



Interim Financial Report

for the Half-year ended

31 December 2017

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2017.

Directors

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

Robert George Hunt	Rodney David Payne
Donald James Erskine	Kevin Gerard Dole
Graham William Bastian	Jonathon David Selkirk
Michelle Kaye O'Sullivan	Gregory Douglas Gillett (appointed 1 September 2017)
Andrew Craig Watts	

Review of Operations

Bendigo Telco is a provider of managed telecommunications services to customers located throughout Australia. Our focus has been on key regional areas including Bendigo, Ballarat, Geelong, and Tasmania.

Our company's purpose is to be Australia's leading **customer and community engaged** technology solutions partner.

The total Group revenue increased 11.9% over the corresponding prior year period to \$16,731,723 (2016: \$14,954,193). The Group has grown its revenue both via a significant merger and also by focusing on the needs of our existing customer base.

Additionally, during the period, the company assumed responsibility for providing Bendigo and Adelaide Bank's voice services. This important contract provides additional revenue to our business as well as continuing to strengthen the relationship we have with the Bank.

The company's EBITDA increased 53.7% to \$1,684,500 (2016: \$1,095,719) with NPAT increasing 73.6% to \$517,080 (2016: \$297,865).

The company's EPS increased 58.6% to 6.68 cents based on weighted average shares outstanding of 7,745,284 (2016: 4.21 cents based on weighted average shares outstanding of 7,074,967). This increase in both EBITDA and EPS is largely attributable to the increased scale of business that we attained as a result of our merger with Vicwest and Community Telco Australia.

While the business continues to produce solid profit results, the returns achieved in this half year have been impacted by a number of factors. Firstly, there has been significant change in the margins that are now available from certain segments of our business. This impact has been felt across the broader telco industry. Secondly, the process of integrating the merged business has resulted in a number of one-off costs that have also impacted our results. In addition, Bendigo Telco operates in the highly competitive telecommunications sector. The industry is currently in a period of significant change due to increased competition, technology change and the roll-out of the National Broadband Network (NBN). Combined, these factors have had a negative impact on the EPS outcome achieved for the period.

At the end of the period, the net assets of the Group were \$9,759,273. The Group generated strong cash flows from operating activities and continued to maintain a sound working capital with current assets exceeding current liabilities by \$1,162,860.

We continue to support the communities that we serve, not only by providing them with telecommunication products – but also by direct co-investment in important community activities and developments. Bendigo Telco has contributed in excess of \$540,000 to various Community Enterprises and Foundations throughout Australia, assisting with the funding of important community projects.

Subsequent to the period end, Bendigo Telco entered into a contract with Community Telco Australia Pty Ltd trading as Bendigo Bank Telco, a fully owned subsidiary of Bendigo and Adelaide Bank, to acquire their last remaining direct telco clients. This also establishes our company as the Bank's preferred telco provider on behalf of its customers. The acquisition will add additional scale to the residential and micro customer base of the business.

Auditor's Independence Declaration

The lead auditor's independence declaration under s 307C of the *Corporations Act 2001* is set out on page 4 for the half-year ended 31 December 2017.

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



Robert Hunt, Chairman



Andrew Watts, Director

Dated this 28th day of February 2018.



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

I declare that to the best of my knowledge and belief, during the half-year year ended 31 December 2017 there has been no contraventions of:

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

Andrew Frewin Stewart
61-65 Bull Street Bendigo 3550
Dated this 28th day of February 2018

Adrian Downing
Lead Auditor

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	31.12.2017	31.12.2016
	\$	\$
Revenue	16,731,721	14,954,193
Cost of products sold	(8,703,455)	(8,351,338)
Other income	13,435	354,348
Salaries and employee benefit costs	(4,136,019)	(3,773,468)
Occupancy and associated costs	(393,078)	(427,053)
General administration costs	(777,687)	(656,116)
Depreciation and amortisation costs	(908,707)	(681,000)
Advertising and promotion costs	(220,079)	(54,976)
Systems costs	(526,516)	(514,835)
Borrowing costs	<u>(303,822)</u>	<u>(435,036)</u>
Profit before income tax	775,793	414,719
Income tax expense	<u>(258,713)</u>	<u>(116,854)</u>
Net profit for the period	517,080	297,865
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period	<u><u>517,080</u></u>	<u><u>297,865</u></u>
Total comprehensive income attributable to members of Bendigo Telco Limited	<u><u>517,080</u></u>	<u><u>297,865</u></u>
Earnings per share		
Basic earnings per share (cents)	6.68	4.21
Diluted earnings per share (cents)	6.68	4.21

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	31.12.2017	30.06.2017
	\$	\$
Current Assets		
Cash and cash equivalents	1,196,418	1,196,726
Trade and other receivables	1,526,427	1,706,920
Prepayments	2,376,413	2,332,353
Inventories	300,482	281,968
Taxation	141,876	-
Total Current Assets	5,541,616	5,517,967
Non Current Assets		
Property, plant and equipment	3,728,818	3,972,367
Intangible assets	8,347,422	8,432,536
Deferred tax assets	1,113,011	1,186,098
Total Non Current Assets	13,189,251	13,591,001
TOTAL ASSETS	18,730,867	19,108,968
Current Liabilities		
Trade and other payables	2,553,780	2,301,336
Provisions	785,350	807,522
Taxation	-	63,638
Borrowings	1,039,626	1,070,652
Total Current Liabilities	4,378,756	4,243,148
Non Current Liabilities		
Provisions	191,115	189,408
Borrowings	4,401,723	4,798,926
Total Non Current Liabilities	4,592,838	4,988,334
TOTAL LIABILITIES	8,971,594	9,231,482
NET ASSETS	9,759,273	9,877,486
EQUITY		
Issued capital	7,097,284	7,112,955
Retained earnings	2,661,989	2,764,531
TOTAL EQUITY	9,759,273	9,877,486

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

		Ordinary Share Capital \$	Retained Earnings \$	Total \$
Balance at 1 July 2016		3,248,146	2,631,548	5,879,694
Comprehensive Income				
Profit for the period		-	297,865	297,865
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		3,248,146	2,929,413	6,177,559
Transaction with owners, in their capacity as owners, and other transfers				
Dividends recognised for the period	2	-	(574,532)	(574,532)
Shares issued during the period		4,059,923	-	4,059,923
Cost of equity raised		(119,446)	-	(119,446)
Deferred tax adjustment on Business Combination		-	23,926	23,926
Total transactions with owners and other transfers		3,940,477	(550,606)	3,389,871
Balance at 31 December 2016		7,188,623	2,378,807	9,567,430
Balance at 1 July 2017		7,112,955	2,764,531	9,877,486
Comprehensive Income				
Profit for the period		-	517,080	517,080
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		7,112,955	3,281,611	10,394,566
Transaction with owners, in their capacity as owners, and other transfers				
Dividends recognised for the period	2	-	(619,622)	(619,622)
Shares issued during the period		-	-	-
Cost of equity raised		(15,671)	-	(15,671)
Deferred tax adjustment on Business Combination		-	-	-
Total transactions with owners and other transfers		(15,671)	(619,622)	(635,293)
Balance at 31 December 2017		7,097,284	2,661,989	9,759,273

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	31.12.2017	31.12.2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	18,573,929	14,592,577
Interest paid	(85,837)	(51,682)
Payments to suppliers and employees	(16,456,097)	(13,650,480)
Income tax paid	(391,140)	(233,912)
Interest received	4,718	6,702
Net cash provided by operating activities	<u>1,645,573</u>	<u>663,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets	(209,293)	(285,741)
Purchase of property, plant and equipment	(355,563)	(390,170)
Proceeds from sale of assets	18,682	-
Net cash used in investing activities	<u>(546,174)</u>	<u>(675,911)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of bank loans	(88,836)	-
Repayment of finance lease	(375,578)	(267,528)
Dividends paid	(619,622)	(574,532)
Cost of share issue	(15,671)	(119,446)
Net cash used in financing activities	<u>(1,099,707)</u>	<u>(961,506)</u>
Net increase / (decrease) in cash held	(308)	(974,212)
Cash and cash equivalents at beginning of period	1,196,726	1,577,913
Cash and cash equivalents at end of the period	<u>1,196,418</u>	<u>603,701</u>

The accompanying notes form part of these financial statements

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

Note 1: Summary of significant accounting policies

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2017 have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting. The consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update of the latest annual financial statements of Bendigo Telco Limited. As such, it does not contain information that represents relatively insignificant changes during the half-year within the consolidated entity. It is therefore recommended that this financial report be read in conjunction with the annual financial statements for the year ended 30 June 2017, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 28 February 2018.

Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the June 2017 annual report.

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

No significant changes in accounting requirements have arisen during the half year ended 31 December 2017.

Note 2: Dividends Paid and Proposed

	31.12.2017	31.12.2016
	\$	\$
Distributions paid:		
2017 Final fully franked ordinary dividend of 8.0 (2016: 10.0) cents per share franked at the tax rate of 30% (2016: 30%).	619,622	574,532
Distributions proposed:		
2018 Interim fully franked ordinary dividend of 4.0 (2017: 3.0) cents per share franked at the tax rate of 30% (2017: 30%).	309,811	232,359

After the reporting date the above dividend was declared. The amount has not been recognised as a liability as at 31 December 2017 but will be brought into account in the 2018 financial year.

Note 3: Operating Segments

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

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

Major customers

During the half year ended 31 December 2017 approximately 30.5% (2016: 30.0%) of Bendigo Telco's external revenue was derived from sales to one customer (2016: one customer).

Revenue by product set

	2017	2016
	\$	\$
Voice	6,715,383	5,346,328
Data Networks	5,865,600	5,596,773
Broadband	1,205,601	1,202,324
IT Services	138,174	170,527
Hardware and Installations	506,935	526,804
Data Centre	1,476,253	1,441,158
Cloud	670,945	658,083
Other	166,265	366,544
	<u>16,745,156</u>	<u>15,308,541</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.

Note 4: Contingent Liabilities

In December 2017 Bendigo Telco invoiced a customer, which upon further investigation, was found to include charges for fraudulent international calls.

Bendigo Telco is working with the customer and wholesale supplier assessing the relevant transactions.

At this stage the financial impact cannot be measured accurately and therefore both the revenue and cost associated with the transactions have been excluded from the reports.

Note 5: Events after the end of the interim period

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

Since the end of the interim period, the directors have resolved to pay an interim fully franked dividend of 4.0 cents per share (2016: 3.0 cents per share) payable on 30 March 2018 to shareholders on the share register at 20 March 2018. This dividend will be recognised in shareholders' equity in the next interim financial statements.

Bendigo Telco has entered into a legally binding agreement with Community Telco Australia Pty Ltd trading as Bendigo Bank Telco, a fully owned subsidiary of Bendigo and Adelaide Bank, to purchase their telecommunications consumer list and establish Bendigo Telco as the telecommunications provider of the customers.

The acquisition will comprise the transfer of approximately 10,500 Bendigo Bank Telco consumers across to Bendigo Telco. Bendigo Telco looks forward to an expansion of its consumer base and maximizing all of the opportunities that the acquisition provides.

The transaction is expected to be EPS neutral for Bendigo Telco in this financial year.

Bendigo Telco is currently negotiating a loan facility of approximately \$900,000 with Bendigo and Adelaide Bank to assist with financing the transaction.

The transaction is to be completed on 1st March 2018.

DIRECTORS' DECLARATION

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

1. The financial statements and notes, as set out on pages 1 to 11 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Directors



Robert Hunt, Chairman



Andrew Watts, Director

Dated this 28th day of February 2018



Chartered Accountants

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bendigo Telco Ltd, which comprises the consolidated condensed statement of financial position as at 31 December 2017, the consolidated condensed statement of profit or loss and other comprehensive income, the consolidated condensed statement of changes in equity, the consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Bendigo Telco Ltd's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bendigo Telco Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- giving a true and fair view of Bendigo Telco Ltd's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Andrew Frewin Stewart
61-65 Bull Street Bendigo 3550
Dated this 28th day of February 2018

Adrian Downing
Lead Auditor