



**BENDIGO TELCO LIMITED**

**A.B.N. 88 089 782 203**

**2016 FINANCIAL REPORT**

## 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

#### 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 in the Concise Annual Report.

#### **ENVIRONMENTAL ISSUES**

The group is not subject to any significant environmental regulation.

## **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](http://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><u>14,947</u></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 14 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

<b>Occupation</b>	Managing Director – Industrial Conveying (Aust.) Pty Ltd
<b>Experience</b>	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.
<b>Interest in Shares</b>	Direct - 0 Shares Indirect – Erskine Investments Pty Ltd 939,326 Shares
<b>Special Responsibilities</b>	Chair of Remuneration Committee and Member of the Audit and Risk Committee.
<b>Other Directorships</b>	Nil

### Mr Robert George Hunt – AM, FAICD – Director

<b>Occupation</b>	Treasury Corporation of Victoria – Chairman
<b>Qualifications</b>	Fellow of the Australian Institute of Company Directors, 2003 Doctor of the University (honoris causa), LaTrobe University, 1999
<b>Experience</b>	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 <b>Community Bank®</b> 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.
<b>Interest in shares</b>	Indirect – Hunters Ridge Pty Ltd (Hunt Family Trust) 55,000 Shares Indirect – Hunters Ridge Pty Ltd (Rob & Annette Hunt Superannuation Fund) 396,048 Shares
<b>Special Responsibilities</b>	Nil
<b>Other Directorships &amp; Appointments</b>	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
<b>Honours and Awards</b>	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**

<b>Occupation</b>	Consultant
<b>Qualifications</b>	Dip Engineering - Civil (Swinburne), Dip Ed (Hawthorn State College)
<b>Experience</b>	<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>
<b>Interest in shares</b>	<p>Direct – 0 Shares</p> <p>Indirect – Jeanette Bastian 2,000 Shares</p>
<b>Special Responsibilities</b>	Member of Audit and Risk Committee
<b>Other Directorships</b>	Nil

---

**Ms Michelle Kaye O’Sullivan – Director**

<b>Occupation</b>	Lawyer – O’Sullivan Johanson Lawyers
<b>Qualifications</b>	<p>Bachelor of Laws (Hons)</p> <p>Bachelor of Commerce</p> <p>Certificate III in Fitness</p>
<b>Experience</b>	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.
<b>Interest in Shares</b>	Direct - 29,711 Shares
<b>Special Responsibilities</b>	Nil
<b>Other Directorships</b>	Rochester and Elmore District Health Service

---

**Mr Andrew Watts – Director**

<b>Occupation</b>	Executive, Customer Service Improvement, Bendigo and Adelaide Bank
<b>Qualifications</b>	Bach. Engineering (Civil), Grad Dip, Business Administration
<b>Experience</b>	<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>
<b>Interest in shares</b>	Direct – Nil
<b>Special Responsibilities</b>	Chair of Audit and Risk Committee and is a Member of the Remuneration Committee
<b>Other Directorships</b>	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	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 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
<b>Revenue</b>	\$23.9M	\$22.6M	\$22.0M	\$22.1M	\$22.8M
<b>EBITDA</b>	\$2.12M	\$2.48M	\$2.96M	\$2.61M	\$3.06M
<b>Net profit</b>	\$870K	\$1.13M	\$1.59M	\$1.13M	\$1.29M
<b>Share price at year end</b>	\$1.00	\$1.50	\$1.65	\$1.95	\$2.04
<b>Dividends paid</b>	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 \$	Superannuation \$	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 24<sup>th</sup> 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](mailto:afs@afsbendigo.com.au) | [www.afsbendigo.com.au](http://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	3	22,777,122	22,114,833
Cost of products sold		(10,627,938)	(10,996,856)
Other income	3	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	4	(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	5	<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>1,289,102</u>	<u>1,126,650</u>
Total comprehensive income attributable to members of Bendigo Telco Limited		<u>1,289,102</u>	<u>1,126,650</u>
<b>Earnings per share</b>			
Basic earnings per share (cents)	9	22.44	19.62
Diluted earnings per share (cents)	9	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 \$
<b>Current Assets</b>			
Cash and cash equivalents	10	1,577,913	947,316
Trade and other receivables	11	884,786	1,526,766
Prepayments		1,837,713	1,374,610
Inventories	12	140,719	131,516
<b>Total Current Assets</b>		<b>4,441,131</b>	<b>3,980,208</b>
<b>Non Current Assets</b>			
Property, plant and equipment	14	3,837,166	2,368,031
Intangible assets	15	1,518,925	1,506,320
Deferred tax asset	19(b)	337,754	231,738
<b>Total Non Current Assets</b>		<b>5,693,845</b>	<b>4,106,089</b>
<b>TOTAL ASSETS</b>		<b>10,134,976</b>	<b>8,086,297</b>
<b>Current Liabilities</b>			
Trade and other payables	16	1,636,672	1,392,058
Provisions	18	604,038	642,928
Taxation	19(a)	16,918	84,413
Borrowings	17	515,529	-
<b>Total Current Liabilities</b>		<b>2,773,157</b>	<b>2,119,399</b>
<b>Non Current Liabilities</b>			
Provisions	18	132,555	115,312
Borrowings	17	1,349,570	-
<b>Total Non Current Liabilities</b>		<b>1,482,125</b>	<b>115,312</b>
<b>TOTAL LIABILITIES</b>		<b>4,255,282</b>	<b>2,234,711</b>
<b>NET ASSETS</b>		<b>5,879,694</b>	<b>5,851,586</b>
<b>EQUITY</b>			
Issued capital	20	3,248,146	3,532,435
Retained earnings		2,631,548	2,319,151
<b>TOTAL EQUITY</b>		<b>5,879,694</b>	<b>5,851,586</b>

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 \$
<b>Balance at 1 July 2014</b>		<u>3,484,505</u>	<u>2,341,566</u>	<u>5,826,071</u>
<b>Comprehensive Income</b>				
Profit for the year		-	1,126,650	1,126,650
Other comprehensive income for the year		-	-	-
<b>Total comprehensive income for the year</b>		<u>-</u>	<u>1,126,650</u>	<u>1,126,650</u>
<b>Transaction with owners, in their capacity as owners, and other transfers</b>				
Dividends recognised for the year	8	-	(1,149,065)	(1,149,065)
Shares issued during the year		<u>47,930</u>	-	<u>47,930</u>
<b>Total transactions with owners and other transfers</b>		<u>47,930</u>	<u>(1,149,065)</u>	<u>(1,101,135)</u>
<b>Balance at 30 June 2015</b>		<u><b>3,532,435</b></u>	<u><b>2,319,151</b></u>	<u><b>5,851,586</b></u>
<b>Balance at 1 July 2015</b>		<u>3,532,435</u>	<u>2,319,151</u>	<u>5,851,586</u>
<b>Comprehensive Income</b>				
Profit for the year		-	1,289,102	1,289,102
Other comprehensive income for the year		-	-	-
<b>Total comprehensive income for the year</b>		<u>-</u>	<u>1,289,102</u>	<u>1,289,102</u>
<b>Transaction with owners, in their capacity as owners, and other transfers</b>				
Dividends recognised for the year	8	-	(976,705)	(976,705)
Shares issued during the year		-	-	-
Cost of equity raised		<u>(284,289)</u>	-	<u>(284,289)</u>
<b>Total transactions with owners and other transfers</b>		<u>(284,289)</u>	<u>(976,705)</u>	<u>(1,260,994)</u>
<b>Balance at 30 June 2016</b>		<u><b>3,248,146</b></u>	<u><b>2,631,548</b></u>	<u><b>5,879,694</b></u>

The accompanying notes form part of these financial statements

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

	Notes	2016 \$	2015 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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
<b>Net cash provided by operating activities</b>	<b>24</b>	<b>3,267,458</b>	<b>880,414</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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
<b>Net cash used in investing activities</b>		<b>(920,363)</b>	<b>(1,941,327)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Cost of shares issued		(284,289)	-
Repayment of finance lease		(455,504)	-
Dividends paid		(976,705)	(1,149,065)
<b>Net cash used in financing activities</b>		<b>(1,716,498)</b>	<b>(1,149,065)</b>
<b>Net increase / (decrease) in cash held</b>		<b>630,597</b>	<b>(2,209,978)</b>
Cash and cash equivalents at beginning of financial year		947,316	3,157,294
<b>Cash and cash equivalents at end of the financial year</b>	<b>10</b>	<b>1,577,913</b>	<b>947,316</b>

The accompanying notes form part of these financial statements

## NOTES TO THE FINANCIAL REPORT

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Preparation

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and the International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### (a) Principles of Consolidated

The consolidated financial statements incorporate all of the assets, liabilities of the parent (Bendigo Telco Limited) and the wholly owned subsidiary. A subsidiary is an entity the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of the subsidiary are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation.

#### Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of a business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

#### (b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### **(c) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within short-term financial liabilities in current liabilities on the statement of financial position.

#### **(d) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within 14 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debt, probability that the debt will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the assets carrying amount, and the present value of the estimated future cash flows.

#### **(e) Inventories**

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on the basis of the cost at time of purchase.

#### **(f) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated on either a straight line or diminishing value basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Asset Class	Depreciation Rate (%)	
	2016	2015
Office Furniture & Equipment		
Advertising Collateral	7.5	7.5
Furniture & Fittings	7.5 – 37.5	7.5 – 37.5
Office Equipment	7.5 - 40	7.5 - 40
Office Computer Equipment	20 – 66.67	20 – 66.67
Satellite Equipment	50	50
Software	33 - 80	33 - 80
Retail/Display Equipment	11.25	11.25
Installation/Servicing Equipment	11.25 - 30	11.25 - 30
Data Centre	2.5 - 50	2.5 - 50
Motor Vehicles	18.75 - 25	18.75 - 25
Leasehold	2.5 - 40	2.5 – 40
Telecommunications & Infrastructure		
Infrastructure	7.59	7.59
Network Computer & Infrastructure	8 - 50	8 - 50
Connectivity Links	7.5 - 50	7.5 - 50
Cloud	20	20

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

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

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

#### **(g) Impairment of Assets**

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

Impairment testing is also performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## **(h) Employee Benefits**

### **Short-term employee benefits**

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

### **Other long-term employee benefits**

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

### **Retirement benefit obligations**

Defined contribution superannuation benefits.

All employees of the Group receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's statement of financial position.

### **Termination benefits**

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of: (a) the date when the Group can no longer withdraw the offer for termination benefits; and (b) when the Group recognises costs for restructuring pursuant to AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as the other long-term employee benefits.

## **Equity-settled compensation**

The Group has operated an equity-settled share-based payment employee share scheme. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense in the period of the grant date, with the corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price.

### **(i) Revenue**

Revenue from the sale of goods is recognised upon delivery of goods to customers. Service revenue is recognised on a stage of completion basis. Interest revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset. All revenue is stated net of the amount of Goods and Services Tax (GST).

### **(j) Leases**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the group are classified as finance leases.

Finance leases are capitalised, recording an asset and a liability at the lower of the amount equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

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

### **(k) Financial Instruments**

#### **Recognition and Initial Measurement**

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

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

#### **Derecognition**

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

## **Classification and Subsequent Measurement**

### **(i) *Financial assets at fair value through profit or loss***

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value in accordance with the documented risk management or investment strategy. Realised and unrealised gains and losses arising from a change in fair value are included in profit or loss in the period in which they arise.

### **(ii) *Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at the principal amount. Interest is recognised as an expense as it accrues.

### **(iii) *Financial Liabilities***

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal repayments and amortisation.

## **Impairment**

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

## **(l) Intangibles**

### **Goodwill**

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

### **Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

Computer software development costs have been assessed as having a useful life of four years and will be tested annually for impairment and carried at cost less accumulated amortisation and impairment losses.

Projects that have not been completed by the end of the financial year have not yet been assessed for a useful life, this will be completed at the end of the project, therefore costs for these projects are recorded in the Balance Sheet without any amortisation. Once a useful life is established, amortisation will commence, and the projects will also be tested annually for impairment and carried at cost less accumulated amortisation and impairment losses.

## **(m) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis, except for the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO which are disclosed as operating cash flows.

#### **(n) Provisions**

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

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

#### **(o) Issued Capital**

Issued and paid up capital is recognised at the fair value of the consideration received by the group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

#### **(p) Comparative Information**

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

#### **(q) Critical Accounting Estimates and Judgments**

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

##### **Key Estimates – Impairment**

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of goodwill for the year ended 30 June 2016. Should the projected turnover figures be less than 90% of budgeted figures incorporated into value in use calculations, an impairment loss would be recognised up to the maximum carrying value of goodwill at 30 June 2016 amounting to \$916,491.

##### **Key Judgments – Provision for impairment of receivables**

Included in the accounts receivable at 30 June 2016 are amounts that equate to approximately \$69,057 which are currently progressing through our debt collection process and are therefore classified as impaired. A provision has been made in the balance sheet at 30 June 2016.

**(r) Segment Reporting**

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different for those segments operating in other economic environments. Refer to Note 23.

**(s) Share Based Payments**

The Group measures the goods and services received by equity-settled share based payment transactions as an increase in equity, directly, at the fair value of the goods or services rendered, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services rendered, the Group shall measure their value, and the corresponding increase in equity, indirectly by reference to the fair value of the equity instruments granted.

If the equity instruments granted vest immediately, are unconditional and are not required to complete a specified period of service, the Group shall presume that the services rendered by the counterparty as consideration for the equity instruments have been received. On grant date, the Group recognises the services rendered in full, with a corresponding increase in equity.

If the equity instruments do not vest until the counterparty completes a specified period of service, the Group shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the vesting period. The Group accounts for these services as they are rendered by the counterparty during the vesting period, with a corresponding increase to equity.

Share-based payment arrangements in which the group received goods or services as consideration for its own equity instruments are accounted for as equity-settled share based payment transactions, regardless of how the equity instruments are obtained by the Group.

**(t) Trade payables**

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

**(u) Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(v) New accounting standards for application in future periods**

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

This Standard is not expected to significantly impact the Group's financial statements.

AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

This Standard is not expected to significantly impact the Group's financial statements.

AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;

- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 2014-3: Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (applicable to annual reporting periods beginning on or after 1 January 2016).

This Standard amends AASB 11: Joint Arrangements to require the acquirer of an interest (both initial and additional) in a joint operation in which the activity constitutes a business, as defined in AASB 3: Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

The application of AASB 2014-3 will result in a change in accounting policies for the above described transactions, which were previously accounted for as acquisitions of assets rather than applying the acquisition method per AASB 3.

The transitional provisions require that the Standard should be applied prospectively to acquisitions of interests in joint operations occurring on or after 1 January 2016.

Although the directors anticipate that the adoption of AASB 2014-3 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

## 2. PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

### Statement of Financial Position

	2016	2015
	\$	\$
ASSETS		
Current assets	4,251,908	3,634,509
Non-current assets	5,641,151	4,050,344
TOTAL ASSETS	<u>9,893,059</u>	<u>7,684,853</u>
LIABILITIES		
Current liabilities	4,148,996	2,051,036
Non-current liabilities	132,555	115,312
TOTAL LIABILITIES	<u>4,281,551</u>	<u>2,166,348</u>
EQUITY		
Issued Capital	3,248,146	3,532,435
Retained Earnings	2,363,362	1,986,070
TOTAL EQUITY	<u>5,611,508</u>	<u>5,518,505</u>

### Statement of Profit or Loss and Other Comprehensive Income

Total profit	1,412,004	1,102,768
Total comprehensive income	<u>1,412,004</u>	<u>1,102,768</u>

### Guarantees

During the reporting period, no guarantees exist between the parent and subsidiary.

### Contingent liabilities

At 30 June 2016, no contingent liabilities exist in relation to the subsidiary.

### Contractual commitments

At 30 June 2016, no capital commitments exist in relation to the subsidiary.

## 3. REVENUE AND OTHER INCOME

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

#### 4. EXPENSES

	2016 \$	2015 \$
Depreciation and amortisation costs:		
Office furniture & equipment	308,564	189,636
Motor vehicles	106,172	116,677
Leasehold	54,806	56,467
Telecommunications & infrastructure	470,225	367,875
Amortisation of intangibles	296,749	302,124
	<u>1,236,516</u>	<u>1,032,779</u>
 Borrowing expenses:		
Interest paid	99,567	-
Other	3,863	11,861
	<u>103,430</u>	<u>11,861</u>
 Bad debts	11,538	14,587
Impaired debts	(114)	28,517
	<u>11,424</u>	<u>43,104</u>
 Rental expense on operating leases:		
Buildings	423,784	372,424
Equipment	704,449	684,965

#### 5. TAX EXPENSE

	2016 \$	2015 \$
a. The components of tax expense comprise:		
Current tax	510,349	525,017
Deferred tax	(16,240)	(30,235)
Under / (over) provision	(47,002)	(20,050)
	<u>447,107</u>	<u>474,732</u>
 b. The prima facie tax on profit from activities before income tax is reconciled to the income tax expenses as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2015: 30%)	520,863	480,415
Add:		
Tax effect of:		
- Movement in provision for impairment	(34)	14,467
- Movement in provision for employee benefits	(6,494)	29,901
- Movement in deferred tax	(106,016)	(44,857)
- Capital allowances	11,604	8,675
- Non-deductible expenses	6,854	6,181
	<u>(94,086)</u>	<u>14,367</u>
Less:		
Tax effect of:		
- Capital raising costs	(67,332)	-
- Over provision in respect of prior years	47,002	20,050
	<u>(20,330)</u>	<u>20,050</u>
Income tax attributable to entity	<u>447,107</u>	<u>474,732</u>

## 6. KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2016.

The totals of remuneration paid to KMP of the Group during the year are as follows:

	2016 \$	2015 \$
Short-term employee benefits	719,835	677,583
Post-employment benefits	87,753	110,062
Other long-term benefits	-	-
Termination benefits	-	91,484
Share-based payments	-	4,000
	<u>807,588</u>	<u>883,129</u>

### Short-term employee benefits

These amounts include fees and benefits paid to the non-executive Chair and all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.

### Post-employment benefits

These amounts are the current-year's costs of superannuation contributions made during the year and post-employment life insurance benefits.

### Other long-term benefits

These amounts represent long service leave benefits accruing during the year, long-term disability benefits and deferred bonus payments.

### Termination benefits

Amounts paid to KMP during the year upon termination of employment from the Group.

### Share-based payments

These amounts represent the expense related to the participation of KMP in employee share schemes as measured by the fair value of the shares granted on grant date.

Further information in relation to KMP remuneration can be found in the directors' report.

## KMP Shareholdings

The number of ordinary shares in Bendigo Telco Limited held by each KMP of the Group during the financial year is as follows:

30 June 2016	Balance at beginning of year	Granted as remuneration during year	Other changes during year	Balance at end of year
Robert Hunt	451,048	-	-	451,048
Graham Bastian	2,000	-	-	2,000
Don Erskine	939,326	-	-	939,326
Geoffrey Michell	20,002	-	-	20,002
Michelle O'Sullivan	-	-	29,711	29,711
Andrew Watts	-	-	-	-
Bryan Pedersen	4,351	-	-	4,351
Peter Bowman	-	-	-	-
Jim Nielsen	2,518	-	-	2,518
Adam Murdoch	3,418	-	-	3,418
Jeff Jordan	-	-	-	-
Jason Sim	-	-	-	-
	<u>1,422,663</u>	<u>-</u>	<u>29,711</u>	<u>1,452,374</u>

30 June 2015	Balance at beginning of year	Granted as remuneration during year	Other changes during year	Balance at end of year
Robert Hunt	451,048	-	-	451,048
Graham Bastian	2,000	-	-	2,000
Don Erskine	939,326	-	-	939,326
Geoffrey Michell	20,002	-	-	20,002
Michelle O'Sullivan	-	-	-	-
Andrew Watts	-	-	-	-
Bryan Pedersen	3,742	609	-	4,351
Peter Bowman	2,909	609	(3,518)	-
Jim Nielsen	1,909	609	-	2,518
Adam Murdoch	2,809	609	-	3,418
Jeff Jordan	-	-	-	-
Jason Sim	-	-	-	-
	<u>1,423,745</u>	<u>2,436</u>	<u>(3,518)</u>	<u>1,422,663</u>

## 7. AUDITORS' REMUNERATION

	2016 \$	2015 \$
Remuneration of the auditor for:		
Auditing the financial report	57,050	55,200
Taxation services	3,345	-
Share registry services	11,602	13,033
	<u>71,997</u>	<u>68,233</u>

## 8. 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%)	<u>402,173</u>	<u>402,173</u>
	<u>976,705</u>	<u>1,149,065</u>
Total dividends (cents) per share for the period	17.00	20.00
a. Proposed Final 2016 fully franked ordinary dividend of 10.0 (2015: 10.0) cents per share franked at the rate of 30% (2015: 30%)	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.		
b. Balance of franking account at year-end adjusted for franking credits arising from:		
- dividends recognised as receivables and franking debits arising from payment of proposed dividends	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)

## 9. EARNINGS PER SHARE

	2016 \$	2015 \$
a. Reconciliation of earnings to profit or loss		
Profit for the year	<u>1,289,102</u>	<u>1,126,650</u>
Earnings used in calculation of basic and diluted EPS	<u>1,289,102</u>	<u>1,126,650</u>
b. Weighted average number of ordinary shares		
Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS	5,745,322	5,741,158

## 10. CASH AND CASH EQUIVALENTS

	2016 \$	2015 \$
Cash at bank and on hand	1,547,913	917,316
Short term bank deposits	<u>30,000</u>	<u>30,000</u>
	<u>1,577,913</u>	<u>947,316</u>

Cash on hand is non interest bearing.

Cash at bank earned interest rates between 0% and 2.00% (2015: 0% and 2.00%) depending on the level of funds from time to time. Cash at bank is subject to interest rate risk, as it earns interest at floating rates. In 2016 the average floating interest rates for the Group were 1.12% (2015: 1.39%).

The effective interest rate on short term bank deposits was 2.65% (2015: 3.23%); these deposits had an average maturity of 360 days.

#### Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

	2016 \$	2015 \$
Cash and cash equivalents	<u>1,577,913</u>	<u>947,316</u>

#### 11. TRADE AND OTHER RECEIVABLES

	2016 \$	2015 \$
Trade debtors	953,843	1,595,937
Provision for impairment	<u>(69,057)</u>	<u>(69,171)</u>
	<u>884,786</u>	<u>1,526,766</u>

#### Impairment of receivables

The average credit period on sale of goods and rendering of services is 14 days. No interest is charged on trade receivables exceeding normal credit terms. An allowance has been made for estimated non-recoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

Before accepting any new customers, the Group internally reviews the potential customer's credit quality. Included in the Group's trade receivable balances are debtors with a carrying amount of \$179,024 (2015: \$159,573) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 14 days (2015: 25 days).

Ageing of trade receivables is as follows:

##### a. Ageing of past due but not impaired

	2016 \$	2015 \$
0 – 30 days	137,445	115,326
30 – 60 days	33,293	22,208
60 – 90 days	8,286	22,039
Over 91 days	<u>-</u>	<u>-</u>
	<u>179,024</u>	<u>159,573</u>

b. Movement in the provision for impairment

	2016 \$	2015 \$
Balance at beginning of the year	69,171	20,947
Impairment recognised during the year	11,424	62,811
Amounts written off as uncollectable	(11,538)	(14,587)
Amounts recovered during the year	-	-
Balance at the end of the year	<u>69,057</u>	<u>69,171</u>

In determining the recoverability of a trade receivable, the Group considers any recent history of payments and the status of the projects to which the debt relates to. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Fair value of receivables: Fair value of receivables at year end is measured to be the same as receivables net of provision for impairment.

**12. INVENTORIES**

	2016 \$	2015 \$
Inventory	<u>140,719</u>	<u>131,516</u>
	<u>140,719</u>	<u>131,516</u>

**13. INTEREST IN SUBSIDIARY**

**a. Information about Principal Subsidiary**

The subsidiary listed below has 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's 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.

#### 14. PROPERTY PLANT AND EQUIPMENT

	2016 \$	2015 \$
<b>Office, Furniture &amp; Equipment</b>		
At Cost	1,836,379	1,593,575
Accumulated depreciation	(981,899)	(673,335)
	<u>854,480</u>	<u>920,240</u>
<b>Motor Vehicles</b>		
At Cost	542,837	567,989
Accumulated depreciation	(387,185)	(362,199)
	<u>155,652</u>	<u>205,790</u>
<b>Leasehold</b>		
At Cost	586,193	576,547
Accumulated depreciation	(341,287)	(286,480)
	<u>244,906</u>	<u>290,067</u>
<b>Telecommunications &amp; Infrastructure</b>		
At Cost	5,270,026	3,169,608
Accumulated depreciation	(2,631,941)	(2,161,717)
Accumulated impairment losses	(55,957)	(55,957)
	<u>2,582,128</u>	<u>951,934</u>
<b>Total Property, Plant &amp; Equipment</b>	<u><u>3,837,166</u></u>	<u><u>2,368,031</u></u>

##### a. Movement in carrying amounts

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

	Office, Furniture & Equipment	Motor Vehicles	Leasehold	Telecommunica tions & Infrastructure	TOTAL
Balance at 1 July 2014	495,509	278,929	323,504	899,723	1,997,665
Additions	614,368	62,935	23,030	420,086	1,120,419
Disposals	(1)	(19,397)	-	-	(19,398)
Depreciation	(189,636)	(116,677)	(56,467)	(367,875)	(730,655)
Impairment	-	-	-	-	-
Balance at 30 June 2015	<u>920,240</u>	<u>205,790</u>	<u>290,067</u>	<u>951,934</u>	<u>2,368,031</u>
Additions	242,804	56,034	9,645	2,100,419	2,408,902
Disposals	-	-	-	-	-
Depreciation	(308,564)	(106,172)	(54,806)	(470,225)	(939,767)
Impairment	-	-	-	-	-
Balance at 30 June 2016	<u><u>854,480</u></u>	<u><u>155,652</u></u>	<u><u>244,906</u></u>	<u><u>2,582,128</u></u>	<u><u>3,837,166</u></u>

## 15. INTANGIBLES

	2016 \$	2015 \$
<b>Goodwill</b>		
Cost	916,491	916,491
Accumulated Impairment Losses	-	-
Net Carrying Value	<u>916,491</u>	<u>916,491</u>
<b>Internally Generated Software</b>		
Cost	1,195,815	1,045,847
Accumulated Amortisation	<u>(1,006,920)</u>	<u>(885,756)</u>
Net Carrying Value	<u>188,895</u>	<u>160,091</u>
<b>Project Development</b>		
Cost	980,167	820,782
Accumulated Amortisation	<u>(566,628)</u>	<u>(391,044)</u>
Net Carrying Value	<u>413,539</u>	<u>429,738</u>
<b>Franchise Fee</b>		
Cost	-	50,000
Accumulated Amortisation	<u>-</u>	<u>(50,000)</u>
Net Carrying Value	<u>-</u>	<u>-</u>
<b>Total Intangibles</b>	<u><u>1,518,925</u></u>	<u><u>1,506,320</u></u>

	Goodwill	Internally Generated Software	Project Development	Franchise Fee	TOTAL
<b>Year ended 30 June 2015</b>					
Balance at beginning of year	916,491	231,576	372,441	5,000	1,525,508
Additions	-	65,541	217,395	-	282,936
Amortisation charge	-	(137,026)	(160,098)	(5,000)	(302,124)
	<u>916,491</u>	<u>160,091</u>	<u>429,738</u>	<u>-</u>	<u>1,506,320</u>
<b>Year ended 30 June 2016</b>					
Balance at beginning of year	916,491	160,091	429,738	-	1,506,320
Additions	-	149,969	159,385	-	309,354
Amortisation	-	(121,165)	(175,584)	-	(296,749)
Closing value at 30 June 2016	<u>916,491</u>	<u>188,895</u>	<u>413,539</u>	<u>-</u>	<u>1,518,925</u>

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the statement of profit or loss and other comprehensive income. Goodwill has an indefinite useful life.

## Impairment Disclosures

Goodwill is allocated to a cash-generating unit (CGU) which was acquired through a business combination in 2006.

	2016 \$	2015 \$
Acquired CGU	916,491	916,491
Total Goodwill	<u>916,491</u>	<u>916,491</u>

The recoverable amount of the cash generating unit above is determined based on value in use calculations. The value in use is calculated based on the present value of cash flow projections over a 10 year period with the period extending beyond 5 years extrapolated using an estimated growth rate. The cash flows are discounted using the yield of 10 year government bonds at the beginning of the budget period which was 3%.

Management has based the value in use calculations on budgets for the reporting CGU. These budgets use historical weighted average growth rates to project revenue across all aspects of the operational CGU. Costs are calculated taking into account historical gross margins as well as estimating weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the CGU's operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular CGU.

## 16. TRADE AND OTHER PAYABLES

	2016 \$	2015 \$
Unsecured liabilities:		
Trade payables	933,065	995,325
Sundry payables and accrued expenses	<u>703,607</u>	<u>396,733</u>
	<u>1,636,672</u>	<u>1,392,058</u>

## 17. BORROWINGS

	2016 \$	2015 \$
Current		
Secured by fixed and floating registered mortgage debenture		
Lease liability	515,529	-
Total current borrowings	<u>515,529</u>	<u>-</u>
Non current		
Secured by fixed and floating registered mortgage debenture		
Lease liability	1,349,570	-
Total non-current borrowings	<u>1,349,570</u>	<u>-</u>

The group has two facilities provided by the Bendigo and Adelaide Bank Limited.

1. Commercial Business (Overdraft) Facility to a maximum value of \$500,000.
2. Lease liabilities are secured by the underlying leased assets.

Both facilities are secured by a Registered First Company Debenture charge from Bendigo Telco Limited in its own right.

## 18. PROVISIONS

	2016 \$	2015 \$
Current		
Employee Benefits		
Annual Leave	270,626	282,604
Long Service Leave	333,412	289,977
Sick Leave	-	70,347
	<u>604,038</u>	<u>642,928</u>
Non Current		
Employee Benefits		
Long Service Leave	<u>132,555</u>	<u>115,312</u>
	<u>132,555</u>	<u>115,312</u>

### Provision for Employee Benefits

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion of this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion of this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been discussed in Note 1.

## 19. TAX

	2016 \$	2015 \$
a. Liabilities		
Current		
Provision for income tax	<u>16,918</u>	<u>84,413</u>
Non Current		
Deferred Tax Liability	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
b. Deferred Tax Assets		
Balance as at 30 June	<u>337,754</u>	<u>231,738</u>
Represented by tax effect of:		
- Provision for impaired debts	20,717	20,751
- Provision for annual leave	81,188	84,781
- Provision for long service leave	139,790	121,587
- Provision for sick leave	-	21,104
- Capital allowances	6,283	(16,485)
- Capital raising costs deductible	<u>89,776</u>	<u>-</u>
	<u>337,754</u>	<u>231,738</u>

## 20. ISSUED CAPITAL

	No. of Shares	2016 \$	2015 \$
Fully paid ordinary shares at beginning of period	5,716,096	3,816,634	3,768,704
Shares issued on 22 August 2014	29,226	-	47,930
Less cost of equity raised - IPO		(284,199)	(284,199)
Less cost of equity raised - Scheme of arrangement		(284,289)	-
	5,745,322	3,248,146	3,532,435

## 21. CAPITAL AND LEASING COMMITMENTS

### (a) Finance Lease Commitments

	2016 \$	2015 \$
Payable minimum lease payments:		
No later than 12 months	609,151	574,956
Between 12 months and 5 years	1,464,237	1,978,087
Minimum lease payments	2,073,388	2,553,043
Less future finance charges	(208,289)	(306,662)
Present value of minimum lease payments	1,865,099	2,246,381

#### Leasing arrangements

Finance leases relate to Property Plant & Equipment, with lease terms of either three or five years. The economic entity has options to purchase the equipment for a nominal amount at the conclusion of the lease arrangements.

### (b) Operating Lease Commitments

Non-cancellable operating leases contracted for but not recognised in the financial statements

	2016 \$	2015 \$
Payable minimum lease payments:		
No later than 12 months	928,873	1,008,936
Between 12 months and 5 years	592,342	1,447,205
	1,521,215	2,456,141

#### Leasing arrangements

The operating leases relate to the rental of the business premises including:

1. 23 McLaren Street, Bendigo - Lease term renegotiated to commencing 1 May 2012 and ending on 30 June 2017, with rent payable monthly in advance. There is also an option for 3 further terms of five years each, and each of those options must be exercised at least 3 months in advance. Fixed reviews of 2.5% increases will take place on 1 July 2016.

2. Business Continuity Centre, 121 Edwards Road, Flora Hill - the lease has been renewed for a further five years, lease term beginning 1 September 2013 and ending 31 August 2018. Rent is payable monthly in advance and an annual CPI review during the term on 1 September each year. There is an option for a further five year term by giving notice at least 3 months in advance.

3. 113 Williamson Street, Bendigo – Lease term renegotiated to commencing 1 May 2012 and ending 30 June 2017, with rent payable monthly in advance. There is an option for 3 further terms of five years each by giving notice at least 3 months in advance. Fixed reviews of 2.5% increases will take place on 1 July 2016.

Operating leases for computer network/infrastructure equipment for customer use continued in this financial period with terms of either three or five years. Approximately 67% of the overall liability relates to these leases which will generate revenues in excess of the expenses noted below.

The group does not have an option to purchase the leased asset at the expiry of any lease period.

### (c) Capital Expenditure Commitments

	2016 \$	2015 \$
Capital expenditure commitments contracted for:		
Plant and Equipment	-	-
Motor Vehicles	-	24,000
Computer Network & Infrastructure	-	-
	<u>-</u>	<u>24,000</u>
Payable:		
No later than 12 months	-	24,000
Between 12 months and 5 years	-	-
	<u>-</u>	<u>24,000</u>

## 22. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent assets or contingent liabilities at the date of this report to affect the financial statements.

## 23. OPERATING SEGMENTS

The group has adopted AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a 'management approach'; that is, segment information is provided on the same basis as information used for internal reporting purposes by the chief operating decision maker (the board that makes strategic decisions).

Bendigo Telco Limited operates under one segment, however, the breakdown of revenue has been disclosed by product set. Goodwill has been reallocated accordingly to cash generating units which cannot be greater than a segment as defined in AASB 8 Operating Segments. On reallocation, no additional goodwill impairment was required.

### 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
	<u>22,777,121</u>	<u>22,114,833</u>

## Assets & Liabilities

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

## 24. CASH FLOW INFORMATION

	2016 \$	2015 \$
Reconciliation of net cash provided by operating activities with		
Profit after income tax	1,289,102	1,126,650
Non-cash flows in profit:		
Depreciation and amortisation of non current assets	1,236,516	1,032,779
Loss / (Profit) on sale of assets	(23,845)	(39,239)
Staff share issue	-	47,930
Change in assets and liabilities		
(Increase)/decrease in assets		
Receivables	641,980	(516,578)
Prepayments	83,452	(96,944)
Inventories	(9,203)	(22,780)
Deferred tax asset	(106,016)	(44,857)
Accounts payable	244,614	(567,423)
Provisions	(21,647)	99,670
Taxation	(67,495)	(138,794)
Net cash flow from operating activities	<u>3,267,458</u>	<u>880,414</u>

## 25. 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.

## 26. RETIREMENT BENEFITS AND SUPERANNUATION PAYMENTS

	2016 \$	2015 \$
Amounts of a prescribed benefit given during the year by the Group or a related party to a director or prescribed superannuation fund in connection with the retirement from a prescribed office.	Nil	Nil

## 27. DIRECTORS RELATED PARTY DISCLOSURES

The names of directors who have held office during the financial year are:

Robert Hunt	Graham Bastian
Don Erskine	Michelle O'Sullivan
Andrew Watts	

No director or related entity has entered in to a material contract with the group.

	2016 No.	2015 No.
Directors Shareholdings		
Robert Hunt	451,048	451,048
Graham Bastian	2,000	2,000
Don Erskine	939,326	939,326
Geoffrey Michell	20,002	20,002
Michelle O'Sullivan	29,711	-
Andrew Watts	-	-

Bendigo Telco is provided banking overdraft and lending facilities by Bendigo and Adelaide Bank Ltd. The banking services are provided in accordance with Bendigo and Adelaide Bank's prevailing product terms and conditions.

## 28. FINANCIAL RISK MANAGEMENT

### (a) Financial Risk Management Policies

The group's financial instruments consist mainly of deposits with bank, short-term investments, accounts receivable and payable and leases. The main purpose of non-derivative financial instruments is to raise finance for group operations.

The group's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The group's overall risk management programme focuses on the unpredictability of the telecommunications market and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out by the Board of Directors and senior management.

- (i) Market Risk – the group has no exposure to any transactions denominated in a currency other than Australian dollars.
- (ii) Price Risk – the group is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The group is not exposed to commodity price risk.
- (iii) Credit Risk – the group has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history and credit rating.
- (iv) Liquidity Risk – the group maintains prudent liquidity management by maintaining sufficient cash and the availability of funding from credit facilities.
- (v) Cash flow and fair value interest rate risk – interest-bearing assets are held with Bendigo and Adelaide Bank Limited and subject to movements in market interest. The group has mitigated risk on long-term interest-bearing liabilities by negotiating fixed rate contracts.

The accounting policies including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:

Recognised	Accounting Policies	Terms and Conditions
<i>Financial assets</i>		
Notes, coin and cash at bank	Notes, coin and cash at bank are stated at cost and any interest is taken up as income on an accrual basis.	These items are cash or are readily convertible to cash.
Accounts Receivable – Debtors	Debtors are carried at the nominal amounts due less any provision for impairment. An impairment provision is made for any amounts which are considered unlikely to be collected.	Trade receivables are generally due for settlement within 14 days.
<i>Financial liabilities</i>		
Creditors and Accruals	Liabilities are recognised for amounts to be paid in the future for goods and services.	Trade creditors are normally settled on 30 day terms, or in accordance with agreement with individual creditors.

## (b) Financial Instruments

### Financial instrument composition and maturity analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

	Fixed Interest Rate		Floating Interest Rate	
	Weighted Average Effective			
	2016	2015	2016	2015
	%	%	\$	\$
<b>Financial Assets</b>				
Cash or Cash Equivalents	-	-	1,547,913	917,316
Short-term Deposits	2.65	3.23	30,000	30,000
Accounts Receivable - Debtors	-	-	-	-
<b>Total Financial Assets</b>	<b>2.65</b>	<b>3.23</b>	<b>1,577,913</b>	<b>947,316</b>
<b>Financial Liabilities</b>				
Creditors & Accruals	-	-	-	-
Finance Leases	5.68	5.74	-	-
<b>Total Financial Liabilities</b>	<b>5.68</b>	<b>5.74</b>	<b>-</b>	<b>-</b>
	Within 1 Year		1 to 5 years	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Financial Assets</b>				
Cash or Cash Equivalents	-	-	-	-
Short-term Deposits	-	-	-	-
Accounts Receivable - Debtors	-	-	-	-
<b>Total Financial Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities</b>				
Creditors & Accruals	-	-	-	-
Finance Leases	609,151	574,956	1,464,237	1,978,087
<b>Total Financial Liabilities</b>	<b>609,151</b>	<b>574,956</b>	<b>1,464,237</b>	<b>1,978,087</b>
	Over 5 years		Non Interest Bearing	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Financial Assets</b>				
Cash or Cash Equivalents	-	-	-	-
Short-term Deposits	-	-	-	-
Accounts Receivable - Debtors	-	-	884,786	1,526,766
<b>Total Financial Assets</b>	<b>-</b>	<b>-</b>	<b>884,786</b>	<b>1,526,766</b>
<b>Financial Liabilities</b>				
Creditors & Accruals	-	-	1,636,672	1,392,058
Finance Leases	-	-	-	-
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>1,636,672</b>	<b>1,392,058</b>

	Total	
	2016	2015
	\$	\$
<b>Financial Assets</b>		
Cash or Cash Equivalents	1,547,913	917,316
Short-term Deposits	30,000	30,000
Accounts Receivable - Debtors	884,786	1,526,766
<b>Total Financial Assets</b>	<b>2,462,699</b>	<b>2,474,082</b>
<b>Financial Liabilities</b>		
Creditors & Accruals	1,636,672	1,392,058
Finance Leases	1,865,099	-
<b>Total Financial Liabilities</b>	<b>3,501,771</b>	<b>1,392,058</b>
Creditors and accruals are expected to be paid as follows:	2016	2015
	\$	\$
Less than 6 months	1,636,672	1,392,058
6 months to 1 year	-	-
1 – 5 years	-	-
Over 5 years	-	-
	<b>1,636,672</b>	<b>1,392,058</b>

#### (c) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of Bendigo Telco which have been recognised on the balance sheet is the carrying amount net of any provisions for impairment.

Bendigo Telco has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history and credit rating.

#### Exposure to Credit Risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2016	2015
	\$	\$
Cash or Cash Equivalents	1,577,913	947,316
Trade & Other Receivables	884,786	1,526,766
	<b>2,462,699</b>	<b>2,474,082</b>

The Group's entire exposure to credit risk for Trade Receivables was attributable to customers located in Australia.

#### (d) Liquidity Risk

The following are the contractual maturities of financial liabilities, including estimated interest payments, for the Group:

	Carrying Amount \$	Contracted Cash Flows \$	1 year or less \$	1-5 years \$	Over 5 years \$
<b>30 June 2016</b>					
<b>Financial Liabilities</b>					
Trade and other payables	933,065	933,065	933,065	-	-
Lease liabilities	1,865,099	2,073,388	609,151	1,464,237	-
<b>Total financial liabilities</b>	<b>2,798,164</b>	<b>3,006,453</b>	<b>1,542,216</b>	<b>1,464,237</b>	<b>-</b>

Lease Liabilities have been entered into subsequent to balance date.

#### (e) Fair Values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

	Total Carrying Amount per Balance Sheet		Aggregate Net Fair Values	
	2016 \$	2015 \$	2016 \$	2015 \$
<b>Financial Instruments</b>				
<b>Financial assets</b>				
Cash or cash equivalents	1,547,913	917,316	1,547,913	917,316
Short-term bank deposits	30,000	30,000	30,000	30,000
Accounts receivable - debtors	884,786	1,526,766	884,786	1,526,766
<b>Total financial assets</b>	<b>2,462,699</b>	<b>2,474,082</b>	<b>2,462,699</b>	<b>2,474,082</b>
<b>Financial liabilities</b>				
Creditors and accruals	1,636,672	1,392,058	1,636,672	1,392,058
Finance leases	1,865,099	-	1,865,099	-
<b>Total financial liabilities</b>	<b>3,501,771</b>	<b>1,392,058</b>	<b>3,501,771</b>	<b>1,392,058</b>

The following methods and assumptions are used to determine the net fair values of Financial Assets and Financial Liabilities:

#### Recognised Financial Instruments

Cash and Short Term Investments	These financial instruments have a short term to maturity. Accordingly it is considered that carrying amounts reflect fair values.
Receivable and Creditors and Accruals	Carrying amounts reflect fair values.
Long Term Investments	Carrying amounts reflect fair values.

**(f) Sensitivity Analysis**

**Interest Rate Risk**

The group has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

*Interest Rate Sensitivity Analysis*

At 30 June 2016, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2016	2015
	\$	\$
Change in profit		
Increase in interest rate by 2%	25,252	41,046
Decrease in interest rate by 2%	(25,252)	(41,046)
Change in equity		
Increase in interest rate by 2%	25,252	41,046
Decrease in interest rate by 2%	(25,252)	(41,046)

**29. REGISTERED OFFICE/PRINCIPAL PLACES OF BUSINESS**

**Registered Office**

23 McLaren Street, Bendigo, Victoria.

**Principal Places of Business**

Bendigo Office – 23 McLaren Street, Bendigo, Victoria.

Business Advisory Centre – 113 Williamson Street, Bendigo, Victoria.

Data Centre - 121 Edwards Road, Bendigo, Victoria.

McPherson Media - 56 High Street, Shepparton, Victoria.

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Bendigo Telco Limited, the directors of the group declare that:

1. the financial statements and notes of the group are in accordance with the *Corporations Act 2001*, and:
  - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with the International Financial Reporting Standards (IFRS); and
  - b. give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the consolidated group;
2. in the director's opinion there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable;
3. the directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and General Manager Finance; and
4. the audited remuneration report set out in the Directors Report (as part of the remuneration report), for the year ended 30 June 2016, comply with section 300A of the *Corporations Act 2001* and the Corporations Regulation 2001.

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

Signed on 24 August 2016



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

##### **Report on the Financial Report**

We have audited the accompanying 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, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at year's end.

##### **Directors' Responsibility for the Financial Report**

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

##### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

##### **Independence**

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

##### **Auditor's Opinion**

In our opinion:

- a. the financial report of Bendigo Telco Limited is in accordance with the *Corporations Act 2001* including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

##### **Report on the Remuneration Report**

We have audited the remuneration report included in pages 10-12 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

##### **Auditor's Opinion**

In our opinion the remuneration report of Bendigo Telco Limited for the year ended 30 June 2016 complies with s 300A of the *Corporations Act 2001*.

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

**Andrew Frewin Stewart**  
61 Bull Street, Bendigo, Victoria  
Dated this 24<sup>th</sup> 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](mailto:afs@afsbendigo.com.au) | [www.afsbendigo.com.au](http://www.afsbendigo.com.au)

TAXATION • AUDIT • BUSINESS SERVICES • FINANCIAL PLANNING

## 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 7.

### 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>