinger (Chairman)** MAICD  
Bill has over 35 years of experience as a director and chairman. He is Chairman of the Australasian Occupational Science Centre and the former Chairman of Integral Energy and the Superannuation Services Corporation Pty Ltd. He was also a Director

of the Energy Industries Superannuation Fund and Managing Director of Terara Sand Pty Ltd.

He is a Fellow of the University of Wollongong and has served on a number of Local, State and Federal Government Boards. For 17 years he served the Shoalhaven community as a Councillor.



**Andrew Riley** CPEng BSc(EE) MieAust FAICD

Andrew served in the Royal Australian Navy from 1965 to 1978 as an electrical engineer specialising in combat systems and communications. He was the GM of the Sperry/Thorn-EMI joint venture in

Australia up to 1987. He was the MD of the ASX listed Rimpac Group to 1991. Andrew set up his own software consultancy which became part of a financial services industry data company, APIR, in 1997.

He is a Director of APIR Systems and of the international Group, APIR Asia. He heads their Standards and Governance Practice. He is the Managing Director of EW Systems Pty Ltd. He was the founding President of the ACT Chapter of the Company Directors Association in 1982. He served several terms as National Councillor/Director of the AICD.



**Holly Kramer** BA (Hons) MBA

Holly has a diverse background in a range of industries from retail and consumer goods to telecommunications to media and automotive, with successful careers at blue chip companies like Telstra, Pacific Brands and Ford. She also has experience in

executive and board roles in smaller businesses such as TelstraClear (NZ), m.net and ecorp Ltd.

Holly is currently the CEO at Best & Less, where she manages a retail network of 200 stores and over 4,300 employees across Australia. She is a Board member of Alannah and Madeleine Foundation and a member of the Advisory Board of the Macquarie University Faculty of Business and Economics.



**Mark Warren (Managing Director)**

Mark has extensive experience as a senior executive in private and public companies. Recently he was the Principal of Mark Warren Consulting, providing strategic advice to the FMCG, logistics and entertainment industries. Previously he

held senior positions at Australia Post for 17 years. During this time his responsibilities ranged from Delivery Operations, Post Office Operations, Profitability and Sales and Marketing.

He has extensive experience providing services in regional and rural Australia. He has been responsible for stakeholder engagement at the highest levels and led negotiations in many multi-million dollar contracts.

He is a Member of the NSW Australia Day Council and a Board Member of the Westmead Medical Research Foundation. He is a past Member of the VisAsia Council of the Art Gallery of NSW.



**Brian Johns** AO

Brian Johns AO is a Director of Copyright Agency Limited, of Melbourne University Press, and of Southern Phone Company. He was Adjunct Professor in the Creative Industries Faculty at the Queensland University of Technology, and Chairman of

the Hong Kong-based dot-com company, Hownew.

Brian has been Publishing Director of Penguin Books Australia, Managing Director of the Special Broadcasting Service (SBS), Chairman of the Broadband Services Expert Group (BSEG), Chairman of the Australian Broadcasting Authority (ABA), Deputy Chair of the Asian Broadcasting Union (ABU), and Managing Director of the Australian Broadcasting Corporation (ABC).



**Rod Oxley** PSM B Bus FCPA FAICD ACIS

Rod has had extensive experience as a director of public, NFP, government and incorporated association boards for over 20 years. He was CEO of a large local government council for 19 years.

His previous appointments have included Chairman of ahm, Director Westpac SLSA Rescue Helicopter Service Ltd, council member University of Wollongong, National & State President Local Government Managers Australia, International VP International City/County Managers Association, board member Illawarra Performing Arts Centre Ltd, board member Wollongong City Gallery Ltd, board member Illawarra Area Health Service. Rod was awarded a Public Service Medal in the 2000 Australia Day Awards.



**Nigel Hennessy** BSc (Hons) Dip FP FAICD

Nigel has been a company director since 1990. He has sat on a number of boards and held several committee positions. He is currently Chairman of CtechBA Pty Ltd and Chairman of Thinkable.Org.

Nigel has led several technology companies in Australia, USA and Asia, including an ASX 300 communications company. He has managed complex contract negotiations in several industries, including major projects of up to \$1.5 billion in value. He has also held a number of start-up and business turnaround roles in Australia and overseas. Nigel is on the Innovation Committee at ACES at the University of Wollongong and is a Federal Government Commercialisation Advisor.

## Our Shareholders

Bega Valley Shire Council

Bellingen Shire Council

Bland Shire Council

Bombala Council

Boorowa Council

Cabonne Council

Camden Council

Campbelltown City Council

Carrathool Shire Council

Coffs Harbour City Council

Cooma-Monaro Shire Council

Cootamundra Shire Council

Corowa Shire Council

Dungog Shire Council

Eurobodalla Shire Council

Gilgandra Shire Council

Goulburn Mulwaree Council

Gunnedah Shire Council

Harden Shire Council

Hawkesbury City Council

Kiama Municipal Council

Murray Shire Council

Narrandera Shire Council

Narromine Shire Council

Orange City Council

Palerang Council

Queanbeyan City Council

Randwick City Council

Shellharbour City Council

Shoalhaven City Council

Snowy River Shire Council

The Hills Shire Council

Tumbarumba Shire Council

Tumut Shire Council

Upper Lachlan Shire Council

Warrumbungle Shire Council

Weddin Shire Council

Wingecarribee Shire Council

Wollongong City Council

Yass Valley Council

Young Shire Council



# Directors' Report

The Directors of Southern Phone Company Ltd present their report together with the financial statements of Southern Phone Company Ltd for the financial year ended 30 June 2014.

## Directors

The Directors of the company are as follows:

- William George Hilzinger, (Chairman), previously Chairman of Integral Energy and the Superannuation Services Corporation.
- Nigel Hennessy, Chairman of CtechBA Pty Ltd and Chairman of Thinkable.Org.
- Brian Francis Johns, Chairman, Copyright Agency Limited, Director of Melbourne University Publishing, previously Managing Director, ABC and CEO of SBS.
- Holly Suzanna Kramer, Board member of Alannah and Madeleine Foundation; Chief Executive Officer at Best & Less.
- Roderick John Oxley, PSM, Non-executive Director, former Chairman, ahm; Fellow of the University of Wollongong.
- Andrew Joseph Riley, Director of APIR Asia Limited and APIR Hong Kong Limited, Managing Director of EW Systems Pty Ltd.
- Mark Leonard Warren, Managing Director, Southern Phone Company Ltd. Mark joined the Board on 14 July 2014.

During the year:

- Roderick John Oxley retired by rotation and was re-elected to the Board on 18 November 2013.
- Gregory Raymond Malavey retired by rotation on 18 November 2013.
- Philip James Herrick retired from his positions as Director and General Manager on 11 July 2014.
- Holly Suzanna Kramer was elected to the board on 18 November 2013.

## Company Secretary

Mark Alexander Smeaton (BA (Accounting), Grad Dip Applied Finance, Grad Dip Computing, GAICD) was appointed Company Secretary on 29 April 2013. Mark played a leading role in the creation of the company and also serves as Commercial Manager. He was previously a Director of Access1 Ltd and held executive positions with OzEmail and Macquarie Bank.

## Profit/Loss

The profit for the financial year was \$8,283,690.

## Review of Operations

Gross revenues were \$85,271,655 for the year ended 30 June 2014. Please see the Chairman's Report and Financial Reports for further details on operations during the year.

## Changes in State of Affairs

There were no significant changes to the company's state of affairs during the financial year.

## Dividends Paid

The company paid an unfranked redeemable preference dividend of \$2,160,000 and an unfranked ordinary dividend of \$540,000 (\$13,170.73 per share) during the financial year. Subsequent to year end the Directors have recommended a total dividend of \$3,000,000 be paid.

## Principal Activities

The principal activity of the company during the financial year continued to be in the communications sector with the provision of telecommunications services.

The telecommunications services included:

- Fixed line telephony services;
- Internet services;
- Mobile phone services.

The company's financial report has been prepared in accordance with the Australian Accounting Standards.

## Significant Events after Balance Date

No matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

- The operations of the company in future financial years;
- The results of operations in future financial years; or
- The state of affairs of the company in future financial years.

## Future Developments, Prospects and Business Strategies

Likely developments in the operations of the company and expected results of those operations in future financial years have not been included in this report as the Directors believe it would be likely to result in unreasonable prejudice to the company.

## Options

No options over issued shares or interests in the company have been issued during or since the end of the financial year and there were no options outstanding at the date of this report.

## Court Proceedings

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

**Board Meetings**

The number of Board meetings held and the number of Board meetings attended by each Director during the reporting period and while the Director was a member of the board are as follows:

Director	Attended	Held
Bill Hilzinger	6	6
Nigel Hennessy	6	6
Mark Warren	0	0
Phil Herrick	6	6
Brian Johns	6	6
Greg Malavey	2	2
Holly Kramer	3	4
Rod Oxley	6	6
Andrew Riley	6	6

**Committee Meetings**

All company Board Committees were reconstituted in February 2014. The number of Committee meetings held and the number of Committee meetings attended by each Director since Committees were reconstituted in February are as follows:

Audit and Finance

The Audit and Finance Committee of which Andrew Riley (Chair) and Nigel Hennessy and Bill Hilzinger are current members met between February 1 and June 30 2014 as follows:

Director	Attended	Held
Andrew Riley (Chair)	2	2
Bill Hilzinger	2	2
Rod Oxley	2	2

Governance and Risk

The Governance and Risk Committee of which Rod Oxley (Chair) and Andrew Riley and Bill Hilzinger are current members met between February 1 and June 30 2014 as follows:

Director	Attended	Held
Rod Oxley (Chair)	1	1
Andrew Riley	1	1
Bill Hilzinger	1	1

Nomination and Remuneration

The Nomination and Remuneration Committee of which Rod Oxley (Chair) and Brian Johns and Holly Kramer are current members met between February 1 and June 30 2014 as follows:

Director	Attended	Held
Rod Oxley (Chair)	3	3
Holly Kramer	3	3
Brian Johns	3	3

**Environmental Issues**

All environmental and planning regulations have been observed without breach in the reporting period.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 12.

**Insurance Premiums for Officers**

Directors' and Officers' Liability insurance cover has been put in place. The Directors and executive officers of the company are covered by the insurance. The company paid a premium for the policy.

**Directors' Expenses**

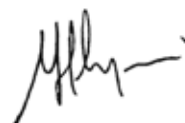
The company has adopted a policy which allows for Directors to claim for the reimbursement of expenses up to a total of \$5,000 incurred by them in carrying out their role and responsibilities as a Director of the company.

The types of expenses include:

- Motor vehicle expenses for travel on company business
- Telephone, communication and computer expenses
- Office supplies/stationery
- Professional development
- Membership of relevant professional associations

The Chairman has the discretion to approve or refuse the payment of such expenses within the above policy guidelines.

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



Bill Hilzinger  
Chairman

22 September 2014



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## Directors' Declaration

The Directors of Southern Phone Company Ltd declare that the financial statements and notes to accounts in the 2014 Annual Report as presented;

- a) comply with Accounting Standards, the Corporations Act 2001 and other mandatory professional reporting requirements; and
- b) give a true and fair view of the company's financial position at 30 June 2014 and of its performance, as represented by the results of its operations and cash flows, for the financial year ended on that date.

In the Directors' opinion:

- a) the financial notes and statements are in accordance with the Corporations Act 2001; and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- c) Note 1 confirms that the financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

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

Handwritten signature of Bill Hilzinger in black ink.

Bill Hilzinger  
Chairman

Handwritten signature of Mark Warren in black ink.

Mark Warren  
Managing Director

22 September 2014

# Auditor's Declaration



the next solution

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF  
SOUTHERN PHONE COMPANY LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 there have been:

- i. no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read "Duesburys Nexia".

**Duesburys Nexia**  
Canberra, 22 September 2014

A handwritten signature in black ink, appearing to read "G J Murphy".

**G J Murphy**  
Partner

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mail@dnexia.com.au, www.nexia.com.au

Independent member of Nexia International



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# Auditor's Report



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN PHONE COMPANY LIMITED ABN 42 100 901 184

We have audited the accompanying financial statements of Southern Phone Company Limited (the Company), which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with Australian Accounting Standards ensures that the financial statements comply with International Financial Reporting Standards.

### AUDITOR'S RESPONSIBILITY

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

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

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

### INDEPENDENCE

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

### AUDITOR'S OPINION

In our opinion:

- (a) The financial statements of the Company are in accordance with the Corporations Act 2001, including:
  - (I) giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (II) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

**Duesburys Nexia**  
Canberra, 22 September 2014

**G J Murphy**  
Partner

# Financial Statements

SOUTHERN PHONE COMPANY LTD ABN 42 100 901 184

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30th JUNE 2014

	Note	\$ 2014	\$ 2013
<b>Revenues</b>			
Operating Activities		85,271,655	75,012,489
<b>Total Revenues</b>	2	<u>85,271,655</u>	<u>75,012,489</u>
<b>Less Expenses</b>			
Telephony Expenses		58,741,451	55,087,698
Marketing Expenses		9,463,453	8,202,351
Employee Expenses		7,544,023	5,457,603
Depreciation Expense	9	171,204	179,412
Other Expenses		1,067,834	972,573
<b>Total Expenses</b>	3	<u>76,987,965</u>	<u>69,899,637</u>
<b>Profit / (Loss) for the Year</b>		<u>8,283,690</u>	<u>5,112,852</u>
Other Comprehensive Income		0	0
<b>Total Comprehensive Income for the year</b>		<u>8,283,690</u>	<u>5,112,852</u>

The accompanying notes form part of these financial statements.





**SOUTHERN PHONE COMPANY LTD ABN 42 100 901 184**

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014**

	Note	\$ 2014	\$ 2013
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	6	4,890,931	4,493,041
Other Financial Assets	6	11,505,000	7,255,000
Trade and Other Receivables	7	9,973,331	7,930,016
Other Assets	8	1,815,295	750,154
<b>TOTAL CURRENT ASSETS</b>		<b>28,184,557</b>	<b>20,428,211</b>
<b>NON-CURRENT ASSETS</b>			
Trade and Other Receivables	7	1,195,724	0
Property, Plant and Equipment	9	1,726,431	1,840,210
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,922,155</b>	<b>1,840,210</b>
<b>TOTAL ASSETS</b>		<b>31,106,712</b>	<b>22,268,421</b>
<b>CURRENT LIABILITIES</b>			
Trade and Other Payables	10	9,910,861	7,238,172
Provisions	11	986,641	387,215
<b>TOTAL CURRENT LIABILITIES</b>		<b>10,897,502</b>	<b>7,625,387</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	11	102,783	120,297
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>102,783</b>	<b>120,297</b>
<b>TOTAL LIABILITIES</b>		<b>11,000,285</b>	<b>7,745,684</b>
<b>NET ASSETS</b>		<b>20,106,427</b>	<b>14,522,737</b>
<b>EQUITY</b>			
Issued Capital	12	82	82
Retained Profits		20,106,345	14,522,655
<b>TOTAL EQUITY</b>		<b>20,106,427</b>	<b>14,522,737</b>

The accompanying notes form part of these financial statements.

**SOUTHERN PHONE COMPANY LTD ABN 42 100 901 184**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014**

	<b>Note</b>	<b>\$</b> <b>2014</b>	<b>\$</b> <b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		89,633,168	81,929,278
Payments to suppliers and employees		(82,618,376)	(76,453,313)
Grants receipts		0	96,000
Net cash provided by (used in) operating activities	13b.	<u>7,014,792</u>	<u>5,571,965</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(57,425)	(87,641)
Proceeds from sale of property, plant and equipment		0	0
Interest from investments		390,523	386,649
Increase in investments		(4,250,000)	(2,500,000)
Net cash provided by (used in) investing activities		<u>(3,916,902)</u>	<u>(2,200,992)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	5	<u>(2,700,000)</u>	<u>(1,350,000)</u>
Net cash provided by (used in) financing activities		<u>(2,700,000)</u>	<u>(1,350,000)</u>
Net increase/(decrease) in cash and cash equivalents		397,890	2,020,973
Cash and cash equivalents at the beginning of the year		4,493,041	2,472,068
Cash and cash equivalents at the end of the year	6	<u><u>4,890,931</u></u>	<u><u>4,493,041</u></u>

The accompanying notes form part of these financial statements.



**SOUTHERN PHONE COMPANY LTD ABN 42 100 901 184**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30th JUNE 2014**

	Note	\$ 2014	\$ 2013
Issued Capital		82	82
Retained Profits		20,106,345	14,522,655
		<u>20,106,427</u>	<u>14,522,737</u>
<i>Movement in Issued Capital</i>			
Balance at the beginning of the year		82	82
Shares bought back / issued	12	0	0
Balance at the end of the year		<u>82</u>	<u>82</u>
<i>Movement in Retained Profits</i>			
Balance at the beginning of the year		14,522,655	10,759,803
Dividends paid or provided for	5	(2,700,000)	(1,350,000)
Comprehensive Income for the year		8,283,690	5,112,852
Balance at the end of the year		<u>20,106,345</u>	<u>14,522,655</u>

The accompanying notes form part of these financial statements.

## SOUTHERN PHONE COMPANY LTD ABN 42 100 901 184

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE 2014

#### Note 1: Statement of Significant Accounting Policies

The financial statements cover the economic entity of Southern Phone Company Ltd. Southern Phone Company Ltd is an unlisted public company, incorporated and domiciled in Australia.

#### **Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements of Southern Phone Company Ltd comply with the Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

A number of Australian Accounting Standards have been issued or amended prior to the date of these statements but are only applicable to future reporting periods and accordingly have not been applied in preparing these financial statements. The Directors are of the opinion that when the relevant Accounting Standards are first applied, there will be no material impact on the accounting policies of the Company and no material impact on the statement of comprehensive income or statement of financial position of the Company.

A number of new or revised Australian Accounting Standards are effective for the first time in the current financial year. These standards have had no material impact on the entity.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial statements.

The accounting policies set out below have been consistently applied to all years presented.

#### *Reporting Basis and Conventions*

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

#### **Accounting Policies**

##### **a. Property, Plant and Equipment**

###### *Property*

Freehold land and buildings are shown at cost, less subsequent depreciation for buildings and impairment losses.

The carrying amount of land and buildings is reviewed at the end of the reporting period to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed by the Directors using independent valuations that are obtained on a periodic basis. Any excess of the carrying value over the recoverable amount is recorded as an impairment loss in the profit or loss.

###### *Plant and Equipment*

Plant and equipment is measured on the cost basis.

The carrying amount of plant and equipment is reviewed at the end of the reporting period to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.



b. **Depreciation**

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to Southern Phone Company Ltd, commencing from the time the asset is held ready for use.

The useful lives used for each class of depreciable assets are:

<u>Class of Fixed Asset</u>	<u>Useful Life</u>
Building	50 yrs
Computers & Technology	1-3 yrs
Communications	1-3 yrs
Motor Vehicles	3 yrs
Office Equipment & Furniture	1-7 yrs

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

c. **Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

d. **Employee Benefits**

Provision is made for the liability for employee benefits arising from services rendered by employees to balance date. The benefits expected to be settled within one year to employees for their entitlements have been measured at the amounts expected to be paid including on-costs and are disclosed as current liabilities. Employee benefits payable later than one year are measured at the present value of the estimated future cash outflows to be made in respect of those benefits. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data.

Contributions are made by Southern Phone Company Ltd to employee superannuation funds and are charged as expenses when incurred.

e. **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at-call with banks and other short-term highly liquid investments with original maturities of three months or less.

f. **Financial Instruments**

*Recognition and Initial Measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

*Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

*Financial assets at fair value through profit and loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Gains and losses arising from changes in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments and are stated at amortised cost using the effective interest rate method.

#### *Held-to-maturity investments*

These investments have fixed maturities, and it is the intention to hold these investments to maturity. Any held-to-maturity investments held are stated at amortised cost using the effective interest rate method.

#### *Available-for-sale financial assets*

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in an investment revaluation reserve.

#### *Financial liabilities*

Financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

#### *Fair value*

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms length transactions, reference to similar instruments and options pricing models.

#### *Impairment*

At the end of the reporting period, an assessment is made whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

#### g. **Impairment of Assets**

At the end of the reporting period, Southern Phone Company Ltd reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

#### h. **Revenue**

Revenue from the provision of our telecommunications services includes telephone calls and other services such as internet and data and includes the provision of goods (for example handsets, tablets and modems).

We record revenue earned from:

- Telephone calls on completion of the call;
- Other services generally at completion; and
- Sale of goods (such as handsets, tablets and modems) on delivery of the goods.

Goods (such as handsets, tablets and modems) may be provided to customers in conjunction with contracts for services. While these goods and services are provided under a single arrangement, they are considered to be separate deliverables and therefore accounted for separately. Deliverables are considered to be separate units of accounting where the deliverable has value to the customer on a standalone basis.

A portion of the total sales revenue, being the relative amount of revenue earned, is allocated to the goods under the arrangement and is recognised when the customer receives the goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

#### i. **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.



j. **Inventory**

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a specific identification basis and include direct costs and appropriate overheads, if any. Costs are assigned on the basis of weighted average costs.

k. **Income Tax**

The Company is income tax exempt, under relevant provisions of the Income Tax Assessment Act 1997, by virtue of the company being limited solely by shares and all shares in the Company being beneficially owned by one or more government entities.

l. **Provisions**

Provisions are recognised when the Company has a legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will result and that the outflow can be reliably measured.

m. **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**Critical Accounting Estimates and Judgments**

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

The Directors do not believe that there were any key estimates or key judgments used in the development of the financial statements that give rise to a significant risk of material adjustment in the future.

Note 2: Revenue

Operating activities

	\$ 2014	\$ 2013	
Telephony Services	84,206,533	74,015,885	a
Grants Received	0	96,000	b
Call Centre Services	64,769	245,788	c
Interest Received	561,252	417,955	
Other Revenue	439,101	236,861	
<b>Total Revenue</b>	<b>85,271,655</b>	<b>75,012,489</b>	

- a. Southern Phone Company Ltd is a reseller of telecommunication services. Products sold for the year were landline, internet and mobile services.
- b. A payroll tax rebate Grant was received from The Department of Industry and Investment NSW by a Deed of Agreement.
- c. In February 2013 the Company commenced providing call centre services for an external party.

Note 3: Expenses

Included in profit / (loss) for the year are the following specific expenses:

	\$ 2014	\$ 2013
(a) Auditors Remuneration		
- auditing or reviewing financial report		
- current year accrual	24,820	23,520
- prior year under / (over) provision	(920)	580
- TCP Code Compliance Plan advice	0	3,750
(b) Rental Expense on Operating Leases	895	895
(c) Superannuation	505,449	417,769
(d) Bad and Doubtful Debts	1,252,145	1,792,726

Note 4:

(a) Key Management Personnel Compensation

Key management personnel is defined by AASB 124 "Related Party Disclosures" as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director of the entity.

The aggregate remuneration paid, payable or provided for key management personnel during the financial year is as follows:

	\$ 2014	\$ 2013
Short-term benefits	1,258,327	875,576
Other long term benefits	757,071	22,424
	<u>2,015,398</u>	<u>898,000</u>

The above compensation includes premiums for Directors' and Officers' liability insurance. Subject to Board assessments bonus payments may be made to key management personnel in accordance with their employment contract. Short-term benefits and other long-term benefits include amounts paid or provided in accordance with packages negotiated with senior management, including benefits paid to the former CEO.

(b) Related Party Disclosures

The Directors and their related parties may transact with the Company in relation to telephony services. These services are provided on normal commercial terms and on conditions that are no more favourable than those available to others. With the exception of these transactions and the compensation of key management personnel, which is separately disclosed in these financial statements, there were no other related party transactions during the financial year.

Note 5: Dividends

	\$ 2014	\$ 2013	
Distributions paid			
Declared unfranked Redeemable Preference dividend	2,160,000	1,080,000	a.
Declared unfranked Ordinary dividend	540,000	270,000	b.
	<u>2,700,000</u>	<u>1,350,000</u>	

a. The unfranked redeemable preference dividend is based on the proportion of revenue generated within each shareholding council region.

b. The unfranked ordinary dividend is based on \$13,170.73 per share.

Note 6: Cash, Cash Equivalents and Other Financial Assets

	\$ 2014	\$ 2013
Cash and cash equivalents		
Cash at Bank	362,566	544,955
Deposits at Call	4,528,365	3,948,086
Total Cash and Cash Equivalents	<u>4,890,931</u>	<u>4,493,041</u>

Other Financial Assets

Held to Maturity Investments - Term Deposits 11,505,000 7,255,000

Term deposits have original terms to maturity of between 6 and 24 months.

Term deposits of \$1,005,000 are security for three bank guarantees.

Note 7: Trade and Other Receivables

	\$ 2014	\$ 2013	
CURRENT			
Accounts Receivables	11,298,777	8,773,864	a.
Provision for impairment of receivables	(1,327,174)	(1,167,348)	c.
	<u>9,971,603</u>	<u>7,606,516</u>	
Trade Debtors - Other	1,728	323,500	b.
Total Current	<u>9,973,331</u>	<u>7,930,016</u>	
NON CURRENT			
Accounts Receivables	1,195,724	0	a.
Total Trade and Other Receivables	<u>11,169,055</u>	<u>7,930,016</u>	

a. Accounts Receivables are receivables from Telecommunication Services, including the unbilled portion of goods provided to customers under term contracts.

b. Trade Debtors - Other are all other receivables.

c. A provision for impairment of receivables is recognised when there is objective evidence that an individual trade or term receivable is impaired. The assessment of impairment is based on both current and historical data. These amounts have been included in telephony expenses.





Movement in the provision for impairment of receivables is as follows:

	Opening Balance 30-Jun-13	Charge for the Year	Amounts Written Off	Closing Balance 30-Jun-14
Current Trade and Other Receivables	(1,167,348)	(1,322,347)	1,162,521	(1,327,174)

Note 8: Other Assets

CURRENT	\$	\$
Prepayments, Inventory & Other:	2014	2013
Inventories	539,302	137,427
Telecommunication Services Prepayments	960,757	468,875
Licence & Subscriptions	28,129	27,632
Insurance	6,061	5,903
Interest Receivable on Term Deposits	281,046	110,317
Total Prepayments, Inventory & Other	1,815,295	750,154

All prepayments will be fully expensed over the next twelve months.

Note 9: Property, Plant and Equipment

	\$	\$
	2014	2013
<u>Land and Building</u>		
Land at cost	431,197	431,197
Building at cost	1,534,022	1,534,022
Accumulated depreciation	(144,873)	(107,080)
Accumulated impairment loss	(245,219)	(245,219)
	<u>1,575,127</u>	<u>1,612,920</u>
<u>Plant and Equipment</u>		
Computers & Technology at cost	354,378	343,268
Accumulated depreciation	(311,012)	(263,456)
	<u>43,366</u>	<u>79,812</u>
Communications at cost	168,170	168,170
Accumulated depreciation	(153,203)	(122,672)
	<u>14,967</u>	<u>45,498</u>
Motor Vehicles at cost	199,205	154,960
Accumulated depreciation	(109,995)	(58,342)
	<u>89,210</u>	<u>96,618</u>
Office Equipment & Furniture at cost	38,918	36,848
Accumulated depreciation	(35,157)	(31,486)
	<u>3,761</u>	<u>5,362</u>
Total Plant and Equipment	<u>151,304</u>	<u>227,290</u>
Total Property, Plant and Equipment	<u>1,726,431</u>	<u>1,840,210</u>

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

2014	Balance at beginning of year	Additions	Disposals/ Adjustments	Impairment	Depreciation Expense	Carrying amount at year end
	\$	\$	\$	\$	\$	\$
Land and Building	1,612,920	0	0	0	(37,793)	1,575,127
Computers & Technology	79,812	11,110	0	0	(47,556)	43,366
Communications	45,498	0	0	0	(30,531)	14,967
Motor Vehicles	96,618	44,245	0	0	(51,653)	89,210
Office Equipment & Furniture	5,362	2,070	0	0	(3,671)	3,761
Total	<u>1,840,210</u>	<u>57,425</u>	<u>0</u>	<u>0</u>	<u>(171,204)</u>	<u>1,726,431</u>
2013	Balance at beginning of year	Additions	Disposals	Impairment	Depreciation Expense	Carrying amount at year end
	\$	\$	\$	\$	\$	\$
Land and Building	1,650,713	0	0	0	(37,793)	1,612,920
Computers & Technology	64,486	64,891	0	0	(49,565)	79,812
Communications	61,417	20,790	0	0	(36,709)	45,498
Motor Vehicles	148,271	0	0	0	(51,653)	96,618
Office Equipment & Furniture	7,094	1,960	0	0	(3,692)	5,362
Total	<u>1,931,981</u>	<u>87,641</u>	<u>0</u>	<u>0</u>	<u>(179,412)</u>	<u>1,840,210</u>

### Impairment Loss

#### *Freehold Land and Buildings*

On 30th June 2010, the freehold land and buildings held by the Company were valued at fair value by an independent valuer. The fair value was determined by capitalising estimated market rentals of the completed property. The cost of the land and buildings at completion of construction in August 2010 was \$1,965,219, which was determined to exceed its fair value of \$1,720,000 by \$245,219. Total impairment losses of \$245,219 were recognised in the statement of comprehensive income in an earlier year.

#### Note 10: Trade and Other Payables

	\$ 2014	\$ 2013
CURRENT		
Trade Creditors	5,990,366	3,834,179
Employee Accruals & Payables	289,753	65,050
General Accruals	1,949,527	1,932,228
Sundry Creditors	1,681,215	1,406,715
Total Payables	<u>9,910,861</u>	<u>7,238,172</u>

Sundry Creditors includes GST payable and revenue billed in advance.

#### Note 11: Provisions

	\$ 2014	\$ 2013
CURRENT		
Employee Entitlements - Annual leave	231,030	264,370
Employee Entitlements - Sick Leave	97,313	0
Employee Entitlements - Long Service Leave	336,346	122,845
Employee Entitlements - Other long-term benefits	321,952	0
	<u>986,641</u>	<u>387,215</u>

Sick leave and other long-term benefits are included in the total remuneration packages negotiated with senior management.

#### NON CURRENT

Employee Entitlements - Long Service Leave	102,783	120,297
Total Provisions	<u>1,089,424</u>	<u>507,512</u>

#### Note 12: Issued Capital

The shares in the Company are divided into 'A' Class Ordinary Shares and Redeemable Preference Shares in Classes 'B' to 'ZZ'.

	\$ 2014	\$ 2013
41 fully paid Class 'A' ordinary shares	41	41
41 fully paid Class 'B' to 'ZZ' redeemable preference shares	41	41
At reporting date	<u>82</u>	<u>82</u>

All 'A' Class Ordinary Shares attract the following rights, privileges and conditions:

- 1 the right to receive notice of and to attend and vote at all general meetings of the Company at one vote per Share;
- 2 the right to receive such dividends as are declared on the 'A' Class Ordinary Shares (being the balance of all dividends declared in the relevant year on all shares after payment of the dividends due on the Redeemable Preference Shares);
- 3 in a winding up, the right to participate equally in the distribution of the assets of the Company (both capital and surplus).

All Redeemable Preference Shares attract the following rights, privileges and conditions:

- 1 the right to receive notice of and to attend and vote at all general meetings of the Company at one vote per Share;
- 2 the right to receive dividends declared on the shares (calculated in accordance with clause 2 of the Constitution). Amount is based on the proportion of revenue generated within each shareholding Council region;
- 3 in a winding up, the right to repayment of the capital paid up on issue of the shares but no other right to participate in the distribution of the assets of the Company.

The Company has no set authorised share capital and the shares have no par value.



#### Note 13: Cash Flow Information

- a. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	\$ 2014	\$ 2013
Cash at bank	362,566	544,955
Deposits at Call	4,528,365	3,948,086
	<u>4,890,931</u>	<u>4,493,041</u>

- b. Reconciliation of Cash Flows from Operations with Profit / (Loss) for the Year.

	\$ 2014	\$ 2013
Profit / (Loss) for the Year	8,283,690	5,112,852
Non-Cash Flows in Profit/(Loss) for the Year:		
Depreciation	171,204	179,412
Interest on Investments	(561,252)	(386,649)
Changes in operating assets and liabilities:		
Increase / (Decrease) in Prov. for impaired receivables	159,826	(176,825)
Increase in Provisions	581,912	22,141
Increase in Payables	2,672,689	458,753
(Increase) / Decrease in Prepays, Inventory and Other	(894,412)	314,115
(Increase) / Decrease in Receivables	(3,398,865)	48,166
	<u>7,014,792</u>	<u>5,571,965</u>

- c. Credit Standby Arrangements

On 13th November 2013 the Company arranged for a Bank Guarantee facility of \$3,000,000 of which \$1,995,000 is unused at year end. This facility is secured by term deposits.

#### Note 14: Capital and Leasing Commitments

The Company has no capital or leasing commitments.

#### Note 15: Segment Reporting

Southern Phone Company Ltd operates predominantly in one business and geographical segment being the provision of telecommunications in Australia.

Note 16: Financial Instruments

*(a) Terms, Conditions and Accounting Policies*

The accounting policies and terms and conditions of each class of financial asset, financial liability and equity instrument at the balance date are consistent with those regularly adopted by businesses in Australia.

*(b) Financial Risk Management*

The Company's financial instruments consist mainly of deposits with banks, short term investments, accounts receivable and payable. The Company does not trade or speculate in derivatives. The main purpose of the financial instruments is to raise funds for normal activities and invest excess funds in an appropriate manner.

The main risks the Company is exposed to through its financial instruments are liquidity risk, credit risk, price risk and interest rate risk.

*(b)(i) Liquidity risk*

The liquidity risk is managed by monitoring forecast cash flows and ensuring that adequate short term funds are maintained. The Company has adequate working capital to meet its financial liabilities at year end. Trade and other payables are expected to be settled on normal commercial terms.

*(b)(ii) Foreign currency risk*

The Company is not exposed to fluctuations in foreign currencies.

*(b)(iii) Credit risk*

The maximum exposure to credit risk at balance date in respect of recognised financial assets, excluding the value of any collateral or other security, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. This risk is monitored and managed by management reviewing financial assets and ensuring collections are made on a timely basis. Collateral is not requested in relation to trade and other receivables, nor is it the Company's policy to securitise its trade and other receivables. The Company does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Company.

Trade receivables are non-interest bearing and are generally on a 30-60 day term. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. The assessment of impairment is based on both current and historical data.

At 30th June, the ageing analysis of trade and other receivables is as follows:

	<b>Total</b>	<b>0-30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>&gt;90 days</b>
<b>2014</b>	12,496,229	10,937,765	522,592	143,319	892,553
<b>2013</b>	9,097,364	7,831,058	363,816	197,847	704,643

Of the debts shown in the 31-60 days, 61-90 days and >90 days columns, \$1,264,790 is considered to be impaired (2013: \$1,070,397). \$62,383 (2013: \$96,951) of the 0-30 days receivables are considered to be impaired. The remainder of the receivables are expected to be recovered.

*(b)(iv) Price risk*

The Company is not exposed to any material commodity price risk. The risk of changes in prices charged by the Company's largest supplier of service and equipment, Telstra Corporation Limited, is managed by a series of fixed term contracts, and is partly controlled by the ACCC through Part XIC of the Trade Practices Act that sets out a telecommunications industry-specific access regime. Price changes can be challenged through an ACCC appeal process. It is expected that any changes in the cost of service and equipment would be passed on to the Company's customers.

*(b)(v) Interest rate risk*

The Company's exposure to interest rate risk is managed by the Company reviewing the interest rate profile, current interest rates and the market outlook, and taking action as necessary to ensure that risk levels are maintained at a satisfactory level. The Company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out on the following page:



	Weighted Average Effective Interest		Floating Interest Rate		Fixed Interest Rate Maturing <1 Year		Fixed Interest Rate Maturing <2 Year		Non Interest Bearing	
	\$	%	\$	\$	\$	\$	\$	\$	\$	\$
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<b>Financial Assets</b>										
Cash at Bank	2.50%	2.75%	362,566	544,955	0	0	0	0	0	0
At Call Deposits	2.85%	3.10%	4,528,365	3,948,086	0	0	0	0	0	0
Fixed Term Deposits	3.90%	4.26%	0	0	11,500,000	7,250,000	5,000	5,000	0	0
Trade and Other Receivables			0	0	0	0	0	0	11,169,055	7,930,016
<b>Total Financial Assets</b>			<b>4,890,931</b>	<b>4,493,041</b>	<b>11,500,000</b>	<b>7,250,000</b>	<b>5,000</b>	<b>5,000</b>	<b>11,169,055</b>	<b>7,930,016</b>
<b>Financial Liabilities</b>										
Trade and Other Payables			0	0	0	0	0	0	9,910,861	7,238,172
<b>Total Financial Liabilities</b>			<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,910,861</b>	<b>7,238,172</b>

The Company's exposure to cash flow interest rate risk relates to financial assets subject to floating interest rates. This risk arises due to the Company holding cash and cash equivalents. The Company minimises its exposure by continuously analysing its interest rate exposure and by fixing interest rates on deposits with banks. There have been no changes in the market risks, methods and assumptions from previous periods.

A sensitivity analysis has not been undertaken for the interest rate risk of the Company as it has been determined that the possible impact on profit and loss or total equity from fluctuations in interest rates is immaterial.

#### c) Net Fair Values

Financial assets and financial liabilities are carried at their net fair value at balance date. The carrying value of financial assets and financial liabilities approximates their net fair value due to their short terms to maturity or market interest rates. No financial assets or financial liabilities are traded on organised markets in standardised form.

**Note 17: Capital Risk Management**

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern.

The Company manages its capital through the budgeting and planning process and ensures that adequate funds are maintained to meet its operational and financial objectives.

The Company monitors its capital on the basis of its working capital (current assets less current liabilities) and accumulated funds, as disclosed in the statement of financial position.

There have been no changes to this strategy since the previous financial year.

**Note 18: Contingent Liabilities and Contingent Assets**

The Company has entered into various arrangements with major suppliers that include requirements for minimum spending to be incurred. If these spending thresholds are not met, the Company is required to make up any difference. At the date of this report the Directors believe that the minimum spending thresholds will be met.

The Company enters into period contracts with its major suppliers for certain mobile and internet services resupplied under contract to end users. If these supplier contracts are terminated early by the Company, break of contract fees become payable.

The Company has no other contingent liabilities or assets at the end of the financial year.

**Note 19: Events After the Reporting Period**

This financial report was authorised for issue by the Directors on the date of signing the attached Directors' Declaration.

Subsequent to the end of the financial year, the Company has proposed to pay a dividend of \$3,000,000 (unfranked). \$2,400,000 of this dividend is payable to redeemable preference shareholders based on the proportion of revenue generated within each shareholding council region. The remaining \$600,000 is payable to ordinary shareholders at \$14,634.15 per share.

There are no other events after the end of the reporting period which require amendment of, or further disclosure in, the financial statements.

**Note 20: Company Details**

The registered office of the Company is 6 Page Street, Moruya, in the State of New South Wales. The principal activity of the Company is telecommunications.

The image displays seven overlapping promotional flyers from Southern Phone, each featuring different mobile offers:

- Amazing Mobile Deals:** Promotes various phone models like Nokia Lumia 925, Motorola Moto G, and Samsung Galaxy S3 with special pricing.
- FREE Samsung Galaxy TABLET:** Offers a free tablet with a Samsung Galaxy S5, highlighting "SUPER SAVINGS FOR EVERYONE".
- Home Phone Rental:** Promotes a "NEW PLAN" for home phone rental, including "Great Mobile Deals" for the \$30 Plan Nokia Lumia 520.
- Samsung GALAXY S5:** Features a Samsung Galaxy S5 with a starting price of \$49/month. Key features include a tougher screen, water resistance, calorie/weight tracking, fingerprint scanner, heart rate monitor, 16MP camera, and a huge display. The phone is valued at \$929!
- Mobile Offers:** Promotes a Samsung Galaxy S4 for \$55/month, including \$300 call credit, 200MB data, and free delivery.
- Great Value Offers and Hot Offers:**
  - Top Selling iPhone 5:** Offered at \$36/month with a \$100 monthly call credit, 4" display, 8MP camera, and Apple Certified Pre-Owned status.
  - Now Available HTC ONE (M8):** Described as stylish and high-powered.
  - Free Samsung Tablet:** Offered when bundling a home phone and internet.
  - Receive a \$50 credit:** Offered when bundling internet and home line.
- Bundle now to enjoy advanced gaming experience:**
  - PS4 and Mobile Bundles:** Offered at \$64.95/month, including a PS4 console and a mobile device.
  - FREE Samsung Tablet:** Offered as part of a bundle.
  - iPhone 5:** Offered at \$36/month as a "New Offer!".
- Bundle twice the FUN!:** Offers a bundle including a PS4 console and a Samsung Galaxy Duo for \$29.95/month.

Each flyer includes the Southern Phone logo, contact numbers (e.g., 1800 090 149, 1800 131 485, 1800 208 685, 800 289 635, 1800 115 614, 1800 209 161, 1800 223 751), and dates (e.g., SEPTEMBER 2014, OCTOBER 2014).



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