

11 July 2016

NSX Announcement

Bendigo Telco Shareholder Meeting

Further to previous announcements, we are pleased to report that Bendigo Telco Limited (NSX:BCT) (**Bendigo Telco**) has finalised the relevant documentation to convene a General Meeting of Bendigo Telco Shareholders to consider the simultaneous and inter-conditional transactions entered into by Bendigo Telco with Vicwest Community Telco Limited (**Vicwest**), Bendigo and Adelaide Bank Limited (**Bendigo Bank**), including the proposed merger of Vicwest with Bendigo Telco.

Please find attached the notice of meeting to convene the General Meeting to obtain the approval of Bendigo Telco Shareholders in respect of a number of components of the transactions. The notice of meeting includes an Independent Expert's Report and a proxy form. This notice has been dispatched to all Bendigo Telco Shareholders today. We recommend you read the notice of meeting (including the Independent Expert's Report) in full.

The General Meeting is to be held at **5.00pm (AEST) on Thursday, 11 August 2016** at All Seasons Hotel, 171-183 Mclvor Road, Bendigo.

Your vote is important and the Independent Directors of Bendigo Telco encourage you to participate.

You can either attend the General Meeting in person, or if you are unable to attend, lodge a proxy vote by returning the enclosed proxy forms by 5:00pm (AEST) on Tuesday, 9 August 2016.

The Independent Directors of Bendigo Telco unanimously recommend that Bendigo Telco Shareholders vote in favour of the resolutions set out in the notice of meeting. Each of the Independent Directors of Bendigo Telco intends to vote, or procure the voting of, any Bendigo Telco Shares held by or on their behalf at the time of the General Meeting in favour of the resolutions.

Vicwest Shareholder Meetings

The Australian Securities and Investments Commission has today registered the Scheme Booklet prepared by Vicwest in relation to its scheme of arrangement under which Bendigo Telco will acquire all of the shares in Vicwest (**Scheme**). This follows orders made by the Supreme Court of Victoria today to convene a scheme meeting of Vicwest shareholders on Friday, 12 August 2016 to consider and vote on the Scheme.

Vicwest is in the process of dispatching the Scheme Booklet to its shareholders. The full Scheme Booklet will be released by Bendigo Telco in a separate NSX announcement.

Indicative Timetable

The indicative timetable* for the transactions is as follows:

Event	Date
Bendigo Telco Shareholder Meeting	11 August 2016
Vicwest Scheme Meeting	12 August 2016
Second Court hearing	19 August 2016
Effective Date Bendigo Telco lodges Application for Quotation of Additional Securities with NSX (The number of shares to be issued will be an estimate as precise numbers will not be known until after the Scheme Record Date)	19 August 2016
Scheme Record Date	7pm on 26 August 2016
Implementation Date Issue Date of Bendigo Telco Shares - Bendigo Telco lodges revised Application for Quotation of Additional Securities with NSX based on actual number of shares issued to Scheme Shareholders	1 September 2016

** subject to change*

I look forward to seeing you at the Bendigo Telco General Meeting. If you are unable to attend, please ensure that you fill out and return a proxy form which is enclosed with the notice of meeting.

Yours sincerely

Mr Don Erskine
Chairman

Bendigo Telco Limited

ABN 88 089 782 203

NOTICE OF GENERAL MEETING & EXPLANATORY STATEMENT

For the General Meeting to be held:
at 5.00pm
on Thursday, 11 August 2016
at All Seasons Hotel, 171-183 McIvor Road, Bendigo

In this document you will find:

1. Letter to Shareholders.
2. Notice of Meeting.
3. An Explanatory Statement containing an explanation of, and information about, the proposed resolutions to be considered at the General Meeting.
4. Independent Expert's Report.
5. Proxy Form.

This Notice of Meeting and the accompanying Explanatory Statement should be read in its entirety. If Bendigo Telco Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

CONTENTS

CONTENTS	i
LETTER TO SHAREHOLDERS	1
NOTICE OF GENERAL MEETING	3
PROCEDURAL NOTES	6
EXPLANATORY STATEMENT	8
GLOSSARY	38
BENDIGO TELCO LIMITED: PROXY FORM	41
ANNEXURE A: INDEPENDENT EXPERT'S REPORT	43

LETTER TO SHAREHOLDERS

Dear Bendigo Telco Shareholders

I am pleased to invite you to the General Meeting of Bendigo Telco which will be held at All Seasons Hotel, 171-183 Mclvor Road, Bendigo on Thursday, 11 August 2016, commencing at 5.00pm.

The General Meeting is called to provide Bendigo Telco Shareholders with the opportunity to give their approval for a number of Transactions (described below) that will essentially have the effect of enhancing the business of Bendigo Telco.

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,

(Transactions).

The Transactions will create a merged group with an enhanced scale and balance sheet to pursue growth opportunities in the highly-competitive telecommunications industry. The merged group is expected to be better positioned for future growth by having greater scale and ability to obtain capital to pursue new projects. In addition, the merged group is expected to generate significant value for shareholders and the local communities in which the merged group will operate.

In connection with the Transactions, certain Ancillary Transactions will be undertaken by the Company and Vicwest, together with Bendigo Bank and its wholly-owned subsidiary, CTA, to give effect to the efficacy of the Transactions. In particular, Bendigo Telco will enter into a managed wide area network services agreement under which it will supply wide area network services and certain related services to Bendigo Bank over a five year term.

The purpose of this meeting is to obtain the approval of Bendigo Telco Shareholders in respect of a number of components of the Transactions. In particular the Resolutions include the approval of:

- the proposed significant change to the scale of Bendigo Telco's activities as a consequence of the Transactions;

- the CTA Transaction, including the issue of Bendigo Telco Shares to CTA as consideration for that transaction;
- the increase of voting power of Bendigo Bank (and its shareholding through its wholly owned subsidiary CTA) as a consequence of the Transactions (which will increase from 19.36% to 30.50% if the Transactions are completed); and
- the election of 3 new directors to represent Bendigo Bank and Vicwest.

This notice of meeting provides important information in relation to the Transactions and the Resolutions, and I encourage you to read it carefully and in its entirety.

Accompanying this notice of meeting is an independent expert's report prepared by RSM Financial Services Australia Pty Ltd (**Independent Expert**). The Independent Expert has been asked to consider the proposal to pass a resolution to approve the increase of voting power of Bendigo Bank and CTA as a consequence of the Transactions. As the increase in voting power of Bendigo Bank is dependent on the inter-conditional Transactions, the Independent Expert's Report comments on the fairness and reasonableness of the Transactions as a whole. The Independent Expert has determined that the Transactions as a whole are fair and reasonable to Bendigo Telco Shareholders who do not have an interest in the Transactions.

The Independent Directors of Bendigo Telco unanimously recommend that Bendigo Telco Shareholders vote in favour of the Resolutions. Each of the Independent Directors of Bendigo Telco intends to vote, or procure the voting of, any Bendigo Telco Shares held by or on their behalf at the time of the General Meeting in favour of the Resolutions.

I look forward to seeing you at the General Meeting. If you are unable to attend, please ensure that you fill out and return a proxy form which is enclosed with this notice of meeting.

Yours sincerely,



Mr Don Erskine
Chairman

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of Bendigo Telco Limited (ABN 88 089 782 203) (**Company**) will be held at **5.00pm** on **Thursday, 11 August 2016** at **All Seasons Hotel, 171-183 Mclvor Road, Bendigo VIC 3552**.

Terms and abbreviations used in this Notice of Meeting are defined in the Glossary.

AGENDA

1. SIGNIFICANT CHANGE TO THE SCALE OF THE COMPANY'S ACTIVITIES

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

"That, for the purpose of Listing Rule 6.41 and for all other purposes, approval is given for the proposed significant change to the scale of the Company's activities as a consequence of the Transactions (as described in the Explanatory Statement)."

2. ACQUISITION OF A SUBSTANTIAL ASSET FROM BENDIGO BANK

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

*"That, for the purpose of Listing Rule 6.43 and for all other purposes, approval is given for the acquisition by the Company of Vicwest Shares (as described in the Explanatory Statement) from Bendigo and Adelaide Bank Limited (ACN 068 049 178) (**Bendigo Bank**) on the basis set out in the Explanatory Statement."*

3. ACQUISITION OF A SUBSTANTIAL ASSET FROM CTA

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

*"That, for the purpose of Listing Rule 6.43 and for all other purposes, approval is given for the acquisition by the Company of the CTA Business (as described in the Explanatory Statement) from Community Telco Australia Pty Ltd (ACN 094 908 326) (**CTA**) (a wholly owned subsidiary of Bendigo Bank) on the basis set out in the Explanatory Statement."*

4. ISSUE OF SHARES TO CTA

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

"That, for the purpose of Listing Rule 6.25 and for all other purposes, approval is given for the Company to issue 500,000 fully paid ordinary shares to CTA (a wholly owned subsidiary of Bendigo Bank) pursuant to the Business Sale Agreement (as described in the Explanatory Statement)."

5. INCREASE IN VOTING POWER OF BENDIGO BANK (AND ITS WHOLLY OWNED SUBSIDIARY CTA)

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

“That, for the purpose of section 611 (item 7) of the Corporations Act and for all other purposes, approval is given for the increase in the voting power of CTA and Bendigo Bank as a result of the Transactions (as described in the Explanatory Statement).”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Bendigo Bank, CTA and their associates, except where the votes are cast: (a) by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or (b) by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Independent Expert’s Report: Bendigo Telco Shareholders should carefully consider the Independent Expert’s Report prepared by RSM accompanying the Explanatory Statement as Annexure A. The Independent Expert’s Report comments on the fairness and reasonableness of the Transactions as a whole. The Independent Expert has determined that for the purposes of Section 611, item 7 of the Corporations Act, the Transactions as a whole are fair and reasonable to Bendigo Telco Shareholders who do not have an interest in the Transactions.

6. FINANCIAL ASSISTANCE

To consider and, if thought fit, to pass the following resolution, with or without amendment, as a special resolution:

“That, for the purpose of section 260B(2) of the Corporations Act and for all other purposes, approval is given for the financial assistance to be provided, from time to time, by:

- (a) Vicwest Community Telco Ltd A.C.N. 140 604 039;*
- (b) Geelong Community Telco Pty Ltd A.C.N. 122 412 300; and*
- (c) Ballarat Community Enterprise Pty Ltd A.C.N. 111 713 065*

as described in the Explanatory Statement.”

7. ELECTION OF MR KEVIN DOLE AS A DIRECTOR OF THE COMPANY

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

“That, subject to the Scheme (as described in the Explanatory Statement) being implemented, having been proposed by the Directors and having consented, Mr Kevin Dole is elected as a Director.”

8. ELECTION OF MR ROD PAYNE AS A DIRECTOR OF THE COMPANY

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

“That, subject to the Scheme (as described in the Explanatory Statement) being implemented, having been proposed by the Directors and having consented, Mr Rod Payne is elected as a Director.”

9. ELECTION OF MR JONATHAN SELKIRK AS A DIRECTOR OF THE COMPANY

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

“That, subject to the Scheme (as described in the Explanatory Statement) being implemented, having been proposed by the Directors and having consented, Mr Jonathan Selkirk is elected as a Director.”

By order of the Board



Mr Don Erskine

Chairman

8 July 2016

PROCEDURAL NOTES

These notes form part of the Notice of Meeting.

1. INTER-CONDITIONAL RESOLUTIONS

Resolutions 1 to 6 must be passed by the requisite majority in order for the Transactions to proceed.

It is important to note that the Transactions are subject to a number of conditions, which are set out in Section 1.2(b) of the Explanatory Statement. Some of those conditions may not be satisfied, and the Transactions may not proceed, even if the Resolutions are passed at the General Meeting.

2. DETERMINATION OF SHAREHOLDERS' RIGHT TO VOTE

In accordance with regulations 7.11.37 of the *Corporations Regulations 2001*, the Board has determined that for the purposes of the meeting, a person's entitlement to vote at the General Meeting will be the entitlement of that person set out in the Company's share register as at 5.00pm on 9 August 2016.

3. APPOINTMENT OF PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return it by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, members are advised that:

- (a) each member has a right to appoint a proxy;
- (b) the proxy need not be a member of the Company; and
- (c) a member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed);
- (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands;
- (c) if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- (d) if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Section 250BC of the Corporations Act provides that, if:

- (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;
- (b) the appointed proxy is not the chair of the meeting;
- (c) at the meeting, a poll is duly demanded on the resolution; and
- (d) either of the following applies:
 - (i) the proxy is not recorded as attending the meeting;
 - (ii) the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

4. BODIES CORPORATE

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of the Company's shareholders. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

5. INCORPORATION OF EXPLANATORY STATEMENT

The Explanatory Statement attached to this Notice of Meeting, is hereby incorporated into and forms part of this Notice of Meeting.

6. QUESTIONS FROM BENDIGO TELCO SHAREHOLDERS

At the General Meeting, the Chairman will allow a reasonable opportunity for Bendigo Telco Shareholders to ask questions in relation to the Resolutions to be put to the meeting.

EXPLANATORY STATEMENT

This information forms part of the Notice of Meeting. The main purpose of this Explanatory Statement is to provide Bendigo Telco Shareholders with information concerning the Resolutions.

The Explanatory Statement and all attachments are important documents. They should be read carefully. The Directors recommend Bendigo Telco Shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

1. BACKGROUND TO THE TRANSACTIONS

1.1 Overview of the Transactions

On 26 May 2016, Bendigo Telco entered into a Transaction Framework Agreement with Vicwest Community Telco Limited (**Vicwest**) and Bendigo and Adelaide Bank Limited (**Bendigo Bank**) under which the parties agreed a number of simultaneous and inter-conditional transactions. The primary transactions comprise:

- (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 credit facility to Bendigo Telco, which will use those funds to assist its then wholly-owned subsidiary Vicwest to repay a current \$3.8 million debt to Bendigo Bank.

Certain ancillary transactions will be undertaken by the Company and Vicwest, together with Bendigo Bank and its wholly-owned subsidiary, CTA, to give effect to the efficacy of the Transactions. These are described in section 1.5 below. In particular, the Company will enter into a managed wide area network services agreement under which it will supply wide area network services and certain related services to Bendigo Bank for a 5 year term commencing on 1 January 2017 (**BEN4 Agreement**).

1.2 Vicwest and the Scheme

(a) About Vicwest

Vicwest is an unlisted public company with approximately 100 shareholders. Bendigo Bank is Vicwest's largest shareholder and currently has a relevant interest in 50% of Vicwest Shares.

Vicwest is a community-based telecommunication and internet service provision business, providing retail and telecommunications products to business customers throughout Geelong, Ballarat and Melbourne.

A number of Vicwest's customers have operations both locally and nationally.

Vicwest delivers its services from its head office in Geelong and also from its regional office in Ballarat.

Vicwest has 15 staff under the CEO, Geoff Hutchinson. Key staff include Gareth Hagebols (General Manager Products and Innovation, natr, Geelong) and Chris Prehn (Business Services Manager, Ballarat).

Vicwest targets all customers in the Western Victoria area. Vicwest also focuses on building out niche business customer segments, including health, education, accountants, car dealerships etc.

Vicwest provides key products and services of traditional and IP telephony, data networks, mobile voice and data services, managed conference solutions, broadband, data service management and design, business telephony systems, network design and support.

In addition, Vicwest also provides video conferencing services, phone system sales, cabling and installation work.

To provide these services, Vicwest adapts and/or resells infrastructure or products. For example, Vicwest uses Bendigo Telco's data centre and the Optus mobile network.

Vicwest also introduced a hosted video conferencing service in 2014 called natr. The service uses Vidyo, which is a video hosting technology that provides high quality video conferencing services over low bandwidth. With natr, Vicwest is targeting the health and education sectors.

The Vidyo natr platform was completed in February 2015. Vicwest purchases and hosts its own platform from Vidyo.

To provide its services, Vicwest operates within a franchise model and supplies telecommunications services sourced by its franchisor, CTA. CTA is a wholly-owned subsidiary of Bendigo Bank. CTA is the franchisor of the community telco initiative started by Bendigo Bank approximately 13 years ago. CTA provides Vicwest with the wholesale supply of telecommunication products and operating support services. In addition, Vicwest also adapts its own services using the franchisor's group data services and suppliers' infrastructure. Vicwest pays CTA a franchise fee to be part of the initiative and in return, CTA manages contracts with key suppliers and provides other support services such as back office accounting, billing, provisioning and call centre support.

The franchise arrangements between Vicwest and CTA will be terminated as part of the Transactions.

Bendigo Bank has also provided Vicwest with financial accommodation in order to support Vicwest's business, including the provision of various facilities and money owing to CTA.

(b) Scheme

The Company will acquire Vicwest by way of a scheme of arrangement under Part 5.1 of the Corporations Act between Vicwest and its shareholders.

If the Scheme is implemented, Bendigo Telco will issue 1 New Bendigo Telco Share for every 2.074 Vicwest Shares to Vicwest Shareholders (including Bendigo Bank) (approximately 1,500,000 in total) and Vicwest will become a wholly-owned subsidiary of Bendigo Telco. Based on Bendigo Telco's share price of \$2.04 as at 7 July 2016, this represents an implied value of \$0.98 for each Vicwest Share.

The Scheme requires the approval of Vicwest Shareholders and the Court. Specifically, it is conditional on the following:

No Condition Precedent

1. **Approval of Bendigo Telco Resolutions:** before 8.00am on the Second Court Date, Resolutions 1 to 6 (inclusive) are approved by Bendigo Telco Shareholders by the requisite majorities under the Corporations Act, the Listing Rules and the constitution of Bendigo Telco.
2. **Quotation:** before 8.00am on the Second Court Date, NSX provides approval for the official quotation of the New Bendigo Telco Shares, subject to customary conditions, including implementation of the Scheme.
3. **Independent Expert:** on or before the date that the Scheme Booklet is registered by ASIC under the Corporations Act, Vicwest's independent expert's report concludes that the Scheme is fair and reasonable and therefore in the best interests of Scheme Shareholders and Vicwest's independent expert does not change its conclusions or withdraw its report prior to 8.00am on the Second Court Date.
4. **ASIC and NSX:** before 8.00am on the Second Court Date, ASIC and NSX have issued or provided such consents, confirmations or approvals or have done such other acts which the parties agree are reasonably necessary or desirable to implement the Scheme.
5. **Restraints:** no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency or other material legal restraint or prohibition preventing the Scheme is in effect at 8.00am on the Second Court Date.
6. **Other Prescribed events:** the following do not occur on or before 8:00am on the Second Court Date:
 - Vicwest Prescribed Occurrence or Vicwest Material Adverse Change (both as defined in the Merger Implementation Deed);

-
- Bendigo Telco Prescribed Occurrence or Bendigo Telco Material Adverse Change (both as defined in the Merger Implementation Deed); and
 - CTA Material Adverse Change (as defined in the Merger Implementation Deed).
-

7. Representations and Warranties: the representations and warranties given by Vicwest and Bendigo Telco under the Merger Implementation Deed are true and correct in all material respects:

- on the date of the Merger Implementation Deed;
 - on the date this Scheme Booklet is despatched to the Scheme Shareholders;
 - at 8:00am on the date of the Scheme Meeting; and
 - at 8:00am on the Second Court Date; or
 - where expressed to be given at a particular time, at that time.
-

8. No change of Vicwest Independent Directors' recommendation: none of the independent directors of Vicwest changes, qualifies or withdraws their recommendation to Vicwest Shareholders to vote in favour of the Scheme, which recommendation may be expressed to be given:

- in the absence of a superior proposal; and
 - subject to Vicwest's independent expert opining that the Scheme is fair and reasonable and in the best interests of Vicwest Shareholders.
-

9. Amending Resolution: before 8.00am on the Second Court Date, the Vicwest Shareholders approve an amendment to the constitution of Vicwest to enable Bendigo Telco to acquire all Vicwest Shares by the requisite majority under the Corporations Act and the constitution of Vicwest.

10. Scheme Shareholder approval: Scheme Shareholders agree to the Scheme at the Scheme Meeting by the requisite majorities under the Corporations Act.

11. Ancillary transactions: before 8.00am on the Second Court Date, each of the Ancillary Transactions summarised in section 1.5 of this Explanatory Statement have been executed by the parties named as parties to those arrangements.

12. Fulfilment of conditions precedent in Transaction Framework Agreement: before 8.00am on the Second Court Date, all conditions

precedent in the Transaction Framework Agreement have been fulfilled or waived in accordance with the Transaction Framework Agreement.

- 13. Court approval:** the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.
-

It is important to note that some of these conditions may not be satisfied even if the Resolutions are passed at the General Meeting.

1.3 New Loan Facility

As noted above, Bendigo Bank has provided Vicwest financial accommodation in order to support Vicwest's business. This includes an interest free loan in the amount of \$3.8 million.

Bendigo Bank will provide a new loan facility in the amount of \$3.8 million to Bendigo Telco for the purpose of repaying the existing loan from Bendigo Bank to Vicwest, and for working capital (**New Loan Facility**). The current Vicwest loan balance is \$3.8 million. The balance of the Vicwest loan facility will be reduced by \$150,000 to \$3.65 million immediately prior to implementation of the Scheme, to reflect Bendigo Bank's agreed share of the costs of the Transactions. Accordingly, Bendigo Telco will have a \$3.8 million facility, initially drawn down to \$3.65 million to extinguish Vicwest's current loan.

The key terms of the New Loan Facility are as follows:

- (a) The facility is split into two types as follows:
 - (i) \$1.5 million, which is interest only for the whole term; and
 - (ii) \$2.3 million, which is interest only for 12 months, followed by principal and interest for the remaining term.
- (b) The term is 84 months from initial drawdown.
- (c) The interest rate is the RBA cash rate. The interest rate will immediately convert to a market rate of interest if a person other than Bendigo Bank acquires a Relevant Interest in 20% or more of Bendigo Telco Shares or Bendigo Telco lists on the ASX or takes action to list on the ASX.
- (d) The facility will be initially secured by a general security deed over all present and after acquired property of Bendigo Telco and BCT Shepparton and a guarantee and indemnity from BCT Shepparton. Within 21 days of the initial drawdown, similar security will be provided by Vicwest, Geelong Community Telco Pty Ltd A.C.N. 122 412 300 and Ballarat Community Enterprise Pty Ltd A.C.N. 111 713 065.

The benefit that Bendigo Bank will receive in relation to the New Loan Facility was considered by the independent expert who prepared the independent expert's report included in the Scheme Booklet (**Vicwest's Expert**). The Scheme Booklet has been disclosed by Bendigo Telco on the NSX announcement platform and is available from the NSX's website.

Vicwest's Expert considered two approaches to determine if there is a net benefit to Bendigo Bank.

Approach 1

To determine if there was a net benefit to Bendigo Bank from the loan to Bendigo Telco Vicwest's Expert considered the following:

- (a) The present value to Bendigo Bank of its \$3.8 million loan to Bendigo Telco, adjusted for the \$150,000 relating to transaction fees payable by Bendigo Bank and included in the \$3.8 million mentioned above; and
- (b) The position of Bendigo Bank in relation to its \$3.8 million loan to Vicwest.

Vicwest's Expert's findings using this approach was that this resulted in a net loss to Bendigo Bank of \$871,000.

Approach 2

In addition to the above, Vicwest's Expert also considered a scenario in terms of which it calculated a high level present value of the Bendigo Bank loan to Vicwest based upon the expected repayment profile of the loan provided by Vicwest management.

The expected cash flows relating to the loan is based upon the following assumptions:

- (c) The loan has 8 years remaining and is to be fully paid off or refinanced on commercial terms by June 2024;
- (d) No interest is paid on the loan over the term; and
- (e) Repayment of principal is equal to 50% of Vicwest's expected net profit in the preceding financial year. The repayment profile was developed in consultation with Vicwest management.

In respect of the above assumptions regarding the repayment profile developed with Vicwest management, it is noted by Vicwest management that the repayment profile is based on reasonable grounds, however, as with any forward looking estimates, the estimates are of course only predictions and are subject to inherent risks and uncertainties that can cause actual results to differ materially from expectations.

To calculate the present value of the Vicwest loan cash flows, Vicwest's Expert have applied a discount rate of 8.25%. Typically, Bendigo Bank lends to small businesses at an advertised rate of 6.25% which is consistent with the discount rate Vicwest's Expert used to calculate the present value of the New Loan Facility. However, because the risk profile of the Vicwest loan repayments are considered to be riskier, a risk premium of 200 basis points was added. Using the assumptions above, the present value of the Vicwest loan was calculated to be \$2,016,000.

Vicwest's Expert's findings using this approach was that this resulted in a net benefit to Bendigo Bank of \$913,000.

Notwithstanding the above, the Independent Directors of Bendigo Telco consider the terms of the New Loan Facility to be more favourable than market terms.

This New Loan Facility will be in addition to Bendigo Telco's existing debt facilities with Bendigo Bank, which as at the date of this Notice of Meeting are as follows:

- (a) overdraft facility of \$500,000; and

- (b) standard lease facility of \$2,182,000.

1.4 CTA Transaction

(a) About CTA

CTA is a wholly owned subsidiary of Bendigo Bank. CTA is the current franchisor of the Community Telco franchise. It also operates its own telecommunications services reseller business. On behalf of the Community Telco franchise, CTA manages contracts with key suppliers and provide other support services such as back office accounting, billing, provisioning and call centre support. Bendigo Telco was a franchisee until November 2014. Vicwest is currently the sole remaining franchisee, but these arrangements will terminate as part of the Transactions.

(b) CTA Transaction

Bendigo Telco will acquire part of CTA's managed telco business pursuant to the Business Sale Agreement, which includes the issue of New Bendigo Telco Shares to CTA as consideration for that acquisition.

The key terms of the Business Sale Agreement are as follows:

- (i) the Company will acquire the following key assets associated with CTA's telecommunication services resupply business:
 - A. approximately 1,200 customer contracts (from approximately 220 customers); and
 - B. plant and equipment;
- (ii) the Company will issue 500,000 New Bendigo Telco Shares to CTA at an issue price of \$2.00 per share, valuing the transaction at \$1 million, and will make a cash payment to CTA of approximately \$25,000 for the plant and equipment;
- (iii) the Company will offer employment to 7 CTA employees on substantially the same terms as their current employment;
- (iv) CTA will supply to the Company Optus post-paid mobile digital services on a wholesale basis for the duration of CTA's contractual arrangements with Optus; and
- (v) the Company will assume from CTA its minimum spend obligations to AAPT in respect of the customer contracts to be transferred to the Company pursuant to the Business Sale Agreement.

The anticipated gross margin (revenue less the cost of goods and services sold) associated with the customer contracts to be acquired from CTA for the 12 month period just prior to the Second Court Date is anticipated to be \$2.3m. A calculation will be done by CTA just prior to the Second Court Date. If the gross margin at the time of calculation is less than \$2.07m, CTA has the right to top up the transferring customer base. If the gross margin remains less than \$2.07m then this will trigger a CTA Material Adverse Change (see Section 1.2(b) above).

The Business Sale Agreement contains customary warranties and representations from both CTA and the Company.

1.5 Ancillary Transactions

Certain ancillary transactions will be undertaken by the Company and Vicwest, together with Bendigo Bank and its wholly-owned subsidiary, CTA, to give effect to the efficacy of the Transactions as follows:

- (a) termination of the existing Vicwest franchise arrangements with CTA. Bendigo Telco will be able to provide the same support services CTA currently provides Vicwest within its current resource structure;
- (b) variation of the wholesale standard services agreement dated 28 November 2012 between CTA and AAPT Limited (as varied by an agreement entered into in September 2014 between Community Telco Australia, AAPT Limited and Bendigo Bank). The purpose of the variation is to secure from AAPT Limited for CTA's benefit (and on terms acceptable to it, acting reasonably) a promise to reduce CTA's minimum spend obligations under this agreement in recognition of the transfer of various customer contracts from CTA to Bendigo Telco under the Business Sale Agreement;
- (c) variation of the wholesale standard service agreement entered into between Bendigo Telco and AAPT Limited on 12 September 2014. The purpose of the variation is to obtain AAPT Limited's consent to the change of control of Bendigo Telco as a consequence of the Transactions, to secure a commitment from AAPT Limited to supply services to Bendigo Telco in respect of the various customer contracts transferred by CTA to Bendigo Telco under the Business Sale Agreement and to record Bendigo Telco's promise to assume CTA's minimum spend obligations following the transfer of customer contracts referred to above;
- (d) entry into a managed WAN 4 services agreement under which Bendigo Telco will supply wide area network services and certain related services to Bendigo Bank for a 5 year term commencing on 1 January 2017 on terms to be agreed between Bendigo Telco and Bendigo Bank (both acting reasonably) (**BEN4 Agreement**) (see section 1.6 for further information);
- (e) termination of the master telecommunications services supply agreement entered into between CTA, Bendigo Telco and Bendigo Bank and dated 29 September 2014;
- (f) entry into a transitional services agreement under which CTA will supply services to Bendigo Telco in connection with the migration of Customer Services (within the meaning of the Business Sale Agreement) acquired by Transferring Customers (within the meaning of the Business Sale Agreement) to Bendigo Telco;
- (g) termination of the wholesale telecommunication supply discount arrangement between CTA and Vicwest under which the benefit of up to 50% of any past price reductions in wholesale charges negotiated between CTA and its wholesale providers is retained by CTA; and
- (h) termination of the gross margin subsidy arrangement between Bendigo Bank and Vicwest under which Bendigo Bank pays Vicwest (through CTA) a subsidy of approximately

\$600,000 per annum in respect of certain telecommunications services acquired by Bendigo Bank that are attributed to Vicwest supply.

1.6 **BEN4 Agreement**

For in excess of 15 years, Bendigo Telco has provided a variety of data network and data related services to Bendigo Bank on commercial terms. Over that extended period, the data services provided by Bendigo Telco have changed overtime to meet the evolving business needs of the Bendigo Bank, to leverage the benefits derived from the introduction of new technologies and to access new ubiquitous networks (such as the National Broadband Network).

The BEN4 Agreement is a proposed agreement under which Bendigo Telco will supply wide area network services and certain related services to Bendigo Bank for a 5 year term commencing on 1 January 2017 on terms to be agreed between Bendigo Telco and Bendigo Bank (both acting reasonably). The purpose of this agreement is to enter into a new five year supply agreement, but on different terms (including as to fees) to the existing managed wide area network services agreement dated 1 July 2011 entered into between Bendigo Bank and Bendigo Telco, as extended until 31 December 2016 by an agreement entered into between Bendigo Bank and Bendigo Telco (**BEN3 Agreement**).

The BEN4 Agreement will have a negative impact on future maintainable earnings of Bendigo Telco in the amount of \$485,000 per year. The Independent Directors of Bendigo Telco believe that it is reasonably foreseeable that they will be able to implement a number of cost savings to reduce this negative impact on future maintainable earnings, however there is no guarantee that these cost savings will fully offset this impact.

Utilising much of their existing core infrastructure currently incorporated in their BEN3 offering, Bendigo Telco's BEN4 solution is optimised to allow access to now available internet and cloud services, to provide flexibility in network design changes, is engineered to enable future technology convergences, to provide the same high reliability low risk performance as BEN3 and to provide the same Network Operation Management service as provided in BEN3. The Network Operation Management service offered by Bendigo Telco enables them to remotely monitor and manage the performance and status of the routers, switches, transmission equipment and links of the Bank's data network.

In accordance with normal business practices and as has been done in previous contract negotiations between the parties, the technical staff from the Bendigo Bank's IT Department and Bendigo Telco are currently negotiating the BEN4 Agreement with all matters being considered on commercial terms. In addition, although the execution of the BEN4 contract is a condition precedent to the Scheme, all BEN4 negotiations are being undertaken at arm's length to the Scheme. Bendigo Bank and Bendigo Telco (both acting reasonably) are aiming to conclude negotiations and to execute the BEN4 Agreement by the end of July 2016.

The BEN4 Agreement will commence on the Implementation Date but the 5 year service term under it will not commence until 1 January 2017. Until 31 December 2016, Bendigo Telco will continue to supply services to Bendigo Bank under the BEN3 Agreement.

The BEN4 Agreement will replace the BEN3 Agreement with effect from 1 January 2017.

2. RATIONALE FOR THE TRANSACTIONS

2.1 Reasons for the Transactions

The Independent Directors have considered a number of advantages, disadvantages and risks associated with the Transactions prior to entering into the Transaction Framework Agreement. The key advantages, disadvantages and risks associated with the Transactions are set out below.

2.2 Advantages of the Transactions

The following may be considered to be potential advantages of the Transactions:

(a) The Independent Expert considers that the Transactions as a whole are fair and reasonable to non-associated Bendigo Telco Shareholders

The Independent Directors of Bendigo Telco requested the Independent Expert to express an opinion as to whether Resolution 5 is fair and reasonable to Bendigo Telco Shareholders not associated with the Transactions. As Resolutions 1 to 6 are inter-conditional, the Independent Expert assessed whether Resolution 5 is fair and reasonable by evaluating whether the Transactions are, as a whole, fair and reasonable to Bendigo Telco Shareholders.

The Independent Expert considers that the Transactions as a whole are fair and reasonable to Bendigo Telco Shareholders. The Independent Expert's Report is attached as Annexure A and should be read in its entirety.

(b) The Transactions provide Bendigo Telco Shareholders with the opportunity to participate in a larger organisation

The Transactions will enable Bendigo Telco Shareholders to participate in the creation of a larger telecommunications company servicing regional Victoria. This should provide a platform for potential growth and value realisation in the region.

The Merged Group will have a pro forma market capitalisation of approximately \$15.8 million (based on the closing price of Bendigo Telco Shares on NSX on 7 July 2016). This compares with a market capitalisation of Bendigo Telco of \$11.7 million (based on the closing price of Bendigo Telco Shares on NSX on 7 July 2016).

The increased scale and presence of the Merged Group should enhance the level of interest from investors and customers in the region.

The Transactions will also bring together the specialist technical skills and services of Bendigo Telco and Vicwest, with a view to providing a broader and more cost-competitive product offering.

(c) The Merged Group is expected to be better positioned for future growth by having greater scale and ability to obtain capital to pursue new projects which are essential to ensure viability in the highly-competitive telecommunications industry

The Merged Group is expected to have enhanced scale and a balance sheet to pursue growth opportunities in the highly-competitive telecommunications industry.

The Merged Group's greater scale and scope may also facilitate access to additional sources of capital in the equity and debt markets over time.

In addition, the combined customer base, technical capability, greater scale and financial position of the Merged Group is expected to provide greater access to growth opportunities, including:

- (i) providing services to a broader market with greater reach within market sectors;
- (ii) enhanced product offering to the broader market; and
- (iii) the ability to create efficiencies that will allow a competitive market offering.

(d) Expected synergies and cost savings

The Merged Group is expected to unlock value through certain operational cost savings and a reduction in corporate costs, which would not be available to Bendigo Telco on a standalone basis.

The expected synergy benefits are detailed in the valuation of Bendigo Telco post the Transactions set out in section 11 of the Independent Expert's Report.

In addition, the Bendigo Telco board expects that the Merged Group will benefit from the sharing of knowledge and technical expertise between the two businesses.

(e) The Transactions bring together two like-minded organisations

The strategic objectives of Vicwest and Bendigo Telco are closely aligned.

Both organisations aim to provide highly competitive telecommunications prices and exceptional service delivery to their regions.

The organisations also create jobs and economic value, and make significant direct financial contributions to local community projects.

These objectives would continue with the Merged Group. They are also expected to be further enhanced with the Merged Group being a larger enterprise.

Under the Transactions, two current directors of Vicwest will join the board of the Merged Group. This will ensure appropriate ongoing representation for the Geelong and Ballarat communities in relation to the Merged Group.

(f) The Transactions secure a new service agreement with Bendigo Bank

The Transactions also involve the entry into the BEN4 Agreement (see Section 1.5 of this Explanatory Statement), which secures the Company's relationship with Bendigo Bank for managed wide area network services over a further five year term.

The Company and Bendigo Bank are already parties to:

- (i) an ATM managed wide area network services agreement under which Bendigo Telco supplies wide area network services, network management services and migration services to Bendigo Bank at specified sites dated 1 April 2012. This agreement expires on 31 March 2017;

- (ii) a Managed Metropolitan Area Network Services Agreement under which Bendigo Telco supplies metropolitan area network services, implementation services and network managed services to Bendigo Bank at specified sites, which is set to run until 2018; and
- (iii) a business continuity centre agreement under which Bendigo Telco provides Bendigo Bank space and facilities at its BCC until 1 February 2018.

These contractual arrangements are not affected by the Transactions.

2.3 Disadvantages of the Transactions

The following may be considered to be potential disadvantages of the Transactions:

(a) The Transactions will result in a sizeable dilution of the existing shareholder base

The voting power of existing Bendigo Telco Shareholders (excluding Bendigo Bank) will be reduced from 80.64% to 59.82%. See section 3.4 of this Explanatory Statement for further information.

(b) Bendigo Telco will have additional debt

Bendigo Bank will provide a new loan facility in the amount of \$3.8 million to the Company as part of the Transactions. See section 1.3 of this Explanatory Statement for further information.

Bendigo Telco will also assume Vicwest's existing debt (other than its existing loan with Bendigo Bank that is to be repaid from the New Loan Facility) which as at the date of this Notice of Meeting comprises:

- (i) a hardware funding facility for mobile handsets for an amount of approximately \$114,000; and
- (ii) novated leases.

(c) Uncertainty regarding Vicwest's ability to continue as a going concern

The historical financial results of Vicwest for the two and a half years ended 31 December 2015 are set out in the Independent Expert's Report.

Included within each of the FY13, FY14 and FY15 audit reports of Vicwest is an emphasis of matter regarding the fact there is inherent uncertainty regarding the ability for Vicwest to continue as a going concern without the continued support of its financiers. These audit reports also each include an emphasis of matter regarding the recoverability of intercompany loans payable to the Vicwest parent entity by its subsidiaries which eliminate upon consolidation.

The Independent Directors of Bendigo Telco believe that it is reasonably foreseeable that, following implementation of the Transactions, Vicwest and its subsidiaries will continue as going concerns. In particular, upon implementation of the Transactions the franchise arrangements with CTA will be cancelled and the franchise fee will cease. Bendigo Telco will take over the responsibility of providing support services to Vicwest and its

subsidiaries, and the costs of providing these additional services will be absorbed by Bendigo Telco within their existing infrastructure.

2.4 Risks

There are a range of factors, both specific to the Merged Group and which apply more generally to the commercial and retail telecommunications industry and equity market participants, which may, individually or in combination, affect the business, future operating and financial performance, reputation or prospects of the Merged Group and/or the value at which Bendigo Telco Shares may trade in the future. Many of the circumstances giving rise to these risks are beyond the control of the Merged Group, its directors and management.

This Section sets out the risk factors considered by the Independent Directors to be the material risks relating to implementation of the Transactions. The risk factors described in this Section are not an exhaustive list of the risk factors relating to the implementation of the Transactions, and should be read in conjunction with the other information described in this Notice of Meeting.

(a) Integration of Vicwest and the CTA Business into Bendigo Telco Group

The performance of the Merged Group will be influenced by, among other things, the success of integrating the businesses of Vicwest, CTA and Bendigo Telco (including the transfer of customer contracts and the migration of customer services) and the strength of management of the Merged Group.

There is a significant degree of overlap between the businesses of Vicwest, CTA and Bendigo Telco. However, there can be no guarantee as to the extent to which the businesses of the Merged Group will be successfully integrated or the time period over which integration will be undertaken.

There are risks that the integration of the Vicwest, CTA and Bendigo Telco businesses will take longer than currently expected and that the anticipated benefits of that integration may be less than estimated.

Potential risks include differences in organisational culture, inability to achieve anticipated cost savings and the potential loss of key personnel.

Any failure by the Merged Group to ensure the integration process proceeds as anticipated or to realise estimated integration cost savings may have a material adverse effect on the financial performance and future prospects of the Merged Group.

(b) Contractual events on change of control or a material transaction

The implementation of the Transactions may give rise to contractual consequences under material contracts to which Vicwest or Bendigo Telco are a party, including rights for the contractual counterparty to review the contractual arrangements or exercise other rights such as termination rights, rights of pre-emption or a deemed transfer. If a contractual counterparty elects to exercise such rights upon the implementation of the Transactions, this may have a material adverse effect on the financial performance of the Merged Group.

As at the date of this notice of meeting, Bendigo Telco has taken steps to obtain the consent of its contractual counterparties under any relevant material contracts. A number

of these consents have already been obtained, including the consent of Optus Mobile Pty Limited.

(c) Accounting treatment of Vicwest assets in the Merged Group

Following implementation of the Transactions, the Merged Group will be required to perform a fair value assessment of all of the assets and liabilities of the Merged Group, including tangible and intangible assets. As a result of that fair value assessment, the Merged Group's charges (for example, depreciation expense and amortisation expense) and asset carrying values may be substantially different to the corresponding charges and asset carrying values applied by Vicwest and Bendigo Telco as standalone entities and, to that extent, may impact upon the future financial performance and financial results of the Merged Group.

The Merged Group will also be subject to risks arising as a result of any future changes in accounting policies applied by the Merged Group which may have an adverse impact on the Merged Group.

Changes to accounting standards may also adversely affect the Merged Group's reported earnings performance in any given reporting period and its consolidated statement of financial position from time to time.

3. EFFECT OF THE TRANSACTIONS ON BENDIGO TELCO GROUP

3.1 Overview of the Merged Group

The Merged Group will result in the combination of three complementary businesses providing a broad range of telephony and data management services to approximately 4,700 customers.

3.2 Board of directors and senior management

Bendigo Telco has agreed to procure that resolutions for the appointment of two nominees of Vicwest and one (additional) nominee of Bendigo Bank as directors of Bendigo Telco are proposed at the General Meeting. Those resolutions are Resolutions 7 to 9 (inclusive).

Assuming those Resolutions are passed, following completion of the Transactions the Merged Group Board will be comprised as follows:

Name	Position
Donald Erskine	Non-Executive Chairman
Robert Hunt	Non-Executive Director
Graham Bastian	Non-Executive Director
Michelle O'Sullivan	Non-Executive Director
Andrew Watts	Non-Executive Director
Kevin Dole	Non-Executive Director
Rod Payne	Non-Executive Director
Jonathan Selkirk	Non-Executive Director

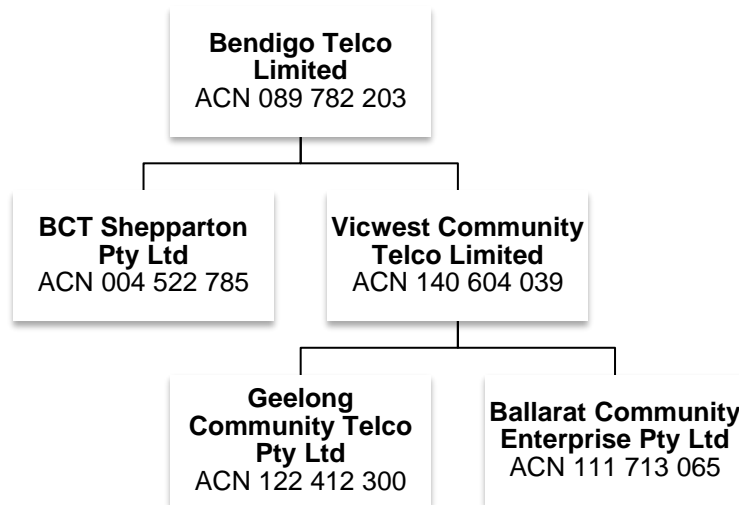
No material changes are currently anticipated to Bendigo Telco Group's management team.

3.3 Corporate structure

The current corporate structure of Bendigo Telco Group is as follows:



The corporate structure of the Merged Group assuming successful completion of the Transactions is as follows:



** Note: the CTA Business will be merged into Bendigo Telco's existing operations.*

3.4 Capital structure

Bendigo Telco currently has 5,745,322 Bendigo Telco Shares on issue. They are held as follows:

Shareholder	Number of Bendigo Telco Shares	Percentage
Bendigo Bank (including CTA)	1,112,146	19.36%
Current Non-Associated Bendigo Telco Shareholders	4,633,176	80.64%
Total	5,745,322	100%

Bendigo Telco will issue approximately 2,000,000 Bendigo Telco Shares as part of the Transactions. Bendigo Telco will therefore have approximately 7,745,322 Bendigo Telco Shares on issue assuming successful completion of the Transactions (subject to rounding). They will be held as follows:

Shareholder	Number of Bendigo Telco Shares	Percentage
Bendigo Bank (including CTA)	2,362,146	30.50%
Vicwest Shareholders (excluding Bendigo Bank)	750,000	9.68%
Current Non-Associated Bendigo Telco Shareholders	4,633,176	59.82%
Total	7,745,322	100%

3.5 Merged Group Pro Forma Historical Financial Information

The Merged Group Pro Forma Historical Financial Information is presented to provide Bendigo Telco Shareholders with an indication of the Merged Group's assets and liabilities as if the Transactions had occurred at 31 December 2015.

The Merged Group Pro Forma Historical Financial Information is indicative only and does not illustrate the financial position that may be contained in future Bendigo Telco financial statements when the Transactions are implemented.

Additional financial information is provided in the Independent Expert's Report, including:

- Bendigo Telco's assessed future earnings of the Merged Group
- the historical results of Bendigo Telco and Vicwest for the two and a half years ended 31 December 2015; and
- the financial performance of the CTA Business for the year ended 30 June.

(a) Basis of preparation

With the exception of matters noted in the key assumptions below, the Merged Group Pro-Forma Historical Financial Information has been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards (including Australian Accounting Interpretations) (**AAS**) adopted by the Australian Standards Board (**AASB**) and the Corporations Act. The financial information also complies with the recognition and measurement requirements of International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

The Merged Group Pro Forma Historical Financial Information is based on:

- Vicwest's reviewed historical consolidated statement of financial position as at 31 December 2015; and
- Bendigo Telco's reviewed historical consolidated statement of financial position as at 31 December 2015,

adjusted for certain pro forma transactions described in the notes to the pro forma historical statement of financial position presented in section (d) below.

The Merged Group Pro Forma Historical Financial Information is provided for illustrative purposes and is prepared on the assumption that for the purposes of Merged Group Pro Forma Historical Financial Information, the Transactions had been implemented on 31 December 2015. This is not intended to reflect the financial position that would have actually resulted had the Transactions been implemented on this date, or the results that may be obtained in the future. If the Transactions had occurred in the past, Bendigo Telco's financial position would likely have been different from that presented in the Merged Group Pro Forma Historical Financial Information.

Due to the nature of pro forma information, it may not give a true picture of the Merged Group's financial position. The Merged Group Pro Forma Historical Financial Information is not represented as being indicative of Bendigo Telco's views on its future financial position.

All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest thousand dollars.

(b) Key assumptions

The Merged Group Pro Forma Historical Financial Information has been prepared based on the key assumptions set out below.

(i) Acquisition accounting – Fair value of identifiable assets and liabilities acquired

For the purposes of preparing the Merged Group Pro Forma Historical Financial Information, it has been assumed that there will be no adjustments to the carrying value of the Vicwest and CTA identified assets and liabilities acquired. In the event that any fair value adjustments are subsequently identified, this will have an equal but opposite effect on goodwill arising on acquisition.

(ii) Acquisition accounting – Other intangibles

For the purposes of preparing the Merged Group Pro Forma Historical Financial Information, it has been assumed that there will be no separately identifiable intangible assets other than those already recognised in Vicwest's 31 December 2015 statement of financial position. It is, however, likely that separately identified intangibles, particularly in the form of customer contracts and other amortisable intangible assets, will be identified, with the resulting effect of reducing non-amortisable goodwill arising on acquisition. Given that customer contracts will have finite lives, net profit after tax will decrease as a result of the requirement to amortise these intangibles over their estimated useful life. This will not, however, have an impact on cash flows.

(iii) Deferred tax

For the purposes of preparing the Merged Group Pro Forma Historical Financial Information, it has been assumed that there will be no resetting of Vicwest's tax cost bases following the Transactions. It is, however, likely that the Allocable Cost Amount calculation will result in a deferred tax position which is different to the position presented in the Merged Group Historical Pro Forma Financial

Information. Any resulting adjustment will have an equal but opposite impact on the amount of goodwill recognised.

(iv) Variation in accounting policies

The Merged Group Pro Forma Historical Financial Information applies the individual accounting policies of Bendigo Telco and Vicwest respectively to the financial information of each entity. No allowance for variations in accounting policies between Bendigo Telco and Vicwest has been made in the Merged Group Pro Forma Historical Financial Information. A preliminary comparison of the Vicwest and Bendigo Telco accounting policies has not identified any material differences.

(c) Merged Group Pro Forma Historical Statement of Financial Position

The Merged Group Pro Forma Historical Statement of Financial Position has been derived from combining:

- (i) the Bendigo Telco historical consolidated Statement of Financial Position as at 31 December 2015, which was extracted from Bendigo Telco's financial report for the half year ended 31 December 2015, which was reviewed by Andrew Frewin Stewart and on which an unqualified review opinion was provided;
- (ii) the Vicwest historical consolidated Statement of Financial Position as at 31 December 2015, which was extracted from Vicwest's financial report for the half year ended 31 December 2015, which was reviewed by PPT Audit Pty Ltd and on which an unqualified review opinion was provided; and
- (iii) the pro forma adjustments noted below.
 - A. Bendigo Telco will issue 1,500,000 Bendigo Telco Shares at \$2.00 to Vicwest Shareholders as Scheme Consideration;
 - B. Bendigo Telco will issue 500,000 Bendigo Telco Shares at \$2.00 to CTA as consideration for the acquisition of CTA's managed telecommunications business, and will offer employment to a number of CTA employees;
 - C. Bendigo Telco will enter into a new loan facility with funds to be used to repay Vicwest's existing loan with Bendigo Bank and for working capital;
 - D. Total transaction costs of \$970,000 of which \$620,000 are incurred by Vicwest pre-merger and hence reduce the Vicwest net assets balance acquired and \$350,000 incurred by Bendigo Telco and expensed pre-merger; and
 - E. Goodwill has been adjusted to reflect the impact of the above adjustments.

\$000 (As at 31 December 2015)	Notes	Bendigo Telco Reviewed	Vicwest Reviewed	Pro forma adjustments	Merged Group Pro forma
Current assets					
Cash and cash equivalents	1	2,087	166	(586)	1,667
Trade and other receivables		1,025	1,517	-	2,542
Prepayments		1,592	553	-	2,145
Inventories		171	141	-	312
Taxation		25	-	-	25
Total current assets		4,900	2,377	(586)	6,691
Non-current assets					
Property, plant and equipment		4,161	201	25	4,387
Intangible assets	2	1,411	3,729	3,447	8,587
Deferred tax asset		217	-	-	217
Prepayments		295	-	-	295
Total non-current assets		6,084	3,930	3,472	13,486
Total assets		10,984	6,307	2,886	20,176
Current liabilities					
Trade and other payables		2,500	1,688	-	4,188
Provisions		530	125	59	714
Borrowings		546	-	-	546
Total current liabilities		3,576	1,814	59	5,449
Non-current liabilities					
Provisions		138	20	-	158
Borrowings	3	1,565	3,450	200	5,215
Total non-current liabilities		1,703	3,470	200	5,373
Total liabilities		5,279	5,284	259	10,822
Net Assets		5,705	1,023	2,627	9,355
Equity					
Issued capital	4	3,533	2,292	1,708	7,533
Reserves		-	17	(17)	-
Retained earnings	5	2,172	(1,286)	936	1,822
Total Equity		5,705	1,023	2,627	9,355

(d) Notes to the Merged Group Pro Forma Historical Statement of Financial Position

Note 1: Cash and cash equivalents

CASH AND CASH EQUIVALENTS	\$
Reviewed balance of Bendigo Telco as at 31 December 2015	2,087
Reviewed balance of Vicwest as at 31 December 2015	166
<i>Pro forma adjustments:</i>	
Refinancing facility from Bendigo and Adelaide Bank	350
Contribution of CTA towards the unfunded employee entitlements acquired	34
Estimated total transaction costs for the Scheme	(970)
	<u>(586)</u>
Pro forma Balance	<u>1,667</u>

Note 2: Intangible assets

Intangible assets	\$
Reviewed balance of Bendigo Telco as at 31 December 2015	1,411
Reviewed balance of Vicwest as at 31 December 2015	3,729
<i>Pro forma adjustments:</i>	
1.5 million shares in Bendigo Telco issued at \$2/share to existing VicWest shareholders	3,000
0.5 million shares in Bendigo Telco issued at \$2/share to CTA	1,000
(Note that the net assets of CTA acquired are valued at \$nil)	
	<u>4,000</u>
Less: Net assets of Vicwest as at 31 December 2015	(1,023)
Plus: Vicwest net transaction costs incurred pre-merger	470
	<u>3,447</u>
Pro forma Balance	<u>8,587</u>

The initial determination of goodwill and other assets and liabilities (including intangible assets) related to the acquisition of Vicwest will be reported as "provisional" values with adjustments made to finalise these values within twelve months of the Scheme Implementation Date. At the date of this Scheme Booklet it is not possible to determine the fair values of the assets acquired and the liabilities and contingent liabilities assumed. As a result the actual determination of goodwill may change. The goodwill balance recognised will be subject to annual impairment testing. Should an impairment be identified the resulting impact on earnings could be significant.

Note 3: Non-Current Borrowings

Non Current borrowings	\$
Reviewed balance of Bendigo Telco as at 31 December 2015	1,565
Reviewed balance of Vicwest as at 31 December 2015	3,450
<i>Pro forma adjustments:</i>	
Refinancing facility from Bendigo and Adelaide Bank	350
Reduction in outstanding borrowings from Bendigo and Adelaide Bank (netted against Vicwest transaction costs)	(150)
	<u>200</u>
Pro forma Balance	<u>5,215</u>

Note 4: Issued capital

Issued capital		\$
Fully paid ordinary share capital of Bendigo Telco as at 31 December 2015		3,533
Fully paid ordinary share capital of Vicwest as at 31 December 2015		2,292
<i>Pro forma adjustments:</i>		
Issue of ordinary shares in Bendigo Telco to acquire Vicwest		708
Issue of ordinary shares in Bendigo Telco to CTA to acquire certain assets and liabilities		1,000
		<u>1,708</u>
Pro forma Balance		<u><u>7,533</u></u>

Note 5: Retained earnings

Retained earnings		\$
Reviewed balance of Bendigo Telco as at 31 December 2015		2,172
Reviewed balance of Vicwest as at 31 December 2015		(1,286)
<i>Pro forma adjustments:</i>		
Vicwest net transaction costs incurred pre-merger		(470)
Elimination of Vicwest retained earnings balance on Acquisition		1,756
Estimated Bendigo Telco transaction costs for the Scheme		(350)
		<u>936</u>
Pro forma Balance		<u><u>1,822</u></u>

4. ADDITIONAL INFORMATION

4.1 Intentions of Bendigo Bank

This section sets out Bendigo Bank's intentions regarding the future of Bendigo Telco if Bendigo Telco Shareholders approve the increase in voting power of Bendigo Bank (and CTA) as a consequence of the Transactions pursuant to Resolution 5 in relation to:

- (a) any intention to change the business of Bendigo Telco;
- (b) any intention to inject further capital into Bendigo Telco;
- (c) the future employment of the present employees of Bendigo Telco;
- (d) any proposal where assets will be transferred between Bendigo Telco and Bendigo Bank, CTA or their associates
- (e) any intention to otherwise redeploy the fixed assets of Bendigo Telco; and
- (f) any intention of Bendigo Bank to significantly change the financial or dividend distribution policies of Bendigo Telco.

Bendigo Bank has advised Bendigo Telco that, apart from implementing the Transactions in accordance with the Resolutions to be considered by Bendigo Telco Shareholders, Bendigo Bank has no intention of seeking to make any of the changes, or doing any of the things, mentioned above.

4.2 Interests of Directors

The following table lists the Relevant Interests of the Directors in Bendigo Telco Shares as at the date of this Notice of Meeting:

Director	Executive or Non-Executive	Relevant Interest in Bendigo Telco Shares
Donald Erskine	Non-Executive	939,326 (16.35%)
Robert Hunt	Non-Executive	451,048 (7.85%)
Graham Bastian	Non-Executive	2,000 (0.03%)
Michelle O'Sullivan	Non-Executive	29,711 (0.52%)
Andrew Watts	Non-Executive	-

No Director has a Relevant Interest in Vicwest Shares as at the date of this Notice of Meeting.

Except as disclosed in this Notice of Meeting:

- (a) there are no contracts or arrangements between a Director and any person in connection with or conditional upon the outcome of the Transactions; and
- (b) no Director has a material interest in relation to the Transactions other than in their capacity as a Bendigo Telco Shareholder.

4.3 Recommendations of Independent Directors

Non-executive Director, Mr Andrew Watts, is also an employee of Bendigo Bank. Mr Watts has not participated in any Board deliberations with respect to the Transactions.

Each of the Independent Directors (being all Directors other than Mr Watts) unanimously recommends that Bendigo Telco Shareholders vote in favour of the Resolutions.

Each of the Independent Directors intends to vote, or procure the voting of any Shares held by or on their behalf at the time of the General Meeting in favour of the Resolutions.

4.4 Inter-conditional Resolutions

Resolutions 1 to 6 must be passed by the requisite majority in order for the Transactions to proceed.

It is important to note that the Transactions are subject to a number of conditions, which are set out in Section 1.2(b) of this Explanatory Statement. Some of those conditions may not be satisfied, and the Transactions may not proceed, even if the Resolutions are passed at the General Meeting.

4.5 **ASIC and NSX role**

For the purposes of Resolution 5, in accordance with ASIC Regulatory Guide 74, the Company must lodge the Notice of Meeting and Explanatory Statement with ASIC before the notice convening a general meeting is given.

The fact that the Notice of Meeting, Explanatory Statement and other relevant documentation has been reviewed by NSX and ASIC is not to be taken as an indication of the merits of the Resolutions or the Company. ASIC, NSX and their respective officers take no responsibility for any decision a Bendigo Telco Shareholder may make in reliance on any of that documentation.

4.6 **ASIC relief**

Prior to entering into the TFA, ASIC provided Bendigo Telco with conditional relief to facilitate entry into the TFA. The relief exempted Bendigo Telco from acquiring a relevant interest in Vicwest Shares held by Bendigo Bank solely as a result of the entry by Vicwest, Bendigo Telco and Bendigo Bank into the TFA.

A condition of that relief includes that Bendigo Telco must use its best endeavours to have Vicwest engage an independent expert to prepare a report on whether the Scheme is in the best interests of Vicwest Shareholders.

As part of obtaining that relief, Bendigo Bank has undertaken to Bendigo Telco that it will not vote its shares in Vicwest at the Scheme Meeting for the proposed Scheme.

4.7 **2012 Share Acquisition**

In 2012, to assist Vicwest to manage its financial position, Bendigo Bank agreed to convert some of Vicwest's debt into equity (the **Swap**).

The Swap was effected by Vicwest issuing 1,535,504 ordinary \$1.00 shares to Bendigo Bank, resulting in Bendigo Bank holding 50% of the shares in Vicwest. At the time of Bendigo Bank's acquisition of 50% of Vicwest's shares pursuant to the Swap, there were over 50 Vicwest Shareholders.

In order to effect the Swap, Vicwest sent a Notice of Special Meeting (**Notice**) to the Vicwest Shareholders seeking approval to, amongst other things, amend the Constitution and to issue the shares to Bendigo Bank. A general meeting of Vicwest shareholders was held on 11 October 2012 and approved an amendment to the Vicwest Constitution allowing Bendigo Bank to hold 50% of the total number of Vicwest Shares and approved the issue of 1,535,504 ordinary \$1.00 shares to Bendigo Bank.

However, the Corporations Act prohibits a person acquiring more than 20% of the shares in a company with more than 50 shareholders (such as Vicwest) unless an exception applies. The Corporations Act provides an exception in item 7 of section 611 for such share acquisitions where they have been approved by the company's shareholders. In order to ensure that non-associated shareholders can make an informed decision about the merits of such share acquisitions, ASIC has published a regulatory guide which outlines the material information that should be given to shareholders together with the notice of meeting, including:

- (a) an explanation of the reasons of the proposed acquisition;

- (b) a statement of the acquirer's intentions regarding the future of the target entity if members approve the acquisition;
- (c) details about any person who is intended to become a director if members approve the acquisition; and
- (d) an expert's or directors' report.

The Notice did not include any of the above materials and, consequently, the disclosure to Vicwest Shareholders, and also Bendigo Bank's acquisition of Vicwest Shares in 2012, may have breached the requirements of the Corporations Act.

This potential breach was inadvertent and came to light during the consideration of the Transactions by Bendigo Bank and Vicwest.

Bendigo Bank and Vicwest have notified ASIC of this potential breach and the Vicwest Directors consider that the potential breach will, nevertheless, be addressed as part of the implementation of the Transactions, for the following reasons:

- (a) in order to implement the Transactions, Vicwest and Bendigo Telco will need to obtain shareholder approval and relevant regulatory approvals:
- (b) both Vicwest and Bendigo Telco will provide independent expert reports to their shareholders, and a detailed Scheme Booklet (for Vicwest) and notice of meeting that complies with the requirements of item 7 of section 611 of the Corporations Act (for Bendigo Telco), when seeking approval for the Transactions; and
- (c) Bendigo Bank will not vote at either the Scheme Meeting or the General Meeting. Therefore, disinterested Vicwest and Bendigo Telco shareholders will decide whether the Transactions will be implemented.

As at the date of this Notice of Meeting, neither Bendigo Bank nor Vicwest is aware of any Vicwest Shareholder who is aggrieved by any inadvertent breach of the Corporations Act in relation to Bendigo Bank's acquisition of Vicwest Shares in 2012.

5. RESOLUTION 1: SIGNIFICANT CHANGE TO THE SCALE OF THE COMPANY'S ACTIVITIES

5.1 Background

Information about the Transactions and their effect on the Company are set out in Sections 1 to 4 above.

5.2 Shareholder approval requirement

Pursuant to Listing Rule 6.41, if a company proposes to make a significant change to the nature or scale of its activities, amongst other things, NSX can require the company to seek and obtain the approval of its shareholders to the change.

NSX has indicated that:

- (a) the acquisition of CTA's managed telco customer business by the Company; and
- (b) the acquisition of all of the Vicwest Shares by the Company pursuant to the Scheme,

as part of the Transactions will involve a significant change to the scale of the Company's activities.

If Resolution 1 is passed, then the Company will have complied with Listing Rule 6.41.

6. RESOLUTION 2: ACQUISITION OF A SUBSTANTIAL ASSET FROM BENDIGO BANK

6.1 Background

The essential part of the Scheme is that the Company will acquire the entire issued share capital of Vicwest, which will become a wholly owned subsidiary of the Company. Vicwest members will receive Bendigo Telco Shares as consideration. Further information regarding the Scheme is set out in Section 1.2 above.

Bendigo Bank is the legal and beneficial owner of 50% of the issued share capital of Vicwest. As a result, the Company will be receiving 50% of the share capital of Vicwest from Bendigo Bank. As at the date of this Notice of Meeting, Bendigo Bank has voting power of 19.4% of the voting securities of the Company.

6.2 Shareholder approval requirement

Listing Rule 6.43 requires an issuer to obtain the approval of its members if it or any of its child entities acquires a substantial asset from a person with voting power of at least 10% of the voting securities of the issuer. There is no definition of substantial asset in the listing rules.

The NSX has indicated that the acquisition of the Vicwest Shares by the Company from Bendigo Bank as part of the Scheme will involve the acquisition of a substantial asset.

If Resolution 2 is passed, then the Company will have complied with Listing Rule 6.43.

7. RESOLUTION 3: ACQUISITION OF A SUBSTANTIAL ASSET FROM CTA

7.1 Background

The Company is acquiring the CTA Business from CTA pursuant to the CTA Transaction. Further information regarding the CTA Transaction is set out in Section 1.4 above.

CTA is a wholly owned subsidiary of Bendigo Bank. CTA is therefore an associate of Bendigo Bank. As at the date of this Notice of Meeting, Bendigo Bank has voting power of 19.4% of the voting securities of the Company.

7.2 Shareholder approval requirement

Listing Rule 6.43 requires an issuer to obtain the approval of its members if it or any of its child entities acquires a substantial asset from an associate of a person with voting power of at least 10% of the voting securities of the issuer. There is no definition of substantial asset in the listing rules.

The NSX has indicated that the acquisition of the CTA Business by the Company from CTA will involve the acquisition of a substantial asset.

If Resolution 3 is passed, then the Company will have complied with Listing Rule 6.43.

8. RESOLUTION 4: ISSUE OF SHARES TO CTA

8.1 Background

The Company will be issuing 500,000 Bendigo Telco Shares to CTA as consideration for the acquisition of the CTA Business by the Company. Further information regarding the CTA Transaction is set out in Section 1.4 above.

8.2 Shareholder approval requirement

The Directors are permitted to issue up to 15% of equity securities annually without the need to obtain shareholder approval (Listing Rule 6.25) (**Annual Issue Limit**). The issue of Bendigo Telco Shares to CTA pursuant to the Business Sale Agreement will exceed the Annual Issue Limit. The Company is therefore seeking shareholder approval to issue more than 15% of its equity securities for the purposes of Listing Rule 6.25.

It should be noted that the issue of Bendigo Telco Shares pursuant to the Scheme is not counted towards the Annual Issue Limit by virtue of Listing Rule 6.25(2)(vi).

If Resolution 4 is passed, then the Company will have complied with Listing Rule 6.25 and the Company will retain flexibility in the next 12 months to raise further funds by issuing securities, should future issues be necessary.

9. RESOLUTION 5: INCREASE IN VOTING POWER OF BENDIGO BANK (AND ITS WHOLLY OWNED SUBSIDIARY CTA)

9.1 Background

CTA will be issued 500,000 Bendigo Telco Shares pursuant to the CTA Transaction. Bendigo Bank will be issued 750,000 Bendigo Telco Shares pursuant to the Scheme.

CTA is a wholly owned subsidiary of Bendigo Bank. Bendigo Bank and CTA are associates for the purposes of the Corporations Act.

As a consequence of the Transactions, CTA and Bendigo Bank's voting power in the Company will increase to 30.50%.

9.2 Shareholder approval requirement

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company which the person and the person's associates have a relevant interest in.

A person (**second person**) will be an 'associate' of the other person (**first person**) if one or more of the following paragraphs applies:

- (a) the first person is a body corporate and the second person is:
 - (i) a body corporate the first person controls;
 - (ii) a body corporate that controls the first person; or
 - (iii) a body corporate that is controlled by an entity that controls the first person;
- (b) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- (c) the second person is a person with whom the first person is acting or proposes to act in concert in relation to the company's affairs.

A person has a relevant interest in securities if they:

- (d) are the holder of securities;
- (e) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (f) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

9.3 **Exceptions to the general prohibition**

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition, whereby a person may make an otherwise prohibited acquisition of a relevant interest in a company's voting shares with shareholder approval.

In addition, item 17 of section 611 of the Corporations Act provides an exception to the prohibition, whereby a person may make an otherwise prohibited acquisition of a relevant interest in a company's voting shares as a result of a compromise or arrangement approved by the Court under Part 5.1.

Whilst Bendigo Bank can rely on the item 17 exception in respect of the increase in its relevant interest in Bendigo Telco Shares as a result of the issue of Bendigo Telco Shares to it pursuant to the Scheme, shareholder approval in accordance with item 7 is required in respect of the CTA Transaction.

9.4 **Information required by item 7(b)**

Together with the information set out in Sections 1 to 4 (inclusive) of this Explanatory Statement, the Company also provides the following information about Resolution 5 for the purposes of section 611 (item 7(b)) of the Corporations Act:

The identity of the person proposing to make the acquisition and their associates	CTA is proposing to acquire 500,000 Bendigo Telco Shares pursuant to the CTA Transaction. CTA is a wholly owned subsidiary of Bendigo Bank. Bendigo Bank and CTA are therefore associates.
The maximum extent of the increase in that person's voting power in the Company	CTA's voting power in the Company (when combined with Bendigo Bank) will increase by 30.50%.
The voting power the person would have as a result of the acquisition	CTA's voting power in the Company will be 30.50%.
The maximum extent of the increase in the voting power of each of the acquirer's associates that would result from the acquisition	Bendigo Bank's voting power in the Company will increase with CTA's by 11.14% as a result of the Transactions.
The voting power that each of the acquirer's associates would have as a result of the acquisition	Bendigo Bank's voting power in the Company will also be 30.50% as a result of the Transactions.

9.5 Independent expert's report

To satisfy the obligation to disclose all material information on how to vote in relation to a resolution under section 611 (item 7), ASIC policy encourages companies to provide to shareholders who are being asked to consider a proposal to pass a resolution under section 611 (item 7) of the Corporations Act an analysis of whether the proposal is fair and reasonable, when considered from the perspective of the shareholders of the company.

The Independent Directors have commissioned the Independent Expert to prepare the Independent Expert's Report for these purposes. The Independent Expert's Report is attached in full to this Explanatory Statement. Bendigo Telco Shareholders should read the full text of the Independent Expert's Report to assist them in determining how they should vote in respect of Resolution 5.

If Resolutions 1 to 6 are not passed, the Transactions will not proceed. The Independent Expert has assessed whether Resolutions 1 to 6 are fair and reasonable through evaluating whether the Transactions are, as a whole, fair and reasonable to Bendigo Telco Shareholders. The Independent Expert concludes the Transactions as a whole are fair and reasonable to Bendigo Telco Shareholders.

10. RESOLUTION 6: FINANCIAL ASSISTANCE

10.1 Background

Bendigo Bank will provide a new facility in the amount of \$3.8 million to the Company for the purpose of repaying the existing \$3.8 million loan from Bendigo Bank to Vicwest and for working capital. Further information regarding the New Loan Facility is set out in Section 1.3 of this Explanatory Statement.

The New Loan Facility, will be secured by:

- (a) General Security Deeds over all present and after acquired property granted by:
 - (i) the Company;
 - (ii) BCT Shepparton;
 - (iii) Vicwest;
 - (iv) Geelong Community Telco Pty Ltd A.C.N. 122 412 300; and
 - (v) Ballarat Community Enterprise Pty Ltd A.C.N. 111 713 065,in favour of Bendigo Bank; and
- (b) Guarantees and Indemnities from:
 - (i) BCT Shepparton;
 - (ii) Vicwest;
 - (iii) Geelong Community Telco Pty Ltd A.C.N. 122 412 300; and
 - (iv) Ballarat Community Enterprise Pty Ltd A.C.N. 111 713 065,to secure the New Facility to the Company in favour of Bendigo Bank.

10.2 Shareholder approval requirement

Section 260A(1) of the Corporations Act provides that a company may financially assist a person to acquire shares in the company or a holding company of the company if the assistance is approved by shareholders under section 260B of the Corporations Act.

If a company is (or will become) a subsidiary of a listed holding corporation, the financial assistance must also be approved by a special resolution passed at a general meeting of the listed holding company under section 260B(2) of the Corporations Act.

10.3 Financial assistance

A company may be regarded as giving financial assistance if it gives something needed in order that a transaction be carried out or something in the nature of aid or help. Common examples of financial assistance include issuing a debenture, giving security over the company's assets, and giving a guarantee or indemnity in respect of another person's liability.

By Vicwest and its subsidiaries granting the security described above in respect of the New Facility, they are giving financial assistance to the Company in connection with the acquisition of Vicwest Shares pursuant to the Scheme. The security will be provided by Vicwest and its subsidiaries within 21 days of initial drawdown under the New Loan Facility.

The giving of the financial assistance will be approved by the shareholders of Vicwest and its subsidiaries following implementation of the Scheme in accordance with section 260B(1) of the Corporations Act. It is proposed that the financial assistance now be approved by special resolution of the Bendigo Telco Shareholders.

10.4 **Special resolution**

Resolution 6 is proposed as a special resolution and will be passed if 75% of the votes cast by Bendigo Telco Shareholders are in favour of the resolution.

10.5 **Prior notice to ASIC**

As required by section 260B(5) of the Corporations Act, copies of the Notice of Meeting including this Explanatory Statement, as sent to Bendigo Telco Shareholders, were lodged with ASIC prior to their dispatch to Bendigo Telco Shareholders.

11. **RESOLUTIONS 7 TO 9: ELECTION OF DIRECTORS OF THE COMPANY**

11.1 **Background**

The Company has agreed to procure that resolutions for the appointment of two nominees of Vicwest and one (additional) nominee of Bendigo Bank as directors of the Company are proposed at the General Meeting. The election of the nominees is subject to implementation of the Transactions.

11.2 **Mr Kevin Dole**

Mr Kevin Dole has been nominated by Bendigo Bank.

Kevin is the Head of Technology Services at Bendigo Bank. He has an Associate Diploma of Information Processing, Latrobe University, Bendigo. Kevin joined Bendigo Bank in 1987. The majority of this career has been in Technology and Project delivery. Kevin has held a number of positions in Technology infrastructure, operations and strategic planning. Prior to being appointed to Head of Technology Operations, Kevin was Technology lead for a number of major strategic projects.

Kevin does not hold any other directorships and he does not have a relevant interest in any Bendigo Telco Shares.

11.3 **Mr Rod Payne**

Mr Rod Payne has been nominated by Vicwest.

Rod has been a director of Vicwest since November 2006 and is a principal at Harwood Andrews Lawyers. He is also the chair of Karingal Inc. and Geelong Connect Communities Ltd. Rod does not have a relevant interest in any Bendigo Telco Shares.

11.4 **Mr Jonathan Selkirk**

Mr Jonathan Selkirk has been nominated by Vicwest.

Jonathan has been a director of Vicwest since March 2010 and he is the chief financial officer of Selkirk Pty Ltd, a leading independent manufacturer and supplier of value adding products and services to the building industry. Jonathan is also a member of the audit committee of Vicwest. Jonathan does not have a relevant interest in any Bendigo Telco Shares.

GLOSSARY

The following words and expressions used in the notice of meeting and Explanatory Statement have the following meanings unless the context requires otherwise:

Ancillary Transactions means the various contractual arrangements to be agreed and entered into, as set out in section 1.5 of the Explanatory Statement.

ASIC means the Australian Securities & Investments Commission.

Bendigo Bank means Bendigo & Adelaide Bank Limited (ACN 068 049 178).

Bendigo Telco or **Company** means Bendigo Telco Limited (ABN 88 089 782 203).

Bendigo Telco Group means Bendigo Telco and its wholly owned subsidiary, BCT Shepparton.

Bendigo Telco Shareholder means a holder of Bendigo Telco Shares.

Bendigo Telco Shares means fully paid ordinary shares in the capital of the Company.

Board means the board of directors of the Company.

Business Day has the meaning given to that term in the Listing Rules.

Business Sale Agreement means the business sale agreement entered into between Bendigo Telco and CTA dated 26 May 2016.

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Court means the Supreme Court of Victoria or any other court of competent jurisdiction under the Corporations Act.

CTA means Community Telco Australia Pty Ltd (ACN 094 908 326).

CTA Transaction means the transaction contemplated by the Business Sale Agreement.

Director means a director of the Company.

Explanatory Statement means the explanatory statement accompanying the notice of meeting for the General Meeting.

General Meeting means the general meeting of the Company to be held on Thursday, 11 August 2016.

Government Agency means any foreign or Australian government or governmental, semi governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity.

Implementation Date means the date on which the Scheme is to be implemented.

Independent Directors means all of the Directors except Andrew Watts.

Independent Expert means RSM Financial Services Australia Pty Ltd (ABN 22 009 176 354).

Independent Expert's Report means the report set out in Annexure A of the Notice of Meeting.

Listing Rules means the Listing Rules of the NSX.

Loan Agreement means the loan agreement entered into between Bendigo Telco and Bendigo Bank dated 26 May 2016 in respect of the New Loan Facility.

Merged Group means Bendigo Telco and its subsidiaries immediately after implementation of the Scheme (which, for the avoidance of doubt, will include Vicwest and each of its subsidiaries).

Merger Implementation Deed means the merger implementation deed entered into between Bendigo Telco and Vicwest dated 26 May 2016.

New Loan Facility is defined in Section 1.3 of the Explanatory Statement.

Notice of Meeting means this notice of general meeting including the Explanatory Statement and the Proxy Form.

NSX means National Stock Exchange of Australia Limited.

Primary Transactions mean the Scheme, the CTA Transaction and the New Loan Facility.

Proxy Form means the proxy form accompanying the Notice of Meeting.

Relevant Interest has the same meaning given by sections 608 and 609 of the Corporations Act.

Resolution means a resolution proposed in the Notice of Meeting.

Scheme means the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Vicwest and Vicwest Shareholders.

Scheme Booklet means the information booklet to be approved by the court and despatched to the Vicwest Shareholders and which must include the Scheme, an explanatory statement in respect of the Scheme complying with the requirements of the Corporations Act and the Corporations Regulations 2001 (Cth), the independent expert's report for inclusion in the Scheme Booklet, notice of meeting and proxy form.

Scheme Consideration means the consideration to be provided to Scheme Shareholders under the terms of the Scheme.

Scheme Meeting means the meeting of Vicwest Shareholders to be convened pursuant to an order of the Court in relation to the Scheme.

Scheme Shareholder means a person who hold one or more Vicwest Shares on issue as at the record date for the Scheme.

Second Court Date means the first day on which an application made to the Court for the Second Court Order is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

Second Court Order means the order, pursuant to section 411(4)(b) of the Corporations Act, approving the Scheme.

Transaction Framework Agreement means the transaction framework agreement entered into between Vicwest, Bendigo Telco and Bendigo Bank dated 26 May 2016.

Transactions means the simultaneous and inter-conditional transactions described in the Transaction Framework Agreement, including the Primary Transactions and the Ancillary Transactions.

Vicwest means Vicwest Community Telco Ltd A.C.N. 140 604 039.

Vicwest Share means a fully paid ordinary share in Vicwest.

Vicwest Shareholder means a person who is registered in the Vicwest register of shareholders as a holder of Vicwest Shares from time to time.

BENDIGO TELCO LIMITED: PROXY FORM

Section 1: Security Holder

Name(s)

Address

Security Holder Reference Number

Section 2: Appointment of Proxy

I/We being a member/s of the Company hereby appoint:

☐

The Chairman of the Meeting (mark with an "x")

OR

(Write here the name of the person you are appointing if this person/s is someone other than the chairman of the meeting)

Write here % of votes
or number of shares if
appointing 2 proxies

(Write here the name of the person you are appointing if you are appointing a second proxy)

Write here % of votes
or number of shares if
appointing 2 proxies

or failing the person/s named, or if no person/s is named, the Chairman of the meeting, as my/our proxy and to vote in accordance with the directions in Section 3 below (or if no directions have been given, as the proxy sees fit) at the General Meeting of Bendigo Telco Limited to be held at All Seasons Hotel, 171-183 Mclvor Road, Bendigo VIC 3552 at **5.00pm on Thursday, 11 August 2016** and at any adjournment of that meeting.

Section 3: Items of Business

I/We direct as follows:

		For	Against	Abstain
Resolution 1	Significant change to the scale of the Company's activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Acquisition of a substantial asset from Bendigo Bank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Acquisition of a substantial asset from CTA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Issue of shares to CTA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Increase in voting power of Bendigo Bank (including its wholly owned subsidiary CTA)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Financial assistance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Election of Mr Kevin Dole as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Election of Mr Rod Payne as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Election of Mr Jonathan Selkirk as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please note:

- (1) If you have appointed a proxy and mark the ABSTAIN box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.
- (2) Undirected proxies received by the Chairman of the meeting will be voted in favour of each Resolution.

Section 4: Authorised Signature/s

This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Security Holder 1 (Individual)

Security Holder 2 (Individual)

Security Holder 3 (Individual)

Sole Director and Sole Company Secretary

Director

Director/Company Secretary (delete one)

()

Contact Name

Contact daytime telephone

Email

Date

YOUR VOTE IS IMPORTANT - PLEASE READ THE INFORMATION BELOW

If you are unable to attend the meeting, you are encouraged complete and lodge this form.

Appointing a proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid for that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of shares you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement of 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of shares for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of shares for each in Section 2 overleaf.

A proxy need not be a shareholder of the Company.

Signing Instructions

Individual: Where the holding is in one name, the shareholder must sign.

Joint Holding: Where the holding is in more than one name, all of the shareholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a sole director who is also the sole company secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a company secretary, a sole director can also sign alone. Otherwise this form must be signed by a director jointly with either another director or a company secretary. Please sign in the appropriate place to indicate the office held.

Attending the Meeting

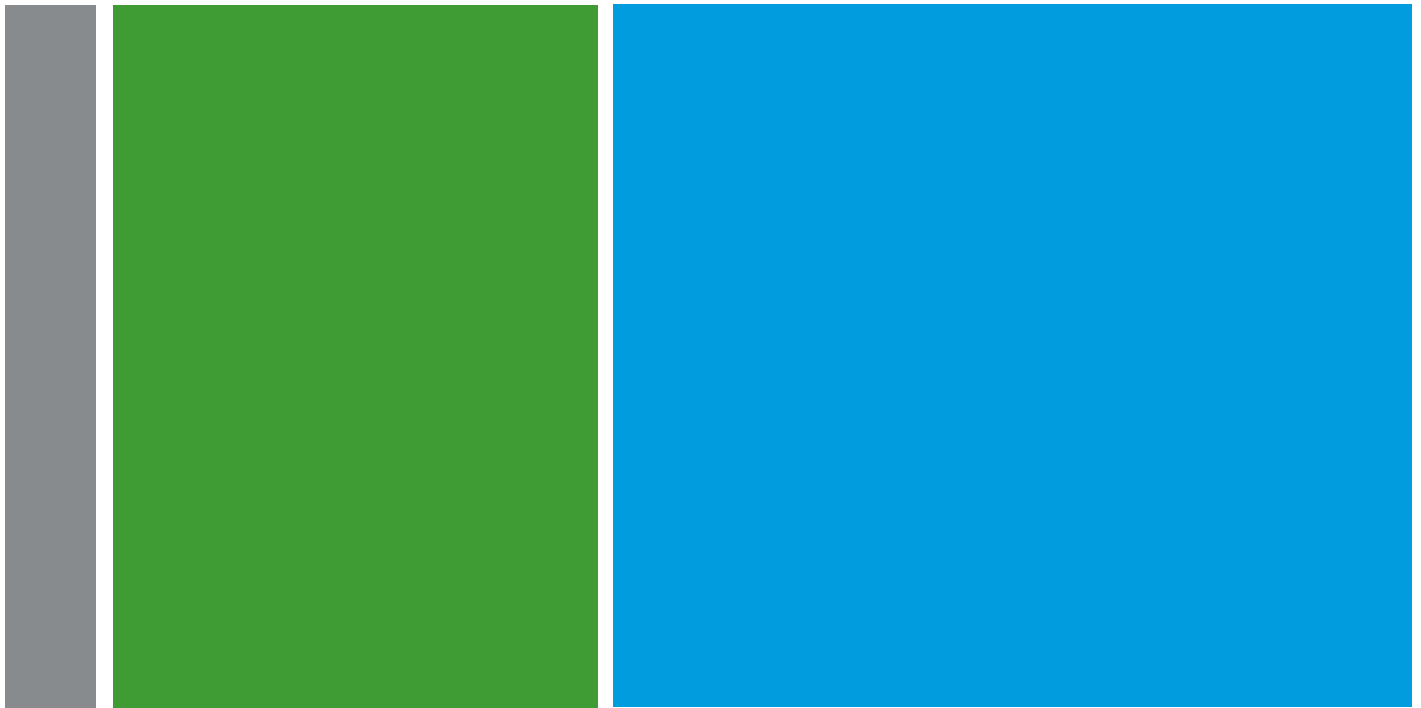
Please bring this form to assist registration. If a representative of a corporate shareholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Bendigo Telco on (03) 5454 5000 or by email at ken.belfrage@bendigotelco.com.au.

For your vote to be effective it must be received no later than 5.00pm on 9 August 2016

Lodging a proxy form

Send completed forms to:

By Fax:	
By Mail:	
In Person:	



BENDIGO TELCO LIMITED

Financial Services Guide and Independent Expert's Report

We have concluded that for the purposes of Section 611, Item 7 of the Corporations Act 2001, the Proposed Transactions as a whole are fair and reasonable for Bendigo Telco's Non-Associated Shareholders.

June 2016



FINANCIAL SERVICES GUIDE

RSM Financial Services Australia Pty Ltd ABN 22 009 176 354 AFSL 238 282 (“RSM” or “we” or “us” or “ours” as appropriate) has been engaged to issue general financial product advice in the form of an independent expert’s report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“FSG”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No 238282;
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we will provide

For the purpose of our report and this FSG, the financial service which we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice


In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge various fees for providing various different financial services. However in respect of the financial services being provided to you by us, fees will be agreed with, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Of the fee we receive RSM Financial Services Australia Pty Ltd will retain 5% for the provision of licensing services and transfer 95% to RSM Australia Pty Ltd. For example if RSM Financial Services Australia Pty Ltd were to be paid \$50,000, we would retain \$2,500 and pay \$47,500 to RSM Australia.



Except for the fees referred to above, neither RSM Financial Services Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All of our employees who provide or provided services in relation to the financial services being provided to you receive a salary. However, other employees of RSM Financial Services Australia Pty Ltd may be remunerated in other ways, such as salaries with the entitlement to earn a bonus, depending on meeting revenue, compliance and marketing targets throughout any given financial year. Such other remuneration structures are not relevant to the financial services being provided to you.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

RSM Financial Services Australia Pty Ltd is wholly owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Financial Services Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints Resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, RSM Financial Services Australia Pty Ltd, PO Box R1253, Perth, WA, 6844, +61 (0) 8 9261 9100.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("FOS"). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

Toll Free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact Details

You may contact us using the details set out at the top of our letterhead on page 1 of the Independent Expert's Report.



CONTENTS

1. Introduction3

2. Summary and Conclusion5

3. Summary of the Proposed Transactions.....6

4. Purpose of this Report.....8

5. Profile of Bendigo Telco9

6. Profile of Vicwest.....14

7. Profile of CTA.....18

8. Profile of the Merged Group19

9. Valuation Methodologies21

10. Valuation of Bendigo Telco prior the Proposed Transactions23

11. Valuation of Bendigo Telco post the Proposed Transactions.....28

12. Are the Proposed Transactions Fair31

13. Are the Proposed Transactions Reasonable?31

APPENDICES34

APPENDIX 135

APPENDIX 237

APPENDIX 338

APPENDIX 441

APPENDIX 542

Direct Line: (03) 9286 8167
Email: glyn.yates@rsm.com.au

16 June 2016

The Directors
Bendigo Telco Limited
23 McLaren Street
Bendigo VIC 3550

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

1.1 This report has been prepared to accompany the Notice of General Meeting and Explanatory Statement ("**NOM**") to shareholders for Bendigo Telco Limited's ("**Bendigo Telco**" or "**the Company**") General Meeting on or about 15 August 2016 where shareholder approval will be sought for a number of resolutions relating to the combination of Bendigo Telco, Vicwest Community Telco Limited ("**Vicwest**") and Community Telco Australia Pty Ltd's ("**CTA**") managed telco customer business ("**Proposed Transactions**").

1.2 The resolutions relevant to the Proposed Transactions are set out in the NOM and are listed below.

Resolution 1: Significant change to the scale of the Company's activities

To consider and, if thought fit, pass the following resolution, with or without amendment, as an ordinary resolution:

"That, for the purpose of Listing Rule 6.41 and for all other purposes, approval is given for the proposed significant change to the scale of the Company's activities as a consequence of the Proposed Transactions (as described in the Explanatory Statement)."

Resolution 2: Acquisition of a substantial asset from Bendigo Bank

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

"That, for the purpose of Listing Rule 6.43 and for all other purposes, approval is given for the acquisition by the Company of Vicwest Shares (as described in the Explanatory Statement) from Bendigo and Adelaide Bank Limited (ACN 068 049 178) (Bendigo Bank) on the basis set out in the Explanatory Statement."

Resolution 3: Acquisition of a substantial asset from CTA

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

"That, for the purpose of Listing Rule 6.43 and for all other purposes, approval is given for the acquisition by the Company of the CTA Business (as described in the Explanatory Statement) from Community Telco Australia Pty Ltd (ACN 094 908 326) (CTA) on the basis set out in the Explanatory Statement."

Resolution 4: Issue of shares to CTA

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

"That, for the purpose of Listing Rule 6.25 and for all other purposes, approval is given for the Company to issue 500,000 fully paid ordinary shares to CTA pursuant to the Business Sale Agreement (as described in the Explanatory Statement)."

Resolution 5: Increase in voting power of Bendigo Bank (and its wholly owned subsidiary CTA)

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

“That, for the purpose of section 611 (item 7) of the Corporations Act and for all other purposes, approval is given for the increase in the voting power of CTA and Bendigo Bank as a result of the Proposed Transactions (as described in the Explanatory Statement).”

Resolution 6: Financial assistance

To consider and, if thought fit, to pass the following resolution, with or without amendment, as a special resolution:

“That, for the purpose of section 260B(2) of the Corporations Act and for all other purposes, approval is given for the financial assistance to be provided, from time to time, by:

- (a) Vicwest Community Telco Ltd A.C.N. 140 604 039;*
- (b) Geelong Community Telco Pty Ltd A.C.N. 122 412 300; and*
- (c) Ballarat Community Enterprise Pty Ltd A.C.N. 111 713 065.*

as described in the Explanatory Statement.”

Resolution 7: Election of Mr Kevin Dole as a Director of the Company

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

“That, subject to the Scheme (as described in the Explanatory Statement) being implemented, having been proposed by the Directors and having consented, Mr Kevin Dole is elected as a Director.”

Resolution 8: Election of Mr Rod Payne as a Director of the Company

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

“That, subject to the Scheme (as described in the Explanatory Statement) being implemented, having been proposed by the Directors and having consented, Mr Rod Payne is elected as a Director.”

Resolution 9: Election of Mr Jonathan Selkirk as a Director of the Company

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

“That, subject to the Scheme (as described in the Explanatory Statement) being implemented, having been proposed by the Directors and having consented, Mr Jonathan Selkirk is elected as a Director.”

- 1.3 Bendigo Telco's Independent Directors (being all Directors other than Mr Andrew Watts) have requested RSM Financial Services Pty Ltd (“**RSM**”), being independent and qualified for the purpose, to express an opinion as to whether Resolution 5 is fair and reasonable to Bendigo Telco's shareholders not associated with the Proposed Transactions (“**Non-Associated Shareholders**” or “**Shareholders**”).
- 1.4 If Resolutions 1 to 6 are not passed, the Proposed Transactions will not proceed as the aforementioned resolutions are effectively inter-dependent.
- 1.5 Having regard to Regulatory Guide 111 Content of Expert Reports (“**RG 111**”), we have assessed whether Resolutions 1 to 6 are fair and reasonable through evaluating whether the Proposed Transactions are, as a whole, fair and reasonable to Shareholders.
- 1.6 The ultimate decision whether to approve the Proposed Transactions should be based on each Shareholder's assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Proposed Transactions, or matters dealt with in this Report, Shareholders should seek independent professional advice.

2. Summary and Conclusion

2.1 In our opinion, the Proposed Transactions as a whole are **fair** and **reasonable** to Bendigo Telco's Shareholders for the purposes of the Corporation Act 2001's Section 611(Item 7) ("**CA Sec 611(7)**").

Fairness

2.2 In assessing the Proposed Transactions' fairness, we have valued a Bendigo Telco share prior to, and immediately after, the Proposed Transactions. Our valuation summary is tabled below.

Valuation summary	Low \$	High \$	Preferred \$
Fair Value per share prior to the Proposed Transactions (controlling basis)	2.24	2.62	2.43
Fair Value per share immediately after the Proposed Transactions (MI basis)	2.49	2.91	2.70

Source: Capital IQ and RSM calculation

Table 1 – Valuation summary

2.3 In accordance with RG 111, we have assessed the value of a Bendigo Telco share on a controlling basis prior the Proposed Transactions and on a minority interest ("**MI**") basis immediately after the Proposed Transactions to account for the expected dilution of Shareholders' interest in Bendigo Telco.

2.4 The valuation summary is depicted graphically in Chart 1 below.

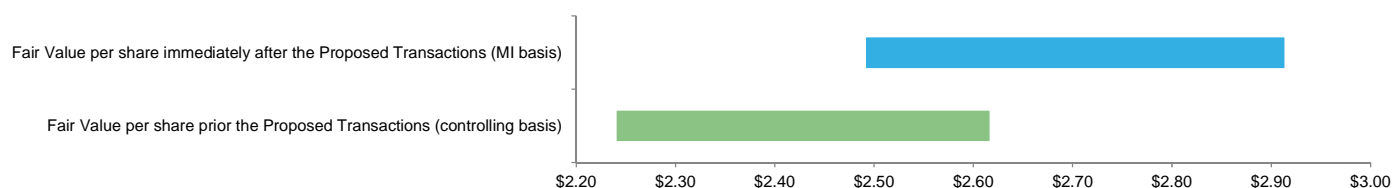


Chart 1 – Valuation Summary

2.5 As a Bendigo Telco share's preferred Fair Value immediately after the Proposed Transactions is greater than a Bendigo Telco share's Fair Value prior to the Proposed Transactions, we consider the Proposed Transactions as a whole are **fair** to Bendigo Telco's Shareholders. Further details are set out in Sections 10 and 11.

Reasonableness

2.6 RG 111 establishes an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for the security holders to accept the Proposed Transactions.

2.7 Given we have concluded the Proposed Transactions are fair to Bendigo Telco's Shareholders, the Proposed Transactions are reasonable.

2.8 Notwithstanding the above discussion, we have considered the following factors when assessing the Proposed Transactions' reasonableness:

- Other advantages and disadvantages of the Proposed Transactions; and
- Implications of Bendigo Bank having increased control over Bendigo Telco and its intentions going forward.

Please refer Section 13 for further details.

2.9 In our opinion, the Proposed Transactions' key advantages are:

- The Proposed Transactions as a whole are fair; and

- Bendigo Telco will be better positioned for future growth by having greater scale and ability to obtain capital for pursuing new projects which are essential to ensure viability in the highly-competitive telecommunications industry
 - i) The Merged Group is expected to have an enhanced scale and balance sheet which will, inter alia:
 - a) Help pursue growth opportunities in the highly-competitive telecommunications industry; and
 - b) Facilitate access to additional capital sources in the equity and debt markets.
 - ii) The Merged Group is also expected to experience improvements in liquidity and cash flow.

2.10 The Proposed Transactions' key disadvantages are:

- Dilution of Non-Associated Shareholders' interests from 80.6% to 59.8%; and
- Increase in Bendigo Telco's interest bearing debt by \$3.8 million.

2.11 We are not aware of any alternative options which may provide a greater benefit to Bendigo Telco's Shareholders at the date of this Report.

2.12 In the absence of any other relevant information and/or a superior option, we consider the Proposed Transactions as a whole are **reasonable** for Bendigo Telco's Shareholders for the purposes of CA Sec 611(7).

3. Summary of the Proposed Transactions

3.1 On 16 February 2016 Bendigo Telco announced Bendigo Bank, Bendigo Telco, Vicwest and CTA had executed a non-binding Memorandum of Understanding to investigate the Proposed Transactions ("**the Announcement**").

3.2 Bendigo Telco further announced the following on 27 May 2016:

1. Bendigo Telco had entered into conditional binding agreements regarding several simultaneous and inter-conditional transactions relating to the Proposed Transactions.
2. The Proposed Transactions contain several components (which all have to be met), as listed below:
 - i) Bendigo Telco will acquire Vicwest's entire issued capital pursuant to a scrip-for-scrip scheme of arrangement ("**Vicwest Scheme**" or "**the Scheme**");
 - ii) Bendigo Telco will acquire certain assets and liabilities of CTA's managed telco customer business ("**CTA Transaction**");
 - iii) Bendigo Bank and Bendigo Telco will enter into a managed wide area network services agreement under which Bendigo Telco will supply wide area network services and certain related services to Bendigo Bank over a five year term commencing 1 January 2017; and
 - iv) Bendigo Bank will provide Bendigo Telco a loan amounting to \$3.8 million for the primary purpose of repaying Vicwest's \$3.8 million loan from Bendigo Bank ("**Bendigo Bank Loan**").

3.3 The Proposed Transactions will result in the issue of:

- 500,000 Bendigo Telco shares to CTA for CTA's managed telco customer business;
- A new Bendigo Bank loan facility of \$3.8 million to Bendigo Telco to repay Vicwest's debt from Bendigo Bank and for working capital; and
- 1.5 million Bendigo Telco shares to Vicwest's shareholders.

Terms of the Proposed Transactions

3.4 Vicwest Scheme's key terms are summarised below:

1. Consideration will be paid in shares where Bendigo Telco will provide one Bendigo Telco share for every 2.074 Vicwest shares held by each Vicwest shareholder as at the fifth business day after the Vicwest Scheme becomes effective.

As at the date of this report, there are 3,111,008 fully paid Vicwest shares. Thus, it is anticipated Bendigo Telco will issue a total of circa 1.5 million shares to Vicwest shareholders as consideration ("**New Bendigo Telco Shares**").

2. Bendigo Telco covenants in favour of Vicwest the New Bendigo Telco Shares will, inter alia:

- Be issued as fully paid ordinary shares, free from any encumbrance;
- Rank equally in all respects with all other Bendigo Telco shares; and
- Have the right to participate in Bendigo Telco dividend distributions.

3.5 CTA Transaction's key terms are summarised below:

1. Bendigo Telco will issue CTA 500,000 Bendigo Telco shares at an issue price of \$2.00 per share as consideration for the acquisition of CTA's managed telco customer business.
2. The newly issued shares will be fully paid and rank equally in all respects with all other Bendigo Telco's issued share capital.
3. The managed telco customer business to be acquired will comprise the following assets:
 - i) Circa 1,200 customer contracts; and
 - ii) Plant and equipment.
 (collectively known as "**CTA Telco Business**")
4. A material adverse change will occur in respect of CTA if the gross profit associated with the customer contracts to be acquired by Bendigo Telco is less than 90% of the agreed target. This will result in a condition precedent of the Scheme not being satisfied.
5. Bendigo Telco will offer employment to seven CTA employees on substantially the same terms as their current employment.

3.6 Bendigo Bank Loan's key features are summarised below:

1. The interest rate is the RBA cash rate. The interest rate will immediately convert to a market interest rate if a person other than Bendigo Bank acquires a relevant interest of 20% or more in Bendigo Telco shares, or Bendigo Telco lists on the ASX or takes action to list on the ASX;
2. The term is 84 months from initial drawdown; and
3. The loan will be secured by:
 - i) A general security deed over all present and after acquired property of:
 - a) Bendigo Telco;
 - b) BCT Shepparton; and
 - c) Vicwest and its two subsidiaries.
 - ii) A guarantee and indemnity from the abovementioned entities.

3.7 The Proposed Transactions will involve a significant change to Bendigo Telco's scale of activities. Accordingly, it will be required to:

- comply with the requirements of NSX Listing Rule 6.41; and
- obtain Shareholders' approval for the Proposed Transactions.

Effect of the Proposed Transactions on Bendigo Telco's share structure

3.8 Table 2 below summarises Bendigo Telco's capital structure before and immediately after the Proposed Transactions.

Bendigo Telco Limited Shareholding	Pre-Transactions		Post-Transactions	
	No. of shares	%	No. of shares	%
Non-Associated Shareholders	4,633,176	80.6%	4,633,176	59.8%
Bendigo Bank	1,112,146	19.4%	2,362,146	30.5%
Vicwest's non-Bendigo Bank shareholders	-	0.0%	750,000	9.7%
Total	5,745,322	100.0%	7,745,322	100.0%

Table 2 – Bendigo Telco share structure before and immediately after completion of the Proposed Transactions

- 3.9 The approval of the Proposed Transactions will primarily result in:
- The dilution of Non-Associated Shareholders' interest in Bendigo Telco from 80.6% to 59.8%; and
 - Bendigo Bank's interest in Bendigo Telco increasing from 19.4% to 30.5%.
- 3.10 Vicwest's non-Bendigo Bank shareholders comprise of 101 shareholders who collectively own 50% of Vicwest's ordinary shares on issue. Accordingly, they will receive circa 750,000 of the circa 1.5 million New Bendigo Telco Shares issued to Vicwest as mentioned in paragraph 3.4(1).

4. Purpose of this Report

Corporations Act

- 4.1 Section 606(1) of the Corporations Act ("**CA Sec 606(1)**") provides, subject to limited specified exemptions, a person must not acquire a "relevant interest" in issued voting shares in a public company, if as a result of the acquisition, any person's voting power in the company would increase from 20% or below to more than 20%, or, from a starting point that is above 20% and below 90%. In broad terms, a person has a "relevant interest" if that person holds shares or has the power to control the right to vote or dispose of shares. A person's voting power in a company is the number of voting shares in which the person (and its associates) holds, compared with the total number of voting shares in the company.
- 4.2 Completion of the Proposed Transactions will result in Bendigo Bank increasing its relevant interest in the Company from 19.4% to 30.5%.
- 4.3 Therefore the Company will breach CA Sec 606(1) in the absence of an applicable exemption.
- 4.4 CA Sec 611(7) provides an exemption to the rule noted in paragraph 4.1 above as it allows a party (and its affiliates) to acquire a relevant interest in shares that would otherwise be prohibited under CA Sec 606(1) if the proposed acquisition is approved in advance by a resolution passed at a general meeting of the Company and:
1. no votes are cast in favour of the resolution by the proposed acquirers or respective associates; and
 2. there was full disclosure of all information that was known to the persons proposed to make the acquisition or their associates or known to the Company that was material to a decision on how to vote on the resolution.
- 4.5 CA Sec 611(7) states shareholders must be given all information that is material to the decision on how to vote at the meeting. RG 111 advises the commissioning of an IER and provides guidance on the content.

Basis of Evaluation

- 4.6 In determining whether the Proposed Transactions are "fair and reasonable" we have given regard to the views expressed by ASIC in RG 111.
- 4.7 RG 111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.
- 4.8 RG 111 states the IER should focus on:
- the issues facing the security holders for whom the report is being prepared; and
 - the substance of the transaction rather than the legal mechanism used to achieve it.
- 4.9 Where an issue of shares by a company otherwise prohibited under CA Sec 606 is approved under CA Sec 611(7) and the effect on the company's shareholding is comparable to a takeover bid, RG 111 states the transaction should be analysed as if it was a takeover bid.
- 4.10 RG 111 applies the "fair and reasonable" test as two distinct criteria in the circumstance of a takeover bid, stating:
- a takeover offer is considered "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
 - a takeover offer is considered "reasonable" if it is fair or, where the offer is "not fair", it may still be "reasonable" if the expert believes that there are sufficient reasons for security holders to accept the offer.
- 4.11 Consistent with RG 111's guidelines, in determining whether the Proposed Transactions are "fair and reasonable" to the Non-Associated Shareholders, the analysis undertaken is as follows:

- a comparison of a Bendigo Telco ordinary share's Fair Value prior to, and immediately following the Proposed Transactions, being the 'consideration' for the Shareholders in the assessment of fairness; and
- a review of other significant factors which the Shareholders might consider before approving the Proposed Transactions in the assessment of reasonableness.

4.12 In particular, we have considered the advantages and disadvantages of the Proposed Transactions in the event they proceed or do not proceed including:

- implications of Bendigo Bank having increased control over Bendigo Telco; and
- any other commercial advantages and disadvantages to the Shareholders as a consequence of the Proposed Transactions proceeding.

4.13 Our assessment of the Proposed Transactions is based on economic, market and other conditions prevailing at the date of this Report.

5. Profile of Bendigo Telco

Overview

- 5.1 Bendigo Telco (former company name is Bendigo Community Telco Limited) is a telecommunications company headquartered in Bendigo, Victoria and was admitted to NSX's official list in 2004.
- 5.2 The Company supplies managed telecommunications services to businesses across Australia's mid-market, focusing on the Health, Retail, Finance and Local Government sectors. It offers a full range of services such as Virtual Private Networks ("VPN") as well as both Public and Private Cloud. Bendigo Telco also delivers managed virtual services such as virtual desktop and virtual servers. In Bendigo, the Company provides a full range of 'telco' services to both business and consumers such as fixed telephone, internet and mobile.
- 5.3 Business operations are generally segmented into Fixed Telephone, Data Network, Mobile Telephone, Traditional Internet and Broadband services. Specifically, products and services Bendigo Telco provides to its customers are:
- Fixed telephone
 - Data networks
 - Mobile telephone
 - Internet services
 - E-solutions/m-commerce
 - Call centre
 - Business continuity services
 - Infrastructure
- 5.4 The Company generates circa 45% of its revenue from VPN products, circa 18% from fixed telephone services and circa 13% from data centre.
- 5.5 Bendigo Telco was previously part of Bendigo Bank's Community Telco Initiative. As part of the initiative, Bendigo Telco was in a franchise arrangement with CTA where it paid CTA annual franchise fees at a rate of 3.5% of annual revenue for managed telecommunications services. In October 2014, Bendigo Telco did not renew its agreement with CTA and established direct relationships with suppliers.
- 5.6 Bendigo Telco's current directors are:
- Donald Erskine (Chairman);
 - Graham Bastian;
 - Michelle O'Sullivan;
 - Robert Hunt; and
 - Andrew Watts.
- 5.7 Bendigo Telco completed the purchase of its only wholly owned subsidiary BCT Shepparton Pty Ltd (former company name is McPherson Media) in October 2014 for \$596,608 (cash).

Financial performance

5.8 Table 3 below sets out Bendigo Telco's reviewed financial performance for the half-year ended 31 December 2015 and audited financial performance for the two years ended 30 June 2015.

Bendigo Telco Limited Financial performance	Ref	Half-year 31-Dec-15 Reviewed \$'000	Year ended 30-Jun-15 Audited \$'000	Year ended 30-Jun-14 Audited \$'000
Revenue	5.9 - 5.10	11,394	22,115	22,031
Cost of products sold	5.11	(5,754)	(11,682)	(11,551)
Gross profit		5,640	10,433	10,481
<i>Gross profit margin</i>		49.5%	47.2%	47.6%
Other income		7	145	59
Operating expenses				
Salaries and employee benefit costs	5.12 - 5.13	(2,908)	(5,298)	(4,595)
Occupancy and associated costs		(372)	(647)	(619)
General administrative costs		(513)	(1,033)	(834)
Advertising and promotion costs		(89)	(234)	(162)
Systems costs	5.15	(388)	(733)	(1,313)
Total operating expenses		(4,270)	(7,944)	(7,524)
EBITDA		1,376	2,634	3,016
<i>EBITDA margin</i>		12.1%	11.9%	13.7%
Depreciation & amortisation	5.14	(710)	(1,033)	(880)
EBIT		666	1,601	2,136
<i>EBIT margin</i>		5.8%	7.2%	9.7%
Borrowing costs	5.16	(42)	-	(0)
Profit before tax		624	1,601	2,135
Income tax		(196)	(475)	(543)
Net profit after tax		428	1,127	1,592
<i>Profit after tax margin</i>		3.8%	5.1%	7.2%

Table 3 – Bendigo Telco historical financial performance

- 5.9 Bendigo Telco disclosed total operating revenue of circa \$22.1 million and circa \$22.0 million for YE2015 and YE2014 respectively.
- 5.10 Assuming Bendigo Telco is able to maintain its performance achieved in HY2016, its expected annualised operating revenue for YE2016 is circa \$22.8 million, representing an increase of circa 3% from YE2015.
- 5.11 There has been a continuous decrease in the Company's cost of products as a percentage of revenue from YE2014 to HY2016, resulting in corresponding increases in Bendigo Telco's GP Margin.
- 5.12 Bendigo Telco's operating expenses primarily comprise of salaries and employee benefit costs which totalled circa \$2.9 million, circa \$5.3 million and circa \$4.6 million in HY2016, YE2015 and YE2014 respectively.
- 5.13 The percentage of salaries and employee benefit cost against revenue increased from 20.9% (YE2014) to 24.0% (YE2015) and to 25.5% (HY2016). The increases were primarily due to senior management additions (CEO and General Manager, Sales) during 2015.
- 5.14 Depreciation and amortisation expenses have also been increasing over the above period due to additions to the Company's Property, Plant and Equipment ("PPE"). Refer paragraph 5.24 for factors contributing the increase in Bendigo Telco's PPE.

- 5.15 Systems costs mainly comprise of expenses relating to technical maintenance, billing systems, shared software, office connectivity and office software. These costs have decreased as a percentage of revenue from 6.0% (YE2014) to 3.3% (YE2015) and 3.4% (HY2016). The decrease in YE2015 was due the discontinuity of the franchise arrangement with CTA as mentioned in paragraph 5.5.
- 5.16 Borrowing costs have increased due to the additions made to Bendigo Telco's PPE which were funded by hire purchase arrangements.
- 5.17 Bendigo Telco's EBITDA Margins since YE2015 have remained relatively stable at circa 12%.

Financial position

- 5.18 Table 4 below sets out Bendigo Telco's reviewed financial position as at 31 December 2015 and audited financial position as at 30 June 2015 and 30 June 2014.

Bendigo Telco Limited Financial position	Ref	As at 31-Dec-15 Reviewed \$'000	As at 30-Jun-15 Audited \$'000	As at 30-Jun-14 Audited \$'000
ASSETS				
Current assets				
Cash and cash equivalents	5.20	2,087	947	3,157
Trade and other receivables		1,025	1,527	1,010
Prepayments	5.21	1,593	1,375	681
Inventories		171	132	109
Taxation		25	-	-
Total current assets		4,900	3,980	4,957
Non-current assets				
Property, plant and equipment	5.22 - 5.24	4,161	2,368	1,998
Intangible assets	5.25 - 5.26	1,411	1,506	1,526
Deferred tax assets		217	232	187
Prepayments	5.21	294	-	-
Total non-current assets		6,084	4,106	3,710
Total assets		10,984	8,086	8,667
LIABILITIES				
Current liabilities				
Trade and other payables	5.27	2,500	1,392	1,959
Provisions		530	643	512
Taxation		-	84	223
Borrowings	5.28 - 5.29	547	-	-
Total current liabilities		3,576	2,119	2,695
Non-current liabilities				
Borrowings	5.28 - 5.29	1,566	-	-
Provisions		138	115	146
Total non-current liabilities		1,703	115	146
Total liabilities		5,279	2,235	2,841
NET ASSETS	5.19	5,705	5,852	5,826
EQUITY				
Issued capital		3,532	3,532	3,485
Retained earnings		2,172	2,319	2,342
Total equity		5,705	5,852	5,826

Table 4 – Bendigo Telco historical financial position

- 5.19 Bendigo Telco's net assets as at 31 December 2015 totalled circa \$5.7 million, a slight decrease of circa \$147,000 (2.5%) from 30 June 2015 which is attributed to the dividends recognised during the six months ended 31 December 2015 of circa \$570,000.

5.20 Cash and cash equivalents comprised of cash at bank, cash on hand and short term deposits. The increase in cash balance as at 31 December 2015 was mainly due to a one-off delay in Bendigo Telco's payment run.

5.21 Prepayments mainly related to prepaid:

- Advertising;
- Maintenance agreements on new capital equipments which are prepaid over three years; and
- Phone systems for customers.

The increase since 30 June 2014 was primarily due to the commencement of the abovementioned prepaid maintenance agreements and phone systems during HY2016 and YE2015.

5.22 PPE consisted of:

- Office, furniture and equipment;
- Motor vehicles;
- Leasehold; and
- Telecommunications and infrastructure.

5.23 As at 30 June 2015, PPE mainly comprised of office, furniture and equipments (circa \$921,000) and telecommunications and infrastructure (circa \$952,000).

5.24 PPE increased by circa \$1.8 million (circa 75.7%) from 30 June 2015 to 31 December 2015. The increase was mainly in network and Cloud infrastructures which was mostly funded by finance lease arrangements. The new network infrastructure is part of Bendigo Telco's network refreshment program and the new Cloud equipment will be utilised to service its customer base. The additions are also to ensure Bendigo Telco's infrastructures are up todate.

5.25 As at 30 June 2015, intangible assets comprised of internally generated software (circa \$160,000), goodwill (circa \$916,000) and project development (circa \$430,000).

5.26 Goodwill relates to Bendigo Telco's acquisition of the Bendigo Communications business in 2006 where it acquired a parcel of customers, and project development relates to capitalised costs relating to WAN project, IP Address blocks and NBN project.

5.27 Trade payables increased to circa \$2.5 million as at 31 December 2015 from 30 June 2015's circa \$1.39 million. The increase is due to a one-off delay in Bendigo Telco's payment run.

5.28 The Company obtained borrowings totalling circa \$2.1 million during HY2016. The borrowings comprise wholly of finance leases for the new network and Cloud infrastructures as mentioned in paragraph 5.24.

5.29 Bendigo Telco's decision to lease rather than acquiring the new infrastrucutres outright was based on attractive interest rates and an opportunity to retain cash resources for other purposes.

Capital structure

5.30 Table 5 below summarises Bendigo Telco's capital structure as at the date of this Report.

Bendigo Telco Limited Shareholders	No. of shares	%
Bendigo 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	128,711	2.2%
MGR Property Pty Ltd	90,000	1.6%
Latrobe University	84,000	1.5%
Community Telco Syndicate	78,000	1.4%
Kirkstow Nominees Pty Ltd	64,000	1.1%
Bendigo Health Care Group	60,000	1.0%
Crockford Superannuation Fund	60,000	1.0%
Top ten shareholders	3,505,631	61.0%
Other shareholders	2,239,691	39.0%
Total	5,745,322	100.0%

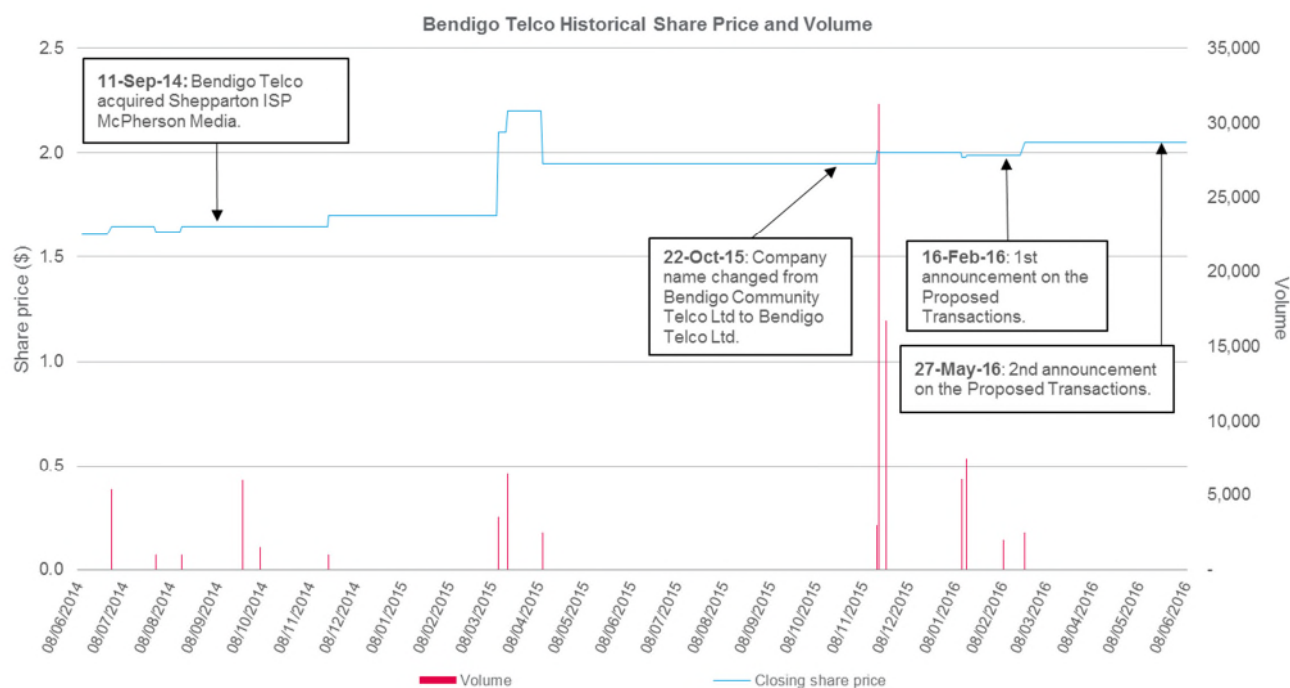
Table 5 – Bendigo Telco shareholder summary

5.31 Bendigo Telco currently has 5,745,322 ordinary shares on issue of which 61% is held by its top ten shareholders.

5.32 Of the total 5,745,322 ordinary shares, 5,685,820 are currently available for trading while the remaining 59,502 shares are restricted from trading as they relate to Bendigo Telco's employee share plan.

Share price and performance

5.33 Bendigo Telco shares' daily closing share price and traded volumes on the NSX from 8 June 2014 to 8 June 2016 are set out in the chart below.



Sources: NSX and RSM analysis

Chart 2: Bendigo Telco daily closing share price and traded volumes from 8 June 2014 to 8 June 2016

- 5.34 Bendigo Telco was admitted to NSX's official list in 2004.
- 5.35 On 11 September 2014, Bendigo Telco announced it acquired a 100% equity interest in Shepparton ISP McPherson Media for a cash consideration of \$596,608.
- 5.36 On 21 October 2015, the Company announced the change of its company name from Bendigo Community Telco Limited to the current Bendigo Telco Limited.
- 5.37 On 16 February 2016, Bendigo Telco announced the Proposed Transactions.
- 5.38 On 27 May 2016, Bendigo Telco announced it had entered into a number of conditional binding contracts with Vicwest, Bendigo Bank, and others to effect a number of simultaneous an inter-conditional transactions in relation to the Proposed Transactions.
- 5.39 During 8 June 2014 to 8 June 2016, Bendigo Telco's share price did not fluctuate significantly. It traded within the range of \$1.62 to \$1.70 during June 2014 to March 2015 and \$1.95 to \$2.05 from April 2015 to June 2016.
- 5.40 Bendigo Telco shares' closing price on 8 February 2016, the date of trade before the Announcement was \$1.99.
- 5.41 Since the Announcement to 26 February 2016, Bendigo Telco's share price moved from \$1.99 to \$2.05 and has been trading at that price since. Bendigo Telco's Volume Weighted Average Price ("VWAP") during that period was \$2.05.
- 5.42 The liquidity of Bendigo Telco's shares has been low. Of the total 5,745,322 ordinary listed shares, 5,683,389 were available for trading while the remaining shares which relate to Bendigo Telco's employee share plan were restricted from trading. However, only 15,600 of the available shares were traded in the 60 days available for trading prior the Announcement, representing an average daily trading volume of 260 shares.

6. Profile of Vicwest

Overview

- 6.1 Vicwest is an unlisted public company incorporated on 16 November 2009.
- 6.2 Vicwest is currently part of the Community Telco Initiative where it pays CTA a franchise fee of circa \$800,000 per annum to be part of the initiative and, in return, CTA provides support services such as key supplier contracts management, back office accounting, billing, provisioning and call centre support.
- 6.3 Vicwest's principal activity is providing telecommunication and internet services to businesses in Melbourne and Western Victoria.
- 6.4 Products/ services offered by Vicwest and its subsidiaries are similar to those offered by Bendigo Telco, such as:
- Fixed telephone
 - Data networks
 - Mobile telephone
 - Internet and business continuity services
 - E-solutions/m-commerce
 - Call centre
- 6.5 Vicwest generates circa 59% of its revenue from fixed telephone services and circa 15% from data networks/ internet services.

6.6 Vicwest's current directors are:

- Pat Murnane (Chairman);
- Rod Payne;
- Jonathan Selkirk;
- Robert Glass;
- Kevin Roache;
- Justine Finlay;
- James Sargeant;
- Lyndelle Zuccolin; and
- Janelle Wehsack.

6.7 Vicwest has two wholly owned operating subsidiaries as listed below:

- a) Geelong Community Telco Ltd. ("**Geelong Telco**"); and
- b) Ballarat Community Enterprise Ltd. ("**Ballarat Enterprise**").

6.8 Table 6 below summarises Vicwest's share structure as at the date of this Report.

Vicwest Community Telco Ltd Shareholders	No. of shares	%
Bendigo Bank	1,555,504	50.0%
Gheringhap Properties Pty Ltd	100,000	3.2%
Jamanlea Pty Ltd	100,000	3.2%
Karingal Inc	80,000	2.6%
Give Where You Live	50,000	1.6%
Jeffrey Oxley	50,000	1.6%
Southern Narrowcasters Pty Ltd	50,000	1.6%
Top five shareholders	1,985,504	63.8%
Other shareholders	1,125,504	36.2%
Total	3,111,008	100.0%

Table 6: Vicwest shareholder summary

6.9 Vicwest has 3,111,008 ordinary shares on issue of which 1,555,504 (50%) is held by Bendigo Bank.

6.10 In addition to being Vicwest's largest shareholder and lender, Bendigo Bank also provides franchise and telecommunications support services to Vicwest via its subsidiary, CTA as mentioned in paragraph 6.2.

Financial performance

6.11 Table 7 below sets out Vicwest's reviewed financial performance for the half-year ended 31 December 2015 and audited financial performance for the two years ended 30 June 2015.

Vicwest Community Telco Ltd Financial performance	Ref	Half-year 31-Dec-15 Reviewed \$'000	Year ended 30-Jun-15 Audited \$'000	Year ended 30-Jun-14 Audited \$'000
Revenue	6.13 - 6.14	5,013	10,201	10,353
Cost of products sold		(3,547)	(7,154)	(7,467)
Gross profit		1,466	3,048	2,887
<i>Gross profit margin</i>	6.15	29.2%	29.9%	27.9%
Other income		0	8	8
Operating expenses				
General administration	6.19	(672)	(1,272)	(1,260)
Employee benefits expense	6.17 - 6.18	(813)	(1,501)	(1,343)
Advertising and promotion costs		(10)	(16)	(36)
Occupancy & associated costs		(54)	(102)	(95)
Total operating expenses		(1,550)	(2,891)	(2,734)
EBITDA	6.12	(84)	165	161
<i>EBITDA margin</i>		-1.7%	1.6%	1.6%
Amortisation		(21)	(27)	(18)
Depreciation		(49)	(59)	(21)
(Loss)/ Earnings before interest and tax	6.12	(154)	80	122
Prior period interest adjustment	6.20	-	-	(78)
Borrowing costs	6.21	-	-	-
Income tax		-	-	(0)
(Loss)/ Net profit after tax		(154)	80	44
<i>Profit after tax margin</i>		-3.1%	0.8%	0.4%

Table 7: Vicwest historical financial performance

- 6.12 In HY2016, Vicwest incurred a loss before interest and tax of circa \$154,000, and a loss before interest, tax, depreciation and amortisation of circa \$84,000, as compared to YE2015's EBIT of \$80,000 and EBITDA of \$165,000. Vicwest has attributed the decrease in EBITDA to the performance of its NATR division.
- 6.13 Vicwest disclosed total operating revenue of circa \$10.2 million (YE2015) and circa \$10.4 million (YE2014).
- 6.14 Assuming Vicwest is able to maintain its performance achieved in HY2016, its expected annualised operating revenue for YE2016 is circa \$10.0 million which is broadly consistent with historical operating revenue levels.
- 6.15 Vicwest's GP Margin for HY2016 remained relatively stable at YE2015's level of circa 30%.
- 6.16 Vicwest's operating expenses mainly consisted of employee benefits expense and general administration costs.
- 6.17 Employee benefits expense totalled circa \$813,000 (HY2016), \$1.5 million (YE2015) and \$1.3 million (YE2014). The employee benefits expense as a percentage of revenue increased from 14.7% (YE2015) to 16.2% (HY2016). Vicwest advised YE2015's margin was lower because employee costs associated with the establishment of NATR were capitalised. As NATR commenced operations during HY2016, its employee costs were expensed to the Income Statement accordingly, thus increasing the employee benefits expense in HY2016.
- 6.18 Vicwest's workforce currently consist of 16 staff, headed by its Chief Operating Officer Geoff Hutchinson.
- 6.19 General administration costs primarily consisted of the franchise fees payable to CTA totalling circa \$672,000 (HY2016), \$1.3 million (YE2015) and \$1.3 million (YE2014). These costs have increased as a percentage of revenue from 12.5% (YE2015) to 13.4% (HY2016) which Vicwest attributes to one-off expenses.
- 6.20 The prior period interest adjustment recognised in YE2014 related to an adjustment for interest rebates over-recognised in prior periods.
- 6.21 No borrowing costs were incurred on Vicwest's loan from Bendigo Bank as the loan is non-interest bearing.

Financial position

6.22 Table 8 below sets out Vicwest's reviewed financial position as at 31 December 2015 and audited financial position as at 30 June 2015 and 30 June 2014.

Vicwest Community Telco Ltd Financial position	Ref	As at 31-Dec-15 Reviewed \$'000	As at 30-Jun-15 Audited \$'000	As at 30-Jun-14 Audited \$'000
ASSETS				
Current assets				
Cash and cash equivalents		166	168	322
Trade receivables	6.28	1,327	1,214	1,126
Prepayments		553	572	435
Accrued income		187	231	180
Others		4	4	4
Inventories		141	105	114
Total current assets		2,377	2,294	2,180
Non-current assets				
Property, plant and equipment		201	225	78
Deferred tax		-	-	-
Intangible assets	6.27	3,729	3,736	3,724
Total non-current assets		3,930	3,960	3,802
Total assets		6,307	6,254	5,982
LIABILITIES				
Current liabilities				
Trade and other payables	6.29 - 6.30	1,688	1,473	1,217
Interest bearing liabilities		-	-	9
Provisions		125	142	114
Total current liabilities		1,814	1,614	1,340
Non-current liabilities				
Interest bearing liabilities		-	-	16
Provisions		20	16	13
Non-interest bearing liabilities	6.31	3,450	3,450	3,500
Total non-current liabilities		3,470	3,466	3,529
Total liabilities		5,284	5,080	4,869
NET ASSETS	6.23 - 6.26	1,023	1,174	1,112
EQUITY				
Issued capital		2,292	2,292	2,292
Reserves		17	14	-
Retained losses		(1,286)	(1,131)	(1,180)
Total equity		1,023	1,174	1,112

Table 8 – Vicwest historical financial position

- 6.23 Vicwest's net assets as at 31 December 2015 totalled circa \$1.0 million, a decrease of circa \$151,000 from 30 June 2015 which was primarily due to the loss incurred in HY2016.
- 6.24 Vicwest had net tangible asset deficiencies as at 31 December 2015, 30 June 2015 and 30 June 2014 totalling circa \$2.7 million, \$2.6 million and \$2.6 million respectively.
- 6.25 In its Independent Auditor's Report to the members of Vicwest in YE2015, PPT Audit Pty Ltd ("PPT"), without qualifying its opinion stated there was an inherent uncertainty regarding Vicwest's going concern. Such uncertainty primarily stemmed from Vicwest's net tangible asset deficiencies as mentioned above.
- PPT further stated Vicwest's going concern was dependent on Vicwest's ability to receive on-going financial support from its bankers and franchisor.

- 6.26 Bendigo Telco has advised as it will be paying Vicwest \$6.8 million as acquisition consideration (comprising \$3.0 million in shares and Vicwest's Bendigo Bank Loan of \$3.8 million), Vicwest will be in a net tangible asset position (of circa \$800,000) post the Proposed Transactions.
- 6.27 Intangible assets wholly comprised of goodwill on consolidation from Vicwest's purchase of its two subsidiaries, Geelong Telco and Ballarat Enterprise.
- 6.28 Prepayments mainly comprised of a NATR associated deposit paid for Vicwest to be a country service manager.
- 6.29 As at 31 December 2015, trade and other payables mainly comprised of accounts payable (circa \$797,000), accrued expenses (circa \$521,000) and unearned revenue (circa \$353,000).
- 6.30 Accounts payable as at 31 December 2015 increased by circa \$287,000 (56.2%) from the balance at 30 June 2015 of circa \$510,000. Vicwest advised several ongoing projects impacted its ability to make payments during HY2016. Vicwest further advised most of the projects have now been completed and revenue collections have commenced. Thus, it expects accounts payable to reduce accordingly.
- 6.31 Non-interest bearing liabilities wholly related to a bank loan from Bendigo Bank which is secured by:
- a) Registered first company debenture charge from Vicwest;
 - b) Registered first company debenture charge from Geelong Telco;
 - c) Registered first company debenture charge from Ballarat Enterprise; and
 - d) Cross guarantee and indemnity from Vicwest, Geelong Telco and Ballarat Enterprise to secure the loan facilities in favour of Bendigo Bank.

7. Profile of CTA

Overview

- 7.1 CTA is a private company limited by shares and was incorporated on 21 December 2000.
- 7.2 CTA is a wholly owned subsidiary of Bendigo Bank and manages the Telco Community Initiative where it manages key supplier contracts and provides other support services. Vicwest is currently the sole remaining franchisee, but these arrangements will terminate as part of the Proposed Transactions.
- 7.3 CTA's principal activities comprise of providing telecommunication services, developing base telephony services, and acting as a franchisor of management and billing services.
- 7.4 CTA Telco Business offers the following products and services:
- Fixed voice services
 - Mobile phone services
 - Broadband/internet services
 - Inventory
- 7.5 The Company generates circa 59% of its revenue from fixed telephone services and circa 31% from Broadband/Internet services.
- 7.6 CTA's current directors are:
- Andrew Cairns; and
 - Samantha McGregor.

Financial performance of CTA Telco Business

7.7 Table 9 below sets out CTA Telco Business's unaudited financial performance for YE2015, extracted from CTA's management accounts. We have not been provided with further information on CTA Telco Business's historical financial performance.

CTA Telco Business Financial performance	Ref	Year ended 30-Jun-15 Unaudited \$'000
Revenue	7.8	7,725
Cost of products sold		(5,396)
Gross profit		2,329
<i>Gross profit margin</i>		30.1%
Operating expenses	7.9	
Sales Staff		(800)
Premises		(69)
Telephone & Communications		(91)
Office Expenses		(15)
Billing & Collections Expense		(38)
Total operating expenses		(1,013)
EBITDA		1,316
<i>EBITDA margin</i>	7.10	17.0%

Table 9: CTA Telco Business historical financial performance

7.8 In YE2015, revenue mainly comprised of fixed telephone services (circa 60%) and broadband/internet services (circa 31%).

7.9 CTA's operating expenses primarily consist of sales staff expenses, totalling circa 80% of total operating expenses.

7.10 YE2015's GP Margin and EBITDA Margin was 30.1% and 17.0% respectively.

8. Profile of the Merged Group

Corporate structure

8.1 Chart 3 below depicts the Merged Group's corporate structure immediately following the Proposed Transactions.

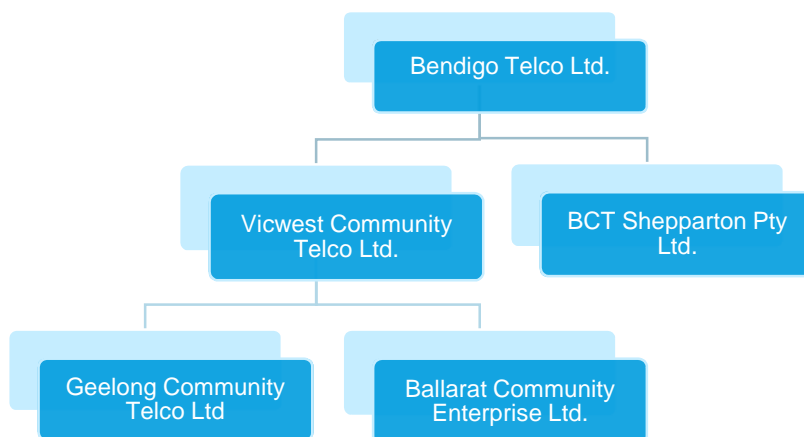


Chart 3 – Bendigo Telco corporate structure post the Proposed Transactions

8.2 Post the Proposed Transactions, Vicwest will be Bendigo Telco's direct wholly owned subsidiary, and both Geelong Telco and Ballarat Enterprise will be indirect wholly owned subsidiaries.

8.3 CTA Telco Business will be merged into Bendigo Telco's existing operations.

Capital structure

8.4 Below details Bendigo Telco's share capital structure before and immediately following the Proposed Transactions.

Bendigo Telco Limited Shareholders	Pre-Transactions		Post-Transactions	
	No. of shares	%	No. of shares	%
Bendigo Bank	1,112,146	19.4%	2,362,146	30.5%
Erskine Investments Pty Ltd	939,326	16.3%	939,326	12.1%
Hunters Ridge Pty Ltd	451,048	7.9%	451,048	5.8%
Ron Poyser Administrators Pty Ltd	438,400	7.6%	438,400	5.7%
EGP Fund No 1 Pty Ltd	128,711	2.2%	128,711	1.7%
MGR Property Pty Ltd	90,000	1.6%	90,000	1.2%
Latrobe University	84,000	1.5%	84,000	1.1%
Community Telco Syndicate	78,000	1.4%	78,000	1.0%
Kirkstow Nominees Pty Ltd	64,000	1.1%	64,000	0.8%
Bendigo Health Care Group	60,000	1.0%	60,000	0.8%
Crockford Superannuation Fund	60,000	1.0%	60,000	0.8%
Top ten shareholders	3,505,631	61.0%	4,755,631	61.4%
Other shareholders	2,239,691	39.0%	2,989,691	38.6%
Total	5,745,322	100.0%	7,745,322	100.0%

Table 10 – Bendigo Telco detailed share structure pre and post completion of the Proposed Transactions

- 8.5 Post the Proposed Transactions, Bendigo Telco's ordinary shares on issue will increase by 2.0 million to 7,745,322.
- 8.6 As a result of the Proposed Transactions, Bendigo Bank's ownership of Bendigo Telco shares will increase by 1.25 million shares (750,000 via the Vicwest Scheme and 500,000 via the CTA Transaction).
- 8.7 Accordingly, Bendigo Bank's interest in Bendigo Telco will increase from 19.4% to 30.5% post the Proposed Transactions.
- 8.8 Post the Proposed Transactions, Bendigo Telco's interest bearing borrowings will increase from circa \$2.1 million to circa \$5.9 million.

Board of Directors and Management team

8.9 The Merged Group's Board of Directors are:

Directors

- Donald Erskine;
- Graham Bastian;
- Michelle O'Sullivan;
- Robert Hunt;
- Andrew Watts;
- Kevin Dole;
- Rod Payne; and
- Jonathan Selkirk.

8.10 No material changes are currently anticipated to Bendigo Telco's management team.

9. Valuation Methodologies

- 9.1 In assessing Bendigo Telco's value prior and immediately following the Proposed Transactions, we have considered a range of valuation methodologies. RG 111 proposes it is generally appropriate for an expert to consider using the following methodologies:
- the discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
 - the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
 - the amount which would be available for distribution on an orderly realisation of assets;
 - the quoted price for listed securities; and
 - any recent genuine offers received.
- 9.2 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows:
- Market based methods;
 - Income based methods; and
 - Asset based methods.

Market based methods

- 9.3 Market based methods estimate the fair market value by considering the market value of a company's securities or the market value of comparable companies. Market based methods include:
- the quoted price of listed securities; and
 - industry specific methods.
- 9.4 The recent quoted price for listed securities method provides evidence of the fair market value of a company's securities where they are publicly traded in an informed and liquid market.
- 9.5 Industry specific methods usually involve the use of industry rules of thumb to estimate the fair market value of a company and its securities. Generally rules of thumb provide less persuasive evidence of the fair market value of a company than other market based valuation methods because they may not account for company specific risks and factors.

Income based methods

- 9.6 Income based methods estimate value by calculating the present value of a company's estimated future stream of earnings or cash flows. Income based methods include:
- DCF methods; and
 - Capitalisation of future maintainable earnings ("FME").

DCF method

- 9.7 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company's cash flows at the end of the forecast period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.

Capitalisation of FME method

- 9.8 The Capitalisation of FME method estimates the Fair Value of a company's equity by capitalising the underlying business's FME, adding the Fair Value of any surplus or non-operating assets, deducting net debt (or adding net cash) and applying a premium for control where necessary.
- 9.9 This method is generally considered a short form DCF where the business's estimated FME, rather than a stream of cash flows, is capitalised. FME represents the expected future earnings existing operations could reasonably generate.

9.10 There are different measures of FME, for example:

- Net profit after tax;
- Earnings before interest and tax; and
- Earnings before interest, tax, depreciation and amortisation.

9.11 The capitalisation/earnings multiple used must reflect, as a minimum, the underlying business's risk profile and growth prospects. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.

9.12 The choice of earnings measure, and therefore the choice of the multiple, used in a valuation should reflect the purpose of the valuation.

Asset based methods

9.13 Asset based methodologies estimate the fair value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method;
- liquidation of assets method; and
- Net Tangible Assets ("NTA") on a going concern basis.

9.14 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of a company's assets which would be distributed to security holders after payment of all liabilities including realisation costs and taxation charges, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.

9.15 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame, reflecting a distressed liquidation value. The liquidation of assets method will result in a value that is lower than the orderly realisation of assets method, and is appropriate for companies in financial distress or when a company is not valued on a going concern basis.

9.16 The NTA on a going concern method estimates the NTA's market values but unlike the orderly realisation of assets method, it does not include realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding purposes.

Selection of Valuation Methodologies

Valuation of Bendigo Telco prior the Proposed Transactions

9.17 In assessing the Fair Value of Bendigo Telco shares prior the Proposed Transactions, we have utilised the Capitalisation of FME as our primary methodology.

9.18 In our opinion, it is the most appropriate methodology for the following reasons:

- Bendigo Telco has historically generated reasonably consistent earnings; and
- There are adequate publicly listed companies with sufficiently similar operations as Bendigo Telco to provide meaningful analysis; and

9.19 We have considered the Quoted Price of Listed Securities method to cross-check the results obtained from our primary method. Prices at which a company's shares have been traded on the NSX can, in the absence of low liquidity or unusual circumstances, provide an objective measure of the value of the company, excluding a premium for control.

9.20 Notwithstanding the low liquidity of Bendigo Telco's traded shares, we have considered the quoted market price by considering a Bendigo Telco share's historical VWAP and the volatility of the share price prior the announcement of the Proposed Transactions.

9.21 In accordance with RG 111, we have assessed Bendigo Telco's share value prior the Proposed Transactions using the above two methods on a 100% controlling interest basis.

9.22 Management has not prepared long term cash flow projections. On this basis, we have not utilised the DCF method to value Bendigo Telco.

Valuation of Bendigo Telco immediately following the Proposed Transactions

- 9.23 In assessing the Fair Value of a Bendigo Telco share immediately following the Proposed Transactions, it is necessary to assess the Fair Value of a share in the Merged Group comprising Bendigo Telco, Vicwest and CTA Telco Business.
- 9.24 We have adopted the Capitalisation of FME as our primary method to collectively value the Merged Group immediately after the Proposed Transactions for the following reasons:
- The Merged Group has historically generated reasonably consistent earnings;
 - Management has advised there will not be significant changes to business operations post the Proposed Transactions; and
 - There are adequate publicly listed companies with sufficiently similar operations as the Merged Group to provide meaningful analysis.
- 9.25 Management has not prepared long term cash flow projections for the Merged Group. On this basis, we have not utilised the DCF method to value the Merged Group.

10. Valuation of Bendigo Telco prior the Proposed Transactions

- 10.1 We have assessed the Fair Value of Bendigo Telco and a Bendigo Telco share on a controlling basis using the Capitalisation of FME method as our primary methodology. We have also considered the recent quoted price of Bendigo Telco's listed securities as a cross-check.

Capitalisation of FME methodology

- 10.2 Table 11 below sets out our assessment of Bendigo Telco's Fair Value on a 100% equity interest basis.

Bendigo Telco Limited Capitalisation of FME methodology	Low	High	Preferred
FME (assessed at the EBITDA level) (\$'000)	2,800	2,800	2,800
Assessed EBITDA multiple	3.8	4.5	4.2
Enterprise Value (MI basis)	10,752	12,544	11,648
Control premium	20%	20%	20%
Enterprise Value (controlling basis) (\$'000)	12,902	15,053	13,978
Less: net debt (\$'000)	(25)	(25)	(25)
Equity Value (controlling basis) (\$'000)	12,877	15,027	13,952
Number of Bendigo Telco shares in issue ('000)	5,745	5,745	5,745
Value per share (controlling basis) (\$)	2.24	2.62	2.43

Sources: Capital IQ and RSM calculation

Table 11 – Assessed Fair Value of Bendigo Telco and a Bendigo Telco share prior the Proposed Transactions (Capitalisation of FME methodology)

- 10.3 Under the Capitalisation of FME method, we have assessed Bendigo Telco's Fair Value on a 100% basis to range from \$12.9 million to \$15.0 million, and a Bendigo Telco share's Fair Value on a controlling basis to be in the range of \$2.24 to \$2.62.
- 10.4 We have considered and determined the following variables when assessing the Fair Value of Bendigo Telco:
- Future maintainable earnings;
 - Appropriate Capitalisation Multiple;
 - Current level of net debt;
 - Working capital requirements;
 - Value of surplus assets; and
 - Appropriate premium for control.

Future maintainable earnings

10.5 We have adopted EBITDA as an appropriate measure of FME because multiples based on the EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies, and effective tax rates than multiples based on other earnings measures such as EBIT or NPAT. In our opinion, this approach allows a better comparison with earnings multiples of other companies.

10.6 In assessing Bendigo Telco's FME, we have considered the following:

- Bendigo Telco's reviewed financial statements for HY2016;
- Bendigo Telco's audited financial statements for YE2015 and YE2014;
- Bendigo Telco's unaudited year to date financial results to March 2016;
- Bendigo Telco's financial budget for YE2016;
- Our review of abnormal or exceptional income statement items; and
- Our discussions with Management.

10.7 Referring Table 3, Bendigo Telco's average EBITDA over YE2015 and YE2014 is circa \$2.8 million. As such, we have adopted a future maintainable EBITDA of \$2.8 million for the purpose of this valuation.

Capitalisation Multiple

10.8 In selecting an appropriate EBITDA multiple to value Bendigo Telco, we have considered the trading multiples of publicly listed companies whose operations are sufficiently comparable to Bendigo Telco.

10.9 Table 12 below summarises the historical and forecast EBITDA multiples of publicly listed comparable companies. A brief description of each comparable company is set out in Appendix 4.

Company	Country	Net Assets \$M	Net Tangible Assets \$M	Trailing Revenue 12 months \$M	Trailing EBITDA 12 months \$M	Forecast EBITDA \$M	Market Cap. \$M	Trailing Net debt \$M	Enterprise Value \$M	Ratios	
										Historical EV EBITDA	Forecast EV EBITDA
Macquarie Telecom Group Limited	Australia	84	75	198	19	26	189	(25)	164	8.6	6.4
TPG Telecom Limited	Australia	1,652	(834)	1,796	598	482	9,715	1,324	11,039	18.5	22.9
BigAir Group Limited	Australia	48	(6)	77	18	18	118	29	147	8.1	8.0
MNF Group Limited	Australia	36	7	139	15	12	227	4	231	15.7	19.3
Vocus Communications Limited	Australia	907	147	263	90	52	4,304	204	4,508	50.1	86.9
Inabox Group Limited	Australia	11	(6)	83	3	-	20	8	28	9.3	NA
Telstra Corporation Limited	Australia	14,820	5,309	27,147	9,619	10,767	64,092	15,217	79,309	8.2	7.4
Average		2,508	670	4,243	1,480	1,622	11,238	2,394	13,632	16.9	25.1
Median		84	7	198	19	26	227	29	231	9.3	13.6
Min		11	(834)	77	3	-	20	(25)	28	8.1	6.4
Max		14,820	5,309	27,147	9,619	10,767	64,092	15,217	79,309	50.1	86.9
Excluding Vocus Communications Limited											
Average		2,775	757	4,907	1,712	1,884	12,393	2,759	15,153	11.4	12.8
Median		66	0	168	19	22	208	18	197	8.9	8.0
Min		11	(834)	77	3	-	20	(25)	28	8.1	6.4
Max		14,820	5,309	27,147	9,619	10,767	64,092	15,217	79,309	18.5	22.9

Source: Capital IQ

Table 12 – Summary of comparable companies' trading multiples

10.10 We note share prices of listed companies represent the market value of a non-controlling interest in those companies. As such, any earnings multiple derived from those shares prices are consequently non-controlling multiples and they do not reflect a premium for control.

10.11 Based on our analysis, we consider the appropriate non-controlling comparable EBITDA multiple is 12.8 times, which is the average of comparable companies' (excluding Vocus Communications Limited) multiples.

10.12 Using a comparable average EBITDA multiple of 12.8 times, we consider an appropriate non-controlling EBITDA multiple for Bendigo Telco to be in the range of 3.8 times to 4.5 times, calculated as below.

Bendigo Telco Limited Assessed EBITDA multiple	Low	High
Comparable companies' EBITDA multiple	12.8	12.8
Discount for size and other risk factors	-70%	-65%
Assessed EBITDA multiple for Bendigo Telco on a MI basis	3.8	4.5

Sources: Capital IQ and RSM calculation

Table 13 – Assessed EBITDA multiple for Bendigo Telco on a non-controlling basis

10.13 In calculating the appropriate EBITDA multiple for Bendigo Telco, we considered the following:

- Bendigo Telco is significantly smaller than the publically listed comparable companies with respect to revenue, EBITDA and market capitalisation. For example, the comparable companies generated a historical median revenue of circa \$168 million which is significantly greater than Bendigo Telco's revenue of circa \$23 million; and
- As a smaller entity, Bendigo Telco inherently carries greater risk as it has less diversified revenue streams, less geographic diversifications, lack economies of scale, relatively less efficient processes and systems, and limited access to debt and equity markets.

10.14 On the above basis, we have assessed Bendigo Telco's discount for size and other risk factors to be in the range of 65% to 70%.

Net debt / Net Cash

10.15 As we are valuing Bendigo Telco on a 100% basis, the valuation should, therefore, reflect the value of the underlying business, and its capital and financing structure. Because we have adopted EBITDA which excludes the impact of the Company's debt structure as the FME measure, Bendigo Telco's net debt or net cash is therefore deducted from or added to Bendigo Telco's Enterprise Value in arriving at its equity's Fair Value.

10.16 As at 31 December 2015, Bendigo Telco reported a net debt position of circa \$25,000 (calculated as cash and cash equivalents less total hire purchase liabilities).

10.17 Accordingly, we have deducted the \$25,000 from the Enterprise Value to arrive at Bendigo Telco's equity value.

Working capital requirements

10.18 Referring Table 4, Bendigo Telco reported a positive working capital position (calculated as current assets less current liabilities) as at 31 December 2015.

10.19 Based on our review of Bendigo Telco's historical working capital levels, we consider Bendigo Telco's working capital as at 31 December 2015 to be consistent with its ongoing working capital requirements.

Assessment of surplus assets

10.20 If a company or business has assets that do not contribute to the operating cash flows of the core business, the value of these "surplus assets" (net of any realisation costs and tax payable on realisation) should be added to the value of the company or business determined using the earnings or cash flow methodology.

10.21 In assessing surplus assets, we have also considered the normal level of working capital required by the Company to assess the level of any surplus or deficiency in working capital as at 17 May 2016 ("**Valuation Date**").

10.22 A review of the balance sheet has identified no surplus assets in Bendigo Telco as at the Valuation Date. Therefore no adjustment is necessary.

Control premium

- 10.23 Earnings multiples of listed companies do not reflect the market value of a controlling interest in the company as they are derived from market prices which usually represent the buying and selling of non-controlling portfolio holdings (small parcels of shares).
- 10.24 RG 111 states “an issue of shares by a company otherwise prohibited under CA Sec 606 may be approved under CA Sec 611(7) and the effect of the company’s shareholding is comparable to a takeover bid”. RG 111.24 further states the transaction should be analysed as if it was a takeover bid under CA Chapter 6.
- 10.25 When an expert assesses a transaction under CA Chapter 6, RG 111.11 requires the expert to assume 100% ownership of the target. In the context of the Proposed Transactions, Bendigo Bank is the bidder and Bendigo Telco is the target entity. Accordingly, the value of a Bendigo Telco share prior the Proposed Transactions must be assessed on a 100% ownership basis, i.e. incorporating a control premium.
- 10.26 According to RSM Control Premium Study 2010 and 2013, premiums for control are considered to range from 25% to 35% which are applied at the equity value level.
- 10.27 We have adopted a control premium of 20% for Bendigo Telco at the Enterprise Value level (after allowing for an appropriate gearing level).

Quoted Price of Listed Securities methodology

- 10.28 To cross-check the valuation of a Bendigo Telco share using the Capitalisation of FME method, we have considered the Fair Value based on Bendigo Telco’s quoted market price.
- 10.29 RG 111.69 indicates for the Quoted Price of Listed Securities methodology to represent a reliable indicator of Fair Value, there needs to be an active and liquid market for the shares.
- 10.30 The following characteristics may be considered to be representative of a liquid and active market:
- regular trading in the company’s securities;
 - approximately 1% of a company’s securities are traded on a weekly basis;
 - the bid/ask spread of a company’s shares must not be so great that a single minority trade can significantly affect the market capitalisation of the company; and
 - there are no significant but unexplained movements in the share price.
- 10.31 The assessment should also only reflect trading prior the Announcement in order to avoid the influence of any movement in price that occurred as a result of the Announcement.
- 10.32 Below tables Bendigo Telco shares’ VWAP for the 5, 10, 30, 60, 90, 120 and 180 calendar days prior 16 February 2016.

Bendigo Telco Limited Share price performance	Share price Low \$	Share price High \$	No. of days traded	Volume traded \$	Value traded \$	VWAP \$	Percentage of issued capital %
Before the Announcement							
5 calendar days before	1.99	1.99	-	-	-	-	0.00%
10 calendar days before	1.99	1.99	1	2,000	3,980	1.99	0.04%
30 calendar days before	1.99	1.99	1	2,000	3,980	1.99	0.04%
60 calendar days before	1.98	2.00	3	15,600	30,983	1.99	0.27%
90 calendar days before	1.98	2.00	5	63,600	126,983	2.00	1.12%
120 calendar days before	1.95	2.01	6	66,600	133,013	2.00	1.17%
180 calendar days before	1.95	2.01	6	66,600	133,013	2.00	1.17%

Source: NSX and RSM calculations

Table 14 – VWAP of Bendigo Telco shares before the Announcement

- 10.33 As set out in the table above, the VWAP of Bendigo Telco’s shares has remained relatively consistent, ranging from \$1.99 to \$2.00 over the six months prior the Announcement.

- 10.34 Shares were only traded for six days in the 180 calendar days prior the Announcement and comprised 1.17% of the weighted issued share capital for the period.
- 10.35 Notwithstanding the low liquidity of the Company's shares, Bendigo Telco complies with the full disclosure regime required by NSX. As a result, the market is fully informed about Bendigo Telco's performance.
- 10.36 Based on the analysis of recent trading in Bendigo Telco's shares, we have assessed a Bendigo Telco share's value on a MI basis to be \$2.00, being the 90-day VWAP of a Bendigo Telco share prior the Announcement.
- 10.37 The value above is indicative of the value of a marketable parcel of shares assuming a shareholder does not have control of Bendigo Telco. In the case of a Section 611 acquisition, RG 111 states the independent expert should calculate the value of a target's shares as if 100% control were being obtained. Therefore, in our assessment of a Bendigo Telco share's Fair Value, we should include a premium for control.
- 10.38 Similar to our approach for the Capitalisation of FME methodology, we have adopted a control premium of 25% for Bendigo Telco at the Equity level.
- 10.39 Below tables our assessment of a Bendigo Telco share's value on a controlling basis utilising the Quoted Price of Listed Securities methodology.

Bendigo Telco Limited Quoted Price of Listed Securities methodology	Preferred \$
Quoted market price (non-controlling basis)	2.00
Control premium	25%
Value of a Bendigo Telco share (controlling basis)	<u>2.50</u>

Sources: NSX and RSM calculations

Table 15 – Assessed Fair Value of a Bendigo Telco share prior the Proposed Transactions (Quoted Price of Listed Securities methodology)

- 10.40 A summary of our assessed values of a Bendigo Telco share prior the Proposed Transaction is tabled below.

Valuation summary prior the Proposed Transactions	Low \$	High \$	Preferred \$
Capitalisation of FME - primary method	2.24	2.62	2.43
Quoted Price of Listed Securities - cross check	2.50	2.50	2.50

Table 16 – Valuation summary prior the Proposed Transactions

- 10.41 Notwithstanding the low liquidity of Bendigo Telco's shares, we consider our valuation of a Bendigo Telco share prior the Proposed Transactions using the Quoted Price of Listed Securities method to be supportive of our valuation utilising the Capitalisation of FME method.

11. Valuation of Bendigo Telco post the Proposed Transactions

- 11.1 As required by RG 111, in order to provide an indication of Bendigo Telco's value post the Proposed Transactions, we have calculated the theoretical value of a share in the Merged Group immediately after the Proposed Transaction.
- 11.2 We have assessed the Fair Value of the Merged Group and a share in the Merged Group on a MI basis using the Capitalisation of FME method.

Capitalisation of FME methodology

- 11.3 Table 17 below sets out our assessment of the Merged Group's Fair Value on a MI basis.

Merged Group Capitalisation of FME methodology	Low	High	Preferred
FME (assessed at the EBITDA level) (\$'000)	5,083	5,083	5,083
Assessed EBITDA multiple	4.5	5.1	4.8
Enterprise Value (MI basis) (\$'000)	22,770	26,023	24,397
Control premium	20%	20%	20%
Enterprise Value (controlling basis)	27,324	31,228	29,276
Less: net debt (\$'000)	(3,307)	(3,307)	(3,307)
Equity value (\$'000)	24,017	27,920	25,969
Less: Estimated one-off transaction costs (\$'000)	(820)*	(820)*	(820)*
Equity value (controlling basis) (\$'000)	23,197	27,100	25,149
Less: MI discount	16.7%	16.7%	16.7%
Equity value (MI basis) (\$'000)	19,331	22,584	20,957
Number of Bendigo Telco shares post Proposed Transactions ('000)	7,745	7,745	7,745
Assessed Fair Value per share (MI basis) (\$)	2.49	2.91	2.70

Sources: Capital IQ and RSM calculation

*Net of the \$150,000 contribution from Bendigo Bank.

Table 17 – Assessed Merged Group's Fair Value on a non-controlling basis

- 11.4 We have assessed the Fair Value of a share in the Merged Group on a MI basis to be in the range of circa \$2.49 to \$2.91, with a preferred mid-point value of \$2.70.
- 11.5 Similar to our valuation of Bendigo Telco prior the Proposed Transactions, we have considered and determined the following variables when assessing the Merged Group's Fair Value:
- Future maintainable earnings;
 - Appropriate Capitalisation Multiple;
 - Current level of net debt;
 - Working capital requirements; and
 - Value of surplus assets.

Future maintainable earnings

- 11.6 We have adopted EBITDA as an appropriate measure of FME because multiples based on the EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies, and effective tax rates than multiples based on other earnings measures such as EBIT or NPAT. In our opinion, this approach allows a better comparison with earnings multiples of other companies and those implied in recent transactions.
- 11.7 In assessing the Merged Group's FME, we have considered the following:
- The Merged Group's consolidated financial forecast for YE2017;
 - Bendigo Telco's reviewed financial results for HY2016;

- Bendigo Telco's audited financial results for YE2015 and YE2014;
- Bendigo Telco's unaudited financial results for the nine months ended 31 March 2016;
- Vicwest's reviewed financial results for HY2016,
- Vicwest's audited financial results for YE2015 and YE2014;
- CTA's unaudited financial results for YE2015;
- Our review of abnormal or exceptional income statement items and other normalisation adjustments;
- Our review of acquisition/merger synergies; and
- Our discussions with Management.

11.8 Table 18 summarises the Merged Group's assessed future maintainable EBITDA. A detailed assessment is set out in Appendix 5.

Merged Group FME (post Proposed Transactions)	Merged Group		
	Low	High	Mid-Point
	\$'000	\$'000	\$'000
EBITDA	4,233	4,677	4,455
Normalisation adjustments	(1,105)	(1,105)	(1,105)
Normalised EBITDA	3,128	3,572	3,350
Synergy benefits	1,732	1,732	1,732
Future maintainable EBITDA	4,860	5,305	5,083

Table 18 – Merged Group's assessed future maintainable EBITDA

11.9 The Merged Group's assessed FME ranges from \$4.9 million to \$5.3 million, with a preferred mid-point of \$5.1 million.

11.10 In accordance with RG 111, synergies that are not special and are only available to a particular bidder can be recognised when assessing the Proposed Transactions' Fair Value.

11.11 Accordingly, the above range and mid-point include expected synergy benefits of circa \$1.7 million which primarily relate to the:

- Cancellation of Vicwest's current franchise arrangement with CTA;
- Cost savings relating to the restructuring of the Merged Group's operational functions, net of additional operating expenses required to operate Vicwest and CTA Telco Business; and
- Increase in Vicwest's profitability post the Proposed Transactions.

11.12 Our assessment above is based on the following assumptions, as advised by Bendigo Telco:

- Under the high scenario, Bendigo Telco is forecasting to achieve revenue growth of circa \$2.2 million (10%) and EBITDA growth of circa \$550,000 (21%), as compared to revenue and EBITDA in FY2015;
- Under the low scenario, Bendigo Telco expects its financial performance to be broadly consistent with the levels achieved in HY2016;
- The financial performance of Vicwest and CTA Telco Business are forecast to be broadly consistent with the levels achieved in FY2015 under both scenarios;
- The franchise agreement between Vicwest and CTA will be terminated post the Proposed Transactions, thus saving circa \$800,000 in franchise fees per annum;
- Bendigo Telco will provide Vicwest the support services the latter currently receives from CTA upon the abovementioned termination. Bendigo Telco will be able to provide the same within its current resource structure;
- The cost savings derived from the operational restructuring are generic in nature;

- The increase in Vicwest's profitability will be derived from operating Vicwest using the business model of Bendigo Telco and/or CTA, thus increasing Vicwest's operational efficiency to the levels historically and currently achieved by Bendigo Telco and CTA Telco Business;
- Bendigo Telco's BEN3 WAN contract with Bendigo Bank will be replaced by the BEN4 WAN contract in December 2016, which is forecasted to result in a negative impact on earnings of circa \$485,000 per annum; and
- Bendigo Bank's subsidy to Vicwest of circa \$620,000 per annum will be terminated post the Proposed Transactions.

11.13 Normalisation adjustments primarily relate to amendments to certain existing revenue contracts as a result of the Proposed Transactions.

Capitalisation Multiple

11.14 In selecting an appropriate EBITDA multiple to value the Merged Group, we have evaluated the trading multiples of the same publicly listed companies considered in our valuation of Bendigo Telco prior the Proposed Transactions as the Merged Group's business activities will not differ significantly from Bendigo Telco's business activities prior the Proposed Transactions.

11.15 As such, please refer Table 12 for the historical and forecast EBITDA multiples of the publicly listed comparable companies.

11.16 The comparable listed companies' (excluding Vocus Communications Limited) forecast EBITDA multiples have a mean of 12.8.

11.17 For the purposes of this valuation, we have assessed an appropriate comparable company forecast EBITDA multiple of 12.8 times. A summary of adjustments applied to the EBITDA multiple is set out below.

Merged Group Assessed EBITDA multiple	Low	High
Comparable companies' EBITDA multiple	12.8	12.8
Discount for size and other risk factors	-65%	-60%
Assessed EBITDA multiple for Bendigo Telco on a MI basis	4.5	5.1

Sources: Capital IQ and RSM calculation

Table 19 – Assessed EBITDA multiple for the Merged Group on a non-controlling basis

11.18 In calculating the appropriate EBITDA multiple for the Merged Group, we have considered the following:

- The Merged Group will be significantly smaller than the publically listed comparable companies with respect to revenue, EBITDA and market capitalisation. For example, the comparable companies are expecting to generate a forecast median EBITDA of circa \$22.0 million which is significantly higher than the Merged Group's forecast normalised EBITDA of circa \$5.1 million;
- As a smaller entity, the Merged Group inherently carries greater risk as it has less diversified revenue streams, less geographic diversifications, lack of economies of scale, relatively less efficient processes and systems, and limited access to debt and equity markets; and
- The Merged Group would benefit from increased size and revenue, and a diversified customer base as a result of the Proposed Transactions.

11.19 On the above basis, we have assessed the discount for size and other factors to be 65% to 60%.

11.20 We consider the Merged Group's EBITDA multiple to be in the range of 4.5 to 5.1 (on a MI basis).

Assessment of working capital levels

11.21 As at 31 December 2015, Bendigo Telco and Vicwest disclosed a positive working capital position.

11.22 We have not been provided information to assess CTA Telco Business's working capital levels.

11.23 Management has advised Bendigo Telco will be able to fund CTA Telco Business's working capital requirements within its current resources without significantly impacting its own working capital levels.

11.24 Based on the above, we consider the Merged Group's working capital at 31 December 2015 is fairly consistent with the Merged Group's likely ongoing working capital requirements.

Assessment of surplus assets

11.25 A review of the balance sheet has identified no surplus assets in the Merged Group as at the Valuation Date. Therefore no adjustment is necessary.

Net debt / Net Cash

11.26 At 31 December 2015, the Merged Group disclosed a net debt position of circa \$3.3 million.

11.27 Accordingly, we have deducted a net debt of circa \$3.3 million from the Enterprise Value to arrive at the Merged Group's equity value.

Conclusion

11.28 Based on the above, we consider the Fair Value of a Bendigo Telco share immediately after the Proposed Transactions to be in the range of \$2.49 to \$2.91, with a preferred value of \$2.70.

12. Are the Proposed Transactions Fair

12.1 In assessing whether we consider the Proposed Transactions to be fair to the Shareholders, we have valued a share in Bendigo Telco prior and immediately after the Proposed Transactions to determine whether a Shareholder would be better or worse off should the Proposed Transactions be approved. Our assessed values are tabled below.

Valuation summary	Low \$	High \$	Preferred \$
Fair Value per share prior to the Proposed Transactions (controlling basis)	2.24	2.62	2.43
Fair Value per share immediately after the Proposed Transactions (MI basis)	2.49	2.91	2.70

Sources: Capital IQ and RSM calculation

Table 1 – Valuation summary

12.2 In accordance with RG 111, we have assessed the value of a share in Bendigo Telco on a controlling basis before the Proposed Transactions and on a MI basis immediately after the Proposed Transactions.

12.3 Our assessment of a Bendigo Telco share's Fair Value immediately after the Proposed Transactions is greater than our assessment of a Bendigo Telco share's Fair Value prior the Proposed Transactions.

12.4 In the absence of any other relevant information, in our opinion, the Proposed Transactions as a whole are **fair** to Bendigo Telco's Shareholders.

13. Are the Proposed Transactions Reasonable?

13.1 RG 111 establishes an offer is reasonable if it is fair. It further states a transaction might also be reasonable if, despite not being fair, there are sufficient reasons for the security holders to accept the Proposed Transactions.

13.2 Given we have concluded the Proposed Transactions are fair to Bendigo Telco's Shareholders, they are reasonable.

13.3 Notwithstanding the above, we have considered the following factors when assessing the Proposed Transactions' reasonableness:

- Other advantages and disadvantages of the Proposed Transactions; and
- Implications of Bendigo Bank having increased control over Bendigo Telco and its intentions going forward.

Other advantages and disadvantages

13.4 The following may be considered potential advantages of the Proposed Transactions:

- i) Providing Bendigo Telco's Shareholders the opportunity to participate in a larger organisation
 - The creation of a larger telecommunications company servicing regional Victoria is expected to provide a platform for potential growth and value realisation in the region.

- The increased scale and presence of the Merged Group should enhance the level of interest from investors and customers in the region.
 - The Proposed Transactions will also bring together the specialist technical skills and services of Bendigo Telco and Vicwest, with a view to providing a broader and more cost-competitive product offering.
- ii) Bendigo Telco will be better positioned for future growth by having greater scale and ability to obtain capital for pursuing new projects which are essential to ensure viability in the highly-competitive telecommunications industry
- The Merged Group is expected to have an enhanced scale and balance sheet which will, inter alia:
 - a) Help pursue growth opportunities in the highly-competitive telecommunications industry; and
 - b) Facilitate access to additional capital sources in the equity and debt markets.
 - The Merged Group is also expected to experience improvements in liquidity and cash flow.
- iii) Bringing together two like-minded organisations
- The strategic objectives of Vicwest and Bendigo Telco are closely aligned.
 - Both organisations aim to provide highly competitive telecommunications prices and exceptional service delivery to their regions. The organisations also create jobs and economic value, and make significant direct financial contributions to local community projects.
 - These objectives would continue post the Proposed Transactions and are expected to be further enhanced with the Merged Group being a larger and more sustainable community enterprise.
 - Two of Vicwest's current directors will join the Merged Group's Board of Directors which will ensure appropriate ongoing representation of the Geelong and Ballarat communities.
- iv) Helping secure a new service agreement with Bendigo Bank
- The Proposed Transactions require Bendigo Bank to enter a new service agreement with Bendigo Telco which secures Bendigo Telco's business relationship with Bendigo Bank for another five years.
- 13.5 The following may be considered potential disadvantages of the Proposed Transactions:
- i) Sizeable dilution of the existing shareholder base
- The Proposed Transactions will result in reducing existing Bendigo Telco Shareholders (excluding Bendigo Bank)'s voting power from 80.6% to 59.8%.
- ii) An increase in debt
- The Bendigo Bank Loan will increase Bendigo Telco's interest bearing debt by \$3.8 million, as detailed in paragraphs 3.2 and 3.6.

Bendigo Bank's intentions

- 13.6 The Proposed Transactions will increase Bendigo Bank's interest in Bendigo Telco from 19.4% to 30.5%. Despite the increased control in the Company, Bendigo Bank has advised it will not be implementing any changes in Bendigo Telco. Specifically, it has no intention of amending Bendigo Telco's:
- Business operations;
 - Present employees' future employment with the Company; and
 - Financial or dividend distribution policies.
- 13.7 Bendigo Bank further advised it has no plans to provide Bendigo Telco further capital funds.

Market's response to the Announcement

13.8 Table 21 below sets out Bendigo Telco share prices' VWAP for the 180 day period before and the 90 day period after the Announcement on 16 February 2016.

Bendigo Telco Limited Share price performance	Share price Low \$	Share price High \$	No. of days traded	Volume traded \$	Value traded \$	VWAP \$	Percentage of issued capital %
Before the Announcement							
5 calendar days before	1.99	1.99	-	-	-	-	0.00%
10 calendar days before	1.99	1.99	1	2,000	3,980	1.99	0.04%
30 calendar days before	1.99	1.99	1	2,000	3,980	1.99	0.04%
60 calendar days before	1.98	2.00	3	15,600	30,983	1.99	0.27%
90 calendar days before	1.98	2.00	5	63,600	126,983	2.00	1.12%
120 calendar days before	1.95	2.01	6	66,600	133,013	2.00	1.17%
180 calendar days before	1.95	2.01	6	66,600	133,013	2.00	1.17%
After the Announcement							
5 calendar days after	1.99	1.99	-	-	-	-	0.00%
10 calendar days after	1.99	2.05	1	2,500	5,125	2.05	0.04%
30 calendar days after	1.99	2.05	1	2,500	5,125	2.05	0.04%
60 calendar days after	1.99	2.05	1	2,500	5,125	2.05	0.04%
90 calendar days after	1.99	2.05	1	2,500	5,125	2.05	0.04%

Sources: NSX and RSM calculations

Table 21 – Bendigo Telco share price performance before and after the Announcement

13.9 In the 90 calendar days prior the Announcement, Bendigo Telco shares traded between \$1.98 and \$2.00 with a VWAP of \$2.00. Over the 5 days, 10 days and 30 days prior the Announcement, share price and VWAP remained constant at \$1.99.

13.10 Since the Announcement, Bendigo Telco shares have traded between \$1.99 and \$2.05 with a VWAP of \$2.05. On the basis share price movements and volumes post the Announcement have not been significant, we consider should the Proposed Transactions not proceed, it is unlikely to significantly affect Bendigo Telco's share price in the short term.

Conclusion on Reasonableness

13.11 In our opinion, the position of the Shareholders if the Proposed Transactions are approved is more advantageous than the position if they are not approved. Therefore, in the absence of any other relevant information and/or a superior option, we consider the Proposed Transactions as a whole are **reasonable** for Bendigo Telco's Shareholders.

13.12 An individual shareholder's decision in relation to the Proposed Transactions may be influenced by his or her individual circumstances. If in doubt, shareholders should consult an independent advisor.

Yours faithfully

RSM FINANCIAL SERVICES PTY LTD



GLYN YATES
Director



ANDREW GILMOUR
Director



APPENDICES



APPENDIX 1

Declarations and Disclosures

RSM Financial Services Australia Pty Ltd holds Australian Financial Services Licence 238282 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 “Valuation Services” issued by the Accounting Professional & Ethical Standards Board.

RSM Financial Services Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM Australia) a large national firm of chartered accountants and business advisors.

Mr Glyn Yates and Mr Andrew Gilmour are directors of RSM Financial Services Australia Pty Ltd. Mr Yates and Mr Gilmour are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert’s reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting the Non-Associated Shareholders of Bendigo Telco Limited in considering the Proposed Transaction. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and management of Bendigo Telco and we have no reason to believe that this information was inaccurate, misleading or incomplete. However, we have not endeavoured to seek any independent confirmation in relation to its accuracy, reliability or completeness. RSM Financial Services Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Financial Services Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Financial Services Australia Pty Ltd, RSM, Glyn Yates and Andrew Gilmour, nor any other member, director, partner or employee of RSM Financial Services Australia Pty Ltd and RSM Australia has any interest in the outcome of the Proposed Transaction, except that RSM Financial Services Australia Pty Ltd are expected to receive a fee of approximately \$25,000 based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether Bendigo Telco Limited receives Shareholder approval for the Proposed Transaction, or otherwise.



Consents

RSM Financial Services Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Financial Services Australia Pty Ltd, RSM Australia or RSM Australia Partners has been involved in the preparation of the Notice of General Meeting and Explanatory Statement. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement as a whole.



APPENDIX 2

Sources of Information

In preparing this Report we have relied upon the following principal sources of information:

- Draft copies of the Notice of Meeting for Bendigo Telco;
- Draft copies of the Bendigo Telco Scheme Booklet;
- Drafts and final copies of the Business Sale Agreement between Bendigo Telco and CTA;
- Drafts and final copies of the Merger Implementation Deed between Bendigo Telco and Vicwest;
- Drafts and final copies of the Memorandum of Understanding between Bendigo Telco, Bendigo Bank, CTA and Vicwest dated 17 December 2015;
- Drafts and final copies of the Transaction Framework Agreement between Bendigo Telco, Bendigo Bank and Vicwest;
- Bendigo Telco reviewed financial statements for the half-year ended 31 December 2015;
- Bendigo Telco audited financial statements for the three years ended 30 June 2015;
- Bendigo Telco unaudited financial results for the nine months ended 31 March 2016;
- Bendigo Telco financial budgets for the two years ended 30 June 2017;
- Bendigo Telco Financial Performance Report dated 16 March 2016;
- Bendigo Telco General Manager Sales & Marketing Report dated March 2016;
- Vicwest reviewed financial statements for the half-year ended 31 December 2015;
- Vicwest audited financial statements for the three years ended 30 June 2015;
- Vicwest management accounts for the year ended 30 June 2015;
- CTA managed telco customers business's unaudited income statement for the year ended 30 June 2015;
- Merged Group's consolidated financial budget for the year ended 30 June 2017;
- NSX announcements on Bendigo Telco; and
- Discussions with Bendigo Telco's management.

APPENDIX 3

Glossary of Terms and Abbreviations

Term	Definition
Act	Corporations Act 2001
Announcement	Announcement made by Bendigo Telco on 16 February 2016 regarding the execution of a non-binding Memorandum of Understanding between itself, Bendigo Bank, Vicwest and CTA to investigate the Proposed Transactions.
ASIC	Australian Securities & Investments Commission
ATO	Australian Tax Office
Bendigo Bank	Bendigo and Adelaide Bank Limited
Bendigo Bank Loan	Loan of \$3.8 million from from Bendigo Bank to Bendigo Telco.
Bendigo Telco	Bendigo Telco Limited ABN 88 089 782 203
CA	Corporations Act 2001
Capitalisation Multiple	Any divisor used to convert anticipated economic benefits of a single period into value.
Cash flow	Cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented by a qualifier (for example, "discretionary" or "operating") and a specific definition in the given valuation context.
Merged Group	Bendigo Telco immediately post the Proposed Transactions comprising its existing business, 100% equity interest of Vicwest and CTA's managed telco customers business.
Company	Bendigo Telco Limited ABN 88 089 782 203
CTA	Community Telco Australia Pty Ltd
CTA Telco Business	CTA's circa 1,200 customer contracts and plant and equipment which Bendigo Telco is acquiring.
Directors	The directors of Bendigo Telco.
DCF	Discounted cash flow
Discounted Cash Flow Method	A method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate.
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation

APPENDIX 3 (CONT.)

Term	Definition
EBITDA Margin	EBITDA as a percentage of revenue.
Enterprise Value	Fair market value of a business on a cash free, debt free basis.
Equity	The owner's interest in property after deduction of all liabilities.
Fair Value/ Fair Market Value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
FME	Future maintainable earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
Going concern	An ongoing operating business enterprise.
GP Margin	Gross profit as a percentage of revenue.
HY2016	Half-year ended 31 December 2015
IER	Independent Expert's Report
Management	Management of Bendigo Telco.
Merged Group	Bendigo Telco and its subsidiaries immediately after implementation of the Proposed Transactions (which, for the avoidance of doubt, will include Vicwest and its subsidiaries, and CTA Telco Business).
MI	Minority interest
NOM	Notice of General Meeting and Explanatory Statement to shareholders for the General Meeting of Bendigo Telco to be held on or about 15 August 2016.
Non-Associated Shareholders	The shareholders of the Company not associated with the Proposed Transactions.
NPAT	Net profit after tax
NSX	National Stock Exchange of Australia
NTA	Net tangible assets
Proposed Transactions	The combination of Bendigo Telco, Vicwest and CTA's managed telco customer business which includes the Vicwest Scheme, Bendigo Bank Loan and CTA Transaction.

APPENDIX 3 (CONT.)

Term	Definition
PPE	Property, plant and equipment
Report/ IER	This Independent Expert's Report.
RG 111	ASIC Regulatory Guide 111 Content of Expert Reports.
RSM	RSM Financial Services Australia Pty Ltd ABN 22 009 176 354 AFSL 238 282
Shareholders	The shareholders of the Company not associated with the Proposed Transactions.
Shares	Fully paid ordinary shares in Bendigo Telco.
\$	Australian dollars.
YE2016	Year ended 30 June 2016
YE2015	Year ended 30 June 2015
YE2014	Year ended 30 June 2014
Valuation Date	17 May 2016
Vicwest	Vicwest Community Telco Ltd ABN 15 140 604 039
VWAP	Volume weighted average price

APPENDIX 4

Details of comparable listed companies

Company	Description
Macquarie Telecom Group Ltd.	Macquarie provides various telecommunication and hosting services to Australian corporate and government customers. The company conducts its operations through Telco and Hosting segments. It offers cloud hosting solutions, including managed hosting, hosting built your way, enterprise hosting, business continuity, data center, centralized infrastructure, SaaS application hosting, PCI compliance, e-commerce hosting, and colocation solutions, as well as integrated telco platforms. The company also provides data, and voice and mobility solutions, such as data networks, voice and collaboration solutions, business mobility solutions, and colocation solutions.
TPG Telecom Ltd.	TPG provides telecommunication services to residential, small and medium enterprises, government, corporate enterprises, and wholesale customers in Australia and internationally. It offers ADSL2+, NBN, fiber optic and Ethernet broadband access, telephony services, Internet protocol television (IPTV), SIM only mobile plans, and various business networking solutions. The company also provides various bundle plans; Internet products, including broadband off-net and business SHDSL solutions; domain name and Website hosting, POP3 email, Internet message access protocol email account, IP addresses, and mail list server solutions; phone cards; and business VoIP and mobility services. In addition, it offers private network, hosted firewall, fiber Ethernet, Ethernet, and dark fiber services.
BigAir Group Ltd.	BigAir Group provides managed services, cloud-based solutions, networking infrastructure, and managed campus-based networking solutions in Australia. The company offers a range of network services, including wide area network, fixed wireless network, local area network, fixed line connectivity, multi-protocol label switching VPNs, HD video conferencing, VOIP ISDN IP telephony, wireless LAN solutions, private networks, and high-speed business Internet services to support data, video, application, storage, and communication across organizations. It also provides cloud and managed services, such as cloud infrastructure, cloud backup, data infrastructure, Desktop-as-a-Service, Infrastructure-as-a-Service, WiFi-as-a-Service, unified communications, wide-area network optimization, IT infrastructure management, business continuity, and consulting services.
MNF Group Ltd.	MNF provides voice communications, broadband Internet, and cloud based communications services to residential, business, government, and wholesale customers in Australia and internationally. The company offers home phone-VoIP, DSL Internet, national broadband network Internet, and mobile VoIP services, as well as virtual fax service, which delivers faxes to nominated email address as PDF documents and sends faxes from windows PC; high-speed ADSL2+ broadband services; Ethernet broadband services for businesses that require high-speeds for data applications; and SIP trunking for office phone systems. It also provides services, such as meet-me conferencing; number porting; special service numbers; gold direct-in-dial numbers; additional DIDs; white pages and location information; Mytext SMS; additional IP addresses; and reverse domain name system services.
Vocus Communications Ltd.	Vocus provides Internet, fibre, data centre, and unified communications in Australia and New Zealand. It owns and operates a global telecommunications network connecting Australia and New Zealand to the United States through Southern Cross cable network. The company provides Dark Fibre, a connectivity solution that provides a way to deliver high bandwidth services; IP transit/Internet access; data center services; cloud connect solutions; and metro, national, and international Ethernet services. In addition, it offers IP WAN services; SIP trunk and whole voice services; layer 2 and 3 DSL services; and distributed denial of service protection services.
Inabox Group Ltd.	Inabox operates in three segments: Direct, Indirect, and Enablement. The company's Telcoinabox brand offers wholesale telecommunications solutions, including Voice over IP (VoIP), business grade data, fixed voice, mobile, inbound, national broadband network (NBN), and cloud products; and back end support solutions, such as provisioning, billing, fault management, and customer support, as well as a range of training and accreditation programs. Its Ivox brand provides wholesale Voice over IP services comprising carrier-class VoIP infrastructure, and access to broadband and fixed line services, as well as VoIP/SIP trunks, hosted PBX, call termination services, DID's/inbound services, and PSTN/ISDN through a hosted white label billing portal. The company's Neural Networks brand offers cloud services consisting of co-location, cloud desktop, Infrastructure as a Service, cloud back-up, cloud Web-hosting, business internet, private IP and MPLS, and carrier IP transit services. Its Anittel Communications brand provides information technology products and services, telecommunications, and cloud based services.
Telstra Corporation Ltd.	Telstra provides telecommunications and information services to businesses, governments, communities, and individuals in Australia and internationally. The company operates through Telstra Retail, Global Enterprise and Services, Telstra Operations, and Telstra Wholesale segments. It offers a range of telecommunication products, services, and solutions across mobiles, fixed and mobile broadband, telephony, and pay television; data and Internet protocol networks; network applications and services, such as managed network, unified communications, cloud, industry solutions, and integrated services; and hybrid fiber coaxial cable services. The company also provides telecommunication products and services to carriers, carriage service providers, and Internet service providers; and connected health IT ecosystem for the healthcare sector. In addition, it offers digital media content services; eHealth solutions for primary care, aged and residential care, hospitals, radiology and pathology, pharmacy, indigenous care, and telemedicine; advertising services; and connectivity solutions, such as managed network services, as well as data, voice, and satellite solutions.

APPENDIX 5

FME of the Merged Group post the Proposed Transactions (detailed)

Merged Group	Bendigo Telco	Vicwest	CTA Telco Business	Merged Group
FME (post Proposed Transactions) - <i>High scenario</i>	\$'000	\$'000	\$'000	\$'000
Revenue	24,288	10,252	7,725	42,265
Cost of goods sold	(12,477)	(7,339)	(5,396)	(25,212)
Gross profit	11,811	2,913	2,329	17,053
Expenses	(8,629)	(2,734)	(1,013)	(12,376)
EBITDA	3,183	179	1,316	4,677
Normalisation adjustments				
Transition from BEN3 to BEN4 WAN contract	(485)	-	-	(485)
Termination of subsidy from Bendigo Bank	-	(620)	-	(620)
Total normalisation adjustments	(485)	(620)	-	(1,105)
Normalised EBITDA	2,697	(441)	1,316	3,572
Synergy benefits				
Termination of franchise agreement between Vicwest and CTA				812
Net cost savings from operational restructuring				228
Improvement in gross margins under BT and/or CTA's business model				692
Total synergy benefits				1,732
Future maintainable EBITDA under the high scenario				5,305

Merged Group	Bendigo Telco	Vicwest	CTA Telco Business	Merged Group
FME (post Proposed Transactions) - <i>Low scenario</i>	\$'000	\$'000	\$'000	\$'000
Revenue	22,788	10,252	7,725	40,765
Cost of goods sold	(11,507)	(7,339)	(5,396)	(24,243)
Gross profit	11,280	2,913	2,329	16,522
Expenses	(8,542)	(2,734)	(1,013)	(12,289)
EBITDA	2,738	179	1,316	4,233
Normalisation adjustments				
Transition from BEN3 to BEN4 WAN contract	(485)	-	-	(485)
Termination of subsidy from Bendigo Bank	-	(620)	-	(620)
Total normalisation adjustments	(485)	(620)	-	(1,105)
Normalised EBITDA	2,253	(441)	1,316	3,128
Synergy benefits				
Termination of franchise agreement between Vicwest and CTA				812
Net cost savings from operational restructuring				228
Improvement in gross margins under BT and/or CTA's business model				692
Total synergy benefits				1,732
Future maintainable EBITDA under the low scenario				4,860