

Concise Annual Report 2010



Bendigo Community Telco Limited

ABN 88 089 782 203

Registered Office
23 McLaren Street
Bendigo Victoria 3550

Customer inquiries

Principal places of business

23 McLaren Street
Bendigo Victoria 3550

113 Williamson Street
Bendigo Victoria 3555

121 Edwards Road
Bendigo Victoria 3550

Telephone (03) 5454 5000

Fax (03) 5454 5001

bendigo.communitytelco.com.au

Shareholder inquiries

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

Telephone (03) 5443 0344



Chairman and Chief Executive Officer's report

During the year we celebrated our tenth anniversary, it is particularly pleasing we were able to open our new Business Advisory Centre (corner McLaren & Williamson Streets Bendigo), launch our new wholesale service offerings to other Community Telco networks across Australia, and see a number of our investments in infrastructure and new products and services being commissioned and starting to generate new revenues for our business.

The past twelve months have seen the Australian economy and our local market stabilise, following the impacts of the global financial crisis on our local economies. Australia has held up very well and, while the global financial crisis and our large investment program reduced last year's returns, we are pleased to see a strong return in profit performance across the entire business. Market conditions continue to improve, and our service proposition has been greatly enhanced.

Your local Community Telco produced a pleasing result for the 2009-2010 financial year, achieving a 35% increase in profit after tax of \$736,744. This has enabled our directors to declare a final dividend of 6 cents per share, making total dividends attributable to the financial year of 9 cents per share fully franked. We have achieved strong earnings per share improvement over the year, and our balance sheet is in excellent shape.

The launch of our unique Community Telco initiative a decade ago was perhaps seen as bold – given the construct of the telecommunications industry in Australia. However it was essential we were able to attract the necessary commitment from major carriers and gain access to essential infrastructure, if we were to ensure our community would not be disadvantaged due to priorities being set by others who perhaps would not place as high a priority on our local needs. It was essential for us to ensure that businesses operating in our region were not disadvantaged, *vis-à-vis their capital city peers*, with respect to an important service like telecommunications.

Over the years we have achieved significant leverage from our combined buying power. We have presented our various industry partners with “an irresistible opportunity” to address our priorities and serve our community – through our commitment to fully utilise the services they provide in our market. We have also ensured the telco industry is applying the appropriate priority to our market and economy. We now have an active competitive landscape for all our businesses (*be they Bendigo Community Telco customers or not*). The benefit for our local economy is substantial and the capital retained extremely valuable.

Our important objective was to ensure we retained local capital and profit in our community – while building strong new competencies and infrastructure to enhance the range of services we could offer our local customers. This commitment has remained a priority for our directors and, coupled with the implementation of our 8-Star Customer Service Charter, we are confident we offer quality services with a clear focus on what our customers are trying to achieve with the products they utilise within our Telco business.

Bendigo Community Telco is the largest enterprise within the Community Telco Australia family and, during the course of the year, we established an ability to leverage some of our core capabilities (and wholesale a range of such facilities) to the other Community Telco enterprises across Australia. We also continued our investment program – *in establishing new capabilities and new infrastructure to enable us to enhance the range of services and facilities we can provide our customer base* – and we have continued to receive great support from our local customers. The strength and commitment shown by the Bendigo community leaders have again demonstrated what this city is capable of in terms of creativity and innovation.

As the telecommunications industry is extremely competitive – with new competitors joining regularly and the rapid introduction of new technologies – we expect competition to remain brisk in coming years. We feel our business has performed exceedingly well, and we are confident we can add real value for our clients by focusing on *what the customer is trying to achieve* and then setting about securing and installing the appropriate solution to address each particular individual need.

Our new Network Operation Centre (NOC) has been a major investment by the business to enhance the range of services we needed to provide for our largest customer. With successful implementation for this customer, the services of our NOC can now be expanded and, we expect, will continue to grow as new businesses take up this world-class service. The NOC will enable us to add significant value for many other customers as well as produce new and diversified revenues for our business.

Other investments in new capability are also enabling us to develop products and services that add to our customer proposition and this will help us secure the position of *Solutions Partner* with each of our business customers.

Bendigo Community Telco's end-of-year result not only acknowledges the clear strategy and priorities that have been set for the business, but also is testament to the outstanding dedication and commitment shown by our management team and staff to this important local business. We also thank our directors for their ongoing support during what has been a very busy year, and the board sincerely thanks all shareholders for your ongoing support and contribution to the success of our business.

We are both extremely optimistic about the future and look forward to the business continuing its progress into the next decade. We are also extremely proud that Bendigo Community Telco continues to make substantial community contributions (*referred to later in this report*), and that these contributions have remained synonymous with our business since it was launched a decade ago.

In addition, it is interesting to note that the Community Telco Australia family – *of which Bendigo Community Telco is the largest enterprise* – is now in the top 20 largest telco groups in Australia*. We feel our community and our Telco are making good progress. We are proud to be both relevant and connected to our community and our customers, and intend to continue our pursuit of innovation and customer service enhancements which we believe will secure the success of this locally-owned business for many years to come.

Thanks to all our stakeholders who have made this unique Community Telco a success.



Rob Hunt
Chairman



Phil Lazenby
CEO

September 2010

*Based on industry revenue estimates sourced from TIO statistics.

New capabilities, initiatives & investments

Wholesale capability

Thanks to ongoing significant investment in infrastructure, we are now in a position to offer wholesale products to Community Telco Australia and other Community Telco franchises around Australia. This newly developed arm of the business provides us with a new stream of revenue that not only helps to empower the wider Community Telco group, but also broadens Bendigo Community Telco's market.

This allows us to assist the national Community Telco group in providing innovative products in a competitive manner, while affording us growth opportunities of our own at Bendigo Community Telco. Over time, we will also look to obtain additional wholesale customers.

Business communications offerings

These developments have empowered us to offer an enhanced suite of business products in both the wholesale and retail environments. These products see the coming of age of Bendigo Community Telco as a full service telecommunications provider and include ADSL and ADSL2+ broadband, Virtual Private Networks, premium business internet products (including Midband Ethernet, SHDSL and BDSL) and Aurora optical fibre (Tasmania only).

Network Operations Centre

Our Network Operations Centre (NOC) has continued to grow, thanks to the world class services the NOC enables us to provide.

Bendigo Business Continuity Centre

Capitalising on the unique and well-developed knowledge base of our staff along with the capabilities of the Bendigo Business Continuity Centre, Bendigo Community Telco has made a strategic decision to develop a suite of innovative products. By introducing Virtual Servers and other cloud-based technologies, we will enable our business customers to access new efficiencies while converting capital expenditure into operational expenditure.

We are in a unique position to be able to take these products to market via various channels, thanks to our retail presence, our new wholesale division, and the establishment of partnerships with IT providers. These products will work to provide ongoing return on our investment made in the construction and maintenance of the Bendigo Business Continuity Centre.

Community involvement

We have continued to support the various Community Enterprises in our region and take pride in knowing that the income we provide these groups supports the development of many important local initiatives across several communities.

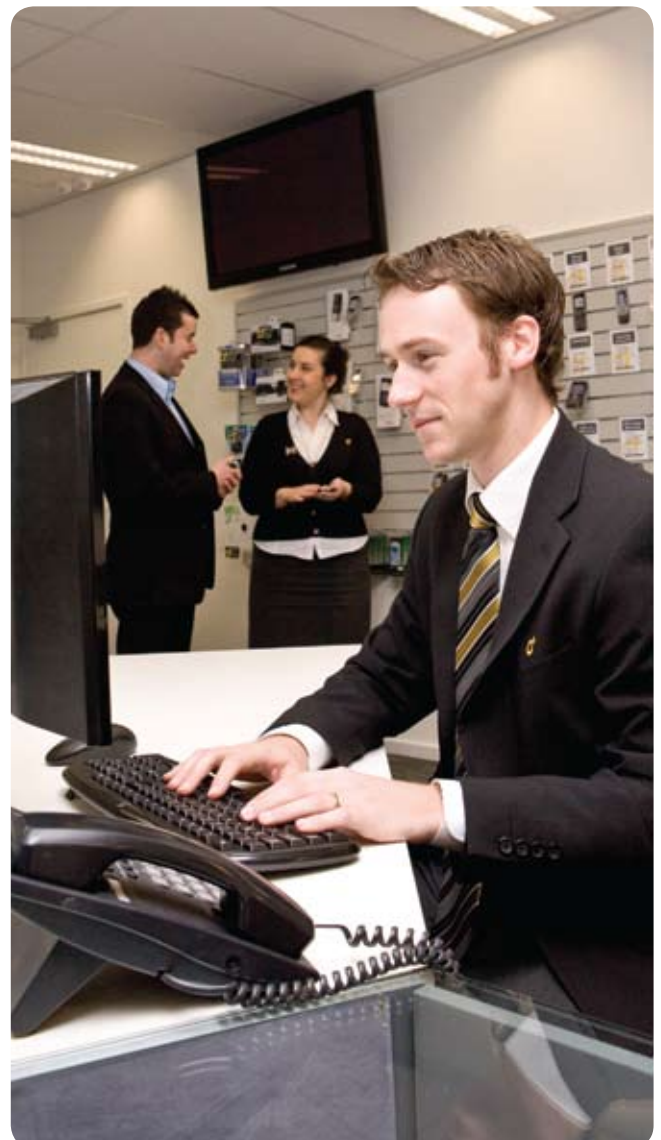
We are also proud to announce our continuing support

of Bendigo's Community Carols as the event's major sponsor for the third year running. We believe this partnership with the Rotary Club of Bendigo and the City of Greater Bendigo helps sustain an enriching event that is important to thousands of Central Victorian families.

We were pleased to assist La Trobe University with a review of its successful Industry Based Learning (IBL) program. This review aims to maintain a steady flow of well-qualified IT students into Bendigo's business community.

Personal service

The incorporation of the 8 Star Service Charter into our staff's personal development review process has been well received, ensuring all staff understand the level of customer service required to be a truly great telecommunications business. These programs have been set up to assist staff to grow and to provide a superior quality of service to their customers.



Financial results

Profit after income tax for the year increased by 35% from the previous year to \$736,744.

Operating activities provided net cash inflows of \$1.13 million.

Revenue increased to just under \$27 million which was an increase of 5% over the previous year (\$25.6 million). Strong revenue growth came from the provision of complex and managed data network services (up 23%) and sales of inventory and equipment (up 24%). Commodity broadband services grew by 2% while there was a small reduction in fixed telephone and mobile service revenues. The decrease in fixed telephone revenue is a trend across the industry.

The company continued to make investment in infrastructure that will provide for ongoing and future revenue streams. The company has been able to leverage its own infrastructure (as well as leveraging the national supplier negotiation capability of its franchisor) to improve its gross margin throughout the year and to deliver continuing EBITDA improvement.

The gross margin increased by 3% due to the growth in sales of higher margin products and greater use of the company's own infrastructure. This also contributed to the substantial increase in EBITDA which increased 33% to \$1.9 million.

In accordance with the company's commitment to transparent disclosure a prior year adjustment has been made to the 2007 financial year due to incorrect accounting treatment of GST in that year. This reduced the retained earnings account by \$68,000. Further details of this adjustment can be found in Note 8 of this report.

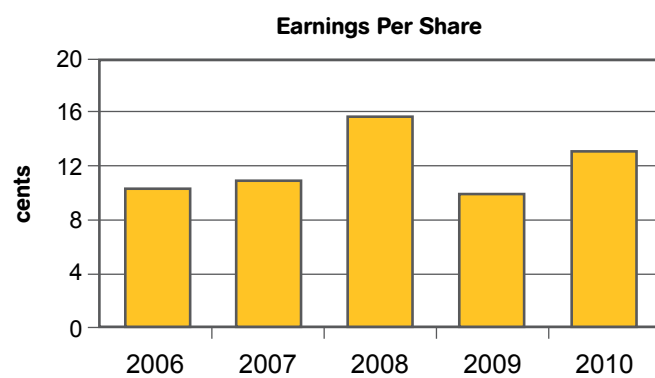
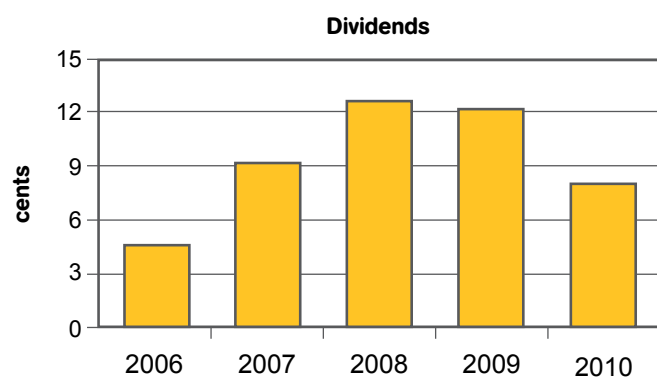
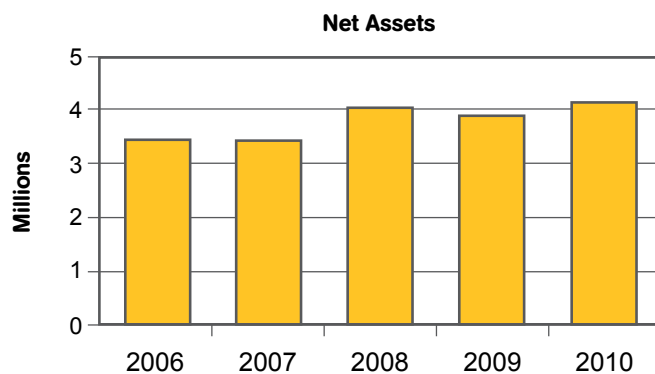
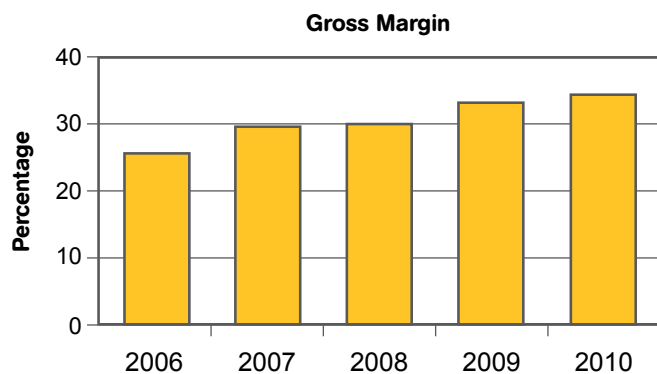
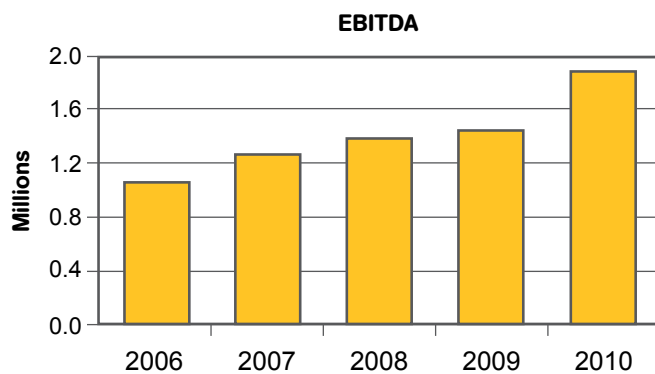
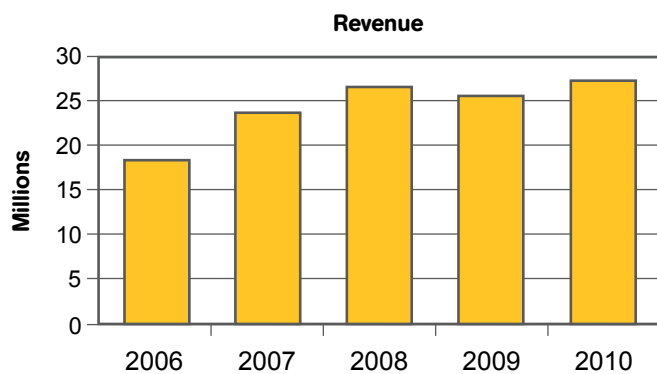
Total assets increased by 3% to \$8,229,512 primarily due to an increase in trade receivables. Net assets increased by \$288,527 mainly due to a boost in retained earnings from the increased profit this financial year.

Overall cash held decreased by \$473,957 to \$1.28 million. Investment in assets of \$1.1 million was made during the year as the company continued its strategy of investing in core infrastructure to derive increases in revenues and gross margin. Repayments of leases and payment of dividends contributed a cash outflow in financing activities of \$501,940. Changes made to inventory management during the year reduced stock levels and freed up cash for investment.

Dividend payments of 5 cents in September 2009 and 3 cents in March 2010 increased the total dividends paid to shareholders since listing in September 2005 to 46 cents/share. A final dividend for the 2009/10 year of 6 cents/share was also declared by the Board at their meeting on 30 August 2010.

There were no further shares issued in the company during this year, therefore the number of shares on issue remains at 5,602,722. The earnings per share result of 13.15 cents when compared to the 2009 result of 9.73 cents reflects the increase in net profit this year.





Shareholder information

At 1 July 2009 Bendigo Community Telco Limited had on issue 5,602,722 shares. There were no further shares issues during the 2009/10 financial year. All shares on issue are ordinary shares.

Substantial shareholders

The following shareholdings in excess of 5% are deemed to be substantial.

Shareholder	No. of Shares	% of Total shares
Bendigo and Adelaide Bank Ltd	1,112,146	19.9
Erskine Investments P/L	840,000	15.0
Hunters Ridge P/L (Hunt Family Trust)	421,004	7.5
Ron Poyser Administrators P/L	372,000	6.6

Voting rights

Voting Rights apply to Ordinary Shares being the only form of shares on issue.

Attending the Meeting

All shareholders may attend the Annual General Meeting.

In the case of joint shareholders, all holders may attend the meeting. If only one holder attends the meeting, that shareholder may vote at the meeting in respect of the relevant shares (including by proxy) as if that holder were solely entitled to them. If more than one joint holder is present (including by proxy), the joint holder whose name appears first in the register in respect of the relevant shares is entitled to vote in respect of them.

A corporate shareholder may appoint one or more persons to act as its representative under section 250D of the Corporations Act 2001 (Cth) (the Corporations Act), but only one representative may exercise the corporate shareholder's powers at any one time. The company requires written evidence of a representative's appointment to be lodged with or presented to the Company before the meeting.

Not attending the Meeting

Shareholders entitled to vote at the meeting, but not attending are encouraged to appoint a proxy to vote on their behalf, using the enclosed Proxy Form. The person appointed as the member's proxy may be an individual or a body corporate. A proxy need not be a member of the Company.

A shareholder who is entitled to cast two or more votes at the meeting may appoint two proxies and specify on the Proxy Form the proportion or number of votes each proxy is appointed to exercise.

For an appointment of a proxy for the meeting of the company's members to be effective, the following documents must be received by the company at least 48 hours before the meeting.

The proxy's appointment

If the appointment is signed by the appointer's attorney the authority under which the appointment was signed or a certified copy of the authority.

The company receives the proxy documents when they are received at any of the following:

1. The company's registered office at 23 McLaren Street, Bendigo, Vic, 3550.
2. The fax number (03) 5454 1537.

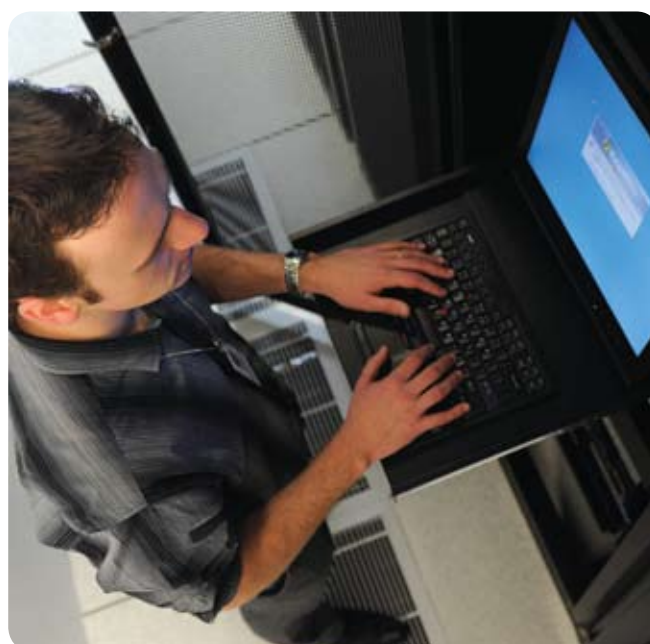
Distribution schedule

At the date of this document the distribution schedule is as per the table below:

Category	No. of holders
1 - 1,000	124
1,001 - 5,000	182
5,001 - 10,000	58
10,001 - 100,000	45
100,001 and over	4

Marketable parcel

At the date of this document 32 shareholding parcels held are deemed to not be marketable. For a shareholding parcel to meet the definition of being marketable the value must exceed \$500, being the number of shares multiplied by the market price at balance date.



Top 10 shareholders

At the date of this document the Top 10 Shareholders were as per the table below:

Shareholder	No. of Shares	% of Total shares
Bendigo and Adelaide Bank Ltd	1,112,146	19.9
Erskine Investments P/L	840,000	15.0
Hunters Ridge P/L (Hunt Family Trust)	421,004	7.5
Ron Poyser Administrators P/L	372,000	6.6
Bendigo Senior Secondary College	100,000	1.8
Community Telco Syndicate	98,000	1.7
MGR Property P/L	90,000	1.6
Bendigo Regional Institute of TAFE	86,000	1.5
LaTrobe University	84,000	1.5
RegionalOne Credit Union Ltd	84,000	1.5
TOTAL	3,287,150	58.6

Securities Register

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

Mail: Bendigo Community Telco
Share Register
C/- AFS & Associates
PO Box 454
Bendigo Victoria 3552

Telephone: (03) 5443 0344

Email: shares@bendigotelco.com.au

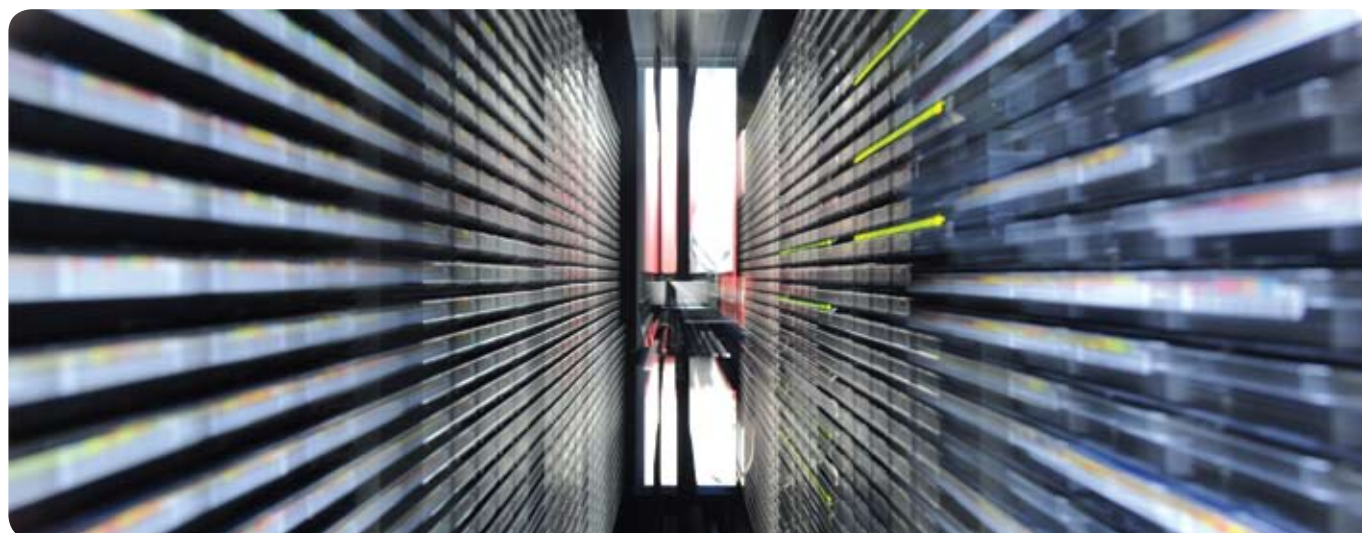
The information contained in this report is correct and current at 30 August 2010.

Corporate governance statement

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

The Board of Bendigo Community Telco Limited have adopted the following principals of Corporate Governance. The policies may be viewed on the company website, www.bendigotelco.com.au.

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



Directors' report

Your directors present their report on the Company for the financial year ended 30 June 2010.

Board composition

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

Directors

Mr Robert George Hunt – Chairman

Age: 59

Occupation:

Bendigo and Adelaide Bank Limited – Consultant
Treasury Corporation of Victoria – Chairman

Qualifications:

Fellow of the Australian Institute of Company Directors, 2003
Doctor of the University (honoris causa), LaTrobe University, 1999

Experience:

Mr Hunt retired as Managing Director of Bendigo and Adelaide Bank on 3 July 2009 after 21 years as Chief Executive Officer. During his 36 years with the organisation, Mr Hunt guided the Bendigo through many challenges, but also through opportunities in the development of strategies as a regional and community banking organisation.

Mr Hunt is architect of the Community Bank® model, and has been instrumental in the development of a range of Community Enterprise and Engagement models, now utilised by communities across Australia to provide key infrastructure and essential services through local commercial structures. These Enterprises provide communities with a framework, the cashflow, capacity and flexibility to address new economy opportunities.

Mr Hunt continues his involvement in a number of community organisations and enterprises on behalf of Bendigo and Adelaide Bank Limited – including Bendigo Community Telco, Community Telco Australia, the Community Bank® Strategic Advisory Board and Community Sector Banking – and he is passionate about the capacity of local Australian communities to contribute to improved national, state and local economic outcomes. Mr Hunt is also the current Chairman of Treasury Corporation of Victoria.

Interest in shares:

Direct – 0 Shares
Indirect – Hunters Ridge Pty Ltd (Hunt Family Trust) 421,004 Shares
Indirect – Annette Hunt 30,044 Shares

Special responsibilities:

Nil

Other directorships:

Chairman, Treasury Corporation of Victoria since 2010;
Chairman, Bendigo Community Telco since 2000;
Chairman, Community Telco Australia since 2001;
Director, Community Developments Australia;
Director, Community Bank® Strategic Advisory Board since 2008;
Director, Community Sector Banking Pty Ltd since 2003;
Chairman, Lead On Australia Limited since 2001;
Patron-in-Chief, Community Enterprise Foundation since 2005;
Patron, St Luke's Anglicare since 2002. Pty Ltd.

Mr Graham William Bastian - Director

Age: 58

Occupation:

Consultant

Qualifications:

Dip Engineering - Civil (Swinburne), Dip Ed (Hawthorn State College)

Experience:

Graham worked as a civil engineer with a private firm of surveyors and engineers until entering teaching. Following a period as an educational consultant focused on assisting schools in the effective use of computers, Graham became the Principal of Charlton College.

He then became the Regional Principal Consultant for Bendigo, the Principal of Golden Square Secondary College and then Principal of Bendigo Senior Secondary College. Following his retirement, Graham has been providing consultancy services to the Department of Education Central Office as well as many schools across the state.

Interest in shares:

Direct – 0 Shares

Indirect – Jeanette Bastian 2,000 Shares

Special responsibilities:

Member of Audit and Risk Committee

Other directorships:

Nil.

Mr Andrew Cairns - Director

Age: 48

Occupation:

Head of Community Solutions & Partnering Bendigo & Adelaide Bank

Qualifications:

Bachelor of Engineering – Electrical (Footscray Institute of Technology)

Member of Australian Institute of Company Directors

Experience:

Andrew Cairns has extensive experience in a variety of industries including manufacturing, pay television and telecommunications. He has worked both nationally and internationally. In the past few years he has applied that experience to steering start-up organisations to success, including Bendigo Community Telco as its initial Chief Executive. The success of Bendigo Community Telco has now resulted in the community telco project being rolled out to regional communities across Australia by Community Telco Australia. Andrew is now the Head of Community Solutions & Partnering at the Bendigo & Adelaide Bank.

Interest in shares:

Direct – 24,600 Shares

Indirect – 0 Shares

Special responsibilities:

Member of Audit and Risk Committee

Other directorships:

Director, Coliban Region Water Corporation

Director, Community Developments Australia

Mr Donald James Erskine - Director

Age: 64

Occupation:

Managing Director – Industrial Conveying (Aust.) Pty Ltd

Experience:

Don is trained as a mechanical engineer. He is Managing Director of Industrial Conveying (Aust.) Pty Limited which was formed by Don in 1979. His previous appointments include non-executive Director of Bendigo Bank and a member of the Bank's Credit, IT Strategy and Property Committees, Director of North West Country Credit Union Co-op Ltd, Director of Community Telco Australia and Director of Bendigo Economic Development Committee. Don is actively involved in the Bendigo Community.

Interest in shares:

Direct – 0 Shares

Indirect – Erskine Investments Pty Ltd 840,000 Shares

Special responsibilities:

Member of the Remuneration Committee

Other directorships:

Bendigo Regional Institute of TAFE

Dr Leslie Alan Kilmartin - Director

Age: 66

Occupation:

Principal of The Insight Group

Qualifications:

B.A. Queensland, M.A. Aust. National University, PhD La Trobe University

Experience:

Les Kilmartin is the former head of the Bendigo campus of La Trobe University and he held the position of Professor of Regional and Urban Studies. He is now the Principal of The Insight Group. Dr Kilmartin's academic interests include a long-standing involvement in regional development, and he served on the Premier's Northern Region Forum and prepared a regional strategy plan for La Trobe University. In addition he also established and was Founding Director of the University's Centre for Sustainable Regional Communities, which conducts applied regional research and community service programs through central and northern Victoria.

Interest in shares:

Direct – 5,000 Shares

Indirect – 0 Shares

Special responsibilities:

Nil

Other directorships:

Nil

Mr Geoffrey Ralph Michell - Director

Age: 59

Occupation:

Consultant

Qualifications:

Diploma of Civil Engineering, Masters of Business Administration (Deakin)

Experience:

Geoff is a consultant, predominantly in the water industry in which he previously spent some 35 years in senior management and engineering roles, including 10 years as Managing Director of Coliban Water.

Interest in shares:

Direct – 20,002 Shares

Special responsibilities:

Member of Audit and Risk Committee and the Remuneration Committee

Other directorships:

Bendigo Health

Bendigo Tourism Board

Wimmera Catch Management Authority

Lower Murray Water

Mrs Margot Elizabeth Spalding – Director

Age: 56

Occupation:

Director - Jimmy Possum Furniture Pty Ltd

Retail Leader, Jimmy Possum Retail Group

Qualifications:

Diploma Teaching Primary (Ballarat)

Experience:

After a varied career in teaching, children's clothing manufacture and furniture manufacture Margot founded Jimmy Possum Furniture P/L with her husband Alan in 1995.

Margot is a Director of Jimmy Possum Melbourne Pty Ltd, Jimmy Possum Sydney Pty Ltd, Neron Pty Ltd and Jimmy Possum Adelaide Pty Ltd.

Interest in shares:

Indirect – Alan Francis Spalding & Margot Elizabeth Spalding <A & M Spalding Superannuation Fund> 10,000 Shares

Special responsibilities:

Nil

Other directorships:

Director - Jimmy Possum Furniture Pty Ltd

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated. No Directors have material interests in contracts or proposed contracts with the company.

Company secretary

At the end of the financial year, Malcolm B. Campbell (Bachelor of Laws) held the position of Company Secretary. Mr Campbell is a Barrister and Solicitor of the Supreme Court of Victoria and has worked in government, private practice and in senior legal positions for the Bendigo Bank.

Remuneration report

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

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

Principles used to determine the nature and amount of remuneration

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

The board's policy for determining the nature and amount of remuneration for key management personnel of the company is as follows:

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

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

Key management personnel are also entitled to participate in the employee share plan.

The key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to key management personnel is valued at the cost to the company and expensed. Shares given to key management personnel are expensed at the market price as listed on the Bendigo Stock Exchange at the date of granting of any shares under the employee share plan.

Performance-based remuneration

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

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

Directors

It was put to the Annual General Meeting in October 2007, and approved, that a payment of \$15,000 per director be made for each full year of service from 1 July 2007 onwards.

Key Management Personnel

Directors

Robert Hunt	Chairman
Graham Bastian	Director
Andrew Cairns	Director
Donald Erskine	Director
Leslie Kilmartin	Director
Geoffrey Michell	Director
Margot Spalding	Director

Executives

Philip Lazenby	Chief executive officer
Peter Bowman	General manager finance – appointed 14 December 2009
Mandy Cooper	General manager finance – resigned 6 November 2009
Bryan Pedersen	General manager technology
Wayne Williams	General manager business development

There were no changes in respect to the Company's directors and executives between the reporting date and the date the financial report was authorised for issue.

Company performance, shareholder wealth and director and executive remuneration

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

Analysis of the actual figures shows an increase in revenues and profits each year, with the exception of the 2009 year. The 2007 year has been restated and further information can be found in Note 8 of the Concise Financial Report.

The amount of dividends paid was reduced in 2010 as the Company decided to retain a higher portion of net profits than it has in recent years. The Company plans to use the increased retained earnings to reinvest in its operations. This is expected to generate further revenues and increase shareholder wealth over the longer term.

The board is pleased with the company's progress which can be attributed in part to the previously described remuneration policy and is satisfied that this outcome is reasonable, particularly in light of external economic conditions.

	2006	2007 Restated	2008	2009	2010
Revenue	\$18.3M	\$23.6M	\$26.6M	\$25.7M	\$27.0M
EBITDA	\$1.05M	\$1.27M	\$1.38M	\$1.43M	\$1.90M
Net profit	\$552K	\$606K	\$883K	\$545K	\$737K
Share price at year end	\$1.10	\$1.20	\$1.60	\$1.60	\$1.40
Dividends paid	4.5 cents	9.0 cents	12.5 cents	12.0 cents	8.0 cents

Details of remuneration for year ended 30 June 2010

(i) Directors

The remuneration for each of the directors of the entity during the year was as follows:

		Short-term benefits	Post-employment benefits		Proportion of remuneration that is performance based %	
		Cash Salary and Fees	Superannuation	TOTAL		
Robert Hunt	2010	13,761	1,239	15,000	-	
	2009	13,761	1,239	15,000	-	
Graham Bastian	2010	15,000	-	15,000	-	
	2009	15,000	-	15,000	-	
Andrew Cairns	2010	13,761	1,239	15,000	-	
	2009	13,761	1,239	15,000	-	
Donald Erskine	2010	-	15,000	15,000	-	
	2009	-	15,000	15,000	-	
Leslie Kilmartin	2010	546	14,454	15,000	-	
	2009	5,736	9,264	15,000	-	
Geoffrey Michell	2010	-	15,000	15,000	-	
	2009	-	15,000	15,000	-	
Margot Spalding	2010	15,000	-	15,000	-	
	2009	15,000	-	15,000	-	
		2010	58,068	46,932	105,000	-
		2009	63,258	41,472	105,000	-

(ii) Executives

The remuneration for each of the five executive officers of the entity during the year was as follows:

		Short-term benefits		Post-employment benefits	TOTAL	Proportion of remuneration that is performance based %
		Salaries	Non-Cash Benefits	Superannuation		
Philip Lazenby	2010	151,837	25,000	15,140	191,977	11
	2009	150,500	25,000	15,050	190,550	11
Mandy Cooper	2010	73,360	5,301	3,947	82,608	6
	2009	114,903	15,000	10,341	140,244	6
Bryan Pedersen	2010	121,400	15,000	10,430	146,830	6
	2009	112,717	15,000	10,145	137,862	7
Wayne Williams	2010	109,933	15,000	9,626	134,559	6
	2009	104,290	15,000	9,386	128,676	6
Peter Bowman	2010	64,293	-	5,026	69,319	-
	2009	-	-	-	-	-
		2010	520,823	60,301	44,169	625,293
		2009	482,410	70,000	44,922	597,332

This marks the end of the audited remuneration report.

Principal activities

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

Operating results

The operating profit of the company for the financial year after providing for income tax was \$736,744 (30 June 2009: \$545,023).

Dividends paid

Dividends paid in the year:	Year Ended 30 June 2010	
	Cents	\$
Final – September 2009	5.0	280,136
Interim – March 2010	3.0	168,082
Total	8.0	448,218

Financial position

The net assets of Bendigo Community Telco Limited have increased to \$4,157,483 at 30 June 2010 (30 June 2009: \$3,868,956 restated). The change has largely resulted from increased profitability due to improved sales revenue and product margins.

The Company's working capital, being current assets less current liabilities, has increased from \$718,276 restated in 2009 to \$813,482.

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

Review of operations

Bendigo Community Telco Limited is now in its tenth year of operations and has continued to consolidate its position within the Bendigo and district market, providing a full range of products and services to its customers including full service (line rental, local calls, etc), broadband and dial up internet access, mobiles, data services and business continuity services. We also offer PABX and phone system sales and installation, UHF Radios, technical installation and servicing including cabling. Bendigo Community Telco also provides network monitoring services via its network operations centre and recently entered the wholesale market offering internet and data services.

Bendigo Community Telco has continued in its Franchise Agreement with Community Telco Australia. Bendigo Community Telco Limited has also maintained wholesale agreements with AAPT, Optus Singtel, Newsnet, and NextGen Pure Data.

Significant changes in the state of affairs

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

There have not been any significant changes in the state of affairs of the Company during the financial year. Since the end of the financial year a final dividend in the amount of 6 cents per share was declared by the Board of Directors on 30 August 2010 which will be distributed to shareholders on 24 September 2010.

Matters subsequent to balance date

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

Future developments, prospects and business strategies

Disclosure of information relating to major development in the operations of the Company and the expected results of those operations in future financial years, which, in the opinion of the directors, will not unreasonably prejudice the interests of the Company, is contained in the Report by the Chairman and Chief executive officer on page 2 of the Concise Annual Report.

Environmental regulation

The company is not subject to any significant environmental regulation.

Indemnification and insurance of directors and officers

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

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

Directors benefits and interest in contracts

No director has received or become entitled to receive during or since the financial year, a benefit because of a contract made by the company with the director, a firm of which the director is a member or an entity in which the director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, prepared in accordance with the Corporate Regulations, or the fixed salary of full-time employees of the company, controlled entity or related body corporate other than interests and benefits disclosed at Note 23 to the Financial Statements.

Share options

The Company has not issued any share options.

Proceedings

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Directors' meetings

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

Committee Meetings						
Directors	Directors' Meetings		Audit Committee		Remuneration Committee	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Rob Hunt	10	7	-	-	-	-
Graham Bastian	10	10	3	3	-	-
Andrew Cairns	10	9	3	2	-	-
Don Erskine	10	7	-	-	1	1
Les Kilmartin	10	8	-	-	-	-
Geoff Michell	10	9	3	3	1	1
Margot Spalding	10	9	-	-	-	-

Non audit services

The Company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the Company are important. Details of the amounts paid or payable to the Auditor (Andrew Frewin & Stewart) for audit and non audit services provided during the year are set out in note 5 to the full financial report.

The Board of Directors has considered the position, and is satisfied that the provision of the non audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are satisfied that the provision of non audit services by the auditor, as set out in the notes, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

All non audit services have been reviewed to ensure they do not impact on the integrity and objectivity of the auditor.

The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with the APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Fees of \$19,430 were paid or payable to Andrew Frewin & Stewart for non-audit services provided during the year ended 30 June 2010.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 21.

Signed in accordance with a resolution of the Board of Directors at Bendigo on 30 August 2010.



Rob Hunt
Director



Andrew Cairns
Director



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Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Bendigo Community Telco Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there has been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- no contraventions of any applicable code of professional conduct in relation to the audit.



GRAEME STEWART

ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, VIC 3550
Dated this 30th day of August 2010

Directors' declaration

The directors of Bendigo Community Telco Limited declare that the concise financial report for the financial year ended 30 June 2010 as set out on pages 1 to 30:

- a. Complies with Accounting Standard AASB 1039: Concise Financial Reports; and
- b. Is an extract from the full financial report for the year ended 30 June 2010 and has been derived from and is consistent with the full financial report of Bendigo Community Telco Limited.

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

On behalf of the directors



Rob Hunt
Director



Andrew Cairns
Director

Dated this 30th day of August 2010





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INDEPENDENT AUDITOR'S REPORT

To the members of Bendigo Community Telco Limited

Report on the Concise Financial Report

The accompanying concise financial report of Bendigo Community Telco Limited comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and related notes, derived from the audited full financial report of Bendigo Community Telco Limited for the year ended 30 June 2010, and the discussion and analysis. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' Responsibility for the Concise Financial Report

The directors are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039: *Concise Financial Reports* (including the Australian Accounting Interpretations), statutory and other requirements. This responsibility includes establishing and maintaining internal control relevant to the preparation of the concise financial report; selecting and applying the appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Bendigo Community Telco Limited for the year ended 30 June 2010. Our audit report on the full financial report for the year was signed on 30 August 2010 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and consistent with, the full financial report for the year, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039: *Concise Financial Reports* and whether the discussion and analysis complies with the requirements laid down in AASB 1039: *Concise Financial Reports*.

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

Independence

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

Auditor's Opinion

In our opinion, the concise financial report including discussion and analysis of Bendigo Community Telco Limited for the year ended 30 June 2010 complies with Accounting Standard AASB 1039: *Concise Financial Reports*.

GRAEME STEWART

ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, VIC 3550
Dated this 30th day of August 2010

Statement of comprehensive income

For year ended 30 June 2010

	Notes	2010 \$	2009 \$
Revenue	3	26,985,107	25,600,634
Cost of products sold		(17,792,243)	(17,115,209)
Other revenue	3	78,515	84,817
Salaries and employee benefit costs		(3,689,547)	(3,362,424)
Occupancy and associated costs		(535,996)	(498,864)
General administration costs		(1,180,994)	(1,369,489)
Depreciation and amortisation costs		(787,880)	(659,427)
Advertising and promotion costs		(312,765)	(345,943)
Systems costs		(1,603,293)	(1,490,406)
Borrowing costs		(117,233)	(71,892)
Profit before income tax expense		1,043,671	771,797
Income tax expense		(306,927)	(226,774)
Profit for the period		736,744	545,023
Other comprehensive income for the period, net of tax		-	-
Profit attributable to members of the entity		736,744	545,023
Total comprehensive income attributable to members of Bendigo Community Telco Limited		736,744	545,023

Earnings per share

Basic earnings per share (cents)	13.15	9.73
Diluted earnings per share (cents)	13.15	9.73

The accompanying notes form part of this concise financial report

Statement of financial position

As at 30 June 2010

	2010 \$	2009 \$ Restated	1 July 2008 \$ Restated
Current Assets			
Cash and cash equivalents	1,277,953	1,751,910	2,342,413
Trade and other receivables	2,240,892	1,790,330	2,683,109
Prepayments	965,651	701,480	644,047
Inventories	130,669	200,185	241,381
Total Current Assets	4,615,165	4,443,905	5,910,950
Non Current Assets			
Property, plant and equipment	2,139,792	2,236,746	1,677,114
Intangibles	1,322,112	1,129,863	1,005,560
Deferred Tax Asset	152,443	166,995	164,858
Total Non Current Assets	3,614,347	3,533,604	2,847,532
TOTAL ASSETS	8,229,512	7,977,509	8,758,482
Current Liabilities			
Trade and other payables	3,112,879	2,990,801	3,706,441
Financial Liabilities	273,477	328,561	148,703
Provisions	344,006	286,697	312,184
Taxation	71,321	119,569	243,603
Total Current Liabilities	3,801,683	3,725,629	4,410,931
Non Current Liabilities			
Financial Liabilities	200,550	324,593	314,179
Provisions	69,796	58,331	37,112
Total Non Current Liabilities	270,346	382,924	351,291
TOTAL LIABILITIES	4,072,029	4,108,553	4,762,222
NET ASSETS	4,157,483	3,868,956	3,996,260
Equity			
Issued capital	3,366,860	3,366,860	3,366,860
Retained earnings	790,623	502,096	629,400
TOTAL EQUITY	4,157,483	3,868,956	3,996,260

The accompanying notes form part of this concise financial report

Statement of changes in equity

For year ended 30 June 2010

	2010 \$	2009 \$ Restated
Equity		
Total equity at the beginning of the financial year	3,868,956	3,996,260
Net profit for the year	736,744	545,023
Net other comprehensive income	-	-
Dividends provided for or paid	(448,217)	(672,327)
Total equity at the end of the financial year	4,157,483	3,868,956
Retained earnings		
Retained earnings at the beginning of the period	502,096	629,400
Net profit attributable to members	736,744	545,023
Dividends paid to members	(448,217)	(672,327)
Retained earnings at the end of the financial year	790,623	502,096

The accompanying notes form part of this concise financial report

Statement of cash flows

For year ended 30 June 2010

	2010 \$	2009 \$
Cash flows from operating activities		
Cash received in course of operations	29,635,050	29,114,898
Interest paid	(117,233)	(71,892)
Cash paid in course of operations	(28,123,414)	(27,563,842)
Income tax paid	(340,623)	(281,317)
Interest received	78,515	84,817
Net cash provided by operating activities	1,132,295	1,282,664
Cash flows from investing activities		
Purchase of intangible assets	(318,940)	(155,486)
Purchase of property, plant and equipment	(829,323)	(949,493)
Proceeds from sale of assets	43,951	42,182
Net cash used in investing activities	(1,104,312)	(1,062,797)
Cash flows from financing activities		
Proceeds from borrowings	331,845	133,209
Repayment of finance lease	(385,568)	(271,252)
Dividends paid	(448,217)	(672,327)
Net cash used in financing activities	(501,940)	(810,370)
Net decrease in cash held during the financial year	(473,957)	(590,503)
Cash at the beginning of the financial year	1,751,910	2,342,413
Cash at the end of the financial year	1,277,953	1,751,910

The accompanying notes form part of this concise financial report

Notes to and forming part of the financial report

1. Statement of Accounting Policies

Basis of preparation

The concise financial report is an extract for the full financial report for the year ended 30 June 2010. The concise financial report has been prepared in accordance with Accounting Standard AASB 1039: Concise Financial Reports, and the Corporations Act 2001.

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

The financial report of Bendigo Community Telco Limited complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. The presentation currency used in this concise financial report is Australian dollars.

2. Financial risk management

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

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

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

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

3. Revenue

	2010 \$	2009 \$
Sales revenue	26,952,770	25,594,309
Interest revenue	78,515	84,817
Total revenue	27,031,285	25,679,126
Other income	32,337	6,325
Total other income	32,337	6,325
Total revenue and other income	27,063,622	25,685,451

4. Contingent liabilities and contingent assets

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

5. Segment Reporting

(a) Information about reportable segments

Aggregated Communications Departments

	2010 \$	2009 \$
External Segment Revenues	26,985,107	25,600,634
Segment Expenses	25,115,952	24,021,507
Net Segment Profit/(Loss)	1,869,155	1,579,126

(b) Reconciliation of Reportable Segment Revenue, Profit/(Loss), Assets & Liabilities and Other Material Items

Aggregated Communications Departments

	2010 \$	2009 \$
Revenues		
Total revenue for reportable segments (aggregated)	26,985,107	25,600,634
Interest revenue	78,515	84,817
Consolidated revenue	27,063,622	25,685,450
Profit or Loss		
Total profit/(loss) for reportable segments (aggregated)	1,869,155	1,579,126
Other profit/(loss)	78,515	84,817
Unallocated amounts:		
Finance expense	(117,233)	(71,892)
Depreciation & Amortisation	(787,880)	(659,427)
Impairment	1,114	(160,827)
Consolidated profit/(loss) before income tax	1,043,671	771,797

Assets & Liabilities

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

6. Events subsequent to balance date

Since the end of the financial year a final dividend in the amount of 6 cents per share was declared by the Board of Directors on 30 August 2010 which will be distributed to shareholders on 24 September 2010.

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

7. Dividends

During the financial year payment of a final dividend of 5.0 cents (\$280,136) was paid in September 2009, with an interim dividend of 3.0 cents (\$168,082) paid in March 2010. Both dividends are 100% fully franked.

Both basic and diluted earnings per share increased from 9.73 cents in 2009 to 13.15 cents in 2010.

8. Correction of Error

Correction of accounting error in previous financial years

An accounting error was made in prior years in relation to GST being incorrectly claimed on finance leases. Prior year adjustments have been made to correct this error and so that the reported profit more appropriately reflects the performance of the company in the current period.

The impacts of these errors in the year ended 30 June 2009 are set out below.

Balance Sheet (Extract)	30 June 2009	Increase/ (decrease)	30 June 2009 (Restated)
Trade and Other Receivables	2,896,490	94,311	2,990,801
Taxation	145,463	(25,894)	119,569
Net Assets	3,937,374	(68,418)	3,868,956
Retained Earnings	570,514	(68,418)	502,096
Total Equity	3,937,374	(68,418)	3,868,956