



BendigoTelco
Connecting our community

2017

CONCISE FINANCIAL REPORT



Bendigo Telco Limited

ABN 88 089 782 203

REGISTERED OFFICE

23 McLaren Street
Bendigo VIC 3550

OFFICE LOCATIONS

Bendigo Telco

23 McLaren Street
Bendigo VIC 3550

Vicwest Telco

39A Peel Street
Ballarat VIC 3350

Unit 3, 2-6 Rutland Street
Geelong VIC 3220

Tastel

Level 9, 39 Murray Street
Hobart TAS 7000

Suite 2, Level 1 Patterson Street
Launceston TAS 7250

South East QLD Telco

Level 2, 12 Aerodrome Road
Maroochydore QLD 4558

Telephone 1300 228 123
bendigotelco.com.au

SHAREHOLDER ENQUIRIES

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

Telephone (03) 5443 0344

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CHAIRMAN AND CEO REPORT 2017

The 2017 Financial year has been one of significant change and opportunity for our business that has enabled us to build a solid foundation for long-term sustainable growth.

During the period, we completed an important merger transaction that has combined three businesses into a single integrated entity:

- Bendigo Telco - Our existing consumer and business customers.
- VicWest Telco - Geelong and Ballarat based consumer and business customers.
- Community Telco Australia (CTA) - Business customers in Tasmania, NSW, and QLD.

As a result of this merger, the Bendigo Telco Group now has significantly increased scale and a broader geographical footprint that positions the business for strong future growth.

Additionally, as part of the merger agreement, the Bendigo and Adelaide Bank signed a new five-year contract with Bendigo Telco that will enable us to provide their wide area network requirements through 2021.

This long-term supply agreement extension is a demonstration of the significant relationship that Bendigo Telco continues to enjoy with the Bank.

For all of our customers, this increase in the scale of our business will mean: enhanced customer support, better pricing on products and services, and access to new technology while continuing to deliver a community dividend.

As with any merger of this complexity there have been a number of challenges to overcome. These include the technical requirements of moving thousands of new services to our billing system as well as the need to assimilate many new staff members into our organisation. There have also been additional costs incurred during the period associated with the completion of the merger transaction.

These additional costs have had an effect on the profitability of the business for the full 2017 financial year, resulting in a final after tax profit of \$915,948. Our Board of Directors has declared a fully franked dividend of 8.0 cents for the latest half, making the full-year dividend a payment of 11.0 cents for the complete financial year.

Our average dividend yield over the past 5 years has been 9.07% fully franked.

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

- Completion of the merger agreement between Bendigo Telco, CTA, and VicWest that has added significant scale to the business.
- The signing of a new Wide Area Network agreement with Bendigo Bank enabling us to provide their core networking infrastructure for an additional five-year period. This contract amounts to more than \$20M over the five-year term.
- Following the completion of the merger, Bendigo Telco leveraged its additional scale to undertake a review of its supplier pricing. This process has resulted in significantly reduced wholesale costs that will materially improve the profitability of the business.
- Expansion of the business beyond Bendigo to include additional new markets including Ballarat, Geelong and Tasmania.
- Migration of a significant portion of our installed base of customers from legacy internet technologies such as ADSL to the new National Broadband Network (NBN).
- A continuation of the cost control focus that has enabled management to make significant savings within the business over the last financial year.

NEW CUSTOMERS AND BUSINESS

As a result of the merger, the Bendigo Telco Group can now count amongst its customers many well known Australian brand names.

We have expanded our market reach in a range of areas including the health care, primary production, and manufacturing segments.

Bendigo Telco Group is proud to be able to serve our new customers which are themselves important parts of the communities which they support.

In addition, towards the end of the financial year, Bendigo Telco was successful in securing the Bendigo Banks telephony business under a new 3 year contract which provides a further endorsement from our largest business customer.

INDUSTRY TRENDS

The NBN Co.'s National Broadband Network continues to have a profound effect on the entire telecommunications industry.

This is particularly important for Bendigo Telco as the NBN roll-out now has significant momentum in all of our key marketplaces. Customers are now making the decision to switch from their traditional analogue voice and data service to the new NBN offerings.

Our investment in becoming a direct wholesale partner of NBN Co. enables us to provide our customers and local communities with a premium NBN experience while retaining sound margins for the business. In other areas, we are able to leverage our wholesale relationships with partners such as Telstra and AAPT to deliver NBN connectivity Australia-wide.

More broadly, we continue to expect that the extension of the NBN footprint will have a negative impact on industry-wide Telco margins as profitability is decreased in order to fund the NBN network roll-out.

To meet this challenge, Bendigo Telco has invested in direct 'Business to Business' connections to NBN Co. that streamline the NBN service ordering process. This will enable us to be a more efficient and cost-effective provider of this service for our customers.

The trend also continues, especially amongst our business customers, for the transition from analogue voice to 'voice over data'. This evolution enables our customers to have a single network rather than separate data and voice networks.

Bendigo Telco, through a range of wholesale relationships, ensures that we can deliver these new services to our customers with increased flexibility and lower costs while protecting the margins that we retain for our business.

Bendigo Telco continues to look for opportunities in the telecommunications sector where we can add value for our customers.

We are investing in products that will enhance our capability in a range of 'cloud' areas such as 'backup as a service' and 'infrastructure as a service'.

We favor the development of products in arenas that require deep technical knowledge and that have the potential to lower the cost of business for our end-user customers.

THE MERGED BUSINESS GOING FORWARDS

The task of integrating the various aspects of the merger deal into an integrated whole is now behind us.

We have built a stronger business that has sound growth potential in a broad spread of marketplaces.

We are a fully independent telecommunications business with the ability to deliver advanced technologies to our customers and communities.

Our additional scale has already shown itself to be very significant in achieving lower supplier prices that will make a positive difference to our retained earnings.

ACKNOWLEDGMENTS

Across our entire business – we are focused on serving the communities of which we are an important part.

The business has been through some very important changes recently that establish the foundation for our success over the long term.

I would like to thank our Board of Directors, Management, staff and customers for the enthusiasm that they have shown for our work as we have completed this transformation.

The team is confident that we can look to the next financial year with strong prospects as we strive to meet the needs of our current and future customers.

We leave FY 2017 with the prospect of a bright future ahead underpinned by our commitment to deliver the best in telecommunication products to the communities that we serve.



Don Erskine
Chairman



Jeff Jordan
CEO

OPERATING AND FINANCIAL REVIEW

PRINCIPAL ACTIVITIES

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

OPERATING RESULTS AND REVIEW OF OPERATIONS

The concise financial report is an extract from the full financial report for the full year ended 30 June 2017. The financial statements and disclosures in the concise report have been derived from the 2017 financial report of Bendigo Telco Limited and Controlled Entities. The concise financial report cannot be expected to provide as full an understanding of financial performance, financial position and financing and investing activities as the full financial report. A copy of the full financial report and auditor's report will be sent to any shareholder, free of charge, upon request. The discussion and analysis is provided to assist shareholders in understanding the concise financial report.

About Bendigo Telco

Bendigo Telco is a provider of managed telecommunications services to customers located throughout Australia.

The business now has offices in several key markets including Bendigo, Ballarat, Geelong, Tasmania and the Gold Coast. Our core product offerings include - fixed line telephone services, Internet Services, Cloud Services and Virtual Private Networks. Our focus is on delivering technology solutions to our customers that are underpinned by a level of support that is rare in our industry.

During the financial year 2017, the company, led by CEO - Jeff Jordan completed the merger with Vicwest under a 'scheme of arrangement' and acquired a range of other assets from Community Telco Australia. The transaction also included the signing of an additional five-year contract with the Bendigo and Adelaide Bank Ltd for provision of their wide area network. This long-term contract that extends through 2021, is an important endorsement from our largest customer and secures long-term revenue certainty for our business.

During the period, the business also added an important new contract to supply Bendigo and Adelaide Bank with fixed-line voice services. Additionally, our broadened customer base will enable us to offer a wider range of service to our new customers, providing sound potential for further business growth.

The implementation of the merger transaction is now well behind us and has left us a stronger business with significantly increased scale. In addition, our greater size has proven very useful in renegotiating supplier contracts that will lead to a significant increase in our retained margins.

The roll out of the NBN Co.'s National Broadband network (NBN) has continued to have a significant effect on our industry. Bendigo Telco has a direct wholesale relationship in place with NBN Co. that has allowed us to maintain our margins as customers make the switch from ADSL to NBN. Our strong relationships with our wholesale partners, combined with our increased scale has enabled us to remain competitive in this period of rapid change in the 'telco industry'.

As ever, the communities that we serve are a primary focus at Bendigo Telco. During FY 2017, we have worked with a broad range of community organisations to help deliver sustainable outcomes and foster community success.

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Financial and Operating Performance

Year ended 30 June (\$'000)	2017	2016	Change (%)
Revenue	31,255	22,777	37.2%
Gross margin	14,140	12,149	16.4%
Net profit after tax	916	1,289	(28.9)%
Earnings per share (cents)	12.37	22.44	
Dividend (cents per share)	13.0	17.0	

Total company revenue increased 37.2% from the prior year delivering a total turnover of \$31,254,789.

The consolidated profit of the Group amounted to \$915,948 after providing for income tax. This represents a 28.9% decrease on the results reported for the year ended 30 June 2016. The financial performance of the Group did not meet expectations for the period primarily due to additional operational and acquisition costs as well as several one-off costs, which were directly related to the implementation associated with the merger. However, with this transition fully behind us, the business is now positioned to take full advantage of its increased customer base and scale.

The net assets of the Group increased by \$3,997,792 from 30 June 2016 to \$9,877,486 as at 30 June 2017. The Group generated strong cash flows from operating activities and continued to maintain a sound working capital with current assets exceeding current liabilities by \$1,274,819.

The 2017 financial year has been an important one for us in which we have invested heavily in building a stronger and more efficient business with great growth potential. The merger process has significantly strengthened the company and enabled us to secure important long-term customer contracts and to invest in the scalability of our infrastructure. Now that these activities are complete, we have established a platform to improve our earnings profile and to deliver growth in shareholder value.

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 8.0 cents per share was declared by the Board of Directors on 30 August 2017 which will be distributed to shareholders on 29 September 2017.

EVENTS AFTER THE REPORTING PERIOD

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

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Disclosure of information relating to major development in the operations of the Group and the expected results of those operations in future financial years, which, in the opinion of the directors, will not unreasonably prejudice the interests of the Group, is contained in the Report by the Chairman and Chief Executive Officer on page 4.

ENVIRONMENTAL ISSUES

The group is not subject to any significant environmental regulation.

SECURITIES REGISTER

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

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

The information contained in this report is correct and current at 30 June 2017.

CORPORATE GOVERNANCE STATEMENT

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

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

1. A Board Charter which outlines the responsibilities of the Board by formalising and disclosing functions reserved to the Board and those delegated to management.
2. An Audit and Risk Committee Charter and the appointment of the Audit and Risk Committee as a sub-committee of the Board. The members of the Audit and Risk Committee are Directors Graham Bastian, Andrew Watts, Rod Payne 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 are detailed in the director's report.

Bendigo Telco Limited and Controlled Entities
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 Concise Financial Report for the Year Ended 30 June 2017

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 2017. The information in the preceding operating and financial review forms part of this directors' report for the financial year ended 30 June 2017 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 A Watts
Mr G Bastian	Mr J Selkirk
Ms M O'Sullivan	Mr R Payne
Mr R Hunt	Mr K Dole

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

DIVIDENDS PAID OR RECOMMENDED

Ordinary Dividends Paid:

	Cents	\$
Final – August 2016	10.0	574,532
Interim – April 2017	3.0	232,359
	13.0	806,891

Ordinary Dividends Declared:

Final - September 2017	8.0	619,623
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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 2017:

	\$
Taxation services	3,493
Share registry services	20,489
	<u>23,982</u>

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 19 of the financial report.

OPTIONS

The Group has not issued any share options.

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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 are detailed below.

Mr Donald James Erskine - Chairman

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

Mr Robert George Hunt – AM, FAICD – Director

Occupation	Treasury Corporation of Victoria – Chairman (retired 30 June 2017)
Qualifications	Fellow of the Australian Institute of Company Directors, 2003 Doctor of the University (honoris causa), LaTrobe University, 1999
Experience	Mr Hunt retired as Managing Director of Bendigo and Adelaide Bank on 3 July 2009 after 21 years as Chief Executive Officer. Mr Hunt is the architect of the Community Bank® model, and has been instrumental in the development of a range of Community Enterprise and Engagement models, now utilised by communities across Australia to provide key infrastructure and essential services through local commercial structures. These Enterprises provide communities with a framework, the cashflow, capacity and flexibility to address new economic opportunities.
Interest in shares	Indirect – Hunters Ridge Pty Ltd (Hunt Family Trust) 55,000 Shares Indirect – Hunters Ridge Pty Ltd (Rob & Annette Hunt Superannuation Fund) 418,758 Shares
Special Responsibilities	Nil
Other Directorships & Appointments	Director, Apollo Bay Central District Community Bank since 2011; Director, BEUT Property Pty Ltd
Honours and Awards	Order of Australia Award /Member (AM) General Division, 2002; Paul Harris Fellowship Award, Rotary Club of Bendigo Sandhurst, 2000; Citizen of the Year Award, City of Greater Bendigo 1999; Key to the City Award, City of Greater Bendigo 2009.

Mr Graham William Bastian – Director

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

Ms Michelle Kaye O’Sullivan – Director

Occupation	Lawyer – O’Sullivan Johanson Lawyers
Qualifications	Bachelor of Laws (Hons) Bachelor of Commerce Certificate III in Fitness
Experience	Michelle O’Sullivan has had experience on various boards including, Loddon Mallee Women’s Health and the Bendigo Street Surfer Board. Michelle was a committee member of the Bendigo Law Association Inc. and a past president of the Bendigo Law Association Inc.
Interest in Shares	Direct - 44,711 Shares
Special Responsibilities	Nil
Other Directorships	Nil

Mr Andrew Watts – Director

Occupation	Executive, Customer Service Improvement, Bendigo and Adelaide Bank
Qualifications	Bach. Engineering (Civil), Grad Dip, Business Administration
Experience	Andrew is a seasoned finance industry executive, with extensive experience in technology, organisational change, mergers and acquisitions and customer service. He has worked for Bendigo and Adelaide Bank for 23 years, and on its Executive Committee since 2007. He has held various senior positions in strategic planning, marketing, retail, electronic banking / payments, technology, operations and change. Andrew has led a number of strategic programs including the technology integration of Bendigo and Adelaide Bank as Chief Information Officer. In his current role as Executive, Customer Service Improvement Andrew oversees the bank’s national processing centres, national properties, corporate sourcing and continuous improvement programs. Andrew is a director of TicToc Online Pty. Ltd., a fintech who launched the world’s first instant home loan in 2017. Living in Melbourne, Andrew is highly active in the Central Victorian community through his passion for youth development and the arts.
Interest in shares	Direct – Nil
Special Responsibilities	Chair of Audit and Risk Committee and is a Member of the Remuneration Committee
Other Directorships	TicToc Online Pty. Ltd.

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Kevin Dole – Director

Occupation	Head of Technology Solutions and Services , Bendigo and Adelaide Bank
Qualifications	Associate Diploma in Information Processing (Latrobe)
Experience	Kevin has worked for Bendigo and Adelaide Bank for 30 years. During that time his career has been in the Information Technology Division. Throughout his career he has held a number of senior technical and leadership roles. He has considerable experience in large program delivery inclusive of merging and integrating technology based solutions.
Interest in shares	Direct – Nil
Special	
Responsibilities	Nil
Other Directorships	Nil

Rod Payne – Director

Occupation	Principal Harwood Andrews Lawyers
Qualifications	Bachelor of Law (Melbourne University)
Experience	Rod has been a lawyer in commercial practice for 35 years and has been a partner at Harwood Andrews since 2000. Rod was a director of Geelong Community Telco Pty Ltd and Vicwest Community Telco prior to the amalgamation of Vicwest with Bendigo Telco Ltd. In his legal practice Rod has undertaken a broad range of commercial work and in his role in Karingal and Karingal St Laurence has been involved in major developments and mergers.
Interest in shares	Indirect - Linrod Holdings Pty Ltd atf the Payne Superannuation Fund A/C 2,268 shares Indirect - Linrod Holdings Pty Ltd atf the Payne Investment Trust A/C 4,821 shares
Special	
Responsibilities	Member of Audit and Risk Committee
Other Directorships	Director - The Legal Lantern Group Chair - Karingal St Laurence Director – Geelong Connected Communities Limited

Jonathon Selkirk – Director

Occupation	Chief Financial Officer, The Gull Group Ballarat.
Qualifications	Bach. Business, Chartered Accountant, Graduate Australian Institute of Company Directors.
Experience	Jock has held various executive roles across a variety of industries including manufacturing, building industry, property development and financial services. Jock was CFO at Selkirk Brick for 11 years prior to taking up his current role at the Gull Group in late 2016. He has considerable experience in driving business growth and generating profit & cash-flow improvements and provides solid financial and commercial acumen and analytical focus. He has also held several executive and non-executive director roles and has good experience in governance, risk & compliance management and people and culture development. Jock is a mentor for the Leadership Ballarat & Western Region Program run by the Committee for Ballarat, and is also actively involved in several other community programs.
Interest in shares	Nil
Special	
Responsibilities	Nil
Other Directorships	Private Family Companies.

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

Directors	Directors' Meetings		Audit & Risk Committee		Remuneration Committee	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Rob Hunt	13	12	2	2	-	-
Graham Bastian	13	13	4	4	-	-
Don Erskine	13	11	4	3	1	1
Michelle O'Sullivan	13	12	-	-	-	-
Andrew Watts	13	13	4	4	1	1
Kevin Dole	9	8	-	-	-	-
Jonathon Selkirk	9	7	-	-	-	-
Rodney Payne	9	7	3	3	-	-

DIRECTORS BENEFITS AND INTEREST IN CONTRACTS

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

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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	
Kevin Dole	Director	Commenced 1 September 2016
Jonathon Selkirk	Director	Commenced 1 September 2016
Rodney Payne	Director	Commenced 1 September 2016

(ii) Executives

Jeffery Jordan	Chief Executive Officer	
Jim Nielsen	Chief Operating Officer	
Adam Murdoch	Chief Technology Officer	
Jason Sim	General Manager Sales & Marketing	
Steven Wright	Chief Financial Officer	Commenced 22 August 2016
Stephen Culpitt	General Manager Customer Service	Commenced 14 November 2016
Jarrold Draper	General Manager Technology	Commenced 29 May 2017

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 show consistent profits each year, with the exception of 2017 which fell as a result of additional operational and acquisition costs associated with the implementation of the merger as well as positioning the business in order to take full advantage of the larger customer base and scale. Dividends paid to shareholders remain strong with an average dividend yield over the past five years of 9.07% fully franked and the group's performance has been reflected in an increase in the share price with an increase in the last 5 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 trend in shareholder wealth over the past five years.

	2013	2014	2015	2016	2017
Revenue	\$22.6M	\$22.0M	\$22.1M	\$22.8M	\$31.9M
EBITDA	\$2.48M	\$2.96M	\$2.61M	\$3.06M	\$3.08M
Net profit	\$1.13M	\$1.59M	\$1.13M	\$1.29M	\$0.91M
Share price at year end	\$1.50	\$1.65	\$1.95	\$2.04	\$2.10
Dividends paid	12.5 cents	16.5 cents	20.0 cents	17.0 cents	13.0 cents

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Details of remuneration for year ended 30 June 2017

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

		Short-term benefits	Post-employment benefits		Proportion of remuneration that is performance based %
		Cash Salary and Fees	Superannuation	TOTAL	
Robert Hunt	2017	13,699	1,301	15,000	-
	2016	13,699	1,301	15,000	-
Graham Bastian	2017	15,000	-	15,000	-
	2016	15,000	-	15,000	-
Donald Erskine	2017	-	15,000	15,000	-
	2016	-	15,000	15,000	-
Michelle O'Sullivan	2017	13,699	1,301	15,000	-
	2016	13,699	1,301	15,000	-
Andrew Watts	2017	13,699	1,301	15,000	-
	2016	13,699	1,301	15,000	-
Kevin Dole	2017	11,416	1,084	12,500	-
	2016	-	-	-	-
Jonathon Selkirk	2017	11,416	1,084	12,500	-
	2016	-	-	-	-
Rodney Payne	2017	12,500	-	12,500	-
	2016	-	-	-	-
Total	2017	91,429	21,071	112,500	-
	2016	56,097	18,903	75,000	-

(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			Proportion of remuneration that is performance based %
		Salaries \$	Non-Cash Benefits \$	Super-annuation \$	Shares \$	Termination Benefits \$	Total \$	
Jim Nielsen	2017	96,094	15,000	34,585	-	-	145,679	7
	2016	94,310	15,000	34,257	-	-	143,567	7
Adam Murdoch	2017	150,687	15,000	14,315	-	-	180,002	6
	2016	149,378	15,000	14,001	-	-	178,379	6
Jeffery Jordan	2017	232,309	15,000	19,408	-	-	266,717	7
	2016	238,204	15,000	22,789	-	-	275,993	18
Jason Sim	2017	195,136	-	17,113	-	-	212,249	19
	2016	192,943	-	16,706	-	-	209,649	19
Steven Wright	2017	148,478	-	12,806	-	-	161,284	6
	2016	-	-	-	-	-	-	-
Stephen Culpitt	2017	119,246	15,000	11,328	-	-	145,574	-
	2016	-	-	-	-	-	-	-
Jarrod Draper	2017	10,480	-	987	-	-	11,467	-
	2016	-	-	-	-	-	-	-
Total	2017	952,430	60,000	110,542	-	-	1,122,972	
	2016	674,835	45,000	87,753	-	-	807,588	

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 30 August 2017.



Donald Erskine

Chairman



Andrew Watts

Director

Bendigo Telco Limited and Controlled Entities
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Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Bendigo Telco Ltd

As lead auditor for the audit of Bendigo Telco Ltd for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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



Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 30 August 2017



Adrian Downing
Lead Auditor

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 \$	2016 \$
Revenue	2	31,254,789	22,777,122
Cost of products sold		(17,114,423)	(10,627,938)
Other income	2	715,124	39,679
Salaries and employee benefit costs		(7,765,034)	(5,867,450)
Occupancy and associated costs		(844,069)	(737,692)
General administration costs		(1,406,949)	(909,064)
Depreciation and amortisation costs		(1,558,280)	(1,236,516)
Advertising and promotion costs		(173,218)	(148,683)
Systems costs		(940,548)	(745,370)
Borrowing costs		(810,486)	(807,879)
Profit before income tax		1,356,906	1,736,209
Tax expense		(440,958)	(447,107)
Net profit for the year		915,948	1,289,102
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		915,948	1,289,102
Total comprehensive income attributable to members of Bendigo Telco Limited		915,948	1,289,102
Earnings per share			
Basic earnings per share (cents)		12.37	22.44
Diluted earnings per share (cents)		12.37	22.44

The accompanying notes form part of these financial statements

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

	Notes	2017 \$	2016 \$
Current Assets			
Cash and cash equivalents		1,196,726	1,577,913
Trade and other receivables		1,706,920	884,786
Prepayments		2,332,353	1,837,713
Inventories		281,968	140,719
Total Current Assets		5,517,967	4,441,131
Non Current Assets			
Property, plant and equipment		3,972,367	3,837,166
Intangible assets		8,432,536	1,518,925
Deferred tax asset		1,186,098	337,754
Total Non Current Assets		13,591,001	5,693,845
TOTAL ASSETS		19,108,968	10,134,976
Current Liabilities			
Trade and other payables		2,301,336	1,636,672
Provisions		807,522	604,038
Taxation		63,638	16,918
Borrowings		1,070,652	515,529
Total Current Liabilities		4,243,148	2,773,157
Non Current Liabilities			
Provisions		189,408	132,555
Borrowings		4,798,926	1,349,570
Total Non Current Liabilities		4,988,334	1,482,125
TOTAL LIABILITIES		9,231,482	4,255,282
NET ASSETS		9,877,486	5,879,694
EQUITY			
Issued capital		7,112,955	3,248,146
Retained earnings		2,764,531	2,631,548
TOTAL EQUITY		9,877,486	5,879,694

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Ordinary Share Capital \$	Retained Earnings \$	Total \$
Balance at 1 July 2015		3,532,435	2,319,151	5,851,586
Comprehensive Income				
Profit for the year		-	1,289,102	1,289,102
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	1,289,102	1,289,102
Transaction with owners, in their capacity as owners, and other transfers				
Dividends recognised for the year	3	-	(976,705)	(976,705)
Shares issued during the year		-	-	-
Cost of equity raised		(284,289)	-	(284,289)
Total transactions with owners and other transfers		(284,289)	(976,705)	(1,260,994)
Balance at 30 June 2016		3,248,146	2,631,548	5,879,694
Balance at 1 July 2016		3,248,146	2,631,548	5,879,694
Comprehensive Income				
Profit for the year		-	915,948	915,948
Recognition of DTA on BSA Acquisition		-	23,926	23,926
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	939,874	939,874
Transaction with owners, in their capacity as owners, and other transfers				
Dividends recognised for the year	3	-	(806,891)	(806,891)
Shares issued during the year		3,999,924	-	3,999,924
Cost of equity raised		(135,115)	-	(135,115)
Total transactions with owners and other transfers		3,864,809	(806,891)	3,057,918
Balance at 30 June 2017		7,112,955	2,764,531	9,877,486

The accompanying notes form part of these financial statements

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017**

	Notes	2017 \$	2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		33,365,161	25,220,751
Interest paid		(173,987)	(99,567)
Payments to suppliers and employees		(30,763,924)	(21,248,942)
Income tax paid		(360,479)	(620,618)
Interest received		4,682	15,834
Net cash provided by operating activities		2,071,453	3,267,458
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets		(650,390)	(309,354)
Purchase of property, plant and equipment		(523,028)	(634,854)
Proceeds from sale of property, plant and equipment		275,000	23,845
Net cash used in investing activities		(898,418)	(920,363)
CASH FLOW FROM FINANCING ACTIVITIES			
Cost of shares issued		(135,115)	(284,289)
Repayment of finance lease		(612,216)	(455,504)
Dividends paid		(806,891)	(976,705)
Net cash used in financing activities		(1,554,222)	(1,716,498)
Net increase / (decrease) in cash held		(381,187)	630,597
Cash and cash equivalents at beginning of financial year		1,577,913	947,316
Cash and cash equivalents at end of the financial year		1,196,726	1,577,913

The accompanying notes form part of these financial statements

NOTES TO THE CONCISE FINANCIAL REPORT

1. BASIS OF PREPARATION OF THE CONCISE FINANCIAL REPORT

The concise financial report is an extract for the full financial report for the year ended 30 June 2017. The concise financial report has been prepared in accordance with Accounting Standard AASB 1039: *Concise Financial Reports*, and the *Corporations Act 2001*.

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

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

2. REVENUE AND OTHER INCOME

	2017 \$	2016 \$
Revenue:		
Sales revenue	31,254,789	22,777,122
	<u>31,254,789</u>	<u>22,777,122</u>
Other income:		
Interest received	4,682	15,834
Profit on sale of assets	226,392	23,845
Government Grants	334,050	-
Legal reimbursement	150,000	-
	<u>715,124</u>	<u>39,679</u>
Total revenue and other income	<u>31,969,913</u>	<u>22,816,801</u>

3. DIVIDENDS PAID AND PROPOSED

	2017 \$	2016 \$
Distributions paid:		
2016 Final 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
2017 Interim fully franked ordinary dividend of 3.0 (2016: 7.0) cents per share franked at the rate of 30% (2016: 30%)	<u>232,359</u>	<u>402,173</u>
	<u>806,891</u>	<u>976,705</u>
Total dividends (cents) per share for the period	17.00	20.00
a. Proposed Final 2017 fully franked ordinary dividend of 8.0 (2016: 10.0) cents per share franked at the rate of 30% (2016: 30%)	619,623	574,532

After the reporting date, the above dividend was declared. The amount has not been recognised as a liability as at 30 June 2017 but will be brought to account in the 2018 financial year.

Bendigo Telco Limited and Controlled Entities
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	2017 \$	2016 \$
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	1,001,755	972,205
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	(265,553)	(246,228)

4. INTEREST IN SUBSIDIARY

a. Information about Principal Subsidiary

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

Name of Subsidiary	Principal Place of Business	Ownership Interest Held by the Group		Proportion of Non-controlling Interests	
		2017 %	2016 %	2017 %	2016 %
BCT Shepparton Pty Ltd	Shepparton, Australia	100	100	-	-
Vicwest Community Telco Ltd	Geelong & Ballarat, Australia	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.

c. Acquisition of Controlled Entities

Scheme of Arrangement - Bendigo Telco & Vicwest

On 1 September 2016, the merger of Bendigo Telco Limited (Bendigo Telco) and Vicwest Community Telco Limited (Vicwest) was implemented via a scheme of arrangement through which Bendigo Telco acquired 100% of the shares in Vicwest.

Vicwest shareholders holding shares at Record Date of 7pm on 26 August 2016 received the scheme consideration of 1 Bendigo telco share for every 2.074 Vicwest shares, in accordance with the terms of the scheme. The new Bendigo Telco shares were issued on 1 September 2016. Bendigo Telco issued 1,499,962 shares.

On 1 September 2016, Bendigo Telco acquired part of Community Telco Australia (CTA)'s managed telco business. Under the terms of the acquisition, Bendigo Telco issued 500,000 shares to CTA as part of consideration for the acquisition. The principal activities of the managed businesses are telecommunication services.

Scheme of arrangement (Share allocation 1,499,962 at \$2.00 per share)	2,999,924
CTA managed business (Share allocation of 500,000 shares at \$2.00 per share plus stamp duty)	1,010,495
Business Loan	3,800,000
Current Assets	
Cash	86,554
Inventory	76,181
Receivables	666,874
Prepayments	423,459
Total Current Assets	1,253,068
Non Current Assets	
PP&E	52,638
Intangibles	64,940
Customer List	2,362,500
Deferred tax assets	882,103
Total Non Current Assets	3,362,181
Current Liabilities	
Payables	1,037,463
Employee Entitlements	184,978
Total Current Liabilities	1,222,441
Goodwill on acquisition	4,417,611

Bendigo Telco Limited and Controlled Entities
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 Concise Financial Report for the Year Ended 30 June 2017

5. SEGMENT REPORTING

Major customers

During the year ended 30 June 2017 approximately 30.7% (2016: 45.2%) of Bendigo Telco's external revenue was derived from sales to one customer (2016: one customer).

Revenue by product set

	2017	2016
	\$	\$
Voice	11,775,516	4,548,752
Data Networks	11,275,326	10,704,762
Broadband	2,544,965	2,496,280
IT Services	311,967	340,630
Hardware and Installations	1,204,886	775,389
Data Centre	2,903,488	2,969,023
Cloud	1,141,591	942,285
Other	97,050	-
	<u>31,254,789</u>	<u>22,777,121</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.

6. EVENTS AFTER THE REPORTING PERIOD

Since the end of the financial year a final dividend in the amount of 8.0 cents per share was declared by the Board of Directors on 30 August 2017 which will be distributed to shareholders on 29 September 2017.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Bendigo Telco Limited, the directors of the company declare that the concise financial report of Bendigo Telco Limited and Controlled Entities for the financial year ended 30 June 2017:

- a. Complies with Accounting Standard AASB 1039: *Concise Financial Reports* ; and
- b. Is an extract from the full financial report for the year ended 30 June 2017 and has been derived from and is consistent with the full financial report of Bendigo Telco Limited.

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

On behalf of the directors



Donald Erskine

Chairman



Andrew Watts

Director

Signed on 30 August 2017

Bendigo Telco Limited and Controlled Entities
ABN 88 089 782 203
Concise Financial Report for the Year Ended 30 June 2017



61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
03 5443 0344
afsbendigo.com.au

Independent auditor's report to the members of Bendigo Telco Ltd

Report on the concise financial report

Opinion

The concise financial report, which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited financial report of Bendigo Telco Limited (the Company) and its subsidiaries (collectively the Group) for the year ended 30 June 2017.

In our opinion, the accompanying concise financial report, including the discussion and analysis, is consistent, in all material respects, with the audited financial report, in accordance with AASB 1039: Concise Financial Reports and the *Corporations Act 2001*.

Concise Financial Report

The concise financial report does not contain all the disclosures required by Australian Accounting Standards applied in the preparation of the audited financial report of Bendigo Telco Limited. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the audited financial report and the auditor's report thereon. The concise financial report and the audited financial report do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial report.

Independence

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

The Audited Financial Report and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial report in our report dated 30 August 2017. That report also includes the communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period.

Directors' Responsibility for the Concise Financial Report

The directors are responsible for the preparation of the concise financial report in accordance with AASB 1039: Concise Financial Reports and the *Corporations Act 2001*.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the concise financial report is consistent, in all material respects, with the audited financial report based on our procedures, which were conducted in accordance with *Auditing Standard ASA 810: Engagements to Report on Summary Financial Statements*.



Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated this 30th day of August 2017



Adrian Downing
Lead Auditor

SHAREHOLDER INFORMATION

The shareholder information set out below was current as at 12 July 2017.

Distribution of Shareholders

Category	Number of Holders
1 - 1,000	141
1,001 - 5,000	254
5,001 - 10,000	79
10,001 - 100,000	59
100,001 and over	6
	<u>539</u>

The number of shareholdings held in less than marketable parcels is 18.

Top 10 Shareholders

Name of Shareholder	Number of Shares	% of Total Shares
Bendigo and Adelaide Bank	1,862,147	24.0
Erskine Investments Pty Ltd	939,326	12.1
Community Telco Australia	500,000	6.5
Hunters Ridge Pty Ltd	473,758	6.1
Ron Poyser Administrators Pty Ltd	438,400	5.7
EGP Fund No 1 Pty Ltd	180,000	2.3
MGR Property Pty Ltd	90,000	1.2
Latrobe University	84,000	1.1
Community Telco Syndicate	78,000	1.0
Indicrock Superannuation Pty Ltd	70,058	0.9
Kirkstow Nominees Pty Ltd	64,000	0.8
Total shares held by top 10 holders	<u>4,779,689</u>	<u>61.7</u>

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