



**BENDIGO TELCO LIMITED**

**A.B.N. 88 089 782 203**

**2020 FINANCIAL REPORT**

## **OPERATING AND FINANCIAL REVIEW**

### **PRINCIPAL ACTIVITIES**

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

### **OPERATING RESULTS AND REVIEW OF OPERATIONS**

#### **About Bendigo Telco**

Bendigo Telco, formed in year 2000, was established by a group of prominent Bendigo based businesses who wanted better access to competitive pricing and telecommunications technology across our local market. These businesses identified the disadvantages (market failure) that they as regional businesses faced when compared with their metropolitan competitors. Early analysis identified the need to create a locally owned and focused organisation to improve the telecommunications services, in terms of price, priority, competition, and access to essential infrastructure.

Now in its 21st year of operation, Bendigo Telco has played a major role in addressing these shortcomings as well as promoting a more competitive and responsive telco market in all the communities that we now support. The Group continues to provide of a broad range of telecommunications services to enterprise, business, and consumer customers across these Australian markets.

#### **Operational Review**

Over the past 12 months the telco environment has continued to present challenges. The continued rollout of the NBN and the introduction of new telco technologies have been the prominent factors which have resulted in compressed revenues and margins for the traditional voice and data products that we have provided across our customer base. These declines in traditional revenue are in line with industry expectations and are projected to continue into FY21 and FY22. Our focus has been to replace these reduced revenues into services that will be of greatest benefit and value to our customers and local markets.

In response to the industry changes the Group progressively implemented a new strategy and operating model which it has continued to execute on over the past year. By remaining focused on our strategic priorities and delivering on our stated objectives, we have been able to continue to invest in our infrastructure, people, products, and processes and continue to produce a solid result for our shareholders.

#### **Impact of COVID-19**

During the financial year we have seen the onset of the COVID-19 pandemic which continues to have significant impacts on people, businesses, communities and the economy. In March 2020, the Group chose to progressively implement its continuity plans with a focus on having most staff working at home or remotely. This decision was made to ensure the protection of staff, the services we deliver to our customers and the support we provide to our communities and local economies.

As more businesses moved to remote working arrangements, the reliance on our services, support and infrastructure became even more critical with many customers requesting additional capacity to enable and support their employees to work at home and remotely.

The events relating to COVID-19 have not had a materially adverse impact on either the operations or financial performance of the Group during this period. The Group continues to offer support to its customers with several of them taking up an option to extend payment terms or enter into an acceptable payment arrangement. Given the uncertainty of the continually evolving circumstances, the longer-term impacts of COVID-19 are difficult to fully assess at this stage. The Group continues to monitor the situation and engage with customers to ensure we meet or exceed their service requirements.

The business received \$50,000 from the ATO cash flow boost during FY20 and expects to receive an additional \$50,000 from the 2nd ATO cash flow boost during FY21. The business was not entitled to any other Government related payments.

## Financial and Operating Results

Summary financial results	FY20 \$'000	FY19 \$'000	Change (%)
Revenue	33,368	36,625	(8.89%)
Gross margin	16,715	16,785	(0.42%)
EBITDA	4,647	1,279	263.33%
Net profit/(loss) after tax	1,065	(1,331)	(180.02%)
Underlying net profit/(loss) after tax*	1,788	1,228	45.60%
Earnings per share (cents)	13.73	(17.16)	

\* Underlying net profit/(loss) after tax represents results excluding non-cash impairments to goodwill and other intangibles and restructuring costs

Total Group revenue decreased by 8.89% from the prior year delivering a total turnover of \$33,367,674 (FY19: \$36,624,771) in line with our expectations.

The NPAT result for the year, on a reported basis, was a profit of \$1,064,822 (FY19: loss of \$1,330,993). The profit was impacted by significant one-off adjustments including a non-cash impairment charge of \$723,120 against other non-current assets.

The net assets of the Group increased by \$105,160 from the prior year to \$8,155,961 (FY19: \$8,050,801). The Group was able to maintain a creditable equity ratio of 42.18% (FY19: 46.95%).

The Group generated strong cash flows from operating activities which increased 69.38% from the prior year to \$5,902,307 (FY19: \$3,484,564) whilst maintaining a sound working capital with current assets exceeding current liabilities by \$1,778,575.

The Directors resolved to pay a fully franked final dividend of 9.5 cents per share which will be paid to shareholders on 30 September 2020. The total dividend for FY20 is 14.5 cents fully franked. This represents a 63% payout ratio on FY20 underlying earnings (NPAT excluding net one-off non-cash impairments to other non-current assets).

### Year Ahead

FY21 is shaping to present both challenges and opportunities to Bendigo Telco. Whilst the Group will continue to invest in its people, processes, and products it will also make a significant investment in uplifting its core data network between Bendigo and Melbourne with ultra-high-speed, high-performance fibre-optic infrastructure.

The commissioning of this 100Gbps connection combined with our existing infrastructure will enable Bendigo to become a 'One Hundred Gigabit City' marking a transformational opportunity to enable digital connectivity which will drive innovation, attract new business across industry and support our regional economy and customer base.

The Board of Directors are confident that Bendigo Telco has the right assets, strategy, priorities, and partnerships in place to continue our objective of creating solid shareholder value and genuine strategic value for all our local markets.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

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

The events relating to COVID-19 have not had an adverse impact on either the operations or financial performance of the Group during this period. Given the uncertainty of the continually evolving circumstances, the longer-term impacts of COVID-19 are difficult to assess at this stage. The Group continues to monitor the situation.

Since the end of the financial year a fully franked final dividend in the amount of 9.5 cents per share was declared by the Board of Directors on 26 August 2020 which will be distributed to shareholders on 30 September 2020.

## **EVENTS AFTER THE REPORTING PERIOD**

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

## **FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES**

Disclosure of information relating to major development in the operations of the Group and the expected results of those operations in future financial years, which, in the opinion of the directors, will not unreasonably prejudice the interests of the Group, is contained in the Report by the Chairman and Acting Executive General Manager in the Concise Annual Report.

## **ENVIRONMENTAL ISSUES**

The group is not subject to any significant environmental regulation.

## CORPORATE GOVERNANCE STATEMENT

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

The Board of Bendigo Telco Limited have adopted the following principles of Corporate Governance. The policies may be viewed on the group website [www.bendigotelco.com.au](http://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 were Directors Rob Hunt, Graham Bastian, Rod Payne, Don Erskine and Greg Gillett.
3. A Share Trading policy which outlines directors and employees obligations in trading in its securities. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the Group's security price.
4. A Remuneration policy which sets out the terms and conditions for the Executive General Manager and other senior managers. The members of the Remuneration Committee were Directors Rob Hunt and Don Erskine.
5. A Continuous Disclosure policy which complies with the obligations imposed by National Stock Exchange (NSX) Listing Rules and the *Corporations Act 2001*. This policy requires immediate notification to the NSX of any information concerning the group, of which it is aware or becomes aware, which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the group shares.

### BOARD COMPOSITION

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

## DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred herein as the Group) consisting of Bendigo Telco Limited and its controlled entities for the financial year ended 30 June 2020. The information in the preceding operating and financial review forms part of this directors' report for the financial year ended 30 June 2020 and is to be read in conjunction with the following information:

### GENERAL INFORMATION

#### DIRECTORS

The following persons were directors of Bendigo Telco during or since the end of the financial year up to the date of this report:

Mr R Hunt (Chairman)	Mr R Payne
Mr G Bastian	Mr K Dole
Ms M O'Sullivan	Mr G Gillett
Mr D Erskine	Ms N Rooke
Mr J Selkirk	

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

#### DIVIDENDS PAID OR RECOMMENDED

##### Ordinary Dividends Paid:

	Cents	\$
Final – September 2019	7.0	543,045
Interim – March 2020	5.0	387,889
	<b>12.0</b>	<b>930,934</b>

##### Ordinary Dividends Declared:

Final - September 2020	9.5	736,989
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#### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

#### PROCEEDINGS ON BEHALF OF GROUP

No person has applied for leave of Court under section 237 of the *Corporations Act 2001* to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

## NON-AUDIT SERVICES

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

The Board of Directors, in accordance with advice from the Audit and Risk committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the following services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit and Risk committee prior to the commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with the APES 110: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or are payable to Andrew Frewin Stewart for non-audit services provided during the year ended 30 June 2020:

	\$
Share registry services	<u>19,012</u>
	<u><u>19,012</u></u>

## AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2020 has been received and can be found on page 16 of the financial report.

## OPTIONS

The Group has not issued any share options.

## INFORMATION ON DIRECTORS AND COMPANY SECRETARY

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

### Robert Hunt – AM, FAICD - Chairman

<b>Occupation</b>	Director / Investor
<b>Qualifications</b>	Fellow of the Australian Institute of Company Directors, 2003 Doctor of the University (honoris causa), LaTrobe University, 1999
<b>Experience</b>	Mr Hunt retired as Managing Director of Bendigo and Adelaide Bank on 3 July 2009 after 21 years as Chief Executive Officer. Mr Hunt is the architect of the <b>Community Bank</b> <sup>®</sup> model, and has been instrumental in the development of a range of Community Enterprise and Engagement models, now utilised by communities across Australia to provide key infrastructure and essential services through local commercial structures. These Enterprises provide communities with a framework, the cashflow, capacity and flexibility to address new economic opportunities.
<b>Interest in shares</b>	Indirect – Hunters Ridge Pty Ltd (Hunt Family Trust) 55,000 Shares Indirect – Hunters Ridge Pty Ltd (Rob & Annette Hunt Superannuation Fund) 458,758 Shares
<b>Special Responsibilities</b>	Chair of Remuneration Committee and Member of Audit and Risk Committee.
<b>Other Directorships &amp; Appointments</b>	Director, Apollo Bay Central District Community Bank since 2011; Director, BEUT Property Pty Ltd
<b>Honours and Awards</b>	Order of Australia Award /Member (AM) General Division, 2002; Paul Harris Fellowship Award, Rotary Club of Bendigo Sandhurst, 2000; Citizen of the Year Award, City of Greater Bendigo 1999; Key to the City Award, City of Greater Bendigo 2009.

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### Donald Erskine – Director

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

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**Graham Bastian – Director**

<b>Occupation</b>	Consultant
<b>Qualifications</b>	Dip Engineering - Civil (Swinburne), Dip Ed (Hawthorn State College)
<b>Experience</b>	<p>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.</p> <p>He then became the Regional Principal Consultant for Bendigo, the Principal of Golden Square Secondary College and Principal of Bendigo Senior Secondary College. Since this career change, Graham has been providing consultancy services to the Department of Education Central Office as well as many schools across the state. In addition, Graham serves as an independent member of the Audit Committee of the City of Greater Bendigo.</p>
<b>Interest in shares</b>	Direct – 0 Shares Indirect – Jeanette Bastian 2,000 Shares
<b>Special Responsibilities</b>	Member of Audit and Risk Committee
<b>Other Directorships</b>	Nil

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**Michelle O’Sullivan – Director**

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

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**Kevin Dole – Director**

<b>Occupation</b>	Consultant
<b>Qualifications</b>	Associate Diploma in Information Processing (Latrobe)
<b>Experience</b>	<p>Kevin has over 33 years in the technology industry with particular experience in Banking and finance.</p> <p>Throughout his career he has held a number of senior technical and leadership roles. He has considerable experience in large program delivery, due diligence for mergers and acquisitions, as well as delivery of change programs.</p> <p>In addition has considerable experience with vendor management and contract negotiation.</p>
<b>Interest in shares</b>	Direct – Nil
<b>Special Responsibilities</b>	Nil
<b>Other Directorships</b>	Nil

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**Rodney Payne – Director**

<b>Occupation</b>	Principal Harwood Andrews Lawyers
<b>Qualifications</b>	Bachelor of Law (Melbourne University)
<b>Experience</b>	Rod has been a lawyer in commercial practice for 35 years and has been a partner at Harwood Andrews since 2000. Rod was a director of Geelong Community Telco Pty Ltd and Vicwest Community Telco prior to the amalgamation of Vicwest with Bendigo Telco Ltd. In his legal practice Rod has undertaken a broad range of commercial work and in his role in Karingal and Karingal St Laurence has been involved in major developments and mergers.
<b>Interest in shares</b>	Indirect - Linrod Holdings Pty Ltd atf the Payne Investment Trust A/C 7,089 shares
<b>Special</b>	
<b>Responsibilities</b>	Member of Audit and Risk Committee
<b>Other Directorships</b>	Director - The Legal Lantern Group Director - Karingal St Laurence

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**Jonathan Selkirk – Director**

<b>Occupation</b>	Chief Financial Officer, Country Club Living Pty Ltd.
<b>Qualifications</b>	Bach. Business, Chartered Accountant, Graduate Australian Institute of Company Directors.
<b>Experience</b>	Jock has held executive roles across several industries including financial services, manufacturing, building and property development. Jock started his career in chartered accounting, then moved into banking & financial services in both Melbourne & London and was CFO at a Ballarat manufacturing and distribution business for 11 years prior to his current role. He has experience in driving business growth, governance, risk management, and people and culture development. He has also held several director roles in both the private and public sector. Jock is a mentor for the Leadership Ballarat & Western Region Program run by the Committee for Ballarat and is also actively involved in other community programs.
<b>Interest in shares</b>	Nil
<b>Special</b>	
<b>Responsibilities</b>	Nil
<b>Other Directorships</b>	Board member Ballarat and Clarendon College, Ballarat.

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**Gregory Gillett – Director**

<b>Occupation</b>	Retired
<b>Qualifications</b>	Senior Fellow of the Financial Services Institute of Australia.
<b>Experience</b>	Greg is a retired Bank Executive with 37 years of experience in the banking industry (20 years at NAB and 17 years at Bendigo Bank). The last 10 years of his working life being in Executive roles and the Bendigo Bank. Greg has held Executive roles covering Retail Banking, Marketing, Human Resources, Strategic Planning and Community Development. Greg has been a company Director of both private and publicly listed companies.
<b>Interest in shares</b>	Direct - 24,108 shares
<b>Special</b>	
<b>Responsibilities</b>	Chairman of Audit and Risk Committee
<b>Other Directorships</b>	Nil

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**Nicole Rooke – Director**

<b>Occupation</b>	Head of Corporate Strategy, Bendigo and Adelaide Bank Ltd
<b>Qualifications</b>	CPA, B Commerce
<b>Experience</b>	Nicole has over 13 years' experience in Financial Services and is currently Head of Corporate Strategy for Bendigo and Adelaide Bank.  Prior to working for the bank, Nicole was based in London and held financial and management accounting roles for Sempra Energy and Intelligent Engineering. Prior to this, Nicole worked as a public accountant and tax specialist for Pitcher Partners and was based in Melbourne.  Nicole's prior Directorship was with VRCLP from 2016 to 2018, a not-for-profit organisation focused on effective leadership for a vibrant and sustainable regional Victoria.
<b>Interest in shares</b>	Nil
<b>Special</b>	
<b>Responsibilities</b>	Nil
<b>Other Directorships</b>	Nil

**COMPANY SECRETARY**

The following person held the position of company secretary at the end of the financial year:

Mr Ken Belfrage FCA, GAICD, Dip. Bus.

Mr Belfrage is an experienced Company Director and Company Secretary who has extensive business, finance and general management skills including 34 years as a practicing public accountant.

**MEETINGS OF DIRECTORS**

During the financial year, 10 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

Directors	Directors' Meetings		Audit & Risk Committee		Remuneration Committee	
	No. eligible to attend	No. attended	No. eligible to	No. attended	No. eligible to attend	No. attended
Robert Hunt	10	10	4	4	1	1
Graham Bastian	10	10	4	4	-	-
Donald Erskine	10	8	4	3	1	1
Michelle O'Sullivan	10	10	-	-	-	-
Kevin Dole	10	9	-	-	-	-
Jonathan Selkirk	10	9	-	-	-	-
Rodney Payne	10	9	4	4	-	-
Gregory Gillett	10	10	4	4	-	-
Nicole Rooke	10	10	-	-	-	-

**DIRECTORS BENEFITS AND INTEREST IN CONTRACTS**

No director has received or become entitled to receive during or since the financial year, a benefit because of a contract made by the group with the director, a firm of which the director is a member or an entity in which the director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the group's accounts, prepared in accordance with the Corporate Regulations, or the fixed salary of full-time employees of the group, controlled entity or related body corporate other than interests and benefits disclosed at Note 29 to the Financial Statements.

## REMUNERATION REPORT

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

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

### Principles used to determine the nature and amount of remuneration

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

The Board's policy for determining the nature and amount of remuneration for KMP of the group is as follows:

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

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

KMP receive, at minimum a superannuation guarantee contribution required by the government, which is currently 9.5% of the individuals average weekly ordinary time earnings (AWOTE). Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to KMP is valued at the cost to the group and expensed. KMP are also entitled and encouraged to participate in the employee share plan to align directors' interests with shareholder interests. Shares given to KMP are expensed at the market price as listed on the National Stock Exchange at the date of granting of any shares under the employee share plan.

### Performance-based remuneration

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

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

## Directors

From the inception of Bendigo Telco Limited, all Directors who have served have done so free of charge. It was put to the Annual General Meeting in October 2007, and approved, that a payment of \$15,000 per director be made for each full year of service from 1 July 2007 onwards.

## Key Management Personnel

### (i) Directors

Robert Hunt	Chairman
Donald Erskine	Director
Graham Bastian	Director
Michelle O'Sullivan	Director
Kevin Dole	Director
Jonathan Selkirk	Director
Rodney Payne	Director
Gregory Gillett	Director
Nicole Rooke	Director

### (ii) Executives

Steven Wright	Chief Financial Officer (1 July 2019 to 4 March 2020), Acting Executive General Manager (5 March 2020 to 30 June 2020)
Jarrold Draper	Executive General Manager (1 July 2019 to 1 November 2019)
John Barlow	Acting General Manager - Operations
Kale Beesley	Acting General Manager - Technology (5 March 2020 to 30 June 2020)

## Group performance, shareholder wealth and director and executive remuneration

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

Analysis of the actual figures show consistent profits each year, with the exception of 2017 which dropped as a result of additional operational and acquisition costs associated with the implementation and consolidation of a business merger. 2019 net profits were impacted due to the non-cash impairment of goodwill and other intangibles. 2020 net profits were impacted due to the non-cash impairment of intangible assets as disclosed further in this report. Dividends paid to shareholders remain strong with an average dividend yield over the past five years of 7.69% fully franked. The Board is satisfied with the group's progress which can be attributed in part to the previously described remuneration policy and is satisfied with the overall trend in shareholder wealth over the past five years.

	2016	2017	2018	2019	2020
<b>Revenue</b>	\$22.8M	\$31.9M	\$35.4M	\$36.6M	\$33.4M
<b>EBITDA</b>	\$3.06M	\$3.08M	\$3.86M	\$1.28M	\$4.65M
<b>Net profit/(loss)</b>	\$1.29M	\$0.91M	\$1.22M	(\$1.33M)	\$1.06M
<b>Share price at year end</b>	\$2.04	\$2.10	\$1.95	\$1.40	\$1.15
<b>Dividends paid</b>	17.0 cents	13.0 cents	12.0 cents	12.0 cents	12.0 cents

**Details of remuneration for year ended 30 June 2020**

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

		Short-term benefits Cash Salary and Fees	Post-employment benefits Superannuation	TOTAL	Proportion of remuneration that is performance based %
Robert Hunt	2020	13,699	1,301	15,000	-
	2019	13,699	1,301	15,000	-
Graham Bastian	2020	15,000	-	15,000	-
	2019	15,000	-	15,000	-
Donald Erskine	2020	-	15,000	15,000	-
	2019	-	15,000	15,000	-
Michelle O'Sullivan	2020	13,699	1,301	15,000	-
	2019	13,699	1,301	15,000	-
Kevin Dole	2020	13,699	1,301	15,000	-
	2019	13,699	1,301	15,000	-
Jonathan Selkirk	2020	13,699	1,301	15,000	-
	2019	13,699	1,301	15,000	-
Rodney Payne	2020	15,000	-	15,000	-
	2019	15,000	-	15,000	-
Gregory Gillett	2020	13,699	1,301	15,000	-
	2019	13,699	1,301	15,000	-
Nicole Rooke	2020	13,699	1,301	15,000	-
	2019	3,425	325	3,750	-
Total	2020	112,194	22,806	135,000	-
	2019	101,920	21,830	123,750	-

(ii) **Executives** - The remuneration for each of the executive officers of the entity during the year was as follows:

		Short-term benefits		Post employment benefits	Share- based payment	Termination Benefits		Proportion of remuneration that is performance based %
		Salaries \$	Non-Cash Benefits \$	Super- annuation \$	Shares \$	Total \$	Total \$	
Jim Nielsen	2020	-	-	-	-	-	-	-
	2019	130,074	13,726	17,949	-	29,252	191,001	10
Adam Murdoch	2020	-	-	-	-	-	-	-
	2019	124,872	10,151	12,934	-	67,034	214,991	10
Jeffery Jordan	2020	-	-	-	-	-	-	-
	2019	183,480	13,274	17,503	-	105,311	319,568	-
Jason Sim	2020	-	-	-	-	-	-	-
	2019	101,216	-	7,908	-	43,588	152,712	13
Steven Wright	2020	200,276	-	17,861	-	-	218,137	11
	2019	182,026	-	16,006	-	-	198,032	13
Jarrod Draper	2020	67,800	-	6,632	-	20,250	94,682	-
	2019	235,989	-	17,829	-	-	253,818	30
John Barlow	2020	124,413	15,000	11,819	-	-	151,232	-
	2019	-	-	-	-	-	-	-
Kale Beesley	2020	120,076	15,000	11,407	-	-	146,483	-
	2019	-	-	-	-	-	-	-
Total	2020	512,565	30,000	47,719	-	20,250	610,534	
	2019	957,657	37,151	90,129	-	245,185	1,330,122	

This marks the end of the audited remuneration report.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors on 26 August 2020.



Robert Hunt

Chairman



Donald Erskine

Director



**Chartered Accountants**

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

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

As lead auditor for the audit of Bendigo Telco Ltd for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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

A handwritten signature in black ink, appearing to read 'Andrew Frewin Stewart'.

**Andrew Frewin Stewart**  
61 Bull Street, Bendigo Vic 3550  
Dated this 26<sup>th</sup> day of August 2020

A handwritten signature in black ink, appearing to read 'Joshua Griffin'.

**Joshua Griffin**  
Lead Auditor

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2020 \$	2019 \$
Revenue	3(a)	33,367,674	36,624,771
Cost of products sold		(16,652,702)	(19,839,571)
Other income	3(b)	50,000	11,149
Finance income	3(c)	5,693	12,509
Salaries and employee benefit costs		(7,660,919)	(8,431,776)
Occupancy and associated costs		(393,825)	(860,077)
General administration costs		(1,300,267)	(1,761,659)
Depreciation and amortisation costs	4(a)	(2,515,677)	(2,013,610)
Advertising and promotion costs		(202,744)	(245,354)
Systems costs		(1,773,281)	(1,651,554)
Borrowing costs	4(c)	(293,286)	(392,568)
Impairment losses	4(d)	<u>(723,120)</u>	<u>(2,352,967)</u>
Profit before income tax		1,907,546	(900,707)
Income tax expense	5	<u>(842,724)</u>	<u>(430,286)</u>
Net profit/(loss) for the year		1,064,822	(1,330,993)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		<u>1,064,822</u>	<u>(1,330,993)</u>
Total comprehensive income attributable to members of Bendigo Telco Limited		<u>1,064,822</u>	<u>(1,330,993)</u>
<b>Earnings per share</b>			
Basic earnings per share (cents)	9	13.73	(17.16)
Diluted earnings per share (cents)	9	13.73	(17.16)

**The accompanying notes form part of these financial statements**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 AS AT 30 JUNE 2020**

	Notes	2020 \$	2019 \$
<b>Current Assets</b>			
Cash and cash equivalents	10	4,120,844	1,868,943
Trade and other receivables	11	1,088,785	1,737,997
Prepayments		1,792,232	1,550,727
Inventories	12	104,701	190,581
Current tax assets	21(a)	-	418,816
<b>Total Current Assets</b>		<b>7,106,562</b>	<b>5,767,064</b>
<b>Non Current Assets</b>			
Property, plant and equipment	14	1,126,203	4,122,185
Right-of-use assets	15	5,372,539	-
Intangible assets	16	4,995,107	6,374,784
Deferred tax asset	21(b)	735,164	883,068
<b>Total Non Current Assets</b>		<b>12,229,013</b>	<b>11,380,037</b>
<b>TOTAL ASSETS</b>		<b>19,335,575</b>	<b>17,147,101</b>
<b>Current Liabilities</b>			
Trade and other payables	17	1,823,033	2,200,866
Borrowings	18	386,008	1,846,372
Lease Liabilities	19(a)	1,720,355	-
Provisions	20	987,396	871,468
Current tax liabilities	21(a)	411,195	-
<b>Total Current Liabilities</b>		<b>5,327,987</b>	<b>4,918,706</b>
<b>Non Current Liabilities</b>			
Borrowings	18	2,363,869	4,084,385
Lease Liabilities	19(b)	3,406,075	-
Provisions	20	81,683	93,209
<b>Total Non Current Liabilities</b>		<b>5,851,627</b>	<b>4,177,594</b>
<b>TOTAL LIABILITIES</b>		<b>11,179,614</b>	<b>9,096,300</b>
<b>NET ASSETS</b>		<b>8,155,961</b>	<b>8,050,801</b>
<b>EQUITY</b>			
Issued capital	22	7,040,580	7,069,308
Retained earnings		1,115,381	981,493
<b>TOTAL EQUITY</b>		<b>8,155,961</b>	<b>8,050,801</b>

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	Ordinary Share Capital \$	Retained Earnings \$	Total \$
<b>Balance at 1 July 2018</b>		7,104,001	3,243,420	10,347,421
<b>Comprehensive Income</b>				
Loss for the year		-	(1,330,993)	(1,330,993)
Other comprehensive income for the year		-	-	-
<b>Total comprehensive income for the year</b>		-	(1,330,993)	(1,330,993)
<b>Transaction with owners, in their capacity as owners, and other transfers</b>				
Dividends recognised for the year	8	-	(930,934)	(930,934)
Shares issued during the year		-	-	-
Cost of equity raised		(34,693)	-	(34,693)
<b>Total transactions with owners and other transfers</b>		(34,693)	(930,934)	(965,627)
<b>Balance at 30 June 2019</b>		<b>7,069,308</b>	<b>981,493</b>	<b>8,050,801</b>
<b>Balance at 1 July 2019</b>		7,069,308	981,493	8,050,801
<b>Comprehensive Income</b>				
Profit for the year		-	1,064,822	1,064,822
Other comprehensive income for the year		-	-	-
<b>Total comprehensive income for the year</b>		-	1,064,822	1,064,822
<b>Transaction with owners, in their capacity as owners, and other transfers</b>				
Dividends recognised for the year	8	-	(930,934)	(930,934)
Shares issued during the year		-	-	-
Cost of equity raised		(28,728)	-	(28,728)
<b>Total transactions with owners and other transfers</b>		(28,728)	(930,934)	(959,662)
<b>Balance at 30 June 2020</b>		<b>7,040,580</b>	<b>1,115,381</b>	<b>8,155,961</b>

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2020 \$	2019 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		37,226,302	40,827,569
Payments to suppliers and employees		(31,172,931)	(36,744,492)
Lease payments not included in lease liabilities	4(b)	(67,767)	-
Interest paid on lease liabilities		(122,469)	-
Interest paid on borrowings		(101,712)	(166,317)
Income tax paid		135,191	(444,705)
Interest received		5,693	12,509
<b>Net cash provided by operating activities</b>	<b>26</b>	<b>5,902,307</b>	<b>3,484,564</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of intangible assets		(7,515)	(126,545)
Purchase of property, plant and equipment		(358,723)	(511,255)
Proceeds from sale of property, plant and equipment		43,000	29,848
<b>Net cash used in investing activities</b>		<b>(323,238)</b>	<b>(607,952)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Cost of shares issued		(28,728)	(34,693)
Repayment of lease liabilities		(1,957,365)	(824,735)
Repayment of bank loans		(410,141)	(1,162,761)
Dividends paid		(930,934)	(930,934)
<b>Net cash used in financing activities</b>		<b>(3,327,168)</b>	<b>(2,953,123)</b>
<b>Net increase / (decrease) in cash held</b>		<b>2,251,901</b>	<b>(76,511)</b>
Cash and cash equivalents at beginning of financial year		1,868,943	1,945,454
<b>Cash and cash equivalents at end of the financial year</b>	<b>10</b>	<b>4,120,844</b>	<b>1,868,943</b>

The accompanying notes form part of these financial statements

## NOTES TO THE FINANCIAL REPORT

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Preparation

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and the International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### (a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets and liabilities of the parent (Bendigo Telco Limited) and the wholly owned subsidiaries. A subsidiary is an entity the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of the subsidiary are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation.

#### Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of a business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

#### (b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### **(c) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of twelve months or less, and bank overdrafts. Bank overdrafts are reported within short-term financial liabilities in current liabilities on the Statement of Financial Position.

#### **(d) Trade receivables**

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in paragraph 63 of AASB 15: Revenue from Contracts with Customers. As trade receivables are managed solely to collect contractual cash flows and the contractual terms within the financial asset give rise to cash flows that are solely payments of principal outstanding on specified dates, trade receivables are subsequently measured at amortised cost. Trade receivables are generally due for settlement within 14 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off.

A provision for impairment of trade receivables is established in accordance with AASB 9 Financial Instruments using the simplified method. In measuring the expected credit loss, a provision matrix for trade receivables is used taking into consideration various data to get to an expected credit loss (ie diversity of customer base, appropriate groupings of historical loss experience, etc).

#### **(e) Inventories**

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on the basis of the cost at time of purchase.

#### **(f) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated on either a straight line or diminishing value basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<b>Asset Class</b>	<b>Depreciation Rate (%)</b>
Office Furniture & Equipment:	
Advertising Collateral	7.5
Furniture & Fittings	7.5 - 37.5
Office Equipment	7.5 - 40
Office Computer Equipment	20 - 66.67
Satellite Equipment	50
Software	33 - 80
Retail/Display Equipment	11.25
Installation/Service Equipment	11.25 - 30
 Motor Vehicles	 18.75 - 25
 Leasehold	 2.5 - 40
Telecommunications & Infrastructure:	
Infrastructure	7.59
Data Centre	2.5 - 50
Network Computer & Infrastructure	8 - 50
Connectivity Links	7.5 - 50
Cloud	14.29 - 50

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Profit or Loss and Other Comprehensive Income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**(g) Impairment of Assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Profit or Loss and Other Comprehensive Income.

Impairment testing is also performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## **(h) Employee Benefits**

### **Short-term employee benefits**

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the Statement of Financial Position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the Statement of Financial Position.

### **Other long-term employee benefits**

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its Statement of Financial Position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

### **Retirement benefit obligations**

#### *Defined contribution superannuation benefits.*

All employees of the Group receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's Statement of Financial Position.

### **Termination benefits**

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of: (a) the date when the Group can no longer withdraw the offer for termination benefits; and (b) when the Group recognises costs for restructuring pursuant to AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as the other long-term employee benefits.

## **(i) Revenue**

Revenue from contracts with customers under AASB 15: Revenue from Contracts with Customers arises from goods and services sold as part of ordinary activities. The group applies the five-step approach to customer arrangements to identify the contract for accounting purposes (i.e. to determine the amount and timing of revenue to be recognised).

Revenue from recurring Voice, Data Networks, Broadband, IT Services, Hardware and Installations, Data Centre and Cloud is recognised at the time that the good or service is provided, with the exception of those items set out below. Revenue from the customer is recognised at a point in time when control of the good or service passes to the customer.

### **Mobile Repayment Option (MRO)**

- Customer acquisition of mobile handset which is repaid by the customer over a 24 month contract.
- Revenue recognised when control of the mobile handset is passed to the customer.

### **Modem provided with DSL/NBN plan**

- Customer provided with a compatible modem when signing to a DSL/NBN 24 month plan.
- Revenue recognised when control of the modem is passed to the customer.

### **Router provided with a VPN solution**

- Customer provided with a compatible router when signing a 12, 24 or 36 month contract.
- As customer does not take ownership of the router, the related service revenue is recognised over the term of the contract.

### **Sales commissions**

- Sales commissions are provided as incentives for sales. These commissions vary depending on the product sold.
- Costs are capitalised and the expense recognised equally over the term of the contract.

## **(j) Leases (the Group as lessee)**

### **Lease recognition**

The Group has applied AASB 16: Leases (AASB 16) retrospectively without restatement of comparatives. The Group has elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition as allowed under the transition provisions. As a result, there was no impact on retained earnings.

Therefore the comparative information has not been restated and continues to be presented under AASB 117: Leases. The details of accounting policies under AASB 117 are disclosed separately since they are different from those under AASB 16. Refer to note 1(v) for further information regarding the impact of the change in accounting policy.

### **In the current reporting period**

#### **The Group as a lessee**

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (ie a lease with a remaining lease term of 12 months or less) and leases of low-value assets (ie fair value less than \$10,000) are recognised as an operating expenses on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using only the most current known index or rate;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments, based on an index or rate take effect, the lease liability is remeasured and adjusted against the right-of-use asset.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

#### **The Group as a Lessor**

The Group is not entered into any contracts whereby the Group is considered a lessor.

#### **In the comparative reporting period**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the group are classified as finance leases.

Finance leases are capitalised, recording an asset and a liability at the lower of the amount equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

## **(k) Financial Instruments**

### **Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the Group commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

### **Classification and subsequent measurement**

#### *Financial liabilities*

Financial instruments are subsequently measured at:

- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit and loss if the financial liability is:

- a contingent consideration of an acquirer in a business combination to which AASB 3: Business Combinations applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability is held for trading if:

- it is incurred for the purpose of repurchasing or repaying in the near term;
- part of a portfolio where there is an actual pattern of short-term profit taking; or
- a derivative financial instrument (except for a derivative that is in a financial guarantee contract or a derivative that is in an effective hedging relationship).

Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

The change in fair value of the financial liability attributable to changes in the issuer's credit risk is taken to other comprehensive income and is not subsequently reclassified to profit or loss. Instead, it is transferred to retained earnings upon derecognition of the financial liability. If taking the change in credit risk in other comprehensive income enlarges or creates an accounting mismatch, then these gains or losses should be taken to profit or loss rather than other comprehensive income.

A financial liability cannot be reclassified.

### *Financial assets*

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

Measurement is on the basis of two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset that meets the following conditions is subsequently measured at fair value through other comprehensive income:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates;
- the business model for managing the financial assets comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The Group initially designates a financial instrument as measured at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (often referred to as “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- it is in accordance with the documented risk management or investment strategy, and information about the groupings was documented appropriately, so that the performance of the financial liability that was part of a group of financial liabilities or financial assets can be managed and evaluated consistently on a fair value basis;
- it is a hybrid contract that contains an embedded derivative that significantly modifies the cash flows otherwise required by the contract.

The initial designation of the financial instruments to measure at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

### **Derecognition**

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the Statement of Financial Position.

### *Derecognition of financial liabilities*

A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### *Derecognition of financial assets*

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All of the following criteria need to be satisfied for derecognition of financial asset:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Group no longer controls the asset (ie the Group has no practical ability to make a unilateral decision to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a debt instrument classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity which was elected to be classified under fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

### **Impairment**

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost or fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the following approach to impairment, as applicable under AASB 9: Financial Instruments:

#### *Simplified approach*

This approach is applicable to trade receivable or contract assets that result from transactions within the scope of AASB 15: Revenue from Contracts with Customers and which do not contain a significant financing component.

In measuring the expected credit loss, a provision matrix for trade receivables is used taking into consideration various data to get to an expected credit loss (ie diversity of customer base, appropriate groupings of historical loss experience, etc).

#### *Recognition of expected credit losses in financial statements*

At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the Statement of Profit or Loss and Other Comprehensive Income.

## **(l) Intangibles**

### **Goodwill**

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

### **Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

Computer software development costs have been assessed as having a useful life of three years and will be tested annually for impairment and carried at cost less accumulated amortisation and impairment losses.

Projects that have not been completed by the end of the financial year have not yet been assessed for a useful life, this will be completed at the end of the project, therefore costs for these projects are recorded in the Statement of Financial Position without any amortisation. Once a useful life is established, amortisation will commence, and the projects will also be tested annually for impairment and carried at cost less accumulated amortisation and impairment losses.

## **(m) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Statement of Financial Position are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the Statement of Financial Position.

Cash flows are included in the statement of cash flows on a gross basis, except for the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO which are disclosed as operating cash flows.

## **(n) Provisions**

Provisions are recognised when the group has a legal or constructive obligation as a result of past transactions or other past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

## **(o) Issued Capital**

Issued and paid up capital is recognised at the fair value of the consideration received by the group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**(p) Comparative Information**

Where required by Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Right-of-use assets were disclosed as Property, Plant and Equipment in the Statement of Financial Position, and were presented within the notes in the same line that would be used if the underlying assets were owned, in the 31 December 2019 Interim Financial Report. For the 30 June 2020 Financial Report, the right-of-use assets have been disclosed separately in the Statement of Financial Position, as the directors believe this provides more transparency of these transactions.

<b>Statement of Financial Position</b>	<b>Initial Interim Classification</b>	<b>Interim Reclassified</b>
Property, plant & equipment	6,752,827	5,537,690
Right-of-use assets	-	1,215,137
	<u>6,752,827</u>	<u>6,752,827</u>

**(q) Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

**Key Estimates – Impairment**

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

**Impairment of Intangible – VicWest Community Telco Customer List**

Vicwest Community Telco was purchased September 2016. As at 30 June 2020, the carrying value of our assets in the Vicwest Community Telco CGUs was assessed for impairment. The recoverable amount of these CGUs were determined using a 'value in use' calculation and it was lower than their carrying value. As a result a \$305,500 impairment loss was recognised in the Statement of Profit or Loss and Other Comprehensive Income, writing down the intangible to \$1,127,426. The impairment was recorded in "Impairment losses" within the Statement of Profit or Loss and Other Comprehensive Income. The impairment relates to the consumer and small business market segment portion of the customer list. Diminished revenues, lower margins, and higher cost-to-serve has led to a change in strategy for this market segment from growth to protect. It is projected that the revenues and margins from this market segment will continue to decrease into the future.

**Impairment of Intangible – Bendigo Bank Telco Customer List**

Bendigo Bank Telco was purchased March 2018. As at 30 June 2020, the carrying value of our assets in the Bendigo Bank Telco CGUs was assessed for impairment. The recoverable amount of these CGUs were determined using a 'value in use' calculation and it was lower than their carrying value. As a result a \$417,620 impairment loss was recognised in the Statement of Profit or Loss and Other Comprehensive Income, writing down the intangible to \$70,083. The impairment was recorded in "Impairment losses" within the Statement of Profit or Loss and Other Comprehensive Income. The impairment relates to the consumer and small business market segment portion of the customer list. Diminished revenues, lower margins, and higher cost-to-serve has led to a change in strategy for this market segment from growth to protect. It is projected that the revenues and margins from this market segment will continue to decrease into the future.

### **Key Judgments – Provision for impairment of internally generated software**

Included in the intangibles at 30 June 2020 are amounts that equate to \$81,038 which relate to internally generated software. This investment is required due to the customisation and complexity of the Group's network and systems. The investment in this internally generated software is critical to the underlying platforms that allow the Group to offer and support key products. Based on this assessment the internally generated software is not impaired.

### **Key Judgments – Revenue**

#### *Performance obligations under AASB 15*

To identify performance obligations under AASB 15, the promise must be sufficiently specific to be able to determine when the obligation is satisfied. Management exercises judgement to determine whether the promise is sufficiently specific by taking into account any conditions specified in the arrangement, explicit or implicit, regarding the promised goods or services. In making this assessment, management includes the nature/type, cost/value, quantity and the period of transfer related to the goods or services promised.

### **Key Judgments – Leases**

#### *Lease term and option to extend under AASB 16*

The lease term is defined as the non-cancellable period of a lease together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and also periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The options that are reasonably going to be exercised is a key management judgement that the Group will make.

The Group determines the likelihood to exercise the options on a lease-by-lease basis, looking at various factors such as which assets are strategic and which are key to future strategy of the Group, in addition to the following:

- If there are significant penalties to terminate (or not to extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

All leases have been calculated including all renewal options, as it is reasonably certain that the leases will be extended (or not terminated). The lease term is reassessed if an option is not exercised or the group becomes obliged to not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

#### *Incremental borrowing rate under AASB 16*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Group's leases, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- makes adjustments specific to the lease, eg term, country, currency and security.

**(r) Segment Reporting**

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different for those segments operating in other economic environments. Refer to Note 25.

**(s) Share Based Payments**

The Group measures the goods and services received by equity-settled share based payment transactions as an increase in equity, directly, at the fair value of the goods or services rendered, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services rendered, the Group shall measure their value, and the corresponding increase in equity, indirectly by reference to the fair value of the equity instruments granted.

If the equity instruments granted vest immediately, are unconditional and are not required to complete a specified period of service, the Group shall presume that the services rendered by the counterparty as consideration for the equity instruments have been received. On grant date, the Group recognises the services rendered in full, with a corresponding increase in equity.

If the equity instruments do not vest until the counterparty completes a specified period of service, the Group shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the vesting period. The Group accounts for these services as they are rendered by the counterparty during the vesting period, with a corresponding increase to equity.

Share-based payment arrangements in which the group received goods or services as consideration for its own equity instruments are accounted for as equity-settled share based payment transactions, regardless of how the equity instruments are obtained by the Group.

**(t) Trade payables**

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(u) Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

#### **(v) New and Amended Accounting Policies Adopted by the Group**

The Group has applied AASB 16: Leases which has become applicable for the current financial reporting period. The nature and effect of the changes as a result of the adoption of this new accounting standard is described below.

##### **Initial Application of AASB 16: Leases**

The Group has applied AASB 16: Leases retrospectively without restatement of comparatives. The Group has elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition as allowed under the transition provisions. As a result, there was no impact on retained earnings. The comparative information has not been restated and continues to be reported under AASB 117: Leases.

Prior to 1 July 2019, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019 leases are recognised as right-to-use assets with corresponding lease liabilities at the date at which the leased asset is available for use by the Group.

The Group has recognised a lease liability and right-of-use asset for all leases (with the exception of short-term and low-value leases) recognised as operating leases under AASB 117: Leases where the Group is the lessee.

Lease liabilities are measured at the present value of the remaining lease payments. The Group's incremental borrowing rate as at 1 July 2019 was used to discount the lease payments.

##### **Practical expedients applied**

The following practical expedients have been used by the Group in applying AASB 16 for the first time:

- for a portfolio of leases that have reasonably similar characteristics, a single discount rate has been applied.
- leases that have a remaining lease term of less than 12 months as at 1 July 2019 have been accounted for in the same way as short-term leases.
- the use of hindsight to determine lease terms on contracts that have options to extend or terminate.
- applying AASB 16 to leases previously identified as leases under AASB 117: Leases and Interpretation 4: Determining whether an arrangement contains a lease without reassessing whether they are, or contain, a lease at the date of initial application.
- not applying AASB 16 to leases previously not identified as containing a lease under AASB 117 and Interpretation 4.

### Reclassification of lease arrangements

The following summary indicates the reclassification of property, plant and equipment to right-of-use asset on 1 July 2019 due to implementation of AASB16:

Category	Carrying amount under AASB 117 \$	Adjustment \$	Carrying amount under AASB 16 \$
Reclassified from:			
- Property, plant and equipment - leased Motor Vehicles	63,013	(63,013)	-
- Property, plant and equipment - leased Network Infrastructure	2,188,431	(2,188,431)	-
- Property, plant and equipment - leased Cloud Infrastructure	621,398	(621,398)	-
	<u>2,872,842</u>	<u>(2,872,842)</u>	<u>-</u>
Reclassified to:			
- Right-of-use asset - leased Motor Vehicles	-	63,013	63,013
- Right-of-use asset - leased Network Infrastructure	-	2,188,431	2,188,431
- Right-of-use asset - leased Cloud Infrastructure	-	621,398	621,398
	<u>-</u>	<u>2,872,842</u>	<u>2,872,842</u>

### Measurement of lease liabilities at 1 July 2019

The Group measured lease liabilities at 1 July 2019 as follows:

Description	2019 \$
Operating lease commitments disclosed at 30 June 2019	1,550,293
Discounted using the lessee's incremental borrowing rate at the date of initial application	(316,362)
Add:	
- finance lease liabilities recognised as at 30 June 2019	2,770,738
- adjustments as a result of different treatment of extension and termination options	1,887,160
- adjustments relating to changes in the index or rate affecting variable payments	182,387
Less:	
- low value leases not recognised as a liability	(72,235)
Lease liability recognised as at 1 July 2019	<u>6,001,981</u>
Of which are:	
- current lease liabilities	1,816,526
- non current lease liabilities	<u>4,185,455</u>
	<u>6,001,981</u>

The Group's weighted average incremental borrowing rate on 1 July 2019 applied to the lease liabilities was 4%. The difference between the undiscounted amount of operating lease commitments at 30 June 2019 of \$1,550,293 and the discounted operating lease commitments as at 1 July 2019 of \$1,233,931 was \$316,362, which is due to discounting the operating lease commitments at the Group's incremental borrowing rate.

**Measurement of right-of-use assets at 1 July 2019**

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

<b>Description</b>	2019 \$
Property, plant and equipment	(2,872,842)
Right-of-use assets	6,104,085
Borrowings	2,770,738
Lease liabilities	<u>(6,001,981)</u>
Net adjustment to retained earnings on 1 July 2019	<u>-</u>

**Impact on the Statement of Financial Position for the year ended 30 June 2020**

<b>Right-of-use assets:</b>	2020 \$
Initial recognition on adoption	6,104,085
Add:	
- additional right-of-use assets recognised	568,403
- remeasurement adjustments	1,729
Less:	
- depreciation expense	(1,289,056)
- disposals	(12,622)
Right-of-use assets at 30 June 2020	<u>5,372,539</u>

**Lease liabilities:**

Initial recognition on adoption	6,001,981
Add:	
- additional lease liabilities recognised	1,080,083
- remeasurement adjustments	1,729
- borrowing costs	202,745
Less:	
- lease repayments	(2,160,108)
Lease liabilities at 30 June 2020	<u>5,126,430</u>

**Impact on the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2020**

<b>Revenue and expenditure:</b>	2020 \$
Decrease in the operating lease expense	(499,980)
Increase in borrowing costs on lease liabilities	122,469
Increase in right-of-use asset depreciation expense	462,752
<b>Profit and loss:</b>	
Decrease in profit before income tax expense	<u>85,241</u>

## 2. PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

### Statement of Financial Position

	2020	2019
	\$	\$
<b>ASSETS</b>		
Current assets	7,106,562	5,767,064
Non-current assets	12,229,013	11,380,037
<b>TOTAL ASSETS</b>	<b>19,335,575</b>	<b>17,147,101</b>
<b>LIABILITIES</b>		
Current liabilities	5,327,987	4,918,706
Non-current liabilities	5,851,627	4,177,594
<b>TOTAL LIABILITIES</b>	<b>11,179,614</b>	<b>9,096,300</b>
<b>EQUITY</b>		
Issued Capital	7,040,580	7,069,308
Retained Earnings	1,115,381	981,493
<b>TOTAL EQUITY</b>	<b>8,155,961</b>	<b>8,050,801</b>

### Statement of Profit or Loss and Other Comprehensive Income

Total profit/(loss)	1,064,822	(1,330,993)
Total comprehensive income	1,064,822	(1,330,993)

### Guarantees

During the reporting period, no guarantees exist between the parent and subsidiaries.

### Contingent liabilities

At 30 June 2020, no contingent liabilities exist in relation to the subsidiaries.

### Contractual commitments

At 30 June 2020, no capital commitments exist in relation to the subsidiaries.

## 3. REVENUE AND OTHER INCOME

	2020	2019
	\$	\$
<b>(a) Revenue:</b>		
Revenue from contracts with customers	33,367,674	36,624,771
	<u>33,367,674</u>	<u>36,624,771</u>
<b>(b) Other income:</b>		
Profit on sale of assets	-	11,149
Government Grants	50,000	-
	<u>50,000</u>	<u>11,149</u>
<b>(c) Finance income:</b>		
Interest received	5,693	12,509
	<u>5,693</u>	<u>12,509</u>
	<u>33,423,367</u>	<u>36,648,429</u>

**4. EXPENSES**

<b>(a) Depreciation and amortisation expense</b>	2020	2019
	\$	\$
Depreciation of non-current assets:		
Office furniture & equipment	118,510	275,827
Motor vehicles	43,296	83,367
Leasehold	58,924	62,725
Telecommunications & infrastructure	341,819	865,247
Amortisation of intangibles	664,072	726,444
	<u>1,226,621</u>	<u>2,013,610</u>
Depreciation of right-of-use assets:		
Motor vehicles	20,246	-
Telecommunications & infrastructure	806,058	-
Buildings	462,752	-
	<u>1,289,056</u>	<u>-</u>
	<u>2,515,677</u>	<u>2,013,610</u>

**(b) Recognition exemption**

The Group has elected to exempt leases from recognition where the underlying asset is assessed as low-value or the lease term is 12 months or less.

	2020	2019
	\$	\$
Expenses relating to low-value leases	63,000	-
Expenses relating to short-term leases	4,767	-
	<u>67,767</u>	<u>-</u>

Expenses relating to leases exempt from recognition are included in occupancy and borrowing expenses.

The Group pays for the right-to-use computer equipment. The underlying assets have been assessed as low value and exempted from recognition.

The Group's lease for office space at Patterson Street, Launceston has expired and is operating on a month to month basis. The Group has elected to exempt from recognition leases with a lease term expiring within 12 months of initial application upon transition.

<b>(c) Other expenses</b>	2020	2019
	\$	\$
Borrowing expenses:		
Interest paid	224,181	166,317
Other	6,105	5,139
Equipment lease expenses	63,000	221,112
	<u>293,286</u>	<u>392,568</u>
Bad debts	42,571	200,825
Impairment allowance	(56,052)	(96,091)
	<u>(13,481)</u>	<u>104,734</u>
Rental expense on operating leases:		
Buildings	4,767	471,940
Loss of sale of assets	2,563	-

**(d) Impairment losses**

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

**Impairment of Intangible – VicWest Community Telco Customer List**

Vicwest Community Telco was purchased September 2016. As at 30 June 2020, the carrying value of our assets in the Vicwest Community Telco CGUs was assessed for impairment. The recoverable amount of these CGUs were determined using a ‘value in use’ calculation and it was lower than their carrying value. As a result a \$305,500 impairment loss was recognised in the Statement of Profit or Loss and Other Comprehensive Income, writing down the intangible to \$1,127,426. The impairment was recorded in “Impairment losses” within the Statement of Profit or Loss and Other Comprehensive Income. The impairment relates to the consumer and small business market segment portion of the customer list. Diminished revenues, lower margins, and higher cost-to-serve has led to a change in strategy for this market segment from growth to protect. It is projected that the revenues and margins from this market segment will continue to decrease into the future.

**Impairment of Intangible – Bendigo Bank Telco Customer List**

Bendigo Bank Telco was purchased March 2018. As at 30 June 2020, the carrying value of our assets in the Bendigo Bank Telco CGUs was assessed for impairment. The recoverable amount of these CGUs were determined using a ‘value in use’ calculation and it was lower than their carrying value. As a result a \$417,620 impairment loss was recognised in the Statement of Profit or Loss and Other Comprehensive Income, writing down the intangible to \$70,083. The impairment was recorded in “Impairment losses” within the Statement of Profit or Loss and Other Comprehensive Income. The impairment relates to the consumer and small business market segment portion of the customer list. Diminished revenues, lower margins, and higher cost-to-serve has led to a change in strategy for this market segment from growth to protect. It is projected that the revenues and margins from this market segment will continue to decrease into the future.

	2020	2019
	\$	\$
Impairment of Goodwill - Bendigo Communications purchase	-	916,491
Impairment of Goodwill - Vic West Community Telco purchase	-	944,004
Impairment of prepaid advertising - McMedia purchase	-	417,985
Impairment of Intangible - Wireless Broadband project	-	74,487
Impairment of Intangible – VicWest Community Telco Customer List	305,500	-
Impairment of Intangible – Bendigo Bank Telco Customer List	417,620	-
	723,120	2,352,967

**5. TAX EXPENSE**

	2020	2019
	\$	\$
a. The components of tax expense comprise:		
Current tax	723,548	282,584
Deferred tax	119,176	147,702
	842,724	430,286
b. The prima facie tax on profit/(loss) from activities before income tax is reconciled to the income tax expenses as follows:		
Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 27.5% (2019: 27.5%)	524,575	(247,694)
Add:		
Tax effect of:		
- Movement in provision for impairment	(15,414)	(24,918)
- Movement in provision for employee benefits	28,711	(9,696)
- Movement in deferred tax	119,176	147,702
- Capital allowances	2,726	2,095
- Non-deductible expenses	468,775	623,135
- AASB 15 & 9 adjustments	53,086	-
	657,060	738,318
Less:		
Tax effect of:		
- Capital raising costs	28,727	28,727
- Non taxable Government Grants	13,750	-
- Right-of-use rental payments	137,495	-
	179,972	28,727
Carried Forward Losses	158,939	60,326
2017 & 2018 tax adjustment on consolidation	-	(28,715)
	158,939	31,611
Income tax attributable to entity	842,724	430,286

**6. KEY MANAGEMENT PERSONNEL COMPENSATION**

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2020.

The totals of remuneration paid to KMP of the Group during the year are as follows:

	2020	2019
	\$	\$
Short-term employee benefits	654,759	1,096,728
Post-employment benefits	70,525	111,959
Other long-term benefits	-	-
Termination benefits	20,250	245,185
Share-based payments	-	-
	745,534	1,453,872

**Short-term employee benefits**

These amounts include fees and benefits paid to the non-executive Chair and all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.

**Post-employment benefits**

These amounts are the current-year's costs of superannuation contributions made during the year and post-employment life insurance benefits.

**Other long-term benefits**

These amounts represent long service leave benefits accruing during the year, long-term disability benefits and deferred bonus payments.

**Termination benefits**

Amounts paid to KMP during the year upon termination of employment from the Group.

**Share-based payments**

These amounts represent the expense related to the participation of KMP in employee share schemes as measured by the fair value of the shares granted on grant date.

Further information in relation to KMP remuneration can be found in the directors' report.

## KMP Shareholdings

The number of ordinary shares in Bendigo Telco Limited held by each KMP of the Group during the financial year is as follows:

<b>30 June 2020</b>	<b>Balance at beginning of year</b>	<b>Granted as remuneration during year</b>	<b>Other changes during year</b>	<b>Balance at end of year</b>
Robert Hunt	473,758	-	40,000	513,758
Graham Bastian	2,000	-	-	2,000
Donald Erskine	939,326	-	-	939,326
Michelle O'Sullivan	44,711	-	-	44,711
Kevin Dole	-	-	-	-
Jonathan Selkirk	-	-	-	-
Rodney Payne	7,089	-	-	7,089
Gregory Gillett	24,108	-	-	24,108
Nicole Rooke	-	-	-	-
Jim Nielsen	2,518	-	-	2,518
Adam Murdoch	3,418	-	(3,418)	-
Jeff Jordan	12,500	-	(12,500)	-
Jason Sim	-	-	-	-
Steven Wright	3,238	-	-	3,238
Jarrold Draper	-	-	-	-
John Barlow	2,821	-	-	2,821
Kale Beesley	3,623	-	-	3,623
	<b>1,519,110</b>	<b>-</b>	<b>24,082</b>	<b>1,543,192</b>

<b>30 June 2019</b>	<b>Balance at beginning of year</b>	<b>Granted as remuneration during year</b>	<b>Other changes during year</b>	<b>Balance at end of year</b>
Robert Hunt	473,758	-	-	473,758
Graham Bastian	2,000	-	-	2,000
Donald Erskine	939,326	-	-	939,326
Michelle O'Sullivan	44,711	-	-	44,711
Andrew Watts	-	-	-	-
Kevin Dole	-	-	-	-
Jonathan Selkirk	-	-	-	-
Rodney Payne	7,089	-	-	7,089
Gregory Gillett	24,108	-	-	24,108
Nicole Rooke	-	-	-	-
Jim Nielsen	2,518	-	-	2,518
Adam Murdoch	3,418	-	-	3,418
Jeff Jordan	12,500	-	-	12,500
Jason Sim	-	-	-	-
Steven Wright	3,238	-	-	3,238
Stephen Culpitt	4,301	-	-	4,301
Jarrold Draper	-	-	-	-
	<b>1,516,967</b>	<b>-</b>	<b>-</b>	<b>1,516,967</b>

**7. AUDITORS' REMUNERATION**

	2020	2019
	\$	\$
Remuneration of the auditor for:		
Auditing the financial report	83,320	79,080
Taxation services	-	10,478
Share registry services	19,012	19,764
	102,332	109,322

**8. DIVIDENDS PAID AND PROPOSED**

	2020	2019
	\$	\$
Distributions paid:		
2019 Final fully franked ordinary dividend of 7.0 (2018: 8.0) cents per share franked at the rate of 27.5% (2018: 27.5%)	543,045	620,623
2020 Interim fully franked ordinary dividend of 5.0 (2019: 4.0) cents per share franked at the rate of 27.5% (2019: 27.5%)	387,889	310,311
	930,934	930,934
Total dividends (cents) per share for the period	12.00	12.00
a. Proposed Final 2020 fully franked ordinary dividend of 9.5 (2019:7.0) cents per share franked at the rate of 27.5% (2019: 27.5%)	736,989	543,045

After the reporting date, the above dividend was declared. The amount has not been recognised as a liability as at 30 June 2020 but will be brought to account in the 2021 financial year.

b. Balance of franking account at year-end adjusted for franking credits arising from:

- dividends recognised as receivables and franking debits arising from payment of proposed dividends	1,005,044	1,533,711
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	(279,548)	(205,983)

**9. EARNINGS PER SHARE**

	2020	2019
	\$	\$
a. Reconciliation of earnings to profit or loss		
Profit/(loss) for the year	1,064,822	(1,330,993)
Earnings used in calculation of basic and diluted EPS	1,064,822	(1,330,993)
b. Weighted average number of ordinary shares		
Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS	7,757,784	7,757,784

**10. CASH AND CASH EQUIVALENTS**

	2020	2019
	\$	\$
Cash at bank and on hand	4,004,514	1,768,943
Short term bank deposits	116,330	100,000
	4,120,844	1,868,943

Cash on hand is non interest bearing.

Cash at bank earned interest rates between 0.0% and 0.20% (2019: 0.20% and 0.70%) depending on the level of funds from time to time. Cash at bank is subject to interest rate risk, as it earns interest at floating rates. In 2020 the average floating interest rates for the Group were 0.21% (2019: 0.68%).

The effective interest rate on short term bank deposits was 1.70% (2019: 2.30%); these deposits had an average maturity of 360 days.

**Reconciliation of cash**

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the Statement of Financial Position as follows:

	2020	2019
	\$	\$
Cash and cash equivalents	4,120,844	1,868,943

## 11. TRADE AND OTHER RECEIVABLES

	2020	2019
	\$	\$
Trade debtors	425,413	1,034,254
Other receivables	670,502	766,925
Provision for impairment	(7,130)	(63,182)
	1,088,785	1,737,997

### Impairment of receivables

The average credit period on sale of goods and rendering of services is 12 days (2019: 17 days). No interest is charged on trade receivables exceeding normal credit terms. An allowance has been made for estimated non-recoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

Ageing of trade receivables is as follows:

a. Ageing of past due	2020	2019
	\$	\$
0 – 30 days	361,152	903,897
30 – 60 days	54,385	57,119
60 – 90 days	2,723	3,738
Over 91 days	7,153	69,500
	425,413	1,034,254

b. The following table shows the movement in lifetime expected credit loss that has been recognised for trade debtors in accordance with the simplified approach set out in AASB 9: Financial Instruments

Lifetime expected credit loss: credit impaired	2020	2019
	\$	\$
Opening balance (2020: AASB 9 2019: AASB 139)	63,182	153,792
Adjustments for AASB 9	-	5,481
Net measurement of loss allowance	(13,481)	104,734
Amounts written off as uncollectable	(42,571)	(200,825)
Amounts recovered during the year	-	-
Balance at the end of the year	7,130	63,182

A provision for impairment of trade receivables is established in accordance with AASB 9 Financial Instruments using the simplified method. In measuring the expected credit loss, a provision matrix for trade receivables is used taking into consideration various data to get to an expected credit loss (ie diversity of customer base, appropriate groupings of historical loss experience, etc).

Ageing	Expected default rate	Gross carrying amount	Credit loss allowance
Current	0.36%	361,152	1,300
31 - 60 days past due	4.10%	54,385	2,230
61 - 90 days past due	22.44%	2,723	611
90+ days past due	41.79%	7,153	2,989
Total		425,413	7,130

12. INVENTORIES	2020	2019
	\$	\$
Inventory	104,701	190,581
	104,701	190,581

### 13. INTEREST IN SUBSIDIARIES

#### a. Information about Principal Subsidiaries

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

Name of Subsidiaries	Principal Place of Business	Ownership Interest Held by the Group		Proportion of Non-controlling Interests	
		2020	2019	2020	2019
		%	%	%	%
BCT Shepparton Pty Ltd	Shepparton, Australia	100	100	-	-
Vicwest Community Telco Ltd	Geelong & Ballarat, Australia	100	100	-	-

Subsidiaries financial statements used in preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

#### b. Significant Restrictions

There are no restrictions over the Group's ability to access or use assets, and settle liabilities, of the Group.

#### 14. PROPERTY PLANT AND EQUIPMENT

	2020	2019
	\$	\$
<b>Office, Furniture, Equipment &amp; Vehicles</b>		
At Cost	2,399,033	2,225,783
Accumulated depreciation	<u>(2,152,357)</u>	<u>(2,059,314)</u>
	<u>246,676</u>	<u>166,469</u>
<b>Motor Vehicles</b>		
At Cost	335,061	494,159
Accumulated depreciation	<u>(238,403)</u>	<u>(261,026)</u>
	<u>96,658</u>	<u>233,133</u>
<b>Leasehold</b>		
At Cost	695,397	690,808
Accumulated depreciation	<u>(573,314)</u>	<u>(514,390)</u>
	<u>122,083</u>	<u>176,418</u>
<b>Telecommunications &amp; Infrastructure</b>		
At Cost	4,746,382	8,317,866
Accumulated depreciation	<u>(4,029,639)</u>	<u>(4,715,744)</u>
Accumulated impairment losses	<u>(55,957)</u>	<u>(55,957)</u>
	<u>660,786</u>	<u>3,546,165</u>
<b>Total Property, Plant &amp; Equipment</b>	<u><u>1,126,203</u></u>	<u><u>4,122,185</u></u>

##### a. Movement in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Office, Furniture, Equipment	Motor Vehicles	Leasehold	Telecommunica tions & Infrastructure	TOTAL
Balance at 1 July 2018	413,444	328,633	224,251	2,604,215	3,570,543
Additions	35,418	-	14,892	1,807,197	1,857,507
Disposals	(6,566)	(12,133)	-	-	(18,699)
Depreciation	(275,827)	(83,367)	(62,725)	(865,247)	(1,287,166)
Impairment	-	-	-	-	-
Balance at 30 June 2019	<u>166,469</u>	<u>233,133</u>	<u>176,418</u>	<u>3,546,165</u>	<u>4,122,185</u>
Reallocated on initial application of AASB16	-	(63,013)	-	(2,809,829)	(2,872,842)
Additions	201,492	-	4,589	266,269	472,350
Disposals	(2,775)	(30,166)	-	-	(32,941)
Depreciation	(118,510)	(43,296)	(58,924)	(341,819)	(562,549)
Impairment	-	-	-	-	-
Balance at 30 June 2020	<u><u>246,676</u></u>	<u><u>96,658</u></u>	<u><u>122,083</u></u>	<u><u>660,786</u></u>	<u><u>1,126,203</u></u>

## 15. RIGHT-OF-USE ASSETS

Right-of-use assets are measured at amounts equal to the present value of enforceable future payments on the adoption date, adjusted for lease incentives and initial direct costs.

The Group has elected to present right-of-use assets measured, in right-of-use assets rather than the underlying asset class. Accordingly, leased assets recognised in the Statement of Financial Position have been reallocated to right-of-use assets from property, plant and equipment.

The Group derecognises right-of-use assets at the termination of the lease period or when no future economic benefits are expected to be derived from the use of the underlying asset.

	2020 \$	2019 \$
<b>Leased Motor Vehicles</b>		
At Cost	89,961	-
Accumulated depreciation	(59,816)	-
	30,145	-
<b>Leased Telecommunications &amp; Infrastructure</b>		
At Cost	4,406,156	-
Accumulated depreciation	(1,833,982)	-
	2,572,174	-
<b>Leased Buildings</b>		
At Cost	3,232,972	-
Accumulated depreciation	(462,752)	-
	2,770,220	-
<b>Total Right-Of-Use Assets</b>	5,372,539	-

### a. Movement in carrying amounts

Movement in the carrying amounts for each class of right-of-use assets between the beginning and the end of the current financial year

	Motor Vehicles	Telecommunications & Infrastructure	Buildings	TOTAL
Balance at 1 July 2019	-	-	-	-
Reallocated on initial application of AASB 16	63,013	2,809,829	-	2,872,842
Recognised on adoption of AASB 16	-	-	3,231,243	3,231,243
Remeasurement adjustments	-	-	1,729	1,729
Additions	-	568,403	-	568,403
Disposals	(12,622)	-	-	(12,622)
Depreciation	(20,246)	(806,058)	(462,752)	(1,289,056)
Impairment	-	-	-	-
Balance at 30 June 2020	30,145	2,572,174	2,770,220	5,372,539

## 16. INTANGIBLES

	2020	2019
	\$	\$
<b>Goodwill</b>		
Cost	5,344,282	5,344,282
Accumulated Impairment Losses	(1,860,496)	(1,860,496)
Net Carrying Value	3,483,786	3,483,786
<b>Customer List</b>		
Cost	3,160,559	3,160,559
Accumulated Amortisation	(1,239,930)	(862,255)
Accumulated Impairment Losses	(723,120)	-
Net Carrying Value	1,197,509	2,298,304
<b>Internally Generated Software</b>		
Cost	1,857,384	1,849,869
Accumulated Amortisation	(1,776,346)	(1,585,917)
Net Carrying Value	81,038	263,952
<b>Project Development</b>		
Cost	889,140	889,140
Accumulated Amortisation	(581,879)	(485,911)
Accumulated Impairment Losses	(74,487)	(74,487)
Net Carrying Value	232,774	328,742
<b>Total Intangibles</b>	4,995,107	6,374,784

### a. Movement in carrying amounts

	Goodwill	Customer List	Internally Generated Software	Project Development	TOTAL
<b>Year ended 30 June 2019</b>					
Balance at beginning of year	5,344,282	2,675,330	409,952	480,102	8,909,666
Additions	-	-	81,065	45,480	126,545
Disposals	-	-	-	-	-
Amortisation charge	-	(377,026)	(227,065)	(122,353)	(726,444)
Impairment losses	(1,860,496)	-	-	(74,487)	(1,934,983)
	3,483,786	2,298,304	263,952	328,742	6,374,784
<b>Year ended 30 June 2020</b>					
Balance at beginning of year	3,483,786	2,298,304	263,952	328,742	6,374,784
Additions	-	-	7,515	-	7,515
Disposals	-	-	-	-	-
Amortisation	-	(377,675)	(190,429)	(95,968)	(664,072)
Impairment losses	-	(723,120)	-	-	(723,120)
	3,483,786	1,197,509	81,038	232,774	4,995,107

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the Statement of Profit or Loss and Other Comprehensive Income. Goodwill has an indefinite useful life.

**Impairment Disclosures**

Goodwill was allocated to cash-generating units (CGU's) acquired through business combinations in 2016.

	2020	2019
	\$	\$
Acquired CGU VicWest (2016) <sup>b</sup>	3,483,786	3,483,786
Total Goodwill	3,483,786	3,483,786

The recoverable amounts of the cash generating units above is determined based on value in use calculations. The value in use is calculated based on the present value of cash flow projections over an 8-year period with the period extending beyond 3 years extrapolated using an estimated growth rate. The cash flows are discounted using the yield of a 5-year weighted average cost of capital (WACC) at the beginning of the budget period.

The following key assumptions were used in the value-in-use calculations:

	Discount Rate		Growth Rate	
	2020	2019	2020	2019
Vicwest segment	6%	6%	(11%)	(4%)

Management has based the value in use calculations on budgets for the reporting CGU. These budgets use historical weighted average growth rates to project revenue across all aspects of the operational CGU. Costs are calculated taking into account historical gross margins as well as estimating weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the CGU's operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular CGU.

**17. TRADE AND OTHER PAYABLES**

	2020	2019
	\$	\$
Unsecured liabilities:		
Trade payables	1,077,964	1,376,272
Sundry payables and accrued expenses	745,069	824,594
	1,823,033	2,200,866

## 18. BORROWINGS

	2020	2019
	\$	\$
Current		
Secured by fixed and floating registered mortgage debenture		
Bank loans	386,008	407,268
Lease liability	-	1,439,104
Total current borrowings	386,008	1,846,372
Non current		
Secured by fixed and floating registered mortgage debenture		
Bank Loans	2,363,869	2,752,751
Lease liability	-	1,331,634
Total non-current borrowings	2,363,869	4,084,385

The group has three facilities provided by the Bendigo and Adelaide Bank Limited.

1. Commercial Business (Overdraft) Facility to a maximum value of \$500,000.
2. Lease liabilities are secured by the underlying leased assets.

Both facilities are secured by a Registered First Company Debenture charge from Bendigo Telco Limited in its own right.

3. Business Loans, with the following conditions:

Bendigo & Adelaide Bank may conduct a review of Bendigo Telco's financial position each 12 months. If Bendigo & Adelaide Bank determine that there has been an adverse change in the financial position of Bendigo Telco, the facility may be terminated.

Evidence is to be provided to Bendigo & Adelaide Bank every 6 months showing that all statutory payments are up to date.

Management accounts are to be provided to Bendigo & Adelaide Bank on a half yearly basis (within 60 days of period end).

On a consolidated basis Equity (Equity/Total Assets) is to be measured half yearly and maintained at a minimum ratio of 40%.

On a consolidated basis a Debt Service Coverage Ratio is to be measured half yearly and maintained at greater than 1.5 times. This ratio is to be calculated on basis of EBITDA less tax (provisioned at 30% of calculated net profit for period)/contracted finance commitments.

Annual audited Group consolidated financial statements to be made available to Bendigo & Adelaide Bank within 180 days of financial year end.

Interest rates will immediately convert to a market rate of interest if there is a material change in ownership of Bendigo Telco Ltd. A material change in ownership is defined as any existing or new shareholder (excluding Bendigo & Adelaide Bank) exceeding 20% shareholding and/or Bendigo Telco listing on the ASX or taking action to list on the ASX.

## 19. LEASE LIABILITIES

Lease liabilities were measured at amounts equal to the present value of enforceable future payments of the term reasonably expected to be exercised, discounted at the appropriate incremental borrowing rate on the adoption date. The discount rate used on recognition was 4.00%.

The discount rate used in calculating the present value of enforceable future payments takes into account the particular circumstances applicable to the underlying leased assets (including the amount, lease term, economic environment, and other relevant factors).

The Group has applied judgement in estimating the remaining lease term including the effects of any extension or termination options reasonably expected to be exercised, applying hindsight where appropriate.

### Lease portfolio

Prior to 30 June 2019, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. As a result, finance leases which were previously disclosed as property, plant and equipment have been reclassified to right-of-use assets upon adoption.

The Group's lease portfolio includes:

McLaren Street, Bendigo, Vic	The lease agreement is a non-cancellable lease with an initial term of five years which commenced on 01/07/2017. The lease has two further five year extension options available. The Group is reasonably certain to exercise the options.
Williamson Street, Bendigo, Vic	The lease agreement is a non-cancellable lease with an initial term of five years which commenced on 01/07/2017. The lease has two further five year extension options available. The group is reasonably certain to exercise the options.
Edwards Road, Bendigo, Vic	The lease agreement is a non-cancellable lease with an initial term of five years which commenced on 01/09/2018. There are no extension options.
Piper Road, Bendigo, Vic	The lease agreement is a non-cancellable lease with an initial term of three years which commenced on 15/03/2018. The lease has one further three year extension options available. The Group is reasonably certain to exercise the option.
Rutland Street, Geelong, Vic	The lease agreement is a non-cancellable lease with an initial term of five years which commenced on 01/09/2015. The Group adopted the agreement 01/09/2016 upon Scheme of Arrangement with VicWest. There are no extension options.
Peel Street, Ballarat, Vic	The lease agreement is a non-cancellable lease with an initial term of five years which commenced on 01/12/2017. There are no extension options.
Murray Street, Hobart, Tas	The lease agreement is a non-cancellable lease with an initial term of five years which commenced on 01/11/2016. The lease has two further four year extension options available. The Group is reasonably certain to exercise the options.
Network Infrastructure	The lease agreement is a non-cancellable lease with a term of five years which commenced on 10/08/2015.
Cloud Storage Infrastructure	The lease agreement is a non-cancellable lease with a term of four years which commenced on 10/03/2017.
Cloud Storage Infrastructure	The lease agreement is a non-cancellable lease with a term of three years which commenced on 31/03/2018.

Cloud Infrastructure	The lease agreement is a non-cancellable lease with a term of three years which commenced in 20/07/2018.
Network Infrastructure	The lease agreement is a non-cancellable lease with a term of three years which commenced in 01/02/2019.
Cloud Infrastructure	The lease agreement is a non-cancellable lease with a term of three years which commenced in 20/09/2019.
Network Maintenance	The lease agreement is a non-cancellable lease with a term of three years which commenced in 06/04/2020.
Network Infrastructure	The lease agreement is a non-cancellable lease with a term of three years which commenced in 30/06/2020.

The Group assesses at the lease commencement date whether it is reasonably certain to exercise extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

<b>a) Current lease liabilities</b>	2020 \$	2019 \$
Telecommunications & Infrastructure lease liabilities	1,370,648	-
Unexpired interest	(48,762)	-
	<u>1,321,886</u>	-
Building lease liabilities	505,371	-
Unexpired interest	(106,902)	-
	<u>398,469</u>	-
	<u><u>1,720,355</u></u>	-
 <b>b) Non-current lease liabilities</b>	 2020 \$	 2019 \$
Telecommunications & Infrastructure lease liabilities	970,346	-
Unexpired interest	(21,263)	-
	<u>949,083</u>	-
Building lease liabilities	2,941,003	-
Unexpired interest	(484,011)	-
	<u>2,456,992</u>	-
	<u><u>3,406,075</u></u>	-
 <b>c) Maturity analysis</b>	 2020 \$	 2019 \$
Not later than 12 months	1,876,019	-
Between 12 months and 5 years	2,367,158	-
Greater than 5 years	1,544,191	-
Total undiscounted lease payments	<u>5,787,368</u>	-
Unexpired interest	(660,938)	-
Present value of lease liabilities	<u><u>5,126,430</u></u>	-

## 20. PROVISIONS

	2020	2019
	\$	\$
Current		
Employee Benefits		
Annual Leave	444,845	368,889
Long Service Leave	542,551	502,579
	987,396	871,468
Non Current		
Employee Benefits		
Long Service Leave	81,683	93,209
	81,683	93,209

### Provision for Employee Benefits

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion of this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion of this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been discussed in Note 1(h).

## 21. TAX ASSETS AND LIABILITIES

	2020	2019
	\$	\$
a. Current tax		
Income tax payable/(refundable)	411,195	(418,816)
b. Deferred Tax Assets		
Balance as at 30 June	735,164	883,068
Represented by tax effect of:		
- Provision for impaired debts	4,886	17,375
- Provision for annual leave	122,332	101,444
- Provision for long service leave	171,664	163,842
- Capital allowances	35,986	33,261
- Capital raising costs deductible	10,248	36,881
- Right-of-use asset and lease liability	23,441	-
- Carried forward losses	366,607	530,265
	735,164	883,068

## 22. ISSUED CAPITAL

	No. of Shares	2020 \$	2019 \$
Fully paid ordinary shares at beginning of period	7,757,784	7,841,558	7,841,558
Less cost of equity raised - IPO	-	(284,199)	(284,199)
Less cost of equity raised - Scheme of arrangement	-	(516,779)	(488,051)
	<u>7,757,784</u>	<u>7,040,580</u>	<u>7,069,308</u>

## 23. CAPITAL AND LEASING COMMITMENTS

### (a) Finance Lease Commitments

	2020 \$	2019 \$
Payable minimum lease payments:		
No later than 12 months	-	1,504,119
Between 12 months and 5 years	-	1,351,909
Minimum lease payments	-	2,856,028
Less future finance charges	-	(85,290)
Present value of minimum lease payments	<u>-</u>	<u>2,770,738</u>

#### Leasing arrangements

Finance leases relate to Property Plant & Equipment, with lease terms of either three or five years. The economic entity has options to purchase the equipment for a nominal amount at the conclusion of the lease arrangements.

### (b) Operating Lease Commitments

Following adoption of AASB 16, all lease commitment information and amounts for the financial year ending 30 June 2020 can now be found in 'Lease liabilities' (Note 19).

Non-cancellable operating leases contracted for but not recognised in the financial statements

	2020 \$	2019 \$
Payable minimum lease payments:		
No later than 12 months	-	509,828
Between 12 months and 5 years	-	1,040,465
	<u>-</u>	<u>1,550,293</u>

### (c) Capital Expenditure Commitments

	2020 \$	2019 \$
Capital expenditure commitments contracted for:		
Cloud Infrastructure	454,607	309,000
	<u>454,607</u>	<u>309,000</u>
Payable:		
No later than 12 months	151,536	145,667
Between 12 months and 5 years	303,071	163,333
	<u>454,607</u>	<u>309,000</u>

## 24. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

## 25. 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 two divisions, Business and Enterprise (B&E) and Consumer and Small Business (CSB). The breakdown of revenue has also been disclosed by division and 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 year ended 30 June 2020 approximately 35.0% (2019: 32.8%) of Bendigo Telco's external revenue was derived from sales to one customer (2019: one customer).

<b>Revenue by division and product set for the period ending 30 June 2020</b>	B&E \$	CSB \$
<b>Revenue from sales of services recognised over time</b>		
Voice	7,110,093	2,054,758
Mobile	941,391	1,895,165
Data Networks	10,437,810	-
Broadband	931,049	3,088,952
IT Services	226,114	-
Data Centre	3,037,176	6,361
Cloud	2,027,911	32,790
Other	91,343	80,257
	<u>24,802,887</u>	<u>7,158,283</u>
<b>Revenue from sales of goods recognised at a point in time</b>		
Mobile	29,166	58,716
Broadband	12,493	41,450
Hardware and Installations	1,167,678	152,694
	<u>1,209,337</u>	<u>252,860</u>
<b>Revenue by division and product set for the period ending 30 June 2019</b>		
	B&E \$	CSB \$
<b>Revenue from sales of services recognised over time</b>		
Voice	8,771,612	2,645,939
Mobile	1,071,779	2,467,294
Data Networks	11,148,606	-
Broadband	838,463	3,417,749
IT Services	231,305	-
Data Centre	3,069,670	6,360
Cloud	1,654,218	31,485
Other	72,614	160,937
	<u>26,858,267</u>	<u>8,729,764</u>
<b>Revenue from sales of goods recognised at a point in time</b>		
Mobile	40,146	92,417
Broadband	18,135	73,921
Hardware and Installations	747,663	88,116
	<u>805,944</u>	<u>254,454</u>

### Assets & Liabilities

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

**26. CASH FLOW INFORMATION**

	2020	2019
	\$	\$
Reconciliation of net cash provided by operating activities with		
Profit/(loss) after income tax	1,064,822	(1,330,993)
Non-cash flows in profit:		
Depreciation and amortisation	2,515,677	2,013,610
Loss / (Profit) on sale of assets	2,563	(11,149)
Impairment loss on goodwill and intangibles	723,120	2,352,967
Change in assets and liabilities		
(Increase)/decrease in assets and Increase/(decrease) in liabilities		
Receivables	649,212	54,330
Prepayments	156,549	862,870
Inventories	85,880	6,938
Deferred tax asset	147,904	182,395
Accounts payable	(377,833)	(414,332)
Provisions	104,402	(35,258)
Taxation	830,011	(196,814)
Net cash flow from operating activities	5,902,307	3,484,564

**27. EVENTS AFTER THE REPORTING PERIOD**

Since the end of the financial year a final dividend in the amount of 9.5 cents per share was declared by the Board of Directors on 26 August 2020 which will be distributed to shareholders on 30 September 2020.

**28. RETIREMENT BENEFITS AND SUPERANNUATION PAYMENTS**

	2020	2019
	\$	\$
Amounts of a prescribed benefit given during the year by the Group or a related party to a director or prescribed superannuation fund in connection with the retirement from a prescribed office.	Nil	Nil

## 29. DIRECTORS RELATED PARTY DISCLOSURES

The names of directors who have held office during the financial year are:

Robert Hunt	Kevin Dole
Don Erskine	Jonathan Selkirk
Graham Bastian	Rodney Payne
Michelle O'Sullivan	Gregory Gillett
Nicole Rooke	

No director or related entity has entered in to a material contract with the group.

Directors Shareholdings	2020 No.	2019 No.
Robert Hunt	513,758	473,758
Graham Bastian	2,000	2,000
Donald Erskine	939,326	939,326
Michelle O'Sullivan	44,711	44,711
Kevin Dole	-	-
Jonathan Selkirk	-	-
Rodney Payne	7,089	7,089
Gregory Gillett	24,108	24,108
Nicole Rooke	-	-

### 30. FINANCIAL RISK MANAGEMENT

#### (a) Financial Risk Management Policies

The group'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 group operations.

The group'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 group's overall risk management programme focuses on the unpredictability of the 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.

- (i) Market Risk – the group has no exposure to any transactions denominated in a currency other than Australian dollars.
- (ii) Price Risk – the group is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The group is not exposed to commodity price risk.
- (iii) Credit Risk – the group has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history and credit rating.
- (iv) Liquidity Risk – the group maintains prudent liquidity management by maintaining sufficient cash and the availability of funding from credit facilities.
- (v) 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 group has mitigated risk on long-term interest-bearing liabilities by negotiating fixed rate contracts.

The accounting policies including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:

<b>Recognised</b>	<b>Accounting Policies</b>	<b>Terms and Conditions</b>
<i>Financial assets</i>		
Notes, coin and cash at bank	Notes, coin and cash at bank are stated at cost and any interest is taken up as income on an accrual basis.	These items are cash or are readily convertible to cash.
Accounts Receivable – Debtors	As per AASB 9, an expected credit loss model is applied. To reflect changes in credit risk, this expected credit loss model requires the Group to account for expected credit loss since initial recognition.	Trade receivables are generally due for settlement within 14 days.
<i>Financial liabilities</i>		
Creditors and Accruals	Liabilities are recognised for amounts to be paid in the future for goods and services.	Trade creditors are normally settled on 30 day terms, or in accordance with agreement with individual creditors.

**(b) Financial Instruments**

**Financial instrument composition and maturity analysis**

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

	Notes	Fixed Interest Rate Maturing			
		Weighted Average Effective Interest		Floating Interest Rate	
		2020 %	2019 %	2020 \$	2019 \$
<b>Financial Assets</b>					
Cash or Cash Equivalents	10	-	-	4,004,514	1,768,943
Short-term Deposits	10	1.70	2.30	116,330	100,000
Accounts Receivable - Debtors	11	-	-	-	-
<b>Total Financial Assets</b>		<b>1.70</b>	<b>2.30</b>	<b>4,120,844</b>	<b>1,868,943</b>
<b>Financial Liabilities</b>					
Creditors & Accruals	17	-	-	-	-
Bank Loans	18	0.25	1.93	-	-
Finance Leases	18	-	4.16	-	-
Lease Liabilities	19	4.00	-	-	-
<b>Total Financial Liabilities</b>		<b>4.25</b>	<b>6.09</b>	<b>-</b>	<b>-</b>
<b>Within 1 Year</b>					
		2020 \$	2019 \$	2020 \$	2019 \$
<b>Financial Assets</b>					
Cash or Cash Equivalents	10	-	-	-	-
Short-term Deposits	10	-	-	-	-
Accounts Receivable - Debtors	11	-	-	-	-
<b>Total Financial Assets</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities</b>					
Creditors & Accruals	17	-	-	-	-
Bank Loans	18	386,008	407,268	863,562	1,250,902
Finance Leases	18	-	1,504,119	-	1,351,909
Lease Liabilities	19	1,876,019	-	2,367,158	-
<b>Total Financial Liabilities</b>		<b>2,262,027</b>	<b>1,911,387</b>	<b>3,230,720</b>	<b>2,602,811</b>
<b>Over 5 years</b>					
		2020 \$	2019 \$	2020 \$	2019 \$
<b>Financial Assets</b>					
Cash or Cash Equivalents	10	-	-	-	-
Short-term Deposits	10	-	-	-	-
Accounts Receivable - Debtors	11	-	-	1,088,785	1,737,997
<b>Total Financial Assets</b>		<b>-</b>	<b>-</b>	<b>1,088,785</b>	<b>1,737,997</b>
<b>Financial Liabilities</b>					
Creditors & Accruals	17	-	-	1,823,033	2,200,866
Bank Loans	18	1,500,307	1,501,849	-	-
Finance Leases	18	-	-	-	-
Lease Liabilities	19	1,544,191	-	-	-
<b>Total Financial Liabilities</b>		<b>3,044,498</b>	<b>1,501,849</b>	<b>1,823,033</b>	<b>2,200,866</b>

	Notes	Total	
		2020 \$	2019 \$
<b>Financial Assets</b>			
Cash or Cash Equivalents	10	4,004,514	1,768,943
Short-term Deposits	10	116,330	100,000
Accounts Receivable - Debtors	11	1,088,785	1,737,997
<b>Total Financial Assets</b>		<b>5,209,629</b>	<b>3,606,940</b>
<b>Financial Liabilities</b>			
Creditors & Accruals	17	1,823,033	2,200,866
Bank Loans	18	2,749,877	3,160,019
Finance Leases	18	-	2,770,738
Lease Liabilities	19	5,126,430	-
<b>Total Financial Liabilities</b>		<b>9,699,340</b>	<b>8,131,623</b>

Creditors and accruals are expected to be paid as follows:

	2020 \$	2019 \$
Less than 6 months	1,823,033	2,200,866
6 months to 1 year	-	-
1 – 5 years	-	-
Over 5 years	-	-
	<b>1,823,033</b>	<b>2,200,866</b>

### (c) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of Bendigo Telco which have been recognised on the Statement of Financial Position is the carrying amount net of any provisions for impairment.

Bendigo Telco has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history and credit rating.

#### Exposure to Credit Risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Notes	Carrying Amount	
		2020 \$	2019 \$
Cash or Cash Equivalents	10	4,120,844	1,868,943
Trade & Other Receivables	11	1,088,785	1,737,997
		<b>5,209,629</b>	<b>3,606,940</b>

The Group's entire exposure to credit risk for Trade Receivables was attributable to customers located in Australia.

**(d) Liquidity Risk**

The following are the contractual maturities of financial liabilities for the Group:

30 June 2020	Notes	Carrying Amount \$	Contracted Cash Flows \$	1 year or less \$	1-5 years \$	Over 5 years \$
<b>Financial Liabilities</b>						
Trade and other payables	17	1,077,964	1,077,964	1,077,964	-	-
Bank Loans	18	2,749,877	2,749,877	386,008	863,562	1,500,307
Lease Liabilities	19	5,126,430	5,787,368	1,876,019	2,367,158	1,544,191
<b>Total financial liabilities</b>		<b>8,954,271</b>	<b>9,615,209</b>	<b>3,339,991</b>	<b>3,230,720</b>	<b>3,044,498</b>

Lease Liabilities have been entered into subsequent to balance date.

**(e) Fair Values**

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Notes	Total Carrying Amount per Statement of Financial Position		Aggregate Net Fair Values	
		2020 \$	2019 \$	2020 \$	2019 \$
<b>Financial assets</b>					
Cash or cash equivalents	10	4,004,514	1,768,943	4,004,514	1,768,943
Short-term bank deposits	10	116,330	100,000	116,330	100,000
Accounts receivable - debtors	11	1,088,785	1,737,997	1,088,785	1,737,997
<b>Total financial assets</b>		<b>5,209,629</b>	<b>3,606,940</b>	<b>5,209,629</b>	<b>3,606,940</b>
<b>Financial liabilities</b>					
Creditors and accruals	17	1,823,033	2,200,866	1,823,033	2,200,866
Bank Loans	18	2,749,877	3,160,019	2,749,877	3,160,019
Finance Leases	18	-	2,770,738	-	2,770,738
Lease Liabilities	19	5,126,430	-	5,126,430	-
<b>Total financial liabilities</b>		<b>9,699,340</b>	<b>8,131,623</b>	<b>9,699,340</b>	<b>8,131,623</b>

The following methods and assumptions are used to determine the net fair values of Financial Assets and Financial Liabilities:

**Recognised Financial Instruments**

Cash and Short Term Investments	These financial instruments have a short term to maturity. Accordingly it is considered that carrying amounts reflect fair values.
Receivable and Creditors and Accruals	Carrying amounts reflect fair values.
Long Term Investments	Carrying amounts reflect fair values.

## (f) Sensitivity Analysis

### Interest Rate Risk

The group has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

#### *Interest Rate Sensitivity Analysis*

At 30 June 2020, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2020	2019
	\$	\$
Change in profit		
Increase in interest rate by 2%	59,898	38,144
Decrease in interest rate by 2%	(59,898)	(38,144)
Change in equity		
Increase in interest rate by 2%	59,898	38,144
Decrease in interest rate by 2%	(59,898)	(38,144)

## 31. REGISTERED OFFICE/PRINCIPAL PLACES OF BUSINESS

### Registered Office

23 McLaren Street, Bendigo, Victoria.

### Principal Places of Business

Bendigo Telco Office – 23 McLaren Street, Bendigo, Victoria.

Bendigo Telco Business Advisory Centre – 113 Williamson Street, Bendigo, Victoria.

Data Centre - 121 Edwards Road, Bendigo, Victoria.

VicWest Ballarat Office - 39 Peel Street, Ballarat, Victoria.

VicWest Geelong Office - Unit 3, 2-6 Rutland Street, Newtown, Victoria.

Tastel Hobart Office - Lv 9, 39 Murray Street, Hobart, Tasmania.

Tastel Launceston Office - Suite 2, Level 1, 39 Paterson Street, Launceston, Tasmania

33 Piper Street, Bendigo, Victoria.

### DIRECTORS' DECLARATION

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

1. the financial statements and notes of the group are in accordance with the *Corporations Act 2001*, and:
  - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with the International Financial Reporting Standards (IFRS); and
  - b. give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended on that date of the consolidated group;
2. in the director's opinion there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable;
3. the directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Executive General Manager and Chief Financial Officer; and
4. the audited remuneration report set out in the Directors Report (as part of the remuneration report), for the year ended 30 June 2020, comply with section 300A of the *Corporations Act 2001* and the Corporations Regulation 2001.

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

On behalf of the directors



Robert Hunt  
Chairman



Donald Erskine  
Director

Signed on 26 August 2020



**Chartered Accountants**

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

### Report on the audit of the financial statements

#### Our opinion

In our opinion, the financial report of Bendigo Telco Ltd, is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the group's financial position as at 30 June 2020 and of its performance for the year ended on that date and
- ii. complying with Australian Accounting Standards and the *Corporations Act 2001*.

#### What we have audited

Bendigo Telco Ltd's (the group) financial report comprises the:

- ✓ Statement of financial position as at 30 June 2020
- ✓ Statement of profit or loss and other comprehensive income for the year then ended
- ✓ Statement of changes in equity for the year then ended
- ✓ Statement of cash flows for the year then ended
- ✓ Notes comprising a summary of significant accounting policies and other explanatory notes
- ✓ The directors' declaration of the entity.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were most significant in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report, including in relation to these matters. Accordingly, our audit included performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.



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Key audit matter	How our audit addressed the matter
<b>Impairment of goodwill and intangible assets</b>	
<p>Given the changing nature of the industry in which the Group operates, there is a risk that there could be a material impairment to goodwill and intangible asset balances.</p> <p>Determination as to whether or not impairment relating to an asset or Cash Generating Unit (CGU) is present involves significant judgement about the future cash flows and plans for these assets and CGUs.</p> <p>The Group's disclosures about goodwill will specifically explain that small changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future.</p>	<p>We completed the following audit procedures in response to the identified Key Audit Matter:</p> <ol style="list-style-type: none"> <li>1 Evaluated the impairment calculations including testing of the recoverable amount of the CGU.</li> <li>2 Assessed the reasonableness of the cash flow projection used in the impairment model as well as the Group's historical ability to achieve forecasts.</li> <li>3 Evaluated the reasonableness of key assumptions used in the impairment model including the discount rate, terminal growth rates and forecast growth assumptions.</li> <li>4 Performed sensitivity analysis around the key drivers of the cash flow projection.</li> <li>5 Considered the likelihood of change in key assumptions (individually or collectively) that would be required for the CGU to be impaired.</li> <li>6 Evaluated the adequacy of impairments that had been recognised during the financial year.</li> <li>7 Evaluated the adequacy of disclosure included in Note 16 of the financial statements.</li> </ol>
<b>Revenue recognition</b>	
<p>There are significant judgement areas relating to revenue recognition. These are:</p> <ul style="list-style-type: none"> <li>▪ accounting for new products and plans including multiple element arrangements</li> <li>▪ accounting for large and complex service contracts.</li> </ul> <p>The accuracy and completeness of amounts recorded as revenue is an inherent industry risk due to the complexity of billing systems, the complexity of products and services, and the combination of products sold and price changes in the year. The complexity of the billing systems also requires some reliance on the Group's IT systems with automated processes and controls over the capturing, valuing and recording of transactions.</p>	<p>Our audit procedures to address the risk of material misstatement relating to revenue recognition included:</p> <ol style="list-style-type: none"> <li>1 Evaluating the design and effectiveness of key controls over the capture and measurement of revenue transactions, including evaluating the general controls over the relevant IT systems.</li> <li>2 Detailed analysis of revenue based on expectations derived from our industry knowledge and following up variances from our expectations.</li> <li>3 Detailed substantive testing of significant revenue balances.</li> </ol> <p>We evaluated the Group's accounting policies and disclosures about its revenue recognition included in Note 1 and Note 3 for compliance with the revenue recognition requirements of AASB 15.</p>
<b>Capitalisation and asset lives</b>	
<p>There are a number of areas where judgement impacts the carrying value of property, plant and equipment, software intangible assets and their respective depreciation and amortisation profiles. This is a key part of the audit due to the judgement involved in the:</p> <ul style="list-style-type: none"> <li>▪ decision to capitalise or expense costs</li> <li>▪ annual asset life review</li> <li>▪ timeliness of the transfer from assets in the course of construction.</li> </ul>	<p>We understood and assessed the Group's design and operating effectiveness of controls over the fixed asset cycle, evaluated the appropriateness of capitalisation policies, performed tests of a sample of costs capitalised during the year and assessed the timeliness of transfer of assets in the course of construction.</p> <p>We also performed testing on the application of the asset life review. This testing included assessing judgements made by the Group on:</p> <ul style="list-style-type: none"> <li>▪ the nature of underlying cost capitalised</li> <li>▪ the appropriateness of assets lives applied in the calculation of depreciation and amortisation.</li> </ul> <p>We evaluated the adequacy of disclosures included in Note 1.</p>



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Key audit matter	How our audit addressed the matter
<p><b>Reliance on automated processes and controls</b></p> <p>A significant part of the Group's financial processes are heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of transactions.</p> <p>This is a key part of our audit because of the:</p> <ul style="list-style-type: none"> <li>Complex IT environment supporting diverse business processes.</li> <li>Mix of manual and automated controls.</li> <li>Multiple internal and outsourced support arrangements.</li> <li>Complexity of the billing systems which result in revenue being recognised.</li> </ul>	<p>Our audit procedures to address the risk of material misstatement relating to reliance on automated processes and controls included:</p> <ol style="list-style-type: none"> <li>Evaluating the design and effectiveness of key controls over the capture, valuing and measurement of transactions, including evaluating the general controls over the relevant IT systems.</li> <li>Detailed analysis of revenue and expenditure based on expectations derived from our industry knowledge and following up variances from our expectations.</li> <li>Detailed substantive testing of significant revenue and expenditure balances.</li> <li>Assessing the competence of each service organisation's auditors, where reliance is placed on data obtained from those service organisations.</li> </ol>
<p><b>Application and recognition of AASB 16: Leases</b></p> <p>The Group adopted <i>AASB 16: Leases</i> as at 1 July 2019. The adoption of this standard resulted in an increase in the Group's right of use assets and lease liabilities of \$6.1mil and \$6mil respectively at 1 July 2019.</p> <p>The adoption of this accounting standard is inherently complex due to:</p> <ul style="list-style-type: none"> <li>The volumes of leases held by the Group and</li> <li>The judgements and estimates required to be applied by management including determination of the lease term and appropriate discount rate for each lease.</li> </ul> <p>Accordingly, this was considered a key audit matter. Disclosures relating to the adoption of AASB 16 can be found at Note 1(j), Note 1(v), Note 15 and Note 19.</p>	<p>We assessed the design and implementation of key controls and processes to capture and measure the right of use assets and lease liabilities, including the completeness or the balances and evaluating the relevant IT systems.</p> <p>We evaluated the appropriateness of key assumptions used in calculating the impact upon adoption which included:</p> <ol style="list-style-type: none"> <li>Determining the lease terms including options that are reasonably certain to be exercised and</li> <li>Assessing the appropriateness and consistency of the discount rates used (i.e. incremental borrowing rate).</li> </ol> <p>We agreed a sample of leases to the original lease contract terms or other supporting documentation and recalculated the right of use asset and lease liability for each to assess the accuracy of the Group's AASB 16 calculation.</p> <p>We assessed the Group's accounting policies as set out in Note 1(j) and Note (v) and the adequacy of disclosures for compliance with AASB 16.</p>

### Other information

The group may prepare an annual report that may include the financial statements, director's report and declaration and our audit report (the financial report). The annual report may also include "other information" on the entity's operations and financial results and financial position as set out in the financial report, typically in a Chairperson's report and reports covering governance and other matters.

The directors are responsible for the other information. An annual report has not been made available to us as of the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we will not express any form of assurance conclusion thereon.



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Our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If we identify that a material inconsistency appears to exist when we read the annual report (or become aware that the other information appears to be materially misstated), we will discuss the matter with the directors and where we believe that a material misstatement of the other information exists, we will request management to correct the other information.

### Independence

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

### Directors' responsibility for the financial report

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

In preparing the financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or cease operations, or have no realistic alternative but to do so.

### Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/home.aspx>. This description forms part of our auditor's report.

A handwritten signature in black ink, appearing to read 'Andrew Frewin Stewart'.

**Andrew Frewin Stewart**  
61 Bull Street, Bendigo, 3550  
Dated this 26<sup>th</sup> day of August 2020

A handwritten signature in black ink, appearing to read 'Joshua Griffin'.

**Joshua Griffin**  
Lead Auditor

**SHAREHOLDER INFORMATION**

The shareholder information set out below was current as at 23 July 2020.

**Distribution of Shareholders**

Category	Number of Holders
1 - 1,000	138
1,001 - 5,000	251
5,001 - 10,000	74
10,001 - 100,000	61
100,001 and over	6
	<u>530</u>

The number of shareholdings held in less than marketable parcels is 32.

**Top 10 Shareholders**

Name of Shareholder	Number of Shares	% of Total Shares
Bendigo and Adelaide Bank	2,386,747	30.8
Erskine Investments Pty Ltd	939,326	12.1
Hunters Ridge Pty Ltd	513,758	6.6
Ron Poyser Administrators Pty Ltd	438,400	5.7
National Nominees Limited	160,000	2.1
P.J. & D.A. Eddy Pty Ltd	100,000	1.3
MGR Property Pty Ltd	90,000	1.2
Latrobe University	84,000	1.1
Community Telco Syndicate	78,000	1.0
Indicrock Superannuation Pty Ltd	70,058	0.9
Total shares held by top 10 holders	<u>4,860,289</u>	<u>62.7</u>