BENDIGO TELCO LIMITED

A.B.N. 88 089 782 203

2018 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

Headquartered in Bendigo Victoria, Bendigo Telco is a provider of a broad range of telecommunications services to both business and consumer customers. Our key strategic focus is in delivering managed telco services to the mid-tier business marketplace – businesses that have between 50 to 500 employees. Our deep technical capability enables us to build flexible solutions for this market segment that has traditionally been underserved by the larger telco players.

The business has worked hard during the year to increase the breadth of our product offering to the mid-tier, including the launch of a new 'Backup as a Service' offering that has been well received by our customers. It is in this market segment where we believe we can grow the business over the medium term. We will focus on deeply understanding the needs of these customers, to ensure that we continue to deliver the relevant products, service and experience that will support the achievement of our customers' goals.

Additionally, during this financial year Bendigo Telco entered into a further agreement with the Bendigo and Adelaide Bank to acquire all of its remaining telco business. The transaction, which was EPS neutral for the current financial year enabled Bendigo Telco to acquire a further 10,500 telco customers. This acquisition of the final tranche of Bendigo and Adelaide Bank's direct telco customers is an important addition to the scale of our business and also establishes Bendigo Telco as Bendigo and Adelaide Bank's preferred telco provider on behalf of its customers. The transaction further underscores the strength of the relationship between Bendigo Telco and the Bendigo and Adelaide Bank that has developed over many years.

The roll-out of the National Broadband Network (NBN) continues to have an effect on the entire telco industry – and our business has not been immune from this. With the NBN delivery now more advanced, its effects upon our business and our industry have come into sharper focus. However, we believe that we now have a sound understanding of how to operate as a business in this new paradigm. As the NBN moves into a particular region, customers are responding by moving to switch their data services from ADSL to the new NBN network. At the same time, customers are also moving away from traditional 'fixed-line' voice to voice delivered over their NBN data connection.

This change has the effect of reducing both revenue and margins retained by Bendigo Telco for this type of service. We have found, however, that as the NBN rolls through a region where we are present, we actually gain customers as a result. This has helped us maintain our revenues as this process continues. We have also worked hard with our wholesale suppliers over the financial year which has made a positive difference to our retained margins.

The guiding purpose of Bendigo Telco is to be 'Australia's leading customer and community engaged technology solutions partner'. We are proud to have worked with a broad range of community organisations during 2018 to help them make the communities that we serve a better place to live.

Financial and Operating Performance

Year ended 30 June ($'000)	2018	2017	Change (%)
Revenue	35,364	31,255	13.15%
Gross margin	16,575	14,140	17.22%
Net profit after tax	1,215	916	32.64%
Earnings per share (cents)	15.69	12.37	
Dividend (cents per share)	12.0	13.0	

Total company revenue increased 13.15% from the prior year delivering a total turnover of $35,363,998.

The consolidated profit of the Group amounted to $1,215,276 after providing for income tax. This represents a 32.64% increase on the results reported for the year ended 30 June 2017. The improved financial performance of the Group reflects the company's ability to take advantage of its increased customer base and scale following the merger and customer acquisitions over the last 2 years.

The net assets of the Group increased by $276,890 from 30 June 2017 to $10,154,376 as at 30 June 2018. The Group generated strong cash flows from operating activities and continued to maintain a sound working capital with current assets exceeding current liabilities by $813,794.

The telecommunications industry is currently undergoing a period of rapid change driven by the rollout of the NBN network and increased competition in the mobile space. Our primary focus will continue to be the mid-tier marketplace where we have a strong customer base and sustainable competitive advantage. The company will continue to put the interests of our customers and communities first, and believes that by doing so we will continue to grow and prosper as a business.

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.

Since the end of the financial year a fully franked final dividend in the amount of 8.0 cents per share was declared by the Board of Directors on 29 August 2018 which will be distributed to shareholders on 1 October 2018.

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 Chief Executive Officer 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.

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, Andrew Watts, 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 Chief Executive Officer and other senior managers. The members of the of the Remuneration Committee were Directors Rob Hunt, Don Erskine and Andrew Watts.
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 2018. The information in the preceding operating and financial review forms part of this directors' report for the financial year ended 30 June 2018 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 G Bastian
Ms M O'Sullivan
Mr D Erskine
Mr A Watts (resigned 20 June 2018)
Mr J Selkirk
Mr R Payne
Mr K Dole
Mr G Gillett (appointed 1 September 2017)

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 2017	8.0	619,622
Interim – March 2018	4.0	309,810
	12.0	**929,432**

Ordinary Dividends Declared:

Final - October 2018	8.0	620,623

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 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 2018:

	$
Taxation services	1,020
Share registry services	20,171
	21,191

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on page 15 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.

Mr Robert George Hunt – AM, FAICD - Chairman

Occupation	Treasury Corporation of Victoria – Chairman (retired 30 June 2017)
Qualifications	Fellow of the Australian Institute of Company Directors, 2003 Doctor of the University (honoris causa), LaTrobe University, 1999
Experience	Mr Hunt retired as Managing Director of Bendigo and Adelaide Bank on 3 July 2009 after 21 years as Chief Executive Officer. Mr Hunt is the architect of the **Community Bank**® model, and has been instrumental in the development of a range of Community Enterprise and Engagement models, now utilised by communities across Australia to provide key infrastructure and essential services through local commercial structures. These Enterprises provide communities with a framework, the cashflow, capacity and flexibility to address new economic opportunities.
Interest in shares	Indirect – Hunters Ridge Pty Ltd (Hunt Family Trust) 55,000 Shares Indirect – Hunters Ridge Pty Ltd (Rob & Annette Hunt Superannuation Fund) 418,758 Shares
Special Responsibilities	Chair of Remuneration Committee and Member of Audit and Rick Committee.
Other Directorships & Appointments	Director, Apollo Bay Central District Community Bank since 2011; Director, BEUT Property Pty Ltd
Honours and Awards	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.

Mr Donald James Erskine – Director

Occupation	Managing Director – Industrial Conveying (Aust.) Pty Ltd
Experience	Don is trained as a mechanical engineer. He is Managing Director of Industrial Conveying (Aust.) Pty Limited which was formed by Don in 1979 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 and 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.
Interest in Shares	Direct - 0 Shares Indirect – Erskine Investments Pty Ltd 939,326 Shares
Special Responsibilities	Member of Remuneration Committee and Member of the Audit and Risk Committee.
Other Directorships	Nil

Mr Graham William Bastian – Director

Occupation	Consultant
Qualifications	Dip Engineering - Civil (Swinburne), Dip Ed (Hawthorn State College)
Experience	Graham worked as a civil engineer with a private firm of surveyors and engineers until entering teaching. Following a period as an educational consultant focused on assisting schools in the effective use of computers, Graham became the Principal of Charlton College. He then became the Regional Principal Consultant for Bendigo, the Principal of Golden Square Secondary College and recently retired as 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.
Interest in shares	Direct – 0 Shares Indirect – Jeanette Bastian 2,000 Shares
Special Responsibilities	Member of Audit and Risk Committee
Other Directorships	Nil

Ms Michelle Kaye O'Sullivan – Director

Occupation	Lawyer – O'Sullivan Johanson Lawyers
Qualifications	Bachelor of Laws (Hons) Bachelor of Commerce Certificate III in Fitness
Experience	Michelle O'Sullivan has had experience on various boards including, Loddon Mallee Women's Health 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.
Interest in Shares	Direct - 44,711 Shares
Special Responsibilities	Nil
Other Directorships	Nil

Mr Andrew Watts – Director

Occupation	Executive, Customer Service Improvement, Bendigo and Adelaide Bank
Qualifications	Bach. Engineering (Civil), Grad Dip, Business Administration
Experience	Andrew is a seasoned finance industry executive, with extensive experience in technology, organisational change, mergers and acquisitions and customer service. He worked for Bendigo and Adelaide Bank for 23 years, and was a member of its Executive Committee from 2007 to 2017. He has held various senior positions in strategic planning, marketing, retail, electronic banking / payments, technology, operations and change. Andrew has led a number of strategic programs including the technology integration of Bendigo and Adelaide Bank as Chief Information Officer. In his previous role as Executive, Customer Service Improvement Andrew oversaw the bank's national processing centres, national properties, corporate sourcing and continuous improvement programs. Andrew retired from the bank in 2018. Andrew is former director of TicToc Online Pty. Ltd., a fintech who launched the world's first instant home loan in 2017. Living in Melbourne, Andrew is highly active in the Central Victorian community through his passion for youth development and the arts.
Interest in shares	Direct – Nil
Special Responsibilities	Member of Audit and Risk Committee and is a Member of the Remuneration Committee
Other Directorships	TicToc Online Pty. Ltd.

Kevin Dole – Director	
Occupation	Head of Technology Solutions and Services , Bendigo and Adelaide Bank
Qualifications	Associate Diploma in Information Processing (Latrobe)
Experience	Kevin has worked for Bendigo and Adelaide Bank for 30 years. During that time his career has been in the Information Technology Division. Throughout his career he has held a number of senior technical and leadership roles. He has considerable experience in large program delivery inclusive of merging and integrating technology based solutions.
Interest in shares	Direct – Nil
Special Responsibilities	Nil
Other Directorships	Nil

Rod Payne – Director	
Occupation	Principal Harwood Andrews Lawyers
Qualifications	Bachelor of Law (Melbourne University)
Experience	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.
Interest in shares	Indirect - Linrod Holdings Pty Ltd atf the Payne Superannuation Fund A/C 2,268 shares Indirect - Linrod Holdings Pty Ltd atf the Payne Investment Trust A/C 4,821 shares
Special Responsibilities	Member of Audit and Risk Committee
Other Directorships	Director - The Legal Lantern Group Director - Karingal St Laurence

Jonathon Selkirk – Director	
Occupation	Chief Financial Officer, The Gull Group Ballarat.
Qualifications	Bach. Business, Chartered Accountant, Graduate Australian Institute of Company Directors.
Experience	Jock has held executive roles across several industries including financial services, manufacturing, building and property development. Jock started his career as a chartered accountant, then moved into banking & financial services in both Melbourne & London and was CFO at Selkirk Brick for 11 years prior to his current role as CFO at the Gull Group. He has experience in driving business growth together with commercial acumen and an analytical focus. He has held several executive and non-executive director roles and has experience in governance, risk & compliance management, as well as people and culture development. 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.
Interest in shares	Nil
Special Responsibilities	Nil
Other Directorships	Board member Ballarat and Clarendon College, Ballarat.

Greg Gillett – Director	
Occupation	Consultant
Qualifications	Senior Fellow of the Financial Services Institute of Australia.
Experience	Greg is a semi-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.
Interest in shares	Direct - 24,108 shares
Special Responsibilities	Chairman of Audit and Risk Committee
Other Directorships	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, 18 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit & Risk Committee		Remuneration Committee	
Directors	No. eligible to attend	No. attended	No. eligible to	No. attended	No. eligible to attend	No. attended
Rob Hunt	12	12	4	4	1	1
Graham Bastian	12	12	4	4	-	-
Don Erskine	12	11	4	2	2	1
Michelle O'Sullivan	12	10	-	-	-	-
Andrew Watts	12	9	4	3	2	2
Kevin Dole	12	11	-	-	-	-
Jonathon Selkirk	12	11	-	-	-	-
Rodney Payne	12	10	4	4	-	-
Gregory Gillett	10	10	3	3	-	-

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 28 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.

Share-based payments

The Group's share-based payments are disclosed at Note 27 to the Financial Statements.

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
Andrew Watts	Director (resigned 20 June 2018)
Kevin Dole	Director
Jonathon Selkirk	Director
Rodney Payne	Director
Gregory Gillett	Director (appointed 1 September 2017)

(ii) Executives

Jeffery Jordan	Chief Executive Officer
Jim Nielsen	Chief Operating Officer
Adam Murdoch	Chief Technology Officer
Jason Sim	Executive General Manager Consumer and Small Business
Steven Wright	Chief Financial Officer
Stephen Culpitt	General Manger Customer Service (resigned 28 January 2018)
Jarrod Draper	Executive General Manager Business and Enterprise

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 fell as a result of additional operational and acquisition costs associated with the implementation and consolidation of a business merger. Dividends paid to shareholders remain strong with an average dividend yield over the past five years of 9.17% 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.

	2014	**2015**	**2016**	**2017**	**2018**
Revenue	$22.0M	$22.1M	$22.8M	$31.9M	$35.4M
EBITDA	$2.96M	$2.61M	$3.06M	$3.08M	$3.86M
Net profit	$1.59M	$1.13M	$1.29M	$0.91M	$1.22M
Share price at year end	$1.65	$1.95	$2.04	$2.10	$1.95
Dividends paid	16.5 cents	20.0 cents	17.0 cents	13.0 cents	12.0 cents

Details of remuneration for year ended 30 June 2018

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

		Short-term benefits	Post-employment benefits		
		Cash Salary and Fees	Superannuation	TOTAL	Proportion of remuneration that is performance based %
Robert Hunt	2018	13,699	1,301	15,000	-
	2017	13,699	1,301	15,000	-
Graham Bastian	2018	15,000	-	15,000	-
	2017	15,000	-	15,000	-
Donald Erskine	2018	-	15,000	15,000	-
	2017	-	15,000	15,000	-
Michelle O'Sullivan	2018	13,699	1,301	15,000	-
	2017	13,699	1,301	15,000	-
Andrew Watts	2018	13,699	1,301	15,000	-
	2017	13,699	1,301	15,000	-
Kevin Dole	2018	13,699	1,301	15,000	-
	2017	11,416	1,084	12,500	-
Jonathon Selkirk	2018	13,699	1,301	15,000	-
	2017	11,416	1,084	12,500	-
Rodney Payne	2018	15,000	-	15,000	-
	2017	12,500	-	12,500	-
Gregory Gillett	2018	11,415	1,085	12,500	-
	2017	-	-	-	-
Total	2018	109,910	22,590	132,500	-
	2017	91,429	21,071	112,500	-

(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 payments			
		Salaries $	Non-Cash Benefits $	Super-annuation $	Shares $	Termination Benefits $	Total $	Proportion of remuneration that is performance based %
Jim Nielsen	2018	108,004	15,000	24,797	-	-	147,801	7
	2017	96,094	15,000	34,585	-	-	145,679	7
Adam Murdoch	2018	152,382	15,000	14,572	-	-	181,954	5
	2017	150,687	15,000	14,315	-	-	180,002	6
Jeffery Jordan	2018	240,282	15,000	20,049	25,000	-	300,331	7
	2017	232,309	15,000	19,408	-	-	266,717	7
Jason Sim	2018	203,044	-	17,450	-	-	220,494	21
	2017	195,136	-	17,113	-	-	212,249	19
Steven Wright	2018	152,480	-	13,328	-	-	165,808	6
	2017	148,478	-	12,806	-	-	161,284	6
Stephen Culpitt	2018	115,974	8,671	7,685	-	74,791	207,121	3
	2017	119,246	15,000	11,328	-	-	145,574	-
Jarrod Draper	2018	142,879	-	13,045	-	-	155,924	1
	2017	10,480	-	987	-	-	11,467	-
Total	2018	1,115,045	53,671	110,926	25,000	74,791	1,379,433	
	2017	952,430	60,000	110,542	-	-	1,122,972	

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 29 August 2018.

Rob Hunt

Chairman

Don Erskine

Director

AFS
Partners in success
Chartered Accountants
61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
03 5443 0344
afsbendigo.com.au

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 2018, 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.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated this 29th day of August 2018

Adrian Downing
Lead Auditor

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $	2017 $
Revenue	3	35,363,998	31,254,789
Cost of products sold		(18,789,018)	(17,114,423)
Other income	3	87,091	715,124
Salaries and employee benefit costs		(8,357,326)	(7,765,034)
Occupancy and associated costs		(824,314)	(844,069)
General administration costs		(1,714,255)	(1,406,949)
Depreciation and amortisation costs	4	(1,882,712)	(1,558,280)
Advertising and promotion costs		(329,392)	(173,218)
Systems costs		(1,211,057)	(940,548)
Borrowing costs		(534,555)	(810,486)
Profit before income tax		1,808,460	1,356,906
Tax expense		(593,184)	(440,958)
Net profit for the year		1,215,276	915,948
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		1,215,276	915,948
Total comprehensive income attributable to members of Bendigo Telco Limited		1,215,276	915,948
Earnings per share			
Basic earnings per share (cents)	9	15.69	12.37
Diluted earnings per share (cents)	9	15.69	12.37

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Notes	2018 $	2017 $
Current Assets			
Cash and cash equivalents	10	1,945,454	1,196,726
Trade and other receivables	11	1,797,808	1,706,920
Prepayments		2,045,832	2,332,353
Inventories	12	197,519	281,968
Taxation	19(a)	222,002	-
Total Current Assets		**6,208,615**	**5,517,967**
Non Current Assets			
Property, plant and equipment	14	3,570,543	3,972,367
Intangible assets	15	8,909,666	8,432,536
Deferred tax asset	19(b)	1,065,463	1,186,098
Total Non Current Assets		**13,545,672**	**13,591,001**
TOTAL ASSETS		**19,754,287**	**19,108,968**
Current Liabilities			
Trade and other payables	16	2,615,198	2,301,336
Provisions	18	847,082	807,522
Taxation	19(a)	-	63,638
Borrowings	17	1,932,541	1,070,652
Total Current Liabilities		**5,394,821**	**4,243,148**
Non Current Liabilities			
Provisions	18	152,853	189,408
Borrowings	17	4,052,237	4,798,926
Total Non Current Liabilities		**4,205,090**	**4,988,334**
TOTAL LIABILITIES		**9,599,911**	**9,231,482**
NET ASSETS		**10,154,376**	**9,877,486**
EQUITY			
Issued capital	20	7,104,001	7,112,955
Retained earnings		3,050,375	2,764,531
TOTAL EQUITY		**10,154,376**	**9,877,486**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	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 year		-	915,948	915,948
Recognition of DTA on BSA Acquisition		-	23,926	23,926
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	939,874	939,874
Transaction with owners, in their capacity as owners, and other transfers				
Dividends recognised for the year	8	-	(806,891)	(806,891)
Shares issued during the year		3,999,924	-	3,999,924
Cost of equity raised		(135,115)	-	(135,115)
Total transactions with owners and other transfers		3,864,809	(806,891)	3,057,918
Balance at 30 June 2017		**7,112,955**	**2,764,531**	**9,877,486**
Balance at 1 July 2017		7,112,955	2,764,531	9,877,486
Comprehensive Income				
Profit for the year		-	1,215,276	1,215,276
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	1,215,276	1,215,276
Transaction with owners, in their capacity as owners, and other transfers				
Dividends recognised for the year	8	-	(929,432)	(929,432)
Shares issued during the year		25,000	-	25,000
Cost of equity raised		(33,954)	-	(33,954)
Total transactions with owners and other transfers		(8,954)	(929,432)	(938,386)
Balance at 30 June 2018		**7,104,001**	**3,050,375**	**10,154,376**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		39,098,652	33,365,161
Interest paid		(172,185)	(173,987)
Payments to suppliers and employees		(34,438,951)	(30,763,924)
Income tax paid		(758,189)	(360,479)
Interest received		12,515	4,682
Net cash provided by operating activities	24	**3,741,842**	**2,071,453**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets		(1,110,959)	(650,390)
Purchase of property, plant and equipment		(723,786)	(523,028)
Proceeds from sale of property, plant and equipment		103,455	275,000
Net cash used in investing activities		**(1,731,290)**	**(898,418)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		900,000	-
Cost of shares issued		(33,954)	(135,115)
Repayment of finance lease		(754,500)	(612,216)
Repayment of bank loans		(443,938)	-
Dividends paid		(929,432)	(806,891)
Net cash used in financing activities		**(1,261,824)**	**(1,554,222)**
Net increase / (decrease) in cash held		**748,728**	**(381,187)**
Cash and cash equivalents at beginning of financial year		1,196,726	1,577,913
Cash and cash equivalents at end of the financial year	10	**1,945,454**	**1,196,726**

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 Consolidated

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 affect 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 three 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. 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 when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debt, probability that the debt will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the assets carrying amount, and the present value of the estimated future cash flows.

(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:

	Depreciation Rate (%)	
Asset Class	**2018**	**2017**
Office Furniture & Equipment		
Advertising Collateral	7.5	7.5
Furniture & Fittings	7.5 – 37.5	7.5 – 37.5
Office Equipment	7.5 - 40	7.5 - 40
Office Computer Equipment	20 – 66.67	20 – 66.67
Satellite Equipment	50	50
Software	33 - 80	33 - 80
Retail/Display Equipment	11.25	11.25
Installation/Servicing Equipment	11.25 - 30	11.25 - 30
Motor Vehicles	18.75 - 25	18.75 - 25
Leasehold	2.5 - 40	2.5 – 40
Telecommunications & Infrastructure		
Infrastructure	7.59	7.59
Data Centre	2.5 - 50	2.5 - 50
Network Computer & Infrastructure	8 - 50	8 - 50
Connectivity Links	7.5 - 50	7.5 - 50
Cloud	14.29 - 50	14.29 - 20

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.

Equity-settled compensation

The Group has operated an equity-settled share-based payment employee share scheme. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense in the period of the grant date, with the corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price.

(i) Revenue

Revenue from the sale of goods is recognised upon delivery of goods to customers. Service revenue is recognised on a stage of completion basis. Interest revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset. All revenue is stated net of the amount of Goods and Services Tax (GST).

(j) Leases

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

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provision of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value in accordance with the documented risk management or investment strategy. Realised and unrealised gains and losses arising from a change in fair value are included in profit or loss in the period in which they arise.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at the principal amount. Interest is recognised as an expense as it accrues.

(iii) *Financial Liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal repayments and amortisation.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of 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 four 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 Balance Sheet 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 balance sheet 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.

(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.

No impairment has been recognised in respect of goodwill for the year ended 30 June 2018. Should the projected turnover figures be less than 90% of budgeted figures incorporated into value in use calculations, an impairment loss would be recognised up to the maximum carrying value of goodwill at 30 June 2018 amounting to $5,344,282 (2017: $5,334,102).

Key Judgments – Provision for impairment of receivables

Included in the accounts receivable at 30 June 2018 are amounts that equate to approximately $153,792 which are currently progressing through our debt collection process and are therefore classified as impaired. A provision has been made in the balance sheet at 30 June 2018.

Key Judgments – Provision for impairment of prepaid advertising

Included in the prepayments at 30 June 2018 are amounts that equate to approximately $437,345 which relate to prepaid advertising that was received from the purchase of McPherson Media in 2014. The balance is required to be used by 30 September 2019 and is planned to be expended in future marketing campaigns and is therefore not impaired.

Key Judgments – Provision for impairment of wireless broadband project

Included in the intangibles at 30 June 2018 are amounts that equate to approximately $74,487 which relate to wireless broadband project. Bendigo Telco remains in discussions with potential partners which will leverage the IP developed and bring new wireless capabilities to the community as well as providing future economic benefits to the business. Based on this assessment the project is not impaired.

Key Judgments – Provision for impairment of internally generated software

Included in the intangibles at 30 June 2018 are amounts that equate to approximately $661,359 which relate to internally generated software. This investment is required due to the customisation and complexity of the company's network and systems. The investment in this internally generated software is critical to the underlying platforms that allow the company to offer and support key products. Based on this assessment the internally generated software is not impaired.

Key Judgments – Provision for impairment of customer lists

Included in the intangibles at 30 June 2018 are amounts that equate to approximately $2,675,330 which relate to customer lists acquired. Customer lists are amortised over a period of between 6 – 10 years. The useful life of the customer lists have been reviewed against churn rates and no adjustment to useful life is required.

(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 23.

(s) Share Based Payments

The Group measures the goods and services received by equity-settled shared 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 counterparties 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

These amounts represent liabilities for goods and services provided to the Group prior to the end of 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 accounting standards for application in future periods

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

Financial instruments - impairment of financial instruments

AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 July 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments and hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

The effects of AASB 9 are not expected to have a material effect on the Group.

AASB 2014-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)

AASB 2014-7 (issued December 2014) gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issue of AASB 9: Financial Instruments (December 2014). More significantly, additional disclosure requirements have been added to AASB 7: Financial Instruments: Disclosures regarding credit risk exposures of the entity. This Standard also makes various editorial corrections to Australian Accounting Standards and an Interpretation.

AASB 2014-7 mandatorily applies to annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted, provided AASB 9 (December 2014) is applied for the same period.

Revenue from contracts with customers

AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 July 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15).

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

AASB 2014-5: Amendments to Australian Accounting Standards arising from AASB 15

This Standard is applicable to annual reporting periods beginning on or after 1 January 2017 and makes consequential amendments to various Australian Accounting Standards arising as a result of the issue of AASB 15: Revenue from Contracts with Customers. AASB 2014-5 is not expected to impact the Group's financial statements.

AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15

This Standard amends the mandatory effective date (application date) of AASB 15: Revenue from Contracts with Customers so that AASB 15 is required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017. Therefore, this Standard also defers the consequential amendments that were originally set out in AASB 2014-5: Amendments to Australian Accounting Standards arising from AASB 15. This deferral is achieved in a variety of ways because some of the Standards amended by AASB 2014-5 have been superseded by new principal versions issued in 2015 that apply to annual reporting periods beginning on or after 1 January 2017 or 2018. This Standard amends Interpretation 1052: Tax Consolidation Accounting to update the cross-references to Standards and to remove the references to dividends and other distributions, so that the wording of Int 1052.45 is appropriate for annual reporting periods beginning on or after 1 January 2018. AASB 15 is also reformatted to follow the structure of the new principal versions of other Standards by deleting or moving the Aus-numbered "Application" paragraphs.

AASB 2016-3: Amendments to Australian Accounting Standards – Clarifications to AASB 15

AASB 2016-3 (issued May 2016) makes amendments to AASB 15 to:

- clarify the requirements for assessing whether two or more promises to transfer goods or services to a customer are separately identifiable when identifying performance obligations in accordance with AASB 15.27(b) and the factors indicating this assessment;

- elaborate on the assessment of "control" over goods or services when determining whether an entity is acting as a principal or agent

- clarify the timing of revenue recognition from licensing transactions; and

- extend the application of practical expedients on transition to AASB 15.

AASB 2016-3 mandatorily applies to annual reporting periods beginning on or after 1 January 2018, with earlier application permitted.

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;

- identify the performance obligations in the contract(s);

- determine the transaction price;

- allocate the transaction price to the performance obligations in the contract(s); and

- recognise revenue when (or as) the performance obligations are satisfied.

Bendigo Telco have identified a number of key transactions which may be impacted by AASB 15;

Mobile Repayment Option (MRO)
- Customer acquisition of mobile handset which is repaid by the customer over a 24 month contract.
- Under the prior standard, revenue was recognised equally over the term of the contract. AASB 15 changes will now see revenue recognised in the month of sale.

Modem provided with DSL/NBN plan
- Customer provided with a compatible modem when signing to a DSL/NBN 24 month plan.
- Under the prior standard, revenue was recognised equally over the term of the contract. AASB 15 changes will now see revenue recognised in the month of sale.

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, AASB 15 does not impact Bendigo Telco's treatment.

Connection Fees
- Sales commissions are provided as incentives for sales. These commissions vary depending on the product sold.
- Under the prior standard, sales commissions were expensed in the month of sale. AASB 15 changes will now see sales commissions capitalised and the expense to be recognised equally over the term of the contract.

Despite the significant accounting changes outlined for AASB15, we do not expect a material change in the revenue reported in the 2019 financial statements.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements.

Bendigo Telco will apply AASB 15 using cumulative method which will result in Retained earnings being impacted by a non-material amount.

Leasing

AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 July 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:

- recognition of a right-of-use asset and lease liability for all leases (excluding short-term leases with a lease term 12 months or less of tenure and leases relating to low-value assets);

- depreciation of right-of-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;

- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;

- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and

- inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The effect of AASB 16 is not expected to have a material effect on the Group. It is impracticable at this stage to provide a reasonable estimate of such impact.

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

	2018	2017
	$	$
ASSETS		
Current assets	6,208,615	5,517,967
Non-current assets	13,545,672	13,591,001
TOTAL ASSETS	19,754,287	19,108,968
LIABILITIES		
Current liabilities	5,394,821	4,243,148
Non-current liabilities	4,205,090	4,988,334
TOTAL LIABILITIES	9,599,911	9,231,482
EQUITY		
Issued Capital	7,104,001	7,112,955
Retained Earnings	3,050,375	2,764,531
TOTAL EQUITY	10,154,376	9,877,486

Statement of Profit or Loss and Other Comprehensive Income

Total profit	1,215,276	915,948
Total comprehensive income	1,215,276	915,948

Guarantees

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

Contingent liabilities

At 30 June 2018, no contingent liabilities exist in relation to the subsidiary.

Contractual commitments

At 30 June 2018, no capital commitments exist in relation to the subsidiary.

3. REVENUE AND OTHER INCOME

	2018	2017
	$	$
Revenue:		
Sales revenue	35,363,998	31,254,789
	35,363,998	31,254,789
Other income:		
Interest received	12,515	4,682
Profit on sale of assets	74,576	226,392
Government Grants	-	334,050
Legal reimbursement	-	150,000
	87,091	715,124
Total revenue and other income	35,451,089	31,969,913

4. EXPENSES

	2018	2017
	$	$
Depreciation and amortisation costs:		
Office furniture & equipment	398,964	373,652
Motor vehicles	77,271	81,752
Leasehold	56,516	53,862
Telecommunications & infrastructure	716,132	572,403
Amortisation of intangibles	633,829	476,611
	1,882,712	1,558,280
Borrowing expenses:		
Interest paid	172,185	173,987
Other	7,367	4,438
	179,552	178,425
Bad debts	48,397	49,523
Impaired debts	24,154	29,490
	72,551	79,013
Rental expense on operating leases:		
Buildings	484,337	547,175
Equipment	355,002	632,061

5. TAX EXPENSE

	2018	2017
	$	$
a. The components of tax expense comprise:		
Current tax	506,458	370,138
Deferred tax	86,726	70,820
	593,184	440,958
b. The prima facie tax on profit from activities before income tax is reconciled to the income tax expenses as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2017: 30%)	542,538	407,072
Add:		
Tax effect of:		
- Movement in provision for impairment	8,329	1,575
- Movement in provision for employee benefits	902	1,830
- Movement in deferred tax	86,726	70,820
- Capital allowances	14,483	14,721
- Non-deductible expenses	93,183	65,176
	203,623	154,122
Less:		
Tax effect of:		
- Capital raising costs	31,339	31,339
	31,339	31,339
Carried Forward Losses	121,638	88,897
Income tax attributable to entity	593,184	440,958

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 2018.

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

	2018 $	2017 $
Short-term employee benefits	1,168,716	1,012,430
Post-employment benefits	110,926	110,542
Other long-term benefits	-	-
Termination benefits	74,791	-
Share-based payments	25,000	-
	1,379,433	1,122,972

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:

30 June 2018	Balance at beginning of year	Granted as remuneration during year	Other changes during year	Balance at end of year
Robert Hunt	473,758	-	-	473,758
Graham Bastian	2,000	-	-	2,000
Don Erskine	939,326	-	-	939,326
Michelle O'Sullivan	44,711	-	-	44,711
Andrew Watts	-	-	-	-
Kevin Dole	-	-	-	-
Jonathon Selkirk	-	-	-	-
Rodney Payne	7,089	-	-	7,089
Gregory Gillett	-	-	24,108	24,108
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
Jarrod Draper	-	-	-	-
	1,480,359	12,500	24,108	1,516,967

30 June 2017	Balance at beginning of year	Granted as remuneration during year	Other changes during year	Balance at end of year
Robert Hunt	451,048	-	22,710	473,758
Graham Bastian	2,000	-	-	2,000
Don Erskine	939,326	-	-	939,326
Michelle O'Sullivan	29,711	-	15,000	44,711
Andrew Watts	-	-	-	-
Kevin Dole	-	-	-	-
Jonathon Selkirk	-	-	-	-
Rodney Payne	-	-	7,089	7,089
Gregory Gillett	-	-	-	-
Jim Nielsen	2,518	-	-	2,518
Adam Murdoch	3,418	-	-	3,418
Jeff Jordan	-	-	-	-
Jason Sim	-	-	-	-
Steven Wright	3,238	-	-	3,238
Stephen Culpitt	4,301	-	-	4,301
Jarrod Draper	-	-	-	-
	1,435,560	-	44,799	1,480,359

7. AUDITORS' REMUNERATION

	2018 $	2017 $
Remuneration of the auditor for:		
Auditing the financial report	77,990	74,322
Taxation services	1,020	3,493
Share registry services	20,171	20,489
	99,181	98,304

8. DIVIDENDS PAID AND PROPOSED

Distributions paid:	2018 $	2017 $
2017 Final fully franked ordinary dividend of 8.0 (2016: 10.0) cents per share franked at the rate of 30% (2016: 30%)	619,622	574,532
2018 Interim fully franked ordinary dividend of 4.0 (2017: 3.0) cents per share franked at the rate of 30% (2017: 30%)	309,810	232,359
	929,432	806,891
Total dividends (cents) per share for the period	12.00	13.00
a. Proposed Final 2018 fully franked ordinary dividend of 8.0 (2017: 8.0) cents per share franked at the rate of 30% (2017: 30%)	620,623	619,622

After the reporting date, the above dividend was declared. The amount has not been recognised as a liability as at 30 June 2018 but will be brought to account in the 2019 financial year.

	2018 $	2017 $
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	1,327,984	1,001,755
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	(265,981)	(265,553)

9. EARNINGS PER SHARE

	2018 $	2017 $
a. Reconciliation of earnings to profit or loss		
Profit for the year	1,215,276	915,948
Earnings used in calculation of basic and diluted EPS	1,215,276	915,948
b. Weighted average number of ordinary shares		
Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS	7,745,626	7,405,564

10. CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Cash at bank and on hand	1,845,454	1,165,933
Short term bank deposits	100,000	30,793
	1,945,454	1,196,726

Cash on hand is non interest bearing.

Cash at bank earned interest rates between 0.10% and 0.70% (2017: 0.20% and 2.00%) 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 2018 the average floating interest rates for the Group were 0.72% (2017: 0.40%).

The effective interest rate on short term bank deposits was 2.35% (2017: 2.64%); 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 balance sheet as follows:

	2018 $	2017 $
Cash and cash equivalents	1,945,454	1,196,726

11. TRADE AND OTHER RECEIVABLES

	2018 $	2017 $
Trade debtors	1,951,600	1,832,950
Provision for impairment	(153,792)	(126,030)
	1,797,808	1,706,920

Impairment of receivables

The average credit period on sale of goods and rendering of services is 19 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.

Before accepting any new customers, the Group internally reviews the potential customer's credit quality. Included in the Group's trade receivable balances are debtors with a carrying amount of $920,679 (2017: $863,672) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 19 days (2017: 20 days).

Ageing of trade receivables is as follows:

a. Ageing of past due but not impaired

	2018 $	2017 $
0 – 30 days	820,972	536,911
30 – 60 days	64,543	155,763
60 – 90 days	35,164	143,998
Over 91 days	-	-
	920,679	836,672

b. Movement in the provision for impairment

	2018 $	2017 $
Balance at beginning of the year	126,030	69,057
Impairment recognised during the year	76,159	106,496
Amounts written off as uncollectable	(48,397)	(49,523)
Amounts recovered during the year	-	-
Balance at the end of the year	153,792	126,030

In determining the recoverability of a trade receivable, the Group considers any recent history of payments and the status of the projects to which the debt relates to. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Fair value of receivables: Fair value of receivables at year end is measured to be the same as receivables net of provision for impairment.

12. INVENTORIES

	2018 $	2017 $
Inventory	197,519	281,968
	197,519	281,968

13. INTEREST IN SUBSIDIARY

a. Information about Principal Subsidiary

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	
		2018 %	2017 %	2018 %	2017 %
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.

c. Acquisition of Controlled Entities

Acquisition of additional telco business

On 1 March 2018, Bendigo Telco completed its 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 telco clients. The customer list was purchased for $798,059.

14. PROPERTY PLANT AND EQUIPMENT

	2018 $	2017 $
Office, Furniture & Equipment		
At Cost	2,212,013	2,142,265
Accumulated depreciation	(1,798,569)	(1,413,285)
	413,444	728,980
Motor Vehicles		
At Cost	585,450	634,690
Accumulated depreciation	(256,817)	(468,937)
	328,633	165,753
Leasehold		
At Cost	675,917	596,224
Accumulated depreciation	(451,666)	(395,150)
	224,251	201,074
Telecommunications & Infrastructure		
At Cost	6,510,669	6,066,881
Accumulated depreciation	(3,850,497)	(3,134,364)
Accumulated impairment losses	(55,957)	(55,957)
	2,604,215	2,876,560
Total Property, Plant & Equipment	3,570,543	3,972,367

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	Telecommunications & Infrastructure	TOTAL
Balance at 1 July 2016	854,480	155,652	244,906	2,582,128	3,837,166
Additions	248,152	91,853	10,030	875,163	1,225,198
Disposals	-	-	-	(8,328)	(8,328)
Depreciation	(373,652)	(81,752)	(53,862)	(572,403)	(1,081,669)
Impairment	-	-	-	-	-
Balance at 30 June 2017	728,980	165,753	201,074	2,876,560	3,972,367
Additions	83,428	255,893	79,693	443,787	862,801
Disposals	-	(15,742)	-	-	(15,742)
Depreciation	(398,964)	(77,271)	(56,516)	(716,132)	(1,248,883)
Impairment	-	-	-	-	-
Balance at 30 June 2018	413,444	328,633	224,251	2,604,215	3,570,543

15. INTANGIBLES

	2018 $	2017 $
Goodwill		
Cost	5,344,282	5,334,102
Accumulated Impairment Losses	-	-
Net Carrying Value	5,344,282	5,334,102
Customer List		
Cost	3,160,559	2,362,500
Accumulated Amortisation	(485,229)	(196,875)
Net Carrying Value	2,675,330	2,165,625
Internally Generated Software		
Cost	1,768,804	1,557,653
Accumulated Amortisation	(1,358,852)	(1,129,958)
Net Carrying Value	409,952	427,695
Project Development		
Cost	860,731	1,203,780
Accumulated Amortisation	(380,629)	(698,666)
Net Carrying Value	480,102	505,114
Total Intangibles	8,909,666	8,432,536

	Goodwill	Customer List	Internally Generated Software	Project Development	TOTAL
Year ended 30 June 2017					
Balance at beginning of year	916,491	-	188,895	413,539	1,518,925
Additions	4,417,611	2,362,500	361,838	288,552	7,430,501
Disposals	-	-	-	(40,279)	(40,279)
Amortisation charge	-	(196,875)	(123,038)	(156,698)	(476,611)
	5,334,102	2,165,625	427,695	505,114	8,432,536
Year ended 30 June 2018					
Balance at beginning of year	5,334,102	2,165,625	427,695	505,114	8,432,536
Additions	10,180	798,059	211,150	91,570	1,110,959
Disposals	-	-	-	-	-
Amortisation	-	(288,354)	(228,893)	(116,582)	(633,829)
	5,344,282	2,675,330	409,952	480,102	8,909,666

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 2006 & 2016.

	2018	2017
	$	$
Acquired CGU Bendigo Communications (2006)	916,491	916,491
Acquired CGU VicWest (2016)	4,427,791	4,417,611
Total Goodwill	5,344,282	5,334,102

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 a 10 year period with the period extending beyond 5 years extrapolated using an estimated growth rate. The cash flows are discounted using the yield of 10 year government bonds at the beginning of the budget period which was 3%.

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

	Growth Rate	Discount Rate
Bendigo Communications segment	-11%	4%
VicWest segment	5%	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.

16. TRADE AND OTHER PAYABLES

	2018	2017
	$	$
Unsecured liabilities:		
Trade payables	1,360,754	1,400,989
Sundry payables and accrued expenses	1,254,444	900,347
	2,615,198	2,301,336

17. BORROWINGS

	2018 $	2017 $
Current		
Secured by fixed and floating registered mortgage debenture		
Bank loans	1,207,151	319,444
Lease liability	725,390	751,208
Total current borrowings	1,932,541	1,070,652
Non current		
Secured by fixed and floating registered mortgage debenture		
Bank Loans	3,130,925	3,480,556
Lease liability	921,312	1,318,370
Total non-current borrowings	4,052,237	4,798,926

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.

18. PROVISIONS

	2018	2017
	$	$
Current		
Employee Benefits		
Annual Leave	392,390	416,325
Long Service Leave	454,692	391,197
	847,082	807,522
Non Current		
Employee Benefits		
Long Service Leave	152,853	189,408
	152,853	189,408

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.

19. TAX

	2018	2017
	$	$
a. Liabilities		
Current		
Provision for income tax	(222,002)	63,638
Non Current		
Deferred Tax Liability	-	-
	-	-
b. Deferred Tax Assets		
Balance as at 30 June	1,065,463	1,186,098
Represented by tax effect of:		
- Provision for impaired debts	46,138	37,809
- Provision for annual leave	127,717	124,898
- Provision for long service leave	182,264	174,181
- Capital allowances	33,997	20,886
- Capital raising costs deductible	71,573	102,912
- Carried forward losses	603,774	725,412
	1,065,463	1,186,098

20. ISSUED CAPITAL

	No. of Shares	2018 $	2017 $
Fully paid ordinary shares at beginning of period	5,745,322	7,816,558	3,816,634
VicWest Scheme of Arrangement	1,499,962	-	2,999,924
CTA purchase of Managed Customers	500,000	-	1,000,000
Employee Share Issue	12,500	25,000	-
Less cost of equity raised - IPO	-	(284,199)	(284,199)
Less cost of equity raised - Scheme of arrangement	-	(453,358)	(419,404)
	7,757,784	7,104,001	7,112,955

21. CAPITAL AND LEASING COMMITMENTS

(a) Finance Lease Commitments

	2018 $	2017 $
Payable minimum lease payments:		
No later than 12 months	800,395	850,578
Between 12 months and 5 years	960,220	1,405,910
Minimum lease payments	1,760,615	2,256,488
Less future finance charges	(113,914)	(186,909)
Present value of minimum lease payments	1,646,701	2,069,579

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

Non-cancellable operating leases contracted for but not recognised in the financial statements	2018	2017
	$	$
Payable minimum lease payments:		
No later than 12 months	524,598	464,307
Between 12 months and 5 years	941,458	196,773
	1,466,057	661,080

Leasing arrangements

The operating leases relate to the rental of the business premises including:

1. 23 McLaren Street, Bendigo - Lease term renegotiated to commence 1 July 2017 and ending on 30 June 2022, with rent payable monthly in advance. There is also an option for 3 further terms of five years each, and each of those options must be exercised at least 3 months in advance. Fixed reviews of 2.0% increases will take place on 1 July.

2. Business Continuity Centre, 121 Edwards Road, Flora Hill - the lease has been renewed for a further five years, lease term beginning 1 September 2018 and ending 31 August 2023. Rent is payable monthly in advance and an annual CPI review during the term on 1 September each year. There is an option for a further five year term by giving notice at least 3 months in advance.

3. 113 Williamson Street, Bendigo – Lease term renegotiated to commence 1 July 2017 and ending 30 June 2022, with rent payable monthly in advance. There is an option for 3 further terms of five years each by giving notice at least 3 months in advance. Fixed reviews of 2.0% increases will take place on 1 July.

Operating leases for computer network/infrastructure equipment for customer use continued in this financial period with terms of either three or five years. Approximately 24% of the overall liability relates to these leases which will generate revenues in excess of the expenses noted below.

The group does not have an option to purchase the leased asset at the expiry of any lease period.

(c) Capital Expenditure Commitments

	2018	2017
Capital expenditure commitments contracted for:	$	$
Plant and Equipment	-	38,024
Motor Vehicles	-	62,887
Business Continuity Centre	-	16,706
Computer Network & Infrastructure	1,649,925	42,081
Cloud Infrastructure	368,641	-
	2,018,566	159,698
Payable:		
No later than 12 months	452,866	159,698
Between 12 months and 5 years	1,565,700	-
	2,018,566	159,698

22. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

23. 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 year ended 30 June 2018 approximately 30.5% (2017: 30.7%) of Bendigo Telco's external revenue was derived from sales to one customer (2017: one customer).

Revenue by product set

	2018 $	2017 $
Voice	14,779,362	11,775,516
Data Networks	11,592,072	11,275,326
Broadband	3,322,328	2,544,965
IT Services	253,081	311,967
Hardware and Installations	935,657	1,204,886
Data Centre	2,921,758	2,903,488
Cloud	1,427,375	1,141,591
Other	132,365	97,050
	35,363,998	31,254,789

Assets & Liabilities

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

24. CASH FLOW INFORMATION

	2018 $	2017 $
Reconciliation of net cash provided by operating activities with		
Profit after income tax	1,215,276	915,948
Non-cash flows in profit:		
Depreciation and amortisation of non current assets	1,882,712	1,558,280
Loss / (Profit) on sale of assets	(74,576)	(226,392)
Change in assets and liabilities		
(Increase)/decrease in assets and Increase/(decrease) in liabilities		
Receivables	(90,888)	(822,134)
Prepayments	548,007	(218,480)
Inventories	84,449	(141,249)
Deferred tax asset	120,635	33,759
Accounts payable	313,862	664,664
Provisions	3,005	260,337
Taxation	(285,640)	46,720
Issued Capital	25,000	-
Net cash flow from operating activities	3,741,842	2,071,453

25. EVENTS AFTER THE REPORTING PERIOD

Since the end of the financial year a final dividend in the amount of 8.0 cents per share was declared by the Board of Directors on 29 August 2018 which will be distributed to shareholders on 1 October 2018.

26. RETIREMENT BENEFITS AND SUPERANNUATION PAYMENTS

	2018 $	2017 $
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

27. SHARE-BASED PAYMENTS

On 20 June 2018 the Directors approved the issue of 12,500 ordinary shares to the Company's Chief Executive Officer, Mr Jeff Jordan as a bonus payment that forms part of his remuneration package.

These shares were valued at $2.00 per share.

The total cost of this share based payment recognised in the 2018 financial statements was $25,000.

28. DIRECTORS RELATED PARTY DISCLOSURES

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

Robert Hunt	Kevin Dole
Don Erskine	Jonathon Selkirk
Andrew Watts	Rodney Payne
Graham Bastian	Gregory Gillett
Michelle O'Sullivan	

Gregory Gillett was paid $3800 during the 2018 financial year for consulting services. There were no outstanding balances or commitments as at 30 June 2018.

Directors Shareholdings	2018 No.	2017 No.
Robert Hunt	473,758	473,758
Graham Bastian	2,000	2,000
Don Erskine	939,326	939,326
Michelle O'Sullivan	44,711	44,711
Andrew Watts	-	-
Kevin Dole	-	-
Jonathon Selkirk	-	-
Rodney Payne	7,089	7,089
Gregory Gillett	24,108	-

Bendigo Telco is provided banking overdraft and lending facilities by Bendigo and Adelaide Bank Ltd. The banking services are provided in accordance with Bendigo and Adelaide Bank’s prevailing product terms and conditions.

29. 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:

Recognised	**Accounting Policies**	**Terms and Conditions**
Financial assets		
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	Debtors are carried at the nominal amounts due less any provision for impairment. An impairment provision is made for any amounts which are considered unlikely to be collected.	Trade receivables are generally due for settlement within 14 days.
Financial liabilities		
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.

	Fixed Interest Rate Maturing			
	Weighted Average Effective Interest		Floating Interest Rate	
	2018	2017	2018	2017
	%	%	$	$
Financial Assets				
Cash or Cash Equivalents	-	-	1,845,454	1,165,933
Short-term Deposits	2.35	2.64	100,000	30,793
Accounts Receivable - Debtors	-	-	-	-
Total Financial Assets	2.35	2.64	1,945,454	1,196,726
Financial Liabilities				
Creditors & Accruals	-	-	-	-
Bank Loans	2.15	1.50	-	-
Finance Leases	5.67	5.69	-	-
Total Financial Liabilities	7.82	7.19	-	-

	Within 1 Year		1 to 5 years	
	2018	2017	2018	2017
	$	$	$	$
Financial Assets				
Cash or Cash Equivalents	-	-	-	-
Short-term Deposits	-	-	-	-
Accounts Receivable - Debtors	-	-	-	-
Total Financial Assets	-	-	-	-
Financial Liabilities				
Creditors & Accruals	-	-	-	-
Bank Loans	1,207,151	319,444	1,630,925	1,533,334
Finance Leases	800,395	850,578	960,220	1,405,910
Total Financial Liabilities	2,007,546	1,170,022	2,591,145	2,939,244

	Over 5 years		Non Interest Bearing	
	2018	2017	2018	2017
	$	$	$	$
Financial Assets				
Cash or Cash Equivalents	-	-	-	-
Short-term Deposits	-	-	-	-
Accounts Receivable - Debtors	-	-	1,797,808	1,706,920
Total Financial Assets	-	-	1,797,808	1,706,920
Financial Liabilities				
Creditors & Accruals	-	-	2,615,198	2,301,336
Bank Loans	1,500,000	1,947,222	-	-
Finance Leases	-	-	-	-
Total Financial Liabilities	1,500,000	1,947,222	2,615,198	2,301,336

	Total	
	2018	2017
	$	$
Financial Assets		
Cash or Cash Equivalents	1,845,454	1,165,933
Short-term Deposits	100,000	30,793
Accounts Receivable - Debtors	1,797,808	1,706,920
Total Financial Assets	3,743,262	2,903,646
Financial Liabilities		
Creditors & Accruals	2,615,198	2,301,336
Bank Loans	4,338,076	3,800,000
Finance Leases	1,646,702	2,069,578
Total Financial Liabilities	8,599,976	8,170,914

Creditors and accruals are expected to be paid as follows:	2018	2017
	$	$
Less than 6 months	2,615,198	2,301,336
6 months to 1 year	-	-
1 – 5 years	-	-
Over 5 years	-	-
	2,615,198	2,301,336

(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 balance sheet 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:

	Carrying Amount	
	2018	2017
	$	$
Cash or Cash Equivalents	1,945,454	1,196,726
Trade & Other Receivables	1,797,808	1,706,920
	3,743,262	2,903,646

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, including estimated interest payments, for the Group:

	Carrying Amount	Contracted Cash Flows	1 year or less	1-5 years	Over 5 years
	$	$	$	$	$
30 June 2018					
Financial Liabilities					
Trade and other payables	1,360,754	1,360,754	1,360,754	-	-
Bank loans	4,338,076	4,338,076	1,207,151	1,630,925	1,500,000
Lease liabilities	1,646,701	1,760,615	800,395	960,220	-
Total financial liabilities	7,345,531	7,459,445	3,368,300	2,591,145	1,500,000

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:

	Total Carrying Amount per Balance Sheet		Aggregate Net Fair Values	
	2018	2017	2018	2017
Financial Instruments	$	$	$	$
Financial assets				
Cash or cash equivalents	1,845,454	1,165,933	1,845,454	1,165,933
Short-term bank deposits	100,000	30,793	100,000	30,793
Accounts receivable - debtors	1,797,808	1,706,920	1,797,808	1,706,920
Total financial assets	3,743,262	2,903,646	3,743,262	2,903,646
Financial liabilities				
Creditors and accruals	2,615,198	2,301,336	2,615,198	2,301,336
Bank loans	4,338,076	3,800,000	4,338,076	3,800,000
Finance leases	1,646,702	2,069,578	1,646,702	2,069,578
Total financial liabilities	8,599,976	8,170,914	8,599,976	8,170,914

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 2018, 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:

	2018 $	2017 $
Change in profit		
Increase in interest rate by 2%	31,422	27,746
Decrease in interest rate by 2%	(31,422)	(27,746)
Change in equity		
Increase in interest rate by 2%	31,422	27,746
Decrease in interest rate by 2%	(31,422)	(27,746)

29. 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
SEQ Telco Ipswich Office - Ground Floor, 114 Brisbane Street, Ipswich, Queensland.
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 2018 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 Chief Executive Officer 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 2018, 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

Rob Hunt	Don Erskine
Chairman	Director

Signed on 29 August 2018

Partners in success
Chartered Accountants
61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
03 5443 0344
afsbendigo.com.au

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

Report on the audit of the financial report

Opinion
We have audited the financial report of Bendigo Telco Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

In our opinion:
The accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:
a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and
b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 are independent of the Group in accordance with auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting and Professional and Ethical Standards Board's APES110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia and we have fulfilled our other ethical responsibilities in accordance with the Code.

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.

Key audit matter	How our audit addressed the matter
Acquisition of Bendigo Bank Telco customer list	
The Bendigo Bank Telco customer list was acquired on 1 March 2018. The acquisition of a customer list involves significant judgement about the estimated useful life of the customer list.	We evaluated whether the acquisition is a business combination or an asset purchase. We assessed valuation of the intangible and reviewed the useful life assigned to the customer list. We evaluated the adequacy of disclosure included in Note 13 and Note 15.
Impairment of goodwill and intangible assets	
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. 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. 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.	We evaluated the impairment calculations including testing of the recoverable amount of each CGU. We assessed the reasonableness of the cash flow projections used in impairment models as well as the Group's historical ability to achieve forecasts. We evaluated the reasonableness of key assumptions used in the impairment models including the discount rate, terminal growth rates and forecast growth assumptions. We performed sensitivity analysis around the key drivers of the cash flow projections. Having considered the change in assumptions (individually or collectively) that would be required for the CGUs to be impaired, we considered the likelihood of such a movement in those key assumptions arising. We evaluated the adequacy of disclosure included in Note 1 and Note 15.
Revenue recognition	
There are significant judgement areas relating to revenue recognition. These are: ▪ accounting for new products and plans including multiple element arrangements ▪ accounting for large and complex service contracts. 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	Our audit procedures to address the risk of material misstatement relating to revenue recognition included: 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. 2 Detailed analysis of revenue based on expectations derived from our industry

Key audit matter	How our audit addressed the matter
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.	knowledge and following up variances from our expectations. 3 Detailed substantive testing of significant revenue balances. 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 the Australian Accounting Standards (AASBs).
Capitalisation and asset lives	
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: ▪ decision to capitalise or expense costs ▪ annual asset life review ▪ timeliness of the transfer from assets in the course of construction.	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. We also performed testing on the application of the asset life review. This testing included assessing judgements made by the Group on: ▪ the nature of underlying cost capitalised ▪ the appropriateness of assets lives applied in the calculation of depreciation and amortisation. We evaluated the adequacy of disclosures included in Note 1.

Information Other than the Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information 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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial report

The directors of the company 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 company'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 company 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. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 14 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Bendigo Telco Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated this 29th day of August 2018

Adrian Downing
Lead Auditor

SHAREHOLDER INFORMATION

The shareholder information set out below was current as at 2 August 2018.

Distribution of Shareholders

Category	Number of Holders
1 - 1,000	138
1,001 - 5,000	263
5,001 - 10,000	79
10,001 - 100,000	61
100,001 and over	6
	547

The number of shareholdings held in less than marketable parcels is 18.

Top 10 Shareholders

Name of Shareholder	Number of Shares	% of Total Shares
Bendigo and Adelaide Bank	1,862,147	24.0
Erskine Investments Pty Ltd	939,326	12.1
Community Telco Australia	500,000	6.4
Hunters Ridge Pty Ltd	473,758	6.1
Ron Poyser Administrators Pty Ltd	438,400	5.7
National Nominees Limited	160,000	2.1
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
Kirkstow Nominees Pty Ltd	64,000	0.8
Total shares held by top 10 holders	4,759,689	61.4