



OUR VISION & VALUES ONE TEAM DELIVERING WITH

PRIDE

Passion | Respect | Innovation | Dedication | Excellence

OUR MISSION TO BE EASY TO DO BUSINESS WITH

ATTACHMENTS

ENCLOSURES

Ordinary Council Meeting

5 November 2019

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Goulburn Mulwaree Council

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2019



Goulburn Mulwaree Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019



Goulburn Mulwaree Council

Financial Statements 2019

General Purpose Financial Statements

for the year ended 30 June 2019

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Overview

Goulburn Mulwaree Council is constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

184-194 Bourke Street
Goulburn NSW 2580

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: www.goulburn.nsw.gov.au.

Goulburn Mulwaree Council

Financial Statements 2019

General Purpose Financial Statements

for the year ended 30 June 2019

Understanding Council's Financial Statements

Introduction

Each year, individual Local Governments across NSW are required to present a set of audited financial statements to their council and community.

What you will find in the Statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2019.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, property, plant and equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "net wealth".

4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's "net wealth".

5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

About the Auditor's Reports

Council's financial statements are required to be audited by the NSW Audit Office.

In NSW the auditor provides 2 audit reports:

1. an opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

Who uses the Financial Statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the audit report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government.

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Goulburn Mulwaree Council

Financial Statements 2019

General Purpose Financial Statements

for the year ended 30 June 2019

Statement by Councillors and Management made pursuant to Section 413(2)(c) of the Local Government Act 1993 (NSW) (as amended)**The attached General Purpose Financial Statements have been prepared in accordance with:**

- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

To the best of our knowledge and belief, these statements:

- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.**Signed in accordance with a resolution of Council made on 15 October 2019.**

Cr Bob Kirk
Mayor
15 October 2019



Cr Peter Walker
Councillor
15 October 2019



Warwick Bennett
General Manager
15 October 2019



Brendan Hollands
Responsible Accounting Officer
15 October 2019

Goulburn Mulwaree Council

Financial Statements 2019

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ¹
Income from continuing operations				
<u>Revenue:</u>				
34,424	Rates and annual charges	3a	35,206	33,991
14,891	User charges and fees	3b	15,073	14,763
1,390	Interest and investment revenue	3c	2,446	2,442
1,157	Other revenues	3d	1,922	1,375
8,847	Grants and contributions provided for operating purposes	3e,3f	10,395	11,390
14,942	Grants and contributions provided for capital purposes	3e,3f	12,660	33,414
<u>75,651</u>	Total income from continuing operations		<u>77,702</u>	<u>97,375</u>
Expenses from continuing operations				
24,315	Employee benefits and on-costs	4a	24,586	22,428
1,460	Borrowing costs	4b	1,553	2,217
12,123	Materials and contracts	4c	11,678	11,295
18,101	Depreciation and amortisation	4d	17,589	16,990
6,202	Other expenses	4e	5,597	4,979
–	Net losses from the disposal of assets	5	5,076	2,323
–	Fair value decrement on investment properties	11	128	62
<u>62,201</u>	Total expenses from continuing operations		<u>66,207</u>	<u>60,294</u>
<u>13,450</u>	Operating result from continuing operations		<u>11,495</u>	<u>37,081</u>
<u>13,450</u>	Net operating result for the year		<u>11,495</u>	<u>37,081</u>
13,450	Net operating result attributable to council		11,495	37,081
<u>(1,492)</u>	Net operating result for the year before grants and contributions provided for capital purposes		<u>(1,165)</u>	<u>3,667</u>

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Income Statement should be read in conjunction with the accompanying notes.

Goulburn Mulwaree Council

Financial Statements 2019

Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	2018 ¹
Net operating result for the year (as per Income Statement)		11,495	37,081
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10(a)	5,082	20,421
Total items which will not be reclassified subsequently to the operating result		5,082	20,421
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Gain/(loss) on revaluation of financial assets at fair value through other comprehensive income (other than equity instruments)		156	-
Total items which will be reclassified subsequently to the operating result when specific conditions are met		156	-
Total other comprehensive income for the year		5,238	20,421
Total comprehensive income for the year		16,733	57,502
Total comprehensive income attributable to Council		16,733	57,502

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Goulburn Mulwaree Council

Financial Statements 2019

Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	2018 ¹
ASSETS			
Current assets			
Cash and cash equivalent assets	6(a)	8,587	5,971
Investments	6(b)	80,012	58,871
Receivables	7	7,365	7,615
Inventories	8a	273	241
Other	8b	330	420
Current assets classified as 'held for sale'	9i	1,181	1,004
Total current assets		97,748	74,122
Non-current assets			
Investments	6(b)	5,156	24,000
Receivables	7	101	97
Infrastructure, property, plant and equipment	10(a)	972,395	958,902
Investment property	11a	4,300	4,150
Total non-current assets		981,952	987,149
TOTAL ASSETS		1,079,700	1,061,271
LIABILITIES			
Current liabilities			
Payables	12	7,893	6,033
Income received in advance	12	1,305	1,301
Borrowings	12	1,693	1,629
Provisions	13	7,073	6,188
Total current liabilities		17,964	15,151
Non-current liabilities			
Borrowings	12	19,129	20,821
Provisions	13	7,544	6,969
Total non-current liabilities		26,673	27,790
TOTAL LIABILITIES		44,637	42,941
Net assets		1,035,063	1,018,330
EQUITY			
Accumulated surplus	14	385,656	369,334
Revaluation reserves	14	649,251	648,996
Other reserves	14	156	-
Council equity interest		1,035,063	1,018,330
Total equity		1,035,063	1,018,330

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Goulburn Mulwaree Council

Financial Statements 2019

Statement of Changes in Equity

for the year ended 30 June 2019

\$ '000	Notes	2019				2018 ¹			
		Accumulated surplus	IPP&E revaluation reserve	Financial assets at FVOCI	Total equity	Accumulated surplus	IPP&E revaluation reserve	Financial assets at FVOCI	Total equity
Opening balance		369,334	648,996	-	1,018,330	332,253	628,575	-	960,828
Opening balance		369,334	648,996	-	1,018,330	332,253	628,575	-	960,828
Net operating result for the year		11,495	-	-	11,495	37,081	-	-	37,081
Net operating result for the period		11,495	-	-	11,495	37,081	-	-	37,081
Other comprehensive income									
- Gain (loss) on revaluation of IPP&E	10(a)	-	5,082	-	5,082	-	20,421	-	20,421
- Gain/(loss) on revaluation of financial assets at fair value through other comprehensive income (other than equity instruments)		-	-	156	156	-	-	-	-
Other comprehensive income		-	5,082	156	5,238	-	20,421	-	20,421
Total comprehensive income		11,495	5,082	156	16,733	37,081	20,421	-	57,502
Transfers between equity items		4,827	(4,827)	-	-	-	-	-	-
Equity – balance at end of the reporting period		385,656	649,251	156	1,035,063	369,334	648,996	-	1,018,330

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Goulburn Mulwaree Council

Financial Statements 2019

Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
Receipts				
34,424	Rates and annual charges		35,140	33,492
14,891	User charges and fees		14,090	15,483
1,390	Investment and interest revenue received		2,622	2,635
23,789	Grants and contributions		20,002	32,338
–	Bonds, deposits and retention amounts received		305	420
1,157	Other		6,958	6,558
Payments				
(24,315)	Employee benefits and on-costs		(23,495)	(22,443)
(12,123)	Materials and contracts		(12,431)	(14,559)
(1,460)	Borrowing costs		(1,460)	(2,222)
–	Bonds, deposits and retention amounts refunded		–	(269)
(6,202)	Other		(10,619)	(8,918)
31,551	Net cash provided (or used in) operating activities	15b	31,112	42,515
Cash flows from investing activities				
Receipts				
–	Sale of investment securities		64,884	75,806
2,451	Sale of infrastructure, property, plant and equipment		1,584	412
Payments				
–	Purchase of investment securities		(67,023)	(71,857)
–	Purchase of investment property		(278)	(112)
(59,163)	Purchase of infrastructure, property, plant and equipment		(26,035)	(37,541)
(56,712)	Net cash provided (or used in) investing activities		(26,868)	(33,292)
Cash flows from financing activities				
Receipts				
14,760	Proceeds from borrowings and advances		–	–
Payments				
(1,629)	Repayment of borrowings and advances		(1,628)	(9,949)
13,131	Net cash flow provided (used in) financing activities		(1,628)	(9,949)
(12,030)	Net increase/(decrease) in cash and cash equivalents		2,616	(726)
6,697	Plus: cash and cash equivalents – beginning of year	15a	5,971	6,697
(5,333)	Cash and cash equivalents – end of the year	15a	8,587	5,971
Additional Information:				
–	plus: Investments on hand – end of year	6(b)	85,168	82,871
(5,333)	Total cash, cash equivalents and investments		93,755	88,842

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 03/09/2019. Council has the power to amend and reissue these financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting.

Council is a not for-profit entity.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts. Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Material budget variations

and are clearly marked.

(a) New and amended standards adopted by Council

During the year, Council adopted all standards which were mandatorily effective for the first time at 30 June 2019.

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note - Changes to Accounting policies due to adoption of new Accounting Standards

(b) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and certain classes of infrastructure, property, plant and equipment and investment property.

(c) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- estimated fair values of infrastructure, property, plant and equipment – refer Note 10
- employee benefit provisions

Significant judgements in applying the council's accounting policies

- Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables – refer Note 7.

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Monies and other assets received by Council

(a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), all money and property received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund. Cash and other assets of the following entities have been included as part of the Consolidated Fund:

- General purpose operations
- Domestic Waste Management Fund
- Water Supply Fund
- Sewerage service Fund

(b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the council in trust which must be applied only for the purposes of, or in accordance with, the trusts relating to those monies.

Trust monies and property subject to Council's control have been included in these reports.

A separate statement of monies held in the Trust Fund is available for inspection at the council office by any person free of charge

Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Statement of Financial Position.

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

New accounting standards and interpretations issued not yet effective

New accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods (and which have not been early adopted by Council).

As at the date of authorisation of these financial statements, Council does not consider that any of those standards are likely to have a material impact on the Council's future financial statements, financial position, financial performance or cash flows.

Council has not elected to apply any pronouncements before their operative date in these financial statements.

AASB 16 Leases

AASB 16 will result (for YE 19/20 and beyond) in almost all operating leases being recognised on the balance sheet by Council (alongside existing finance leases) with the distinction between operating and finance leases removed.

Under the new standard, a financial liability (ie. a lease liability) and an asset (ie. a right to use the leased item) will be recognised for nearly all arrangements where Council commits itself to paying a rental fee for the use of a specific asset.

The only exceptions are short-term and low-value leases which are exempt from the accounting (but not disclosure) requirements of AASB 16 - Leases.

Council staff have reviewed all of Council's leasing arrangements over the last 12 months taking into consideration the new

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

lease accounting rules in AASB 16 (applicable from 1/7/19).

AASB 16 will (on the whole) affect Council's accounting for existing operating lease agreements that are in place as at 30/6/19.

At the end of this reporting period, Council has non-cancellable operating lease commitments of \$651k- refer Note 16.

Further analysis is required to be undertaken for Council to determine the full impact of above identified leases.

Council's activities as a lessor are not material and hence Council does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

AASB 15 Revenue from Contracts with Customers and associated amending standards

AASB15 introduces a five-step process for revenue recognition, with the core principle of the new standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

Accounting policy changes will arise in the timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element.

Council should assess each revenue stream but particular impact is expected for grant income and rates which are paid before the commencement of the rating period.

The changes in revenue recognition requirements in AASB15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures.

Council is currently in the process of determining the potential effects of the implementation of AASB 15 and will reflect accordingly in FY19/20.

AASB 1058 Income of NFP (Not For Profit) Entities

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in AASB 1004 Contributions.

Under AASB 1058 the future timing of income recognition will depend on whether the transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service) related to an asset (such as cash or another asset) received by an entity.

AASB 1058 also applies when a Council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the Council's objective is principally to enable the asset to further the council's objectives.

Upon initial recognition of the asset, this standard requires Council to consider whether any other financial statement elements (called 'related amounts') should be recognised in accordance with the applicable accounting standard, such as:

- (a) contributions by owners
- (b) revenue, or a contract liability arising from a contract with a customer
- (c) a lease liability
- (d) a financial instrument, or
- (e) a provision.

If the transaction is a transfer of a financial asset to enable Council to acquire or construct a recognisable non-financial asset to be controlled by council (i.e. an in-substance acquisition of a non-financial asset), the council recognises a liability for the excess of the fair value of the transfer over any related amounts recognised. Council will then recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

Council is currently in the process of determining the potential effects of the implementation of AASB 1058 and will reflect accordingly in FY19/20.

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 2(a). Council functions/activities – financial information

Income, expenses and assets have been directly attributed to the following functions or activities.
Details of those functions or activities are provided in Note 2(b).

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
Civic Leadership	26,835	26,019	17,285	11,135	9,550	14,884	5,174	4,985	46,819	47,251
Community	2,194	5,375	4,925	9,260	(2,731)	(3,885)	2,608	3,433	62,264	59,111
Economy	310	327	1,528	1,843	(1,218)	(1,516)	49	–	7,496	7,465
Environment	10,985	13,308	5,770	9,668	5,215	3,640	1,224	610	78,329	77,480
Infrastructure	37,378	52,346	36,699	28,388	679	23,958	3,605	10,360	884,792	869,964
Total functions and activities	77,702	97,375	66,207	60,294	11,495	37,081	12,660	19,388	1,079,700	1,061,271

Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 2(b). Council functions/activities - component descriptions

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Civic Leadership

Our Leadership - Council administration including executive management, Councillor expenses, human resources, financial services, organisational overheads and oncosts, information and technology, customer service and administrative support. Governance such as access to information, code of conduct, legal services, insurances and policies and procedures.

Community

Our Community - Community services and education, including development, youth services, aged and disabled services; Community amenities such as public cemeteries, public conveniences and street lighting; Recreation and cultural services including, public library, art gallery and museums, community halls, sporting grounds and venues, swimming pool, parks and gardens, and other sport and recreation.

Economy

Our Economy - Economic affairs including marketing, visitor information and events, strategic planning and property management.

Environment

Our Environment - Activities such as public health, noxious plants and animal control, solid waste management, street cleaning, drainage and stormwater management, other environmental protection activities.

Infrastructure

Our Infrastructure - Includes the following networks; sewerage services, water supplies, bridges, footpaths, parking areas, sealed and unsealed roads, urban street, rural and regional roads.

Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations

\$ '000	2019	2018
(a) Rates and annual charges		
Ordinary rates		
Residential	12,972	12,386
Farmland	2,486	2,424
Business	4,505	4,418
Less: pensioner rebates (mandatory)	(447)	(448)
Rates levied to ratepayers	19,516	18,780
Pensioner rate subsidies received	244	242
Total ordinary rates	19,760	19,022
Annual charges		
<small>(pursuant to s.496, s.496A, s.496B, s.501 & s.611)</small>		
Domestic waste management services	3,729	3,453
Water supply services	2,358	2,228
Sewerage services	9,148	9,121
Waste management services (non-domestic)	417	362
Less: pensioner rebates (mandatory)	(452)	(442)
Annual charges levied	15,200	14,722
Pensioner subsidies received:		
– Water	91	93
– Sewerage	88	90
– Domestic waste management	67	64
Total annual charges	15,446	14,969
TOTAL RATES AND ANNUAL CHARGES	35,206	33,991

Council has used 01/07/2016 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and charges

Rates and annual charges are recognised as revenue when the Council obtains control over the assets comprising these receipts.

Pensioner rebates relate to reductions in rates and certain annual charges for eligible pensioners' place of residence in the local government council area that are not subsidised by the NSW Government.

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

\$ '000	2019	2018
(b) User charges and fees		
Specific user charges		
<small>(per s.502 - specific 'actual use' charges)</small>		
Water supply services	6,950	6,566
Sewerage services	1,896	1,877
Waste management services (non-domestic)	1,346	1,244
Total specific user charges	10,192	9,687

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Building regulation	227	355
Planning and building regulation	765	1,064
Private works – section 67	112	175
Regulatory/ statutory fees	118	97
Section 10.7 certificates (EP&A Act)	76	52
Section 603 certificates	59	52
Total fees and charges – statutory/regulatory	1,357	1,795
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Cemeteries	251	285
Library and art gallery	44	47
Swimming centres	537	514
Waste disposal tipping fees	2,140	1,841
Aged and disabled services	215	181
Hire of council properties	101	94
Sports stadium/recreation facilities	104	114
Animal Impounding	16	23
Other	116	182
Total fees and charges – other	3,524	3,281
TOTAL USER CHARGES AND FEES	15,073	14,763

Accounting policy for user charges and fees

User charges and fees are recognised as revenue when the service has been provided.

(c) Interest and investment revenue (including losses)

Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	77	76
– Cash and investments	2,366	2,357
Fair value adjustments		
– Movements in investments at fair value through profit and loss	3	6
– Movements in investments (other)	1	4
Amortisation of premiums and discounts		
– 'Held to maturity' investments	(1)	(1)
TOTAL INTEREST AND INVESTMENT REVENUE	2,446	2,442
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	34	35
General Council cash and investments	406	648
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	166	165
– Section 64	212	209
Water fund operations	743	673
Sewerage fund operations	798	647
Domestic waste management operations	87	65
Total interest and investment revenue	2,446	2,442

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

Accounting policy for interest and investment revenue

Interest income is recognised using the effective interest rate at the date that interest is earned.

Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

\$ '000	Notes	2019	2018
(d) Other revenues			
Rental income – investment property	11	246	208
Rental income – other council properties		117	76
Fines – parking		115	26
Fines – other		7	2
Legal fees recovery – rates and charges (extra charges)		117	139
Commissions and agency fees		5	7
Diesel rebate		111	104
Insurance claims recoveries		13	2
Sales – general		779	412
Insurance rebates		111	108
Southern phone dividend		31	31
Employee contributions		132	130
Gravel pit royalties		–	31
Other		138	99
TOTAL OTHER REVENUE		1,922	1,375

Accounting policy for other revenue

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

Parking fines are recognised as revenue when the penalty has been applied.

Other revenue is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

Rental income is accounted for on a straight-line basis over the lease term.

Miscellaneous sales are recognised when physical possession has transferred to the customer which is deemed to be the point of transfer of risks and rewards.

Other income is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance	1,708	1,626	–	–
Financial assistance – local roads component	830	814	–	–
Payment in advance - future year allocation				
Financial assistance	2,631	2,504	–	–
Total general purpose	5,169	4,944	–	–
Specific purpose				
Water supplies	85	–	–	–
Sewerage services	–	–	–	6,000
Bushfire and emergency services	181	146	–	–
Community care	176	176	–	129
Economic development	–	30	–	–
Employment and training programs	5	12	–	–
Environmental programs	254	294	198	–
Heritage and cultural	104	101	975	394
Library – per capita	88	114	–	–
LIRS subsidy	74	88	–	–
Noxious weeds	491	109	–	–
Recreation and culture	159	33	1,646	2,258
Street lighting	157	157	–	–
Transport (roads to recovery)	503	2,213	–	–
Transport (other roads and bridges funding)	62	–	2,285	2,139
Road safety initiatives	48	51	–	–
Total specific purpose	2,387	3,524	5,104	10,920
Total grants	7,556	8,468	5,104	10,920
Grant revenue is attributable to:				
– Commonwealth funding	5,750	5,115	1,694	6,065
– State funding	1,709	3,306	3,410	4,855
– Other funding	97	47	–	–
	7,556	8,468	5,104	10,920

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(f) Contributions					
Developer contributions:					
(s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.11 – contributions towards amenities/services		1,072	895	332	885
S 7.12 – fixed development consent levies		390	624	–	–
S 64 – water supply contributions		–	–	1,063	2,976
S 64 – sewerage service contributions		–	–	1,757	3,904
S 64 – stormwater contributions		–	–	252	(42)
Total developer contributions – cash		1,462	1,519	3,404	7,723

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
Non-cash contributions					
S 7.11 – contributions towards amenities/services		–	–	1,188	5,681
S 64 – water supply contributions		–	–	415	2,069
S 64 – sewerage service contributions		–	–	577	3,344
S 64 – stormwater contributions		–	–	1,497	3,391
Total developer contributions non-cash		–	–	3,677	14,485
Total developer contributions	22	1,462	1,519	7,081	22,208
Other contributions:					
Cash contributions					
Heritage/cultural		106	123	16	–
Other councils – joint works/services		17	17	–	–
Recreation and culture		6	–	–	20
Roads and bridges		–	–	55	–
RMS contributions (regional roads, block grant)		519	599	–	–
Sewerage (excl. section 64 contributions)		–	–	35	–
Water supplies (excl. section 64 contributions)		–	–	369	266
Other		65	79	–	–
Veolia host fee		664	585	–	–
Total other contributions – cash		1,377	1,403	475	286
Total other contributions		1,377	1,403	475	286
Total contributions		2,839	2,922	7,556	22,494
TOTAL GRANTS AND CONTRIBUTIONS		10,395	11,390	12,660	33,414

Accounting policy for grants and contributions

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and is valued at the fair value of the granted or contributed asset at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner, or used over a particular period, and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed below.

Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of sections 7.4, 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979*.

While Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon receipt by Council, due to the possibility that individual development consents may not be acted upon by the applicant and, accordingly, would not be payable to Council.

Developer contributions may only be expended for the purposes for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisite service has not been provided at reporting date.

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
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(g) Unspent grants and contributions

Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:

Operating grants

Unexpended at the close of the previous reporting period	561	549
Add: operating grants recognised in the current period but not yet spent	1,144	435
Add: operating grants received for the provision of goods and services in a future period	-	-
Less: operating grants recognised in a previous reporting period now spent	(206)	(423)
Unexpended and held as restricted assets (operating grants)	<u>1,499</u>	<u>561</u>

Control over operating grants is normally obtained up their receipt and is valued at the fair value of the grant at the date of the transfer.

Capital grants

Unexpended at the close of the previous reporting period	3,035	1,223
Add: capital grants recognised in the current period but not yet spent	1,811	2,781
Add: capital grants received for the provision of goods and services in a future period	-	-
Less: capital grants recognised in a previous reporting period now spent	(704)	(969)
Unexpended and held as restricted assets (capital grants)	<u>4,142</u>	<u>3,035</u>

Where grants recognised as revenues during the financial year were obtained on condition that they be expended in a particular asset and those conditions were un-discharged at reporting date, the unused grant is disclosed above.

Contributions

Unexpended at the close of the previous reporting period	16,996	16,031
Add: contributions recognised in the current period but not yet spent	5,239	9,273
Add: contributions received for the provision of goods and services in a future period	-	-
Add: contributions recognised as income in the current period obtained in respect of a future rating identified by Council for the purpose of establishing a rate	-	-
Less: contributions recognised in a previous reporting period now spent	(2,350)	(8,308)
Unexpended and held as restricted assets (contributions)	<u>19,885</u>	<u>16,996</u>

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisited service has not been provided at reporting date.

Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations

\$ '000	2019	2018
(a) Employee benefits and on-costs		
Salaries and wages	17,703	18,180
Travel expenses	22	12
Employee leave entitlements (ELE)	4,513	2,028
Superannuation	2,144	2,039
Workers' compensation insurance	862	665
Fringe benefit tax (FBT)	69	81
Payroll tax	144	143
Training costs (other than salaries and wages)	368	251
Protective clothing	101	94
Recruitment	161	137
Other	85	68
Total employee costs	26,172	23,698
Less: capitalised costs	(1,586)	(1,270)
TOTAL EMPLOYEE COSTS EXPENSED	24,586	22,428
Number of 'full-time equivalent' employees (FTE) at year end	290	267

Accounting policy for employee benefits and on-costs

Employee benefit expenses are recorded when the service has been provided by the employee.

Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Superannuation plans

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 19 for more information.

\$ '000	Notes	2019	2018
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		1,453	2,119
Total interest bearing liability costs expensed		1,453	2,119
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	13	100	98
Total other borrowing costs		100	98
TOTAL BORROWING COSTS EXPENSED		1,553	2,217

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

Accounting policy for borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

\$ '000	2019	2018
(c) Materials and contracts		
Raw materials and consumables	3,735	3,405
Contractor and consultancy costs	7,072	7,460
Auditors remuneration ²	65	77
Legal expenses:		
– Legal expenses: planning and development	392	118
– Legal expenses: debt recovery	119	146
– Legal expenses: other	126	86
Operating leases:		
– Operating lease rentals: minimum lease payments ¹	169	3
Total materials and contracts	<u>11,678</u>	<u>11,295</u>
TOTAL MATERIALS AND CONTRACTS	<u>11,678</u>	<u>11,295</u>

Accounting policy for operating leases

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

1. Operating lease payments are attributable to:

Buildings	148	–
Other	21	3
	<u>169</u>	<u>3</u>

2. Auditor remuneration

During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms

Auditors of the Council - NSW Auditor-General:**(i) Audit and other assurance services**

Audit and review of financial statements	65	77
Remuneration for audit and other assurance services	<u>65</u>	<u>77</u>
Total Auditor-General remuneration	<u>65</u>	<u>77</u>

Non NSW Auditor-General audit firms

Total remuneration of non NSW Auditor-General audit firms	<u>–</u>	<u>–</u>
Total Auditor remuneration	<u>65</u>	<u>77</u>

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2019	2018
(d) Depreciation, amortisation and impairment of intangible assets and IPP&E			
Depreciation and amortisation			
Plant and equipment		972	958
Office equipment		597	521
Furniture and fittings		54	42
Land improvements (depreciable)		63	53
Infrastructure:			
– Buildings – non-specialised		1,584	1,345
– Other structures		173	153
– Roads		7,199	7,040
– Bridges		443	430
– Footpaths		203	186
– Stormwater drainage		941	904
– Water supply network		3,146	3,058
– Sewerage network		1,605	1,729
– Swimming pools		54	43
– Other open space/recreational assets		198	140
Other assets:			
– Library books		147	183
– Other		19	13
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	10(a),13	184	184
– Quarry assets	10(a),13	7	8
Total gross depreciation and amortisation costs		<u>17,589</u>	<u>16,990</u>
Total depreciation and amortisation costs		<u>17,589</u>	<u>16,990</u>
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR INTANGIBLES AND IPP&E		<u>17,589</u>	<u>16,990</u>

Accounting policy for depreciation, amortisation and impairment expenses of intangibles and IPP&E**Depreciation and amortisation**

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 10 for IPPE assets.

Impairment of non-financial assets

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(e) Other expenses		
Advertising	223	204
Bad and doubtful debts	62	–
Bank charges	175	169
Contributions/levies to other levels of government		
Contributions/levies to other levels of government		
– Emergency services levy (includes FRNSW, SES, and RFS levies)	41	17
– NSW fire brigade levy	109	110
– NSW rural fire service levy	301	309
Councillor expenses – mayoral fee	43	42
Councillor expenses – councillors' fees	178	174
Councillors' expenses (incl. mayor) – other (excluding fees above)	15	19
Donations, contributions and assistance to other organisations (Section 356)	226	360
Electricity and heating	1,413	1,050
Insurance	1,125	1,023
Postage	121	137
Printing and stationery	174	154
Street lighting	691	557
Subscriptions and publications	170	148
Telephone and communications	264	239
Valuation fees	124	134
Other	142	133
Total other expenses	5,597	4,979
TOTAL OTHER EXPENSES	5,597	4,979

Accounting policy for other expenses

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 5. Gains or losses from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2019	2018
Property (excl. investment property)			
Proceeds from disposal – property		1,276	–
Less: carrying amount of property assets sold/written off		(410)	(341)
Net gain/(loss) on disposal		866	(341)
Plant and equipment			
	10(a)		
Proceeds from disposal – plant and equipment		308	412
Less: carrying amount of plant and equipment assets sold/written off		(268)	(206)
Net gain/(loss) on disposal		40	206
Infrastructure			
	10(a)		
Less: carrying amount of infrastructure assets sold/written off		(5,981)	(2,188)
Net gain/(loss) on disposal		(5,981)	(2,188)
Investments			
	6(b)		
Proceeds from disposal/redemptions/maturities – investments		64,884	75,806
Less: carrying amount of investments sold/redeemed/matured		(64,885)	(75,806)
Net gain/(loss) on disposal		(1)	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(5,076)	(2,323)

Accounting policy for disposal of assets

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is de-recognised.

Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	1,937	2,220
Cash-equivalent assets		
– Deposits at call	6,650	3,751
Total cash and cash equivalents	8,587	5,971

Accounting policy for cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents include: cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Note 6(b). Investments

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Investments				
a. 'Financial assets at fair value through profit and loss'				
– 'Held for trading'	2,012	–	2,011	–
b. 'Financial assets at amortised cost' / 'held to maturity' (2018)	78,000	5,000	56,860	24,000
d. 'Financial assets at fair value through other comprehensive income' / 'available for sale financial assets' (2018)	–	156	–	–
Total Investments	80,012	5,156	58,871	24,000
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	88,599	5,156	64,842	24,000
Financial assets at fair value through the profit and loss				
NCD's, FRN's (with maturities > 3 months)	2,012	–	2,011	–
Total	2,012	–	2,011	–
Financial assets at amortised cost / held to maturity (2018)				
Long term deposits	78,000	5,000	56,852	24,000
Other long term financial assets	–	–	8	–
Total	78,000	5,000	56,860	24,000
Financial assets at fair value through other comprehensive income / available for sale financial assets (2018)				
Unlisted equity securities	–	156	–	–
Total	–	156	–	–

Accounting policy for investments**Accounting policy under AASB 9 – applicable from 1 July 2018**

Financial instruments are recognised initially on the date that the Council becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)**Financial assets**

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, Council classifies its financial assets into the following categories – those measured at:

- amortised cost
- fair value through profit and loss (FVTPL)
- fair value through other comprehensive income – equity instrument (FVOCI-equity)

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Council's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, impairment and gains or loss on de-recognition are recognised in profit or loss.

Fair value through other comprehensive income – equity instruments

Council has shares in Southern Phone Company Limited over which it does not have significant influence nor control. Council has made an irrevocable election to classify this equity investment as fair value through other comprehensive income as they are not held for trading purposes.

This investment is carried at fair value with changes in fair value recognised in other comprehensive income (financial asset reserve). On disposal any balance in the financial asset reserve is transferred to accumulated surplus and is not reclassified to profit or loss.

Other net gains and losses excluding dividends are recognised in Other Comprehensive Income Statement.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

Council's financial assets measured at fair value through profit or loss comprise investments in FRNs and NCDs in the Statement of Financial Position.

Accounting policy under AASB 139 – applicable for 2018 comparatives only**Classification**

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are held at fair value with changes in value taken through profit or loss at each reporting period.

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

(b) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Income Statement as gains and losses from investment securities.

Impairment of financial assets

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment of available for sale investments

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Note 6(c). Restricted cash, cash equivalents and investments – details

\$ '000	2019		2018	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	88,599	5,156	64,842	24,000
attributable to:				
External restrictions	70,199	5,156	44,295	24,000
Internal restrictions	17,220	-	15,667	-
Unrestricted	1,180	-	4,880	-
	88,599	5,156	64,842	24,000

\$ '000	2019	2018
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – water	138	938
Employee leave entitlements – domestic waste	276	226
Employee leave entitlements – sewerage	605	717
Employee leave entitlements – water	649	534

External restrictions – included in liabilities

	1,668	2,415
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External restrictions – other

Developer contributions – general	6,507	6,150
Developer contributions – water fund	7,404	6,567

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for the year ended 30 June 2019

Note 6(c). Restricted cash, cash equivalents and investments – details (continued)

\$ '000	2019	2018
Developer contributions – sewer fund	5,974	4,279
Specific purpose unexpended grants	4,835	3,321
Specific purpose unexpended grants-water fund	85	–
Water supplies	20,568	18,195
Water supplies – incomplete works	1,566	499
Sewerage services	17,457	14,625
Sewerage services – incomplete works	7,372	10,213
Domestic waste management	1,198	1,756
Specific purpose unexpended grants – DWM	721	275
External restrictions – other	73,687	65,880
Total external restrictions	75,355	68,295
Internal restrictions		
Plant and vehicle replacement	2,134	2,014
Employees leave entitlement	1,066	1,066
Asset management	60	145
Bridges	963	933
Buildings	(53)	189
Cemeteries	51	6
Collex/Veolia host fee	911	631
Community assistance scheme	230	286
Election reserve	80	40
Energy efficiency	5	5
Environment	1,001	873
Fife place foot	–	90
Financial Assistance Grant	2,632	2,504
Gallery	96	138
Insurance rebates	137	160
Library development	346	361
Local roads/infrastructure	1,579	1,854
Marulan hall	138	138
Museums	1,343	1,104
Outdoor pool renewal	1,078	373
Performing arts	885	452
Proceeds from land sales	120	–
Public entertainment venue	509	280
Risk management	200	139
Social plan	61	73
Special projects	25	129
Strategic planning	308	374
Technology	93	92
Tip replacement	263	188
Tourism	100	145
Training	131	158
Open Space	400	–
Seiffert Oval Pavillion	–	400
Landscaped Areas	278	102
Wollondilly Walking Track	–	175
Other	50	50
Total internal restrictions	17,220	15,667
TOTAL RESTRICTIONS	92,575	83,962

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Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Purpose				
Rates and annual charges	976	98	920	86
Interest and extra charges	26	3	34	11
User charges and fees	1,062	–	973	–
Accrued revenues				
– Interest on investments	880	–	1,043	–
– Other income accruals	2,054	–	1,841	–
Government grants and subsidies	1,199	–	2,369	–
Net GST receivable	1,234	–	422	–
Other debtors	–	–	16	–
Total	7,431	101	7,618	97
Less: provision of impairment				
Rates and annual charges	(33)	–	–	–
User charges and fees	(19)	–	–	–
Other debtors	(14)	–	(3)	–
Total provision for impairment – receivables	(66)	–	(3)	–
TOTAL NET RECEIVABLES	7,365	101	7,615	97
Externally restricted receivables				
Water supply				
– Rates and availability charges	97	4	97	8
– Other	1,548	15	1,594	24
Sewerage services				
– Rates and availability charges	356	14	338	32
– Other	624	7	633	7
Domestic waste management	71	5	97	4
Total external restrictions	2,696	45	2,759	75
Unrestricted receivables	4,669	56	4,856	22
TOTAL NET RECEIVABLES	7,365	101	7,615	97

\$ '000	2019	2018
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	66	3
Balance at the end of the period	66	3

Accounting policy for receivables

Recognition and measurement

Receivables are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

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Note 7. Receivables (continued)

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Impairment**Accounting policy under AASB 9 applicable from 1 July 2018**

Impairment of financial assets measured at amortised cost is recognised on an expected credit loss (ECL) basis.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating ECL, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience and informed credit assessment, and including forward-looking information.

When considering the ECL for rates debtors, Council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold. Council does however make provisions for the probability of Council approved write off of legal fees raised against the property (included in the Rates & Annual Charges receivable balance). This is calculated based on historical data.

For non-rates debtors, Council uses the presumption that an asset which is more than 90 days past due has seen a significant increase in credit risk.

The Council uses the presentation that a financial asset is in default when the other party is unlikely to pay its credit obligations to the Council in full, without recourse by the Council to actions such as realising security (if any is held).

Credit losses are measured as the present value of the difference between the cash flows due to the entity in accordance with the contract, and the cash flows expected to be received. This is applied using a probability weighted approach.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

None of the receivables that have been written off are subject to enforcement activity.

Accounting policy under AASB 139 – applicable for 2018 comparatives only

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

Rates and annual charges outstanding are secured against the property.

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for the year ended 30 June 2019

Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Inventories				
(i) Inventories at cost				
Stores and materials	273	–	238	–
Trading stock	–	–	3	–
Total inventories at cost	273	–	241	–
TOTAL INVENTORIES	273	–	241	–
(b) Other assets				
Prepayments	330	–	419	–
Other	–	–	1	–
TOTAL OTHER ASSETS	330	–	420	–

Externally restricted assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Sewerage				
Trading stock	–	–	3	–
Total sewerage	–	–	3	–

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total externally restricted assets	–	–	3	–
Total internally restricted assets	–	–	–	–
Total unrestricted assets	603	–	658	–
TOTAL INVENTORIES AND OTHER ASSETS	603	–	661	–

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventory held for distribution

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

Land held for resale/capitalisation of borrowing costs

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed, borrowing costs and other holding charges are expensed as incurred.

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Note 8. Inventories and other assets (continued)

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

Note 9. Non-current assets classified as held for sale

(i) Non-current assets and disposal group assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Non-current assets 'held for sale'				
Land	1,032	–	855	–
Buildings	149	–	149	–
Total non-current assets 'held for sale'	1,181	–	1,004	–
Disposal group assets 'held for sale'				
a. Name of disposal group here ...				
b. Name of disposal group here ...				
Total disposal groups 'held for sale'	–	–	–	–
TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'	1,181	–	1,004	–

(ii) Details of assets and disposal groups

Comprising of the old Nursery and Depot in Dossie Street; vacant land in Ben Bullen Place, Finlay Rd and Hercules St. Properties to be presented to the market during the 2020 financial year.

(iii) Reconciliation of non-current assets 'held for sale' and disposal groups – i.e. discontinued operations

\$ '000	2019 Assets 'held for sale'	2018 Assets 'held for sale'
Opening balance	1,004	–
Balance still unsold after 12 months:	1,004	–
<u>Plus new transfers in:</u>		
– Assets 'held for sale'	177	1,004
Closing balance of 'held for sale' non-current assets and operations	1,181	1,004

Accounting policy for non-current assets classified as held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as assets arising from employee benefits; financial assets; and investment properties that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Non-current assets classified as held for sale (continued)

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Goulburn Mulwaree Council

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Notes to the Financial Statements
for the year ended 30 June 2019

Note 10(a). Infrastructure, property, plant and equipment

	as at 30/6/2018			Asset movements during the reporting period									as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ⁽¹⁾	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Tfrs from/(to) 'held for sale' category	Tfrs from/(to) investment properties	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000															
Capital work in progress	28,831	-	28,831	4,077	6,273	-	-	(26,319)	-	-	-	-	12,862	-	12,862
Plant and equipment	18,103	(10,686)	7,417	1,456	53	(267)	(972)	-	-	-	-	-	18,154	(10,467)	7,687
Office equipment	4,285	(2,274)	2,011	547	266	(1)	(597)	-	-	-	-	-	4,053	(1,827)	2,226
Furniture and fittings	1,263	(877)	386	21	10	-	(54)	-	-	-	-	-	1,293	(930)	363
Land:															
- Operational land	22,105	-	22,105	-	-	(340)	-	-	-	(170)	-	-	21,595	-	21,595
- Community land	18,859	-	18,859	-	-	(69)	-	-	-	(7)	(110)	-	18,673	-	18,673
- Land under roads (post 30/6/08)	83	-	83	-	-	-	-	-	-	-	-	-	83	-	83
Land improvements - depreciable	2,190	(466)	1,724	-	-	-	(63)	-	-	-	-	-	2,190	(529)	1,661
Infrastructure:															
- Buildings - non-specialised	82,987	(39,009)	43,978	517	295	(233)	(1,584)	14	-	-	-	-	83,213	(40,226)	42,987
- Other structures	5,318	(1,671)	3,647	82	246	-	(173)	60	-	-	-	-	5,706	(1,844)	3,862
- Roads	575,236	(154,772)	420,464	4,639	2,235	(3,699)	(7,199)	1,953	-	-	-	-	577,338	(158,945)	418,393
- Bridges	44,157	(14,151)	30,006	-	226	-	(443)	967	-	-	-	-	45,349	(14,593)	30,756
- Footpaths	16,006	(2,606)	13,400	111	284	(16)	(203)	46	-	-	-	-	16,424	(2,802)	13,622
- Stormwater drainage	94,994	(30,138)	64,856	-	1,595	-	(941)	207	-	-	-	-	96,796	(31,079)	65,717
- Water supply network	304,045	(97,137)	206,908	2,748	415	(476)	(3,146)	-	-	-	3,291	-	310,845	(101,105)	209,740
- Sewerage network	166,939	(79,230)	87,709	5,395	827	(1,557)	(1,605)	23,055	-	-	-	1,791	182,807	(67,192)	115,615
- Swimming pools	1,302	(506)	796	28	-	-	(54)	-	-	-	-	-	1,331	(561)	770
- Other open space/recreational assets	3,808	(1,510)	2,298	80	166	-	(198)	17	-	-	-	-	4,070	(1,707)	2,363
Other assets:															
- Library books	967	(540)	427	110	-	-	(147)	-	-	-	-	-	1,076	(686)	390
- Other	344	(63)	281	47	64	-	(19)	-	-	-	-	-	455	(82)	373
Reinstatement, rehabilitation and restoration assets (refer Note 14):															
- Tip assets	4,538	(1,903)	2,635	-	-	-	(184)	-	-	-	-	-	4,538	(2,087)	2,451
- Quarry assets	150	(69)	81	-	-	-	(7)	-	132	-	-	-	282	(76)	206
Total Infrastructure, property, plant and equipment	1,396,510	(437,608)	958,902	19,858	12,955	(6,658)	(17,589)	-	132	(177)	(110)	5,082	1,409,133	(436,738)	972,395

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

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Notes to the Financial Statements
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Note 10(a). Infrastructure, property, plant and equipment (continued)

	as at 30/6/2017			Asset movements during the reporting period							as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Tfrs from/(to) 'held for sale' category	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000													
Capital work in progress	13,225	–	13,225	17,353	1,963	–	–	(3,710)	–	–	28,831	–	28,831
Plant and equipment	17,735	(11,079)	6,656	1,898	18	(197)	(958)	–	–	–	18,103	(10,686)	7,417
Office equipment	4,261	(2,670)	1,591	684	266	(9)	(521)	–	–	–	4,285	(2,274)	2,011
Furniture and fittings	1,142	(844)	298	56	74	–	(42)	–	–	–	1,263	(877)	386
Land:													
– Operational land	17,941	–	17,941	–	–	–	–	–	(855)	5,019	22,105	–	22,105
– Community land	18,859	–	18,859	–	–	–	–	–	–	–	18,859	–	18,859
– Land under roads (post 30/6/08)	83	–	83	–	–	–	–	–	–	–	83	–	83
Land improvements – depreciable	1,713	(413)	1,300	30	447	–	(53)	–	–	–	2,190	(466)	1,724
Infrastructure:													
– Buildings – non-specialised	78,086	(45,555)	32,531	625	724	(341)	(1,345)	2,413	(149)	9,520	82,987	(39,009)	43,978
– Other structures	4,843	(1,517)	3,326	297	177	–	(153)	–	–	–	5,318	(1,671)	3,647
– Roads	565,948	(149,764)	416,184	4,848	6,914	(1,624)	(7,040)	1,182	–	–	575,236	(154,772)	420,464
– Bridges	43,008	(13,725)	29,283	556	486	(4)	(430)	115	–	–	44,157	(14,151)	30,006
– Footpaths	14,545	(2,424)	12,121	15	1,472	(22)	(186)	–	–	–	16,006	(2,606)	13,400
– Stormwater drainage	91,603	(29,233)	62,370	24	3,366	–	(904)	–	–	–	94,994	(30,138)	64,856
– Water supply network	294,860	(92,229)	202,631	1,210	2,112	(181)	(3,058)	–	–	4,194	304,045	(97,137)	206,908
– Sewerage network	160,434	(77,006)	83,428	1,293	3,386	(357)	(1,729)	–	–	1,688	166,939	(79,230)	87,709
– Swimming pools	1,207	(480)	727	112	–	–	(43)	–	–	–	1,302	(506)	796
– Other open space/recreational assets	2,567	(1,371)	1,196	68	1,174	–	(140)	–	–	–	3,808	(1,510)	2,298
Other assets:													
– Library books	920	(458)	462	139	9	–	(183)	–	–	–	967	(540)	427
– Other	279	(50)	229	–	65	–	(13)	–	–	–	344	(63)	281
Reinstatement, rehabilitation and restoration assets (refer Note 14):													
– Tip assets	4,538	(1,719)	2,819	–	–	–	(184)	–	–	–	4,538	(1,903)	2,635
– Quarry assets	150	(61)	89	–	–	–	(8)	–	–	–	150	(69)	81
Total Infrastructure, property, plant and equipment	1,337,947	(430,598)	907,349	29,208	22,653	(2,735)	(16,990)	–	(1,004)	20,421	1,396,510	(437,608)	958,902

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 10(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent valuations are performed at least every five years, however the carrying amount of assets is assessed at each reporting date to confirm that it is not materially different from current fair value.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Crown Lands and Water (CLAW).

Increases in the carrying amounts arising on revaluation are credited to the revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Plant and equipment	Years	Other equipment	Years
Office equipment	5 to 10	Playground equipment	5 to 15
Office furniture	10 to 20	Benches, seats etc.	10 to 20
Computer equipment	4		
Vehicles	5 to 8	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings: masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: other	20 to 40
Water and sewer assets		Stormwater assets	
Dams and reservoirs	80 to 100	Drains	80 to 100
Bores	20 to 40	Culverts	50 to 80
Reticulation pipes: PVC	70 to 80	Flood control structures	80 to 100
Reticulation pipes: other	25 to 75		
Pumps and telemetry	15 to 20		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	20	Bulk earthworks	20
Sealed roads: structure	50	Swimming pools	50
Unsealed roads	20	Unsealed roads	20
Bridge: concrete	100	Other open space/recreational assets	20
Bridge: other	50	Other infrastructure	20
Road pavements	60		
Kerb, gutter and footpaths	40		

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

Land under roads

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips.

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051 Land Under Roads.

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 10(a). Infrastructure, property, plant and equipment (continued)

Crown reserves

Crown reserves under Council's care and control are recognised as assets of the council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

Under Section 119 of the *Rural Fire Services Act 1997 (NSW)*, "all firefighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the firefighting equipment has been purchased or constructed". Until such time as discussions on this matter have concluded and the legislation changed, Council will recognise rural fire service assets including land and buildings.

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for the year ended 30 June 2019

Note 10(b). Externally restricted infrastructure, property, plant and equipment

\$ '000	2019			2018		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	554	-	554	-	-	-
Plant and equipment	513	383	130	511	394	117
Office equipment	-	-	-	7	7	-
Furniture and fittings	4	4	-	4	4	-
Land						
- Operational land	2,137	-	2,137	2,137	-	2,137
- Improvements – depreciable	397	122	275	397	114	283
Buildings	1,310	940	370	1,310	923	387
Other structures	18	13	5	18	12	6
Infrastructure	310,844	101,105	209,739	304,045	97,137	206,908
Total water supply	315,777	102,567	213,210	308,429	98,591	209,838
Sewerage services						
WIP	340	-	340	23,118	-	23,118
Plant and equipment	368	307	61	356	299	57
Furniture and fittings	5	5	-	5	5	-
Land						
- Operational land	6,645	-	6,645	6,645	-	6,645
- Community land	143	-	143	143	-	143
Buildings	1,992	1,611	381	1,992	1,586	406
Other structures	35	25	10	35	23	12
Infrastructure	182,806	67,192	115,614	166,939	79,230	87,709
Total sewerage services	192,334	69,140	123,194	199,233	81,143	118,090
Domestic waste management						
Plant and equipment	8	8	-	8	8	-
Other structures	29	11	18	29	10	19
Total DWM	37	19	18	37	18	19
TOTAL RESTRICTED I,PP&E	508,148	171,726	336,422	507,699	179,752	327,947

Goulburn Mulwaree Council

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for the year ended 30 June 2019

Note 11. Investment property

\$ '000	2019	2018
(a) Investment property at fair value		
Investment property on hand	4,300	4,150
Reconciliation of annual movement:		
Opening balance	4,150	4,100
– Capitalised expenditure – this year	168	112
– Net gain/(loss) from fair value adjustments	(128)	(62)
– Transfers from/(to) owner occupied (Note 10)	110	–
CLOSING BALANCE – INVESTMENT PROPERTY	4,300	4,150

(b) Valuation basis

The basis of valuation of investment property is fair value, being the amounts for which the properties could be exchanged between willing parties in arms length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The 2019 revaluations were based on independent assessments made by: Scott Fullarton Valuations Pty Ltd, Director Scott Fullarton. FAPI, Certified Practising Valuer, Registered Valuer No. 2144.

(c) Contractual obligations at reporting date

Refer to Note 18 for disclosures relating to any capital and service obligations that have been contracted.

(d) Leasing arrangements – Council as lessor

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly.

Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:

Within 1 year	172	215
Later than 1 year but less than 5 years	748	756
Later than 5 years	204	260
Total minimum lease payments receivable	1,124	1,231

(e) Investment property income and expenditure – summary**Rental income from investment property:**

– Minimum lease payments	246	208
Net revenue contribution from investment property	246	208

plus:

Fair value movement for year	(128)	(62)
Total income attributable to investment property	118	146

Accounting policy for investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council. Changes in fair values are recorded in the Income Statement as a separate line item.

Properties that are under construction for future use as investment properties are regarded as investment property. These are also carried at fair value unless the fair value cannot yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete.

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Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Payables				
Goods and services – operating expenditure	570	–	686	–
Goods and services – capital expenditure	2,284	–	708	–
Accrued expenses:				
– Borrowings	184	–	190	–
– Salaries and wages	599	–	581	–
– Other expenditure accruals	3,061	–	2,523	–
Security bonds, deposits and retentions	1,189	–	884	–
Subsidised scheme	–	–	36	–
Other	6	–	425	–
Total payables	7,893	–	6,033	–
Income received in advance				
Payments received in advance	1,305	–	1,301	–
Total income received in advance	1,305	–	1,301	–
Borrowings				
Loans – secured ¹	1,693	19,129	1,629	20,821
Total borrowings	1,693	19,129	1,629	20,821
TOTAL PAYABLES AND BORROWINGS	10,891	19,129	8,963	20,821

(1) Loans are secured over the general rating income of Council.

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 20.

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Water	1,991	13,102	1,068	13,579
Sewer	1,369	3,434	611	3,941
Domestic waste management	56	–	29	–
Payables and borrowings relating to externally restricted assets	3,416	16,536	1,708	17,520
Total payables and borrowings relating to restricted assets	3,416	16,536	1,708	17,520
Total payables and borrowings relating to unrestricted assets	7,475	2,593	7,255	3,301
TOTAL PAYABLES AND BORROWINGS	10,891	19,129	8,963	20,821

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Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

\$ '000	2019	2018
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(b) Current payables and borrowings not anticipated to be settled within the next twelve months

The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.

Payables – security bonds, deposits and retentions	884	705
Total payables and borrowings	884	705

(c) Changes in liabilities arising from financing activities

\$ '000	as at 30/6/2018					as at 30/6/2019
	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	22,450	(1,628)	–	–	–	20,822
TOTAL	22,450	(1,628)	–	–	–	20,822

\$ '000	as at 30/6/2017					as at 30/6/2018
	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	32,399	(9,949)	–	–	–	22,450
TOTAL	32,399	(9,949)	–	–	–	22,450

\$ '000	2019	2018
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(d) Financing arrangements

(i) Unrestricted access was available at balance date to the following lines of credit:

Credit cards/purchase cards	110	110
Total financing arrangements	110	110

Undrawn facilities as at balance date:

– Credit cards/purchase cards	110	110
Total undrawn financing arrangements	110	110

Additional financing arrangements information

Breaches and defaults

During the current and prior year, there were no defaults or breaches on any of the loans.

Security over loans

Loans are secured over future cash flows.

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Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)**Accounting policy for payables and borrowings**

Council measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Council comprise trade payables, bank and other loans and finance lease liabilities.

Payables

These amounts represent liabilities for goods and services provided to the council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

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

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

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

Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	2,060	–	1,760	–
Sick leave	43	–	59	–
Long service leave	4,941	674	4,347	330
Other leave	29	–	22	–
Sub-total – aggregate employee benefits	7,073	674	6,188	330
Asset remediation/restoration:				
Goulburn tip	–	6,436	–	6,341
Gravel pits	–	434	–	298
Sub-total – asset remediation/restoration	–	6,870	–	6,639
TOTAL PROVISIONS	7,073	7,544	6,188	6,969

(a) Provisions relating to restricted assets

Externally restricted assets				
Water	584	64	675	42
Sewer	550	55	507	27
Domestic waste management	251	25	214	12
Provisions relating to externally restricted assets	1,385	144	1,396	81
Total provisions relating to restricted assets	1,385	144	1,396	81
Total provisions relating to unrestricted assets	5,688	7,400	4,792	6,888
TOTAL PROVISIONS	7,073	7,544	6,188	6,969

\$ '000	2019	2018
---------	------	------

(b) Current provisions not anticipated to be settled within the next twelve months

The following provisions, even though classified as current, are not expected to be settled in the next 12 months.

Provisions – employees benefits	4,881	3,591
	4,881	3,591

(c) Description of and movements in provisions

\$ '000	ELE provisions				Total
	Annual leave	Sick leave	Long service leave	Other employee benefits	
2019					
At beginning of year	1,760	59	4,677	22	6,518
Additional provisions	1,773	(2)	2,024	7	3,802

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

\$ '000	ELE provisions				Total
	Annual leave	Sick leave	Long service leave	Other employee benefits	
Amounts used (payments)	(1,547)	(17)	(1,479)	–	(3,043)
Remeasurement effects	74	3	393	–	470
Total ELE provisions at end of period	2,060	43	5,615	29	7,747
2018					
At beginning of year	1,794	56	4,812	14	6,676
Additional provisions	1,307	3	388	7	1,705
Amounts used (payments)	(1,373)	(1)	(555)	–	(1,929)
Remeasurement effects	32	1	32	–	65
Other	–	–	–	1	1
Total ELE provisions at end of period	1,760	59	4,677	22	6,518

\$ '000	Other provisions	
	Asset remediation	Total
2019		
At beginning of year	6,639	6,639
Remeasurement effects	132	132
Unwinding of discount	99	99
Other	(231)	(231)
Total other provisions at end of period	6,639	6,639
2018		
At beginning of year	6,541	6,541
Unwinding of discount	98	98
Total other provisions at end of period	6,639	6,639

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the council tip and quarry.

Accounting policy for provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Short-term obligations

Liabilities for wages and salaries (including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service) are recognised

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Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

The liability for long-service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

On-costs

The employee benefit provisions include the aggregate on-cost liabilities that will arise when payment of current employee benefits is made in future periods.

These amounts include superannuation, payroll tax and workers compensation expenses which will be payable upon the future payment of certain leave liabilities which employees are entitled to at the reporting period.

The obligations are presented as current liabilities in the Statement of Financial Position if the Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Provisions for close-down and restoration, and environmental clean-up costs – tips and quarries

	Provision \$000	Years to remediation
Goulburn Tip	\$5,632	13
Marulan Tip	\$804	31
Gravel Pits	\$435	1 to 20

Restoration

Close-down and restoration costs include the dismantling and demolition of infrastructure, and the removal of residual materials and remediation of disturbed areas. Estimated close-down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Rehabilitation

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date, and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

Remediation procedures generally commence soon after the time the damage, remediation process, and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new restoration techniques, or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

or production rates. As a result, there could be significant adjustments to the provision for close down and restoration and environmental clean-up, which would affect future financial results.

Other movements in the provisions for close-down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations, and revisions to discount rates, are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Close-down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close-down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

Note 14. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

Nature and purpose of reserves**Infrastructure, property, plant and equipment revaluation reserve**

The infrastructure, property, plant and equipment revaluation reserve is used to record increments / decrements of non-current asset values due to their revaluation.

Other reserves

The value of equity Council holds in Southern Phone Company Limited

Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 15. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6(a)	8,587	5,971
Balance as per the Statement of Cash Flows		8,587	5,971

(b) Reconciliation of net operating result to cash provided from operating activities

Net operating result from Income Statement		11,495	37,081
Adjust for non-cash items:			
Depreciation and amortisation		17,589	16,990
Net losses/(gains) on disposal of assets		5,076	2,323
Non-cash capital grants and contributions		(3,677)	(14,485)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		(4)	(10)
– investment property		128	62
Amortisation of premiums, discounts and prior period fair valuations			
– Financial assets at amortised cost / held to maturity (2018)		1	1
Unwinding of discount rates on reinstatement provisions		99	98
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		183	2,143
Increase/(decrease) in provision for impairment of receivables		63	–
Decrease/(increase) in inventories		(32)	(22)
Decrease/(increase) in other current assets		90	(82)
Increase/(decrease) in payables		(116)	(2,112)
Increase/(decrease) in accrued interest payable		(6)	(103)
Increase/(decrease) in other accrued expenses payable		(992)	224
Increase/(decrease) in other liabilities		(146)	565
Increase/(decrease) in provision for employee benefits		1,229	(158)
Increase/(decrease) in other provisions		132	–
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		31,112	42,515

(c) Non-cash investing and financing activities

Developer contributions 'in kind'		3,677	14,485
Total non-cash investing and financing activities		3,677	14,485

(d) Net cash flows attributable to discontinued operations

Please refer to Note 22 for details of cash flows that relate to discontinued operations

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Commitments

\$ '000	2019	2018
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	1,692	901
Other structures	2,394	2,023
Plant and equipment	783	387
Roads infrastructure	1,419	2,871
Waste water infrastructure	589	3,322
Water infrastructure	334	708
Other	323	–
Investment property		
– Buildings	3	114
Total commitments	<u>7,537</u>	<u>10,326</u>
These expenditures are payable as follows:		
Within the next year	7,537	10,326
Total payable	<u>7,537</u>	<u>10,326</u>
Sources for funding of capital commitments:		
Unrestricted general funds	1,459	2,682
Future grants and contributions	–	2,000
Unexpended grants	4,068	923
Externally restricted reserves	1,294	2,031
Internally restricted reserves	716	2,690
Total sources of funding	<u>7,537</u>	<u>10,326</u>

Details of capital commitments

Council has a number of capital projects that have been commenced but not completed. The funding for these projects has been allocated and the majority will be completed within the 2019/20.

(b) Operating lease commitments (non-cancellable)**a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:**

Within the next year	171	203
Later than one year and not later than 5 years	480	651
Total non-cancellable operating lease commitments	<u>651</u>	<u>854</u>

b. Non-cancellable operating leases include the following assets:

Council currently leases part of the building at 155 Auburn Street. The lease expires on 30 June 2023. Council pays rent plus rate & annual charges to the lessor.

Council also leases a landfill compactor at the Marulan Waste Management Centre. The current lease expires on 30 September 2019.

Conditions relating to finance and operating leases:

– No lease agreements impose any financial restrictions on Council regarding future debt etc.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's financial report.

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for purposes of AASB119 Employee Benefits for the following reasons:

- Assets are not segregated within the sub-group according to the employees of each sponsoring employer.
- The contribution rates have been the same for all sponsoring employers. That is, contribution rates have not varied for each sponsoring employer according to the experience relating to the employees of that sponsoring employer.
- Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer.
- The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Given the factors above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers, and hence shares in the associated gains and losses (to the extent that they are not borne by members).

Description of the funding arrangements.

Pooled employers are required to pay standard employer contributions and additional lump sum contributions to the fund.

The standard employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current standard employer contribution rates are:

Division B	1.9 times employee contributions
Division C	2.5% salaries
Division D	1.64 times employee contributions

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40 million per annum from 1 July 2018 to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2018.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials.

Description of the extent to which Council can be liable to the plan for other Council's obligations under the terms and conditions of the multi-employer plan

As stated above, each sponsoring employer (Council) is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the Council.

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2019 was \$ 399,986.75. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 31 December 2018, and covers the period ended 30 June 2018.

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

Council's expected contribution to the plan for the next annual reporting period is \$371,724.28.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2019 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	1,798.7	
Past Service Liabilities	1,784.2	100.8%
Vested Benefits	1,792.0	100.4%

* excluding member accounts and reserves in both assets and liabilities.

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$xx as at 30 June 2019.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

The key economic long term assumptions used to calculate the present value of accrued benefits are:

Investment return	5.75 per annum
Salary inflation *	3.5% per annum
Increase in CPI	2.5% per annum

* Plus promotional increases

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group.

(ii) Statewide Limited

Council is a member of Statewide Mutual, a mutual pool scheme providing liability insurance to local government.

Membership includes the potential to share in either the net assets or liabilities of the fund depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the fund years.

The future realisation and finalisation of claims incurred but not reported to 30/6 this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

(iii) StateCover Limited

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

(iv) Other guarantees

Council has provided no other guarantees other than those listed above.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)**2. Other liabilities****(i) Third party claims**

The Council is involved from time to time in various claims incidental to the ordinary course of business including claims for damages relating to its services.

Council believes that it is appropriately covered for all claims through its insurance coverage and does not expect any material liabilities to eventuate.

(ii) Potential land acquisitions due to planning restrictions imposed by Council

Council has classified a number of privately owned land parcels as local open space or bushland.

As a result, where notified in writing by the various owners, Council will be required to purchase these land parcels.

At reporting date, reliable estimates as to the value of any potential liability (and subsequent land asset) from such potential acquisitions has not been possible.

(iii) Upper Lachlan Council asset transfers

In accordance with the proclamation by the Minister for Local Government on 7th September 2006, in the event of the sale of the former Mulwaree Shire Council administration building in Clinton Street, Goulburn, 'Upper Lachlan Council is to be reimbursed 24.22% of the net profit.'

(iv) Legal liabilities

Council has no known contingent liabilities re legal cases at this time.

ASSETS NOT RECOGNISED**(i) Land under roads**

As permitted under AASB 1051, Council has elected not to bring to account land under roads that it owned or controlled up to and including 30/6/08.

(ii) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices.

Due to the limited information available on the status, value and duration of outstanding notices, Council is unable to determine the value of outstanding income.

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for the year ended 30 June 2019

Note 18. Financial risk management

Risk management

Council's activities expose it to a variety of financial risks including (1) price risk, (2) credit risk, (3) liquidity risk and (4) interest rate risk.

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's finance section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

\$ '000	Carrying value 2019	Carrying value 2018	Fair value 2019	Fair value 2018
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	8,587	5,971	8,589	5,971
Receivables	7,466	7,712	7,518	7,712
Investments				
– 'Financial assets at amortised cost' / 'held to maturity' (2018)	83,000	80,860	83,000	80,860
Fair value through other comprehensive income				
Investments				
– 'Financial assets at fair value through other comprehensive income' / 'available for sale financial assets' (2018)	156	–	156	–
Fair value through profit and loss				
Investments				
– 'Held for trading'	2,012	2,011	2,012	2,011
Total financial assets	101,221	96,554	101,275	96,554
Financial liabilities				
Payables	7,893	6,033	7,945	6,033
Loans/advances	20,822	22,450	20,822	22,450
Total financial liabilities	28,715	28,483	28,767	28,483

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings and held-to-maturity investments** – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) 'at fair value through profit and loss' or (ii) 'available-for-sale' – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital.

Council has an investment policy which complies with the Local Government Act 1993 and Minister's investment order 625. This policy is regularly reviewed by Council and its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance as required by Local Government regulations.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

The risks associated with the instruments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

(a) Market risk – price risk and interest rate risk

The impact on result for the year and equity of a reasonably possible movement in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2019				
Possible impact of a 10% movement in market values	217	217	(217)	(217)
Possible impact of a 1% movement in interest rates	916	916	(916)	(916)
2018				
Possible impact of a 10% movement in market values	201	201	(201)	(201)
Possible impact of a 1% movement in interest rates	869	869	(869)	(869)

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for the year ended 30 June 2019

Note 18. Financial risk management (continued)

(b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery procedures. Council also encourages ratepayers to pay their rates by the due date through incentives.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The level of outstanding receivables is reported to Council quarterly and benchmarks are set and monitored for acceptable collection performance.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

Credit risk profile

Receivables – rates and annual charges

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates and annual charges at higher than market rates which further encourages the payment of debt.

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2019						
Gross carrying amount	–	951	88	19	16	1,074
2018						
Gross carrying amount	64	705	78	82	77	1,006

Receivables - non-rates and annual charges

Council applies the simplified approach for non-rates and annual charges debtors to provide for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision. To measure the expected credit losses, non-rates and annual charges debtors have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance provision as at 30 June 2019 is determined as follows. The expected credit losses incorporate forward-looking information.

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2019						
Gross carrying amount	5,770	303	286	22	77	6,458
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	18.00%	0.21%
ECL provision	–	–	–	–	14	14
2018						
Gross carrying amount	6,156	355	92	45	61	6,709
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ECL provision	–	–	–	–	–	–

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for the year ended 30 June 2019

Note 18. Financial risk management (continued)

(c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk through diversification of borrowing types, maturities and interest rate structures. The finance team regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The timing of cash flows presented in the table below to settle financial liabilities reflects the earliest contractual settlement dates. The timing of expected outflows is not expected to be materially different from contracted cashflows.

The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

\$ '000	Weighted average interest rate	Subject to no maturity	payable in: ≤ 1 Year	1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
2019							
Trade/other payables	0.00%	1,189	6,704	–	–	7,893	7,893
Loans and advances	6.72%	–	1,693	5,367	13,762	20,822	20,822
Total financial liabilities		1,189	8,397	5,367	13,762	28,715	28,715
2018							
Trade/other payables	0.00%	884	5,149	–	–	6,033	6,033
Loans and advances	0.00%	–	1,629	6,201	14,620	22,450	22,450
Total financial liabilities		884	6,778	6,201	14,620	28,483	28,483

Loan agreement breaches

Detail here any breaches to loan agreements which have occurred during the reporting year.

Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 05/06/2018 and is unaudited.

While the Income Statement included in this General Purpose Financial Statements must disclose the original budget adopted by Council, the Local Government Act 1993 requires Council to review its financial budget on a quarterly basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review.

Material variations represent those variances between the original budget figure and the actual result that amount to **10%** or more.

Variation Key: **F** = Favourable budget variation, **U** = Unfavourable budget variation.

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----		
REVENUES					
Rates and annual charges	34,424	35,206	782	2%	F
User charges and fees	14,891	15,073	182	1%	F
Interest and investment revenue	1,390	2,446	1,056	76%	F
Council maintains a conservative approach to budgeting for revenues from investments.					
Other revenues	1,157	1,922	765	66%	F
While Council does traditionally budget conservatively in terms of revenue, this result is due to a number of factors including an unexpected return from the sale of scrap metal at the Waste Management Centre (\$329k), an increase in revenues from Fines (\$46k), revenue from general sales (including cattle, hay, standpipe water, etc) (\$157k). Also adding to the result is the Deisel Fuel Rebate revenue (\$111k) that was originally budgeted as an operating contribution.					
Operating grants and contributions	8,847	10,395	1,548	17%	F
This variation is primarily due to a number of operating grants that were awarded to Council during the year including a weeds grant of \$411k. Council also received additional grant funding for roads, and other smaller community projects through programs such as Stronger Country Communities. The annual Financial Assistance Grant exceeded the budgeted amount by \$235k. s94 Maintenance contributions also exceeded the original budget by \$817k.					
Capital grants and contributions	14,942	12,660	(2,282)	(15)%	U
This result is primarily due to the deferral of a number of grant funded projects including the Goulburn Performing Arts Centre, Goulburn Aquatic Centre and the North Goulburn Business Precinct (Growing Local Economies Fund). These have been partially offset by a number of smaller grants received throughout the year and also through bringing to account developer contributed assets as a result of released subdivisions during the year.					
EXPENSES					
Employee benefits and on-costs	24,315	24,586	(271)	(1)%	U
Borrowing costs	1,460	1,553	(93)	(6)%	U
Materials and contracts	12,123	11,678	445	4%	F
Depreciation and amortisation	18,101	17,589	512	3%	F
Other expenses	6,202	5,597	605	10%	F
This variance is predominately due to a lower than expected expense for light, power and heating (including street lighting) (\$481k). The cost of insurance was also lower than anticipated (\$157k)					
Net losses from disposal of assets	-	5,076	(5,076)	∞	U

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Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Material budget variations (continued)

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
Fair value decrement on investment property	-	128	(128)	∞ U

STATEMENT OF CASH FLOWS

Net cash provided from (used in) operating activities	31,551	31,112	(439)	(1)% U
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This variance is due to a mix of higher than anticipated cash inflows from investment revenues, other revenues and operating grants and contributions as detailed above.

Net cash provided from (used in) investing activities	(56,712)	(26,868)	29,844	(53)% F
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This result is primarily due to the deferral of a number of grant funded projects including the Goulburn Performing Arts Centre, Goulburn Aquatic Centre and the North Goulburn Business Precinct (Growing Local Economies Fund).

Net cash provided from (used in) financing activities	13,131	(1,628)	(14,759)	(112)% U
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This result is primarily due to the deferral of a number of loan funded projects including the Goulburn Performing Arts Centre, Goulburn Aquatic Centre and the Waste Management Centre Upgrade. Due to the deferral of these projects, the proposed borrowings were not taken up.

Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement

The Council measures the following asset and liability classes at fair value on a recurring basis:

- Infrastructure, property, plant and equipment
- Investment property
- Financial assets

The fair value of assets and liabilities must be estimated in accordance with various accounting standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a 'level' in the fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(1) Assets and liabilities that have been measured and recognised at fair values

2019	Notes	Date of latest valuation	Fair value measurement hierarchy			Total
			Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements						
Financial assets						
Investments	6(b)					
- 'Held for trading'		30/06/19	-	-	2,012	2,012
- 'Financial assets at fair value through other comprehensive income'		30/06/19	-	-	156	156
Investment property						
Investment property	11	30/06/19	-	-	4,300	4,300
Total investment property			-	-	4,300	4,300
Infrastructure, property, plant and equipment						
Plant and equipment	10(a)	30/06/19	-	-	7,687	7,687
Office equipment		30/06/19	-	-	2,226	2,226
Furniture and fittings		30/06/19	-	-	363	363
Operational land		30/06/18	-	-	21,595	21,595
Community land		30/06/17	-	-	18,673	18,673
Land under roads (post 30/6/08)		30/06/18	-	-	83	83
Land improvements – depreciable		30/06/18	-	-	1,661	1,661
Buildings – non-specialised		30/06/18	-	-	42,987	42,987
Other structures		30/06/18	-	-	3,862	3,862
Roads		30/06/15	-	-	418,393	418,393
Bridges		30/06/15	-	-	30,756	30,756
Footpaths		30/06/15	-	-	13,622	13,622
Stormwater drainage		30/06/15	-	-	65,717	65,717
Water supply network		30/06/19	-	-	209,740	209,740
Sewerage network		30/06/19	-	-	115,615	115,615
Recreation and Open Space		30/06/18	-	-	2,363	2,363
Swimming Pools		30/06/18	-	-	770	770
Library books		30/06/19	-	-	390	390
Other		30/06/18	-	-	373	373
Tip assets		30/06/18	-	-	2,451	2,451

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Note 20. Fair Value Measurement (continued)

		Fair value measurement hierarchy					
2019	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total	
Quarry assets		30/06/19	–	–	206	206	
Total infrastructure, property, plant and equipment			–	–	959,533	959,533	
Non-current assets classified as 'held for sale'	9						
Land held for sale		30/06/18	–	–	855	855	
Buildings held for sale		30/06/18	–	–	149	149	
Total NCA's classified as 'held for sale'			–	–	1,004	1,004	
		Fair value measurement hierarchy					
2018	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total	
Recurring fair value measurements							
Financial assets							
Investments	6(b)						
– 'Held for trading'		30/06/18	–	–	2,011	2,011	
Investment property	11						
Investment property		30/06/18	–	–	4,150	4,150	
Total investment property			–	–	4,150	4,150	
Infrastructure, property, plant and equipment							
	10(a)						
Plant and equipment		30/06/18	–	–	7,417	7,417	
Office equipment		30/06/18	–	–	2,011	2,011	
Furniture and fittings		30/06/18	–	–	386	386	
Operational land		30/06/18	–	–	22,105	22,105	
Community land		30/06/17	–	–	18,801	18,801	
Land under roads (post 30/6/08)		30/06/18	–	–	83	83	
Land improvements – depreciable		30/06/18	–	–	1,724	1,724	
Buildings – non-specialised		30/06/18	–	–	43,978	43,978	
Other structures		30/06/18	–	–	3,647	3,647	
Roads		30/06/15	–	–	420,464	420,464	
Bridges		30/06/15	–	–	30,006	30,006	
Footpaths		30/06/15	–	–	13,400	13,400	
Stormwater drainage		30/06/15	–	–	64,856	64,856	
Water supply network		30/06/18	–	–	206,908	206,908	
Sewerage network		30/06/18	–	–	87,709	87,709	
Recreation and Open Space		30/06/18	–	–	2,298	2,298	
Swimming Pools		30/06/18	–	–	796	796	
Library books		30/06/18	–	–	427	427	
Other		30/06/18	–	–	281	281	
Tip assets		30/06/18	–	–	2,635	2,635	
Quarry assets		30/06/18	–	–	81	81	
Total infrastructure, property, plant and equipment			–	–	930,013	930,013	
Non-current assets classified as 'held for sale'	9						
Land held for sale		30/06/18	–	–	855	855	
Buildings held for sale		30/06/18	–	–	149	149	
Total NCA's classified as 'held for sale'			–	–	1,004	1,004	

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for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

Note that capital WIP is not included above since it is carried at cost.

(2) Valuation techniques used to derive level 2 and level 3 fair values

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Financial assets

Council holds a Floating Rate Note (Bendigo & Adelaide Bank). This is recorded at a valuation provided by Trustees Australia annually.

Council holds one ordinary and one preference share with Southern Phone Company Limited which have been valued in 2018/19 by Ernst & Young of 200 George St, Sydney.

Investment property

Council obtains independent valuations of its investment property on an annual basis and at the end of each reporting period to ensure the financial statements reflect the most up-to-date valuation. The best evidence of fair value is the current price in an active market for similar assets. The investment property valuation is included in level 3 of the hierarchy. The fair value of the investment property is determined by an independent, qualified valuer on an annual basis who has experience in the location of the property. Council reviews the valuation report and discusses significant movements with the valuer. As at 30 June 2019 the valuation of the investment property was performed by Scott Fullarton Valuations Pty Ltd, Director Scott Fullarton, FAPI, Certified Practising Valuer, Registered Valuer No. 2144. There has been no change to the valuation process during the reporting period.

Infrastructure, property, plant and equipment (IPP&E)

Property, Plant & Equipment and Furniture & Fittings

Plant & Equipment, Office Equipment and Furniture & Fittings are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Examples of assets within these classes are as follows:

- Plant and Equipment: Trucks, tractors, ride-on mowers, street sweepers, earthmoving equipment and motor vehicles
- Office Equipment: Refrigerators, electronic whiteboards, flat-screen monitors and computer equipment.
- Furniture & Fittings: Chairs, desks and display systems

The key unobservable inputs to the valuation are the remaining useful life and residual value. Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the pattern of consumption, estimated remaining useful life and the residual value. There has been no change to the valuation process during the reporting period.

Operational Land

This asset class comprises all of Council's land classified as Operational Land under the NSW Local Government Act 1993. The key unobservable input to the valuation is the price per square metre. The last valuation was undertaken at 30 June 2018 and was performed by JLT AssetVal Pty Ltd, Nick Franks (BSc. MRICS AAPI).

Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer. This is not necessarily the market selling price of the asset, rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to replace the asset, the remaining useful life and condition of the asset; and cash flows from the future use and disposal. There has been no change to the valuation process during the reporting period.

Community Land

Valuations of all Council's Community Land and Council managed land are based on either the land values provided by the Valuer-General or an average unit rate based on the land values for similar properties where the Valuer-General did not provide a land value having regard to the highest and best use for this land. As these rates were not considered to be observable

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Goulburn Mulwaree Council

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for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

market evidence they have been classified as Level 3. While Community Land has been re-valued as at 30 June 2017 in line with the Valuer General, there has been no change to the valuation process during the reporting period.

Land under Roads

Council has elected to recognise Land under Roads where the road was acquired on or after 30/06/2008. 'Land under roads' have been valued using the square metres rates applicable for nearby or adjacent Community Land having regard to the highest and best use for this land. There has been no change to the valuation process during the reporting period.

Land Improvements - Depreciable

This asset class comprises land improvements such as spectator mounds, swales, berms, gardens, mulched areas, streetscaping and landscaping. These assets may be located on parks, reserves and also within road reserves. 'Land Improvements' were valued in-house using the cost approach by experienced Council engineers and asset management staff.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Buildings – Non Specialised

Buildings – Non Specialised were valued by JLT AssetVal Pty Ltd, Nick Franks (BSc. MRICS AAPI), in June 2018 using a combination of sales comparison approach, income capitalisation approach and cost approach. While all buildings were physically inspected inputs such as estimates of residual value and pattern of consumption required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using Level 3 valuation inputs.

During the financial year Council completed the construction of Multi-purpose Venue in Goulburn Recreation Area. This building was valued in-house using the cost approach by experienced Council engineers and asset management staff. There has been no change to the valuation process during the reporting period.

Other Structure

This asset class comprises Boardwalks, Viewing platforms, Floodlighting Systems, Irrigation System, Pedestrian Bridges and Retaining Walls, Monuments, Statues, Fences, Wash bays, Cemetery walls and beams. Cost approach has been utilised. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Roads

This asset class comprises the Road Carriageway, Kerb and Gutter, Signs, and Traffic facilities. The road carriageway is defined as the trafficable portion of a road, between but not including the kerb and gutter. Cost Approach using Level 3 inputs was used to value the road carriageway and other road infrastructure. Valuations for the road infrastructures were carried out by .

The cost approach was utilised with inputs such as estimates pattern of consumption, residual value, asset condition and useful life requiring extensive professional judgement which impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there some uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.

Bridges

Bridges were valued by, using the cost approach. The approach estimated the replacement cost for each bridge by componentising the bridges into significant parts with different useful lives and taking into account a range of factors. The components included the Bridge Deck/Superstructure, Bridge Abutments/Foundations and Bridge rails/handrails Inputs such

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for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

as estimates of residual value and pattern of consumption required extensive professional judgement and impacted significantly on the final determination of fair value. There has been no change to the valuation process during the reporting period.

Footpaths

Footpaths were valued, using the cost approach. Footpaths were segmented to match the adjacent road segment and no further componentisation was undertaken. Footpaths were originally mapped and condition assessed using a combination of video condition assessment and physical inspection. Condition information is updated as changes in the network are observed through regular inspections. There has been no change to the valuation process during the reporting period.

Stormwater Drainage

Assets within this class comprise pits, pipes, open channels, headwalls and various types of water quality devices. The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. The Level of componentisation adopted by Council is in accordance with DLG Circular 09-09. Inputs such as estimates of the pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.

Water Supply Network

Water Supply and Sewerage infrastructure assets were re-valued at fair value as at 30 June 2017. These assets are indexed each year in line with the Reference Rates Manual as published by the NSW Office of Water. All new assets and asset acquisitions made after the respective dates of valuation will be recorded at their initial cost of acquisition. This asset class is categorised as Level 3 as there are inputs used in the valuation of these assets (such as estimates of pattern of consumption, residual value, asset condition and useful life), that require significant professional judgement and are therefore unobservable. There has been no change to the valuation process during the reporting period.

Recreation and Open Space

This asset class comprises of Playground equipment, BBQ's, Shade shelters and Outdoor fitness facilities. These assets may be located on parks, reserves and also within road reserves. 'Recreation and Open Space' assets were valued in-house using the cost approach by experienced Council engineers and asset management staff. These assets have been transferred from other 'Depreciable Land' and 'Other Structures' at 30 June 2016. Cost approach has been utilised. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Swimming Pool

This asset class comprises of Swimming pools only, it does not include related plant and equipment, buildings other structures and car parks. 'Swimming Pool' assets were valued in-house using the cost approach by experienced Council engineers and asset management staff. These assets have been transferred from 'Other Structures' at 30 June 2016. Cost approach has been utilised. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Library Books

Library Books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the pattern of consumption, estimated remaining useful life and the residual value. There has been no change to the valuation process during the reporting period.

Other Assets

Assets within this class comprise of all assets not classified elsewhere such as artwork. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. All new assets and asset acquisitions made after the respective dates of valuation will be recorded at their initial cost of acquisition. No market based evidence (Level 2) inputs

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Note 20. Fair Value Measurement (continued)

are available therefore Level 3 valuation inputs were used for this asset class. There has been no change to the valuation process during the reporting period.

Reinstatement, Rehabilitation & Restoration Assets - Tips & Quarries

Council owns and manages tips and quarries in its local government area, and it has been recognised that there will be significant costs associated with the closure and post closure management of the landfill site. Closure of the landfill will involve a wide range of activities including preparation of a Landfill Closure and Management Plan, final capping of the landfill waste and site re-vegetation, installation of a final landfill gas management system, revision of the surface water management system and leachate management infrastructure to suit post-closure operation, decommissioning and removing infrastructure and equipment that will not be required post-closure, and fencing sensitive infrastructure. The key unobservable inputs are the discount rate, cost escalation rate, actual timing of costs and future environmental management requirements. There has been no change to the valuation process during the reporting period.

(3) Fair value measurements using significant unobservable inputs (level 3)

a. The following tables present the changes in level 3 fair value asset classes.

\$ '000	Plant and equipment	Office equipment	Furniture and fittings	Operational land	Community Land
2018					
Opening balance	6,656	1,591	298	17,941	18,859
Purchases (GBV)	1,916	950	130	–	–
Disposals (WDV)	(197)	(9)	–	–	–
Depreciation and impairment	(958)	(521)	(42)	–	–
Other movement (transfer to held for sale)	–	–	–	(855)	–
Revaluation increments to Equity	–	–	–	5,019	–
Closing balance	7,417	2,011	386	22,105	18,859
2019					
Opening balance	7,417	2,011	386	22,105	18,859
Transfers from/(to) another asset class	–	–	–	–	(110)
Purchases (GBV)	1,509	813	31	–	–
Disposals (WDV)	(267)	(1)	–	(340)	(69)
Depreciation and impairment	(972)	(597)	(54)	–	–
Closing balance	7,687	2,226	363	21,765	18,680

\$ '000	Land under Roads	Land improvement	Building non-specialised	Other structures	Roads
2018					
Opening balance	82	1,300	32,531	3,326	416,184
Purchases (GBV)	–	477	1,349	474	11,762
Disposals (WDV)	–	–	(341)	–	(1,625)
Depreciation and impairment	–	(53)	(1,345)	(153)	(7,039)
Other movement (transfer to held for sale)	–	–	(149)	–	–
Revaluation increments to Equity	–	–	9,520	–	–
Other movement (Tfr from WIP)	–	–	2,413	–	1,182
Closing balance	82	1,724	43,978	3,647	420,464
2019					

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Note 20. Fair Value Measurement (continued)

\$ '000	Land under Roads	Land improvement	Building non-specialised	Other structures	Roads
Opening balance	83	1,724	43,978	3,647	420,464
Purchases (GBV)	–	–	812	328	6,874
Disposals (WDV)	–	–	(233)	–	(777)
Depreciation and impairment	–	(63)	(1,584)	(173)	(7,199)
Revaluation increments to Equity	–	–	–	–	(2,922)
Other movement (Tfr from WIP)	–	–	14	60	1,953
Closing balance	83	1,661	42,987	3,862	418,393

\$ '000	Bridges	Footpaths	Stormwater drainage	Water supply network	Sewerage network
2018					
Opening balance	29,283	12,121	62,371	202,631	83,428
Purchases (GBV)	1,042	1,487	3,389	3,322	4,679
Disposals (WDV)	(4)	(22)	–	(181)	(357)
Depreciation and impairment	(430)	(186)	(904)	(3,060)	(1,729)
Revaluation increments to Equity	–	–	–	4,194	1,688
Other movement (Tfr from WIP)	115	–	–	–	–
Closing balance	30,006	13,400	64,856	206,906	87,709

2019					
Opening balance	30,006	13,400	64,856	206,908	87,709
Purchases (GBV)	226	395	1,595	3,163	6,222
Disposals (WDV)	–	(12)	–	(9)	(129)
Depreciation and impairment	(443)	(203)	(941)	(3,146)	(1,605)
Revaluation increments to Equity	–	(4)	–	2,824	363
Other movement (Tfr from WIP)	967	46	207	–	23,055
Closing balance	30,756	13,622	65,717	209,740	115,615

\$ '000	Recreation and open space	Swimming pools	Library books	Other assets	Tip assets
2018					
Opening balance	1,196	727	462	229	2,819
Purchases (GBV)	1,242	112	148	65	–
Depreciation and impairment	(140)	(43)	(183)	(13)	(184)
Closing balance	2,298	796	427	281	2,635
2019					
Opening balance	2,298	796	427	281	2,635
Purchases (GBV)	246	28	110	111	–
Depreciation and impairment	(198)	(54)	(147)	(19)	(184)
Other movement (Tfr from WIP)	17	–	–	–	–
Closing balance	2,363	770	390	373	2,451

\$ '000	Quarry assets	Investment at fair value	Investment properties	NCA Held for sale	Total
2018					
Opening balance	89	2,253	4,100	–	900,477

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Goulburn Mulwaree Council

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for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

\$ '000	Quarry assets	Investment at fair value	Investment properties	NCA Held for sale	Total
Transfers from/(to) another asset class	-	-	-	1,004	1,004
Purchases (GBV)	-	-	112	-	32,656
Disposals (WDV)	-	-	-	-	(2,736)
Depreciation and impairment	(8)	-	-	-	(16,991)
FV gains – Income Statement ¹	-	6	(62)	-	(56)
Other movement (transfer to held for sale)	-	-	-	-	(1,004)
Revaluation increments to Equity	-	-	-	-	20,421
Other movement (Tfr from WIP)	-	-	-	-	3,710
Other movement	-	(248)	-	-	(248)
Closing balance	81	2,011	4,150	1,004	937,233
2019					
Opening balance	81	2,011	4,150	1,004	937,236
Transfers from/(to) another asset class	-	-	110	-	-
Purchases (GBV)	-	-	168	-	22,631
Disposals (WDV)	-	-	-	-	(1,837)
Depreciation and impairment	(7)	-	-	-	(17,589)
FV gains – Income Statement ¹	-	1	(128)	-	(127)
Revaluation increments to Equity	-	-	-	-	261
Other movement (Tfr from WIP)	-	-	-	-	26,319
Closing balance	74	2,012	4,300	1,004	966,894

(1) FV gains recognised in the Income Statement relating to assets still on hand at year end total

c. Significant unobservable valuation inputs used (for level 3 asset classes) and their relationship to fair value.

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various level 3 asset class fair values.

\$ '000	Fair value (30/6/19)	Valuation technique/s	Unobservable inputs
Financial assets			
At Fair Value through Profit or Loss	2,012	Level 3	Unit price
Investment properties			
Investment Property	4,300	Level 3	Rental yield and price per hectare
Infrastructure, property, plant and equipment			
Operational Land	21,765	Level 3	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value
Community Land	18,680	Level 3	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value
Land under Roads (post 30/6/08)	83	Level 3	<ul style="list-style-type: none"> Unimproved capital value (price per square metre)
Land Improvements - depreciable	1,661	Level 3	<ul style="list-style-type: none"> Gross replacement cost Asset condition Remaining useful life Residual value

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Note 20. Fair Value Measurement (continued)

\$ '000	Fair value (30/6/19)	Valuation technique/s	Unobservable inputs
Buildings - Non Specialised	42,987	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Other Structures	3,862	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Roads	418,393	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Bridges	30,756	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Footpaths	13,622	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Stormwater Drainage	65,717	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Water Supply Network	209,740	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Sewerage Network	115,615	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Recreation and Open Space	2,363	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Swimming Pools	770	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Library Books	390	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Other	373	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Tip Assets	2,451	Level 3	<ul style="list-style-type: none"> • Discount Rate • CPI
Quarry Assets	74	Level 3	<ul style="list-style-type: none"> • Discount Rate • CPI
Plant and Equipment	7,687	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value

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for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

\$ '000	Fair value (30/6/19)	Valuation technique/s	Unobservable inputs
Office Equipment	2,226	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Furniture and Fittings	363	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value
Non-current assets classified as 'held for sale'			
2 Dossie Street	1,004	Level 3	<ul style="list-style-type: none"> • Gross replacement cost • Asset condition • Remaining useful life • Residual value

(4) Highest and best use

All of Council's non-financial assets are considered as being utilised for their highest and best use.

Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Related Party Transactions

(a) Key management personnel

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

\$ '000	2019	2018
Compensation:		
Short-term benefits	1,076	1,079
Post-employment benefits	96	90
Termination benefits	-	142
Total	1,172	1,311

(b) Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

Nature of the transaction		Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000	Ref					
2019						
Supply of Recycling Contract	1	484	-	30 days	-	-
Supply of plant and road construction	2	5,377	-	30 days	-	-
Council employee wages	3	475	-	Award wages	-	-
Commercial Waste	4	218	-	30 days	-	-
Advertising	5	-	-	30 days	-	-
Donation	6	1	-	Donation policy	-	-
Donation – Fee waiver	7	7	-	Donation policy	-	-
Architecture and design	8	-	-	30 days	-	-
Inspection Fees	9	1	-	30 days	-	-
Development application fee	10	12	-	30 days	-	-

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Related Party Transactions (continued)

Nature of the transaction	Ref	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000						
Hire of Sporting Facilities	11	1	-	30 days	-	-
2018						
Supply of Recycling Contract	1	313	27		-	-
Supply of plant and road construction	2	4,970	470		-	-
Council employee wages	3	463	-		-	-
Commercial Waste	4	243	8		-	-
Advertising	5	2	-		-	-
Donation	6	20	-		-	-
Donation – Fee waiver	7	2	-		-	-
Architecture and design	8	3	-		-	-
Development application fee	10	11	-		-	-
Hire of Sporting Facilities	11	2	-		-	-

1 Council has appointed its recycling contract to a company of which a Councillor is a board member, the Councillor has declared his involvement and is excluded from all meetings.

2 Council engages three local companies for various plant hire and road making activities. The company directors are a related party to a Councillor, the Councillor has declared an interest and follow the code of conduct. All contracts are awarded through the tender process.

3 Four members of Council staff are related parties to KMP and Councillors. The interest is declared.

4 Council provides a debtor account for the purposes of a commercial waste service to related parties of Councillors. Interest has been declared and all fees are charged as per the adopted fees and charges. Payment terms are 30 days.

5 Councils Visitor Information Centre produces and distributes a bi-annual Goulburn Destination Guide in which one of the Councillor's has advertising of her local business. This is charged as per adopted fees and charges. Payment terms are 30 days.

6 Council provided a donation/sponsorship to several community groups where Councillors are related parties. Interest had been declared and payments made through the executive donations procedure.

7 Council provided a donation to a charity group equal to the value of the Council facility hire fee of which a Councillor is a related party. Interest was declared and payment was made through the executive donations procedure.

8 Council engaged the service of an Architectural Company. An employee of this company is related party to one of the Councillors.

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Related Party Transactions (continued)

-
- 9 Council conducts Health Inspection checks at the place of employment of a Councillor. There is a charge for this inspection as per adopted fees and charges and they are provided 30 day payment terms.
 - 10 Council has received a development application where a Councillor is a member of the organisation. Interest has been declared.
 - 11 Council has hired sporting facilities to related parties during the year. All charges are per the adopted fees and charges, where debtor accounts are provided 30 day payment terms are in place unless payment is required upon booking.

Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Statement of developer contributions

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas.

It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

Summary of contributions and levies

	as at 30/6/2018			Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/6/2019	
	Opening Balance	Contributions received during the year					Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000		Cash	Non-cash					
Drainage	1,623	252	1,497	41	(318)	-	1,598	-
Roads	116	60	-	3	-	-	179	-
Traffic facilities	(1,462)	254	1,068	6	(247)	-	(1,449)	-
Open space	1,114	11	-	20	(35)	-	1,110	-
Community facilities	73	4	-	2	-	-	79	-
Other	159	7	-	3	(5)	-	164	-
Urban and civic improvements	17	-	-	-	-	-	17	-
Rural addressing	64	1	-	1	-	-	66	-
Rural waste	294	-	-	5	(6)	-	293	-
S7.11 contributions – under a plan	1,998	589	2,565	81	(611)	-	2,057	-
S7.12 levies – under a plan	1,323	390	120	28	(281)	-	1,460	-
Total S7.11 and S7.12 revenue under plans	3,321	979	2,685	109	(892)	-	3,517	-
S7.11 not under plans	2,829	1,067	-	57	(963)	-	2,990	-
S64 contributions	10,846	2,820	992	212	(500)	-	13,378	-
Total contributions	16,996	4,866	3,677	378	(2,355)	-	19,885	-

S7.11 Contributions – under a plan

CONTRIBUTION PLAN - New Mulwaree Plan

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Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Statement of developer contributions (continued)

\$ '000	as at 30/6/2018		Contributions received during the year			as at 30/6/2019		
	Opening Balance	Cash	Non-cash	Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
Drainage	100	30	-	2	-	-	132	-
Roads	116	60	-	3	-	-	179	-
Open space	72	-	-	1	-	-	73	-
Community facilities	1	-	-	-	-	-	1	-
Urban and civic improvements	17	-	-	-	-	-	17	-
Rural addressing	63	1	-	1	-	-	65	-
Rural waste	56	-	-	5	-	-	61	-
Other	159	7	-	3	(5)	-	164	-
Total	584	98	-	15	(5)	-	692	-
CONTRIBUTION PLAN - Old Mulwaree Plan								
Rural addressing	1	-	-	-	-	-	1	-
Rural waste	238	-	-	-	(6)	-	232	-
Total	239	-	-	-	(6)	-	233	-
CONTRIBUTION PLAN - New Goulburn Citywide Plan								
Drainage	894	215	223	18	(288)	-	839	-
Traffic facilities	198	16	162	4	-	-	218	-
Open space	65	3	-	1	(35)	-	34	-
Community facilities	72	4	-	2	-	-	78	-
Total	1,229	238	385	25	(323)	-	1,169	-
CONTRIBUTION PLAN - Marys Mount								
Drainage	996	2	1,238	18	(30)	-	986	-
Traffic facilities	(483)	35	906	-	(134)	-	(582)	-
Open space	961	8	-	18	-	-	987	-
Total	1,474	45	2,144	36	(164)	-	1,391	-
CONTRIBUTION PLAN - Ducks Lane								
Drainage	113	-	-	2	-	-	115	-
Traffic facilities	(1,250)	12	-	-	(113)	-	(1,351)	-
Total	(1,137)	12	-	2	(113)	-	(1,236)	-

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Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Statement of developer contributions (continued)

\$ '000	as at 30/6/2018		Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/6/2019	
	Opening Balance	Cash	Non-cash	Held as restricted asset				Cumulative internal borrowings due/(payable)	
CONTRIBUTION PLAN - Clyde Street									
Drainage	(545)	5	36	-	-	-	(540)	-	
Traffic facilities	11	191	-	1	-	-	203	-	
Open space	6	-	-	-	-	-	6	-	
Total	(528)	196	36	1	-	-	(331)	-	
CONTRIBUTION PLAN - Common Street									
Drainage	65	-	-	1	-	-	66	-	
Traffic facilities	62	-	-	1	-	-	63	-	
Open space	10	-	-	-	-	-	10	-	
Total	137	-	-	2	-	-	139	-	

S7.12 Levies – under a plan

CONTRIBUTION PLAN - S94A Levies									
Roads	1,323	390	120	28	(281)	-	1,460	-	
Total	1,323	390	120	28	(281)	-	1,460	-	

S7.11 Contributions – not under a plan

S7.11 CONTRIBUTIONS – NOT UNDER A PLAN									
Roads	2,829	1,067	-	57	(963)	-	2,990	-	
Total	2,829	1,067	-	57	(963)	-	2,990	-	

Goulburn Mulwaree Council

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 23. Financial result and financial position by fund

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	23,814	2,297	9,095
User charges and fees	5,463	7,564	2,046
Interest and investment revenue	693	869	884
Other revenues	1,708	95	119
Grants and contributions provided for operating purposes	10,131	176	88
Grants and contributions provided for capital purposes	8,445	1,846	2,369
Total income from continuing operations	50,254	12,847	14,601
Expenses from continuing operations			
Employee benefits and on-costs	21,259	1,596	1,731
Borrowing costs	306	972	275
Materials and contracts	5,489	2,964	3,225
Depreciation and amortisation	12,762	3,187	1,640
Other expenses	4,647	333	617
Net losses from the disposal of assets	3,045	474	1,557
Fair value decrement on investment property	128	–	–
Total expenses from continuing operations	47,636	9,526	9,045
Operating result from continuing operations	2,618	3,321	5,556
Net operating result for the year	2,618	3,321	5,556
Net operating result attributable to each council fund	2,618	3,321	5,556
Net operating result for the year before grants and contributions provided for capital purposes	(5,827)	1,475	3,187

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 23. Financial result and financial position by fund (continued)

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
Statement of Financial Position by fund			
ASSETS			
Current assets			
Cash and cash equivalents	2,915	2,790	2,882
Investments	27,168	25,996	26,848
Receivables	4,740	1,645	980
Inventories	273	–	–
Other	272	–	58
Non-current assets classified as 'held for sale'	1,181	–	–
Total current assets	36,549	30,431	30,768
Non-current assets			
Investments	1,854	1,624	1,678
Receivables	61	19	21
Infrastructure, property, plant and equipment	635,989	213,211	123,195
Investment property	4,300	–	–
Other	(942)	–	942
Total non-current assets	641,262	214,854	125,836
TOTAL ASSETS	677,811	245,285	156,604
LIABILITIES			
Current liabilities			
Payables	5,937	1,094	862
Income received in advance	885	420	–
Borrowings	709	477	507
Provisions	5,939	584	550
Total current liabilities	13,470	2,575	1,919
Non-current liabilities			
Borrowings	2,593	13,102	3,434
Provisions	7,425	64	55
Total non-current liabilities	10,018	13,166	3,489
TOTAL LIABILITIES	23,488	15,741	5,408
Net assets	654,323	229,544	151,196
EQUITY			
Accumulated surplus	203,355	87,309	94,992
Revaluation reserves	450,812	142,235	56,204
Other reserves	156	–	–
Council equity interest	654,323	229,544	151,196
Total equity	654,323	229,544	151,196

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds. Assets and liabilities shown in the water and sewer columns are restricted for use for these activities.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

continued on next page

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Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23. Financial result and financial position by fund (continued)

Details of individual internal loans for the year ended 30 June 2019

(in accordance with s410(3) of the *Local Government Act 1993*)

Details of individual internal loans	Council ID / Ref
Borrower (by purpose)	Sewer Fund
Lender (by purpose)	General Fund
Date of minister's approval	8 July 2019
Date raised	30 June 2019
Term (years)	15
Dates of maturity	30 June 2034
Rate of interest	2.00%
Amount originally raised	\$1,000,000
Total repaid during year (principal and interest)	\$0
Principal outstanding at end of year	\$1,000,000

Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2}	4,035				
Total continuing operating revenue excluding capital grants and contributions ¹	65,038	6.20%	9.45%	7.86%	>0.00%
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	54,153				
Total continuing operating revenue ¹	77,698	69.70%	53.48%	60.96%	>60.00%
3. Unrestricted current ratio					
Current assets less all external restrictions	24,853				
Current liabilities less specific purpose liabilities	7,398	3.36x	3.49x	3.56x	>1.50x
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	23,177				
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	3,181	7.29x	2.08x	5.70x	>2.00x
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	1,070				
Rates, annual and extra charges collectible	35,961	2.98%	3.02%	3.12%	<10.00%
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	91,587				
Monthly payments from cash flow of operating and financing activities	4,136	22.14 mths	17.85 mths	24.50 mths	>3.00 mths

(1) Excludes fair value adjustments, reversal of revaluation decrements, net gain on sale of assets, and net loss of interests in joint ventures and associates.

(2) Excludes impairment/revaluation decrements, net loss on sale of assets, and net loss on share of interests in joint ventures and associates

Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2019	2018	2019	2018	2019	2018	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(1.50)%	0.72%	13.41%	8.86%	26.05%	40.31%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹							
2. Own source operating revenue ratio							
Total continuing operating revenue excluding capital grants and contributions ¹	62.06%	52.90%	84.26%	65.94%	83.17%	46.99%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	3.36x	3.49x	11.82x	7.86x	16.03x	16.52x	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	6.43x	7.68x	5.80x	1.21x	18.55x	1.17x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	2.44%	2.45%	4.40%	4.65%	4.06%	4.12%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	20.77	17.07	∞	∞	∞	∞	>3.00
Payments from cash flow of operating and financing activities	mths	mths					mths

(1) - (2) Refer to Notes at Note 28a above.

(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

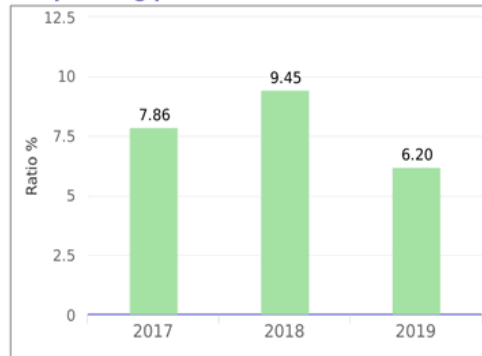
Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements
for the year ended 30 June 2019

Note 24(c). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



Purpose of operating performance ratio

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on 2018/19 result

2018/19 ratio 6.20%

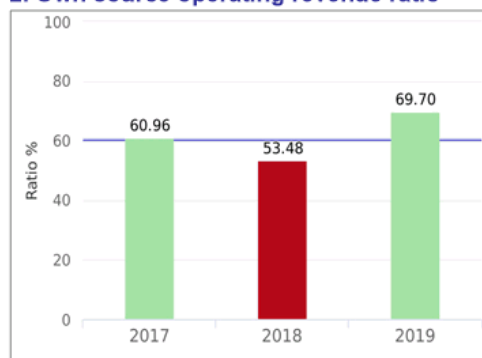
While expenses rose across the board, the major factor influencing the drop in this ratio was the impact of discounting on Council's Employee Leave Entitlement which added in excess of \$1.5 million to the liability via an expense this year.

Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark
Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

Commentary on 2018/19 result

2018/19 ratio 69.70%

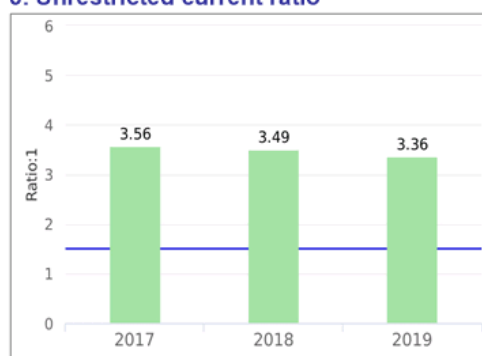
While this ratio has been consistently above benchmark, it was impacted in 2017/18 year due to the large amount of capital grants and capital contributions (both cash and in-kind) Council received.

Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark
Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

Commentary on 2018/19 result

2018/19 ratio 3.36x

This ratio has now levelled out at a very acceptable level

Benchmark: — > 1.50x

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark
Ratio is outside benchmark

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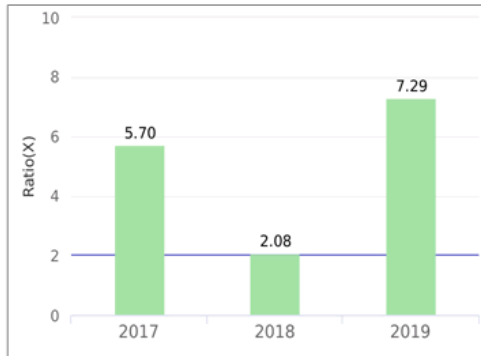
Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements
for the year ended 30 June 2019

Note 24(c). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments

Commentary on 2018/19 result

2018/19 ratio 7.29x

Council has undertaken minimal borrowing over the past 7-8 years and during this time has paid out a number of loans. The sharp drop last year was due to two loans being paid out early instead of refinancing. Both these loans related to the Water and Sewer Funds of Council

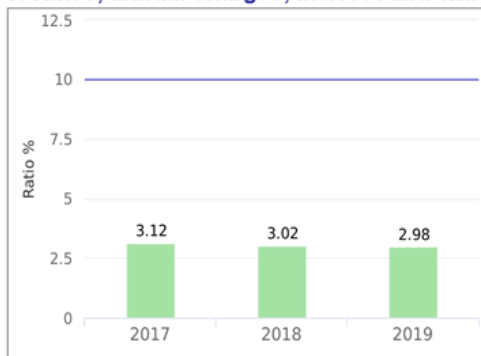
Benchmark: — > 2.00x

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

5. Rates, annual charges, interest and extra charges outstanding percentage



Purpose of rates, annual charges, interest and extra charges outstanding

To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

Commentary on 2018/19 result

2018/19 ratio 2.98%

Council has continued the consistent application of its debt recovery policy whilst being mindful of its rating hardship policy

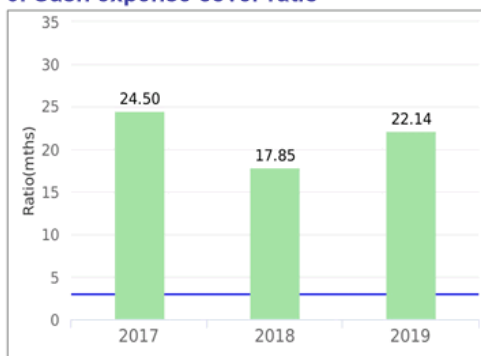
Benchmark: — < 10.00%

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

Commentary on 2018/19 result

2018/19 ratio 22.14 mths

This ratio still remains high but will be impacted moving forward as our major projects such as the Performing Arts Centre and Aquatic Centre Upgrade progress.

Benchmark: — > 3.00mths

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

Goulburn Mulwaree Council

Financial Statements 2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25. Council information and contact details

Principal place of business:184-194 Bourke Street
Goulburn NSW 2580**Contact details****Mailing Address:**Locked Bag 22
Goulburn NSW 2580**Telephone:** 02 4823 4444**Opening hours:**8:30am - 5:00pm
Monday - Friday**Internet:** www.goulburn.nsw.gov.au**Email:** council@goulburn.nsw.gov.au**Officers****General Manager**

Warwick Bennett

Responsible Accounting Officer

Brendan Hollands

AuditorsAudit Office of NSW
15/1 Margaret Street
Sydney NSW 2000**Elected members****Mayor**

Cr Bob Kirk

CouncillorsCr Andrew Banfield
Cr Leah Ferrara
Cr Carol James
Cr Margaret O'Neill
Cr Sam Rowland
Cr Denzil Sturgiss
Cr Alfie Walker
Cr Peter Walker



INDEPENDENT AUDITOR'S REPORT
Report on the general purpose financial statements
Goulburn Mulwaree Council

To the Councillors of the Goulburn Mulwaree Council

Opinion

I have audited the accompanying financial statements of Goulburn Mulwaree Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
 - have been presented, in all material respects, in accordance with the requirements of this Division
 - are consistent with the Council's accounting records
 - present fairly, in all material respects, the financial position of the Council as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Special Purpose Financial Statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the Special Purpose Financial Statements and Special Schedule - Permissible income for general rates.

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

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 19 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Dominika Ryan
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

25 October 2019
SYDNEY



Cr Bob Kirk
 Mayor
 Goulburn Mulwaree Council
 Locked Bag 22
 GOULBURN NSW 2580

Contact: Dominika Ryan
 Phone no: 02 9275 7336
 Our ref: D1925651/1731

25 October 2019

Dear Mayor

**Report on the Conduct of the Audit
 for the year ended 30 June 2019
 Goulburn Mulwaree Council**

I have audited the general purpose financial statements (GPFS) of the Goulburn Mulwaree Council (the Council) for the year ended 30 June 2019 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2019 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

	2019	2018	Variance
	\$m	\$m	%
Rates and annual charges revenue	35.2	34	3.5
Grants and contributions revenue	23.1	44.8	48.4
Operating result for the year	11.5	37.1	69.0
Net operating result before capital grants and contributions	(1.2)	3.7	132.4

Council’s operating result (\$11.5 million including the effect of depreciation and amortisation expense of \$17.6 million) was \$25.6 million lower than the 2017–18 result. This was a result of significant decrease in total revenue of \$19.7 million (20.2%), compared to the increase in expenses of \$5.9 million (9.8%).

The net operating result before capital grants and contributions (\$1.2million) was \$4.9million lower than the 2017–18 result.

Rates and annual charges revenue (\$35.2 million) increased slightly by \$1.2 million (3.5%) in 2018–2019 as a result of the annual rates increase of 2.7%.

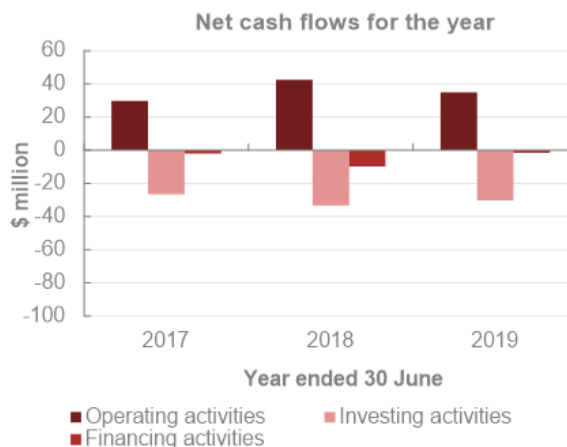
Grants and contributions revenue (\$23.1million) decreased by \$21.7 million (48.4%) in 2018–2019 due to the reduction in grants for specific capital purpose and developer contributions by \$5.8 million and \$15 million respectively.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows illustrates the flow of cash and cash equivalents moving in and out of Council during the year. Cash balance increased by \$2.6 million to \$8.6 million from prior year.

Cash inflows from operating activities decreased from \$42.5 million in FY18 to \$34.8 due to lower revenue from grants and contributions. Decrease in cash outflow from investing activities amounted to \$2.8 million. This is mainly due to lower spending on infrastructure, property, plant and equipment and investments during FY19 compared to FY18.

Cash outflow from financing activities has decreased significantly from \$9.9 to \$1.6 million due to significant repayment of loan in prior year. There has been no additional debt obtained during the year.



FINANCIAL POSITION

Cash and investments

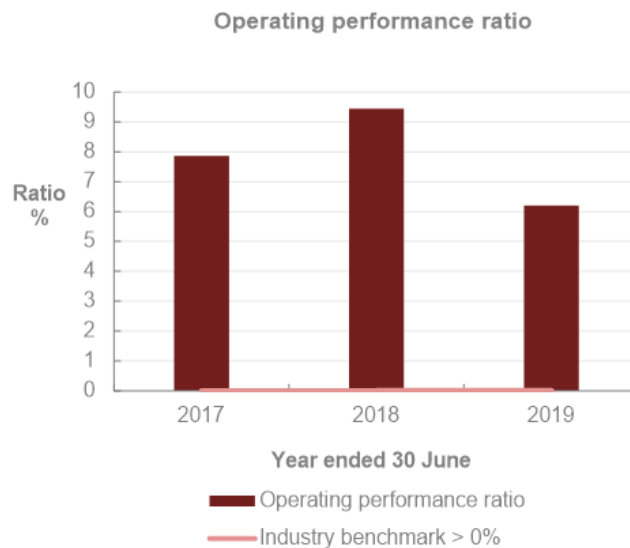
Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	75.4	68.3	<ul style="list-style-type: none"> External restrictions include unspent specific purpose grants, developer contributions, domestic waste management charges, levies and planning agreements.
Internal restrictions	17.2	15.7	
Unrestricted	1.2	4.9	
Cash and investments	93.8	88.8	<ul style="list-style-type: none"> Balances are internally restricted due to Council policy or decisions for forward plans including works program. Unrestricted balances provide liquidity for day-to-day operations. The balance for cash and investments overall increased by \$5 million (5.6%). The movement was a result of increase in external restricted balance from \$68.3 million to \$75.4 million.

PERFORMANCE

Operating performance ratio

Council exceeded the benchmark of zero per cent, despite the decrease in operating performance ratio from prior.

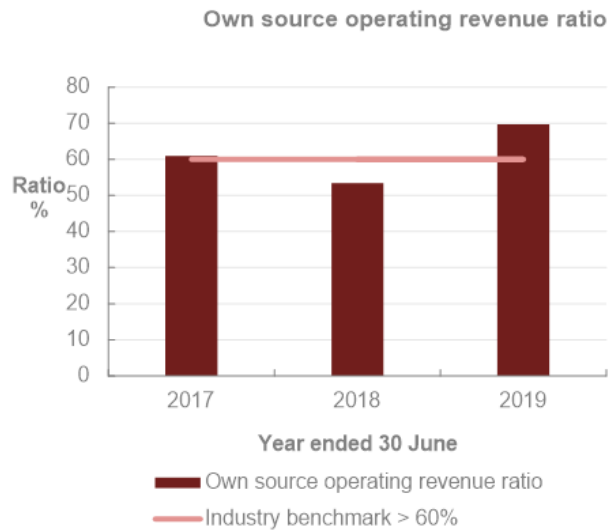
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the former Office of Local Government (OLG) is greater than zero per cent.



Own source operating revenue ratio

Council's own source operating revenue ratio of 69.7 per cent, increased from prior year and exceeded the industry benchmark. This reflects the significance of rates and user charges as funding sources for Council.

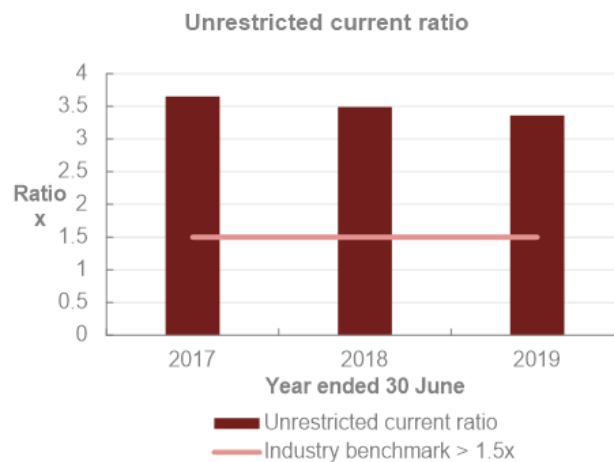
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the former OLG is greater than 60 per cent.



Unrestricted current ratio

Council continues to exceed the benchmark. This ratio indicated Council currently had 3.36 times of unrestricted current assets available to service each dollar of its unrestricted current liabilities. There has been a slight decrease in this ratio during the year (decrease from 3.49 in prior year to 3.36 in current year) due to increased restrictions on cash held.

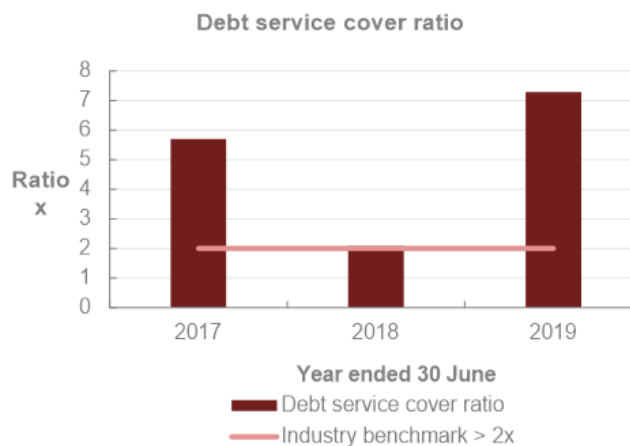
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the former OLG is greater than 1.5 times.



Debt service cover ratio

The debt service cover ratio has been maintained above the industry benchmark for the past 3 years. The debt service ratio of 7.29 times in FY 19 has increased from FY18 and exceeds the industry benchmark of 2 times..

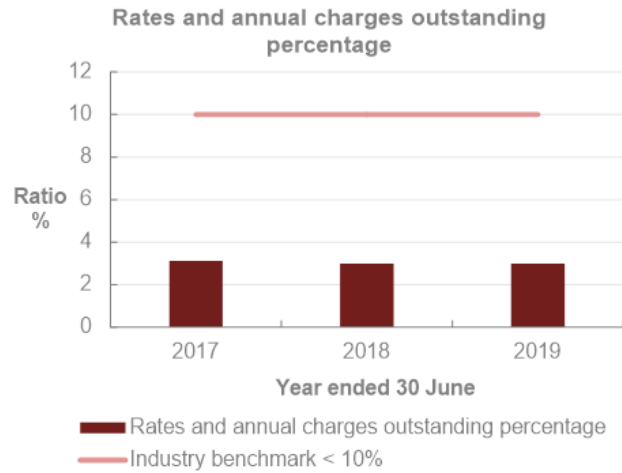
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.



Rates and annual charges outstanding percentage

Council's outstanding rates and charges ratio of 3.11 per cent is within the industry benchmark of less than 10 per cent. Indicating that the Council's credit risk is lower compared to the industry.

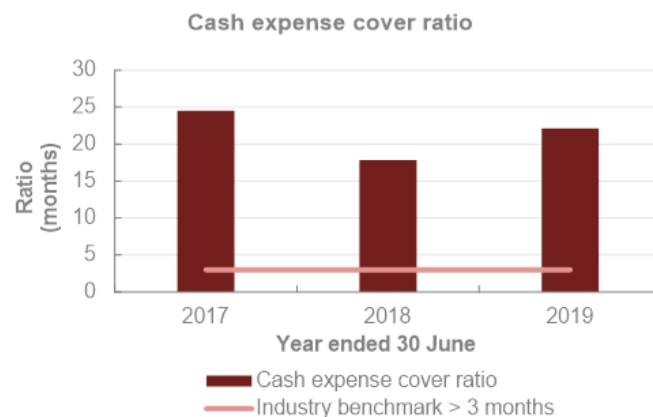
The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the former OLG is less than 10 per cent.



Cash expense cover ratio

Council's cash expense cover ratio of 10.66 months exceeded the industry benchmark of greater than 3 months. The ratio decreased slightly by 0.22 months as compared to 2017-18.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by the former OLG is greater than three months.



Infrastructure, property, plant and equipment renewals

Infrastructure, property, plant and equipment renewals for 2018-19 amounted to \$19.9 million, a decrease of \$9.3 million from prior year balance of \$29.2 million. The decrease was mainly caused by the decrease in capital work in progress of \$13.3 million offset by increases in water supply and sewerage network renewals totalling to \$5.6 million.

OTHER MATTERS

New accounting standards implemented

Application period	Overview
AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none"> • a simplified model for classifying and measuring financial assets • a new method for calculating impairment • a new type of hedge accounting that more closely aligns with risk management. <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 6.</p>

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Dominika Ryan
Director Financial Services

cc: Mr Warwick Bennett, General Manager

Goulburn Mulwaree Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019



Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Special Purpose Financial Statements for the year ended 30 June 2019

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Background

- i. These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
- ii. The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Special Purpose Financial Statements
for the year ended 30 June 2019

Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

To the best of our knowledge and belief, these statements:

- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records,
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 15 October 2019.



Cr Bob Kirk
Mayor
15 October 2019



Cr Peter Walker
Councillor
15 October 2019



Warwick Bennett
General Manager
15 October 2019



Brendan Hollands
Responsible Accounting Officer
15 October 2019

Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Income Statement – Water Supply Business Activity
for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	2,297	2,240
User charges	7,469	7,217
Fees	95	105
Interest	869	745
Grants and contributions provided for non-capital purposes	176	93
Other income	95	101
Total income from continuing operations	11,001	10,501
Expenses from continuing operations		
Employee benefits and on-costs	1,596	1,619
Borrowing costs	972	1,187
Materials and contracts	2,964	3,183
Depreciation, amortisation and impairment	3,187	3,115
Loss on sale of assets	474	160
Other expenses	333	307
Total expenses from continuing operations	9,526	9,571
Surplus (deficit) from continuing operations before capital amounts	1,475	930
Grants and contributions provided for capital purposes	1,846	5,283
Surplus (deficit) from continuing operations after capital amounts	3,321	6,213
Surplus (deficit) from all operations before tax	3,321	6,213
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(406)	(256)
SURPLUS (DEFICIT) AFTER TAX	2,915	5,957
Plus accumulated surplus	83,521	77,308
Plus/less: other adjustments - Asset Revaluation Reserve realised on disposal of IPP&E	467	-
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	406	256
Closing accumulated surplus	87,309	83,521
Return on capital %	1.1%	1.0%
Subsidy from Council	367	3,402
Calculation of dividend payable:		
Surplus (deficit) after tax	2,915	5,957
Less: capital grants and contributions (excluding developer contributions)	(1,846)	(2,306)
Surplus for dividend calculation purposes	1,069	3,651
Potential dividend calculated from surplus	535	1,826

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Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Income Statement – Sewerage Business Activity
for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	9,095	8,961
User charges	1,672	1,555
Liquid trade waste charges	364	322
Fees	10	91
Interest	884	784
Grants and contributions provided for non-capital purposes	88	90
Other income	119	134
Total income from continuing operations	12,232	11,937
Expenses from continuing operations		
Employee benefits and on-costs	1,731	1,710
Borrowing costs	275	652
Materials and contracts	3,225	2,333
Depreciation, amortisation and impairment	1,640	1,759
Loss on sale of assets	1,557	357
Other expenses	617	314
Total expenses from continuing operations	9,045	7,125
Surplus (deficit) from continuing operations before capital amounts	3,187	4,812
Grants and contributions provided for capital purposes	2,369	13,277
Surplus (deficit) from continuing operations after capital amounts	5,556	18,089
Surplus (deficit) from all operations before tax	5,556	18,089
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(876)	(1,323)
SURPLUS (DEFICIT) AFTER TAX	4,680	16,766
Plus accumulated surplus	88,007	69,918
Plus/less: other adjustments - Asset Revaluation Reserve realised on disposal of IPP&E	1,429	-
Plus adjustments for amounts unpaid:		
- Corporate taxation equivalent	876	1,323
Closing accumulated surplus	94,992	88,007
Return on capital %	2.8%	4.6%
Subsidy from Council	-	-
Calculation of dividend payable:		
Surplus (deficit) after tax	4,680	16,766
Less: capital grants and contributions (excluding developer contributions)	(2,369)	(9,528)
Surplus for dividend calculation purposes	2,311	7,238
Potential dividend calculated from surplus	1,155	3,619

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Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Income Statement – Domestic Waste Management

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
Access charges	3,613	3,459
Interest	87	65
Grants and contributions provided for non-capital purposes	314	338
Profit from the sale of assets	–	18
Other income	39	50
Total income from continuing operations	4,053	3,930
Expenses from continuing operations		
Employee benefits and on-costs	815	697
Materials and contracts	3,393	2,922
Depreciation, amortisation and impairment	1	1
Other expenses	2	118
Total expenses from continuing operations	4,211	3,738
Surplus (deficit) from continuing operations before capital amounts	(158)	192
Surplus (deficit) from continuing operations after capital amounts	(158)	192
Surplus (deficit) from all operations before tax	(158)	192
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(53)
SURPLUS (DEFICIT) AFTER TAX	(158)	139
Plus accumulated surplus	2,122	1,930
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	53
Closing accumulated surplus	1,964	2,122
Return on capital %	(877.8)%	1,010.5%
Subsidy from Council	158	–

Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Income Statement – Commercial Waste
 for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
User charges	1,346	1,246
Total income from continuing operations	1,346	1,246
Expenses from continuing operations		
Employee benefits and on-costs	241	208
Materials and contracts	849	981
Depreciation, amortisation and impairment	8	6
Other expenses	2	2
Total expenses from continuing operations	1,100	1,197
Surplus (deficit) from continuing operations before capital amounts	246	49
Surplus (deficit) from continuing operations after capital amounts	246	49
Surplus (deficit) from all operations before tax	246	49
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(68)	(13)
SURPLUS (DEFICIT) AFTER TAX	178	36
Plus accumulated surplus	548	499
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	68	13
Closing accumulated surplus	794	548
Return on capital %	229.9%	65.3%

Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	2,790	1,797
Investments	25,996	17,714
Receivables	1,645	1,691
Total current assets	30,431	21,202
Non-current assets		
Investments	1,624	7,222
Receivables	19	32
Infrastructure, property, plant and equipment	213,211	209,838
Total non-current assets	214,854	217,092
TOTAL ASSETS	245,285	238,294
LIABILITIES		
Current liabilities		
Payables	1,094	611
Income received in advance	420	–
Borrowings	477	457
Provisions	584	675
Total current liabilities	2,575	1,743
Non-current liabilities		
Borrowings	13,102	13,579
Provisions	64	42
Total non-current liabilities	13,166	13,621
TOTAL LIABILITIES	15,741	15,364
NET ASSETS	229,544	222,930
EQUITY		
Accumulated surplus	87,309	83,521
Revaluation reserves	142,235	139,409
TOTAL EQUITY	229,544	222,930

Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	2,882	2,005
Investments	26,848	19,770
Receivables	980	971
Inventories	–	3
Internal Loan Receivable from General Fund	58	–
Total current assets	<u>30,768</u>	<u>22,749</u>
Non-current assets		
Investments	1,678	8,059
Receivables	21	39
Infrastructure, property, plant and equipment	123,195	118,090
Internal Loan Receivable from General Fund	942	–
Total non-current assets	<u>125,836</u>	<u>126,188</u>
TOTAL ASSETS	<u>156,604</u>	<u>148,937</u>
LIABILITIES		
Current liabilities		
Payables	862	116
Borrowings	507	495
Provisions	550	507
Total current liabilities	<u>1,919</u>	<u>1,118</u>
Non-current liabilities		
Borrowings	3,434	3,941
Provisions	55	27
Total non-current liabilities	<u>3,489</u>	<u>3,968</u>
TOTAL LIABILITIES	<u>5,408</u>	<u>5,086</u>
NET ASSETS	<u>151,196</u>	<u>143,851</u>
EQUITY		
Accumulated surplus	94,992	88,007
Revaluation reserves	56,204	55,844
TOTAL EQUITY	<u>151,196</u>	<u>143,851</u>

Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Domestic Waste Management

as at 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
ASSETS		
Current assets		
Cash and cash equivalents	201	152
Investments	1,877	1,495
Receivables	71	97
Other	22	–
Total current assets	<u>2,171</u>	<u>1,744</u>
Non-current assets		
Investments	117	610
Receivables	5	4
Infrastructure, property, plant and equipment	18	19
Total non-current assets	<u>140</u>	<u>633</u>
TOTAL ASSETS	<u>2,311</u>	<u>2,377</u>
LIABILITIES		
Current liabilities		
Payables	71	29
Provisions	251	214
Total current liabilities	<u>322</u>	<u>243</u>
Non-current liabilities		
Provisions	25	12
Total non-current liabilities	<u>25</u>	<u>12</u>
TOTAL LIABILITIES	<u>347</u>	<u>255</u>
NET ASSETS	<u>1,964</u>	<u>2,122</u>
EQUITY		
Accumulated surplus	1,964	2,122
TOTAL EQUITY	<u>1,964</u>	<u>2,122</u>

Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Commercial Waste
as at 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
ASSETS		
Current assets		
Receivables	687	473
Total current assets	<u>687</u>	<u>473</u>
Non-current assets		
Infrastructure, property, plant and equipment	107	75
Total non-current assets	<u>107</u>	<u>75</u>
TOTAL ASSETS	<u>794</u>	<u>548</u>
NET ASSETS	<u>794</u>	<u>548</u>
EQUITY		
Accumulated surplus	794	548
<u>TOTAL EQUITY</u>	<u>794</u>	<u>548</u>

Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the *Local Government (General) Regulation 2005*, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 NSW government policy statement titled 'Application of National Competition Policy to Local Government'.

The *Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality* issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

In accordance with *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

a. Water Supply

Provide potable water for the Local Government Area.

b. Sewerage Services

Provide waste water services for the Local Government Area.

Category 2

(where gross operating turnover is less than \$2 million)

a. Domestic Waste Management

Collection and disposal of domestic waste in accordance with section 504 of the Local Government Act.

b. Commercial Waste

continued on next page

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Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

Collection and disposal of commercial waste on a user pays basis.

Monetary amounts

Amounts shown in the financial statements are in Australian dollars and rounded to the nearest one thousand dollars.

(i) Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs.

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – **27.5%**

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$850,000.

Income tax

An income tax equivalent has been applied on the profits of the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 27.5%.

Income tax is only applied where a gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations - it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in the SPFS.

Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that council business activities face 'true' commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

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Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

(ii) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

The rate of return is calculated as follows:

Operating result before capital income + interest expense

Written down value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.32% at 30/6/19.

(iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

Each dividend must be calculated and approved in accordance with the Department of Industry – Water guidelines and must not exceed:

- 50% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30 June 2019 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Industry – Water guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the Department of Industry – Water.

Goulburn Mulwaree Council

Special Purpose Financial Statements 2019

Special Purpose Financial Statements
for the year ended 30 June 2019



INDEPENDENT AUDITOR'S REPORT
Report on the special purpose financial statements
Goulburn Mulwaree Council

To the Councillors of the Goulburn Mulwaree Council

Opinion

I have audited the accompanying Special Purpose Financial Statements (the financial statements) of Goulburn Mulwaree Council's (the Council) declared business activities, which comprise the Income Statement of each declared business activity for the year ended 30 June 2019, the Statement of Financial Position of each declared business activity as at 30 June 2019, Note 1 Significant accounting policies for the business activities declared by Council, and the Statement by Councillors and Management.

The declared business activities of the Council are:

- water supply
- sewerage
- domestic waste management
- commercial waste.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared business activities as at 30 June 2019, and its financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code).

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the General Purpose Financial Statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the General Purpose Financial Statements and Special Schedule 'Permissible income for general rates'.

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

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Dominika Ryan
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

25 October 2019
SYDNEY

Goulburn Mulwaree Council

SPECIAL SCHEDULES
for the year ended 30 June 2019



Goulburn Mulwaree Council

Special Schedules 2019

Special Schedules

for the year ended 30 June 2019

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Goulburn Mulwaree Council

Special Schedules 2019

Permissible income for general rates
for the year ended 30 June 2019

\$ '000		Calculation 2019/20	Calculation 2018/19
Notional general income calculation ¹			
Last year notional general income yield	a	19,874	19,143
Plus or minus adjustments ²	b	213	292
Notional general income	c = a + b	20,087	19,435
Permissible income calculation			
Or rate peg percentage	e	2.70%	2.30%
Or plus rate peg amount	i = e x (c + g)	542	447
Sub-total	k = (c + g + h + i + j)	20,629	19,882
Plus (or minus) last year's carry forward total	l	38	45
Sub-total	n = (l + m)	38	45
Total permissible income	o = k + n	20,667	19,927
Less notional general income yield	p	20,628	19,874
Catch-up or (excess) result	q = o - p	39	53
Less unused catch-up ⁵	s	(30)	(15)
Carry forward to next year ⁶	t = q + r + s	9	38

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the Valuation of Land Act 1916.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the Local Government Act 1993. The OLG will extract these amounts from Council's Permissible income for general rates Statement in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Goulburn Mulwaree Council

To the Councillors of Goulburn Mulwaree Council

Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Goulburn Mulwaree Council (the Council) for the year ending 30 June 2020.

In my opinion, the Schedule is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code), and is in accordance with the books and records of the Council.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Schedule' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to the special purpose framework used to prepare the Schedule. The Schedule has been prepared for the purpose of fulfilling the Council's reporting obligations under the LG Code. As a result, the Schedule may not be suitable for another purpose.

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the General Purpose Financial Statements, Special Purpose Financial Statements and Special Schedule 'Report on infrastructure assets as at 30 June 2019'.

My opinion on the Schedule does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and the special purpose financial statements.

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

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

The Councillors are responsible for the preparation of the Schedule in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

- obtain reasonable assurance whether the Schedule as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the Schedule.

A description of my responsibilities for the audit of the Schedule is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar8.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.



Dominika Ryan
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

25 October 2019
SYDNEY

Goulburn Mulwaree Council

Special Schedules 2019

Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		to bring assets to satisfactory standard	to bring assets to agreed level of service set by Council					1	2	3	4	5
(a) Report on Infrastructure Assets - Values												
Buildings	Buildings	-	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
	Buildings – non-specialised	4,730	27,029	1,100	2,312	42,987	83,213	10.0%	33.0%	25.0%	32.0%	0.0%
	Sub-total	4,730	27,029	1,100	2,312	42,987	83,213	10.0%	33.0%	25.0%	32.0%	0.0%
Other structures	Other structures	-	-	100	22	3,862	5,706	15.0%	30.0%	55.0%	0.0%	0.0%
	Sub-total	-	-	100	22	3,862	5,706	15.0%	30.0%	55.0%	0.0%	0.0%
Roads	Sealed roads	6,853	35,444	3,620	2,677	202,149	331,801	2.0%	50.0%	37.0%	10.0%	1.0%
	Unsealed roads	369	2,106	460	792	25,776	42,129	0.0%	0.0%	95.0%	5.0%	0.0%
	Bridges	91	415	230	1	30,756	45,349	16.0%	48.0%	35.0%	1.0%	0.0%
	Footpaths	300	567	140	88	13,622	16,424	6.0%	85.0%	5.0%	0.0%	4.0%
	Other road assets	256	978	530	266	190,468	203,408	79.0%	20.0%	1.0%	0.0%	0.0%
	Sub-total	7,869	39,510	4,980	3,824	462,771	639,111	27.5%	37.9%	28.4%	5.6%	0.6%
Water supply network	Water supply network	1,463	4,548	3,900	3,633	209,740	310,845	20.0%	44.0%	35.0%	1.0%	0.0%
	Sub-total	1,463	4,548	3,900	3,633	209,740	310,845	20.0%	44.0%	35.0%	1.0%	0.0%
Sewerage network	Sewerage network	1,314	4,507	2,620	2,393	115,615	182,807	27.0%	30.0%	41.0%	2.0%	0.0%
	Sub-total	1,314	4,507	2,620	2,393	115,615	182,807	27.0%	30.0%	41.0%	2.0%	0.0%
Stormwater drainage	Stormwater drainage	-	-	520	460	65,717	96,796	11.0%	18.0%	71.0%	0.0%	0.0%
	Sub-total	-	-	520	460	65,717	96,796	11.0%	18.0%	71.0%	0.0%	0.0%
Open space / recreational assets	Swimming pools	47	266	100	32	770	1,331	0.0%	0.0%	80.0%	20.0%	0.0%
	Open space and recreation	-	-	260	1,148	2,363	4,070	35.0%	25.0%	40.0%	0.0%	0.0%
	Sub-total	47	266	360	1,180	3,133	5,401	26.4%	18.8%	49.9%	4.9%	0.0%
TOTAL - ALL ASSETS		15,423	75,860	13,580	13,824	903,825	1,323,879	23.3%	36.4%	34.8%	5.2%	0.3%

(a) Required maintenance is the amount identified in Council's asset management plans.

Infrastructure asset condition assessment 'key'

- 1 **Excellent/very good** No work required (normal maintenance)
- 2 **Good** Only minor maintenance work required

continued on next page

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Goulburn Mulwaree Council

Special Schedules 2019

Report on Infrastructure Assets - Values (continued)

as at 30 June 2019

3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

continued on next page

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Goulburn Mulwaree Council

Special Schedules 2019

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	Prior periods 2018	Prior periods 2017	Benchmark
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	38,330	246.56%	60.21%	125.83%	>=100.00%
Depreciation, amortisation and impairment	15,546				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	15,423	1.71%	2.62%	2.62%	<2.00%
Net carrying amount of infrastructure assets	903,825				
Asset maintenance ratio					
Actual asset maintenance	13,824	101.80%	96.47%	99.92%	>100.00%
Required asset maintenance	13,580				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	75,860	5.73%	2.12%	2.20%	
Gross replacement cost	1,323,879				

(*) All asset performance indicators are calculated using classes identified in the previous table.

(1) Excludes Work In Progress (WIP)

(2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

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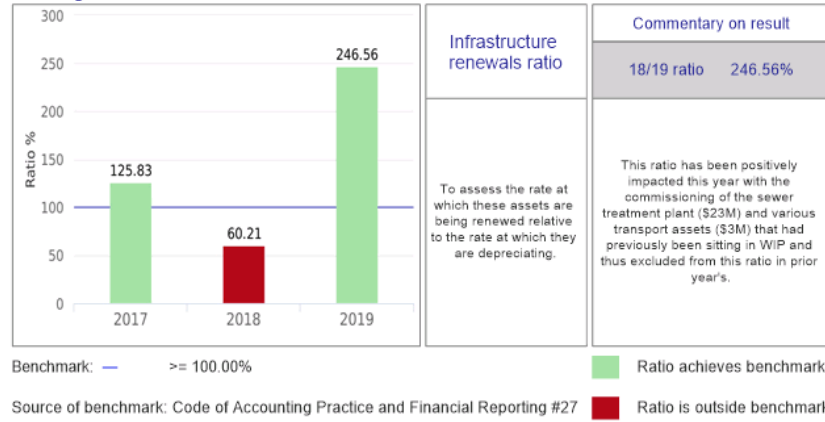
Page 9 of 11

Goulburn Mulwaree Council

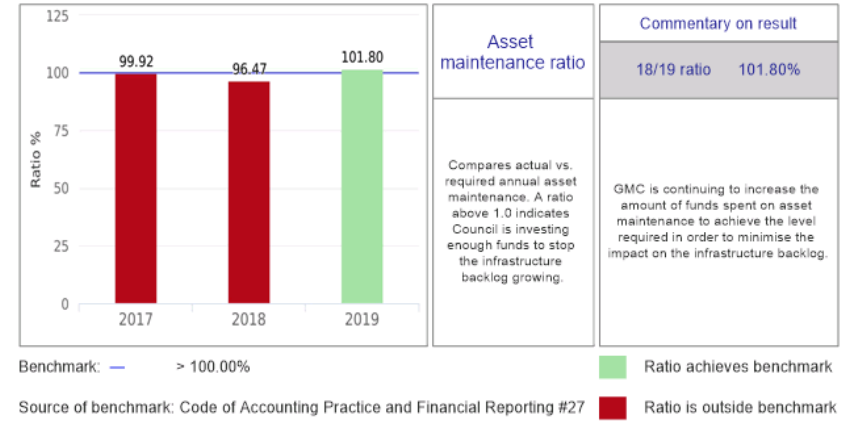
Special Schedules 2019

Report on Infrastructure Assets (continued)
as at 30 June 2019

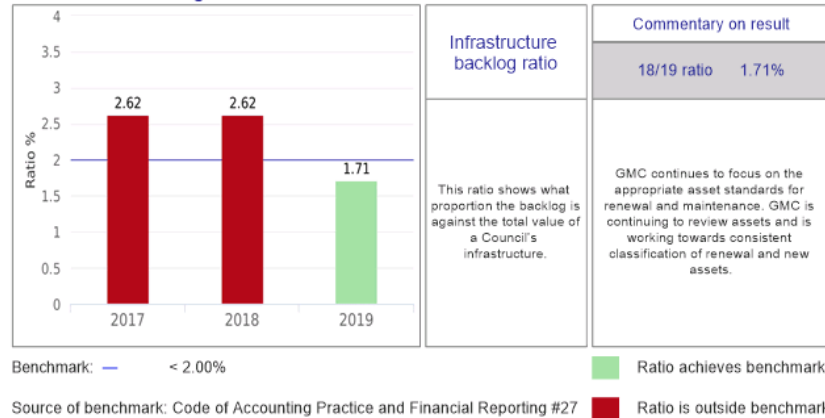
Buildings and infrastructure renewals ratio ¹



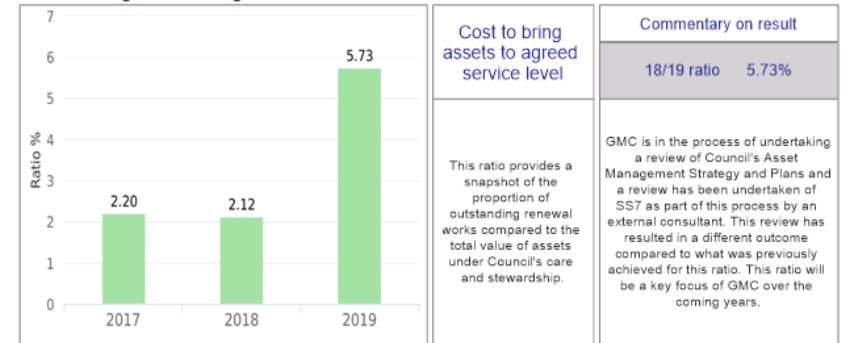
Asset maintenance ratio



Infrastructure backlog ratio ¹



Cost to bring assets to agreed service level



(1) Excludes Work In Progress (WIP)

continued on next page

Page 10 of 11

Goulburn Mulwaree Council

Special Schedules 2019

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2019	2018	2019	2018	2019	2018	
Infrastructure asset performance indicators (by fund)							
Buildings and infrastructure renewals ratio ¹							
Asset renewals ²							
Depreciation, amortisation and impairment	66.34%	64.17%	86.85%	39.29%	1,743.26%	73.97%	>=100.00%
Infrastructure backlog ratio ¹							
Estimated cost to bring assets to a satisfactory standard							
Net carrying amount of infrastructure assets	2.19%	3.07%	0.70%	1.17%	1.13%	3.06%	<2.00%
Asset maintenance ratio							
Actual asset maintenance							
Required asset maintenance	110.45%	107.76%	93.15%	92.09%	91.34%	73.41%	>100.00%
Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council							
Gross replacement cost	8.08%	2.27%	1.46%	1.42%	2.44%	2.66%	

(1) Excludes Work In Progress (WIP)

(2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.



Shareholder Briefing

**Offer from AGL Energy Limited to acquire all shares in
Southern Phone Company Limited.**

October 2019

The board of Southern Phone unanimously recommends you accept the AGL offer of \$785,714 for your shareholding





Southern Phone is one of the largest telcos in regional Australia

- > Formed in 2002 as part of the Federal Government's **Networking the Nation** scheme
- > Established with the goal of delivering affordable & reliable telecommunications to regional Australians
- > Owned by 35 local Councils with an initial investment of **\$2 each**
- > Each shareholder holds the rights attaching to one ordinary share and one preference share (only local Councils can own shares)



Key achievements:

\$16.8M has been returned to shareholders in dividends and community grants

.....

140 staff across our Moruya and Bendigo offices

.....

100,000 customers and **180,000** services

.....

By offering simple home phone, broadband and mobile services to our customers, we reset competition across the regional communications sector



Total Dividends Paid

Goulburn Mulwaree Council



Southern Phone Company

Goulburn Mulwaree Council	TOTAL
Total Dividend Paid	\$410,905



Market conditions have changed



Market conditions have changed – the market conditions in which we launched have been fundamentally altered by the NBN. The reliance on growth and scale is like never before.



We have invested in capability and scale – to tackle the evolving marketplace, we have invested in systems and network and added increased scale through the acquisition of customer bases, however more scale is required to compete effectively.



Capital Constraints – should we require capital to fund future growth, we may be limited by a lack of flexibility in seeking further shareholder funding.



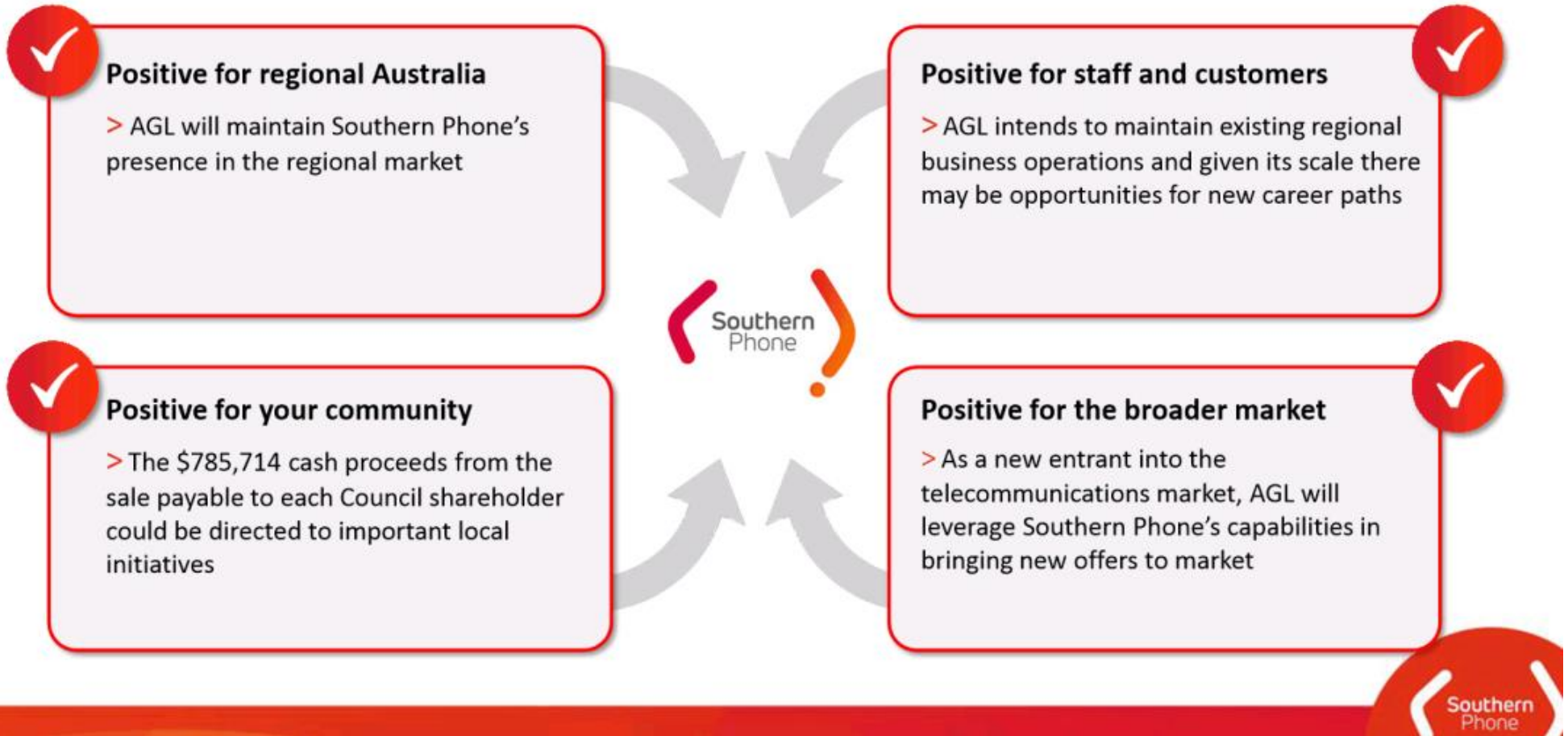
Financial performance – the NBN-led marketplace has resulted in pricing and margins coming under pressure and thus our financial performance has been negatively impacted. A loss was realised in FY2019 and a decision was made not to declare a dividend.



Best alternative – the AGL Offer is higher than the indicated interest of other potential buyers, and we believe provides greater certainty and value than would be the case if the AGL Transaction did not proceed



AGL is an ideal acquirer of Southern Phone



The AGL Offer represents a fair value to shareholders

Outstanding Offer

- ✓ **Attractive return** – the AGL Offer provides fair value for your Southern Phone shares
- ✓ **Attractive terms** – 100% of your return will be paid in cash and upon completion. There is no deferred payment and no contingent component
- ✓ **Straightforward** – The terms of the offer are not complex and only very limited warranties are required to be given to AGL by you
- ✓ **Fixed Cash Payment** – of \$785,714 per shareholder
- ✓ **A Special Dividend** – will be made to distribute the company's cash reserves. The dividend pool is expected to be approximately \$1 million
- ✓ **Employment Commitment** – AGL have contractually committed to retain employees and ongoing operations in Moruya for at least 3 years

Southern Phone's Board considers the AGL Offer is in the best interests of shareholders and unanimously recommends that you accept the AGL Offer



Independent opinion



Independent Opinion

- Ernst & Young has provided an independent opinion stating that this offer represents fair value and is in excess of a recent valuation

If shareholders do not accept the offer

- The AGL Transaction may not complete
- You will retain your shares in Southern Phone Company
- Due to challenging telecommunications market conditions Southern Phone may need to forgo future dividends and raise additional capital in order to remain competitive

“ ..in our opinion, and in the absence of any higher alternative offer, we consider the terms of the transaction to be fair.”

The offer from AGL requires acceptance by all shareholders by 29 November 2019



Other considerations

Shareholder warranties

- Shareholders only need to give limited warranties
- For more information on the limited warranties to be given by shareholders please refer to the Shareholder Information Pack that will be sent to shareholders on 17 October 2019

Pre-completion considerations

- If all shareholders do not accept the offer, AGL may elect not to proceed with the transaction
- Conditions – completion of the transaction is also conditional upon:
 - > Changes to the Constitution being approved by a special resolution of shareholders at Southern Phone's extraordinary general meeting on 2 December 2019. These changes are required to permit a non-council shareholder and to facilitate the transaction,
 - > Consent of key suppliers to a change of control, and
 - > That certain outsourcing arrangements are terminated.



For your **\$2** investment in Southern Phone,
once the transaction completes, you will
receive **\$785,714**, plus a dividend
distribution of cash reserves



What is required to accept the offer

To accept the AGL Offer, each shareholder will be required to:

- Vote in favour of a special resolution to update the Company’s constitution, including to permit non-council shareholders of the Company;
- The Company will convene an EGM to put the Constitution changes to shareholders, scheduled for 2 December 2019; and
- Resolve at Council to sell your Southern Phone shares to AGL by signing a power of attorney and it is received by Southern Phone no later than 5:00pm on 29 November 2019.

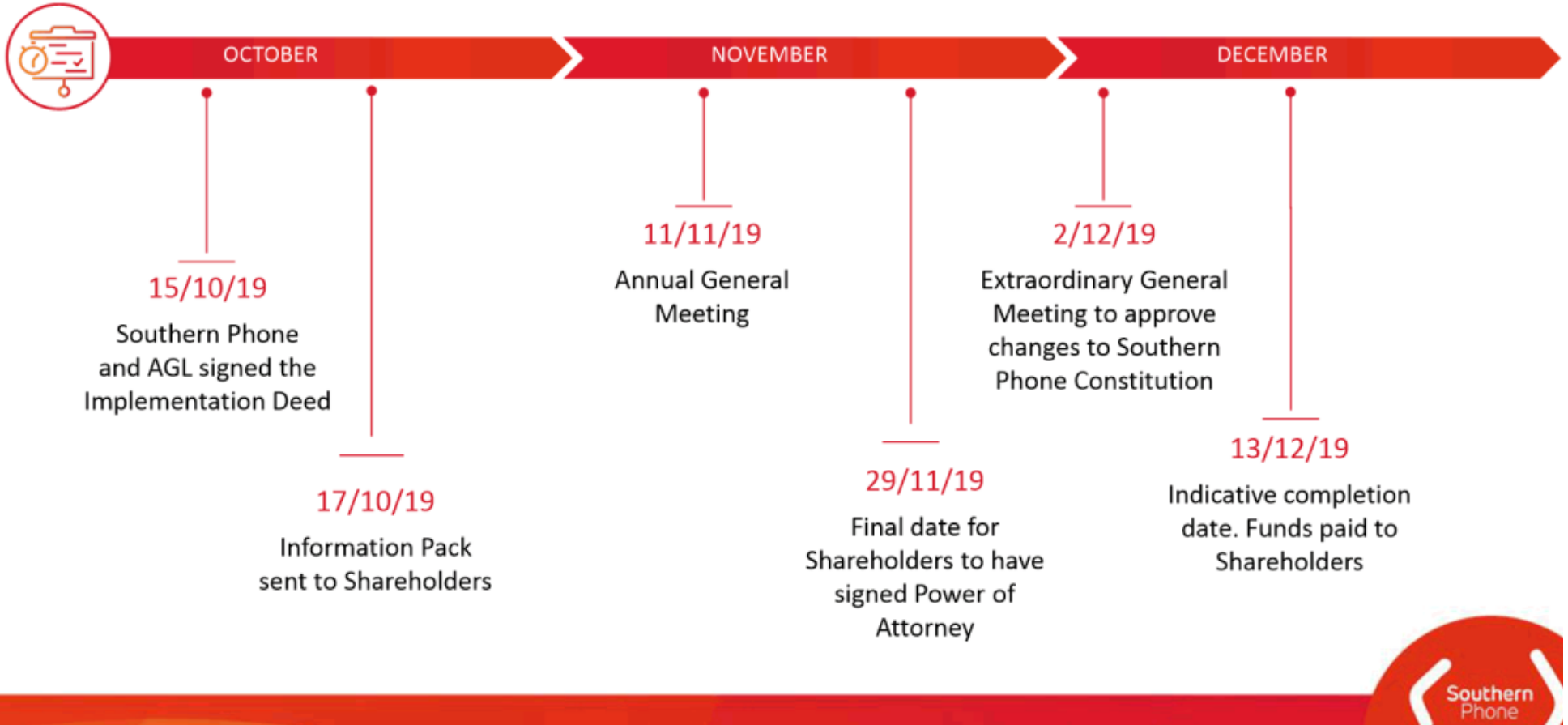


Shareholder advice

Addisons Lawyers has been appointed by Southern Phone Company to provide legal advice to shareholders regarding any questions



Timetable





SPC Information Pack Content – AGL

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Proudly Australian

Proudly Australian since 1837, we believe in sustainable, secure and affordable energy. AGL is a leading integrated energy business that has been operating for more than 180 years and has a proud heritage of innovation.



Strong Regional Presence

AGL services 217,000 households within the local government areas of Southern Phone Company's current shareholders.

One in five Australian households within regional areas choose AGL for their energy in areas we operate.



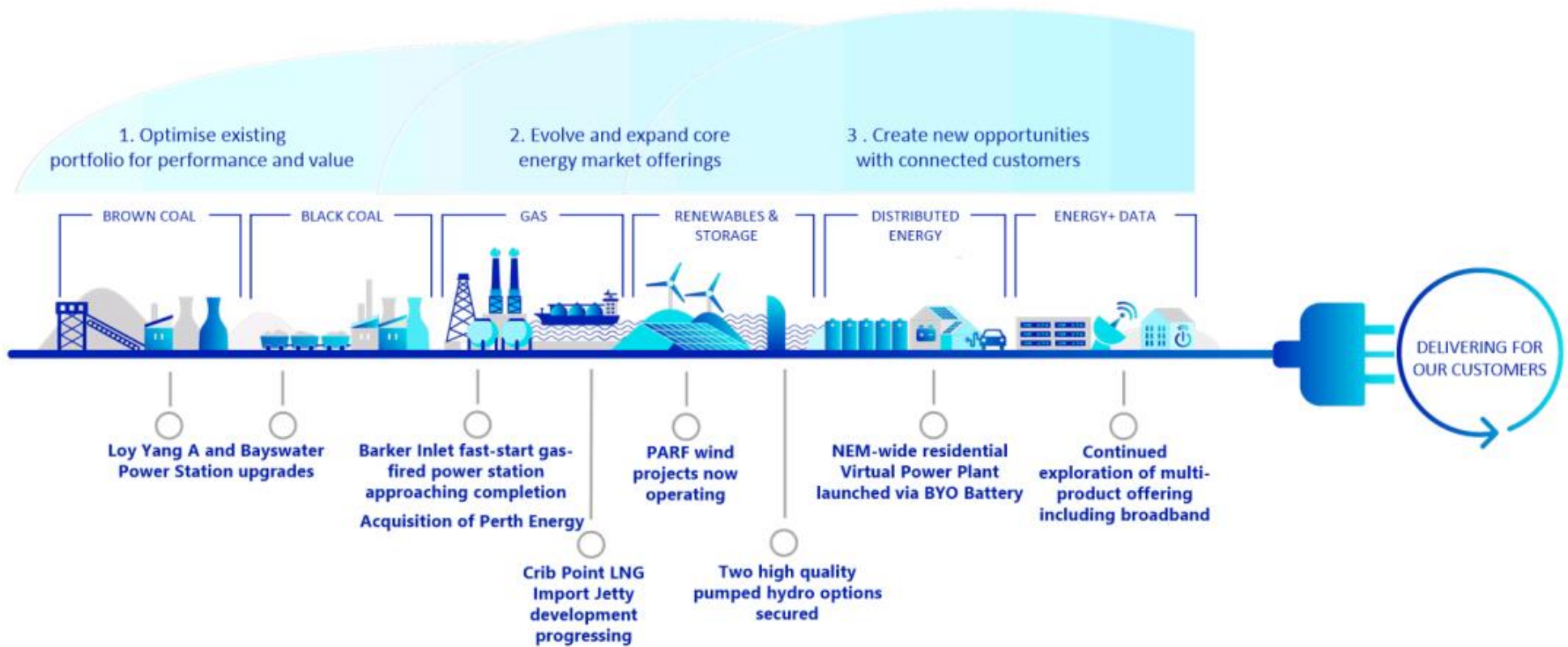
Committed to Customers

We take our position in homes and businesses seriously, with 3.7 million customer accounts including residential, small and large business and wholesale customers. That's why we're committed to supporting our customers and the communities we operate in.

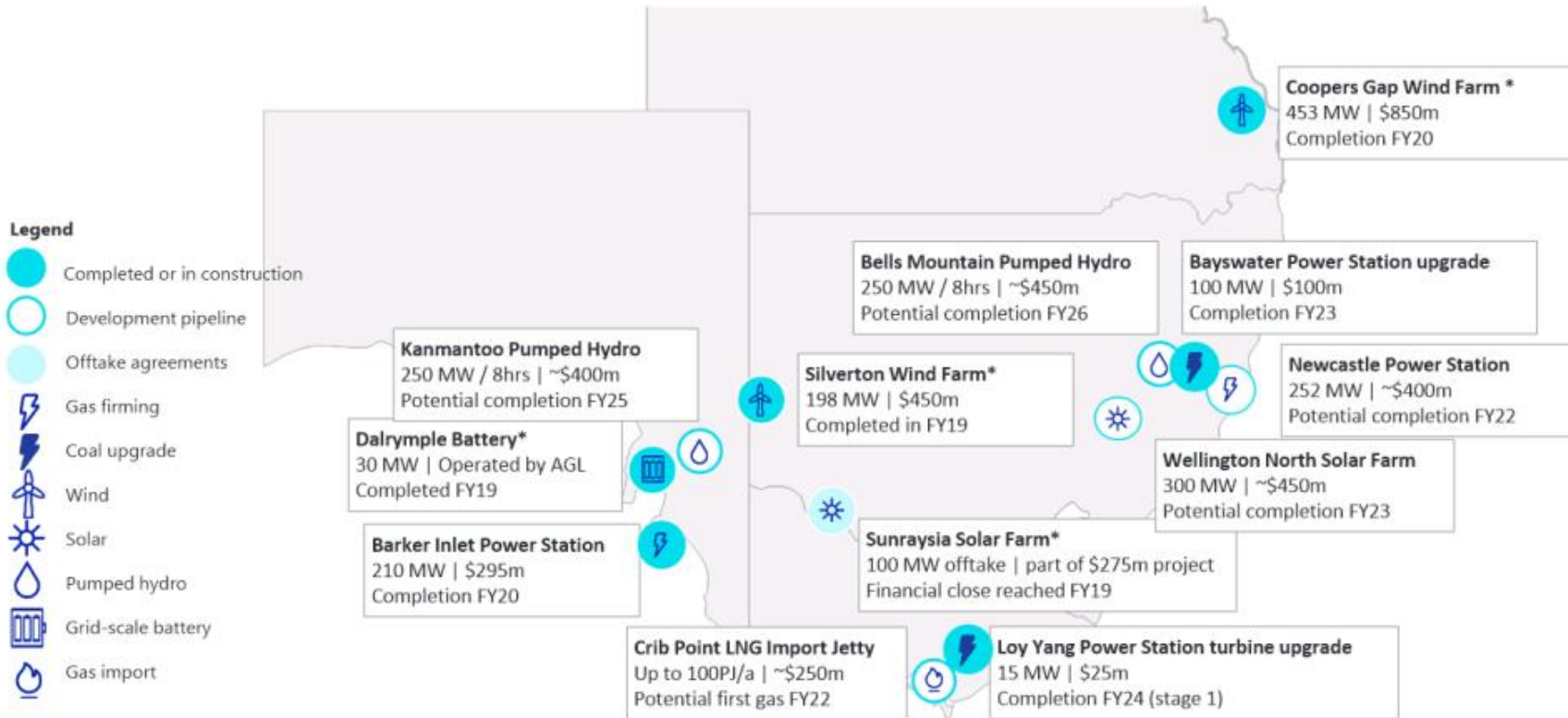
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AGL's growth strategy has three main areas for focus



AGL's energy supply projects deliver investment in many local communities across Australia, with \$1.9b of new projects completed or in construction and a further \$2b in the pipeline



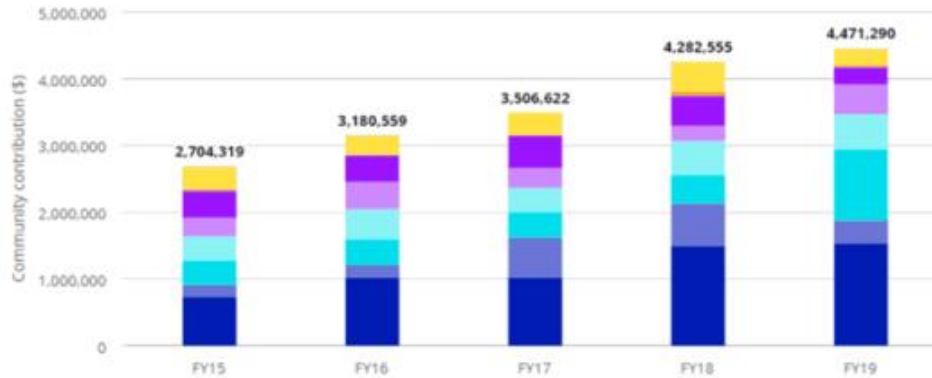
* Projects funded by third parties of which AGL is operator and/or offtaker (including PARF)



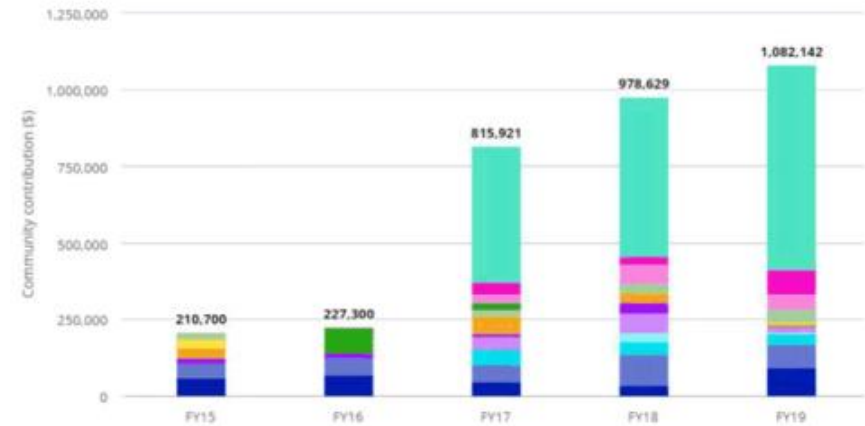
AGL's local community investment

The tables below illustrate how AGL invests in local communities by cause and geography

Community Contribution by Charitable Cause



AGL Community Funds



AGL has clear objectives for the Southern Phone acquisition



Southern Phone Company to maintain brand and products in market focusing on product offerings for regionally based customers



AGL to maintain existing regional business operations



AGL to provide additional resources and capabilities to bolster existing Southern Phone operations



AGL to bring broadband and mobile products to the broader market leveraging Southern Phone capabilities and assets

AGL is committed to delivering simplicity, fairness and transparency for our customers



Lower standing offer prices and rollout of AGL's Safety Net for electricity customers in FY19



\$50 million Customer Affordability Program implemented, primarily to Staying Connected customers



AGL Essentials: 300,000 residential and small business customers now on simple, fixed, low-rate plans

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Introducing AGL's Gas safety net.

We know that not everyone has time to consider their energy plan options.

AGL is here to help.

AGL residential and small business gas customers who have been on our standing offer* for more than a year will benefit from **an automatic discount over the next 12 months.**

It's just another way we are supporting our customers.

Q agl.com.au

*A standing offer is a non-discounted contract on regulated terms, which can apply by default if you don't choose an energy plan.



AGL's Commitment to Sustainability

- As one of Australia's leading integrated energy companies, and as Australia's largest greenhouse gas emitter, AGL has a responsibility to be transparent about the risks and opportunities that climate change poses to our business, the community and the economy more broadly.
- AGL acknowledges and accepts the scientific consensus on climate change. It recognises that to stay within concentrations consistent with $\leq 2\text{oC}$ of global warming, a gradual decarbonisation of the electricity generation sector is required by 2050. AGL's approach to transitioning to a low-carbon future is set out within its Greenhouse Gas Policy, which provides the framework within which the greenhouse gas reduction activities are structured.
- AGL is committed to playing a leading role in developing a pathway to a modern, decarbonised generation sector through investment in new renewable energy and near-zero emission technologies, as well as energy storage solutions. AGL has regularly released transparent and clear reporting in relation to its commitments to transition to a low-carbon economy. This includes:
 - **AGL's Greenhouse Gas Policy** released in 2015. This policy sets out AGL's commitment to a range of activities that will drive the orderly decarbonisation of the energy sector.
 - **AGL's Carbon Scenario Analysis** report released in 2019, which included scenario analysis of AGL's operations within a carbon constrained future.
 - **AGL's Rehabilitation Report** released in 2017, which outlined clear time limits for the closure of AGL's fossil fuel plants to provide certainty to communities and the market as to AGL's decarbonisation pathway.



CONFIDENTIAL



SOUTHERN PHONE COMPANY LIMITED
(Company)
ACN 100 901 184

Shareholder Information Pack
for the proposed acquisition by AGL Energy Limited ABN 74 115 061 375
of all of the shares in the Company

THE BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS APPROVE THE PROPOSED TRANSACTION WITH AGL, INCLUDING BY:

- 1. VOTING IN FAVOUR OF THE CONSTITUTION AMENDMENT; AND**
- 2. EXECUTING THE SHARE SALE AGREEMENT**

CONTENTS

Part A	Letter to Shareholders
Part B	Notice of Extraordinary General Meeting and Explanatory Statement
Part C	Form of Proxy
Part D	Proposed Transaction Summary
Part E	Section 1 Ernst & Young Letter
	Section 2 Addisons Lawyers Letter
Part F	Signing instructions
Part G	Glossary
Annexure A	Share Sale Agreement
Annexure B	Limited Power of Attorney
Annexure C	Share Transfer Form
Annexure D	Lost Share Certificate Indemnity

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SOUTHERN PHONE COMPANY LIMITED
(Company)
ACN 100 901 184

PART A – Letter to Shareholders

17 October 2019

Dear Shareholder,

I am writing to advise you, as a shareholder of Southern Phone Company Limited (**Southern Phone** or the **Company**), that Southern Phone and AGL Energy Limited (**AGL**) have entered into an agreement under which AGL is proposing to acquire, subject to the satisfaction or waiver of certain conditions, 100% of the shares in Southern Phone (**AGL Offer**).

The AGL Offer is an all cash offer, delivering an outstanding return of \$785,714 on your total investment of \$2.

Formed in 2002, with the intent of creating jobs and improved telecommunications services for regional Australians, Southern Phone has grown to be one of the largest telco's in regional Australia and in doing so has met all its original objectives. However, with the advent of the NBN, a new competitive landscape has emerged requiring significant scale and growth, and thus access to capital to prosper.

The proposed acquisition by AGL is both timely and a good strategic fit. Importantly, the transaction preserves jobs at the Company as detailed in the 'Advantages' section of this letter and provides fair value for your shareholding in Southern Phone.

The AGL Offer is the result of extensive negotiations and consideration by your Southern Phone board (**Board**) and follows a strategic review process undertaken in mid-2019, which led to the decision to appoint corporate advisers and investigate a possible sale of the Company.

We believe the AGL Offer will be beneficial for our customers, employees, regional communities and shareholders and **Southern Phone's Board unanimously recommends that you accept the AGL Offer before the requested cut-off date of 29 November 2019.**

Your Board has assessed the non-exhaustive list of advantages and disadvantages of the AGL Offer as set out below, and we are unanimously of the view that the advantages outweigh the disadvantages and, accordingly, the AGL Offer is in the best interests of the Company and shareholders.

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2

CONFIDENTIAL**Advantages**

- **Fixed Cash Payment** - The AGL Offer values your shares in Southern Phone at \$785,714 (**AGL Offer Price**). If the transaction that results from the AGL Offer (**AGL Transaction**) is completed, you will receive this amount in full and in cash on the completion date. The AGL Offer Price will not be recalculated at completion, and there is no deferred or contingent component that is dependent on Southern Phone's performance after completion;
- **Special Dividend** - The AGL Offer permits Southern Phone to declare and pay a special dividend to shareholders from Southern Phone's excess cash reserves before completion of the AGL Transaction (**Special Dividend**). We estimate the value of the special dividend pool (for distribution amongst all Southern Phone shareholders) to be approximately \$1 million, although this figure may change depending on, amongst other things, the completion date of the AGL Transaction and the transaction costs incurred by Southern Phone (which include amongst other things professional advisors' fees and directors' fees). It is also subject to Southern Phone complying with the Corporations Act. For the avoidance of doubt, the Special Dividend will not occur if the AGL Transaction does not proceed.
- **Fair Value** – Southern Phone has engaged Ernst & Young to review the terms of the AGL Offer. Ernst & Young has confirmed that the AGL Offer provides fair value for your Southern Phone shares.
- **Best Alternative** - Your estimated total return from the AGL Offer is higher than the indicated interest of other potential buyers, and we believe provides greater certainty and value than would be the case if the AGL Transaction did not proceed. Notably, the Company recorded a loss in the 2019 financial year and decided not to declare a dividend.
- **Only Limited Warranties** – If you accept the AGL Offer, you will give a limited number of warranties to AGL – see section 8 of Part D below and the legal opinion from Addisons Lawyers at Part E, Section 2 below;
- **Employment Commitment** - AGL has contractually committed to retain Southern Phone's employees and ongoing operations in Moruya for at least three years (subject to each employee's ongoing compliance with their terms of employment); and
- **Capital Constraints** - Southern Phone may at some future stage require additional capital in order to remain competitive in a challenging telecommunications market. If the AGL Transaction does not proceed, the current ownership structure may

CONFIDENTIAL

constrain the amount of additional capital that can be raised, potentially negatively impacting on the Company's competitive position.

Disadvantages

- Shareholders will no longer own and will be unable to realise any future value from, their shares in the Company.

To assist shareholders in considering the AGL Offer, this letter forms part of a Shareholder Information Pack. Our Managing Director, David Joss, will be available to attend and discuss the AGL Offer at an upcoming meeting of your Council. We will also make available to shareholders the Sydney-based law firm Addisons, who are acting for the Company and its shareholders as a whole with respect to the AGL Offer. Addisons' partner Kieren Parker will act as primary liaison for any shareholder queries.

To accept the AGL Offer, each shareholder will be required to:

- vote in favour of a special resolution to update the Company's constitution that is required to facilitate the AGL Transaction, including to permit non-council shareholders of the Company (**Constitution Changes**). The Company will convene an extraordinary general meeting to put the Constitution Changes to shareholders, which is currently scheduled for 2 December 2019 (**Extraordinary General Meeting**); and
- resolve at Council to sell its Southern Phone shares to AGL by entering into a Share Sale Agreement and executing related transaction documents, being the Limited Power of Attorney, Share Transfer Form and Lost Share Certificate Indemnity (if applicable).

Completion of the AGL Transaction is planned for mid-December 2019.

The Board has unanimously resolved to support the AGL Offer. The Board unanimously recommends that shareholders vote in favour of the Constitution Changes and accept the AGL Offer.

CONFIDENTIAL**Proposed timetable, process and documents to be signed**

The indicative timetable for the Proposed Transaction, which is subject to change, is as follows:

Announcement of the Proposed Transaction	16 October 2019
<hr/>	
Shareholder Information Pack sent to Shareholders	17 October 2019
<hr/>	
Last date that Shareholders are requested to have taken action in accordance with the signing instructions in Part F	5.00pm, 29 November 2019
<hr/>	
Extraordinary General Meeting	9.30am, 2 December 2019
<hr/>	
Completion date	13 December 2019
<hr/>	

A Notice of Extraordinary General Meeting, Explanatory Statement and Form of Proxy for the Extraordinary General Meeting are contained in Parts B and C of this Shareholder Information Pack. A summary of the Proposed Transaction and the Ernst & Young opinion are contained in Parts D and E of this Shareholder Information Pack.

The Transaction Documents, including the Share Sale Agreement, Limited Power of Attorney, Share Transfer Form and Lost Share Certificate Indemnity are contained in Annexures A, B, C and D of this Shareholder Information Pack.

Southern Phone has entered into an implementation deed with AGL in order to facilitate the AGL Transaction being put to shareholders (**Implementation Deed**). Further information about the Implementation Deed is included in the summary of the Proposed Transaction in Part D of this Shareholder Information Pack.

Instructions for Shareholders, including instructions for Shareholders who wish to approve the AGL Transaction, are set out in Part F.

Southern Phone plans to hold its annual general meeting as usual during November 2019. The Extraordinary General Meeting will be held after the annual general meeting. You will receive a notice convening the annual general meeting in the coming weeks.

CONFIDENTIAL**Next steps**

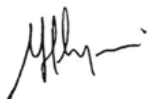
Due to the timetable that the Company and AGL are working towards, the Board requests that each Shareholder:

- (i) carefully reads this Shareholder Information Pack;
- (ii) contacts David Joss (david.joss@southernphone.net.au; 0413 880 949) as soon as practicable to confirm if you intend to approve the Constitution Changes and enter into the Transaction Documents; and
- (iii) follows the signing instructions in Part F and take action in accordance with those instructions by no later than 5pm on 29 November 2019.

If you have any questions in relation to this process or the accompanying documentation, I encourage you to contact the following persons:

- Chairman: Bill Hilzinger, (biljem@southernphone.net.au)
- Managing Director: David Joss (david.joss@southernphone.net.au; 0413 880 949)
- Addisons Lawyers: Kieren Parker, Partner (kieren.parker@addisonslawyers.com.au; (02) 8915 1013)
- Southern Phone: companysecretary@southernphone.net.au

Kind regards,



Bill Hilzinger
Chairman

**SOUTHERN PHONE COMPANY LIMITED**

ACN 100 901 184

**PART B Notice of Extraordinary General Meeting
and Explanatory Statement****Part A - Agenda**

A general meeting of Southern Phone Company Limited (ABN 42 100 901 184) (**Company**) will be held at the following date and venue:

Date and time: Monday, 2 December 2019 at 9.30am (AEDT)

Venue: Moruya Golf Club
Evans Street
Moruya NSW 2537

Items of Business**Resolution – Amending the constitution of the Company**

To consider and, if thought fit, pass the following resolution as a **special resolution**:

Resolved as a **special resolution** for the purposes of the *Corporations Act 2001* (Cth), the Constitution of Southern Phone Company Limited ACN 100 901 184 (**Company**) and for all other purposes that the constitution of the Company is altered, with effect immediately prior to Completion (as that term is defined in the Implementation Deed between the Company and AGL Energy Limited ABN 74 115 061 375) by:

- 1 inserting the following in clause **1.1** after the words, "In this Constitution, unless the contrary intention appears:"

'AGL Group Member' means AGL Energy Limited ABN 74 115 061 375 or any of its related bodies corporate;
- 2 amending clause **2.3** by adding ', provided that this clause 2.3 shall not apply to an AGL Group Member or any A Class Ordinary Shares held by an AGL Group Member. However, notwithstanding the foregoing and any other provision of this Constitution, if an AGL Group Member acquires more than one A Class Ordinary Share from a Member which is not an AGL Group Member, the AGL Group Member may only exercise the rights attaching to one of the A Class Ordinary Shares so acquired' at the end of that clause before the full stop;
- 3 amending clause **2.4(e)(b)** by adding '(or, in the case of a Redeemable Preference Share held by an AGL Group Member, within the Local Government Area of the former holder which sold that share to that AGL Group Member)' at the end of the definition of 'SR' before the semicolon, and by adding '(and, in the case of Redeemable Preference Shares held by AGL Group Members, within the Local Government Areas of the former holders which sold those shares to AGL Group Members)' at the end of the definition of 'TSR' before the semicolon;
- 4 amending clause **2.6** by adding ', provided that this **clause 2.6** shall not apply to Shares held by an AGL Group Member' at the end of that clause before the full stop;
- 5 substituting the following new clause for clause **3.1**:

Only Local Councils and AGL Group Members are entitled to hold shares in the Company.

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- 6 adding ‘, other than an AGL Group Member,’ after the words ‘No Member’ in clause **3.4** so that it provides as follows:

No Member, other than an AGL Group Member, may hold more than one Share in total of the Redeemable Preference Shares in Classes B to ZZ.
- 7 inserting a new clause **3.8** after clause **3.7** as follows:

Clauses 3.5 to 3.7 do not apply to a Member which is an AGL Group Member.
- 8 substituting the following new clause for clause **4.1**:

Subject to sections 254A, 254B, 254J and 254K of the Corporations Act 2001, Redeemable Preference Shares shall be redeemed if:

 - (a) *a Member notifies the Company that it requires its shares to be redeemed; or*
 - (b) *a Member holding Redeemable Preference Shares ceases to hold A Class Ordinary Shares, unless such Member has agreed to transfer its Redeemable Preference Shares and its A Class Ordinary Shares to the same person and completion of the transfer of the A Class Ordinary Shares and the Redeemable Preference Shares is simultaneous.*
- 9 in clause **9.2** substituting the following new clause (a) after “The provisions of this Constitution relating to general meetings apply, with necessary changes, to separate class meetings as if they were general meetings except that.”:

(a) *a quorum at a meeting of holders of A Class Ordinary Shares consists of, if one or more AGL Group Members is a holder of A Class Ordinary Shares, one of such AGL Group Members, and if no AGL Group Member is a holder of A Class Ordinary Shares, (1) if the number of holders of A Class Ordinary Shares entitled to vote is two or more – two of those holders, or (2) if only one holder of A Class Ordinary Shares is entitled to vote – that holder;*
- 10 substituting the following new clause for clause **11.1**:

Subject to this Constitution and in particular clause 3.4, a Member may transfer the A Class Ordinary Shares held by that Member only to an AGL Group Member or another Local Council, whether or not that AGL Group Member or that Local Council is an existing Member. A Member may not transfer any Redeemable Preference Share in Classes B to ZZ, unless the transfer is to an AGL Group Member.
- 11 in clause **19.2** substituting the following new clause:

A quorum of Members consists of, if one or more AGL Group Members is a Member, one of such AGL Group Members, and if no AGL Group Member is a Member, (1) if the number of Members entitled to vote is two or more – two of those Members, or (2) if only one Member is entitled to vote – that Member.
- 12 substituting the following new clause for clause **33.2**:

There must be at least three, and unless the Company resolves otherwise, not more than 10 directors.
- 13 deleting rule **33.3** and deleting ‘Despite **clause 33.3**,’ from the beginning of clause **33.4** (so that that clause begins ‘If the number of Directors ...’);
- 14 substituting the following new clause for clause **35.1**:

The Directors or an AGL Group Member may nominate a person to stand for election as a director at a general meeting of the Company.
- 15 substituting the following new clause for clause **35.7**:

At an annual general meeting of the Company, the Members must by ordinary resolution determine whether or not to appoint each candidate nominated by the Directors or an AGL Group Member.
- 16 substituting the following new clause for clause **35.8**:

Where a candidate nominated by the Board or an AGL Group Member is not elected as a Director pursuant to clause 35.7, the Directors may appoint a different person as a Director to hold office until the next annual general meeting of the Company. Where that person is elected by Members at that next annual general meeting their term will be for two years from the date of that meeting.



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17 amending clause **42.3** by deleting 'and' at the end of paragraph (ii) thereof and inserting a new paragraph (iv) after paragraph (iii) thereof as follows:

(iv) if one or more AGL Group Members together hold more than 50% by value of the shares in the Company, to the extent requested by any of those AGL Group Members; and

18 substituting the following new clause for clause **43.7**:

At a meeting of Directors, a quorum is three Directors.

A handwritten signature in black ink, appearing to read 'David Joss', written over a light blue horizontal line.

By order of the Board

David Joss

Company Secretary

Dated 17 October 2019



SOUTHERN PHONE COMPANY LIMITED

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Part B - Explanatory Statement

This Explanatory Statement forms part of the Notice of Meeting convening the Company's Extraordinary General Meeting to be held on Monday, 2 December 2019 at 9.30am (AEDT). The glossary for this Notice of Meeting is set out in Part G of the Shareholder Information Pack which contains this Notice of Meeting.

The purpose of this Explanatory Statement is to assist Shareholders in understanding the background to and implications of the proposed resolution to amend the constitution of the Company.

BACKGROUND

AGL Energy Limited ABN 74 115 061 375 (**AGL**) proposes to acquire, subject to the satisfaction or waiver of certain conditions, all of the shares in the issued capital of the Company (or such lesser number of the shares as agreed to by AGL) (**Proposed Transaction**). The acquisition is therefore proposed in respect of all A Class Ordinary Shares and all Redeemable Preference Shares held by Shareholders.

The Proposed Transaction is proposed to be effected by way of Share Sale Agreements to be entered into between AGL and each Shareholder.

In order to implement the Proposed Transaction, on 15 October 2019 the Company and AGL entered into an Implementation Deed (**Implementation Deed**). The Company does not have the power to sell its own shares, so the Implementation Deed is the Company's binding commitment to AGL to facilitate the Proposed Transaction, which is ultimately a matter for the Shareholders.

The Proposed Transaction is subject to the satisfaction or waiver of certain conditions that are set out in the Implementation Deed (**Conditions**), including Shareholders approving the Resolution as a special resolution (**Constitution Amendment Condition**). The Constitution Amendment Condition cannot be waived by either AGL or the Company. If the Resolution is not passed by Shareholders as a special resolution, the Proposed Transaction will not proceed to Completion.

The Resolution will take effect immediately prior to Completion. This means that if the Resolution is passed by Shareholders as a special resolution, but the Proposed Transaction does not proceed to Completion for another reason, the Resolution and the Constitution Amendment will not be given effect.

The Proposed Transaction is anticipated to complete 5 business days after the satisfaction or waiver of the Conditions.



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REASONS FOR THE CONSTITUTION AMENDMENT

Under section 136(2) of the Corporations Act, the Company may modify or repeal the Constitution by special resolution.

The Constitution includes provisions that:

- (a) non-council shareholders may not hold shares in the Company;
- (b) no shareholder may hold more than 1 Redeemable Preference Share or exercise rights attaching to more than 1 A Class Ordinary Share;
- (c) a high number of Shareholders are required for a quorum for general meetings of the Company; and
- (d) dividend calculations are in part based on the number of customers of the Company in local government areas.

Certain of these provisions have the result that the Proposed Transaction is not permitted by the Constitution, as a corporate entity such as AGL is not authorised to be a Shareholder, whilst other provisions are not suitable for a corporate entity seeking to be Shareholder, such as AGL.

The Constitution was designed for the Company with only councils envisaged as its Shareholders. This limited ownership structure was a key part of the Company's foundations and has been suitable for the Company to this point. In the Board's view, the Proposed Transaction is in the best interests of the Company and its future prospects, and this limited ownership structure is incompatible with the Proposed Transaction.

As a result, it is proposed that the Constitution Amendment be effected in accordance with the Resolution.

OTHER MATERIAL INFORMATION

Based on the information that is known to the Board which has not previously been disclosed to Shareholders, there is no other information material to the Shareholders' decision of whether or not to vote in favour of the Constitution Changes other than as set out in this document and the Shareholder Information Pack.

BOARD RECOMMENDATION

The Board **unanimously recommends that Shareholders vote in favour of the Resolution**, in order to facilitate the Proposed Transaction.

The Board also unanimously recommends that each Shareholder approves the Proposed Transaction and enters into a Share Sale Agreement with AGL, for the reasons set out in the Letter to Shareholders in Part A of the Shareholder Information Pack.

PART C

FORM OF PROXY



LODGE YOUR PROXY



By mail:
The Company Secretary
Southern Phone Company Ltd
6 Page Street, Moruya NSW 2537



By Fax: 1300 763 744



By email:
company.secretary@southernphone.net.au

PROXY VOTING FORM

A APPOINT A PROXY

I, as the authorised representative of _____ {insert council name}, a Shareholder of Southern Phone Company Limited, hereby appoint:

Appoint the Chairperson/Deputy Chairperson of the Meeting (mark box with an X)

OR

The name of the person you are appointing

If no person is named, the Chairperson of the Meeting is appointed as our proxy to act generally at the meeting on our behalf and to vote in accordance with the following direction (or if no direction is given, as the proxy sees fit) at the Extraordinary General Meeting of Southern Phone Company Ltd (**Company**) to be held at **9.30am (AEDT) on Monday 2 December 2019 at Moruya Golf Club, Evans Street Moruya NSW 2537** and at any adjournment of that meeting.

Southern Phone Company Ltd proxies will only be valid and accepted by Southern Phone Company Ltd if they are signed and received at the Registered Office, 6 Page Street, Moruya NSW 2537 no later than 48 hours prior to the meeting. Proxy forms may be mailed, faxed to 1300 763 744 or scanned and emailed to company.secretary@southernphone.net.au.

B VOTING DIRECTIONS

If you wish to direct your proxy how to vote please insert an in the appropriate box below. If you mark the Abstain box for the item you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in calculating the required majority if a poll is called.

<u>Item</u>	<u>For</u>	<u>Against</u>	<u>Abstain</u>
1. Approval to amend the constitution of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

C SIGNATURE OF AUTHORISED SHAREHOLDER REPRESENTATIVE

NAME (Capitals)

POSITION

Goulburn Mulwaree Council

SIGNATURE

FURTHER VOTING INFORMATION

Appointing a Proxy

If you have appointed the Chairperson of the Meeting as your proxy and have not directed him how to vote, you will have provided the Chairperson of the Meeting express authority to vote your undirected proxy as he sees fit.

To direct your proxy how to vote, you should clearly mark the boxes in Section B to indicate your voting instruction for each item.

A proxy need not be a shareholder of the Company. If you lodge a form and do not appoint someone else, the Chairperson of the Meeting will act as your proxy by default.

You are entitled to appoint up to two proxies. A separate proxy form should be used for each proxy. If you appoint a second proxy, you should state the proportion of your voting rights, or number of votes given to each proxy appointed, by clearly writing the proportion or number of votes to be exercised on the front of each form. If the appointment does not specify the proportion or number of your votes each proxy may exercise, each proxy may exercise half the votes. If you appoint two proxies, they can only vote on a poll in accordance with the number or proportion of votes allocated to them. Where two proxies are appointed, neither is entitled to vote on a show of hands. You can obtain an additional proxy form by telephoning 02 4474 7113.

It is important that proxy forms are returned to ensure a quorum for the meeting. If a Shareholder is unable to attend the meeting please return the Shareholder’s completed proxy voting form to the Company by email, post or fax by no later than Saturday, 30 November 2019 at 9.30am (AEDT).



LODGE YOUR PROXY



By mail:
 The Company Secretary
 Southern Phone Company Ltd
 6 Page Street, Moruya NSW 2537



By Fax: 1300 763 744



By email:
company.secretary@southernphone.net.au

Southern Phone Company Limited ABN 42 100 901 184

PART D Proposed Transaction Summary

Background

AGL proposes to acquire, subject to the satisfaction or waiver of certain conditions precedent, all of the shares in the issued capital of the Company (or, subject to certain conditions, such lesser number of the shares as agreed to by AGL) (**Proposed Transaction**).

The Proposed Transaction is to be effected by way of Share Sale Agreements to be entered into between AGL and each Shareholder (a Shareholder who has entered into the Share Sale Agreement is referred to in this Part D as a **Seller**).

In order to implement the Proposed Transaction, the Company and AGL entered into an Implementation Deed (**Implementation Deed**), pursuant to which the Company commits to put the Proposed Transaction, including the Constitution Amendment Resolution, to the Shareholders, and the Company and AGL have promised to work together to seek Shareholder support for the Proposed Transaction. The Company does not have the power to sell its Shares, so the Implementation Deed is the Company’s binding commitment to AGL to facilitate the Proposed Transaction, which is ultimately a matter for the Shareholders.

This document details the key considerations in respect of the Proposed Transaction. Shareholders are advised to carefully read the Share Sale Agreement and the other Transaction Documents. This summary, which has no legal force or effect, is not intended as a substitute for reading the Share Sale Agreement and the other Transaction Documents.

Key considerations

	Question	Answer
1.	Which Shares are proposed to be acquired by AGL?	The Company has A Class Ordinary Shares and Redeemable Preference Shares on issue. AGL proposes to acquire all of the A Class Ordinary Shares and the Redeemable Preference Shares (collectively referred to as the Sale Shares), or any lesser number it agrees.
2.	What is the purchase price?	The purchase price (in respect of 100% of the Sale Shares) is \$27,500,000. The Company also proposes to pay a special dividend to the Shareholders from excess cash before Completion (Special Dividend). The Board estimates the total amount of the Special Dividend will be approximately

		<p>\$1 million, although this figure may change depending on, amongst other things, the Completion date of the Proposed Transaction and the transaction costs incurred by the Company, and is subject to the Company complying with the Corporations Act. It is agreed between the Company and AGL that the Company's transaction costs will reduce the amount of the Special Dividend.</p> <p>For the avoidance of doubt, the Special Dividend will not occur if the Proposed Transaction does not proceed to Completion.</p>
3.	When will Shareholders be paid?	<p>Completion of the Proposed Transaction will occur 5 business days after satisfaction or waiver of the Conditions, provided the applicable Seller, the Company and AGL comply with their respective obligations.</p> <p>The Special Dividend is proposed to be declared and paid by the Company to Shareholders immediately before Completion.</p> <p>Each Seller will receive the purchase price of \$785,714 from AGL on Completion by electronic means of transfer (real time gross settlement) to a bank account nominated by the Seller.</p> <p>Based on assumptions as at the date of this document, Completion is anticipated by mid-December 2019.</p>
4.	What else occurs at Completion?	<p>On Completion, the Company and each Seller must provide to AGL certain Completion documents. The Completion obligations of the parties are interdependent and Completion will not occur until all parties have complied with their obligations.</p>
5.	Is the Proposed Transaction subject to conditions precedent?	<p>The Proposed Transaction is subject to a number of conditions precedent (Conditions) being satisfied before the Sunset Date, including:</p> <ul style="list-style-type: none"> (a) the Shareholders passing the Resolution as a special resolution to approve the Constitution Amendment; (b) each Shareholder executing the Share Sale Agreement, or such lesser number of Shareholders executing the Share Sale Agreement as agreed by AGL;

		<p>(c) the Company providing evidence to the satisfaction of AGL (acting reasonably) that certain of the Company’s landlords and key suppliers have consented to the Proposed Transaction; and</p> <p>(d) that certain outsourcing arrangements are terminated.</p> <p>The conditions in (b), (c) and (d) can be waived by AGL but not the Company.</p>
<p>6.</p>	<p>What happens if all Shareholders do not agree to sell their shares?</p>	<p>AGL’s preference is to acquire 100% of the Sale Shares. In order to do so, AGL must enter into a Share Sale Agreement with each Shareholder.</p> <p>Division 1 of Part 6A.2 of the Corporations Act provides that, in broad terms, if a person holds full beneficial interests in 90% or more of the shares in a company, or voting power in at least 90% and full beneficial interests in at least 90% by value of all of the shares in a company, then a compulsory acquisition of the remaining shares can be effected. Separate compulsory acquisition powers are contained in section 414 of the Corporations Act.</p> <p>If not all of the Shareholders commit to the Proposed Transaction, AGL may elect either to terminate the Proposed Transaction, or proceed notwithstanding that it will acquire less than 100% of the Company. If it meets the 90% threshold for compulsory acquisition, it may then have the right under the Corporations Act to compulsorily acquire the remaining Sale Sales.</p> <p>If less than 90% of the Shareholders execute the Share Sale Agreement, it is likely that AGL will elect to terminate the Proposed Transaction and Shareholders will not be entitled to receive any cash consideration under the Share Sale Agreements.</p> <p>If Shareholders who hold at least 10% of the securities covered by a compulsory acquisition notice under Division 1 Part 6A.2 of the Corporations Act object to the acquisition before the end of the objection period, the 90% holder may apply to the Court for approval of the acquisition of the securities covered by the notice. If the 90% holder establishes that the terms set out in the compulsory acquisition notice give a fair value for the securities, the Court must approve the acquisition of the securities on those terms. Otherwise it must confirm that the acquisition will not take place. Dissenting Shareholders may make an application to the Court if compulsory</p>

		<p>acquisition under section 414 of the Corporations Act is conducted.</p>
<p>7.</p>	<p>What should a Shareholder do if its Sale Shares are subject to an Encumbrance</p>	<p>Each Shareholder who wishes to approve the Proposed Transaction and sell its Sale Shares to AGL must ensure that, on Completion, its Sale Shares are free and clear of all Encumbrances. An Encumbrance may include, by way of example, a security interest registered on the Personal Property Securities Register over a Shareholder’s ‘all present and after-acquired property’, with or without exceptions (which used to be known as a ‘fixed and floating charge’).</p> <p>If a Shareholder’s Sale Shares are subject to one or more Encumbrances, it must ensure that it delivers to AGL on Completion a release of the Sale Shares from the applicable security agreement, executed by the holder of that Encumbrance and evidencing the power of the Seller or the Company to procure the holder of the Encumbrance to update the Personal Property Securities Register within 30 days after the date of the release.</p> <p>If you require further information about Encumbrances please feel free to contact David Joss at the Company (david.joss@southernphone.net.au) or Kieren Parker at Addisons (kieren.parker@addisonslawyers.com.au).</p>
<p>8.</p>	<p>Will the Sellers provide warranties to AGL?</p>	<p>Each Shareholder (in each capacity as a Seller) gives to AGL the following limited warranties (Seller Warranties):</p> <p>Power and authority</p> <ul style="list-style-type: none"> (a) The Seller has full power to and capacity to enter into and perform its obligations under the Share Sale Agreement. (b) All necessary authorisations for the execution, delivery and performance by the Seller of the Share Sale Agreement in accordance with its terms have been obtained. (c) The Share Sale Agreement is valid, binding and enforceable against the Seller in accordance with its terms. (d) The execution, delivery and performance by the Seller of the Share Sale Agreement does not constitute a breach of any law or obligation, or cause or result in a default under any agreement, or Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under the

	<p>agreement and there is no other arrangement or agreement between the Seller and another person in relation to the Sale Shares.</p> <p>Ownership and no encumbrances or other arrangements</p> <p>(e) At Completion the Seller will be the legal and beneficial owner of the Sale Shares and have complete power and right to sell those Sale Shares to AGL and the Sale Shares are the only securities in the Company in which the Seller has any kind of interest and AGL will acquire the full legal and beneficial ownership of the Sale Shares free and clear of all Encumbrances, subject to registration of AGL in the register of shareholders.</p> <p>Each Seller is only liable for a breach of a Seller Warranty if AGL notifies the Seller of its claim within 3 years after Completion. The maximum amount that AGL can recover from a Seller for a breach of a Seller Warranty is that Seller’s purchase price.</p> <p>Leakage</p> <p>In addition, because the Purchase Price is fixed, the Implementation Agreement restricts the ability of the Company to make certain payments to any Shareholder, or to incur unfunded transaction costs, between 30 June 2019 and Completion (Leakage).</p> <p>Leakage includes:</p> <ul style="list-style-type: none"> (a) a dividend or distribution declared, determined or paid after 30 June 2019; (b) a cancellation or forgiveness of indebtedness owed by a Shareholder or its affiliates to the Company; (c) an assumption of liability by the Company, including the provision of collateral by the Company, for the benefit of a Shareholder or any of its affiliates; (d) a payment, or the provision of any benefit, by the Company to any Shareholder or any of its affiliates; (e) the Company paying or agreeing to pay transaction costs if the amount of the Special Dividend is not
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		<p>reduced by such transaction costs.</p> <p>Certain authorised payments are not considered to be Leakage. These include the Special Dividend.</p> <p>In terms of the Share Sale Agreement, each Seller warrants to AGL that it has not received any Leakage, and indemnifies AGL against the amount of any Leakage received by the Seller (note the indemnity value is capped at the value of the consideration received by the Seller).</p> <p>The Company confirms to Shareholders that there has been no Leakage.</p>
9.	<p>Do the Shareholders have any residual liabilities arising out of the Proposed Transaction?</p>	<p>Shareholders should refer to the terms of the Share Sale Agreement and the legal opinion by Addisons at Part E, Section 2.</p> <p>Relevantly:</p> <p>(a) Sellers are required at Completion to transfer the Sale Shares to AGL free from Encumbrances together with providing any share certificates held in relation to the Sale Shares or a standard indemnity for lost share certificates;</p> <p>(b) each Seller gives the limited warranties set out in section 8 above.</p>
10.	<p>What commitments has AGL made in relation to the Company's employees?</p>	<p>AGL undertakes, for at least 3 years after Completion, to ensure that the Company maintains its existing Moruya, NSW operations, retains its existing employees located in Moruya (subject to each employee's ongoing compliance with their terms of employment and AGL's applicable employment policies) and to use reasonable commercial efforts to maintain the overall number of employees located in Moruya that the Company employs as at Completion.</p> <p>To ensure a smooth transition for the Company under AGL ownership and to minimise business interruption, AGL has also committed to retention arrangements with certain senior employees of the Company. One such employee is the Company's Managing Director, David Joss, with whom AGL has entered into arrangements to</p>

		<p>incentivise him to remain with the Company for a period of time post-Completion of the Proposed Transaction.</p> <p>For clarity, the Board (David Joss abstaining) has resolved that David Joss may vote on the Board’s consideration of the Proposed Transaction, notwithstanding the retention arrangement offered to David by AGL means that he stands to receive a financial benefit as a consequence of the Proposed Transaction, assuming that it proceeds to completion. While noting David Joss’ interest in the Proposed Transaction, it was also noted that, amongst other things, David has been supportive of the Proposed Transaction prior to receiving or expecting to receive any offer from AGL. The Board (David abstaining) is satisfied that David can effectively discharge his duties as a director in considering the Proposed Transaction.</p>
11.	Why are amendments required to the Company’s Constitution?	<p>The Constitution includes provisions that:</p> <ul style="list-style-type: none"> (a) only councils may hold Shares; (b) no shareholder may hold more than 1 Redeemable Preference Share or exercise the rights attaching to more than 1 A Class Ordinary Share; (c) a high number of Shareholders are required for a quorum for general meetings of the Company; and (d) dividend calculations are in part based on the number of customers of the Company in local government areas. <p>Certain of these provisions have the result that the Proposed Transaction is not permitted by the Constitution, whilst others are not suitable to the proposed shareholding by AGL in the Company after Completion.</p> <p>For further information see the Explanatory Statement in Part B.</p>
12.	Which documents are required for the Proposed Transaction?	<p>The key documents for the Proposed Transaction are:</p> <ul style="list-style-type: none"> (a) the Implementation Deed executed by the Company and AGL on 15 October 2019;

		<p>(b) the Notice of Meeting;</p> <p>(c) the Share Sale Agreements between AGL and each of the Shareholders; and</p> <p>(d) the other Transaction Documents, being the Limited Power of Attorney, the Share Transfer Form, the Lost Share Certificate Indemnity.</p>
13.	What are the key implementation steps?	<p>The following are the key steps to implement the Proposed Transaction:</p> <ol style="list-style-type: none"> 1 Sign and announce the Implementation Deed 2 Prepare and dispatch to Shareholders this Shareholder Information Pack; 3 satisfy the Conditions, including by obtaining executed Powers of Attorney, or executed Share Sale Agreements and related Transaction Documents, from Shareholders; 4 hold the Extraordinary General Meeting; 5 satisfy any remaining Conditions; and 6 implement and complete the Proposed Transaction.
14.	What are the other relevant terms of the Implementation Deed?	<p>The Implementation Deed provides for the following:</p> <p><u>General undertakings</u></p> <ol style="list-style-type: none"> (a) The Company must propose the Proposed Transaction to the Shareholders. (b) AGL must assist the Company to propose and give effect to the Proposed Transaction. (c) The Company and AGL must do all things within their power to implement the Proposed Transaction and use all reasonable endeavours to the extent within their control to do so in accordance with the indicative

	<p>timetable set out on page 5 of the Letter to Shareholders.</p> <p>(d) The Company and AGL must work together in good faith and in a co-operative manner, to implement the Proposed Transaction.</p> <p>(e) The Company must consult with AGL with regard to the content and presentation of information to Shareholders in relation to the Proposed Transaction.</p> <p>(f) The Company must provide AGL with all necessary information and access to premises and senior management, as AGL reasonably requests, in relation to the Company, the Proposed Transaction and the Shareholders.</p> <p><u>Exclusivity</u></p> <p>The Company has granted exclusivity to AGL. This entails that, from the date of the Implementation Deed until Completion, or the Sunset Date:</p> <p>(a) the Company and its related persons must not solicit, invite, encourage or initiate (including by the provision of non-public information), or participate in any discussions in relation to, or which would reasonably be expected to encourage or lead to the making of, a Competing Proposal; and</p> <p>(b) the Company must notify AGL of any actual, proposed or potential Competing Proposal.</p> <p>A “Competing Proposal” is widely defined, and includes any transaction which would result directly or indirectly in a third party acquiring 10% or more of the Sale Shares or a substantial part of the Company’s business or assets. A Competing Proposal also includes a transaction which would require the Company to abandon or fail to proceed with the Proposed Transaction.</p> <p><u>Pre-Completion undertakings</u></p> <p>The Company gives AGL a number of pre-completion undertakings (which apply between entering into the Implementation Deed and Completion). These undertakings include that the Company must carry on its</p>
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	<p>business in the ordinary and usual course and keep AGL informed of material decisions affecting the Company. In addition, the Company undertakes not to take certain actions during this period, including altering its constitution (except as agreed with AGL), issuing or buying back shares (except as agreed with AGL), declaring dividends (except the Special Dividend), encumbering or disposing of its assets, or entering into transactions involving expenditure or credit of \$100,000 or more.</p> <p>The Company also undertakes to ensure that, until Completion, there is no Leakage.</p> <p><u>Board recommendation</u></p> <p>The Company must use its best endeavours to procure that:</p> <ul style="list-style-type: none"> (i) the Directors unanimously recommend that the Shareholders vote in favour of the resolution to approve the Constitution Amendment, and agree to the Proposed Transaction; and (ii) the Board collectively, and the Directors individually, do not change, withdraw or modify its, his or her recommendation to vote in favour of the resolution to approve the Constitution Amendment, and agree to the Proposed Transaction, unless the Board has determined after receiving written financial advice from its financial adviser and written legal advice from its external legal advisers, that the Board, by virtue of their directors’ duties, is required to change, withdraw or modify its recommendation and the Company has complied with its exclusivity obligations under the Implementation Deed. <p><u>Insurance arrangements</u></p> <p>The Company must, no later than two business days prior to Completion, provide to AGL evidence that its cyber liability insurer has consented to the change of control of the Company. In addition, the Company must provide evidence to AGL that it has renewed certain of its insurance policies</p> <p><u>Release of encumbrances</u></p> <p>The Company must, no later than two business days prior to Completion procure that certain encumbrances</p>
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	<p>have been released.</p> <p><u>Company Warranties</u></p> <p>The Company warrants to AGL that, since 30 June 2019, there has been no Leakage and the Company is not obliged to do anything which constitutes Leakage.</p> <p>The Company also gives to AGL a limited set of warranties which relate to its power and authority to enter into the Implementation Deed and its capital structure (Company Warranties) which include that:</p> <ul style="list-style-type: none"> (a) The Company has all necessary authorisations for the execution, delivery and performance by the Company of the Implementation Deed and that it is valid, binding and enforceable against it. (b) The execution, delivery and performance by the Company of the Implementation Deed does not constitute a breach of any law or obligation, or cause or result in a default under any agreement, or Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under the Implementation Deed. (c) The Company’s capital structure, including all issued securities as at the date of the Implementation Deed are as set out in the Implementation Deed and it has not issued or granted (or agreed to issue or grant) any other securities, options, warrants, performance rights or other instruments which are still outstanding and may convert into securities in the Company other than as set out and it is not under any obligation to do so. (d) The Company is not the holder or beneficial owner of any shares or other capital in any body corporate (wherever incorporated). (e) The Company is not a party to and has no interest of any kind in any partnership, trust, joint venture or other enterprise. (f) The Sale Shares have been validly issued, are fully paid and no money is owing in respect of them.
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	<p>(g) The Company is not under an obligation to issue, and no person has the right to call for the issue or transfer of, any shares or other securities in it at any time.</p> <p>(h) The Company has not issued securities with conversion rights to shares or securities in it and there are no agreements or arrangements under which options or convertible notes have been issued by it.</p> <p>In addition, AGL has the right to terminate the Implementation Deed if any of the following statements (Termination Statement) is inaccurate or misleading in any material respect on the date of the Implementation Deed or immediately prior to Completion:</p> <p>(a) The Company is not aware of any materially adverse information relating to the business that has not been made available to AGL before the date of the Implementation Deed and the Company has not omitted anything from the disclosure materials which might reasonably be expected to have resulted in AGL not entering into the Implementation Deed or the Share Sale Agreements, or entering into any of them on materially different terms.</p> <p>(b) The information concerning the business prepared by or on behalf of the Company and contained in the disclosure materials is accurate in all material respects and was prepared in good faith. The Company has not included any information in the disclosure materials that is misleading in any material respect, and no such information has been omitted from the disclosure materials that would render the disclosure materials misleading in any material respect.</p> <p>(c) The Company has complied in all material respects with all Australian and foreign laws and regulations applicable to it and orders of Australian and foreign government agencies having jurisdiction over it and has all material licenses, authorisations and permits necessary for it to conduct the business of the Company as presently being conducted.</p> <p>AGL’s sole remedy for a material breach of a Company Warranty is to elect to terminate the Implementation Deed and walk away from the Proposed Transaction. If AGL elects to proceed to Completion notwithstanding a breach of a Company Warranty, AGL will have no claim against the Company.</p> <p>Similarly, AGL’s sole remedy if a Termination Statement is inaccurate or misleading is to terminate the</p>
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		<p>Implementation Deed and walk away from the Proposed Transaction.</p> <p><u>Termination</u></p> <p>The Company or AGL may terminate the Implementation Deed at any time before Completion, if:</p> <ul style="list-style-type: none"> (i) the other party has materially breached the Implementation Deed, including a warranty given by that party, and the breach is not remedied within 5 business days of receiving notice of the breach; or (ii) the Conditions are not satisfied or waived by the Sunset Date. <p>AGL may terminate the Implementation Deed at any time before Completion, if:</p> <ul style="list-style-type: none"> (i) any Director fails to recommend that Shareholders vote in favour of the resolution to approve the Constitution Amendment, and agree to the Proposed Transaction, withdraws or adversely changes or qualifies their support of the Proposed Transaction, or makes a public statement endorsing another transaction; (ii) the Company enters into any legally binding arrangement in relation to undertaking any Competing Proposal; or (iii) a Termination Statement given by the Company is inaccurate or misleading. <p>Note that if the Implementation Deed is terminated prior to Completion, each Share Sale Agreement terminates automatically.</p> <p><u>Duty</u></p> <p>AGL must pay all stamp duty in respect of the execution and performance of the Implementation Deed.</p>
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PART E

Section 1 Ernst & Young Letter

PART E

Section 2 Addisons Lawyers Letter

PART F – Signing Instructions

Extraordinary General Meeting

Shareholders are invited to attend the Extraordinary General Meeting in person, or by proxy, attorney or Representative.

For Shareholders who wish to approve the Proposed Transaction and sell their Shares to AGL, the Board recommends that you execute the Limited Power of Attorney at Annexure B to appoint the Chairperson (or in his absence, the Deputy Chairperson) as your attorney and representative, as this will assist in simplifying the process of ensuring that the resolution to approve the Constitution Amendment is passed by Shareholders. If you execute the Limited Power of Attorney, the Chairperson will attend the Extraordinary General Meeting, and will vote in favour of the Constitution Amendment, as your attorney.

Alternatively, you may appoint a proxy to attend and vote at the Extraordinary General Meeting on your behalf, by completing the Form of Proxy at Part C of this Shareholder Information Pack. The Board strongly encourages Shareholders who are unable to attend the Extraordinary General Meeting, and who have NOT executed the Limited Power of Attorney, to complete and lodge with the Company the Form of Proxy to ensure your participation at the Extraordinary General Meeting. You may appoint any person as your proxy.

Finally, Shareholders may elect to take no action in relation to the Extraordinary General Meeting.

Transaction Documents

Each Shareholder will receive, at Annexure A of this Shareholder Information Pack, a copy of the Share Sale Agreement executed by AGL (the original will be sent subsequently by post).

For Shareholders who wish to approve the Proposed Transaction and sell their Shares to AGL, the Board recommends that you execute the Limited Power of Attorney at Annexure B to appoint the Chairperson (or in his absence, the Deputy Chairperson) as your attorney and representative, as this will assist in simplifying the process of ensuring that the Transaction Documents are properly executed by all Shareholders. If you execute the Limited Power of Attorney, the Chairperson will execute and deliver the Share Sale Agreement, the Share Transfer Form and the other Transaction Documents, as your attorney.

If you elect to enter into the Proposed Transaction but you do not wish to execute the Limited Power of Attorney, you must inform the Company as soon as practicable, as amendments of an administrative nature will be required to your Share Sale Agreement to

remove the provisions which contemplate that an attorney and representative will have the power to act on your behalf under that document.

We would ask Shareholders not to execute any documents by using a digital signature service, such as DocuSign.

Finally, Shareholders may elect to take no action in relation to the Transaction Documents. If you take no action in relation to the Transaction Documents your Shares will not be acquired by AGL under the Share Sale Agreement, and you will not receive the cash consideration for your Shares under the Share Sale Agreement.

Timetable

In order to implement the Proposed Transaction, the Board requests that Shareholders who wish to approve the Proposed Transaction and sell their Shares to AGL attend to the following by no later than 5pm on 29 November 2019:

- (a) if you elect to execute the Limited Power of Attorney – execute and return the completed Limited Power of Attorney (Annexure B) to the Company;
- (b) if you elect NOT to execute the Limited Power of Attorney:
 - (i) appoint a proxy to attend and vote at the Extraordinary General Meeting on your behalf, by completing and lodging with the Company the Form of Proxy at Part C, or arrange to be represented at the Extraordinary General Meeting by attorney or Representative;
 - (ii) inform the Company that you do not wish to execute the Limited Power of Attorney, so that the Company can provide to you an amended Share Sale Agreement.

Please note that in order to be effective at the Extraordinary General Meeting, a duly signed Limited Power of Attorney or Form of Proxy must be received by the Company by no later than Saturday, 30 November 2019 at 9.30am (AEDT), at least 48 hours before the Extraordinary General Meeting on Monday, 2 December 2019 at 9.30am (AEDT).

Return of documents

Documents can be returned to the Company by email, post or fax, at the following addresses:

- **Email:** company.secretary@southernphone.net.au
- **Post:** The Company Secretary
Southern Phone Company Limited

6 Page Street, Moruya
NSW 2537

- **Fax:** 1300 763 744

PART G – Glossary

A Class Ordinary Share means a share in the Company given that name in the Constitution.

AGL means AGL Energy Limited ABN 74 115 061 375.

Annexure means each annexure forming part of this Shareholder Information Pack.

Board means the board of Directors from time to time.

Chairperson means the Chairperson of Directors' meetings, being as at the date of this Shareholder Information Pack, Bill Hilzinger.

Company means Southern Phone Company Limited ACN 100 901 184.

Company Warranties has the meaning given in section 14 of Part D.

Completion means completion of the Proposed Transaction, in accordance with the terms of the Implementation Deed and the Share Sale Agreements.

Conditions is defined on page 4.

Constitution means the constitution of the Company.

Constitution Amendment means the proposed amendments to the Constitution set out in the Resolution.

Constitution Amendment Condition is defined on page 4.

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a director of the Company.

Deputy Chairperson means the Deputy Chairperson of Directors' meetings, being as at the date of this Shareholder Information Pack, Andrew Riley.

Encumbrance means:

- (a) a mortgage, charge, pledge, lien, hypothecation or title retention arrangement;
- (b) any third party interest (for example, a trust or an equity);
- (c) a "security interest" as defined under the PPSA;
- (d) a right of a person to acquire a security or to restrain someone from acquiring a security (including under a right of pre-emption or a right of first refusal); or
- (e) an agreement to grant or create any of the above or to allow any of them to exist.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

Extraordinary General Meeting means the general meeting of the Company convened by the Notice of Meeting.

Implementation Deed is defined on page 5.

Leakage has the meaning given in section 8 of Part D.

Limited Power of Attorney means the document contained in Annexure B.

Lost Share Certificate Indemnity means the document contained in Annexure D.

Notice of Meeting means the notice convening the Extraordinary General Meeting in Part B of this Shareholder Information Pack, and includes the Explanatory Statement.

PPSA means the *Personal Property Securities Act 2009* (Cth).

Proposed Transaction is defined on page 4.

Redeemable Preference Share means a share in the Company given that name in the Constitution.

Representative has the meaning given to that term in the Constitution.

Resolution means the resolution to amend the Constitution of the Company as set out in Part B of this Notice of Meeting.

Sale Shares means, collectively, the A Class Ordinary Shares and the Redeemable Preference Shares, or where referred to in relation to a Shareholder's shareholding in the Company means its A Class Ordinary Share(s) and its Redeemable Preference Share.

Seller has the meaning given in the Background section of Part D.

Seller Warranties has the meaning given in section 8 of Part D.

Shareholder means a person whose name is entered for the time being on the register of members of the Company as the holder of one or more Shares.

Shareholder Information Pack means this Shareholder information pack, and includes the contents page, each Part A to Part G (inclusive) and each Annexure A to Annexure D (inclusive).

Share Sale Agreement means the document contained in Annexure A.

Share Transfer Form means the document contained in Annexure C.

Shares means shares of the Company.

Special Dividend is defined on page 3.

Sunset Date means 28 February 2020 (or such other date as the Company and AGL agree in writing).

Termination Statement has the meaning given in section 14 of Part D.

Transaction Documents means the Share Sale Agreement, Limited Power of Attorney, the Share Transfer Form and the Lost Share Certificate Indemnity.

Southern Phone Company Limited

Review of the proposed transaction
for the equity in Southern Phone
Company Limited

14 October 2019





NOTICE

Ernst & Young Transaction Advisory Services Limited was engaged on the instructions of Southern Phone Company Limited ("Southern Phone") to provide an opinion as to whether the proposed transaction is fair, in accordance with our engagement agreement dated 17 September 2019.

The results of Ernst & Young Transaction Advisory Services Limited's work, including the assumptions and qualifications made in preparing the report, are set out in our report dated 14 October 2019 ("Report"). The Report should be read in its entirety including the cover letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young Transaction Advisory Services Limited since the date of the Report to update it.

Ernst & Young Transaction Advisory Services Limited has prepared the Report for the benefit of Southern Phone and has considered only the interests of Southern Phone. We have not been engaged to act, and have not acted, as advisor to any other party. Accordingly, we make no representations as to the appropriateness, accuracy or completeness of the Report for any other party's purposes.

No reliance may be placed upon the Report or any of its contents by any recipient of the Report for any purpose and any party receiving a copy of the Report must make and rely on their own enquiries in relation to the issues to which the Report relates, the contents of the Report and all matters arising from or relating to or in any way connected with the Report or its contents.

Ernst & Young Transaction Advisory Services Limited disclaims all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of the Report, the provision of the Report to the other party or the reliance upon the Report by the other party.

No claim or demand or any actions or proceedings may be brought against Ernst & Young Transaction Advisory Services Limited arising from or connected with the contents of the Report or the provision of the Report to any party. Ernst & Young Transaction Advisory Services Limited will be released and forever discharged from any such claims, demands, actions or proceedings.



Ernst & Young Transaction Advisory
Services Limited
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Mr David Joss
Managing Director
Southern Phone Company Limited
6 Page Street
Moruya NSW 2537

14 October 2019

Reliance restricted

Proposed transaction to acquire all of the issued share capital in Southern Phone Company Limited

Dear David,

In accordance with the terms of our engagement agreement dated 17 September 2019, we have been engaged to provide our opinion as to whether the proposed transaction, as set out in the Share Sale Agreement, to acquire the entire issued share capital in Southern Phone Company Limited ("Southern Phone" or "the Company") for cash consideration of \$27.5 million¹ on a debt-free cash-free basis is, in our opinion, fair.

Summary opinion

Based on our analysis, as set out in this report, in our opinion, and in the absence of any higher alternative offer, we consider the terms of the transaction to be fair.

The proposed transaction and deal rationale

Southern Phone was established in 2002 after the Australian Government invested \$4.77 million through its Networking the Nation scheme. The Company was formed with the purpose of delivering affordable telecommunication services to regional communities. Southern Phone is a provider of fixed line, mobile and internet telecommunication services, primarily reselling the services of other telecommunication companies such as Telstra and Optus. However, more recently the Company has heavily invested in its network as part of its turnaround strategy.

The capital structure of Southern Phone includes ordinary shares and redeemable preference shares. These shares are owned by various Local Government Authorities ("Councils") whose constituents may be customers of Southern Phone.

We understand that an initial indicative offer was made by AGL Energy Limited on behalf of itself and its subsidiaries ("AGL") to acquire 100% of the issued share capital in the Company on 9 August 2019 for \$25.0 million (the "Initial Offer"). This Initial Offer was subsequently amended, with a revised non-binding indicative offer dated 16 August 2019 to acquire the issued share capital for cash consideration of \$27.5 million on a debt-free, cash-free basis, subject to completion of due diligence. Following due diligence, AGL and Southern Phone have negotiated the terms of a Share Sale Agreement ("SSA"), the terms of which include:

- ▶ AGL to pay cash consideration of \$27.5 million on a debt-free, cash-free basis, for the entire issued share capital of Southern Phone, being equivalent to \$280 per customer.
- ▶ No amounts, defined as leakage in the SSA, are to be made or approved by the sellers from the date of the locked box of 30 June 2019 to completion of the transaction. This excludes the

¹ Subject to completion of due diligence and other conditions set out in this letter



- ▶ permitted dividend, any payment expressly permitted under the Implementation Deed, a payment approved in writing by AGL, or any tax or GST incurred as a consequence of the aforementioned allowable payments.
- ▶ Subject to completion occurring, and for at least the three year period after completion of the transaction, AGL must procure that Southern Phone maintains its existing Moruya operations, retains existing employees located in Moruya subject to ongoing compliance with their terms of employment and AGL's applicable employment policies, and uses reasonable efforts to maintain the overall number of employees located in Moruya that the company employs on completion of the transaction.
- ▶ The transaction is subject to final approval from the AGL Board of Directors, as well as Southern Phone shareholders.

We understand that the acquisition aligns with AGL's strategy to build out its customer base and enhance its ability to cross-sell its services as well as using the existing network infrastructure owned by Southern Phone.

As noted above, we understand that Southern Phone intends to pay a distribution of surplus cash, which is likely to be distributed to the ordinary shareholders and redeemable preference shareholders prior to the completion of any transaction. We note that the business held \$6.2 million of net cash on its balance sheet as at 31 July 2019 albeit the majority of this may be utilised to fund operations in the short term. In accordance with the SSA a permitted dividend in aggregate of up to \$2.7 million may be payable prior to completion.

Scope

For board governance purposes, you have requested our assistance in reviewing the proposed terms of the transaction and to provide our opinion as to whether the transaction is fair.

We were previously engaged by Southern Phone to provide valuations of the ordinary shares in the Company as at 30 June 2018 and 30 June 2019 for financial reporting purposes. In addition, we were separately engaged by nine Council's in valuing their redeemable preference shares as at the same dates for their financial reporting purposes. As such, this Report should be read in conjunction with our prior valuations, with the scope of our current engagement including:

- ▶ Consideration of the key terms of the Offer, SSA and price.
- ▶ Consideration of any key changes in the business, outlook and trend in the industry including review of subsequent management accounts and discussions with the business since our prior valuations.
- ▶ Updated market analysis since May 2019 to consider any material changes in the market, multiples and more recent transactions.
- ▶ Provision of this concise letter outlining the key terms of the proposed transaction, discussion as to any material changes in value since our previous valuation and whether the proposed transaction is reasonable from the perspective of the shareholders.

Fair value

We have assessed the value of the entire issued equity of Southern Phone on a fair value basis. Fair value in this context is generally defined as:



“The price at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting and arm’s length”.

Fair value does not incorporate any special value. Special value is the additional value, which may be in the form of synergistic benefits, which may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

Information

In arriving at our opinion, we had regard to the following available information:

- ▶ Our previous valuation of one ordinary share in Southern Phone as at 30 June 2019
- ▶ Exclusivity Letter dated 23 August 2019
- ▶ Revised Non-binding Indicative Offer dated 16 August 2019
- ▶ Non-binding Indicative Offer dated 9 August 2019
- ▶ 2019 Annual Report – Final
- ▶ P&L and Balance Sheet July 2019
- ▶ Share Sale Agreement

In addition, we had discussions with senior management of Southern Phone.

Limitations of scope

In forming our opinion, we have relied upon the data, information and explanations provided by Management of Southern Phone in both written and oral form without further independent verification thereof, for which Management remain solely responsible.

Our opinion is provided to Southern Phone solely in respect of whether the terms of the proposed transaction are fair and should not be used or relied upon for any other purpose (including but not restricted to public disclosure). This report should not be disclosed to, or discussed with, any other party without our prior written consent (not to be unreasonably withheld), other than your shareholders on a non-reliance basis.

Subject to our obligation to conduct our work with reasonable skill and care, we have no liability for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by the directors, employees, or agents of Southern Phone or any other person of whom we make enquiries except to the extent that such loss or damage arises as a result of our bad faith or wilful default or where the withholding, concealment or misrepresentation should have been apparent to us without further enquiry from the information provided to us and required to be considered by us under the terms of our assignment.

Where prospective financial information (“PFI”) is utilised as part of our work, we have not examined, compiled or applied agreed-upon procedures to such information, and we express no assurance of any kind on the PFI presented. Our scope does not include performing any due diligence procedures related to, among other matters, (i) legal exposures, (ii) environmental matters, (iii) human resource matters, (iv) market diligence, including competitive diligence, (v) macroeconomic and geopolitical impacts, (vi) insurance, (vii) information technology, (viii) compliance and regulatory matters, (ix) synergies and (x)



cyber diligence. We will not provide any opinion, conclusion or any type of assurance about specific assumptions or components of the PFI or on the PFI as a whole.

Approach

In determining the fairness of the proposed transaction, we considered both qualitative and quantitative factors, so far as they impact Southern Phone. In doing so, we considered the equity value of the business on a stand-alone basis using the capitalised earnings approach. We were not able to apply a discounted cash flow approach as long term cash flow forecasts are not typically prepared by the Company.

Based on our analysis, we note:

- ▶ We previously arrived at a value for the entire issued equity of Southern Phone as at 30 June 2019 of between \$7.6 million and \$9.5 million on a debt-free cash-free basis, or \$14.3 million to \$16.2 million inclusive of net cash. This was based on forecast normalised FY20B EBITDA of \$1.9 million and an EBITDA multiple range of 4.0x to 5.0x.
- ▶ We have reviewed more recent management accounts of Southern Phone and held discussions with management and note:
 - EBITDA in FY19 was negative \$3.9 million against budget EBITDA for FY19 of a loss of \$3.1 million.
 - FY20 year-to-date performance for which information is available indicated negative EBITDA of \$355,000 for the month of July 2019. This was below budget of negative \$81,000 for the month of July. However, we understand that these results are impacted by some customer churn related to the amaysim and MyNetFone customer base acquisitions, which has since stabilised, as well as the migration of customers onto Southern Phone's more profitable platform and systems. Based on this, its earnings are forecast to improve and management of Southern Phone still considers the FY20B as their best estimate.
- ▶ We have also considered the multiples of quoted companies, and any recent transactions since our previous valuation.
 - the EV/EBITDA multiples of comparable companies range from 5.9x to 13.4x. These are set out in Appendix B. We note the most comparable company to Southern Phone is Bendigo Telco Limited which trades on an LTM EV/EBITDA multiple of 5.4x, including a control premium of 30% based on MergerStat's Control Premium Study (2nd quarter 2019). We note from the MergerStat study that acquisitions of communication companies had an average control premium of 23.5% over the past 12 months (excluding negative premia). However, we note that the shares of Bendigo Telco Limited are not overly liquid and therefore may not be representative of a marketable price.
 - We note that although the average and median comparable company EV/EBITDA multiples are broadly similar to those observed in our previous valuation, the range of multiples are wider due to:
 - TPG Telecom Limited EV/EBITDA multiple increasing from 12.2x to 13.4x based on lower EBITDA forecast for NFY.
 - Amaysim Australia Limited NFY EV/EBITDA multiple has declined from 8.1x to 5.9x with its share price impacted by weaker expected earnings.



- We continue to consider that Southern Phone, on a stand alone fair value basis, warrants a significant discount to the multiples in Appendix B based on the size, geographic diversity, current loss-making status and growth prospects of Southern Phone relative to the companies and transactions listed in Appendix B and C.
- As such, we do not consider there to be any material changes in the market or industry since our previous valuation, and continue to consider EBITDA multiples of 4.0x to 5.0x to be appropriate.
- ▶ We note that the proposed transaction price implies a NFY EBITDA multiple of 14.5x. This represents a substantial premium to the 9.9x and 10.0x average and median NFY multiple of telecommunication service businesses listed in Appendix B.
- ▶ When compared to recent transactions, the multiple implied from the proposed transaction price is broadly in line with the median of recent transaction multiples, being 14.5x. We note the most comparable recent transaction to Southern Phone is Xplornet Communications Inc.'s acquisition of 100% equity in Platinum Communications Corp. at an implied EV/EBITDA multiple of 6.5x.
- ▶ We also note that the \$280 per customer implied by the proposed transaction is higher than the \$209 per service and \$81 price per service paid by Southern Phone in its recent acquisitions of amaysim (October 2018) and MyNetFone (March 2019) customers, respectively.

Southern Phone capitalised earnings approach (debt-free, cash-free)			
\$'000	Low	Mid	High
Normalised EBITDA	1,900	1,900	1,900
EV/EBITDA Multiple	4.0x	4.5x	5.0x
Equity value (debt-free, cash-free)	7,600	8,550	9,500
Offer price	27,500	27,500	27,500
Number of customers (per Offer letter)	98,200	98,200	98,200
Fair value per customer	\$77	\$87	\$97
Offer price per customer	\$280	\$280	\$280

EY Analysis based on a debt-free, cash-free valuation.

Conclusion

Based on our analysis and understanding of the business, the advantages of the proposed transaction include:

- ▶ The consideration is payable in cash providing certainty of proceeds for shareholders.
- ▶ The proposed transaction price represents a substantial premium to our view of the fair value of Southern Phone.
- ▶ The price per customer implied by the proposed transaction exceeds the prices paid by Southern Phone in its recent acquisitions of customers.
- ▶ Southern Phone is not currently profitable and there may be risk as to the timeframe over which it may generate operating profits.



- ▶ AGL has entered into exclusive due diligence and therefore the likelihood of an alternative offer during the period of due diligence is low.
- ▶ AGL is committed to retain key management and personnel as well as the existing Moruya operations and employees, subject to each employees' ongoing compliance with their terms of employment and AGL's applicable employment policies, for a minimum period of three years.
- ▶ In the absence of a transaction, the Company would be unable to pay dividends, at least in the short term, and would likely be required to raise further equity at some point in the future in order to continue to invest in its network. The nature of the industry is such that technological change is ongoing with strong competition, pressure on pricing and necessary network expenditure. As a result of the proposed transaction no further funding is required from shareholders. In addition, Southern Phone may be able to pay a dividend to shareholders on any surplus cash remaining prior to completion in an aggregate amount of up to \$2.7 million.

In our opinion, and in the absence of any higher alternative offer, we consider the terms of the transaction to be fair.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Julie Wolstenholme', written in a cursive style.

Julie Wolstenholme
Director and Representative



Appendix A – Limitations and APES 225

The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Agreement. We performed our work, giving consideration to applicable professional guidance and accounting standards, including APES 225 *Valuation Services* issued by the Accounting Professional & Ethical Standards Board Limited. When we were performing our work, we acted as an independent valuer and our fees are not contingent on the conclusion, content or future use of this Report. We did not perform any management functions or make any management decisions.

In accordance with APES 225 there are three types of engagements to provide valuation services.

- ▶ A Valuation Engagement, which is defined as an engagement where the valuer is free to choose the valuation approaches, methods and procedures as appropriate to the circumstances. The estimate of value that results is a conclusion of value.
- ▶ A Limited Scope Valuation Engagement, which is defined as an engagement where the scope of work is limited or restricted. The estimate of value that results is a conclusion of value.
- ▶ A Calculation Engagement, defined as an engagement where the valuer and the engaging party agree on the valuation approaches, methods and procedures that the valuer will employ. The estimate of value that results is a calculated value.

This engagement is a Valuation Engagement as defined under APES 225.

This Report has been prepared by Julie Wolstenholme with assistance of other staff. Her experience directly relevant to this assignment includes:

- ▶ Julie is a Partner in the Transaction Advisory Services team of EY and a Director & Representative of Ernst & Young Transaction Advisory Services Limited. She specialises in the valuation of businesses, shares and other securities for seventeen years, including seven years in the UK (London) and twelve years in Australia.
- ▶ Julie has worked in investment banking in both the UK and Australia. Her experience includes valuations for a variety of purposes including accounting and tax purposes, mergers and acquisitions, corporate restructures, bank financing, employee share plans, and shareholder disputes.
- ▶ Julie is a Member of the Institute of Chartered Accountants in Australia and New Zealand and holds a Bachelor of Commerce from the Australian National University.

In preparing this Report:

- ▶ Julie has acted independently.
- ▶ EY has been remunerated on the basis of time spent at the usual hourly rates of staff engaged to assist in the valuation, and no part of the fee is contingent on the conclusions reached, the content or the future use of this Report.



Appendix B – Listed company EV/EBITDA multiples (23 September 2019)

Listed company multiples (A\$ million)				EV/EBITDA				
Listed companies	Market capitalisation (with 30% control premium)	Net debt	Enterprise value	LFY	LTM	NFY	NFY+1	NFY+2
TPG Telecom Limited	8,467	1,439	9,906	12.2x	12.2x	13.4x	13.8x	13.5x
Telstra Corporation Limited	56,385	16,927	73,312	12.1x	12.1x	8.6x	8.6x	9.0x
Bendigo Telco Limited	13	4	17	5.4x	5.4x	n/a	n/a	n/a
Spark New Zealand Limited	9,779	1,920	11,698	13.6x	13.6x	11.4x	11.1x	10.9x
amaysim Australia Limited	146	26	172	4.5x	4.5x	5.9x	5.1x	4.8x
Chorus Limited	2,680	2,735	5,415	10.1x	10.1x	9.2x	9.1x	9.2x
Spirit Telecom Limited	99	1	100	83.4x	83.4x	20.6x	13.6x	10.8x
Superloop Limited	333	70	403	117.0x	117.0x	22.8x	15.0x	10.6x
Macquarie Telecom Group Limited	632	(17)	615	14.2x	14.2x	10.8x	9.9x	8.8x
5G Networks Limited	71	15	86	n/mf	n/mf	n/a	n/a	n/a
Low				4.5x	4.5x	5.9x	5.1x	4.8x
Median				12.1x	12.1x	10.0x	9.5x	9.1x
Average				10.3x	10.3x	9.9x	9.6x	9.4x
High				14.2x	14.2x	13.4x	13.8x	13.5x

Source: Capital IQ

¹ Outlier multiples are highlighted in grey and were excluded from our analysis



Building a better working world

Appendix C – Recent transaction EV/EBITDA multiples

Date	Target	Buyer	Geography	Implied enterprise value	Percent sought (%)	EV/Revenue	EV/EBITDA
Jun-19	KCOM Group PLC	Macquarie Infrastructure and Real Assets (Europe) Limited	United Kingdom	1,114	100	2.6x	16.9x
Mar-19	Manx Telecom plc	Basalt Infrastructure Partners II GP Limited	United Kingdom	442	100	3.7x	12.2x
Feb-18	Scott-Rice Telephone Company	Nuvera Communications, Inc.	United States	54	100	2.7x	4.6x
Sep-17	Urban Communications Inc.	ACME Communications Canada, Inc.	Canada	13	100	5.9x	-
Jul-17	Hawaiian Telcom Holdco, Inc.	Cincinnati Bell Inc.	United States	872	100	1.7x	6.4x
Nov-16	Alternative Networks Plc	Daisy Intermediate Holdings Limited	United Kingdom	315	100	1.4x	11.7x
May-16	Bell MTS Inc.	BCE Inc.	Canada	3,913	100	3.8x	12.2x
Nov-15	Cable & Wireless Communications Limited	Liberty Global plc	United Kingdom	11,910	100	4.1x	11.7x
Oct-15	Caribbean Asset Holdings LLC	ATN International, Inc.	United States	432	100	3.2x	17.4x
Sep-15	Platinum Communications Corp.	Xplornet Communications Inc.	Canada	13	100	1.2x	6.5x
May-15	Amcom Telecommunications Limited	-	Australia	589	10	3.5x	12.9x
May-15	Accel Networks, LLC	Sierra Wireless, Inc.	United States	14	100	1.3x	-
Mar-15	Bright House Networks, LLC	CCH I, LLC	United States	13,357	100	2.8x	8.5x
Mar-15	deltathree, Inc.	D4 Holdings, LLC	United States	8	46	0.4x	-
Mar-15	iiNet Limited	TPG Telecom Limited	Australia	1,834	94	1.6x	9.4x
Dec-14	EE Limited	BT Group plc	United Kingdom	21,794	100	1.8x	8.2x
Low						2.6x	12.2x
Median						3.2x	14.5x
Average						3.2x	14.5x
High						3.7x	16.9x

Source: CapitalIQ

¹ Outlier multiples are highlighted in grey and were excluded from our analysis



14 October 2019

Our Ref: KJP:SOU012/4001

The Board of Directors
Southern Phone Company Limited
6 Page Street
MORUYA NSW 2537

Attention: Mr. David Joss

Dear Directors

Legal Opinion on a Share Sale Agreement in relation to Southern Phone Company Limited

We act for Southern Phone Company Limited, which is registered in the State of New South Wales, Australia (ACN 100 901 184) (**Southern Phone**).

We understand that Southern Phone proposes to enter into an implementation deed (**Implementation Deed**) with AGL Energy Limited (**AGL**) under which AGL agrees to acquire, subject to the satisfaction or waiver of certain conditions precedent, 100% of the shares in Southern Phone (**Proposed Transaction**). Under the implementation deed, Southern Phone commits to AGL to send to each of its shareholders (**Shareholder**) a share sale agreement in a form agreed between Southern Phone and AGL and executed by AGL (**Share Sale Agreement**).

A Shareholder who enters into the Proposed Transaction by executing the Share Sale Agreement (directly or by attorney) is referred to in this opinion as a **Seller**.

We have been asked to provide an opinion on the material contractual obligations and liabilities of each Shareholder under and pursuant to the Share Sale Agreement, assuming that a Shareholder duly executes the Share Sale Agreement and enters into the share sale transaction documented in the Share Sale Agreement.

This opinion is for the sole benefit of Southern Phone and its Shareholders as at 14 October 2019. It is not to be relied on by any other person (in particular the Buyer) or for any other purpose. It is not to be quoted or referred to in any public document or filed with or disclosed to any government agency or other person other than:

- (a) to the extent required by law or an official directive;
- (b) in connection with any litigation relating to the Share Sale Agreements or this opinion; or
- (c) with our prior written consent.

This opinion is not intended to be binding on or prejudice the Company or any Shareholder, nor does it create any form of estoppel. Shareholders are free to seek their own confidential legal advice in respect of the Share Sale Agreement and the Proposed Transaction.

ABN 55 365 334 124

Level 12, 60 Carrington Street
Sydney NSW 2000

GPO Box 1433
Sydney NSW 2001

DX 262
Sydney

Telephone +61 2 8915 1000
Facsimile +61 2 8916 2000

mail@addisonslawyers.com.au
addisonslawyers.com.au

Southern Phone Company Limited

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2. Documents

In giving this opinion, we have examined:

- (a) searches of Southern Phone on the register of companies maintained by the Australian Securities & Investments Commission (**ASIC**) dated 14 October 2019 at 9:04am (Sydney time) (Annexure 1) (**ASIC Search**);
- (b) the constitution of Southern Phone delivered to us by David Joss, Managing Director of Southern Phone, by email on 23 August 2019 at 4.29pm (Sydney time) (**Constitution**);
- (c) a word version of a draft Share Sale Agreement between AGL and Bega Valley Shire Council (Annexure 2) (**Share Sale Agreement Version 1**);
- (d) a word version of a draft Share Sale Agreement between AGL and Gilgandra Council (Annexure 3) (**Share Sale Agreement Version 2**).

Capitalised terms used but not defined in this letter have the meaning given to them in Share Sale Agreement Version 2. Clause references are to clauses in the Share Sale Agreement.

The difference between Share Sale Agreement Version 1 and Share Sale Agreement Version 2 is that Share Sale Agreement Version 2 includes provisions which require councils with security interests registered on the Personal Properties Securities Register (**PPS Register**) and which secure the Sale Shares, to release the Sales Shares from the security agreement to which the security interest relates. This is discussed further in paragraph 4.1(a)(ii)(B) below.

3. Assumptions and qualifications

For the purposes of giving this opinion we have made the assumptions, and our opinion is subject to the qualifications, set out in Schedule 2. **It is important that the Company and its Shareholders read and understand these assumptions and qualifications.**

4. Opinion

Based on the assumptions and subject to the qualifications set out in this letter, we are of the following opinion:

4.1 Material contractual obligations of a Seller under the Share Sale Agreement

- (a) The material contractual obligations of each Seller under and pursuant to the Share Sale Agreement are:

Deliver unencumbered title to the Sale Shares

- (i) Pursuant to clause 2.1, a Seller promises on Completion to sell to the Buyer the legal and beneficial title to, and rights and interest in, free and clear of all Encumbrances, the Sale Shares, with all rights attaching or accruing to the Sale Shares on and from the Completion Date and otherwise on the terms of the Share Sale Agreement.
- (ii) Relevantly:
 - (A) pursuant to clause 3.2, on Completion the Seller must give to the Buyer:
 - (I) transfers in favour of the Buyer in respect of the Sale Shares, in registrable form and executed by or on behalf of the Seller;

Southern Phone Company Limited

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- (II) all original share certificates for the Sale Shares or an indemnity for any lost share certificates; and
 - (III) if applicable, a copy of the power of attorney executed by the Seller authorising its attorney to execute the Share Sale Agreement and any of the documents listed in paragraphs (I) and (II) above;
- (B) for a Seller holding Sale Shares that are subject to an Encumbrance registered on the Personal Property Securities Register:
- (I) pursuant to clause 3.2(a)(iv) of the Share Sale Agreement Version 2, on Completion the Seller must deliver to the Buyer a release of the Sale Shares from the security agreement to which the Encumbrance relates, executed by the holder of that Encumbrance and evidencing the power of the Seller or the Company to procure that the holder of each Encumbrance update the PPS Register within 30 days after the release of the Sale Shares from the security agreement to which that Encumbrance relates;
 - (II) pursuant to clause 3.8 of the Share Sale Agreement Version 2, the Seller must ensure that the holder of each Encumbrance referred to in clause 3.2(a)(iv) updates the PPS Register within 30 days after the release of the Sale Shares from the security agreement to which that Encumbrance relates;
 - (III) if the Sale Shares of a Seller are subject to more than one Encumbrance registered on the PPS Register, the Seller must comply with the relevant provisions of clause 3.2(a)(iv) and clause 3.8 in respect of each Encumbrance.
- (iii) For a Seller holding Sale Shares that are subject to an Encumbrance (or more than one Encumbrance), its obligation to deliver to the Buyer on Completion title to the Sale Shares free from any Encumbrance is an absolute obligation, assuming that the Share Sale Agreement proceeds to Completion. In other words, the release of the Sale Shares from any such Encumbrance is not a condition precedent to Completion. This means that it would be prudent for a Seller holding Sale Shares that are subject to one or more Encumbrances to ensure that its Sales Shares can be released from any and all such Encumbrances in accordance with the requirements of the Share Sale Agreement before the Seller enters into the Share Sale Agreement.

Warranties

- (iv) Pursuant to clause 6(a), a Seller gives a limited number of Seller Warranties to the Buyer on the date of the Share Sale Agreement and immediately prior to Completion. The Seller Warranties are set out in Schedule 2. They are:

Power and authority

1. *The Seller has full power to and capacity to enter into and perform its obligations under this agreement.*

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2. *All necessary authorisations for the execution, delivery and performance by the Seller of this agreement in accordance with its terms have been obtained.*
3. *This agreement is valid, binding and enforceable against the Seller in accordance with its terms.*
4. *The execution, delivery and performance by the Seller of this agreement does not constitute a breach of any law or obligation, or cause or result in a default under any agreement, or Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under this agreement and there is no other arrangement or agreement between the Seller and another person in relation to the Sale Shares.*

Ownership and no encumbrances or other arrangements

5. *At Completion:*
 - (i) *the Seller is the legal and beneficial owner of the Sale Shares and has complete power and right to sell those Sale Shares to the Buyer and the Sale Shares are the only securities in the Company in which the Seller has any kind of interest;*
 - (ii) *the Buyer will acquire the full legal and beneficial ownership of the Sale Shares free and clear of all Encumbrances, subject to registration of the Buyer in the register of shareholders.*
- (v) Pursuant to clause 6(f), a Seller must promptly notify the Buyer if at any time after the date of the Share Sale Agreement it becomes aware that a Seller Warranty was not true when given, or has ceased to be true; or an act or event that has occurred that would or might reasonably be expected to result in a Seller Warranty ceasing to be true if it were repeated immediately before or at Completion and must provide the Buyer with details of that fact.

Leakage

- (vi) The Implementation Agreement restricts the ability of the Company to make certain payments to any Shareholder, or to incur unfunded Transaction Costs, between the Locked Box Date (being 30 June 2019) and Completion.
- (vii) Pursuant to clause 4.1, each Seller represents, warrants and undertakes to the Buyer that between 30 June 2019 and the Completion Date:
 - (A) it has not received, nor will it receive, from the Company any amount of Leakage; and
 - (B) it has not, nor will it (including in its capacity as a shareholder of the Company, or by the giving of instructions to any director of the Company) agreed to, authorised, consented to or voted in favour of any Leakage,(each a **Leakage Warranty**).
- (viii) Leakage is defined in clause 1.1, and is set out in full in Schedule 1.

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- (ix) The limb of Leakage described in paragraph (h) of the definition of Leakage is referred to in this opinion as **Transaction Leakage**.
- (x) Pursuant to clause 4.2, a Seller indemnifies the Buyer against:
 - (A) the amount of any and all Leakage that the Seller has received or had the benefit of and any Loss resulting from the Leakage, where the indemnified amount must be an amount equal at least to the dollar amount of the Leakage on a dollar for dollar basis (and may be set off against the Buyer's obligation to pay the Purchase Price); and
 - (B) any breach of a Leakage Warranty.

Announcement and Confidentiality

- (xi) Pursuant to clause 8.1(b), a Seller must not make a public announcement in connection with the Share Sale Agreement or the Transactions unless first agreed by the Buyer and the Company before it is made, except if required by applicable law or a regulatory body, in which case the Seller must, to the extent practicable, first consult with and take into account the reasonable requirements of the Buyer and the Company.
- (xii) Pursuant to clause 8.2, a Seller must keep secret and confidential, and must not divulge or disclose for any purpose, the terms of the Share Sale Agreement or the Transactions, or any information provided to it under or in connection with the Share Sale Agreement or the Transactions by or on behalf of another party, except to the extent that one of a number of certain exceptions applies. The exceptions include:
 - (A) the disclosure is made by the Seller to its councillors, directors, officers, employees, financiers, lawyers, accountants or other professional advisers, in which case the recipient must ensure that such persons keep the information secret and confidential and do not divulge or disclose the information to any person other than a person to whom the recipient is permitted to disclose that information under the Share Sale Agreement in accordance with clause 8;
 - (B) the information is in the public domain as at the date of the Share Sale Agreement or subsequently comes into the public domain other than as a result of a breach of any obligation of confidentiality binding on the Seller.

4.2 Liability of a Shareholder under the Share Sale Agreement

- (a) The liability of Sellers under the Share Sale Agreement is several, and not joint and several. This means that no Shareholder is liable for any breach of the Share Sale Agreement by another Shareholder. For example, if there has occurred prohibited Leakage in the form of a payment or benefit from the Company to one Shareholder, no other Shareholder is liable for that breach.
- (b) Pursuant to clause 4.3, a Seller's liability for or in connection with Transaction Leakage is limited to the Seller's Respective Proportion (that is, 1/35th, or its percentage shareholding in the Company) of the amount of such Leakage and of any Loss resulting from such Leakage.
- (c) Subject to the additional discussion in paragraph 4.2(d) below, the liability of a Seller for breach of its obligation to the Buyer under the Share Sale Agreement

5

Southern Phone Company Limited

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generally, including its obligation to deliver to the Buyer full legal and beneficial title to its Sale Shares on Completion free and clear of any Encumbrance, and in respect of its confidentiality obligations, is determined by normal contract law principles under common law. A claim by the Buyer in respect of a breach of an indemnity can in some circumstances be brought as an action for a debt, rather than a claim in damages.

- (d) In addition:
- (i) if a Seller fails to satisfy any of its Completion obligations under clause 3.2 or clause 3.3 on the day and at the place and time for Completion determined under clause 3.1, pursuant to clause 3.6(a) the Buyer may give the Seller a Notice requiring the Seller to satisfy those obligations within a period of 3 Business Days from the date of the Notice and declaring time to be of the essence. Under clause 3.6(b), if the Seller fails to satisfy those obligations within the time period contemplated in clause 3.6(a), then the Buyer may, without limiting any other rights it may have (such as its right to sue for damages), terminate the Share Sale Agreement by Notice to the Seller;
 - (ii) subject to the limitations summarised in the following paragraph 4.2(d)(iii), the Seller Warranties and the Leakage Warranties are given by each Seller as both representations and warranties. The purpose of this approach is to give the Buyer the option of two remedies if there is a breach – for misrepresentation in tort, or for breach of warranty in contract. A proper analysis of the different causes of action is beyond the scope of this opinion, suffice to state that the grounds for calculating the Buyer's damages could differ under the different claims;
 - (iii) the liability of a Seller for breach of a Seller Warranty is subject to the following limitations:
 - (A) under clause 6(d) a Seller is not liable for breach of a Seller Warranty if the Buyer fails to notify the Seller of a Claim for breach of a Seller Warranty within three years after Completion;
 - (B) under clause 6(e) a Seller's maximum liability for breach of a Seller Warranty is limited to the Purchase Price, being \$785,714.

4.3 Seller's Representative

- (a) Under clause 1.5(a) each Seller irrevocably appoints a representative to exercise or discharge for the Seller all of its rights, obligations, powers and discretions expressed to be held by, or exercisable by, the Seller's Representative under the Share Sale Agreement and all incidental powers, including to give and receive any consent, approval or agreement to amend or waive any term of the Share Sale Agreement.
- (b) Each Seller is bound by any action, election, direction or document executed by or on behalf of the Seller's Representative and cannot challenge the validity or effectiveness of any document executed by the Seller's Representative.

4.4 Unusual or onerous terms

In our view, for transactions in the nature of a private treaty share sale between commercial parties, and with a fixed ('locked box') purchase price, the Share Sale Agreement contains no unusual terms, and on the face of the document contains no particularly onerous terms. In giving this view we have not taken into account the circumstances of any Shareholder,

Southern Phone Company Limited

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and it is important that Shareholders, before they execute the Share Sale Agreement, ensure their ability to perform their material obligations in the agreement and are prepared to comply with its terms (such as confidentiality).

This letter is governed by the laws of New South Wales, Australia and the courts of that State shall have exclusive jurisdiction in respect of any relevant proceedings.

Yours faithfully



Kieren Parker

Partner

Direct Line: +61 2 8915 1013

Direct Fax: +61 2 8916 2013

Email: kieren.parker@addisonslawyers.com.au

Southern Phone Company Limited

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Schedule 1 – “Leakage” Definition

Leakage means in respect of the Company:

- (a) any dividend or distribution declared, paid or made (or determined to be paid or made on or before Completion) by the Company to the Seller or any of its Affiliates;
- (b) any payment, rebate, discount or bonus (in cash or in kind) paid or to be paid by the Company to the Seller or any of its Affiliates as an incentive for Completion, or triggered by Completion;
- (c) any payments made or agreed to be made by the Company to the Seller or any of its Affiliates in respect of any capital in the Company being issued, redeemed, purchased or repaid, or any other return of capital by the Company;
- (d) any cancellation or forgiveness (or agreement to cancel or forgive) of any indebtedness for money owed to the Company, or the waiver or an agreement to waive by the Company of any amount owed to the Company or the Business, by the Seller or any of its Affiliates;
- (e) any liabilities assumed, guaranteed, indemnified or incurred by the Company, or the provision of any security or collateral by the Company, for the benefit of the Seller or any of its Affiliates;
- (f) any payment, or the provision of any benefit, by the Company to, or for the benefit of, the Seller or any of its Affiliates or the incurrence of any indebtedness or other obligation by the Company to the Seller or any of its Affiliates;
- (g) the payment of or agreement to pay any fees or costs or any Tax or GST incurred by the Company as a result of those matters set out in paragraphs (a) to (f) above, or the incurrence of any Tax as a result of any of those matters set out in paragraphs (a) to (f) above;
- (h) the payment of or agreement to pay any Transaction Costs in excess of \$2,700,382,

in each case after the Locked Box Date and on or prior to the Completion Date, and Leakage Payment has a corresponding meaning, but does not include:

- (i) the Permitted Dividend;
- (j) any payment or thing that is expressly permitted or required to be done by or under the Implementation Deed;
- (k) a payment which is approved in writing by the Buyer; or
- (l) any Tax or GST incurred by the Company as a result of any matters set out in paragraphs (i) to (k) above.

Southern Phone Company Limited

14 October 2019

Schedule 2 – Assumptions and Qualifications**1. Assumptions**

For the purposes of giving this opinion, we have assumed (without making any investigation) the following:

- (a) the Company is validly incorporated, organised and subsisting in accordance with the laws of New South Wales;
- (b) the Sale Shares have been validly issued, are fully paid and no money is owing in respect of them;
- (c) the Constitution is valid and enforceable in accordance with its terms, and there have been no amendments to the Constitution;
- (d) the Buyer and each Shareholder will execute the Share Sale Agreement applicable to that Shareholder in the form of either Share Sale Agreement Version 1 or Share Sale Agreement Version 2, and all Share Sale Agreements will be duly executed by, and binding on, the parties to them;
- (e) the Proposed Transaction will proceed to Completion. In particular:
 - (i) the Shareholders approve by special resolution the changes to the Constitution in the form set out in schedule 5 of the Implementation Deed; and
 - (ii) the Company will comply with its obligations under the Implementation Deed to give effect to or in relation to Completion;
- (f) all information in the searches that we have examined and in the enquiries that we have made was and continues to be complete and accurate, and those searches did not fail to disclose any material information in respect of Southern Phone at the time we undertook the searches;
- (g) no party to any Share Sale Agreement will engage in conduct that is dishonest, misleading, deceptive or unconscionable, or is likely to mislead or deceive, or is a party to or will be involved in any relevant transaction or any associated activity in a manner or for a purpose not evident on the face of the Share Sale Agreement which might render a Share Sale Agreement or any relevant transaction or associated activity in breach of law, void or voidable;
- (h) each Share Sale Agreement accurately records all terms agreed between the parties to it and the terms of each Share Sale Agreement will not be amended or varied from the form of either Share Sale Agreement Version 1 or Share Sale Agreement Version 2;
- (i) no Seller will repudiate the Share Sale Agreement, giving the Buyer a right to accept that repudiation and terminate the Share Sale Agreement.

This opinion is given in respect of the laws of Australia which are in force at, and is based upon facts and circumstances in existence at 4.00pm (Sydney time) on 14 October 2019. We assume no obligation to update this opinion for any changes in the laws of Australia or other events or circumstances that occur after 4.00pm (Sydney time) on 14 October 2019.

Southern Phone Company Limited

14 October 2019

2. Qualifications

Our opinion is subject to the following qualifications:

- (a) this opinion does not take into account the individual circumstances, objectives or instructions of any Shareholder;
- (b) with the exception of the discussion in paragraph 4.2(d)(ii) of the letter, our opinion is limited to considering a Seller's obligations and liabilities under Australian contract law, and AGL's contractual rights and remedies. It does not consider any other grounds upon which legal rights or liabilities may arise, including claims under statute, principles of equity or tort;
- (c) the giving of this opinion does not constitute advice, nor does it evidence any duty to advise the Company and its Shareholders, and by accepting it the Company and the Shareholders acknowledge the absence of such duty;
- (d) we express no opinion as to any laws other than the laws of Australia as in force at the date of this opinion;
- (e) we express no opinion as to:
 - (i) the solvency of any Shareholder or the effect that any form of insolvency may have on a Shareholder's material obligations and liabilities under the Share Sale Agreement; or
 - (ii) the priority or perfection of any Encumbrance to which any Sale Shares are subject;
- (f) we have relied on the ASIC Search. We note that records disclosed by such search may not be complete or up to date;
- (g) a transaction entered into in breach of directors' general law duties may be voidable in equity;
- (h) the courts in Australia might not give full effect to an indemnity for legal costs or for penalties or taxes;
- (i) we express no opinion of the commerciality or reasonableness of the Share Sale Agreement; and
- (j) a court may not give effect to a choice of law to govern a Share Sale Agreement or a submission to the jurisdiction of certain courts if to do so would be contrary to public policy in Australia.

No assumption or qualification in this opinion limits any other assumption or qualification in it.

Annexure 1 – ASIC Search



Order number: 59214079
 Your Reference: SOU012/4001
 Data extracted from ASIC: 14/10/19 09:04

SOUTHERN PHONE COMPANY LIMITED 100 901 184
ASIC - Current Extract - SOUTHERN PHONE COMPANY LIMITED ACN: 100 901 184

This extract contains information derived from the Australian Securities and Investment Commission's (ASIC) database under section 1274A of the Corporations Act 2001.
 Please advise ASIC of any error or omission which you may identify.

IDENTIFICATION

ACN: 100 901 184
 ABN: 42 100 901 184
 Current Company Name: SOUTHERN PHONE COMPANY LIMITED
 Registered in: New South Wales
 Place of Registration:
 Registration Date: 13/06/2002
 Previous State Number:
 Governance Type: Constitution
 Review Date: 13/06/2020

CURRENT COMPANY DETAILS

Name: SOUTHERN PHONE COMPANY LIMITED Doc# 017 321 065
 Period from: 13/06/2002
 Name Start: 13/06/2002
 Status: REGISTERED
 Type: AUSTRALIAN PUBLIC COMPANY
 Class: LIMITED BY SHARES
 Subclass: UNLISTED PUBLIC COMPANY
 Disclosing Entity: N

CURRENT COMPANY ADDRESS

Address Type: Registered Office Doc# 7E3112917
 Address: 6 PAGE STREET
 MORUYA NSW 2537
 Period from: 24/08/2010

Address Type: Principal Place of Business Doc# 7E3112917
 Address: 6 PAGE STREET
 MORUYA NSW 2537
 Period from: 16/08/2010

CURRENT COMPANY OFFICERS

Role: Director Doc# 0E7507642
 Name: RILEY, ANDREW JOSEPH
 Address: 3 TURALLO TERRACE
 BUNGENDORE NSW 2621
 Date of Birth: 09/01/1948
 Place of Birth: UNITED KINGDOM
 Appointment Date: 12/08/2002
 Cease Date:

Role: Director Doc# 7E3728820
 Name: OXLEY, RODERICK JOHN
 Address: UNIT 1
 7 EDWARD STREET
 WOLLONGONG NSW 2500
 Date of Birth: 26/09/1947
 Place of Birth: WOLLONGONG NSW
 Appointment Date: 12/08/2002

Cease Date:

Role: Director Doc# 7E4023891
 Name: HILZINGER, WILLIAM GEORGE
 Address: 151 KINGHORNE STREET
 NOWRA NSW 2541
 Date of Birth: 31/07/1940
 Place of Birth: KALGOORLIE WA
 Appointment Date: 12/08/2002
 Cease Date:

Role: Director Doc# 7E7501797
 Name: ASTON, CATHERINE ANN
 Address: 10 COPE PLACE
 BULLI NSW 2516
 Date of Birth: 10/07/1963
 Place of Birth: SYDNEY NSW
 Appointment Date: 23/11/2015
 Cease Date:

Role: Director Doc# 7E8124043
 Name: JOSS, DAVID KENNETH
 Address: 69 HANSELL DRIVE
 JUNORTOUN VIC 3551
 Date of Birth: 22/10/1969
 Place of Birth: MELBOURNE VIC
 Appointment Date: 01/07/2016
 Cease Date:

Role: Director Doc# 7E8533240
 Name: KRAMER, HOLLY SUZANNA
 Address: '(HOLLY KRAMER) GATEWAY BUILDING' LEVEL 31
 1 MACQUARIE PLACE
 SYDNEY NSW 2000
 Date of Birth: 01/09/1964
 Place of Birth: MINNEAPOLIS UNITED STATES
 Appointment Date: 18/11/2013
 Cease Date:

Role: Director Doc# 7EAC06309
 Name: WEST, CATHERINE JANE
 Address: 13 RANGERS AVENUE
 MOSMAN NSW 2088
 Date of Birth: 01/01/1969
 Place of Birth: LONDON UNITED KINGDOM
 Appointment Date: 23/05/2017
 Cease Date:

Role: Secretary Doc# 7EAM55112
 Name: JOSS, DAVID KENNETH
 Address: 69 HANSELL DRIVE
 JUNORTOUN VIC 3551
 Date of Birth: 22/10/1969
 Place of Birth: MELBOURNE VIC
 Appointment Date: 22/06/2019
 Cease Date:

Role: Appointed Auditor Doc# 029 788 258
 Name: NEXIA DUESBURYS (AUDIT)
 Number: 617 517 469

Address: 'ST GEORGE CENTRE' LEVEL 7
60 MARCUS CLARKE STREET
CANBERRA ACT 2601

Appointment Date: 21/02/2017

Cease Date:

CURRENT SHARE CAPITAL

Class: A CLASS A Doc# 7E1363585
Number of Issued "Shares" : 41
Amount Paid: \$41.00
Amount Due: \$0.00

Class: REDP REDEEMABLE PREFERENCE Doc# 7E8654913
Number of Issued "Shares" : 35
Amount Paid: \$35.00
Amount Due: \$0.00

Note: For each class of shares issued by a proprietary company, ASIC records the details of the twenty members of the class (based on shareholdings). The details of any other members holding the same number of shares as the twentieth ranked member will also be recorded by ASIC on the database. Where available, historical records show that a member has ceased to be ranked amongst the twenty members. This may, but does not necessarily mean, that they have ceased to be a member of the company.

SHAREHOLDERS/MEMBER

No record

DOCUMENTS RELATING TO EXTERNAL ADMINISTRATION AND/OR APPOINTMENT OF CONTROLLER

Note: This extract may not list all documents relating to this status. State and Territory records should be searched.

No record

SATISFIED CHARGES

Note: On January 30, 2012 the Personal Property Securities Register (PPS Register) has commenced. The details of current charges will only be available from the PPS Register and the details of satisfied charges (as at 30th January 2012) can be obtained from ASIC. Further information can be obtained from www.ppsr.gov.au.

No record

ASIC DOCUMENTS (except charges)

Notes:

- A date or address shown as UNKNOWN has not been updated since the ASIC to over the records in 1991.
- Data from Documents with no Date Processed are not included in the Extract.
- Documents with "****" pages have not yet been imaged and are not available via DOCIMAGE. Imaging takes approximately 2 weeks from date of lodgement.
- Documents already listed under charges are not repeated here.

Form Type	Date Received	Date Processed	Effective Date	Pages	Doc No
484 Change to Company Details Appointment or Cessation of A Company Officeholder	22/06/2019	22/06/2019	22/06/2019	2	7EAM55112
388 Financial Report Financial Report - Public Company Or Disclosing Entity	16/11/2018	16/11/2018	30/06/2018	50	7EAG17685 ((FR 2018))
484 Change to Company Details Change Officeholder Name Or Address	11/07/2018	11/07/2018	11/07/2018	2	7EAC06309
388 Financial Report Financial Report - Public Company Or Disclosing Entity	18/10/2017	18/10/2017	30/06/2017	38	7E9553080 ((FR 2017))
484 Change to Company Details Appointment or Cessation of A Company Officeholder	31/05/2017	31/05/2017	31/05/2017	2	7E9106154
484 Change to Company Details Appointment or Cessation of a Company Officeholder Changes to Share Structure Notification of Share Cancellation - Redeemable Preferences	28/12/2016	28/12/2016	28/12/2016	2	7E8654913
484 Change to Company Details Appointment or Cessation of A Company Officeholder	14/12/2016	14/12/2016	14/12/2016	2	7E8620421
484 Change to Company Details Change Officeholder Name Or Address	17/11/2016	17/11/2016	17/11/2016	2	7E8533240
484 Change to Company Details Appointment or Cessation of A Company Officeholder	17/11/2016	17/11/2016	17/11/2016	2	7E8533211

388	18/10/2016	18/10/2016	30/06/2016	21	7E8440246 ((FR 2016))
	Financial Report Financial Report - Public Company Or Disclosing Entity				
484	30/08/2016	30/08/2016	30/08/2016	2	7E8296646
	Change to Company Details Appointment or Cessation of A Company Officeholder				
484	05/07/2016	05/07/2016	05/07/2016	2	7E8124043
	Change to Company Details Appointment or Cessation of A Company Officeholder				
484	13/01/2016	13/01/2016	13/01/2016	2	7E7614518
	Change to Company Details Appointment or Cessation of A Company Officeholder				
484	26/11/2015	26/11/2015	26/11/2015	2	7E7501797
	Change to Company Details Appointment or Cessation of A Company Officeholder				
388	24/11/2015	24/11/2015	30/06/2015	13	7E7495405 ((FR 2015))
	Financial Report Financial Report - Public Company Or Disclosing Entity				
484	05/08/2015	05/08/2015	05/08/2015	2	7E7189997
	Change to Company Details Appointment or Cessation of A Company Officeholder				
484	23/06/2015	23/06/2015	23/06/2015	2	7E7062735
	Change to Company Details Change Officeholder Name Or Address				
388	31/10/2014	31/10/2014	30/06/2014	34	7E6486771 ((FR 2014))
	Financial Report Financial Report - Public Company Or Disclosing Entity				
484	14/07/2014	14/07/2014	14/07/2014	2	7E6209781
	Change to Company Details Appointment or Cessation of A Company Officeholder				
484	14/07/2014	14/07/2014	14/07/2014	2	7E6209747
	Change to Company Details Appointment or Cessation of A Company Officeholder				
388	14/01/2014	14/01/2014	30/06/2013	17	7E5765517 ((FR 2013))
	Financial Report Financial Report - Public Company Or Disclosing Entity				
484	06/12/2013	06/12/2013	06/12/2013	2	7E5699702
	Change to Company Details Appointment or Cessation of A Company Officeholder				
484	21/11/2013	21/11/2013	21/11/2013	2	7E5665216
	Change to Company Details Appointment or Cessation of A Company Officeholder				
484	11/03/2013	11/03/2013	11/03/2013	2	7E5076702
	Change to Company Details Appointment or Cessation of A Company Officeholder				
484	28/02/2013	28/02/2013	28/02/2013	2	7E5054402
	Change to Company Details Appointment or Cessation of A Company Officeholder				
484	06/12/2012	06/12/2012	06/12/2012	2	7E4894768
	Change to Company Details Appointment or Cessation of A Company Officeholder				
218	16/10/2012	09/11/2012	16/10/2012	34	026 613 929
	Constitution of Company				
205	16/10/2012	09/11/2012	10/10/2012	3	026 613 657
	Notification of Resolution Altering The Constitution				
388	12/10/2012	12/10/2012	30/06/2012	28	7E4779618 ((FR 2012))
	Financial Report Financial Report - Public Company Or Disclosing Entity				
484	18/10/2011	18/10/2011	18/10/2011	2	7E4023891
	Change to Company Details Change Officeholder Name Or Address				
388	02/09/2011	02/09/2011	30/06/2011	26	7E3924488 ((FR 2011))
	Financial Report Financial Report - Public Company Or Disclosing Entity				
484	10/06/2011	10/06/2011	10/06/2011	2	7E3730069
	Change to Company Details Change Officeholder Name Or Address				
484	10/06/2011	10/06/2011	10/06/2011	2	7E3728820
	Change to Company Details Change Officeholder Name Or Address				
388	21/12/2010	21/12/2010	30/06/2010	26	7E3380158 ((FR 2010))
	Financial Report Financial Report - Public Company Or Disclosing Entity				
484	17/08/2010	17/08/2010	17/08/2010	2	7E3112917
	Change to Company Details Change of Registered Address				

Change of Principal Place of Business (Address)					
309	12/11/2009	16/11/2009	16/10/2009	16	025 994 330
	Notification of Details of a Charge				
388	08/09/2009	08/09/2009	30/06/2009	26	7E2417762 ((FR 2009))
	FINANCIAL REPORT FINANCIAL REPORT - PUBLIC COMPANY OR DISCLOSING ENTITY				
484	27/04/2009	27/04/2009	27/04/2009	2	7E2155452
	CHANGE TO COMPANY DETAILS CHANGE OFFICEHOLDER NAME OR ADDRESS				
388	05/09/2008	19/09/2008	30/06/2008	30	024 894 339 ((FR 2008))
	FINANCIAL REPORT FINANCIAL REPORT - PUBLIC COMPANY OR DISCLOSING ENTITY				
2205	19/11/2007	22/11/2007	05/11/2007	3	024 245 995
	NOTIFICATION OF RESOLUTION RELATING TO SHARES REDUCTION OF SHARE CAPITAL - SCHEDULE 5				
484	15/11/2007	15/11/2007	15/11/2007	2	7E1363585
	CHANGE TO COMPANY DETAILS CHANGES TO SHARE STRUCTURE NOTIFICATION OF SHARE CANCELLATION_ - RETURNED TO COMPANY				
388	27/09/2007	06/10/2007	30/06/2007	23	024 140 914 ((FR 2007))
	FINANCIAL REPORT FINANCIAL REPORT - PUBLIC COMPANY OR DISCLOSING ENTITY				
2560	19/09/2007	19/09/2007	19/09/2007	10	024 083 665
	NOTIFICATION OF REDUCTION IN SHARE CAPITAL DETAILS FOR SELECTIVE REDUCTION				
484	14/09/2007	14/09/2007	14/09/2007	2	7E1278788
	CHANGE TO COMPANY DETAILS CHANGES TO (MEMBERS) SHARE HOLDINGS				
388	05/10/2006	09/10/2006	30/06/2006	24	023 226 915 ((FR 2006))
	FINANCIAL REPORT COMPANY - APPOINT CHANGE NAME/ADDRESS OF AUDITOR FINANCIAL REPORT - PUBLIC COMPANY OR DISCLOSING ENTITY				
315	18/10/2005	26/10/2005	07/10/2005	1	022 379 340
	NOTICE OF RESIGNATION OR REMOVAL OF AUDITOR RESIGNATION OF AUDITOR				
388	04/10/2005	04/10/2005	30/06/2005	20	022 307 784 ((FR 2005))
	FINANCIAL REPORT FINANCIAL REPORT - PUBLIC COMPANY OR DISCLOSING ENTITY				
484	07/07/2005	07/07/2005	07/07/2005	2	7E0428982
	CHANGE TO COMPANY DETAILS CHANGES TO (MEMBERS) SHARE HOLDINGS				
484	21/06/2005	21/06/2005	21/06/2005	2	7E0413106
	CHANGE TO COMPANY DETAILS CHANGES TO SHARE STRUCTURE NOTIFICATION OF SHARE ISSUE				
484	17/05/2005	18/05/2005	17/05/2005	13	7E0385679
	CHANGE TO COMPANY DETAILS CHANGES TO (MEMBERS) SHARE HOLDINGS				
484	14/04/2005	14/04/2005	14/04/2005	2	7E0364663
	CHANGE TO COMPANY DETAILS CHANGES TO SHARE STRUCTURE NOTIFICATION OF SHARE ISSUE				
388	29/10/2004	08/11/2004	30/06/2004	26	020 862 456 ((FR 2004))
	FINANCIAL REPORT FINANCIAL REPORT - PUBLIC COMPANY OR DISCLOSING ENTITY				
309	12/07/2004	12/07/2004	06/07/2004	34	020 128 396
	NOTIFICATION OF DETAILS OF A CHARGE				
388	29/10/2003	21/11/2003	30/06/2003	22	019 647 767 ((FR 2003))
	FINANCIAL REPORT COMPANY - APPOINT CHANGE NAME/ADDRESS OF AUDITOR FINANCIAL REPORT - PUBLIC COMPANY OR DISCLOSING ENTITY				
316	14/02/2003	14/04/2003	10/02/2003	6	10090118M ((AR 2002))
	ANNUAL RETURN - UNLISTED PUBLIC COMPANY				
203	23/10/2002	23/10/2002	23/10/2002	1	0E7822298
	NOTIFICATION OF CHANGE OF ADDRESS CHANGE OF ADDRESS - PRINCIPAL PLACE OF BUSINESS				
207	23/10/2002	23/10/2002	22/10/2002	2	0E7822299
	NOTIFICATION OF SHARE ISSUE				

304	13/08/2002	13/08/2002	12/08/2002	2	0E7507642
NOTIFICATION OF CHANGE TO OFFICEHOLDERS OF AUSTRALIAN COMPANY					
218	13/06/2002	13/06/2002	13/06/2002	36	017 321 075
CONSTITUTION OF COMPANY					
201	13/06/2002	13/06/2002	13/06/2002	5	017 321 065
APPLICATION FOR REGISTRATION AS A PUBLIC COMPANY					

PRE-ASIC DOCUMENTS

No record

ANNUAL RETURNS

No record

FINANCIAL REPORTS

Outstanding	Balance Date	Report Due Date	AGM Due Date	Extended AGM Due Date	AGM Held Date	Doc No
N	30/06/2003	31/10/2003	Unknown	Unknown	Unknown	019 647 767
N	30/06/2004	31/10/2004	Unknown	Unknown	Unknown	020 862 456
N	30/06/2005	31/10/2005	Unknown	Unknown	Unknown	022 307 784
N	30/06/2006	30/11/2006	Unknown	Unknown	Unknown	023 226 915
N	30/06/2007	31/10/2007	Unknown	Unknown	Unknown	024 140 914
N	30/06/2008	31/10/2008	Unknown	Unknown	Unknown	024 894 339
N	30/06/2009	31/10/2009	Unknown	Unknown	Unknown	7E2417762
N	30/06/2010	31/10/2010	Unknown	Unknown	Unknown	7E3380158
N	30/06/2011	31/10/2011	Unknown	Unknown	Unknown	7E3924488
N	30/06/2012	31/10/2012	Unknown	Unknown	Unknown	7E4779618
N	30/06/2013	31/10/2013	Unknown	Unknown	Unknown	7E5765517
N	30/06/2014	31/10/2014	Unknown	Unknown	Unknown	7E6486771
N	30/06/2015	31/10/2015	Unknown	Unknown	Unknown	7E7495405
N	30/06/2016	31/10/2016	Unknown	Unknown	Unknown	7E8440246
N	30/06/2017	31/10/2017	Unknown	Unknown	Unknown	7E9553080
N	30/06/2018	31/10/2018	Unknown	Unknown	Unknown	7EAG17685

Annexure 2 – Share Sale Agreement Version 1

Share Sale Agreement

AGL Energy Limited
The party listed at Schedule 1

Draft



Level 12
60 Carrington Street
SYDNEY NSW 2000
DX 262 SYDNEY NSW
Tel: (02) 8915 1000
Fax: (02) 8916 2000
www.addisonslawyers.com.au
Ref: KJP:SOU012/4001

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Draft

DETAILS

Date:

Parties

(1) The party listed in Schedule 1 (Seller)

(2) AGL Energy Limited (Buyer)

ACN	115 061 375
Address	Level 24, 200 George Street, SYDNEY NSW 2000
Email	CompanySecretary@agl.com.au
Attention	Company Secretary

Recitals

- A. The Company conducts the Business.
- B. The Seller holds all of the Sale Shares.
- C. The Seller agrees to sell and transfer all right, title and interest in and to the Sale Shares to the Buyer, and the Buyer agrees to purchase and accept the transfer of the Sale Shares, in accordance with the terms and conditions of this agreement.

Operative Parts

1. Defined terms and interpretation

1.1 Defined terms

In this agreement:

Affiliate means:

- (a) in relation to any entity, any other entity that:
 - (i) is a Related Body Corporate of the first mentioned entity; or
 - (ii) Controls, is Controlled by, or is under common Control with the first mentioned entity; and
- (b) in relation to any person, an entity that is Controlled by that person.

Business means the business of the Company, being, as at the date of this agreement, a business providing telecommunications services.

Business Day means a day which is not a Saturday, Sunday, a bank holiday or a public holiday in Sydney, Australia.

Business Hours means from 9.00 a.m. and 5.00 p.m. on a Business Day.

Buyer Warranties means the representations and warranties in Schedule 3.

Control means the capacity of a person or entity to determine the outcome of decisions about a second entity's financial and operating policies and, in determining whether a person or entity has this capacity:

- (a) the practical influence that person or entity can exert (rather than the rights it can enforce) is the issue to be considered; and
- (b) any practice or pattern of behaviour affecting the second entity's financial or operating policies is to be taken into account (even if it involves a breach of agreement or a breach of trust).

Company means Southern Phone Company Limited ACN 100 901 184.

Company Completion Steps means the steps the Company is required to complete for Completion to occur as set out in the Implementation Deed.

Completion means the completion of the sale and purchase of the Sale Shares in accordance with clause 3.

Completion Date means the date that is five Business Days after the Conditions have been satisfied or waived in accordance with the Implementation Deed, or such other date as the Seller's Representative and the Buyer may agree in writing.

Conditions has the meaning given to that term in the Implementation Deed.

Constitution Amendment Resolution means the special resolution to amend the Constitution as set out in the Notice of Meeting.

Corporations Act means the *Corporations Act 2001* (Cth).

Details means, in relation to a party, the details for that party set out at the beginning of this agreement (in the case of the Buyer) or Schedule 1 (in the case of the Seller).

Encumbrance means:

- (a) a mortgage, charge, pledge, lien, hypothecation or title retention arrangement;
- (b) any third party interest (for example, a trust or an equity);
- (c) a "security interest" as defined under the PPSA;
- (d) a right of a person to acquire a security or to restrain someone from acquiring a security (including under a right of pre-emption or a right of first refusal); or
- (e) an agreement to grant or create any of the above or to allow any of them to exist.

Government Agency means any government or any governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity in Australia (whether federal, state or local) or any other part of the world, except for the Seller.

GST means a goods and services tax or similar value added tax levied or imposed under the GST Law.

GST Law has the meaning given to that term in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) and any regulation made under that Act.

Immediately Available Funds means electronic means of transfer of cleared funds by real-time gross settlement.

Implementation Deed means the implementation deed dated [insert] October 2019 between the Company and the Buyer.

Insolvency Event means, in respect of a body corporate, the occurrence of any of the following in respect of that body corporate:

- (a) an order is made or an effective resolution is passed for the winding up, dissolution without winding up (otherwise than for the purposes of solvent reconstruction or amalgamation) or deregistration of that body corporate;
- (b) a receiver, receiver and manager, judicial manager, liquidator, administrator or like official is appointed or expected to be appointed over the whole or a substantial part of the undertaking or property of that body corporate;
- (c) a holder of an Encumbrance takes possession of or exercises any other rights arising from the Encumbrance over the whole or any substantial part of the undertaking and property of that body corporate, or indicates an intention to do so;
- (d) that body corporate becomes insolvent or any circumstance exists or arises which would require a court to presume that that body corporate is insolvent;
- (e) that body corporate enters into or takes any steps to enter or proposes to enter into any arrangement, compromise or assumption with or assignment for the benefit of its creditors or a class of them;
- (f) that body corporate stops, suspends or threatens to stop or suspend paying its debts as and when they fall due; or
- (g) any analogous event under the Laws of any applicable jurisdiction.

Law includes any law, regulation, authorisation, ruling, judgment, order or decree of any Government Agency and any statute, regulation, proclamation, ordinance or by-law.

Leakage means in respect of the Company:

- (a) any dividend or distribution declared, paid or made (or determined to be paid or made on or before Completion) by the Company to the Seller or any of its Affiliates;
- (b) any payment, rebate, discount or bonus (in cash or in kind) paid or to be paid by the Company to the Seller or any of its Affiliates as an incentive for Completion, or triggered by Completion;
- (c) any payments made or agreed to be made by the Company to the Seller or any of its Affiliates in respect of any capital in the Company being issued, redeemed, purchased or repaid, or any other return of capital by the Company;
- (d) any cancellation or forgiveness (or agreement to cancel or forgive) of any indebtedness for money owed to the Company, or the waiver or an agreement to waive by the Company of any amount owed to the Company or the Business, by the Seller or any of its Affiliates;
- (e) any liabilities assumed, guaranteed, indemnified or incurred by the Company, or the provision of any security or collateral by the Company, for the benefit of the Seller or any of its Affiliates;

- (f) any payment, or the provision of any benefit, by the Company to, or for the benefit of, the Seller or any of its Affiliates or the incurrence of any indebtedness or other obligation by the Company to the Seller or any of its Affiliates;
- (g) the payment of or agreement to pay any fees or costs or any Tax or GST incurred by the Company as a result of those matters set out in paragraphs (a) to (f) above, or the incurrence of any Tax as a result of any of those matters set out in paragraphs (a) to (f) above;
- (h) the payment of or agreement to pay any Transaction Costs in excess of \$2,700,382 plus interest earned on this amount,

in each case after the Locked Box Date and on or prior to the Completion Date, and **Leakage Payment** has a corresponding meaning, but does not include:

- (i) the Permitted Dividend;
- (j) any payment or thing that is expressly permitted or required to be done by or under the Implementation Deed;
- (k) a payment which is approved in writing by the Buyer; or
- (l) any Tax or GST incurred by the Company as a result of any matters set out in paragraphs (i) to (k) above.

Locked Box Date means 30 June 2019.

Loss means any damage, loss, cost (including legal costs, but only to the extent reasonably incurred) or expense incurred by the person concerned.

Notice has the meaning given in clause 9.1.

Notice of Meeting means the notice of the general meeting of the shareholders of the Company convened to consider the Constitution Amendment Resolution dated at or around the same date as the Seller received this agreement executed by the Buyer, and in the form agreed between the Buyer and the Company.

Permitted Dividend means a dividend declared and paid by the Company out of cash held in the account with designation "F2484" managed by Morgan Stanley Private Wealth Management immediately before Completion in an aggregate amount of up to \$2,700,382 plus interest earned on this amount, which amount will be reduced by the amount of Transaction Costs incurred, or agreed to be incurred, by the Company.

PPSA means the *Personal Property Securities Act 2009* (Cth).

Purchase Price means, in relation to the Seller, the dollar amount set out adjacent to the name of the Seller in column 5 of Schedule 1 under the heading 'Purchase Price'.

Related Body Corporate has the meaning given by the Corporations Act.

Respective Proportion means the proportion equal to 1/35th.

Sale Shares means all of the shares in the issued capital of the Company that are described in Schedule 1.

Seller Warranties means the representations and warranties in Schedule 2.

Seller's Representative means Bill Hilzinger, or such other person as the Seller identifies in a Notice signed by all shareholders of the Company and delivered to the Buyer.

Tax means any tax, duty, levy, charge, impost, fee, deduction, goods and services tax, compulsory loan or withholding (together with any interest, penalty, fine or expense that is imposed on or in respect of any of the foregoing) which is assessed, levied, imposed or collected by any Government Agency.

Tax Act means any law which imposes or relates to Tax, and includes capital gains tax, fringe benefits tax, income tax, prescribed payments tax, superannuation guarantee charge, PAYG withholding, undistributed profits tax, payroll tax, GST, group tax, land tax, import duty, excise, stamp duty, municipal and water rates, withholdings of any nature whatever imposed by a Government Agency, interest on tax payments and additional tax by way of penalty.

Transaction Costs means the fees or costs (excluding GST) incurred by the Company in relation to the implementation of the Transaction.

Transactions means the sale by the Seller and acquisition by the Buyer of the Sale Shares under this agreement.

1.2 Interpretation

In this agreement, headings are for ease of reference only and do not affect interpretation and, except where otherwise stated:

- (a) the singular includes the plural and vice versa;
- (b) a gender includes other genders;
- (c) terms defined in the Corporations Act have the same meaning when used in this agreement;
- (d) if a word or phrase is defined, then other parts of speech and grammatical forms of that word or phrase have a corresponding meaning;
- (e) a reference to a recital, clause, schedule or annexure is to a recital or clause of or schedule or annexure to this agreement and a reference to this agreement includes any schedule;
- (f) a reference to a document includes a reference to that document as amended, novated, supplemented, varied or replaced;
- (g) the terms "include", "including" and similar expressions when introducing a list of items do not exclude a reference to other items;
- (h) a reference to a party is a reference to a party to this agreement and includes the party's successors and permitted assigns;
- (i) a reference to a person includes a natural person, partnership, firm, body corporate, trust, joint venture, association, governmental or local authority or agency or other entity;
- (j) a reference to a statute or statutory provision includes:
 - (i) a statute or statutory provision which amends, extends, consolidates or replaces the statute or statutory provision;

- (ii) a statute or statutory provision which has been amended, extended, consolidated or replaced by the statute or statutory provision; and
- (iii) subordinate legislation made under the statute or statutory provision including but not limited to an order, regulation, or instrument;
- (k) reference to "\$", "A\$", "Australian Dollars" or "dollars" is a reference to the lawful tender for the time being and from time to time of the Commonwealth of Australia;
- (l) a provision of this agreement is not to be construed against a party solely on the ground that the party is responsible for the preparation of this agreement or a particular provision;
- (m) any agreement, covenant, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them severally and not jointly or jointly and severally;
- (n) any agreement, covenant, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them severally and not jointly or jointly and severally; and
- (o) a reference to "agreed form" means, in respect of a document, a form of that document agreed between the Buyer and the Seller's Representative and initialled by or on behalf of these parties on the date of this agreement for the purposes of identification.

1.3 **Business Day and day**

- (a) If this agreement requires that the day on which a thing must be done is a day which is not a Business Day, then that thing must be done on or by the immediately following Business Day.
- (b) A reference to a day (including a Business Day) is a reference to a time period which begins at midnight and ends 24 hours later.

1.4 **Payments**

All payments required to be made under this agreement must be made in Australian dollars and, unless otherwise expressly provided in this agreement, in Immediately Available Funds to:

- (a) an account nominated in writing by the Seller (in the case of a payment to the Seller);
- (b) to an account nominated in writing by the Buyer (in the case of a payment to the Buyer); or
- (c) any other method as agreed in writing between the Seller's Representative and the Buyer.

1.5 **Relationship of the Seller's Representative**

- (a) The Seller irrevocably appoints the Seller's Representative as its attorney, agent and representative for the purposes of this agreement, to exercise or discharge for it and on its behalf all of the rights, obligations, powers and discretions of the Seller expressed to be held by, or exercisable by, the Seller's Representative under this agreement, and all powers reasonably incidental thereto, including to give and

receive any consent, approval or agreement to amend or waive any term of this agreement.

- (b) The parties agree that the Seller's Representative shall be entitled on behalf of the Seller to exercise those rights, powers and discretions, give and receive those consents, approvals, amendments or waivers or to take those other actions referred to or contemplated by clause 1.5(a). Further, the Seller agrees that it shall be bound by any action, election, direction or document executed by or on behalf of the Seller's Representative and it will not challenge the validity or effectiveness of any document executed by the Seller's Representative.
- (c) The Seller acknowledges that the Buyer shall be entitled to rely on any action, election, direction or document executed by or on behalf of the Seller's Representative as agent for the Seller without any need for a reference as to that agency or the need for any further inquiry.
- (d) The Seller agrees not to revoke or attempt to revoke the appointment of the Seller's Representative under this clause 1.5 and to ratify everything done or caused to be done by the Seller's Representative under it.

2. Purchase of Sale Shares

2.1 Sale and purchase of Sale Shares

On Completion, the Seller must sell to the Buyer, and the Buyer must buy from the Seller, the legal and beneficial title to, and rights and interest in, free and clear of all Encumbrances, the Sale Shares, with all rights attaching or accruing to the Sale Shares on and from the Completion Date and otherwise on the terms of this agreement.

2.2 Title

Title, ownership and risk in the Sale Shares pass to the Buyer with effect on and from Completion.

2.3 Purchase Price

The total consideration for the purchase of the Sale Shares is the Purchase Price, which the Buyer must satisfy by paying to the Seller on Completion in accordance with clause 3.3(b).

2.4 Consent to variation of Constitution

By entering into this agreement, the Seller hereby consents to the amendments to the Company's Constitution proposed by the Constitution Amendment Resolution for the purposes of the *Corporations Act 2001* (Cth), the Constitution of the Company (including clause 9.1 to the extent relevant) and for all other purposes.

3. Completion

3.1 Completion

Subject to clause 3.7:

- (a) Completion is conditional on the satisfaction or waiver of the Conditions in accordance with the terms of the Implementation Deed; and
- (b) provided the Conditions are satisfied or waived in accordance with the terms of the Implementation Deed, Completion must take place on the Completion Date at

11:00am at the offices of Addisons, Level 12, 60 Carrington Street, Sydney NSW 2000 or such other time and place as the Seller's Representative and the Buyer agree in writing.

3.2 **Actions by the Seller**

- (a) On Completion, the Seller, or the Seller's Representative, must give to the Buyer, or procure that the Buyer is given:
- (i) transfers in favour of the Buyer in respect of the Sale Shares, in registrable form and executed by or on behalf of the Seller;
 - (ii) all original share certificates for the Sale Shares or an indemnity for any lost share certificates in the agreed form; and
 - (iii) if applicable, a copy of the power of attorney executed by the Seller authorising its attorney to execute this agreement and any of the documents listed in this clause 3.2 on behalf of the Seller.
- (b) From Completion, until the Sale Shares are registered in the name of the Buyer, the Seller must appoint the Buyer as the sole proxy of the holder of Sale Shares to attend shareholders' meetings and exercise the votes attaching to the Sale Shares; must not attend and vote at any shareholders' meetings; and must take all other actions in the capacity of a registered holder of the Sale Shares as the Buyer directs. The Buyer indemnifies the Seller against all Loss suffered or incurred by it arising out of the implementation of any action taken in accordance with the proxy referred to in this paragraph.

3.3 **Actions by the Buyer**

On Completion, the Buyer must:

- (a) countersign the transfer received from the Seller pursuant to clause 3.2(a)(i), and procure that each such transfer is delivered to the Company; and
- (b) pay to the Seller the Purchase Price.

3.4 **Actions by the Company**

The Seller acknowledges and agrees that for Completion to occur the Company must complete the Company Completion Steps, unless the Buyer, in its sole discretion, waives any or all actions that the Company is required to take in relation to the Company Completion Steps.

3.5 **Interdependence of obligations**

The obligations of the parties in respect of Completion are interdependent and Completion does not occur until the parties have complied with all of their obligations under clauses 3.2 and 3.3 and the Company has completed the Company Completion Steps, unless otherwise agreed between the Seller's Representative and the Buyer. All actions required to be performed under clauses 3.2 and 3.3 will be taken to have occurred simultaneously on the Completion Date.

3.6 **Notice to complete**

- (a) If any party (**Defaulting Party**) fails to satisfy any of its obligations under clause 3.2 or 3.3 on the day and at the place and time for Completion determined under clause 3.1, then the Buyer (if the Seller is the Defaulting Party) or the Seller's

Representative (if the Buyer is the Defaulting Party) (**Notifying Party**) may give the Defaulting Party a Notice requiring the Defaulting Party to satisfy those obligations within a period of 3 Business Days from the date of the Notice and declaring time to be of the essence.

- (b) If the Defaulting Party fails to satisfy those obligations within the time period contemplated in clause 3.6(a), then the Notifying Party may, without limiting any other rights it may have, terminate this agreement by Notice to the other party.

3.7 Termination

- (a) If the Implementation Deed is terminated in accordance with its terms before the Completion Date:
 - (i) this agreement will automatically terminate upon the termination of the Implementation Deed; and
 - (ii) Completion will not take place.
- (b) If this agreement is terminated in accordance with clause 3.6(b) or 3.7(a)(i):
 - (i) there is no further obligation on any party to undertake or perform any of the unperformed obligations under this clause 3; and
 - (ii) to the extent that any obligations under this clause 3 have already been undertaken or performed, the parties must do everything reasonably required to reverse those actions, including returning all documents delivered to it and repaying all payments received by it,

provided that each party retains all rights it has against each other party in respect of any breach of this agreement occurring prior to termination.

4. Locked Box

4.1 No Leakage undertaking

The Seller represents, warrants and undertakes to the Buyer that between the Locked Box Date and the Completion Date (inclusive):

- (a) it has not received, nor will it receive, from the Company any amount of Leakage; and
- (b) it has not, nor will it (including in its capacity as a shareholder of the Company, or by the giving of instructions to any director of the Company) agreed to, authorised, consented to or voted in favour of any Leakage.

4.2 Indemnity for Leakage

Subject to clause 4.3, the Seller indemnifies the Buyer against:

- (a) the amount of any and all Leakage that the Seller has received or had the benefit of and any Loss resulting from the Leakage, where the indemnified amount must be an amount equal at least to the dollar amount of the Leakage on a dollar for dollar basis (and may be set off against the Buyer's obligation to pay the Purchase Price; and
- (b) without limiting clause 4.2(a), any breach of the warranty and undertaking given by the Seller under clause 4.1.

4.3 Proportionate liability for Leakage relating to Transaction Costs

The Seller's liability for or in connection with Leakage stated in paragraph (h) of the definition of Leakage is limited to the Seller's Respective Proportion of the amount of such Leakage and of any Loss resulting from such Leakage.

4.4 No set-off

All payments under this agreement must be paid without any set-off, deduction or withholding, except as otherwise provided for under clause 4.2(a).

5. Commitment to regional employment

Subject to Completion occurring, for at least the three year period after Completion, the Buyer must procure that the Company:

- (a) maintains its existing Moruya, NSW operations; and
- (b) retains its existing employees located in Moruya, subject to each employee's ongoing compliance with their terms of employment and the Buyer's applicable employment policies; and
- (c) uses reasonable commercial efforts to maintain the overall number of employees located in Moruya that the Company employs as at Completion.

6. Seller Warranties

- (a) The Seller gives the Seller Warranties in favour of the Buyer on the date of this agreement and immediately prior to Completion.
- (b) Each of the Seller Warranties remains in full force after Completion, is separate and independent and not limited or restricted by any other Seller Warranty.
- (c) The Seller acknowledges that the Buyer has entered into this agreement in reliance on the Seller Warranties.
- (d) The Seller is not liable under any Claim for breach of a Seller Warranty, and the Buyer is barred from making or continuing to pursue any such Claim, if the Buyer does not notify the Seller of the relevant Claim within 3 years of the date of Completion.
- (e) The maximum aggregate amount that the Buyer can recover from the Seller under any Claim for breach of one or more Seller Warranties is the Purchase Price.
- (f) The Seller must promptly notify the Buyer if at any time after the date of this agreement it becomes aware that a Seller Warranty was not true when given, or has ceased to be true; or an act or event that has occurred that would or might reasonably be expected to result in a Seller Warranty ceasing to be true if it were repeated immediately before or at Completion and must provide the Buyer with details of that fact.
- (g) The Seller undertakes to the Buyer and any person who was at the date of this agreement a current or former director, officer or employee of the Company and who at any time following Completion is a director, officer or employee of the Buyer or the Company that neither it nor any of its Affiliates will make a claim or demand against any officer in respect of any matter arising in connection with this agreement, including any breach of Seller Warranty.

7. Buyer Warranties

- (a) The Buyer gives the Buyer Warranties in favour of the Seller on the date of this agreement and immediately prior to Completion.
- (b) Each of the Buyer Warranties remains in full force after Completion, is separate and independent and not limited or restricted by any other Buyer Warranty.
- (c) The Buyer acknowledges that the Seller has entered into this agreement in reliance on the Buyer Warranties.

8. Announcements and confidentiality**8.1 Announcements**

- (a) The Buyer and the Company will each make a public announcement of the execution of the Implementation Deed and related matters in the form and at the time agreed between them (**Agreed Announcement**).
- (b) A public announcement by the Seller or its Affiliates in connection with this agreement or the Transactions must be agreed by the Buyer and the Company before it is made, except if required by applicable law or a regulatory body (other than the Seller), in which case the Seller must, to the extent practicable, first consult with and take into account the reasonable requirements of the Buyer and the Company.

8.2 Confidentiality

Subject to clause 8.1, each party (**recipient**) must keep secret and confidential, and must not divulge or disclose for any purpose, the terms of this agreement or the Transactions, or any information provided to it under or in connection with this agreement or the Transactions by or on behalf of another party, except to the extent that:

- (a) the disclosure is made by the recipient to its councillors, directors, officers, employees, financiers, lawyers, accountants or other professional advisers, in which case the recipient must ensure that such persons keep the information secret and confidential and do not divulge or disclose the information to any person other than a person to whom the recipient is permitted to disclose that information in accordance with this clause 8;
- (b) if the Buyer is the recipient, the disclosure is made in connection with doing anything necessary or desirable in relation to the Implementation Deed or approval, execution, negotiation, or implementation of the Transaction or acquisition of any other securities in the Company, including to its bank and other persons to the extent required to raise funding for the Transactions, provided that its bank and such other persons are obliged to keep the information confidential or the disclosure is to the Australian Taxation Office as part of the Buyer's ongoing annual tax compliance obligations;
- (c) the information is in the public domain as at the date of this agreement or subsequently comes into the public domain other than as a result of a breach of any obligation of confidentiality binding on the recipient;
- (d) the recipient is required to disclose the information by Law or the rules of any recognised securities exchange on which the shares of the recipient or its ultimate holding company are quoted, provided that the recipient has to the extent permitted and practicable having regard to the required timing of the disclosure

consulted with the provider of the information as to the form and content of the disclosure;

- (e) the disclosure is required for use in legal proceedings regarding this agreement or the Transactions; or
- (f) the party from whom the recipient received the information or, where the relevant information is the terms of this agreement or the Transactions, the other party to this agreement (or the Seller's Representative if the other party is the Seller), has consented to the disclosure in writing before the disclosure is made.

8.3 **After Completion**

From Completion, the Buyer may disclose any confidential information relating to the Company and the Business in its discretion, except to the extent that such information relates to the Seller.

8.4 **Buyer tax reporting**

The parties acknowledge that if Completion occurs the Buyer will disclose the Transaction, including this Agreement, to the Australian Taxation Office as part of its ongoing annual tax compliance obligations.

9. **Notices**

9.1 **Service of notices**

A notice, demand, consent, approval, waiver or other communication under this agreement (**Notice**):

- (a) must be in legible writing and in English directed to the recipient's address for notices specified in the Details and Schedule 1 (as varied by any Notice);
- (b) must be hand delivered, left at or sent by prepaid post or email to the recipient's address for notices specified in the Details and Schedule 1 (as varied by any Notice); and
- (c) may be given by an agent of the sender.

9.2 **Effective on receipt**

A Notice given in accordance with clause 9.1 takes effect when received (or at a later time specified in it), and is taken to be received:

- (a) if hand delivered or left at the recipient's address, on delivery;
- (b) if sent by prepaid post, the third Business Day after the date of posting, or the seventh Business Day after the date of posting if posted to or from outside Australia; and
- (c) if sent by email, when received by the recipient's email server (whether or not filtered or classified as unsolicited email or spam) unless the sender receives an automated message that delivery of the email has failed,

but if the delivery or transmission under paragraph (a) or (c) is outside Business Hours, the Notice is taken to be received at the commencement of Business Hours after that delivery, receipt or transmission.

9.3 **Process service**

Any process or other document relating to litigation, administrative or arbitral proceedings in relation to this agreement may be served by any method contemplated by this clause in addition to any means authorised by Law.

10. **GST**

10.1 **Interpretation**

- (a) Except where the context suggests otherwise, terms used in this clause 10 have the meanings given to those terms by the GST Law.
- (b) A reference to something done (including a supply made) by a party includes a reference to something done by any entity through which that party acts.

10.2 **Additional amounts of GST payable**

If GST becomes payable on any supply made by a party (**Supplier**) under or in connection with this agreement:

- (a) any amount payable or consideration to be provided under any provision of this agreement (other than this clause 10) for that supply is exclusive of GST;
- (b) any party (**Recipient**) that is required to provide consideration to the Supplier for that supply must pay an additional amount to the Supplier equal to the amount of the GST payable on that supply (**GST Amount**), at the same time as any other consideration is to be first provided for that supply; and
- (c) the Supplier must provide a tax invoice to the Recipient for that supply, no later than the time at which the GST Amount for that supply is to be paid in accordance with clause 10.2(b).

10.3 **Variation**

- (a) If the GST Amount properly payable in relation to a supply varies from the additional amount paid by the Recipient under clause 10.2, the Supplier must provide a corresponding refund or credit to, or will be entitled to receive the amount of that variation from, the Recipient. Any payment, credit or refund under this clause 10.3(a) is deemed to be a payment, credit or refund of the GST Amount payable under clause 10.2.
- (b) The Supplier must issue an adjustment note to the Recipient in respect of any adjustment event occurring in relation to a supply made under or in connection with this agreement as soon as reasonably practicable after the Supplier becomes aware of the adjustment event.

10.4 **Reimbursement**

If a payment due under this agreement is a reimbursement, indemnification or payment by way of damages by one party of a Loss incurred or to be incurred by the other party, the payment will exclude any GST forming part of the amount to be reimbursed, indemnified or paid by way of damages to the extent to which the other party can claim an input tax credit on such amount.

10.5 **No merger**

This clause 10 will not merge on Completion or termination of this agreement.

11. General**11.1 Amendments**

This agreement may be amended or varied only in writing and signed by the Buyer and the Seller's Representative.

11.2 Approvals, consents and exercise of rights

Except where this agreement expressly states otherwise, a party may:

- (a) in its absolute discretion, give conditionally or unconditionally or withhold any approval or consent under this agreement; and
- (b) exercise a right at its discretion and separately or concurrently with another right.

11.3 Assignment

Except where this agreement expressly states otherwise, a party may only assign this agreement or a right under this agreement with the prior written consent of each other party.

11.4 Counterparts

This agreement may be executed in counterparts and all executed counterparts together constitute one document.

11.5 Costs

Subject clause 11.6, each party must bear its own costs in relation to, and associated with, this agreement and giving effect to this agreement.

11.6 Duty

The Buyer must pay all stamp duty in respect of the execution, delivery and performance of this agreement.

11.7 Entire agreement

This agreement constitutes the entire agreement between the parties in connection with its subject matter and supersedes all previous agreements or understandings between the parties in connection with its subject matter.

11.8 Further action

Each party must, at its own expense, do everything reasonably necessary to give full effect to this agreement (including executing documents) and to use all reasonable endeavours to cause relevant third parties to do likewise.

11.9 No merger

Except where this agreement expressly states otherwise, the rights and obligations of the parties under this agreement do not merge on Completion.

11.10 Severability

If the whole or any part of a provision of this agreement is invalid or unenforceable in a jurisdiction it must, if possible, be read down for the purposes of that jurisdiction so as to be valid and enforceable. If however, the whole or any part of a provision of this agreement is

not capable of being read down, it is severed to the extent of the invalidity or unenforceability without affecting the remaining provisions of this agreement or affecting the validity or enforceability of that provision in any other jurisdiction.

11.11 Survival

Any obligation of confidentiality in this agreement is independent and survives termination of this agreement. Any other term which by its nature is intended to survive termination of this agreement survives termination of this agreement.

11.12 Waiver

A party does not waive a right, power or remedy if it fails to exercise or delays in exercising the right, power or remedy. A single or partial exercise by a party of a right, power or remedy does not prevent another or further exercise of that or another right, power or remedy. A waiver of a right, power or remedy must be by Notice and signed by the party giving the waiver, provided that the Seller's Representative may give a waiver on behalf of any Seller.

11.13 Relationship

Except where this agreement expressly states otherwise, this agreement does not create a relationship of employment, trust, agency or partnership between the parties.

11.14 Remedies cumulative

The rights, powers and remedies provided in this agreement are cumulative with and not exclusive of the rights, powers or remedies provided by Law independently of this agreement.

11.15 Governing law

This agreement will be governed by and construed in accordance with the Laws for the time being in force in the State of New South Wales and the parties, by entering into this agreement, are deemed to have submitted to the non-exclusive jurisdiction of the courts of that State.

Schedule 1 – Seller

Seller	Address	A Class Ordinary Shares	Preference Shares	Purchase Price
Bega Valley Shire Council	Zingel Place, Bega NSW 2550	1 (Share number 18)	1 (W)	\$785,714.00

Draft

Schedule 2 – Seller Warranties**Power and authority**

1. The Seller has full power to and capacity to enter into and perform its obligations under this agreement.
2. All necessary authorisations for the execution, delivery and performance by the Seller of this agreement in accordance with its terms have been obtained.
3. This agreement is valid, binding and enforceable against the Seller in accordance with its terms.
4. The execution, delivery and performance by the Seller of this agreement does not constitute a breach of any law or obligation, or cause or result in a default under any agreement, or Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under this agreement and there is no other arrangement or agreement between the Seller and another person in relation to the Sale Shares.

Ownership and no encumbrances or other arrangements

5. At Completion:
 - (i) the Seller is the legal and beneficial owner of the Sale Shares and has complete power and right to sell those Sale Shares to the Buyer and the Sale Shares are the only securities in the Company in which the Seller has any kind of interest;
 - (ii) the Buyer will acquire the full legal and beneficial ownership of the Sale Shares free and clear of all Encumbrances, subject to registration of the Buyer in the register of shareholders.

Schedule 3 Buyer Warranties**Power and authority**

1. The Buyer is validly incorporated, organised and subsisting in accordance with the laws of its place of incorporation.
2. The Buyer has full power to and capacity to enter into and perform its obligations under this agreement.
3. All necessary authorisations for the execution, delivery and performance by the Buyer of this agreement in accordance with its terms have been obtained.
4. This agreement is valid, binding and enforceable against the Buyer in accordance with its terms.
5. The Buyer enters into and performs this agreement on its own account and not as trustee for or nominee of any other person.
6. The execution, delivery and performance by the Buyer of this agreement does not constitute a breach of any law or obligation, or cause or result in a default under any agreement, or Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under this agreement.
7. No Insolvency Event has occurred in relation to the Buyer and there are no circumstances that justify the Buyer being the subject of an Insolvency Event.
8. The Buyer has available, in Immediately Available Funds, the necessary cash resources to pay the Purchase Price on Completion and meet its obligations under this agreement.

Annexure 3 – Share Sale Agreement Version 2

Share Sale Agreement

AGL Energy Limited
The party listed at Schedule 1

Draft



Level 12
60 Carrington Street
SYDNEY NSW 2000
DX 262 SYDNEY NSW
Tel: (02) 8915 1000
Fax: (02) 8916 2000
www.addisonslawyers.com.au
Ref: KJP:SOU012/4001

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Draft

DETAILS

Date:

Parties

(1) The party listed in Schedule 1 (Seller)

(2) AGL Energy Limited (Buyer)

ACN	115 061 375
Address	Level 24, 200 George Street, SYDNEY NSW 2000
Email	CompanySecretary@agl.com.au
Attention	Company Secretary

Recitals

- A. The Company conducts the Business.
- B. The Seller holds all of the Sale Shares.
- C. The Seller agrees to sell and transfer all right, title and interest in and to the Sale Shares to the Buyer, and the Buyer agrees to purchase and accept the transfer of the Sale Shares, in accordance with the terms and conditions of this agreement.

Operative Parts

1. Defined terms and interpretation

1.1 Defined terms

In this agreement:

Affiliate means:

- (a) in relation to any entity, any other entity that:
 - (i) is a Related Body Corporate of the first mentioned entity; or
 - (ii) Controls, is Controlled by, or is under common Control with the first mentioned entity; and
- (b) in relation to any person, an entity that is Controlled by that person.

Business means the business of the Company, being, as at the date of this agreement, a business providing telecommunications services.

Business Day means a day which is not a Saturday, Sunday, a bank holiday or a public holiday in Sydney, Australia.

Business Hours means from 9.00 a.m. and 5.00 p.m. on a Business Day.

Buyer Warranties means the representations and warranties in Schedule 3.

Control means the capacity of a person or entity to determine the outcome of decisions about a second entity's financial and operating policies and, in determining whether a person or entity has this capacity:

- (a) the practical influence that person or entity can exert (rather than the rights it can enforce) is the issue to be considered; and
- (b) any practice or pattern of behaviour affecting the second entity's financial or operating policies is to be taken into account (even if it involves a breach of agreement or a breach of trust).

Company means Southern Phone Company Limited ACN 100 901 184.

Company Completion Steps means the steps the Company is required to complete for Completion to occur as set out in the Implementation Deed.

Completion means the completion of the sale and purchase of the Sale Shares in accordance with clause 3.

Completion Date means the date that is five Business Days after the Conditions have been satisfied or waived in accordance with the Implementation Deed, or such other date as the Seller's Representative and the Buyer may agree in writing.

Conditions has the meaning given to that term in the Implementation Deed.

Constitution Amendment Resolution means the special resolution to amend the Constitution as set out in the Notice of Meeting.

Corporations Act means the *Corporations Act 2001* (Cth).

Details means, in relation to a party, the details for that party set out at the beginning of this agreement (in the case of the Buyer) or Schedule 1 (in the case of the Seller).

Encumbrance means:

- (a) a mortgage, charge, pledge, lien, hypothecation or title retention arrangement;
- (b) any third party interest (for example, a trust or an equity);
- (c) a "security interest" as defined under the PPSA;
- (d) a right of a person to acquire a security or to restrain someone from acquiring a security (including under a right of pre-emption or a right of first refusal); or
- (e) an agreement to grant or create any of the above or to allow any of them to exist.

Government Agency means any government or any governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity in Australia (whether federal, state or local) or any other part of the world, except for the Seller.

GST means a goods and services tax or similar value added tax levied or imposed under the GST Law.

GST Law has the meaning given to that term in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) and any regulation made under that Act.

Immediately Available Funds means electronic means of transfer of cleared funds by real-time gross settlement.

Implementation Deed means the implementation deed dated [insert] October 2019 between the Company and the Buyer.

Insolvency Event means, in respect of a body corporate, the occurrence of any of the following in respect of that body corporate:

- (a) an order is made or an effective resolution is passed for the winding up, dissolution without winding up (otherwise than for the purposes of solvent reconstruction or amalgamation) or deregistration of that body corporate;
- (b) a receiver, receiver and manager, judicial manager, liquidator, administrator or like official is appointed or expected to be appointed over the whole or a substantial part of the undertaking or property of that body corporate;
- (c) a holder of an Encumbrance takes possession of or exercises any other rights arising from the Encumbrance over the whole or any substantial part of the undertaking and property of that body corporate, or indicates an intention to do so;
- (d) that body corporate becomes insolvent or any circumstance exists or arises which would require a court to presume that that body corporate is insolvent;
- (e) that body corporate enters into or takes any steps to enter or proposes to enter into any arrangement, compromise or assumption with or assignment for the benefit of its creditors or a class of them;
- (f) that body corporate stops, suspends or threatens to stop or suspend paying its debts as and when they fall due; or
- (g) any analogous event under the Laws of any applicable jurisdiction.

Law includes any law, regulation, authorisation, ruling, judgment, order or decree of any Government Agency and any statute, regulation, proclamation, ordinance or by-law.

Leakage means in respect of the Company:

- (a) any dividend or distribution declared, paid or made (or determined to be paid or made on or before Completion) by the Company to the Seller or any of its Affiliates;
- (b) any payment, rebate, discount or bonus (in cash or in kind) paid or to be paid by the Company to the Seller or any of its Affiliates as an incentive for Completion, or triggered by Completion;
- (c) any payments made or agreed to be made by the Company to the Seller or any of its Affiliates in respect of any capital in the Company being issued, redeemed, purchased or repaid, or any other return of capital by the Company;
- (d) any cancellation or forgiveness (or agreement to cancel or forgive) of any indebtedness for money owed to the Company, or the waiver or an agreement to waive by the Company of any amount owed to the Company or the Business, by the Seller or any of its Affiliates;
- (e) any liabilities assumed, guaranteed, indemnified or incurred by the Company, or the provision of any security or collateral by the Company, for the benefit of the Seller or any of its Affiliates;

- (f) any payment, or the provision of any benefit, by the Company to, or for the benefit of, the Seller or any of its Affiliates or the incurrance of any indebtedness or other obligation by the Company to the Seller or any of its Affiliates;
- (g) the payment of or agreement to pay any fees or costs or any Tax or GST incurred by the Company as a result of those matters set out in paragraphs (a) to (f) above, or the incurrance of any Tax as a result of any of those matters set out in paragraphs (a) to (f) above;
- (h) the payment of or agreement to pay any Transaction Costs in excess of \$2,700,382 plus interest earned on this amount,

in each case after the Locked Box Date and on or prior to the Completion Date, and **Leakage Payment** has a corresponding meaning, but does not include:

- (i) the Permitted Dividend;
- (j) any payment or thing that is expressly permitted or required to be done by or under the Implementation Deed;
- (k) a payment which is approved in writing by the Buyer; or
- (l) any Tax or GST incurred by the Company as a result of any matters set out in paragraphs (i) to (k) above.

Locked Box Date means 30 June 2019.

Loss means any damage, loss, cost (including legal costs, but only to the extent reasonably incurred) or expense incurred by the person concerned.

Notice has the meaning given in clause 9.1.

Notice of Meeting means the notice of the general meeting of the shareholders of the Company convened to consider the Constitution Amendment Resolution dated at or around the same date as the Seller received this agreement executed by the Buyer, and in the form agreed between the Buyer and the Company.

Permitted Dividend means a dividend declared and paid by the Company out of cash held in the account with designation "F2484" managed by Morgan Stanley Private Wealth Management immediately before Completion in an aggregate amount of up to \$2,700,382 plus interest earned on this amount, which amount will be reduced by the amount of Transaction Costs incurred, or agreed to be incurred, by the Company.

PPSA means the *Personal Property Securities Act 2009* (Cth).

Purchase Price means, in relation to the Seller, the dollar amount set out adjacent to the name of the Seller in column 5 of Schedule 1 under the heading 'Purchase Price'.

Related Body Corporate has the meaning given by the Corporations Act.

Respective Proportion means the proportion equal to 1/35th.

Sale Shares means all of the shares in the issued capital of the Company that are described in Schedule 1.

Seller Warranties means the representations and warranties in Schedule 2.

Seller's Representative means Bill Hilzinger, or such other person as the Seller identifies in a Notice signed by all shareholders of the Company and delivered to the Buyer.

Tax means any tax, duty, levy, charge, impost, fee, deduction, goods and services tax, compulsory loan or withholding (together with any interest, penalty, fine or expense that is imposed on or in respect of any of the foregoing) which is assessed, levied, imposed or collected by any Government Agency.

Tax Act means any law which imposes or relates to Tax, and includes capital gains tax, fringe benefits tax, income tax, prescribed payments tax, superannuation guarantee charge, PAYG withholding, undistributed profits tax, payroll tax, GST, group tax, land tax, import duty, excise, stamp duty, municipal and water rates, withholdings of any nature whatever imposed by a Government Agency, interest on tax payments and additional tax by way of penalty.

Transaction Costs means the fees or costs (excluding GST) incurred by the Company in relation to the implementation of the Transaction.

Transactions means the sale by the Seller and acquisition by the Buyer of the Sale Shares under this agreement.

1.2 Interpretation

In this agreement, headings are for ease of reference only and do not affect interpretation and, except where otherwise stated:

- (a) the singular includes the plural and vice versa;
- (b) a gender includes other genders;
- (c) terms defined in the Corporations Act have the same meaning when used in this agreement;
- (d) if a word or phrase is defined, then other parts of speech and grammatical forms of that word or phrase have a corresponding meaning;
- (e) a reference to a recital, clause, schedule or annexure is to a recital or clause of or schedule or annexure to this agreement and a reference to this agreement includes any schedule;
- (f) a reference to a document includes a reference to that document as amended, novated, supplemented, varied or replaced;
- (g) the terms "include", "including" and similar expressions when introducing a list of items do not exclude a reference to other items;
- (h) a reference to a party is a reference to a party to this agreement and includes the party's successors and permitted assigns;
- (i) a reference to a person includes a natural person, partnership, firm, body corporate, trust, joint venture, association, governmental or local authority or agency or other entity;
- (j) a reference to a statute or statutory provision includes:
 - (i) a statute or statutory provision which amends, extends, consolidates or replaces the statute or statutory provision;

- (ii) a statute or statutory provision which has been amended, extended, consolidated or replaced by the statute or statutory provision; and
- (iii) subordinate legislation made under the statute or statutory provision including but not limited to an order, regulation, or instrument;
- (k) reference to "\$", "A\$", "Australian Dollars" or "dollars" is a reference to the lawful tender for the time being and from time to time of the Commonwealth of Australia;
- (l) a provision of this agreement is not to be construed against a party solely on the ground that the party is responsible for the preparation of this agreement or a particular provision;
- (m) any agreement, covenant, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them severally and not jointly or jointly and severally;
- (n) any agreement, covenant, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them severally and not jointly or jointly and severally; and
- (o) a reference to "agreed form" means, in respect of a document, a form of that document agreed between the Buyer and the Seller's Representative and initialled by or on behalf of these parties on the date of this agreement for the purposes of identification.

1.3 **Business Day and day**

- (a) If this agreement requires that the day on which a thing must be done is a day which is not a Business Day, then that thing must be done on or by the immediately following Business Day.
- (b) A reference to a day (including a Business Day) is a reference to a time period which begins at midnight and ends 24 hours later.

1.4 **Payments**

All payments required to be made under this agreement must be made in Australian dollars and, unless otherwise expressly provided in this agreement, in Immediately Available Funds to:

- (a) an account nominated in writing by the Seller (in the case of a payment to the Seller);
- (b) to an account nominated in writing by the Buyer (in the case of a payment to the Buyer); or
- (c) any other method as agreed in writing between the Seller's Representative and the Buyer.

1.5 **Relationship of the Seller's Representative**

- (a) The Seller irrevocably appoints the Seller's Representative as its attorney, agent and representative for the purposes of this agreement, to exercise or discharge for it and on its behalf all of the rights, obligations, powers and discretions of the Seller expressed to be held by, or exercisable by, the Seller's Representative under this agreement, and all powers reasonably incidental thereto, including to give and

receive any consent, approval or agreement to amend or waive any term of this agreement.

- (b) The parties agree that the Seller's Representative shall be entitled on behalf of the Seller to exercise those rights, powers and discretions, give and receive those consents, approvals, amendments or waivers or to take those other actions referred to or contemplated by clause 1.5(a). Further, the Seller agrees that it shall be bound by any action, election, direction or document executed by or on behalf of the Seller's Representative and it will not challenge the validity or effectiveness of any document executed by the Seller's Representative.
- (c) The Seller acknowledges that the Buyer shall be entitled to rely on any action, election, direction or document executed by or on behalf of the Seller's Representative as agent for the Seller without any need for a reference as to that agency or the need for any further inquiry.
- (d) The Seller agrees not to revoke or attempt to revoke the appointment of the Seller's Representative under this clause 1.5 and to ratify everything done or caused to be done by the Seller's Representative under it.

2. Purchase of Sale Shares

2.1 Sale and purchase of Sale Shares

On Completion, the Seller must sell to the Buyer, and the Buyer must buy from the Seller, the legal and beneficial title to, and rights and interest in, free and clear of all Encumbrances, the Sale Shares, with all rights attaching or accruing to the Sale Shares on and from the Completion Date and otherwise on the terms of this agreement.

2.2 Title

Title, ownership and risk in the Sale Shares pass to the Buyer with effect on and from Completion.

2.3 Purchase Price

The total consideration for the purchase of the Sale Shares is the Purchase Price, which the Buyer must satisfy by paying to the Seller on Completion in accordance with clause 3.3(b).

2.4 Consent to variation of Constitution

By entering into this agreement, the Seller hereby consents to the amendments to the Company's Constitution proposed by the Constitution Amendment Resolution for the purposes of the *Corporations Act 2001* (Cth), the Constitution of the Company (including clause 9.1 to the extent relevant) and for all other purposes.

3. Completion

3.1 Completion

Subject to clause 3.7:

- (a) Completion is conditional on the satisfaction or waiver of the Conditions in accordance with the terms of the Implementation Deed; and
- (b) provided the Conditions are satisfied or waived in accordance with the terms of the Implementation Deed, Completion must take place on the Completion Date at

11:00am at the offices of Addisons, Level 12, 60 Carrington Street, Sydney NSW 2000 or such other time and place as the Seller's Representative and the Buyer agree in writing.

3.2 **Actions by the Seller**

- (a) On Completion, the Seller, or the Seller's Representative, must give to the Buyer, or procure that the Buyer is given:
- (i) transfers in favour of the Buyer in respect of the Sale Shares, in registrable form and executed by or on behalf of the Seller;
 - (ii) all original share certificates for the Sale Shares or an indemnity for any lost share certificates in the agreed form;
 - (iii) if applicable, a copy of the power of attorney executed by the Seller authorising its attorney to execute this agreement and any of the documents listed in this clause 3.2 on behalf of the Seller; and
 - (iv) a release of the Sale Shares from the security agreement to which the Encumbrance with the Personal Property Security Number 201312120007408 relates, executed by the holder of that Encumbrance in the form approved by the Buyer (acting reasonably) and evidencing the power of the Seller or the Company to procure that the holder of each Encumbrance update the PPS Register within 30 days after the release of the Sale Shares from the security agreement to which that Encumbrance relates.
- (b) From Completion, until the Sale Shares are registered in the name of the Buyer, the Seller must appoint the Buyer as the sole proxy of the holder of Sale Shares to attend shareholders' meetings and exercise the votes attaching to the Sale Shares; must not attend and vote at any shareholders' meetings; and must take all other actions in the capacity of a registered holder of the Sale Shares as the Buyer directs. The Buyer indemnifies the Seller against all Loss suffered or incurred by it arising out of the implementation of any action taken in accordance with the proxy referred to in this paragraph.

3.3 **Actions by the Buyer**

On Completion, the Buyer must:

- (a) countersign the transfer received from the Seller pursuant to clause 3.2(a)(i), and procure that each such transfer is delivered to the Company; and
- (b) pay to the Seller the Purchase Price.

3.4 **Actions by the Company**

The Seller acknowledges and agrees that for Completion to occur the Company must complete the Company Completion Steps, unless the Buyer, in its sole discretion, waives any or all actions that the Company is required to take in relation to the Company Completion Steps.

3.5 **Interdependence of obligations**

The obligations of the parties in respect of Completion are interdependent and Completion does not occur until the parties have complied with all of their obligations under clauses 3.2 and 3.3 and the Company has completed the Company Completion Steps, unless otherwise

agreed between the Seller's Representative and the Buyer. All actions required to be performed under clauses 3.2 and 3.3 will be taken to have occurred simultaneously on the Completion Date.

3.6 **Notice to complete**

- (a) If any party (**Defaulting Party**) fails to satisfy any of its obligations under clause 3.2 or 3.3 on the day and at the place and time for Completion determined under clause 3.1, then the Buyer (if the Seller is the Defaulting Party) or the Seller's Representative (if the Buyer is the Defaulting Party) (**Notifying Party**) may give the Defaulting Party a Notice requiring the Defaulting Party to satisfy those obligations within a period of 3 Business Days from the date of the Notice and declaring time to be of the essence.
- (b) If the Defaulting Party fails to satisfy those obligations within the time period contemplated in clause 3.6(a), then the Notifying Party may, without limiting any other rights it may have, terminate this agreement by Notice to the other party.

3.7 **Termination**

- (a) If the Implementation Deed is terminated in accordance with its terms before the Completion Date:
 - (i) this agreement will automatically terminate upon the termination of the Implementation Deed; and
 - (ii) Completion will not take place.
- (b) If this agreement is terminated in accordance with clause 3.6(b) or 3.7(a)(i):
 - (i) there is no further obligation on any party to undertake or perform any of the unperformed obligations under this clause 3; and
 - (ii) to the extent that any obligations under this clause 3 have already been undertaken or performed, the parties must do everything reasonably required to reverse those actions, including returning all documents delivered to it and repaying all payments received by it,

provided that each party retains all rights it has against each other party in respect of any breach of this agreement occurring prior to termination.

3.8 **Post completion obligation**

The Seller must procure that the holder of each Encumbrance referred to in clause 3.2(a)(iv) updates the PPS Register within 30 days after the release of the Sale Shares from the security agreement to which that Encumbrance relates.

4. **Locked Box**

4.1 **No Leakage undertaking**

The Seller represents, warrants and undertakes to the Buyer that between the Locked Box Date and the Completion Date (inclusive):

- (a) it has not received, nor will it receive, from the Company any amount of Leakage; and

- (b) it has not, nor will it (including in its capacity as a shareholder of the Company, or by the giving of instructions to any director of the Company) agreed to, authorised, consented to or voted in favour of any Leakage.

4.2 **Indemnity for Leakage**

Subject to clause 4.3, the Seller indemnifies the Buyer against:

- (a) the amount of any and all Leakage that the Seller has received or had the benefit of and any Loss resulting from the Leakage, where the indemnified amount must be an amount equal at least to the dollar amount of the Leakage on a dollar for dollar basis (and may be set off against the Buyer's obligation to pay the Purchase Price; and
- (b) without limiting clause 4.2(a), any breach of the warranty and undertaking given by the Seller under clause 4.1.

4.3 **Proportionate liability for Leakage relating to Transaction Costs**

The Seller's liability for or in connection with Leakage stated in paragraph (h) of the definition of Leakage is limited to the Seller's Respective Proportion of the amount of such Leakage and of any Loss resulting from such Leakage.

4.4 **No set-off**

All payments under this agreement must be paid without any set-off, deduction or withholding, except as otherwise provided for under clause 4.2(a).

5. **Commitment to regional employment**

Subject to Completion occurring, for at least the three year period after Completion, the Buyer must procure that the Company:

- (a) maintains its existing Moruya, NSW operations; and
- (b) retains its existing employees located in Moruya, subject to each employee's ongoing compliance with their terms of employment and the Buyer's applicable employment policies; and
- (c) uses reasonable commercial efforts to maintain the overall number of employees located in Moruya that the Company employs as at Completion.

6. **Seller Warranties**

- (a) The Seller gives the Seller Warranties in favour of the Buyer on the date of this agreement and immediately prior to Completion.
- (b) Each of the Seller Warranties remains in full force after Completion, is separate and independent and not limited or restricted by any other Seller Warranty.
- (c) The Seller acknowledges that the Buyer has entered into this agreement in reliance on the Seller Warranties.
- (d) The Seller is not liable under any Claim for breach of a Seller Warranty, and the Buyer is barred from making or continuing to pursue any such Claim, if the Buyer does not notify the Seller of the relevant Claim within 3 years of the date of Completion.

- (e) The maximum aggregate amount that the Buyer can recover from the Seller under any Claim for breach of one or more Seller Warranties is the Purchase Price.
- (f) The Seller must promptly notify the Buyer if at any time after the date of this agreement it becomes aware that a Seller Warranty was not true when given, or has ceased to be true; or an act or event that has occurred that would or might reasonably be expected to result in a Seller Warranty ceasing to be true if it were repeated immediately before or at Completion and must provide the Buyer with details of that fact.
- (g) The Seller undertakes to the Buyer and any person who was at the date of this agreement a current or former director, officer or employee of the Company and who at any time following Completion is a director, officer or employee of the Buyer or the Company that neither it nor any of its Affiliates will make a claim or demand against any officer in respect of any matter arising in connection with this agreement, including any breach of Seller Warranty.

7. Buyer Warranties

- (a) The Buyer gives the Buyer Warranties in favour of the Seller on the date of this agreement and immediately prior to Completion.
- (b) Each of the Buyer Warranties remains in full force after Completion, is separate and independent and not limited or restricted by any other Buyer Warranty.
- (c) The Buyer acknowledges that the Seller has entered into this agreement in reliance on the Buyer Warranties.

8. Announcements and confidentiality

8.1 Announcements

- (a) The Buyer and the Company will each make a public announcement of the execution of the Implementation Deed and related matters in the form and at the time agreed between them (**Agreed Announcement**).
- (b) A public announcement by the Seller or its Affiliates in connection with this agreement or the Transactions must be agreed by the Buyer and the Company before it is made, except if required by applicable law or a regulatory body (other than the Seller), in which case the Seller must, to the extent practicable, first consult with and take into account the reasonable requirements of the Buyer and the Company.

8.2 Confidentiality

Subject to clause 8.1, each party (**recipient**) must keep secret and confidential, and must not divulge or disclose for any purpose, the terms of this agreement or the Transactions, or any information provided to it under or in connection with this agreement or the Transactions by or on behalf of another party, except to the extent that:

- (a) the disclosure is made by the recipient to its councillors, directors, officers, employees, financiers, lawyers, accountants or other professional advisers, in which case the recipient must ensure that such persons keep the information secret and confidential and do not divulge or disclose the information to any person other than a person to whom the recipient is permitted to disclose that information in accordance with this clause 8;

- (b) if the Buyer is the recipient, the disclosure is made in connection with doing anything necessary or desirable in relation to the Implementation Deed or approval, execution, negotiation, or implementation of the Transaction or acquisition of any other securities in the Company, including to its bank and other persons to the extent required to raise funding for the Transactions, provided that its bank and such other persons are obliged to keep the information confidential or the disclosure is to the Australian Taxation Office as part of the Buyer's ongoing annual tax compliance obligations;
- (c) the information is in the public domain as at the date of this agreement or subsequently comes into the public domain other than as a result of a breach of any obligation of confidentiality binding on the recipient;
- (d) the recipient is required to disclose the information by Law or the rules of any recognised securities exchange on which the shares of the recipient or its ultimate holding company are quoted, provided that the recipient has to the extent permitted and practicable having regard to the required timing of the disclosure consulted with the provider of the information as to the form and content of the disclosure;
- (e) the disclosure is required for use in legal proceedings regarding this agreement or the Transactions; or
- (f) the party from whom the recipient received the information or, where the relevant information is the terms of this agreement or the Transactions, the other party to this agreement (or the Seller's Representative if the other party is the Seller), has consented to the disclosure in writing before the disclosure is made.

8.3 **After Completion**

From Completion, the Buyer may disclose any confidential information relating to the Company and the Business in its discretion, except to the extent that such information relates to the Seller.

8.4 **Buyer tax reporting**

The parties acknowledge that if Completion occurs the Buyer will disclose the Transaction, including this Agreement, to the Australian Taxation Office as part of its ongoing annual tax compliance obligations.

9. **Notices**

9.1 **Service of notices**

A notice, demand, consent, approval, waiver or other communication under this agreement (**Notice**):

- (a) must be in legible writing and in English directed to the recipient's address for notices specified in the Details and Schedule 1 (as varied by any Notice);
- (b) must be hand delivered, left at or sent by prepaid post or email to the recipient's address for notices specified in the Details and Schedule 1 (as varied by any Notice); and
- (c) may be given by an agent of the sender.

9.2 **Effective on receipt**

A Notice given in accordance with clause 9.1 takes effect when received (or at a later time specified in it), and is taken to be received:

- (a) if hand delivered or left at the recipient's address, on delivery;
- (b) if sent by prepaid post, the third Business Day after the date of posting, or the seventh Business Day after the date of posting if posted to or from outside Australia; and
- (c) if sent by email, when received by the recipient's email server (whether or not filtered or classified as unsolicited email or spam) unless the sender receives an automated message that delivery of the email has failed,

but if the delivery or transmission under paragraph (a) or (c) is outside Business Hours, the Notice is taken to be received at the commencement of Business Hours after that delivery, receipt or transmission.

9.3 **Process service**

Any process or other document relating to litigation, administrative or arbitral proceedings in relation to this agreement may be served by any method contemplated by this clause in addition to any means authorised by Law.

10. **GST**

10.1 **Interpretation**

- (a) Except where the context suggests otherwise, terms used in this clause 10 have the meanings given to those terms by the GST Law.
- (b) A reference to something done (including a supply made) by a party includes a reference to something done by any entity through which that party acts.

10.2 **Additional amounts of GST payable**

If GST becomes payable on any supply made by a party (**Supplier**) under or in connection with this agreement:

- (a) any amount payable or consideration to be provided under any provision of this agreement (other than this clause 10) for that supply is exclusive of GST;
- (b) any party (**Recipient**) that is required to provide consideration to the Supplier for that supply must pay an additional amount to the Supplier equal to the amount of the GST payable on that supply (**GST Amount**), at the same time as any other consideration is to be first provided for that supply; and
- (c) the Supplier must provide a tax invoice to the Recipient for that supply, no later than the time at which the GST Amount for that supply is to be paid in accordance with clause 10.2(b).

10.3 **Variation**

- (a) If the GST Amount properly payable in relation to a supply varies from the additional amount paid by the Recipient under clause 10.2, the Supplier must provide a corresponding refund or credit to, or will be entitled to receive the amount of that variation from, the Recipient. Any payment, credit or refund under

this clause 10.3(a) is deemed to be a payment, credit or refund of the GST Amount payable under clause 10.2.

- (b) The Supplier must issue an adjustment note to the Recipient in respect of any adjustment event occurring in relation to a supply made under or in connection with this agreement as soon as reasonably practicable after the Supplier becomes aware of the adjustment event.

10.4 Reimbursement

If a payment due under this agreement is a reimbursement, indemnification or payment by way of damages by one party of a Loss incurred or to be incurred by the other party, the payment will exclude any GST forming part of the amount to be reimbursed, indemnified or paid by way of damages to the extent to which the other party can claim an input tax credit on such amount.

10.5 No merger

This clause 10 will not merge on Completion or termination of this agreement.

11. General

11.1 Amendments

This agreement may be amended or varied only in writing and signed by the Buyer and the Seller's Representative.

11.2 Approvals, consents and exercise of rights

Except where this agreement expressly states otherwise, a party may:

- (a) in its absolute discretion, give conditionally or unconditionally or withhold any approval or consent under this agreement; and
- (b) exercise a right at its discretion and separately or concurrently with another right.

11.3 Assignment

Except where this agreement expressly states otherwise, a party may only assign this agreement or a right under this agreement with the prior written consent of each other party.

11.4 Counterparts

This agreement may be executed in counterparts and all executed counterparts together constitute one document.

11.5 Costs

Subject clause 11.6, each party must bear its own costs in relation to, and associated with, this agreement and giving effect to this agreement.

11.6 Duty

The Buyer must pay all stamp duty in respect of the execution, delivery and performance of this agreement.

11.7 Entire agreement

This agreement constitutes the entire agreement between the parties in connection with its subject matter and supersedes all previous agreements or understandings between the parties in connection with its subject matter.

11.8 Further action

Each party must, at its own expense, do everything reasonably necessary to give full effect to this agreement (including executing documents) and to use all reasonable endeavours to cause relevant third parties to do likewise.

11.9 No merger

Except where this agreement expressly states otherwise, the rights and obligations of the parties under this agreement do not merge on Completion.

11.10 Severability

If the whole or any part of a provision of this agreement is invalid or unenforceable in a jurisdiction it must, if possible, be read down for the purposes of that jurisdiction so as to be valid and enforceable. If however, the whole or any part of a provision of this agreement is not capable of being read down, it is severed to the extent of the invalidity or unenforceability without affecting the remaining provisions of this agreement or affecting the validity or enforceability of that provision in any other jurisdiction.

11.11 Survival

Any obligation of confidentiality in this agreement is independent and survives termination of this agreement. Any other term which by its nature is intended to survive termination of this agreement survives termination of this agreement.

11.12 Waiver

A party does not waive a right, power or remedy if it fails to exercise or delays in exercising the right, power or remedy. A single or partial exercise by a party of a right, power or remedy does not prevent another or further exercise of that or another right, power or remedy. A waiver of a right, power or remedy must be by Notice and signed by the party giving the waiver, provided that the Seller's Representative may give a waiver on behalf of any Seller.

11.13 Relationship

Except where this agreement expressly states otherwise, this agreement does not create a relationship of employment, trust, agency or partnership between the parties.

11.14 Remedies cumulative

The rights, powers and remedies provided in this agreement are cumulative with and not exclusive of the rights, powers or remedies provided by Law independently of this agreement.

11.15 Governing law

This agreement will be governed by and construed in accordance with the Laws for the time being in force in the State of New South Wales and the parties, by entering into this agreement, are deemed to have submitted to the non-exclusive jurisdiction of the courts of that State.

Schedule 1 – Seller

Seller	Address	A Class Ordinary Shares	Preference Shares	Purchase Price
Gilgandra Council	Warren Road, Gilgandra NSW 2827	1 (Share number 33)	1 (MM)	\$785,714.00

Draft

Schedule 2 – Seller Warranties**Power and authority**

1. The Seller has full power to and capacity to enter into and perform its obligations under this agreement.
2. All necessary authorisations for the execution, delivery and performance by the Seller of this agreement in accordance with its terms have been obtained.
3. This agreement is valid, binding and enforceable against the Seller in accordance with its terms.
4. The execution, delivery and performance by the Seller of this agreement does not constitute a breach of any law or obligation, or cause or result in a default under any agreement, or Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under this agreement and there is no other arrangement or agreement between the Seller and another person in relation to the Sale Shares.

Ownership and no encumbrances or other arrangements

5. At Completion:
 - (i) the Seller is the legal and beneficial owner of the Sale Shares and has complete power and right to sell those Sale Shares to the Buyer and the Sale Shares are the only securities in the Company in which the Seller has any kind of interest;
 - (ii) the Buyer will acquire the full legal and beneficial ownership of the Sale Shares free and clear of all Encumbrances, subject to registration of the Buyer in the register of shareholders.

Schedule 3 Buyer Warranties

Power and authority

1. The Buyer is validly incorporated, organised and subsisting in accordance with the laws of its place of incorporation.
2. The Buyer has full power to and capacity to enter into and perform its obligations under this agreement.
3. All necessary authorisations for the execution, delivery and performance by the Buyer of this agreement in accordance with its terms have been obtained.
4. This agreement is valid, binding and enforceable against the Buyer in accordance with its terms.
5. The Buyer enters into and performs this agreement on its own account and not as trustee for or nominee of any other person.
6. The execution, delivery and performance by the Buyer of this agreement does not constitute a breach of any law or obligation, or cause or result in a default under any agreement, or Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under this agreement.
7. No Insolvency Event has occurred in relation to the Buyer and there are no circumstances that justify the Buyer being the subject of an Insolvency Event.
8. The Buyer has available, in Immediately Available Funds, the necessary cash resources to pay the Purchase Price on Completion and meet its obligations under this agreement.

Share Sale Agreement

AGL Energy Limited
The party listed at Schedule 1



Level 12
60 Carrington Street
SYDNEY NSW 2000
DX 262 SYDNEY NSW
Tel: (02) 8915 1000
Fax: (02) 8916 2000
www.addisonslawyers.com.au
Ref: KJP:SOU012/4001

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DETAILS

Date:

Parties

(1) **The party listed in Schedule 1 (Seller)**

(2) **AGL Energy Limited (Buyer)**

ACN	115 061 375
Address	Level 24, 200 George Street, SYDNEY NSW 2000
Email	CompanySecretary@agl.com.au
Attention	Company Secretary

Recitals

- A. The Company conducts the Business.
- B. The Seller holds all of the Sale Shares.
- C. The Seller agrees to sell and transfer all right, title and interest in and to the Sale Shares to the Buyer, and the Buyer agrees to purchase and accept the transfer of the Sale Shares, in accordance with the terms and conditions of this agreement.

Operative Parts

1. Defined terms and interpretation

1.1 Defined terms

In this agreement:

Affiliate means:

- (a) in relation to any entity, any other entity that:
 - (i) is a Related Body Corporate of the first mentioned entity; or
 - (ii) Controls, is Controlled by, or is under common Control with the first mentioned entity; and
- (b) in relation to any person, an entity that is Controlled by that person.

Business means the business of the Company, being, as at the date of this agreement, a business providing telecommunications services.

Business Day means a day which is not a Saturday, Sunday, a bank holiday or a public holiday in Sydney, Australia.

Business Hours means from 9.00 a.m. and 5.00 p.m. on a Business Day.

Buyer Warranties means the representations and warranties in Schedule 3.

Control means the capacity of a person or entity to determine the outcome of decisions about a second entity's financial and operating policies and, in determining whether a person or entity has this capacity:

- (a) the practical influence that person or entity can exert (rather than the rights it can enforce) is the issue to be considered; and
- (b) any practice or pattern of behaviour affecting the second entity's financial or operating policies is to be taken into account (even if it involves a breach of agreement or a breach of trust).

Company means Southern Phone Company Limited ACN 100 901 184.

Company Completion Steps means the steps the Company is required to complete for Completion to occur as set out in the Implementation Deed.

Completion means the completion of the sale and purchase of the Sale Shares in accordance with clause 3.

Completion Date means the date that is five Business Days after the Conditions have been satisfied or waived in accordance with the Implementation Deed, or such other date as the Seller's Representative and the Buyer may agree in writing.

Conditions has the meaning given to that term in the Implementation Deed.

Constitution Amendment Resolution means the special resolution to amend the Constitution as set out in the Notice of Meeting.

Corporations Act means the *Corporations Act 2001* (Cth).

Details means, in relation to a party, the details for that party set out at the beginning of this agreement (in the case of the Buyer) or Schedule 1 (in the case of the Seller).

Encumbrance means:

- (a) a mortgage, charge, pledge, lien, hypothecation or title retention arrangement;
- (b) any third party interest (for example, a trust or an equity);
- (c) a "security interest" as defined under the PPSA;
- (d) a right of a person to acquire a security or to restrain someone from acquiring a security (including under a right of pre-emption or a right of first refusal); or
- (e) an agreement to grant or create any of the above or to allow any of them to exist.

Government Agency means any government or any governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity in Australia (whether federal, state or local) or any other part of the world, except for the Seller.

GST means a goods and services tax or similar value added tax levied or imposed under the GST Law.

GST Law has the meaning given to that term in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) and any regulation made under that Act.

Immediately Available Funds means electronic means of transfer of cleared funds by real-time gross settlement.

Implementation Deed means the implementation deed dated 15 October 2019 between the Company and the Buyer.

Insolvency Event means, in respect of a body corporate, the occurrence of any of the following in respect of that body corporate:

- (a) an order is made or an effective resolution is passed for the winding up, dissolution without winding up (otherwise than for the purposes of solvent reconstruction or amalgamation) or deregistration of that body corporate;
- (b) a receiver, receiver and manager, judicial manager, liquidator, administrator or like official is appointed or expected to be appointed over the whole or a substantial part of the undertaking or property of that body corporate;
- (c) a holder of an Encumbrance takes possession of or exercises any other rights arising from the Encumbrance over the whole or any substantial part of the undertaking and property of that body corporate, or indicates an intention to do so;
- (d) that body corporate becomes insolvent or any circumstance exists or arises which would require a court to presume that that body corporate is insolvent;
- (e) that body corporate enters into or takes any steps to enter or proposes to enter into any arrangement, compromise or assumption with or assignment for the benefit of its creditors or a class of them;
- (f) that body corporate stops, suspends or threatens to stop or suspend paying its debts as and when they fall due; or
- (g) any analogous event under the Laws of any applicable jurisdiction.

Law includes any law, regulation, authorisation, ruling, judgment, order or decree of any Government Agency and any statute, regulation, proclamation, ordinance or by-law.

Leakage means in respect of the Company:

- (a) any dividend or distribution declared, paid or made (or determined to be paid or made on or before Completion) by the Company to the Seller or any of its Affiliates;
- (b) any payment, rebate, discount or bonus (in cash or in kind) paid or to be paid by the Company to the Seller or any of its Affiliates as an incentive for Completion, or triggered by Completion;
- (c) any payments made or agreed to be made by the Company to the Seller or any of its Affiliates in respect of any capital in the Company being issued, redeemed, purchased or repaid, or any other return of capital by the Company;
- (d) any cancellation or forgiveness (or agreement to cancel or forgive) of any indebtedness for money owed to the Company, or the waiver or an agreement to waive by the Company of any amount owed to the Company or the Business, by the Seller or any of its Affiliates;
- (e) any liabilities assumed, guaranteed, indemnified or incurred by the Company, or the provision of any security or collateral by the Company, for the benefit of the Seller or any of its Affiliates;

- (f) any payment, or the provision of any benefit, by the Company to, or for the benefit of, the Seller or any of its Affiliates or the incurrence of any indebtedness or other obligation by the Company to the Seller or any of its Affiliates;
- (g) the payment of or agreement to pay any fees or costs or any Tax or GST incurred by the Company as a result of those matters set out in paragraphs (a) to (f) above, or the incurrence of any Tax as a result of any of those matters set out in paragraphs (a) to (f) above;
- (h) the payment of or agreement to pay any Transaction Costs in excess of \$2,700,382 plus interest earned on this amount,

in each case after the Locked Box Date and on or prior to the Completion Date, and **Leakage Payment** has a corresponding meaning, but does not include:

- (i) the Permitted Dividend;
- (j) any payment or thing that is expressly permitted or required to be done by or under the Implementation Deed;
- (k) a payment which is approved in writing by the Buyer; or
- (l) any Tax or GST incurred by the Company as a result of any matters set out in paragraphs (i) to (k) above.

Locked Box Date means 30 June 2019.

Loss means any damage, loss, cost (including legal costs, but only to the extent reasonably incurred) or expense incurred by the person concerned.

Notice has the meaning given in clause 9.1.

Notice of Meeting means the notice of the general meeting of the shareholders of the Company convened to consider the Constitution Amendment Resolution dated at or around the same date as the Seller received this agreement executed by the Buyer, and in the form agreed between the Buyer and the Company.

Permitted Dividend means a dividend declared and paid by the Company out of cash held in the account with designation "F2484" managed by Morgan Stanley Private Wealth Management immediately before Completion in an aggregate amount of up to \$2,700,382 plus interest earned on this amount, which amount will be reduced by the amount of Transaction Costs incurred, or agreed to be incurred, by the Company.

PPSA means the *Personal Property Securities Act 2009* (Cth).

Purchase Price means, in relation to the Seller, the dollar amount set out adjacent to the name of the Seller in column 5 of Schedule 1 under the heading 'Purchase Price'.

Related Body Corporate has the meaning given by the Corporations Act.

Respective Proportion means the proportion equal to 1/35th.

Sale Shares means all of the shares in the issued capital of the Company that are described in Schedule 1.

Seller Warranties means the representations and warranties in Schedule 2.

Seller's Representative means Bill Hilzinger, or such other person as the Seller identifies in a Notice signed by all shareholders of the Company and delivered to the Buyer.

Tax means any tax, duty, levy, charge, impost, fee, deduction, goods and services tax, compulsory loan or withholding (together with any interest, penalty, fine or expense that is imposed on or in respect of any of the foregoing) which is assessed, levied, imposed or collected by any Government Agency.

Tax Act means any law which imposes or relates to Tax, and includes capital gains tax, fringe benefits tax, income tax, prescribed payments tax, superannuation guarantee charge, PAYG withholding, undistributed profits tax, payroll tax, GST, group tax, land tax, import duty, excise, stamp duty, municipal and water rates, withholdings of any nature whatever imposed by a Government Agency, interest on tax payments and additional tax by way of penalty.

Transaction Costs means the fees or costs (excluding GST) incurred by the Company in relation to the implementation of the Transaction.

Transactions means the sale by the Seller and acquisition by the Buyer of the Sale Shares under this agreement.

1.2 Interpretation

In this agreement, headings are for ease of reference only and do not affect interpretation and, except where otherwise stated:

- (a) the singular includes the plural and vice versa;
- (b) a gender includes other genders;
- (c) terms defined in the Corporations Act have the same meaning when used in this agreement;
- (d) if a word or phrase is defined, then other parts of speech and grammatical forms of that word or phrase have a corresponding meaning;
- (e) a reference to a recital, clause, schedule or annexure is to a recital or clause of or schedule or annexure to this agreement and a reference to this agreement includes any schedule;
- (f) a reference to a document includes a reference to that document as amended, novated, supplemented, varied or replaced;
- (g) the terms "include", "including" and similar expressions when introducing a list of items do not exclude a reference to other items;
- (h) a reference to a party is a reference to a party to this agreement and includes the party's successors and permitted assigns;
- (i) a reference to a person includes a natural person, partnership, firm, body corporate, trust, joint venture, association, governmental or local authority or agency or other entity;
- (j) a reference to a statute or statutory provision includes:
 - (i) a statute or statutory provision which amends, extends, consolidates or replaces the statute or statutory provision;

- (ii) a statute or statutory provision which has been amended, extended, consolidated or replaced by the statute or statutory provision; and
- (iii) subordinate legislation made under the statute or statutory provision including but not limited to an order, regulation, or instrument;
- (k) reference to "\$", "A\$", "Australian Dollars" or "dollars" is a reference to the lawful tender for the time being and from time to time of the Commonwealth of Australia;
- (l) a provision of this agreement is not to be construed against a party solely on the ground that the party is responsible for the preparation of this agreement or a particular provision;
- (m) any agreement, covenant, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them severally and not jointly or jointly and severally;
- (n) any agreement, covenant, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them severally and not jointly or jointly and severally; and
- (o) a reference to "agreed form" means, in respect of a document, a form of that document agreed between the Buyer and the Seller's Representative and initialled by or on behalf of these parties on the date of this agreement for the purposes of identification.

1.3 **Business Day and day**

- (a) If this agreement requires that the day on which a thing must be done is a day which is not a Business Day, then that thing must be done on or by the immediately following Business Day.
- (b) A reference to a day (including a Business Day) is a reference to a time period which begins at midnight and ends 24 hours later.

1.4 **Payments**

All payments required to be made under this agreement must be made in Australian dollars and, unless otherwise expressly provided in this agreement, in Immediately Available Funds to:

- (a) an account nominated in writing by the Seller (in the case of a payment to the Seller);
- (b) to an account nominated in writing by the Buyer (in the case of a payment to the Buyer); or
- (c) any other method as agreed in writing between the Seller's Representative and the Buyer.

1.5 **Relationship of the Seller's Representative**

- (a) The Seller irrevocably appoints the Seller's Representative as its attorney, agent and representative for the purposes of this agreement, to exercise or discharge for it and on its behalf all of the rights, obligations, powers and discretions of the Seller expressed to be held by, or exercisable by, the Seller's Representative under this agreement, and all powers reasonably incidental thereto, including to give and

receive any consent, approval or agreement to amend or waive any term of this agreement.

- (b) The parties agree that the Seller's Representative shall be entitled on behalf of the Seller to exercise those rights, powers and discretions, give and receive those consents, approvals, amendments or waivers or to take those other actions referred to or contemplated by clause 1.5(a). Further, the Seller agrees that it shall be bound by any action, election, direction or document executed by or on behalf of the Seller's Representative and it will not challenge the validity or effectiveness of any document executed by the Seller's Representative.
- (c) The Seller acknowledges that the Buyer shall be entitled to rely on any action, election, direction or document executed by or on behalf of the Seller's Representative as agent for the Seller without any need for a reference as to that agency or the need for any further inquiry.
- (d) The Seller agrees not to revoke or attempt to revoke the appointment of the Seller's Representative under this clause 1.5 and to ratify everything done or caused to be done by the Seller's Representative under it.

2. Purchase of Sale Shares

2.1 Sale and purchase of Sale Shares

On Completion, the Seller must sell to the Buyer, and the Buyer must buy from the Seller, the legal and beneficial title to, and rights and interest in, free and clear of all Encumbrances, the Sale Shares, with all rights attaching or accruing to the Sale Shares on and from the Completion Date and otherwise on the terms of this agreement.

2.2 Title

Title, ownership and risk in the Sale Shares pass to the Buyer with effect on and from Completion.

2.3 Purchase Price

The total consideration for the purchase of the Sale Shares is the Purchase Price, which the Buyer must satisfy by paying to the Seller on Completion in accordance with clause 3.3(b).

2.4 Consent to variation of Constitution

By entering into this agreement, the Seller hereby consents to the amendments to the Company's Constitution proposed by the Constitution Amendment Resolution for the purposes of the *Corporations Act 2001* (Cth), the Constitution of the Company (including clause 9.1 to the extent relevant) and for all other purposes.

3. Completion

3.1 Completion

Subject to clause 3.7:

- (a) Completion is conditional on the satisfaction or waiver of the Conditions in accordance with the terms of the Implementation Deed; and
- (b) provided the Conditions are satisfied or waived in accordance with the terms of the Implementation Deed, Completion must take place on the Completion Date at

11:00am at the offices of Addisons, Level 12, 60 Carrington Street, Sydney NSW 2000 or such other time and place as the Seller's Representative and the Buyer agree in writing.

3.2 **Actions by the Seller**

- (a) On Completion, the Seller, or the Seller's Representative, must give to the Buyer, or procure that the Buyer is given:
- (i) transfers in favour of the Buyer in respect of the Sale Shares, in registrable form and executed by or on behalf of the Seller;
 - (ii) all original share certificates for the Sale Shares or an indemnity for any lost share certificates in the agreed form;
 - (iii) if applicable, a copy of the power of attorney executed by the Seller authorising its attorney to execute this agreement and any of the documents listed in this clause 3.2 on behalf of the Seller; and
 - (iv) a release of the Sale Shares from:
 - (A) the security agreement to which the Encumbrance with the Personal Property Security Number 201401270033794 relates, executed by the holder of that Encumbrance in the form approved by the Buyer (acting reasonably) and evidencing the power of the Seller or the Company to procure that the holder of each Encumbrance update the PPS Register within 30 days after the release of the Sale Shares from the security agreement to which that Encumbrance relates; and
 - (B) the security agreement to which the Encumbrance with the Personal Property Security Number 201401290431992 relates, executed by the holder of that Encumbrance in the form approved by the Buyer (acting reasonably) and evidencing the power of the Seller or the Company to procure that the holder of each Encumbrance update the PPS Register within 30 days after the release of the Sale Shares from the security agreement to which that Encumbrance relates.
- (b) From Completion, until the Sale Shares are registered in the name of the Buyer, the Seller must appoint the Buyer as the sole proxy of the holder of Sale Shares to attend shareholders' meetings and exercise the votes attaching to the Sale Shares; must not attend and vote at any shareholders' meetings; and must take all other actions in the capacity of a registered holder of the Sale Shares as the Buyer directs. The Buyer indemnifies the Seller against all Loss suffered or incurred by it arising out of the implementation of any action taken in accordance with the proxy referred to in this paragraph.

3.3 **Actions by the Buyer**

On Completion, the Buyer must:

- (a) countersign the transfer received from the Seller pursuant to clause 3.2(a)(i), and procure that each such transfer is delivered to the Company; and
- (b) pay to the Seller the Purchase Price.

3.4 **Actions by the Company**

The Seller acknowledges and agrees that for Completion to occur the Company must complete the Company Completion Steps, unless the Buyer, in its sole discretion, waives any or all actions that the Company is required to take in relation to the Company Completion Steps.

3.5 **Interdependence of obligations**

The obligations of the parties in respect of Completion are interdependent and Completion does not occur until the parties have complied with all of their obligations under clauses 3.2 and 3.3 and the Company has completed the Company Completion Steps, unless otherwise agreed between the Seller's Representative and the Buyer. All actions required to be performed under clauses 3.2 and 3.3 will be taken to have occurred simultaneously on the Completion Date.

3.6 **Notice to complete**

- (a) If any party (**Defaulting Party**) fails to satisfy any of its obligations under clause 3.2 or 3.3 on the day and at the place and time for Completion determined under clause 3.1, then the Buyer (if the Seller is the Defaulting Party) or the Seller's Representative (if the Buyer is the Defaulting Party) (**Notifying Party**) may give the Defaulting Party a Notice requiring the Defaulting Party to satisfy those obligations within a period of 3 Business Days from the date of the Notice and declaring time to be of the essence.
- (b) If the Defaulting Party fails to satisfy those obligations within the time period contemplated in clause 3.6(a), then the Notifying Party may, without limiting any other rights it may have, terminate this agreement by Notice to the other party.

3.7 **Termination**

- (a) If the Implementation Deed is terminated in accordance with its terms before the Completion Date:
 - (i) this agreement will automatically terminate upon the termination of the Implementation Deed; and
 - (ii) Completion will not take place.
- (b) If this agreement is terminated in accordance with clause 3.6(b) or 3.7(a)(i):
 - (i) there is no further obligation on any party to undertake or perform any of the unperformed obligations under this clause 3; and
 - (ii) to the extent that any obligations under this clause 3 have already been undertaken or performed, the parties must do everything reasonably required to reverse those actions, including returning all documents delivered to it and repaying all payments received by it,

provided that each party retains all rights it has against each other party in respect of any breach of this agreement occurring prior to termination.

3.8 **Post completion obligation**

The Seller must procure that the holder of each Encumbrance referred to in clause 3.2(a)(iv) updates the PPS Register within 30 days after the release of the Sale Shares from the security agreement to which that Encumbrance relates.

4. Locked Box**4.1 No Leakage undertaking**

The Seller represents, warrants and undertakes to the Buyer that between the Locked Box Date and the Completion Date (inclusive):

- (a) it has not received, nor will it receive, from the Company any amount of Leakage; and
- (b) it has not, nor will it (including in its capacity as a shareholder of the Company, or by the giving of instructions to any director of the Company) agreed to, authorised, consented to or voted in favour of any Leakage.

4.2 Indemnity for Leakage

Subject to clause 4.3, the Seller indemnifies the Buyer against:

- (a) the amount of any and all Leakage that the Seller has received or had the benefit of and any Loss resulting from the Leakage, where the indemnified amount must be an amount equal at least to the dollar amount of the Leakage on a dollar for dollar basis (and may be set off against the Buyer's obligation to pay the Purchase Price; and
- (b) without limiting clause 4.2(a), any breach of the warranty and undertaking given by the Seller under clause 4.1.

4.3 Proportionate liability for Leakage relating to Transaction Costs

The Seller's liability for or in connection with Leakage stated in paragraph (h) of the definition of Leakage is limited to the Seller's Respective Proportion of the amount of such Leakage and of any Loss resulting from such Leakage.

4.4 No set-off

All payments under this agreement must be paid without any set-off, deduction or withholding, except as otherwise provided for under clause 4.2(a).

5. Commitment to regional employment

Subject to Completion occurring, for at least the three year period after Completion, the Buyer must procure that the Company:

- (a) maintains its existing Moruya, NSW operations; and
- (b) retains its existing employees located in Moruya, subject to each employee's ongoing compliance with their terms of employment and the Buyer's applicable employment policies; and
- (c) uses reasonable commercial efforts to maintain the overall number of employees located in Moruya that the Company employs as at Completion.

6. Seller Warranties

- (a) The Seller gives the Seller Warranties in favour of the Buyer on the date of this agreement and immediately prior to Completion.

- (b) Each of the Seller Warranties remains in full force after Completion, is separate and independent and not limited or restricted by any other Seller Warranty.
- (c) The Seller acknowledges that the Buyer has entered into this agreement in reliance on the Seller Warranties.
- (d) The Seller is not liable under any Claim for breach of a Seller Warranty, and the Buyer is barred from making or continuing to pursue any such Claim, if the Buyer does not notify the Seller of the relevant Claim within 3 years of the date of Completion.
- (e) The maximum aggregate amount that the Buyer can recover from the Seller under any Claim for breach of one or more Seller Warranties is the Purchase Price.
- (f) The Seller must promptly notify the Buyer if at any time after the date of this agreement it becomes aware that a Seller Warranty was not true when given, or has ceased to be true; or an act or event that has occurred that would or might reasonably be expected to result in a Seller Warranty ceasing to be true if it were repeated immediately before or at Completion and must provide the Buyer with details of that fact.
- (g) The Seller undertakes to the Buyer and any person who was at the date of this agreement a current or former director, officer or employee of the Company and who at any time following Completion is a director, officer or employee of the Buyer or the Company that neither it nor any of its Affiliates will make a claim or demand against any officer in respect of any matter arising in connection with this agreement, including any breach of Seller Warranty.

7. Buyer Warranties

- (a) The Buyer gives the Buyer Warranties in favour of the Seller on the date of this agreement and immediately prior to Completion.
- (b) Each of the Buyer Warranties remains in full force after Completion, is separate and independent and not limited or restricted by any other Buyer Warranty.
- (c) The Buyer acknowledges that the Seller has entered into this agreement in reliance on the Buyer Warranties.

8. Announcements and confidentiality

8.1 Announcements

- (a) The Buyer and the Company will each make a public announcement of the execution of the Implementation Deed and related matters in the form and at the time agreed between them (**Agreed Announcement**).
- (b) A public announcement by the Seller or its Affiliates in connection with this agreement or the Transactions must be agreed by the Buyer and the Company before it is made, except if required by applicable law or a regulatory body (other than the Seller), in which case the Seller must, to the extent practicable, first consult with and take into account the reasonable requirements of the Buyer and the Company.

8.2 Confidentiality

Subject to clause 8.1, each party (**recipient**) must keep secret and confidential, and must not divulge or disclose for any purpose, the terms of this agreement or the Transactions, or

any information provided to it under or in connection with this agreement or the Transactions by or on behalf of another party, except to the extent that:

- (a) the disclosure is made by the recipient to its councillors, directors, officers, employees, financiers, lawyers, accountants or other professional advisers, in which case the recipient must ensure that such persons keep the information secret and confidential and do not divulge or disclose the information to any person other than a person to whom the recipient is permitted to disclose that information in accordance with this clause 8;
- (b) if the Buyer is the recipient, the disclosure is made in connection with doing anything necessary or desirable in relation to the Implementation Deed or approval, execution, negotiation, or implementation of the Transaction or acquisition of any other securities in the Company, including to its bank and other persons to the extent required to raise funding for the Transactions, provided that its bank and such other persons are obliged to keep the information confidential or the disclosure is to the Australian Taxation Office as part of the Buyer's ongoing annual tax compliance obligations;
- (c) the information is in the public domain as at the date of this agreement or subsequently comes into the public domain other than as a result of a breach of any obligation of confidentiality binding on the recipient;
- (d) the recipient is required to disclose the information by Law or the rules of any recognised securities exchange on which the shares of the recipient or its ultimate holding company are quoted, provided that the recipient has to the extent permitted and practicable having regard to the required timing of the disclosure consulted with the provider of the information as to the form and content of the disclosure;
- (e) the disclosure is required for use in legal proceedings regarding this agreement or the Transactions; or
- (f) the party from whom the recipient received the information or, where the relevant information is the terms of this agreement or the Transactions, the other party to this agreement (or the Seller's Representative if the other party is the Seller), has consented to the disclosure in writing before the disclosure is made.

8.3 After Completion

From Completion, the Buyer may disclose any confidential information relating to the Company and the Business in its discretion, except to the extent that such information relates to the Seller.

8.4 Buyer tax reporting

The parties acknowledge that if Completion occurs the Buyer will disclose the Transaction, including this Agreement, to the Australian Taxation Office as part of its ongoing annual tax compliance obligations.

9. Notices

9.1 Service of notices

A notice, demand, consent, approval, waiver or other communication under this agreement (**Notice**):

- (a) must be in legible writing and in English directed to the recipient's address for notices specified in the Details and Schedule 1 (as varied by any Notice);
- (b) must be hand delivered, left at or sent by prepaid post or email to the recipient's address for notices specified in the Details and Schedule 1 (as varied by any Notice); and
- (c) may be given by an agent of the sender.

9.2 **Effective on receipt**

A Notice given in accordance with clause 9.1 takes effect when received (or at a later time specified in it), and is taken to be received:

- (a) if hand delivered or left at the recipient's address, on delivery;
- (b) if sent by prepaid post, the third Business Day after the date of posting, or the seventh Business Day after the date of posting if posted to or from outside Australia; and
- (c) if sent by email, when received by the recipient's email server (whether or not filtered or classified as unsolicited email or spam) unless the sender receives an automated message that delivery of the email has failed,

but if the delivery or transmission under paragraph (a) or (c) is outside Business Hours, the Notice is taken to be received at the commencement of Business Hours after that delivery, receipt or transmission.

9.3 **Process service**

Any process or other document relating to litigation, administrative or arbitral proceedings in relation to this agreement may be served by any method contemplated by this clause in addition to any means authorised by Law.

10. **GST**

10.1 **Interpretation**

- (a) Except where the context suggests otherwise, terms used in this clause 10 have the meanings given to those terms by the GST Law.
- (b) A reference to something done (including a supply made) by a party includes a reference to something done by any entity through which that party acts.

10.2 **Additional amounts of GST payable**

If GST becomes payable on any supply made by a party (**Supplier**) under or in connection with this agreement:

- (a) any amount payable or consideration to be provided under any provision of this agreement (other than this clause 10) for that supply is exclusive of GST;
- (b) any party (**Recipient**) that is required to provide consideration to the Supplier for that supply must pay an additional amount to the Supplier equal to the amount of the GST payable on that supply (**GST Amount**), at the same time as any other consideration is to be first provided for that supply; and

- (c) the Supplier must provide a tax invoice to the Recipient for that supply, no later than the time at which the GST Amount for that supply is to be paid in accordance with clause 10.2(b).

10.3 **Variation**

- (a) If the GST Amount properly payable in relation to a supply varies from the additional amount paid by the Recipient under clause 10.2, the Supplier must provide a corresponding refund or credit to, or will be entitled to receive the amount of that variation from, the Recipient. Any payment, credit or refund under this clause 10.3(a) is deemed to be a payment, credit or refund of the GST Amount payable under clause 10.2.
- (b) The Supplier must issue an adjustment note to the Recipient in respect of any adjustment event occurring in relation to a supply made under or in connection with this agreement as soon as reasonably practicable after the Supplier becomes aware of the adjustment event.

10.4 **Reimbursement**

If a payment due under this agreement is a reimbursement, indemnification or payment by way of damages by one party of a Loss incurred or to be incurred by the other party, the payment will exclude any GST forming part of the amount to be reimbursed, indemnified or paid by way of damages to the extent to which the other party can claim an input tax credit on such amount.

10.5 **No merger**

This clause 10 will not merge on Completion or termination of this agreement.

11. **General**

11.1 **Amendments**

This agreement may be amended or varied only in writing and signed by the Buyer and the Seller's Representative.

11.2 **Approvals, consents and exercise of rights**

Except where this agreement expressly states otherwise, a party may:

- (a) in its absolute discretion, give conditionally or unconditionally or withhold any approval or consent under this agreement; and
- (b) exercise a right at its discretion and separately or concurrently with another right.

11.3 **Assignment**

Except where this agreement expressly states otherwise, a party may only assign this agreement or a right under this agreement with the prior written consent of each other party.

11.4 **Counterparts**

This agreement may be executed in counterparts and all executed counterparts together constitute one document.

11.5 Costs

Subject clause 11.6, each party must bear its own costs in relation to, and associated with, this agreement and giving effect to this agreement.

11.6 Duty

The Buyer must pay all stamp duty in respect of the execution, delivery and performance of this agreement.

11.7 Entire agreement

This agreement constitutes the entire agreement between the parties in connection with its subject matter and supersedes all previous agreements or understandings between the parties in connection with its subject matter.

11.8 Further action

Each party must, at its own expense, do everything reasonably necessary to give full effect to this agreement (including executing documents) and to use all reasonable endeavours to cause relevant third parties to do likewise.

11.9 No merger

Except where this agreement expressly states otherwise, the rights and obligations of the parties under this agreement do not merge on Completion.

11.10 Severability

If the whole or any part of a provision of this agreement is invalid or unenforceable in a jurisdiction it must, if possible, be read down for the purposes of that jurisdiction so as to be valid and enforceable. If however, the whole or any part of a provision of this agreement is not capable of being read down, it is severed to the extent of the invalidity or unenforceability without affecting the remaining provisions of this agreement or affecting the validity or enforceability of that provision in any other jurisdiction.

11.11 Survival

Any obligation of confidentiality in this agreement is independent and survives termination of this agreement. Any other term which by its nature is intended to survive termination of this agreement survives termination of this agreement.

11.12 Waiver

A party does not waive a right, power or remedy if it fails to exercise or delays in exercising the right, power or remedy. A single or partial exercise by a party of a right, power or remedy does not prevent another or further exercise of that or another right, power or remedy. A waiver of a right, power or remedy must be by Notice and signed by the party giving the waiver, provided that the Seller's Representative may give a waiver on behalf of any Seller.

11.13 Relationship

Except where this agreement expressly states otherwise, this agreement does not create a relationship of employment, trust, agency or partnership between the parties.

11.14 Remedies cumulative

The rights, powers and remedies provided in this agreement are cumulative with and not exclusive of the rights, powers or remedies provided by Law independently of this agreement.

11.15 Governing law

This agreement will be governed by and construed in accordance with the Laws for the time being in force in the State of New South Wales and the parties, by entering into this agreement, are deemed to have submitted to the non-exclusive jurisdiction of the courts of that State.

Schedule 1 – Seller

Seller	Address	A Class Ordinary Shares	Preference Shares	Purchase Price
Goulburn Mulwaree Council	184 Bourke Street, Goulburn NSW 2580	1 (Share number 49)	1 (S)	\$785,714.00

Schedule 2 – Seller Warranties**Power and authority**

1. The Seller has full power to and capacity to enter into and perform its obligations under this agreement.
2. All necessary authorisations for the execution, delivery and performance by the Seller of this agreement in accordance with its terms have been obtained.
3. This agreement is valid, binding and enforceable against the Seller in accordance with its terms.
4. The execution, delivery and performance by the Seller of this agreement does not constitute a breach of any law or obligation, or cause or result in a default under any agreement, or Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under this agreement and there is no other arrangement or agreement between the Seller and another person in relation to the Sale Shares.

Ownership and no encumbrances or other arrangements

5. At Completion:
 - (i) the Seller is the legal and beneficial owner of the Sale Shares and has complete power and right to sell those Sale Shares to the Buyer and the Sale Shares are the only securities in the Company in which the Seller has any kind of interest;
 - (ii) the Buyer will acquire the full legal and beneficial ownership of the Sale Shares free and clear of all Encumbrances, subject to registration of the Buyer in the register of shareholders.

Schedule 3 Buyer Warranties

Power and authority

1. The Buyer is validly incorporated, organised and subsisting in accordance with the laws of its place of incorporation.
2. The Buyer has full power to and capacity to enter into and perform its obligations under this agreement.
3. All necessary authorisations for the execution, delivery and performance by the Buyer of this agreement in accordance with its terms have been obtained.
4. This agreement is valid, binding and enforceable against the Buyer in accordance with its terms.
5. The Buyer enters into and performs this agreement on its own account and not as trustee for or nominee of any other person.
6. The execution, delivery and performance by the Buyer of this agreement does not constitute a breach of any law or obligation, or cause or result in a default under any agreement, or Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under this agreement.
7. No Insolvency Event has occurred in relation to the Buyer and there are no circumstances that justify the Buyer being the subject of an Insolvency Event.
8. The Buyer has available, in Immediately Available Funds, the necessary cash resources to pay the Purchase Price on Completion and meet its obligations under this agreement.

Executed as an agreement.

Executed by **Goulburn Mulwaree Council**)
ABN 84 049 849 319 by its attorney)
)

Signature of attorney

Signature of witness

Name of attorney

Name of witness

Executed by **AGL Energy Limited**)
ACN 115 061 375 by its attorney)
)



Signature of attorney
John Fitzgerald

Name of attorney



Signature of witness
Amanda Wei Dek Liu

Name of witness

Annexure B – Limited Power of Attorney

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Power of Attorney

Date:

Party

- (1) Goulburn Mulwaree Council (**Shareholder**)

Address: 184 Bourke Street, Goulburn NSW 2580

1. Proposed Transaction

- (a) AGL Energy Limited ACN 115 061 375 (**AGL**) proposes to acquire, subject to the satisfaction or waiver of certain conditions precedent, all of the shares in the issued capital of Southern Phone Company Limited ACN 100 901 184 (**Company**) (or such lesser number of the shares as agreed to by AGL) (**Proposed Transaction**).
- (b) The Company has convened an extraordinary general meeting on Monday, 2 December 2019 at 9.30am (AEDT) (**Extraordinary General Meeting**) for the Company's shareholders to consider, and if thought fit to pass, a special resolution to amend the constitution of the Company which is required to facilitate the Proposed Transaction (**Constitution Amendment Resolution**).

2. Appointment

The Shareholder appoints each of Bill Hilzinger of 151 Kinghorne Street Nowra, NSW 2541 (**Chairperson**) and Andrew Riley of 3 Turallo Terrace Bungendore, NSW 2621 (**Deputy Chairperson**, and each an **Attorney**) severally as its attorney, agent and representative for and on behalf of the Shareholder, and in the Shareholder's name and as the Shareholder's act and deed to:

- (a) attend the Extraordinary General Meeting (including any adjourned general meeting) and vote in favour of the Constitution Amendment Resolution as its attorney or representative;
- (b) sign and lodge with the Company a proxy form for the Extraordinary General Meeting (including any adjourned general meeting):
- (i) appointing a proxy (who may be an Attorney) to attend the Extraordinary General Meeting (including any adjourned general meeting) on the Shareholder's behalf; and
 - (ii) directing the proxy to vote in favour of the Constitution Amendment Resolution;
- (c) execute under hand or under seal and deliver, conditionally or unconditionally (each a **Document**):
- (i) the Share Sale Agreement between the Shareholder and AGL (**Share Sale Agreement**);

- (ii) the share transfer forms in respect of the Shareholder's shares in the Company in favour of AGL; and
- (i) all documents ancillary to the above to which the Shareholder is a party or otherwise required by the Shareholder to give effect to the Proposed Transaction in a form and of substance as the Attorneys think fit;
- (d) exercise or discharge for it and on its behalf all of the rights, obligations, powers and discretions of the Seller expressed to be held by, or exercisable by, the "Seller's Representative" under the Share Sale Agreement, and all powers reasonably incidental thereto, including to give and receive any consent, approval or agreement to amend or waive any term of the Share Sale Agreement;
- (e) complete any blanks in a Document;
- (f) do any thing which, in the Attorney's opinion, is necessary, expedient or incidental to or in any way relates to any document referred to in paragraphs (b) to (c) (inclusive) or any transaction contemplated by any such document; and
- (g) do any other thing (whether or not of the same kind as the above) which in the opinion of the Attorneys is necessary, expedient or desirable for giving effect to the provisions of this power of attorney.

3. When effective

This power of attorney operates immediately and is irrevocable. The power of attorney will expire and be of no further force or effect on 31 March 2020.

4. Indemnity

The Shareholder indemnifies each Attorney against liability, loss, costs, charges or expenses properly incurred in the exercise of the powers under this power of attorney.

5. Validity

The Shareholder declares that a person (including, but not limited to, a firm, body corporate, unincorporated association or authority) who deals with an Attorney in good faith may accept a written statement signed by the Attorney to the effect that this power of attorney has not been revoked, as conclusive evidence of that fact.

6. Ratification

- (a) The Shareholder declares that everything done by the Attorneys in exercising powers granted under this power of attorney is as valid as if it had been done by the Shareholder.
- (b) The Shareholder shall, from time to time and at all times, ratify and confirm whatever the Attorneys lawfully do or cause to be done pursuant to this power of attorney.

7. Governing law

This power of attorney is governed by the law in New South Wales.

Executed as a deed

Executed by Goulburn Mulwaree Council)
ABN 84 049 849 319 by its attorney)
)

Signature of attorney

Signature of witness

Name of attorney

Name of witness

Annexure C – Share Transfer Form

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STANDARD TRANSFER FORM			
For Non-Market Transactions			
Affix Stamp Duty Here		Marking Stamp	
FULL NAME OF COMPANY	Southern Phone Company Limited ACN 100 901 184		
DESCRIPTION OF SECURITIES	Fully-paid Class S Redeemable Preference Shares	Register	NSW
QUANTITY	Words: one	Figures:	1
FULL NAME OF TRANSFEROR	Goulburn Mulwaree Council ABN 84 049 849 319		
CONSIDERATION	Pursuant to a share sale agreement between the Transferor and the Transferee dated	Date of Purchase	/ / 2019
FULL NAME OF TRANSFEREE	AGL Energy Limited ACN 115 061 375		
FULL ADDRESS OF TRANSFEREE	Level 24, 200 George Street, Sydney NSW 2000		
NOTICE UNDER SECTION 1072H UNDER CORPORATIONS ACT 2001 (CTH)	The above named Transferee hereby gives notice to the above named Company that, upon registration of this transfer, the Transferee will hold the securities specified above as follows:		
	Beneficially:	1	Non-Beneficially: NIL
<p>I, the registered holder and undersigned Transferor for the above consideration, do hereby transfer to the above named Transferee the securities as specified above standing in my name in the books of the above named Company, subject to the conditions on which I held the same at the time of signing hereof and the Transferee hereby agreeing to accept the said securities on the same conditions.</p> <p>I have not received any notice of revocation of any Power of Attorney by death of the grantor or otherwise, under which this transfer may be signed.</p>			
TRANSFEROR SIGN HERE	<p>Executed by Goulburn Mulwaree Council ABN 84 049 849 319 by its attorney</p> <p>_____</p> <p>Signature of attorney</p> <p>_____</p> <p>Name of attorney</p>		FOR REGISTRAR USE
	<p>_____</p> <p>Signature of witness</p> <p>_____</p> <p>Name of witness</p>		
DATE SIGNED	/ / 2019		
TRANSFEREE SIGN HERE	<p>Executed by AGL Energy Limited ACN 115 061 375 by its attorney:</p> <p>_____</p> <p>Signature of attorney</p> <p>_____</p> <p>Name of attorney</p>		
	<p>_____</p> <p>Signature of witness</p> <p>_____</p> <p>Name of witness</p>		
DATE SIGNED	/ / 2019		

Annexure D – Lost Share Certificate Indemnity

MISSING SHARE CERTIFICATE STATEMENT AND UNDERTAKING

**To: The Directors
Southern Phone Company Limited ACN 100 901 184 (Company)**

Goulburn Mulwaree Council ABN 84 049 849 319 of 184 Bourke Street, Goulburn NSW 2580
(Shareholder) states as follows:

1. the Shareholder's certificates (**Share Certificates**) for one fully paid A Class Ordinary Share in the Company and one fully paid Redeemable Preference Share in the Company (together, the **Shares**) have been lost, destroyed or not received;
2. the Shareholder has made proper searches for the Share Certificates;
3. if a Share Certificate is found or received by the Shareholder or otherwise comes into its possession, the Shareholder undertakes to return it immediately to the Company;
4. except as set out in the share sale agreement between AGL Energy Limited ACN 115 061 375 of Level 24, 200 George Street, Sydney NSW 2000 and the Shareholder dated on or about the date of this deed poll, the Shareholder has not pledged, sold or otherwise disposed of the Shares nor has the Shareholder otherwise dealt with the Shares so as to give any other person any right to them; and
5. the Shareholder indemnifies the Company against any damages arising out of or relating to the Share Certificates being lost, destroyed or not received or, if a Share Certificate is found or received by the Shareholder or otherwise comes into its possession, the Shareholder failing to immediately return the Share Certificate to the Company.

Date:

Executed as a deed poll.

Executed by Goulburn Mulwaree Council)
ABN 84 049 849 319 by its attorney)
)

Signature of attorney

Name of attorney

Signature of witness

Name of witness