



# Interim Financial Report

for the Half-year ended

31 December 2016

## DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2016.

### Directors

The names of directors who held office during or since the end of the half-year:

Donald James Erskine  
Robert George Hunt  
Graham William Bastian  
Michelle Kaye O'Sullivan  
Andrew Craig Watts  
Rodney David Payne (commenced 1 September 2016)  
Kevin Gerard Dole (commenced 1 September 2016)  
Jonathon David Selkirk (commenced 1 September 2016)

### Review of Operations

The half-year ending 31 December 2016 was an important period in the company's history and development.

Led by CEO, Jeff Jordan and his management team, on 1 September 2016 the company completed the merger with Vicwest under a 'scheme of arrangement' and acquired a range of other assets from Community Telco Australia.

This transaction has taken the business from a Bendigo focused entity, to a 'national telco' with additional offices in Ballarat, Geelong, Hobart, Launceston and the Sunshine Coast. With the advantages of the merger having been in place for four months, the total company revenue increased by 31% over the prior year delivering a total company turnover of \$14,954,193 for the 6 month period.

During the period, the business continued to add customers, especially in the Virtual Private Network (VPN) area of our operations. The move to SIP (voice over data) is also a fast growing segment of our market. Our continued focus on the advancement of the VPN area of the company led to the signing of an additional five-year contract with the Bendigo and Adelaide Bank Ltd. This long-term contract that extends through 2021, is an important endorsement from our largest customer and secures long-term revenue certainty for our business.

In order to secure this new contract with Bendigo and Adelaide Bank Ltd we incurred additional costs of \$253k due to the duplication of services required while new technology was being rolled out across the branch network.

The business has worked to strengthen the supplier relationships that we have in place including those with Telstra, AAPT, NBN and Optus. In November the business went to market seeking better pricing for our voice products. We expect the outcome of this to be a reduction in the cost of goods over the second half of the year that will continue on into the future.

Bendigo Telco delivered a net profit after tax for the six months to 31 December 2016 of \$297,865, which represents a 30% decrease from the corresponding period in the prior year. The decrease is primarily due to additional operational and acquisition costs as well as several one-off costs which are directly related to the implementation associated with the merger – this includes \$177,000 in redundancy payments.

As a result of the increased scale of the merged entity, the company is now in a position to maximize its growth potential and to implement a range of planned synergies, which will reduce operating expenses. The increased buying power available to the business is likely to result in significantly reduced supplier pricing which will materially improve the company's profitability over the medium term.

As a result of the merger, Bendigo Telco Group will now have the benefit of two additional directors who were previously directors of Vicwest Community Telco. Rod Payne from Geelong and Jock Selkirk from Ballarat will provide additional business experience especially in the new regions that now form part of our group. Additionally, Kevin Dole, a senior executive at the Bendigo Bank, joined the board in September and brings a broad knowledge of technology and finance to our business.

At the conclusion of the period, the net assets of Bendigo Telco were \$9,567,430. Bendigo Telco has maintained good working capital, with current assets exceeding current liabilities by \$1,316,941.

The directors consider that with the additional size and scale that has resulted from the merger, together with our investment in core technologies and infrastructure the company is now well positioned to expand its operations, return to on-trend performance and provide shareholders with a strong return on their investment.

**Auditor's Independence Declaration**

The lead auditor's independence declaration under s 307C of the *Corporations Act 2001* is set out on page 4 for the half-year ended 31 December 2016.

This directors' report is signed in accordance with a resolution of the Board of Directors.



Donald Erskine, Chairman



Andrew Watts, Director

Dated this 15th day of March 2017



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

I declare that to the best of my knowledge and belief, during the half-year year ended 31 December 2016 there has been no contraventions of:

- the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review.
- any applicable code of professional conduct in relation to the review.

**Andrew Frewin Stewart**  
61 Bull Street, Bendigo Vic 3550  
Dated this 15<sup>th</sup> day of March 2017

**Adrian Downing**  
Lead Auditor

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	\$	\$
Revenue	14,954,193	11,393,819
Cost of products sold	(8,351,338)	(5,409,481)
Other income	354,348	6,547
Salaries and employee benefit costs	(3,773,468)	(2,908,083)
Occupancy and associated costs	(427,053)	(372,097)
General administration costs	(656,116)	(511,073)
Depreciation and amortisation costs	(681,000)	(710,140)
Advertising and promotion costs	(54,976)	(88,650)
Systems costs	(514,835)	(388,328)
Borrowing costs	<u>(435,036)</u>	<u>(388,379)</u>
Profit before income tax	414,719	624,135
Income tax expense	<u>(116,854)</u>	<u>(196,409)</u>
Net profit for the period	297,865	427,726
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period	<u><u>297,865</u></u>	<u><u>427,726</u></u>
Total comprehensive income attributable to members of Bendigo Telco Limited	<u><u>297,865</u></u>	<u><u>427,726</u></u>
 <b>Earnings per share</b>		
Basic earnings per share (cents)	4.21	7.44
Diluted earnings per share (cents)	4.21	7.44

*The accompanying notes form part of these financial statements*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 AS AT 31 DECEMBER 2016**

	<b>31.12.2016</b>	<b>30.06.2016</b>
	\$	\$
<b>Current Assets</b>		
Cash and cash equivalents	603,701	1,577,913
Trade and other receivables	2,255,070	884,786
Prepayments	2,461,556	1,837,713
Inventories	331,769	140,719
Taxation	306,500	-
<b>Total Current Assets</b>	<b>5,958,596</b>	<b>4,441,131</b>
<b>Non Current Assets</b>		
Property, plant and equipment	3,839,646	3,837,166
Intangible assets	9,168,602	1,518,925
Deferred tax assets	464,476	337,754
<b>Total Non Current Assets</b>	<b>13,472,724</b>	<b>5,693,845</b>
<b>TOTAL ASSETS</b>	<b>19,431,320</b>	<b>10,134,976</b>
<b>Current Liabilities</b>		
Trade and other payables	3,285,960	1,636,672
Provisions	749,120	604,038
Taxation	-	16,918
Borrowings	606,575	515,529
<b>Total Current Liabilities</b>	<b>4,641,655</b>	<b>2,773,157</b>
<b>Non Current Liabilities</b>		
Provisions	189,102	132,555
Borrowings	5,033,133	1,349,570
<b>Total Non Current Liabilities</b>	<b>5,222,235</b>	<b>1,482,125</b>
<b>TOTAL LIABILITIES</b>	<b>9,863,890</b>	<b>4,255,282</b>
<b>NET ASSETS</b>	<b>9,567,430</b>	<b>5,879,694</b>
<b>EQUITY</b>		
Issued capital	7,188,623	3,248,146
Retained earnings	2,378,807	2,631,548
<b>TOTAL EQUITY</b>	<b>9,567,430</b>	<b>5,879,694</b>

*The accompanying notes form part of these financial statements*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	Ordinary Share Capital \$	Retained Earnings \$	Total \$
<b>Balance at 1 July 2015</b>	3,532,435	2,319,151	5,851,586
<b>Comprehensive Income</b>			
Profit for the period	-	427,726	427,726
Other comprehensive income for the period	-	-	-
<b>Total comprehensive income for the period</b>	<b>3,532,435</b>	<b>2,746,877</b>	<b>6,279,312</b>
<b>Transaction with owners, in their capacity as owners, and other transfers</b>			
Dividends recognised for the period	2	(574,532)	(574,532)
Shares issued during the period	-	-	-
<b>Total transactions with owners and other transfers</b>	<b>-</b>	<b>(574,532)</b>	<b>(574,532)</b>
<b>Balance at 31 December 2015</b>	<b>3,532,435</b>	<b>2,172,345</b>	<b>5,704,780</b>
<b>Balance at 1 July 2016</b>	3,248,146	2,631,548	5,879,694
<b>Comprehensive Income</b>			
Profit for the period	-	297,865	297,865
Other comprehensive income for the period	-	-	-
<b>Total comprehensive income for the period</b>	<b>3,248,146</b>	<b>2,929,413</b>	<b>6,177,559</b>
<b>Transaction with owners, in their capacity as owners, and other transfers</b>			
Dividends recognised for the period	2	(574,532)	(574,532)
Shares issued during the period	4,059,923	-	4,059,923
Cost of equity raised	(119,446)	-	(119,446)
Deferred tax adjustment on Business Combination	-	23,926	23,926
<b>Total transactions with owners and other transfers</b>	<b>3,940,477</b>	<b>(550,606)</b>	<b>3,389,871</b>
<b>Balance at 31 December 2016</b>	<b>7,188,623</b>	<b>2,378,807</b>	<b>9,567,430</b>

*The accompanying notes form part of these financial statements*



**CONSOLIDATED STATEMENT OF CASH FLOWS  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	14,592,577	12,517,014
Interest paid	(51,682)	(41,917)
Payments to suppliers and employees	(13,650,480)	(9,749,141)
Income tax paid	(233,912)	(291,372)
Interest received	6,702	6,547
<b>Net cash provided by operating activities</b>	<b>663,205</b>	<b>2,441,131</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of intangible assets	(285,741)	(61,519)
Purchase of property, plant and equipment	(390,170)	(457,153)
<b>Net cash used in investing activities</b>	<b>(675,911)</b>	<b>(518,672)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Repayment of finance lease	(267,528)	(208,574)
Dividends paid	(574,532)	(574,532)
Cost of share issue	(119,446)	-
<b>Net cash used in financing activities</b>	<b>(961,506)</b>	<b>(783,106)</b>
<b>Net increase / (decrease) in cash held</b>	<b>(974,212)</b>	<b>1,139,353</b>
Cash and cash equivalents at beginning of period	1,577,913	947,316
<b>Cash and cash equivalents at end of the period</b>	<b>603,701</b>	<b>2,086,669</b>

*The accompanying notes form part of these financial statements*

## **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT**

### **Note 1: Summary of significant accounting policies**

#### **Basis of Preparation**

These general purpose interim financial statements for the half-year reporting period ended 31 December 2016 have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting. The consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update of the latest annual financial statements of Bendigo Telco Limited. As such, it does not contain information that represents relatively insignificant changes during the half-year within the consolidated entity. It is therefore recommended that this financial report be read in conjunction with the annual financial statements for the year ended 30 June 2016, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 15 March 2017.

#### **Accounting Policies**

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except in relation to the matters discussed below.

#### **Critical Accounting Estimates and Judgments**

The critical estimates and judgments are consistent with those applied and disclosed in the June 2016 annual report.

#### **New and Revised Accounting Requirements Applicable to the Current Half-year Reporting Period**

No significant changes in accounting requirements have arisen during the half year ended 31 December 2016.

**Note 2: Dividends Paid and Proposed**

	<b>31.12.2016</b>	<b>31.12.2015</b>
Distributions paid:	\$	\$
2016 Final fully franked ordinary dividend of 10.0 (2015: 10.0) cents per share franked at the tax rate of 30% (2015: 30%).	574,532	574,532
Distributions proposed:		
2017 Interim fully franked ordinary dividend of 3.0 (2016: 7.0) cents per share franked at the tax rate of 30% (2016: 30%).	232,359	402,173

After the reporting date the above dividend was declared. The amount has not been recognised as a liability as at 31 December 2016 but will be brought into account in the 2017 financial year.

**Note 3: Business Combinations**

**Scheme of Arrangement - Bendigo Telco & Vicwest**

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

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

Scheme of arrangement (Share allocation 1,499,962 at \$2.04 per share)		3,059,923
Business Loan		3,800,000
Current Assets		
Cash		86,554
Inventory		76,181
Receivables		666,874
Prepayments		423,459
Total Current Assets		<b>1,253,068</b>
Non Current Assets		
PP&E		52,638
Intangibles		64,940
Deferred tax assets		190,846
Total Non Current Assets		<b>308,424</b>
Current Liabilities		
Payables		1,037,463
Employee Entitlements		184,978
Total Current Liabilities		<b>1,222,441</b>
<b>Goodwill on acquisition</b>		<b><u>6,520,872</u></b>

**Revenue and profit or loss**

Since 1 September 2016, included in the consolidated statement of comprehensive income, Vicwest has contributed \$2,193,643 in revenue and \$62,065 in net profit.

No goodwill is expected to be deductible for tax purposes.

**Purchase of CTA managed business**

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

Customer List (Share allocation of 500,000 shares at \$2.00 per share)	1,000,000
Stamp Duty	10,495
less	
Accumulated Amortisation	(34,052)
<b>Net Carrying Value</b>	<b><u><u>976,443</u></u></b>

**Revenue and profit or loss**

Since 1 September 2016, included in the consolidated statement of comprehensive income, the managed businesses have contributed \$2,070,072 in revenue and \$195,664 in net profit.

**Note 4: Operating Segments**

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

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

**Major customers**

During the half year ended 31 December 2016 approximately 30.0% (2015: 46.3%) of Bendigo Telco's external revenue was derived from sales to one customer (2015: one customer).

**Revenue by product set**

	2016	2015
	\$	\$
Voice	5,346,328	2,286,278
Data Networks	5,596,773	5,406,460
Broadband	1,202,324	1,130,519
IT Services	170,527	150,235
Hardware and Installations	526,804	347,924
Data Centre	1,441,158	1,499,444
Cloud	658,083	537,556
Other	366,544	41,950
	<b><u><u>15,308,541</u></u></b>	<b><u><u>11,400,366</u></u></b>

**Assets & Liabilities**

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

**Note 5: Contingent Liabilities**

There has been no change in contingent liabilities since the last annual reporting period.

**Note 6: Events after the end of the interim period**

Other than the following, the directors are not aware of any significant events since the end of the interim period.

Since the end of the interim period, the directors have resolved to pay an interim fully franked dividend of 3.0 cents per share (2016: 7.0 cents per share) payable on 28 April 2017 to shareholders on the share register at 30 March 2017. This dividend will be recognised in shareholders' equity in the next interim financial statements.

## DIRECTORS' DECLARATION

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

1. The financial statements and notes, as set out on pages 1 to 13 are in accordance with the *Corporations Act 2001*, including:
  - a. complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and
  - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Directors



Donald Erskine, Chairman



Andrew Watts, Director

Dated this 15th day of March 2017



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

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bendigo Telco Ltd, which comprises the consolidated condensed statement of financial position as at 31 December 2016, the consolidated condensed statement of profit or loss and other comprehensive income, the consolidated condensed statement of changes in equity, the consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

### Directors Responsibility for the Half-Year Financial Report

The directors of Bendigo Telco Ltd are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Bendigo Telco Ltd's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bendigo Telco Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

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

**Conclusion** Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bendigo Telco Ltd is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of Bendigo Telco Ltd's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

**Andrew Frewin Stewart**  
61-65 Bull Street Bendigo 3550  
Dated this 15<sup>th</sup> day of March 2017

**Adrian Downing**  
Lead Auditor