



Interim Financial Report

for the Half-year ended

31 December 2018

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2018.

Directors

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

Robert George Hunt	Rodney David Payne
Donald James Erskine	Kevin Gerard Dole
Graham William Bastian	Jonathon David Selkirk
Michelle Kaye O'Sullivan	Gregory Douglas Gillett

Review of Operations

The Challenges Imposed on our Business by New Telco Technologies and the National Broadband Network

The telecommunications industry landscape continues to be dominated by the rollout of the National Broadband Network (NBN). The NBN has delivered improved internet services for both business and consumers but has fundamentally changed the economics of the telco industry for all service providers. For us, the key element of this has been the replacement of higher margin fixed-line telephone services with lower margin voice services delivered over the internet. Historically, Bendigo Telco has derived a large proportion of its retained margins from this traditional type of voice service for our customers. The NBN will complete its rollout during 2020 so the full effects of its implementation are now largely well understood and being factored into our future plans. New technologies continue to open up new opportunities for improved customer outcomes and we are well positioned to service our chosen customer segments.

Over the last few years, as these changes occurred, Bendigo Telco has been working to transform our business to suit the future conditions of the telecommunications marketplace. We have acted to acquire a significant number of new mid-tier business customers with our 2016 purchase of the Community Telco Australia business-customer base. The mid-tier market segment is the key to future growth for our business. It is this segment, and our commitment to customer and community that provides an opportunity for us to add value to our telco offerings.

Our financial results for the period reflect the challenges that the business has faced from the government-imposed disruption to our industry and the changes in technologies imposed.

Operational Review

Our business exists to provide greater influence over the technology, telco services and infrastructure delivered to our regional client base and local economy. We also seek to strengthen technological and financial outcomes for our customers and communities that we are privileged to serve. While we still have significant support from our customers, changes in technology, the introduction of the NBN, and increased commoditisation of the telco market have warranted a total review of our business priorities. We are committed to structure, prioritise, and focus on our strengths to deliver strategic advantages to our entire customer base. The period under review saw the culmination of twelve months work to map out our strategies going forward. We are now implementing changes to ensure we achieve these objectives and return to producing solid shareholder returns and genuine value for our entire stakeholder base.

Business Half Year Results

While the company maintained a creditable result for EBITDA for the half year of \$1,788,986 (2017: \$1,684,500), our NPAT result for the period was a loss of \$1,841,224 (2017: \$517,080), which included a non-cash impairment charge of \$2,352,967 against goodwill and other non-current assets.

Total Group revenue increased by 13% over the corresponding prior year period to \$18,929,059 (2017: \$16,731,721) powered by the addition of the Bendigo Bank Telco business to our customer base and our continued growth in new customers.

At the end of the period, the net assets of the Group were \$7,745,033 (2017: \$9,759,723). The Group continued to generate strong cash flows from operating activities and maintained a sound working capital with current assets exceeding current liabilities by \$230,015 (2017: \$1,162,860).

Forward Strategy for the Business

The four key elements to our strategy are:

- Community Enablement

Foster sustainability, growth and partnerships in each regional community in order to build a better strategic future for the markets we serve.

- Bendigo & Adelaide Bank Partnership

Further develop our existing business with the Bank in the areas of Networks, Voice, Cloud and Data Centre capabilities.

- Grow Mid-Tier Business Market Segment

Create stronger connections with our larger customers in the mid-tier market and expand this base by enhancing our ability to enable them to achieve their individual business goals.

- Protect Consumer and Small Business Market Segment

Focus on maintaining our existing Consumer and Small business base but recognise that the growth areas for our business are in the Mid-Tier business sphere. Our decision is an acknowledgement that for us, the advent of the NBN and introduction of new technologies has changed the economics of the Consumer and Small Business telco marketplace. Bendigo Telco will maintain our scale and service our customer base in order to operate in this market segment profitably. Therefore, we have determined that the future investments in products and services will be targeted towards the Mid-Tier market where we believe we have a sustainable competitive advantage.

Adjustments to value of intangibles

Because of this realignment of business strategy and following completion of impairment testing for the half year ended 31 December 2018, Bendigo Telco has determined that a non-cash impairment charge against goodwill and other non-current assets be recognized. This better aligns our balance sheet with our future direction and strategy.

The impairment charge relates specifically to the write-down of goodwill and other non-current assets relating to Bendigo Telco's Consumer and Small Business customer base. The rollout of NBN has resulted in significantly reduced margins for our consumer-based services. As a consequence, an impairment charge of \$1,860,495 has been made to goodwill attributable to this customer base as well as an impairment charge of \$492,472 to other non-current assets for items relating to this market segment.

Business Reorganisation and Cost Reductions

To support our business strategy, management and the board have undertaken a careful assessment of our cost base. We intend to reduce our cost base in a number of key areas across the business. Our de-emphasis of the resource-intensive Consumer and Small Business market segment will enable a significant reduction in headcount without affecting our ability to build our capabilities in more strategically aligned activities. We will also re-organise the business structure around our new strategic priorities affording us the ability to reduce the required number of senior management staff. Management project that this reduction in headcount will reduce operating costs by approximately \$598K in the next half year but will also result in restructuring costs of \$227K. After implementing these changes, we will be in a position to support the ongoing growth of the business with our reduced cost base.

The Path Forward

The telco industry is enduring a prolonged period of disruption caused by implementation of a monopoly wholesale telecommunications network by the Federal Government. This network is bringing benefits for consumers and small business while at the same time eroding the margins that we see for some of our key products. The business has carefully reviewed its strategy, target markets, organizational context and cost base. We believe that our forward strategy that emphasizes our relationships with the Community, the Bendigo Bank and our Mid-Tier customers will position us for growth over the mid-term. We also see opportunities to expand our strategic value in our chosen markets and to provide genuine value for our local economies and customer base.

Auditor's Independence Declaration

The lead auditor's independence declaration under s 307C of the *Corporations Act 2001* is set out on page 5 for the half-year ended 31 December 2018.

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



Robert Hunt, Chairman



Don Erskine, Director

Dated this 27th day of February 2019.



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

I declare that to the best of my knowledge and belief, during the half-year year ended 31 December 2018 there has been no contraventions of:

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

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated this 27th day of February 2019

Adrian Downing
Lead Auditor

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

	Note	31.12.2018 \$	31.12.2017 \$
Revenue		18,929,059	16,731,721
Cost of products sold		(10,316,188)	(8,703,455)
Other income		20,753	13,435
Salaries and employee benefit costs		(4,293,822)	(4,136,019)
Occupancy and associated costs		(418,254)	(393,078)
General administration costs		(1,014,830)	(777,687)
Depreciation and amortisation costs		(1,011,834)	(908,707)
Advertising and promotion costs		(154,423)	(220,079)
Systems costs		(820,817)	(526,516)
Borrowing costs		(226,919)	(303,822)
Other expenses	2	<u>(2,352,967)</u>	-
Profit before income tax		(1,660,242)	775,793
Income tax expense		<u>(180,982)</u>	<u>(258,713)</u>
Net profit for the period		(1,841,224)	517,080
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period		<u><u>(1,841,224)</u></u>	<u><u>517,080</u></u>
Total comprehensive income attributable to members of Bendigo Telco Limited		<u><u>(1,841,224)</u></u>	<u><u>517,080</u></u>
Earnings per share			
Basic earnings per share (cents)		-23.73	6.68
Diluted earnings per share (cents)		-23.73	6.68

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

	31.12.2018	30.06.2018
	\$	\$
Current Assets		
Cash and cash equivalents	2,027,081	1,945,454
Trade and other receivables	1,936,277	1,797,808
Prepayments	1,399,317	2,045,832
Inventories	216,601	197,519
Taxation	479,767	222,002
Total Current Assets	6,059,043	6,208,615
Non Current Assets		
Property, plant and equipment	4,957,423	3,570,543
Intangible assets	6,663,510	8,909,666
Deferred tax assets	995,761	1,065,463
Total Non Current Assets	12,616,694	13,545,672
TOTAL ASSETS	18,675,737	19,754,287
Current Liabilities		
Trade and other payables	3,377,470	2,615,198
Provisions	913,722	847,082
Borrowings	1,537,836	1,932,541
Total Current Liabilities	5,829,028	5,394,821
Non Current Liabilities		
Provisions	116,446	152,853
Borrowings	4,985,230	4,052,237
Total Non Current Liabilities	5,101,676	4,205,090
TOTAL LIABILITIES	10,930,704	9,599,911
NET ASSETS	7,745,033	10,154,376
EQUITY		
Issued capital	7,083,672	7,104,001
Retained earnings	661,361	3,050,375
TOTAL EQUITY	7,745,033	10,154,376

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

	Note	Ordinary Share Capital \$	Retained Earnings \$	Total \$
Balance at 1 July 2017		7,112,955	2,764,531	9,877,486
Comprehensive Income				
Profit for the period		-	517,080	517,080
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		7,112,955	3,281,611	10,394,566
Transaction with owners, in their capacity as owners, and other transfers				
Dividends recognised for the period	3	-	(619,622)	(619,622)
Shares issued during the period		-	-	-
Cost of equity raised		(15,671)	-	(15,671)
Total transactions with owners and other transfers		(15,671)	(619,622)	(635,293)
Balance at 31 December 2017		7,097,284	2,661,989	9,759,273
Balance at 1 July 2018		7,104,001	3,050,375	10,154,376
Cumulative adjustment upon change in accounting policies (AASB15)	1	-	72,833	72,833
Balance at 1 July 2018 (restated)		7,104,001	3,123,208	10,227,209
Comprehensive Income				
Profit for the period		-	(1,841,224)	(1,841,224)
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		7,104,001	1,281,984	8,385,985
Transaction with owners, in their capacity as owners, and other transfers				
Dividends recognised for the period	3	-	(620,623)	(620,623)
Shares issued during the period		-	-	-
Cost of equity raised		(20,329)	-	(20,329)
Total transactions with owners and other transfers		(20,329)	(620,623)	(640,952)
Balance at 31 December 2018		7,083,672	661,361	7,745,033

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

	31.12.2018	31.12.2017
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	20,801,128	18,573,929
Interest paid	(84,427)	(85,837)
Payments to suppliers and employees	(18,019,477)	(16,456,097)
Income tax paid	(369,045)	(391,140)
Interest received	7,268	4,718
Net cash provided by operating activities	<u>2,335,447</u>	<u>1,645,573</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets	(57,113)	(209,293)
Purchase of property, plant and equipment	(150,743)	(355,563)
Proceeds from sale of assets	13,485	18,682
Net cash used in investing activities	<u>(194,371)</u>	<u>(546,174)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of bank loans	(997,083)	(88,836)
Repayment of finance lease	(421,414)	(375,578)
Dividends paid	(620,623)	(619,622)
Cost of share issue	(20,329)	(15,671)
Net cash used in financing activities	<u>(2,059,449)</u>	<u>(1,099,707)</u>
Net increase / (decrease) in cash held	81,627	(308)
Cash and cash equivalents at beginning of period	1,945,454	1,196,726
Cash and cash equivalents at end of the period	<u><u>2,027,081</u></u>	<u><u>1,196,418</u></u>

The accompanying notes form part of these financial statements

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

Note 1: Summary of significant accounting policies

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2018 have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting. The consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update of the latest annual financial statements of Bendigo Telco Limited. As such, it does not contain information that represents relatively insignificant changes during the half-year within the consolidated entity. It is therefore recommended that this financial report be read in conjunction with the annual financial statements for the year ended 30 June 2018, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 27 February 2019.

Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for those as described in New and Amended Standards Adopted by the Group.

New and Amended Standards Adopted by the Group

The Group has considered the implications of new or amended Accounting Standards which have become applicable for the current financial reporting period and the group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- AASB 9: Financial Instruments, and
- AASB 15: Revenue from Contracts with Customers.

The impact of the adoption of these standards and the respective accounting policies are disclosed in New and Revised Accounting Requirements Applicable to the Current Half-year Reporting Period.

Impact of Standards Issued But Not Yet Applied by the Group

- AASB 16: Leases

AASB 16: Leases (issued February 2016) will supersede the existing lease accounting requirements in AASB 117: Leases and the related Interpretations. It introduces a single lessee accounting model by eliminating the current requirement to distinguish leases as either operating leases or finance leases depending on the transfer of risks and rewards of ownership. The key requirements of AASB 16 are summarised as follows:

- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months 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, instead accounting for all components as a lease;
- inclusion of additional disclosure requirements; and

- accounting for lessors will not significantly change.

The Standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the Standard before its effective date.

Bendigo Telco has \$1,318,656 of non-cancellable operating leases as at 31 December 2018. \$1,232,055 relates to Office Rentals and \$86,600 for Network and Office Equipment.

Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the June 2018 annual report.

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

Other than stated below, no significant changes in accounting requirements have arisen during the half year ended 31 December 2018.

Bendigo Telco have adopted AASB 15 using the Cumulative Method which has resulted in the following impact to Retained Earnings as at 1 July 2018;

Mobile Handsets	\$ 27,080
Modems	\$ 45,753
Adjustment to Retained Earnings	<u>\$ 72,833</u>

Bendigo Telco had 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 now see revenue recognised in the month of sale.

For the half year ended 31 December 2018, the financial statements were impacted by an increase in revenue of \$88,973.

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 now see revenue recognised in the month of sale.

For the half year ended 31 December 2018, the financial statements were impacted by an increase in revenue of \$65,681.

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.

For the half year ended 31 December 2018, the financial statements were not impacted.

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 now see sales commissions capitalised and the expense to be recognised equally over the term of the contract.

For the half year ended 31 December 2018, the financial statements were impacted by an decrease in salaries and employee benefit costs of \$60,561.

The adoption of AASB 9: Financial Instruments has not materially impacted the financial statements.

Note 2: Other Expenses

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

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

Impairment of Goodwill - Bendigo Communications purchase

Bendigo Communications was purchased October 2006. After an extensive review of the value in use calculations, 100% of the \$916,491 goodwill has been recognised as impaired for the half-year ended 31 December 2018.

Impairment of Goodwill - Vic West Community Telco purchase

Vic West Community Telco was purchased 1 September 2016. After a review of the value in use calculations, 21% of the \$4,427,791 goodwill has been recognised as impaired for the half-year ended 31 December 2018.

Impairment of prepaid advertising - McMedia purchase

McMedia was purchased 31 October 2014. After a review of budgeted advertising expenditure, 100% of the \$417,985 prepaid advertising has been recognised as impaired for the half-year ended 31 December 2018.

Impairment of intangible asset - Wireless Broadband project

Bendigo Telco incurred \$74,487 in development costs relating to a Wireless Broadband initiative. After review, it was deemed that the Wireless Broadband project was unlikely to bring future economic value to the business. 100% of the \$74,487 has been recognised as impaired for the half-year ended 31 December 2018.

	31.12.2018	31.12.2017
	\$	\$
Impairment of Goodwill - Bendigo Communications purchase	916,491	-
Impairment of Goodwill - Vic West Community Telco purchase	944,004	-
Impairment of prepaid advertising - McMedia purchase	417,985	-
Impairment of intangible asset - Wireless Broadband project	74,487	-
	2,352,967	-

Note 3: Dividends Paid and Proposed

	31.12.2018	31.12.2017
	\$	\$
Distributions paid:		
2018 Final fully franked ordinary dividend of 8.0 (2017: 8.0) cents per share franked at the tax rate of 27.5% (2017: 30%).	620,623	619,622
Distributions proposed:		
2019 Interim fully franked ordinary dividend of 4.0 (2018: 4.0) cents per share franked at the tax rate of 27.5% (2018: 30%).	310,311	309,811

After the reporting date the above dividend was declared. The amount has not been recognised as a liability as at 31 December 2018 but will be brought into account in the 2019 financial year.

Note 4: Operating Segments

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

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

Major customers

During the half year ended 31 December 2018 approximately 31.8% (2017: 30.5%) of Bendigo Telco's external revenue was derived from sales to one customer (2017: one customer).

Revenue by product set

	31.12.2018	31.12.2017
	\$	\$
Voice	6,036,473	5,920,633
Mobile	1,929,015	794,750
Data Networks	5,756,992	5,865,599
Broadband	2,220,701	1,205,601
IT Services	102,861	138,174
Hardware and Installations	404,397	506,935
Data Centre	1,539,369	1,476,254
Cloud	830,731	670,946
Other	129,273	166,264
	18,949,812	16,745,156

Assets & Liabilities

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

Note 5: Contingent Liabilities

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

Note 6: Events after the end of the interim period

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

Since the end of the interim period, the directors have resolved to pay an interim fully franked dividend of 4.0 cents per share (2017: 4.0 cents per share) payable on 29 March 2019 to shareholders on the share register at 22 March 2019. This dividend will be recognised in shareholders' equity in the next interim financial statements.

DIRECTORS' DECLARATION

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

1. The financial statements and notes, as set out on pages 1 to 13 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Directors



Robert Hunt, Chairman



Don Erskine, Director

Dated this 27th day of February 2019

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bendigo Telco Ltd, which comprises the consolidated condensed statement of financial position as at 31 December 2018, the consolidated condensed statement of profit or loss and other comprehensive income, the consolidated condensed statement of changes in equity, the consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Bendigo Telco Ltd's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bendigo Telco Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

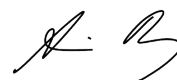
Conclusion

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

- giving a true and fair view of Bendigo Telco Ltd's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Andrew Frewin Stewart
61-65 Bull Street Bendigo 3550
Dated this 27th day of February 2019



Adrian Downing
Lead Auditor