

Chairman and CEO's Report 2016

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

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

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

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

Industry Trends

The 'telco' market shows no signs of deviating from the path of constant change and technology revision that has characterized it over the last two decades. To keep pace, Bendigo Telco has made investments in key new technology areas. One of the important changes underway at present is the movement away from traditional analogue fixed-line telephone services to phone services being provided 'over the top' of a data connection. Your business has implemented a range of products in this arena that is known in the industry as Session Initiation Protocol or 'SIP'. Our SIP products enable customers to enjoy the same high quality, long associated with fixed line phones – but with enhanced flexibility and significantly reduced costs. At the same time, our close relationships with downstream telco providers enable us to deliver these lower cost services to our customers in a way that preserves or enhances our margins. A second area of recent advance is the move away from

physical PBX systems to virtual 'cloud' based PBX functions. Traditionally, small businesses purchased expensive telephone switches called PBX's that they would host on their own premises. The opportunity now exists to enjoy the functions of these systems in a 'virtual' model where the PBX is provided by a cloud services provider and shared across many customers. Again, Bendigo Telco is able to bring these new services to our customers that enable them to reduce their costs in a way that maintains the margins that we retain from this area of our business.

Proposed merger with Vicwest

Just as Bendigo Telco has developed a sustainable business here in Bendigo by focusing on the telco needs of our community and customers, Vicwest has built a similar business spread across both Geelong and Ballarat. BT has entered into a Memorandum of Understanding (MOU) with BEN under which the two business would combine. This is an exciting prospect for your company as the transaction would see a substantially increased footprint for Bendigo Telco to deploy its broad product set.

Proposed acquisition of additional Community Telco customers

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

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

Sales and Marketing

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

Cost Controls and Margin Focus

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

Acknowledgements

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

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

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

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



Don Erskine

Chairman



Jeff Jordan

CEO

