

2016

Concise Financial Report



Bendigo
Telco

Connecting Our Community

Bendigo Telco Limited
ABN 88 089 782 203

Registered Office
23 McLaren Street
Bendigo Victoria 3550

Customer inquiries

Principal places of business

23 McLaren Street
Bendigo Victoria 3550

113 Williamson Street
Bendigo Victoria 3550

121 Edwards Road
Bendigo Victoria 3550

56 High Street
Shepparton Victoria 3630

Telephone 1300 228 123

www.bendigotelco.com.au

Shareholder inquiries

Bendigo Telco Share Registry
C/- AFS & Associates
PO Box 454
Bendigo Victoria 3552

Telephone (03) 5443 0344

Contents

Chairman's and CEO's Report 2016
3 – 4

Operating and Financial Review
5 – 6

Corporate Governance Statement
7

Directors' Report
8 – 16

Auditor's Independence Declaration
17

Consolidated Statement of profit or loss
and other comprehensive income for the
year ended 30 June 2016
18

Consolidated Statement of financial
position as at 30 June 2016
19

Consolidated Statement of changes in
equity for the year ended 30 June 2016
20

Consolidated Statement of cash flows
for year ended 30 June 2016
21

Notes to the Concise Financial Report
22 – 24

Directors' declaration
25

Independent Auditor's Report
26

Shareholder information
27

2016 has proven to be a year of significant change and opportunity for Bendigo Telco (BT). We are well positioned as we enter the new financial year to expand the range of customers and communities that we serve and to capitalize on the investments that the business has been making over the last several years. During the financial year, our business entered into negotiation with the Bendigo and Adelaide Bank (BEN) to acquire a substantial number of customers and services from the Community Telco Group (CTA). This transaction, if completed, will add scale to the business and broaden our footprint, especially across regional Victoria, Tasmania and South East QLD.

The business has again delivered a creditable financial performance, turning in an after tax profit of \$1,289,102 for the 12 months ending June 30th 2016. Our Board of Directors has declared a fully franked dividend of 10.0 cents for the half, making the full-year dividend a payment of 17.0 cents for the complete financial year. Our average dividend yield over the past 5 years has been 10.23% fully franked.

Some of the key milestones at Bendigo Telco during the year have been:

- An agreement with BEN for BT to provide their core networking infrastructure for an additional five-year period. This contract amounts to more than \$20M over the five-year term. This contract is contingent on the successful completion of the 'merger' transaction.
- A complete refresh of the company's core networking and cloud infrastructure facilities. This equipment has a useful lifespan of approximately five to seven years.
- A Memorandum of Understanding (MOU) entered into with the shareholders of Vicwest Telco to enable an investigation of a possible merger between our two companies. The MOU also proposes the acquisition of a range of additional customers from CTA.
- The roll-out of new products and services that will enable us to better serve our customers both locally and across Australia.
- A renewed focus on project management capability to allow us to better meet the needs of increasingly complex customer deployments.
- The migration of our Shepparton customer base from the legacy wireless broadband network to the higher speed and performance of the NBN

Industry Trends

The 'telco' market shows no signs of deviating from the path of constant change and technology revision that has characterized it over the last two decades. To keep pace, Bendigo Telco has made investments in key new technology areas. One of the important changes underway at present is the movement away from traditional analogue fixed-line telephone services to phone services being provided 'over the top' of a data connection. Your business has implemented a range of products in this arena that is known in the industry as Session Initiation Protocol or 'SIP'. Our SIP products enable customers to enjoy the same high quality, long associated with fixed line phones – but with enhanced flexibility and significantly reduced costs. At the same time, our close relationships with downstream telco providers enable us to deliver these lower cost services to our customers in a way that preserves or enhances our margins. A second area of recent advance is the move away from physical PBX systems to virtual 'cloud' based PBX functions. Traditionally, small businesses purchased expensive telephone switches called PBX's that they would host on their own premises. The opportunity now exists to enjoy the functions of these systems in a 'virtual' model where the PBX is provided by a cloud services provider and shared across many customers. Again, Bendigo Telco is able to bring these new services to our customers that enable them to reduce their costs in a way that maintains the margins that we retain from this area of our business.

Proposed merger with Vicwest

Just as Bendigo Telco has developed a sustainable business here in Bendigo by focusing on the telco needs of our community and customers, Vicwest has built a similar business spread across both Geelong and Ballarat. BT has entered into a Memorandum of Understanding (MOU) with BEN under

which the two business would combine. This is an exciting prospect for your company as the transaction would see a substantially increased footprint for Bendigo Telco to deploy its broad product set.

Proposed acquisition of additional Community Telco customers

Additionally, foreshadowed in the MOU is the opportunity for Bendigo Telco to acquire the majority of the larger customers of the Community Telco Australia group that are not controlled by Vicwest. These customers are centered around the location of the existing offices of CTA – Hobart, South East Queensland and the Hunter region. This transaction would see Bendigo Telco have access to a set of customers with significant telco spend that could make ready use of our existing products and services.

The above proposals, and a range of other related matters will be put to the shareholders at our General Meeting on August 11th 2016.

Sales and Marketing

Bendigo Telco has succeeded by understanding the telecommunications needs of our community and our customers. During the financial year management conducted a comprehensive evaluation of the market segments where we have had the most success with our sales strategy. The outcome of this work will lead to greater focus on the mid-market tier – that is businesses with multiple sites that have between 50 – 500 staff. It is in this segment where our existing products such as Virtual Private Networks have found the most acceptance. Additionally, this class of customers can benefit significantly from the new technologies that we are deploying such as SIP and Virtual PBX capabilities.

Cost Controls and Margin Focus

During the financial year your business has added new focus on ensuring that our costs are in line with our forward projections. We have also made strong progress on working with our downstream suppliers to deliver better retained margin to the business. Our ability to purchase primary telecommunications products from a broad range of industry players under our existing contracts enable us to keep our source costs under tight control.

Acknowledgements

Our business is based on serving our local community – we are an integral part of the Bendigo Community ourselves and an important economic contributor to the region. We thank our customers for the opportunities that they have given us to serve them as we work to strengthen our relationships into the future.

I would also like to thank our board of directors for their guidance during the year and the leadership they have shown in steering this business over the past several years. Thanks also go to management for implementing the businesses key strategies and ensuring that Bendigo Telco is known as a 'great place to go to work'.

Lastly to our staff, thank you again for the contributions that you have made across our business during FY 2016 – the company has grown and prospered due to your continued efforts.

We leave FY 2016 with the prospect of a bright future ahead underpinned by our commitment to deliver the best in telecommunications products to the communities that we serve.



Don Erskine
Chairman



Jeff Jordan
CEO

OPERATING AND FINANCIAL REVIEW

PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were telecommunications services.

OPERATING RESULTS AND REVIEW OF OPERATIONS

The concise financial report is an extract from the full financial report for the full year ended 30 June 2016. The financial statements and disclosures in the concise report have been derived from the 2016 financial report of Bendigo Telco Limited and Controlled Entities. A copy of the full financial report and auditor's report will be sent to any shareholder, free of charge, upon request. The discussion and analysis is provided to assist shareholders in understanding the concise financial report.

About Bendigo Telco

Bendigo Telco is a diversified business providing telecommunications and data management services to customers located throughout Australia.

Bendigo Telco was established in 1999 by the Bendigo Bank and a group of Bendigo based enterprises which were seeking to improve their options for the supply of telecommunications services. The company adopted a philosophy based on the Community Bank® model which led to Bendigo Telco becoming part of the Community Telco Australia franchise model.

In 2014 Bendigo Telco underwent significant restructuring in order to position the company to address a truly national market with both its business and consumer products. Bendigo Telco has grown into a significant provider with a national data network that connects over 4,000 services across Australia. The network is highly reliable and supports one of Australia's largest financial institutions, the Bendigo & Adelaide Bank.

In October 2014, Bendigo Telco acquired McPherson Media, an Internet Service Provider located in Shepparton, Victoria. The acquisition has greatly expanded the range of locally supported telecommunication products in the Shepparton region.

Financial and operating performance

Year ended 30 June (\$'000)	2016	2015	Change (%)
Revenue	22,777	22,115	3.0%
Gross margin	12,149	11,118	9.3%
Net profit after tax	1,289	1,127	14.4%
Earnings per share (cents)	22.44	19.62	
Dividend (cents per share)	17.0	20.0	

The consolidated profit of the Group amounted to \$1,289,102, after providing for income tax. This represents a 14% increase on the results reported for the year ended 30 June 2015. The Group has been able to increase its revenue base by 3% whilst improving cost efficiencies resulting in an improved gross margin of \$866,502 compared to the previous year.

The increase in profit of the Group has resulted from a combination of successful sales strategies, the implementation of cost saving initiatives and operational efficiencies. Not only has this resulted in improved results for the financial year ended 30 June 2016 but has also established a platform for the Group to continue to deliver sustainable growth over the short to medium term.

The net assets of the Group increased by \$28,108 from 30 June 2015 to \$5,879,694 as at 30 June 2016. The Group generated strong cash flows from operating activities and continue to maintain a sound working capital with current assets exceeding current liabilities by \$1,667,974.

The directors have declared a final dividend of 10.0 cents, making the total dividends payable for financial year of 17.0 cents. The average dividend yield over the past 5 years has been 10.23% fully franked.

The 'telco' market shows no signs of deviating from the path of constant change and technology revision that has characterised it over the last two decades. To keep pace, Bendigo Telco has made investments in key new technology areas whilst at the same time forming close relationships with downstream providers enabling us to deliver these services in a way that will preserve or enhance our margins.

The Group has and will continue to invest in infrastructure to secure its long-term success. Significant investment in the Cloud and National Network infrastructure were made during the year resulting in a more robust and scalable network which continues to underpin the groups key revenue streams.

The directors believe the Group is in a strong stable financial position to expand and grow its current operations.

Bendigo Telco seeks to grow shareholder value by profitably growing its customer base. An evaluation of our sales strategy has identified that the mid-market tier, that is, businesses with multiple sites with between 50 – 500 staff, is where we have had the most success and that in the future a greater focus on this market segment will be implemented.

Bendigo Telco has also entered into negotiations with the Bendigo and Adelaide Bank to acquire a substantial number of customers and services from the Community Telco Group. Further negotiations have been entered with Vicwest about a possible merger with their community based telco business. The transactions were approved by both Bendigo Telco's and Vicwest shareholders in August. The merger will add scale to the business and broaden our footprint, especially across regional Victoria, Tasmania and South East QLD.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors there were no significant changes in the state of affairs of the group that occurred during the financial year under review not otherwise disclosed in this report or the financial report.

Since the end of the financial year a fully franked final dividend in the amount of 10.0 cents per share was declared by the Board of Directors on 26 July 2016 which will be distributed to shareholders on 31 August 2016.

EVENTS AFTER THE REPORTING PERIOD

No other matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Disclosure of information relating to major development in the operations of the Group and the expected results of those operations in future financial years, which, in the opinion of the directors, will not unreasonably prejudice the interests of the Group, is contained in the Report by the Chairman and Chief Executive Officer on page 3.

ENVIRONMENTAL ISSUES

The group is not subject to any significant environmental regulation.

SECURITIES REGISTER

The securities register is managed by AFS & Associates on behalf of Bendigo Telco Limited and Controlled Entities. You can contact the registry by:

Mail:	Bendigo Telco Share Register C/- AFS & Associates PO Box 454 Bendigo Victoria 3552	Telephone:	(03) 5443 0344
		Email:	shares@bendigotelco.com.au

The information contained in this report is correct and current at 30 June 2016.

CORPORATE GOVERNANCE STATEMENT

Bendigo Telco Limited is committed to high standards of Corporate Governance. This commitment applies to the conduct of its business dealings with its customers and its dealings with its shareholders, employees, suppliers and the Community.

The Board of Bendigo Telco Limited have adopted the following principles of Corporate Governance. The policies may be viewed on the group website www.bendigotelco.com.au.

1. A Board Charter which outlines the responsibilities of the Board by formalising and disclosing functions reserved to the Board and those delegated to management.
2. An Audit and Risk Committee Charter and the appointment of the Audit and Risk Committee as a sub-committee of the Board. The members of the Audit and Risk Committee are Directors Graham Bastian, Andrew Watts and Don Erskine.
3. A Share Trading policy which outlines directors and employees obligations in trading in its securities. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the Group's security price.
4. A Remuneration policy which sets out the terms and conditions for the Chief Executive Officer and other senior managers. Director Don Erskine is the Chairman and Andrew Watts is a Member of the Remuneration Committee.
5. A Continuous Disclosure policy which complies with the obligations imposed by National Stock Exchange (NSX) Listing Rules and the *Corporations Act 2001*. This policy requires immediate notification to the NSX of any information concerning the group, of which it is aware or becomes aware, which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the group shares.

BOARD COMPOSITION

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred herein as the Group) consisting of Bendigo Telco Limited and its controlled entities for the financial year ended 30 June 2016. The information in the preceding operating and financial review forms part of this directors' report for the financial year ended 30 June 2016 and is to be read in conjunction with the following information:

GENERAL INFORMATION

DIRECTORS

The following persons were directors of Bendigo Telco during or since the end of the financial year up to the date of this report:

Mr D Erskine (Chairman)	Mr R Hunt
Mr G Bastian	Mr A Watts
Ms M O'Sullivan	

Particulars of each director's experience and qualifications are set out later in this report.

DIVIDENDS PAID OR RECOMMENDED

Ordinary Dividends Paid:

	Cents	\$
Final – September 2015	10.0	574,532
Interim – March 2016	7.0	402,173
	<u>17.0</u>	<u>976,705</u>

Ordinary Dividends Declared:

Final - July 2016	10.0	574,532
-------------------	------	---------

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The group has indemnified all directors, officers and the managers in respect of liabilities to other persons (other than the group or related body corporate) that may arise from their position as directors, officers or managers of the group except where the liability arises out of conduct involving the lack of good faith.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The group has not provided any insurance for an auditor of the group or a related body corporate.

PROCEEDINGS ON BEHALF OF GROUP

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

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

NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the Group are important. Details of the amounts paid or payable to the Auditor (Andrew Frewin Stewart) for audit and non audit services provided during the year are set out in the notes to the accounts.

The Board of Directors, in accordance with advice from the Audit and Risk committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the following services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit and Risk committee prior to the commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with the APES 110: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or are payable to Andrew Frewin Stewart for non-audit services provided during the year ended 30 June 2016:

	\$
Taxation services	3,345
Share registry services	<u>11,602</u>
	<u>14,947</u>

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 17 of the financial report.

OPTIONS

The Group has not issued any share options.

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed below.

Mr Donald James Erskine - Chairman

Occupation	Managing Director – Industrial Conveying (Aust.) Pty Ltd
Experience	Don is trained as a mechanical engineer. He is Managing Director of Industrial Conveying (Aust.) Pty Limited which was formed by Don in 1979 and DJE Investments Pty Ltd (Yourland Developments). His previous appointments include non-executive Director of Bendigo Bank and a member of the Bank's Credit, IT Strategy and Property Committees, Director of North West Country Credit Union Co-op Ltd, Director of Coliban Water, Director of Community Telco Australia and Director of Bendigo Economic Development Committee, Chairman of Australian Technical College and Director of Bendigo Regional Institute of TAFE. Don is actively involved in the Bendigo Community.
Interest in Shares	Direct - 0 Shares Indirect – Erskine Investments Pty Ltd 939,326 Shares
Special Responsibilities	Chair of Remuneration Committee and Member of the Audit and Risk Committee.
Other Directorships	Nil

Mr Robert George Hunt – AM, FAICD – Director

Occupation	Treasury Corporation of Victoria – Chairman
Qualifications	Fellow of the Australian Institute of Company Directors, 2003 Doctor of the University (honoris causa), LaTrobe University, 1999
Experience	Mr Hunt retired as Managing Director of Bendigo and Adelaide Bank on 3 July 2009 after 21 years as Chief Executive Officer. During his 36 years with the organisation, Mr Hunt guided Bendigo Bank through many challenges, but also through the development and implementation of strategies as a regional and community banking organisation. Mr Hunt is the architect of the Community Bank [®] model, and has been instrumental in the development of a range of Community Enterprise and Engagement models, now utilised by communities across Australia to provide key infrastructure and essential services through local commercial structures. These Enterprises provide communities with a framework, the cashflow, capacity and flexibility to address new economic opportunities. Mr Hunt continues his involvement in a number of community organisations and enterprises across Victoria. Mr Hunt is also the current Chairman of Treasury Corporation of Victoria.
Interest in shares	Indirect – Hunters Ridge Pty Ltd (Hunt Family Trust) 55,000 Shares Indirect – Hunters Ridge Pty Ltd (Rob & Annette Hunt Superannuation Fund) 396,048 Shares
Special Responsibilities	Nil
Other Directorships & Appointments	Chairman, Treasury Corporation of Victoria since 2010; Director, Apollo Bay Central District Community Bank since 2011; Patron-in-Chief, Community Enterprise Foundation since 2005; Patron, St Luke's Anglicare since 2002. Director, BEUT Property Pty Ltd
Honours and Awards	Order of Australia Award /Member (AM) General Division, 2002; Paul Harris Fellowship Award, Rotary Club of Bendigo Sandhurst, 2000; Citizen of the Year Award, City of Greater Bendigo 1999; Key to the City Award, City of Greater Bendigo 2009.

Mr Graham William Bastian – Director

Occupation	Consultant
Qualifications	Dip Engineering - Civil (Swinburne), Dip Ed (Hawthorn State College)
Experience	<p>Graham worked as a civil engineer with a private firm of surveyors and engineers until entering teaching. Following a period as an educational consultant focused on assisting schools in the effective use of computers, Graham became the Principal of Charlton College.</p> <p>He then became the Regional Principal Consultant for Bendigo, the Principal of Golden Square Secondary College and recently retired as Principal of Bendigo Senior Secondary College. Since this career change, Graham has been providing consultancy services to the Department of Education Central Office as well as many schools across the state. In addition serves as an independent member of the Audit Committee of the City of Greater Bendigo.</p>
Interest in shares	Direct – 0 Shares Indirect – Jeanette Bastian 2,000 Shares
Special Responsibilities	Member of Audit and Risk Committee
Other Directorships	Nil

Ms Michelle Kaye O’Sullivan – Director

Occupation	Lawyer – O’Sullivan Johanson Lawyers
Qualifications	Bachelor of Laws (Hons) Bachelor of Commerce Certificate III in Fitness
Experience	Michelle O’Sullivan has had experience on various boards including, Loddon Mallee Women’s Health and the Bendigo Street Surfer Board. Michelle was a committee member of the Bendigo Law Association Inc. and a past president of the Bendigo Law Association Inc.
Interest in Shares	Direct - 29,711 Shares
Special Responsibilities	Nil
Other Directorships	Rochester and Elmore District Health Service

Mr Andrew Watts – Director

Occupation	Executive, Customer Service Improvement, Bendigo and Adelaide Bank
Qualifications	Bach. Engineering (Civil), Grad Dip, Business Administration
Experience	<p>Andrew has worked for Bendigo and Adelaide Bank for 22 years, and been a member of its Executive Committee for 9 years. He has held various senior positions in strategic planning, marketing, retail, electronic banking / payments, technology and change. Andrew has led a number of strategic programs including the technology integration of Bendigo and Adelaide Bank as Chief Information Officer. He has considerable experience in technology, risk, mergers and acquisitions and customer experience, and is the Chair of Technology Course Advisory Committee at Latrobe University. Andrew is highly active in the Central Victorian community with a passion for music and youth development.</p>
Interest in shares	Direct – Nil
Special Responsibilities	Chair of Audit and Risk Committee and is a Member of the Remuneration Committee
Other Directorships	Nil

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Ken Belfrage FCA, GAICD, Dip. Bus.

Mr Belfrage is an experienced Company Director and Company Secretary who has extensive business, finance and general management skills including 34 years as a practicing public accountant.

MEETINGS OF DIRECTORS

During the financial year, 11 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

Directors	Directors' Meetings		Audit & Risk Committee		Remuneration Committee	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Rob Hunt	11	11	-	-	-	-
Graham Bastian	11	11	4	4	-	-
Don Erskine	11	10	4	4	1	1
Michelle O'Sullivan	11	10	-	-	-	-
Andrew Watts	11	10	4	4	1	1

DIRECTORS BENEFITS AND INTEREST IN CONTRACTS

No director has received or become entitled to receive during or since the financial year, a benefit because of a contract made by the group with the director, a firm of which the director is a member or an entity in which the director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the group's accounts, prepared in accordance with the Corporate Regulations, or the fixed salary of full-time employees of the group, controlled entity or related body corporate other than interests and benefits disclosed at Note 27 to the Full Financial Statements.

REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by Section 308 (3c) of the *Corporations Act 2001*.

This report details the nature and amount of remuneration for each key management person of Bendigo Telco Limited, and for the executives receiving the highest remuneration.

Principles used to determine the nature and amount of remuneration

The remuneration policy of Bendigo Telco Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and incentives based on key performance areas affecting the group's financial results. The Board of Bendigo Telco Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the group is as follows:

- The remuneration policy, setting the terms and conditions for the KMP, was developed by the Remuneration Committee and approved by the Board.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation and performance incentives.
- The Remuneration Committee reviews key management personnel packages annually. This review is subject to the remuneration policy set by the Board.
- The Remuneration Committee, at their discretion, can refer their business to the full Board for consideration.

The performance of KMP is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

KMP receive, at minimum a superannuation guarantee contribution required by the government, which is currently 9.5% of the individuals average weekly ordinary time earnings (AWOTE). Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to KMP is valued at the cost to the group and expensed. KMP are also entitled and encouraged to participate in the employee share plan to align directors' interests with shareholder interests. Shares given to KMP are expensed at the market price as listed on the National Stock Exchange at the date of granting of any shares under the employee share plan.

Performance-based remuneration

As part of each of the KMP's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between key management personnel with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with KMP to ensure buy-in.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved.

Directors

From the inception of Bendigo Telco Limited, all Directors who have served have done so free of charge. It was put to the Annual General Meeting in October 2007, and approved, that a payment of \$15,000 per director be made for each full year of service from 1 July 2007 onwards.

Key Management Personnel

(i) Directors

Donald Erskine	Chairman
Robert Hunt	Director
Graham Bastian	Director
Michelle O'Sullivan	Director
Andrew Watts	Director

(ii) Executives

Jeffery Jordan	Chief Executive Officer
Jim Nielsen	Chief Operating Officer
Adam Murdoch	Chief Technology Officer
Jason Sim	General Manager Sales & Marketing

Group performance, shareholder wealth and director and executive remuneration

The following table shows the gross revenue, profits and dividends for the last five years for Bendigo Telco Limited, as well as the share price at the end of the respective financial years.

Analysis of the actual figures shows an increase in profits each year, with the exception of 2015 which fell as a result of additional investment in key management personnel and infrastructure. Dividends paid to shareholders remain strong with an average dividend yield over the past five years of 10.23% fully franked and the group's improved performance has been reflected in an increase in the share price with an increase in the last four years. The Board is satisfied with the group's progress which can be attributed in part to the previously described remuneration policy and is satisfied with the overall upwards trend in shareholder wealth over the past five years.

	2012	2013	2014	2015	2016
Revenue	\$23.9M	\$22.6M	\$22.0M	\$22.1M	\$22.8M
EBITDA	\$2.12M	\$2.48M	\$2.96M	\$2.61M	\$3.06M
Net profit	\$870K	\$1.13M	\$1.59M	\$1.13M	\$1.29M
Share price at year end	\$1.00	\$1.50	\$1.65	\$1.95	\$2.04
Dividends paid	10.0 cents	12.5 cents	16.5 cents	20.0 cents	17.0 cents

Details of remuneration for year ended 30 June 2016

(i) **Directors** – the remuneration for each of the directors of the entity during the year was as follows:

		Short-term benefits		Post-employment benefits	TOTAL	Proportion of remuneration that is performance based %
		Cash Salary and Fees		Superannuation		
Robert Hunt	2016	13,699		1,301	15,000	-
	2015	13,699		1,301	15,000	-
Graham Bastian	2016	15,000		-	15,000	-
	2015	15,000		-	15,000	-
Donald Erskine	2016	-		15,000	15,000	-
	2015	-		15,000	15,000	-
Geoffrey Michell	2016	-		-	-	-
	2015	9,132		868	10,000	-
Michelle O'Sullivan	2016	13,699		1,301	15,000	-
	2015	13,699		1,301	15,000	-
Andrew Watts	2016	13,699		1,301	15,000	-
	2015	13,699		1,301	15,000	-
Total	2016	56,097		18,903	75,000	-
	2015	65,229		19,771	85,000	-

(ii) **Executives** - The remuneration for each of the executive officers of the entity during the year was as follows:

		Short-term benefits		Post employment benefits	Share-based payments	Termination Benefits	Total	Proportion of remuneration that is performance based %
		Salaries \$	Non-Cash Benefits \$	Super-annuation \$	Shares \$			
Bryan Pedersen	2016	-	-	-	-	-	-	-
	2015	40,978	2,425	30,861	1,000	53,502	128,766	-
Peter Bowman	2016	-	-	-	-	-	-	-
	2015	104,619	-	8,694	1,000	20,323	134,636	-
Jim Nielsen	2016	94,310	15,000	34,257	-	-	143,567	7
	2015	86,306	15,000	33,745	1,000	-	136,051	6
Adam Murdoch	2016	149,378	15,000	14,001	-	-	178,379	6
	2015	136,890	15,000	12,816	1,000	-	165,706	5
Adam Lacey	2016	-	-	-	-	-	-	-
	2015	9,273	699	881	-	17,659	28,512	-
Jeffery Jordan	2016	238,204	15,000	22,789	-	-	275,993	18
	2015	157,223	12,123	14,716	-	-	184,062	20
Jason Sim	2016	192,943	-	16,706	-	-	209,649	19
	2015	92,732	4,315	8,349	-	-	105,396	19
Total	2016	674,835	45,000	87,753	-	-	807,588	
	2015	628,021	49,562	110,062	4,000	91,484	883,129	

This marks the end of the audited remuneration report.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors on 24 August 2016.



Donald Erskine

Chairman



Andrew Watts

Director



Auditor's Independence Declaration under S 307C of the Corporations Act 2001 to the Directors of Bendigo Telco Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Andrew Frewin Stewart'.

Andrew Frewin Stewart
61 Bull Street, Bendigo, Victoria
Dated this 24th day of August 2016

A handwritten signature in black ink, appearing to read 'Adrian Downing'.

Adrian Downing
Lead Auditor

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

P: (03) 5443 0344 | F: (03) 5443 5304 | 61-65 Bull St./PO Box 454 Bendigo Vic. 3552 | afs@afsbendigo.com.au | www.afsbendigo.com.au

TAXATION • AUDIT • BUSINESS SERVICES • FINANCIAL PLANNING

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 30 JUNE 2016**

	Notes	2016 \$	2015 \$
Revenue	2	22,777,122	22,114,833
Cost of products sold		(10,627,938)	(10,996,856)
Other income	2	39,679	145,494
Salaries and employee benefit costs		(5,867,450)	(5,297,909)
Occupancy and associated costs		(737,692)	(646,521)
General administration costs		(909,064)	(1,021,556)
Depreciation and amortisation costs		(1,236,516)	(1,032,779)
Advertising and promotion costs		(148,683)	(233,886)
Systems costs		(745,370)	(732,612)
Borrowing costs		<u>(807,879)</u>	<u>(696,826)</u>
Profit before income tax		1,736,209	1,601,382
Tax expense		<u>(447,107)</u>	<u>(474,732)</u>
Net profit for the year		1,289,102	1,126,650
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		<u><u>1,289,102</u></u>	<u><u>1,126,650</u></u>
Total comprehensive income attributable to members of Bendigo Telco Limited		<u><u>1,289,102</u></u>	<u><u>1,126,650</u></u>
Earnings per share			
Basic earnings per share (cents)		22.44	19.62
Diluted earnings per share (cents)		22.44	19.62

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 AS AT 30 JUNE 2016**

	Notes	2016 \$	2015 \$
Current Assets			
Cash and cash equivalents		1,577,913	947,316
Trade and other receivables		884,786	1,526,766
Prepayments		1,837,713	1,374,610
Inventories		140,719	131,516
Total Current Assets		4,441,131	3,980,208
Non Current Assets			
Property, plant and equipment		3,837,166	2,368,031
Intangible assets		1,518,925	1,506,320
Deferred tax asset		337,754	231,738
Total Non Current Assets		5,693,845	4,106,089
TOTAL ASSETS		10,134,976	8,086,297
Current Liabilities			
Trade and other payables		1,636,672	1,392,058
Provisions		604,038	642,928
Taxation		16,918	84,413
Borrowings		515,529	-
Total Current Liabilities		2,773,157	2,119,399
Non Current Liabilities			
Provisions		132,555	115,312
Borrowings		1,349,570	-
Total Non Current Liabilities		1,482,125	115,312
TOTAL LIABILITIES		4,255,282	2,234,711
NET ASSETS		5,879,694	5,851,586
EQUITY			
Issued capital		3,248,146	3,532,435
Retained earnings		2,631,548	2,319,151
TOTAL EQUITY		5,879,694	5,851,586

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2016**

	Notes	Ordinary Share Capital \$	Retained Earnings \$	Total \$
Balance at 1 July 2014		3,484,505	2,341,566	5,826,071
Comprehensive Income				
Profit for the year		-	1,126,650	1,126,650
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	1,126,650	1,126,650
Transaction with owners, in their capacity as owners, and other transfers				
Dividends recognised for the year	3	-	(1,149,065)	(1,149,065)
Shares issued during the year		47,930	-	47,930
Total transactions with owners and other transfers		47,930	(1,149,065)	(1,101,135)
Balance at 30 June 2015		3,532,435	2,319,151	5,851,586
Balance at 1 July 2015				
		3,532,435	2,319,151	5,851,586
Comprehensive Income				
Profit for the year		-	1,289,102	1,289,102
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	1,289,102	1,289,102
Transaction with owners, in their capacity as owners, and other transfers				
Dividends recognised for the year	3	-	(976,705)	(976,705)
Shares issued during the year		-	-	-
Cost of equity raised		(284,289)	-	(284,289)
Total transactions with owners and other transfers		(284,289)	(976,705)	(1,260,994)
Balance at 30 June 2016		3,248,146	2,631,548	5,879,694

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 30 JUNE 2016**

	Notes	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		25,220,751	23,025,110
Interest paid		(99,567)	-
Payments to suppliers and employees		(21,248,942)	(21,592,568)
Income tax paid		(620,618)	(658,383)
Interest received		15,834	106,255
Net cash provided by operating activities		3,267,458	880,414
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of BCT Shepparton		-	(596,609)
Purchase of intangible assets		(309,354)	(282,936)
Purchase of property, plant and equipment		(634,854)	(1,120,419)
Proceeds from sale of property, plant and equipment		23,845	58,637
Net cash used in investing activities		(920,363)	(1,941,327)
CASH FLOW FROM FINANCING ACTIVITIES			
Cost of shares issued		(284,289)	-
Repayment of finance lease		(455,504)	-
Dividends paid		(976,705)	(1,149,065)
Net cash used in financing activities		(1,716,498)	(1,149,065)
Net increase / (decrease) in cash held		630,597	(2,209,978)
Cash and cash equivalents at beginning of financial year		947,316	3,157,294
Cash and cash equivalents at end of the financial year		1,577,913	947,316

The accompanying notes form part of these financial statements

NOTES TO THE CONCISE FINANCIAL REPORT

1. BASIS OF PREPARATION OF THE CONCISE FINANCIAL REPORT

The concise financial report is an extract for the full financial report for the year ended 30 June 2016. The concise financial report has been prepared in accordance with Accounting Standard AASB 1039: *Concise Financial Reports*, and the *Corporations Act 2001*.

The financial statements, specific disclosures and other information included in the concise financial report are derived from and are consistent with the full financial report of Bendigo Telco Limited and Controlled Entities. The concise financial report cannot be expected to provide as detailed an understanding of the financial performance, financial position and financing and investment activities of Bendigo Telco Limited and Controlled Entities as the full financial report. A copy of the full financial report and auditor's report will be sent to any member, free of charge, upon request.

The presentation currency used in this concise financial report is Australian dollars.

2. REVENUE AND OTHER INCOME

	2016	2015
	\$	\$
Revenue:		
Sales revenue	22,777,122	22,114,833
	22,777,122	22,114,833
Other income:		
Interest received	15,834	28,414
Profit on sale of assets	23,845	39,239
Discount on acquisition	-	77,841
	39,679	145,494
Total revenue and other income	22,816,801	22,260,327

3. DIVIDENDS PAID AND PROPOSED

	2016	2015
	\$	\$
Distributions paid:		
2015 Final fully franked ordinary dividend of 10.0 (2014: 13.0) cents per share franked at the rate of 30% (2014: 30%)	574,532	746,892
2016 Interim fully franked ordinary dividend of 7.0 (2015: 7.0) cents per share franked at the rate of 30% (2015: 30%)	402,173	402,173
	976,705	1,149,065
Total dividends (cents) per share for the period	17.00	20.00
a. Proposed Final 2016 fully franked ordinary	574,532	574,532

After the reporting date, the above dividend was declared. The amount has not been recognised as a liability as at 30 June 2016 but will be brought to account in the 2017 financial year.

Bendigo Telco Limited and Controlled Entities
 ABN 88 089 782 203
 Concise Financial Report for the Year Ended 30 June 2016

	2016	2015
	\$	\$
b. Balance of franking account at year-end adjusted for franking credits arising from:		
- dividends recognised as receivables and franking	972,205	871,275
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	(246,228)	(246,228)

4. INTEREST IN SUBSIDIARY

a. Information about Principal Subsidiary

The subsidiary listed below have share capital consisting solely of ordinary shares which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. The subsidiary principal place of business is also its country of incorporation.

Name of Subsidiary	Principal Place of Business	Ownership Interest Held by the Group		Proportion of Non-controlling Interests	
		2016	2015	2016	2015
		%	%	%	%
BCT Shepparton Pty Ltd	Shepparton, Australia	100	100	-	-

Subsidiary financial statements used in preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

b. Significant Restrictions

There are no restrictions over the Group's ability to access or use assets, and settle liabilities, of the Group.

5. SEGMENT REPORTING

Major customers

During the year ended 30 June 2016 approximately 45.2% (2015: 47.3%) of Bendigo Telco's external revenue was derived from sales to one customer (2015: one customer).

Revenue by product set

	2016	2015
	\$	\$
Voice	4,548,752	5,026,851
Data Networks	10,704,762	10,003,970
Broadband	2,496,280	2,819,636
IT Services	340,630	348,181
Hardware and Installations	775,389	316,130
Data Centre	2,969,023	2,952,136
Cloud	942,285	647,929
	22,777,121	22,114,833

Assets & Liabilities

No information is disclosed for segment assets as no measure of segment assets is regularly provided to the chief operating decision maker.

6. EVENTS AFTER THE REPORTING PERIOD

Since the end of the financial year a final dividend in the amount of 10.0 cents per share was declared by the Board of Directors on 26 July 2016 which will be distributed to shareholders on 31 August 2016.

On 27 May 2016, Bendigo Telco announced that it had entered into a number of binding contracts with Vicwest Community Telco Limited (Vicwest), Bendigo and Adelaide Bank Limited (Bendigo Bank) and others to effect a number of simultaneous and inter-conditional transactions, including:

- (a) a scheme of arrangement between Vicwest and its shareholders pursuant to Part 5.1 of the Corporations Act, whereby all of the shares held by Bendigo Bank and other shareholders in Vicwest will be transferred to Bendigo Telco, in exchange for Bendigo Telco Shares (Scheme);
- (b) the sale of certain assets and liabilities of the managed telco business of Community Telco Australia Pty Ltd's (CTA) (a wholly owned subsidiary of Bendigo Bank) to Bendigo Telco. In consideration for the sale, Bendigo Telco will issue Bendigo Telco Shares to CTA (CTA Transaction); and
- c) Bendigo Bank will provide a new \$3.8m credit facility to Bendigo Telco, which will use those funds to assist its then wholly-owned subsidiary Vicwest to repay a current debt to Bendigo Bank and to use for working capital.

All resolutions were passed at the General Meeting of Bendigo Telco, held on 11 August 2016.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Bendigo Telco Limited, the directors of the company declare that the concise financial report of Bendigo Telco Limited and Controlled Entities for the financial year ended 30 June 2016:

- a. Complies with Accounting Standard AASB 1039: *Concise Financial Reports*; and
- b. Is an extract from the full financial report for the year ended 30 June 2016 and has been derived from and is consistent with the full financial report of Bendigo Telco Limited.

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

On behalf of the directors



Donald Erskine

Chairman



Andrew Watts

Director

Dated this 24 August 2016.



Independent Auditor's Report to the Members of Bendigo Telco Limited

Report on the Concise Financial Report

We have audited the accompanying concise financial report of Bendigo Telco Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and related notes, derived from the audited financial report of Bendigo Telco Limited for the year ended 30 June 2016, as well as the discussion and analysis. The concise financial report does not contain all the disclosures required by Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

Directors' Responsibility for the Concise Financial Report

The directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039: *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our procedures which were conducted in accordance with Auditing Standard ASA 810: *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Bendigo Telco Limited for the year ended 30 June 2016. We expressed an unmodified audit opinion on that financial report in our report dated 19 August 2016. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the concise financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion on whether, in all material respects, the concise financial report complies with AASB 1039: *Concise Financial Reports* and whether the discussion and analysis complies with the requirements laid down in AASB 1039: *Concise Financial Reports*.

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

Independence

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

Auditor's Opinion

In our opinion, the concise financial report, including the discussion and analysis of Bendigo Telco Limited for the year ended 30 June 2016, complies with Accounting Standard AASB 1039: *Concise Financial Reports*.

A handwritten signature in black ink, appearing to read 'Andrew Frewin Stewart'.

Andrew Frewin Stewart
61 Bull Street, Bendigo, Victoria
Dated this 24th day of August 2016

A handwritten signature in black ink, appearing to read 'Adrian Downing'.

Adrian Downing
Lead Auditor

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

P: (03) 5443 0344

F: (03) 5443 5304

61-65 Bull St./PO Box 454 Bendigo Vic. 3552

afs@afsbendigo.com.au

www.afsbendigo.com.au

SHAREHOLDER INFORMATION

The shareholder information set out below was current as at 7 July 2016.

Distribution of Shareholders

Category	Number of Holders
1 - 1,000	129
1,001 - 5,000	214
5,001 - 10,000	52
10,001 - 100,000	46
100,001 and over	4
	<u>445</u>

The number of shareholdings held in less than marketable parcels is 9.

Top 10 Shareholders

Name of Shareholder	Number of Shares	% of Total Shares
Bendigo and Adelaide Bank	1,112,146	19.4
Erskine Investments Pty Ltd	939,326	16.3
Hunters Ridge Pty Ltd	451,048	7.9
Ron Poyser Administrators Pty Ltd	438,400	7.6
EGP Fund No 1 Pty Ltd	150,000	2.6
MGR Property Pty Ltd	90,000	1.6
Latrobe University	84,000	1.5
Community Telco Syndicate	78,000	1.4
Indicrock Superannuation Pty Ltd	70,058	1.2
Kirkstow Nominees Pty Ltd	64,000	1.1
Total shares held by top 10 holders	<u>3,476,978</u>	<u>60.5</u>



This page has been intentionally left blank.

This page has been intentionally left blank.

