Secure

Reliable

Connectivity

VOCUS GROUP

Contents

$1,820

revenue (million)

UP 119%

On the cover: Rhodora Bautista, Corporate Applications Manager, Technology | Carol Thompson, BSS Support Manager, Technology | Aman Sharma, Product Data Analyst
Jenny Hyland, HR Operations & Group Payroll Manager | Nick Jensen, Retail Development Manager, Technology | Paran Thangarajah, Finance Business Partner

Key Highlights

$366.4
underlying EBITDA (million)
UP 70%
on PCP

$152.3
underlying NPAT (million)
UP 50%
on PCP

Company name change

to Vocus Group Limited, as approved by shareholders, to reflect the broader nature and scope of the business

Acquired

Nextgen Networks in Oct '16, completing the Australian infrastructure puzzle around Australia and contributing international infrastructure projects that will enhance the Vocus network experience

26 pop up Dodo Connect Kiosks

opened in regional areas March to June, to provide information and sales points in new rollout areas to help us achieve our goal of 10% market share

A great place to work

We improved our year-on-year Great Place to Work Survey results engagement score and our score rating Vocus as a great place to work

Organic NBN growth

Organic growth in Consumer NBN subscribers to 178k, taking our NBN market share, including wholesale, to 8.02%

24.7¢
FULLY DILUTED UNDERLYING EPS AFTER MINORITY INTERESTS

30,000km
fibre network spanning Australia and New Zealand

5,500
More than 5,500 buildings on-net

23
data centres on-net

66 days
number of team member volunteering days taken

45,000
(total) services connected to NZ's UFB, taking our market share to 13%

Acquired
early stage NZ energy retailer Switch Utilities Ltd in Dec '16

5000+
team members in sites around Australia, New Zealand and the Philippines

Chairman and CEO's Letter

"We are very confident that the business platform we have established, combining the strongest elements of challenger telcos across Australia and New Zealand, is in a strong position to genuinely rival the majors and grow market share in future years delivering on our growth commitment to shareholders."

70%

Growth in underlying EBITDA

Dear Fellow Shareholder,

Following a very busy period of merger and acquisition activity, the FY17 year and in particular 2HFY17 has been a period of transition for Vocus as the business focused on the completion (in October 2016) and integration of the Nextgen Networks acquisition; and the implementation of business plans that will maximise the returns and leverage the infrastructure platform and scale that has been created through recent acquisitions.

We are very confident that the business platform we have established, combining the strongest elements of challenger telcos across Australia and New Zealand, is in a strong position to genuinely rival the majors and grow market share in future years delivering on our growth commitment to shareholders.

We acknowledge this period of transition has created an unacceptable level of share price volatility for shareholders. Contributing to this share price volatility, as you may also be aware, is that the telecommunications sector as a whole has been significantly de-rated by equity markets over the last 12 months and our share price has not been immune to this change in sentiment. Your Board and management team remain focused on the things that are within our control and we have moved as quickly as possible to address the range of issues that have arisen as a result of the rapid period of M&A. We are committed to delivering on the projects outlined at the Company's investor day in June this year and restoring value for shareholders. We would encourage all shareholders, if you haven't already, to visit our website and read through the presentation and listen to the recording on the website or read the transcript of the management presentations.

Financial Performance

As detailed in the Operating and Financial Review and Financial Statements contained in this report, the Company reported 50% growth in underlying NPAT for the 12 months ended 30 June 2017 compared to the prior corresponding period on a 119% increase in revenue. The record result reflects a full 12 month contribution from the M2 business following the merger in February 2016 (an additional $111.8m EBITDA compared to the pcp) and an 8 month contribution from the Nextgen Networks acquisition, completed on 26 October 2016 ($62.5m EBITDA post synergies).

The result reflects another strong year of growth for Vocus however it was not at the level we anticipated at the beginning of the financial year. There are a number of factors, both internal and external, that impacted the Company's financial performance this year and the senior leadership team has moved quickly over the last six months to address these issues, improve the performance of the business and restore returns to shareholders.

Dividends

The Vocus Board made the decision not to declare a final dividend for the FY17 year in light of the current opportunities for investment across the business, including the ASC project and the focus of the Board on reducing the overall leverage in the business. We understand that this will disappoint some shareholders; however, we believe this to be the prudent approach to our capital management while we continue to work to restructure the business.

An interim dividend of 6¢ per share fully franked was paid in April 2017.

The Board of Vocus expects to review future dividend payments in line with the growth of the business, taking into account the capital requirements and accretive infrastructure opportunities available at any point in time.

Business Review

During FY17 both the Australian and New Zealand Consumer businesses have focused on the significant opportunity created by the Government sponsored fibre rollouts, to secure additional market share in the provision of broadband services to the home. Despite intense competition in both markets, Dodo and iPrimus ended the year with 7.3% market share in NBN (ex-satellite) compared to 6.4% at the beginning of the period; and our New Zealand business ended the year with ~13% market share of UFB with strong momentum in the business which has seen it take ~18% share of UFB connections in Q4 FY17. While the intense competition has created a challenging business environment, churn levels remain materially lower than copper broadband levels at ~1.5% and AMPUs have remained similar or in New Zealand slightly higher than copper margins.

1. AMPU – average margin per user


Geoff Horth & David Spence

Our Consumer businesses in both Australia and New Zealand are also both focused on lowering costs and improving the customer experience through automating the customer interface and backend platforms in turn driving lower churn rates. Both businesses are also focused on brand positioning in the face of intense competition to ensure we have clearly defined target markets and that the return from the Group's marketing spend is maximised. This focus will result in the relaunch of iPrimus in Australia in 1QFY18 and a consolidation of the Consumer brands in New Zealand with a reinvigoration of the Orcon brand and business model.

The Enterprise & Wholesale business has been restructured over 2HFY17 to create one unified business platform reflecting the strongest attributes of the Vocus, Amcom, M2 and Nextgen businesses. The focus of the Division is to leverage the momentum created by the increased scale of the business to grow market share with particular focus on: opportunities in the Government sector as a trusted provider of secure connectivity and redundancy; the Wholesale sector, in particular with other carriers and carriage service providers; and the Corporate market on the East coast of Australia where the business is under indexing compared to the west coast.

The New Zealand Enterprise & Wholesale business is also focused on leveraging its infrastructure platform to grow; and rationalising its brand portfolio to leverage the equity in the Vocus Communications brand in New Zealand. The Division believes there are significant growth opportunities in this market, in particular in the Government market and the Wholesale sector as the number of new entrants in the reseller market grows.

The New Zealand Division has continued to restructure its business portfolio with the sale of its 50% share in the Connect 8 joint venture; and the acquisition of a small energy retailer, Switch, which has already created significant momentum in bundling opportunities in the Consumer business in the first few months of ownership, albeit from a low base.

During 2HFY17 we announced the restructure of our Technology business and the establishment of a Transformation Office to identify and implement a clear set of enterprise wide priority projects, ensuring that the projects are well resourced and funded and that progress is monitored and measured in a consistent way. We were pleased to announce the appointment of a new CTO, Simon Smith and a Head of Transformation, Justin Haddrick who both commenced with Vocus on 3 July 2017. Both Simon and Justin have moved quickly to implement the restructure of business activities and drive the programs that have been established.

7.3%

Consumer market share in NBN compared to 6.4% in the pcp

During FY17 the Company made the decision to move to contract in force on the Australia Singapore Cable (ASC) project.
The project is a 4,600km submarine cable system linking Australia, Indonesia and Singapore. The project was acquired as part of the Nextgen acquisition. The Company believes that the project has a number of strategic advantages over its competitors and will deliver Vocus the ability to tap into the rapid growth in demand for data capacity on these routes.

Executive Management Team refreshed

Team engagement improved over 12 months

The Company has recently signed a contract variation to the supply agreement which included the expansion of the project to incorporate the construction of a spur to Christmas Island following significant interest from a range of Government agencies. The project remains on track to be ready for service in 1Q FY19.

Sustainability

While our primary focus has been working on the integration of the various acquisitions and driving organic growth, our sustainability activities have expanded and continue to be centred on getting involved, giving back and making a difference. Shareholders can read more about our Sustainability activities in our Sustainability Report, published and available on our website via http://vocusgroup.com.au/sustainability/sustainability-report/.

Team

During the year as we restructured and integrated the businesses we made a number of changes to the senior management team to ensure that we have the skill sets in place to manage the expanded platform and the transformation program ahead. To this end as well as the previously mentioned appointments in Technology and Transformation we were pleased to welcome a new CFO, Mark Wratten and new Chief Executive Enterprise & Wholesale, Michael Simmons to our executive ranks. Both Mark and Mick have made significant contributions to the restructuring of the business over 2HFY17.

As we integrate the businesses we have acquired we are working hard to inspire and empower our expanded team. Over the last two years we have put in place a multi- faceted approach to delivering on our goal to be 'A top ten great place to work'. We are looking to leverage the talent that has come together as a result of the recent acquisitions and bring it to the fore to drive the performance of the business.

We have been pleased to see our Team engagement, which we measure weekly and annually through different means, has marginally and consistently improved over the last 12 months. We have benchmarked our voluntary turnover of team members and it is very close to the average, particularly pleasing given the state of change and integration in the business.

We'd like to thank our Team for their contributions and passion for Vocus during this time of change.

Board Renewal

In October 2016 Mr James Spenceley and Mr Anthony Grist departed the Board. Following these departures, we were pleased to announce the appointment of Mr Robert Mansfield AO to the Board in January 2017 and more recently Mr David Wiadrowski and Ms Christine Holman.

Robert has brought significant experience in telecommunications as a former CEO of Optus and Chairman of Telstra as well as his wide experience in business and working with the Federal Government.

David joined the Board in July 2017, he has been a partner at PwC for the last 25 years and has significant board level exposure across the public, commercial and not for profit sectors with particular experience in the Technology, Telco, Entertainment, Media and FMCG industries. David's experience will be invaluable to Vocus in particular in his capacity as Chair of the Audit Committee.

Christine will join the Board effective 24 August 2017 and has worked for both media and telecommunications organisations and private equity firms and brings deep experience in M&A and post-acquisition integration. She has a strong understanding of technology and operational experience managing fast growing businesses through the change process.

The Board will continue to focus on Director renewal over the next 6 months within the context of our skills matrix.

> "As we integrate the businesses we have acquired we are working hard to inspire and empower our expanded team. Over the last two years we have put in place a multi- faceted approach to delivering on our goal to be 'A top ten great place to work'."

2. For further information on guidance please refer to the FY18 Operating and Financial Review and FY18 Results presentation

Looking Ahead

As shareholders you would be aware the Company received non-binding proposals to acquire 100% of the shares in our Company from both Kohlberg Kravis Roberts & Co L.P. and Affinity Equity Partners (S) Pte Ltd. The Board concluded that it was in the best interests of shareholders to grant both parties the opportunity to conduct due diligence on a non-exclusive basis in order to establish whether an acceptable binding transaction could be agreed with either party.

Throughout the due diligence process the Bidders indicated support for management's strategic plans and transformation program. However, as announced to the market on 21 August 2017 the Bidders advised the Board that they were unable to support a transaction on terms acceptable to the Board.

Throughout the process of discussions the Company continued to pursue its strategic plans to transform the business and leverage the platform we have created and the Board and Executive team are united on a clear path forward. Our suite of well-recognised brands targeting clear market segments combined with our best of breed product platform provides a strong foundation for growth, supported by our world class infrastructure.

We have an experienced management team in place, harnessing our engaged and motivated team around Australia and New Zealand to drive our success. We are focused on taking advantage of the organic growth opportunities in our key target markets as well as executing on our transformation program. We are seeing pleasing results from these programs but recognise that there is a lot of work yet to be completed and we are focussed on delivering on our strategy and creating improved returns for shareholders.

The Company currently expects to report underlying EBITDA in FY18 in the range of $370-390m generated on revenue in the range of $1.9-2bn. The FY18 Underlying EBITDA result is thus expected to deliver growth despite some underlying challenges in the business. Underlying NPAT is expected to be in the range $140-150m.

We thank you for your support through what we acknowledge has been a testing time for shareholders.

David Spence,
Chairman

Geoff Horth,
Group CEO

Australia Singapore Cable on track

We are focused on taking advantage of the organic growth opportunities in our key target markets as well as executing on our transformation program.

Directors

David Spence
Non-Executive Chairman

Craig Farrow
Non-Executive Deputy Chairman

Vaughan Bowen
Executive Director

Robert Mansfield, AO
Non-Executive Director

Jon Brett
Non-Executive Director

Rhoda Phillippo
Non-Executive Director

Ashe-lee Jegathesan
General Counsel & Company Secretary

Directors' Report

The Directors present their report, together with the Financial Report of Vocus Group Limited and its controlled entities ('Vocus' or 'the Company') for the financial year ended 30 June 2017 ('FY17') in compliance with the provisions of the Corporations Act 2001 ('Corporations Act').

DIRECTORS

The names and details of the directors of Vocus during FY17 and at the date of this report are as follows:

David Spence

Non-Executive Chairman

B Com, CA (SA)

Appointed Director 24 June 2010
Appointed Chairman 30 June 2010

David Spence has been involved in over 20 internet businesses, as Chairman, Chief Executive Officer, Director, Shareholder or Advisor. Until February 2010, Mr Spence held the role of CEO at Unwired Ltd. From 1995 until 2000, he held various positions with OzEmail, including Managing Director and CEO, a business he grew to become Australia's second largest ISP. Mr Spence is a past Chairman of the Board of the Internet Industry Association. He is also Chairman of Paypal Australia, a Founder and Chairman of the National Narrowband Network and a Non-Executive Director of NetComm Wireless Limited. Other than those listed here, within the last three years, he has held no other listed company directorships.

During FY17, at various times, David was a member of the Risk and Audit Committees, following the resignations of Anthony Grist and Michael Simmons respectively.

Craig Farrow

Non-Executive Deputy Chairman

B Ec, Dip FS, CPMgr, SA Fin, FCA, FAICD

Appointed Director 22 February 2016
Appointed Deputy Chairman 22 February 2016

Craig Farrow is Chairman/Partner of Brentnalls SA, Chartered Accountants and former National Chairman of the Brentnalls National Affiliation of Accounting Firms. In 2012, Mr Farrow held the position of President of the Institute of Chartered Accountants in Australia and in 2013, he was Executive Chair of the CAANZ amalgamation project for ICAA and NZICA. Mr Farrow is Chairman of Murray River Organics Group Limited and is Non-Executive Director of Bulletproof Group Limited. He also acts as a director and Board adviser to several private consulting and trading enterprises across the agribusiness, software and manufacturing sectors.

Formerly Chairman of the Institute of Chartered Accountant's Public Practice Advisory Committee, Mr Farrow is also highly awarded, including being a Fellow of the Governor's Leadership Foundation and receiving the Institute of Chartered Accountants 1999 National President's Award for services to the Institute and the profession. Within the last three years, he has held no other listed company directorships.

In his role on the Vocus Board, Mr Farrow is Chair of the Remuneration Committee, and a member of the Audit Committee.

Vaughan Bowen

Executive Director

B Com, MAICD

Appointed Director 22 February 2016

Vaughan Bowen co-founded M2 in late 1999. In his nearly 12 years as Managing Director / CEO, he successfully steered M2 from a start-up technology enterprise to become a fast-growing, profitable, ASX listed, national telecommunications company. With a proven ability to successfully execute and integrate acquisitions, Mr Bowen was appointed Executive Director in October 2011, with a core focus on mergers and acquisitions ("M&A").

In addition to his M&A mandate, Mr Bowen maintains a close, highly effective engagement with the Vocus CEO and Executive Leadership team. He is Chairman of the Telco Together Foundation, a charitable foundation he created and seeded in 2011.

Mr Bowen is a member of the Australian Institute of Company Directors, was named as a finalist in the Entrepreneur of the Year in 2004 and 2009 and in 2012 he received the ACOMMS Communications Ambassador award for outstanding contributions to the telecommunications industry.

Within the last three years, he has held no other listed company directorships.

Robert Mansfield, AO

Non-Executive Director

B Com, DBHon, FCPA

Appointed 1 January 2017

Robert Mansfield AO has a varied background in business across a wide range of industries and held the CEO position at McDonald's Australia Limited, Wormald International Limited, Optus Communications and John Fairfax. In 1997 he filled a number of specialist roles for the Federal Government, including as Strategic Investment Coordinator, within the Prime Minister's Office. In November 1999 Mr Mansfield completed his Federal Government roles and was appointed Director of Telstra Corporation Limited. On 1 January 2000 he became Telstra's non-executive Chairman and served until April 2004.

Mr Mansfield's past directorships include McDonald's Australia Limited, CDS Technologies Limited, Datacraft Asia Limited, Dimension Data Holdings plc, Allco Finance Group Limited and Investec Bank (Australia) Limited. On 26 January 2000 Mr Mansfield was honoured with an Order of Australia award for his contribution to Australian business and economic development and to the telecommunications industry. On 15 December 2014 Mr Mansfield received a Doctor of Business degree, honoris causa, from The University of New South Wales in recognition of his business achievements, service to the community and to the University. His current board positions are as Chairman of the Board of Governors, Steve Waugh Foundation; the George Gregan Foundation; the National Drug and Alcohol Research Centre; the Advisory Board, Telco Together Foundation. Mr Mansfield is also a Member of the University of New South Wales Medicine Advisory Council. Within the last three years, he has held no other listed company directorships.

In his role on the Vocus Board, Mr Mansfield currently sits on the Technology & Transformation Sub-Committee. During FY17, Mr Mansfield was also a member of the Remuneration Committee.

Directors' Report (continued)

Rhoda Phillippo

Non-Executive Director

MSc, MInstD

Appointed Director 22 February 2016

Rhoda Phillippo is a globally experienced executive with more than 30 years' experience in the telecommunications and IT sectors, including time with British Telecom PLC, Telecom/Gen-i (now Spark) and M2 Group Ltd. Mrs Phillippo also has experience in the energy sector with Shell in New Zealand (now Z Energy) and Infratil Energy Australia (Lumo Energy).

Mrs Phillippo is Chair of Snapper Services Ltd in New Zealand; Chairs 3DMeditech, a start-up medical and dental 3D printing business in Australia, and is on the Board of LINQ (a technology start up in New Zealand). She is also an Alternate Director for the Future Fund's investment in Perth Airport.

Mrs Phillippo holds an MSc in Telecommunications Engineering and Business Management from University College London, where she was awarded the Founders Prize for best academic dissertation and the Masters Challenge Prize for leadership.

Mrs Phillippo's previous roles include Deputy Chair of Kiwibank; Chief Operating Officer of HRL Morrison & Co, a boutique infrastructure investment company; and most recently as Managing Director and Executive Chair of Vix Technology, a global transport ticketing services business.

In her role on the Vocus Board Mrs Phillippo Chairs the Risk Committee, the Wholesale Energy Risk Management Sub-Committee and the Technology and Transformation Sub-Committee. She is also a member of the Remuneration Committee.

Within the last three years, she has held no other listed company directorships.

Jon Brett

Non-Executive Director

B Acc, B Com, M Com, CA (SA)

Appointed Director of the First Wine Fund in 29 August 1998, which was then acquired and re-named Vocus Communications Limited 2010.

Mr Brett has extensive experience in the areas of management, operations, finance and corporate advisory. Mr Brett's experience includes several years as managing director of a number of publicly listed companies and was also formerly the non-executive deputy president of the National Roads and Motoring Association.

Mr Brett is currently on the board of several unlisted companies and is a former director of Investec Wentworth Private Equity Limited. In the mid 1990's, he was the CEO of Techway Limited, which pioneered internet banking in Australia.

In his role on the Vocus Board, Mr Brett is a Member of the Audit, Risk and Remuneration Committees.

Within the last three years, he has held no other listed company directorships.

David Wiadrowski

Non-Executive Director

B. Com, FCA, GAICD

Appointed 24 July 2017

Mr Wiadrowski has been a partner at PwC for the last 25 years and was the Chief Operating Officer of the PwC Australia Assurance business from 2009-2014. At PwC he was the lead audit partner on a number of PwC's major clients including Network Ten, Seven West Media, Aristocrat, APN News & Media, APN Outdoor, Macquarie Telecom and Hutchison Telecommunications.

Mr Wiadrowski's board experience includes being a Non-Executive Director of the Elevacao Foundation and Board Member of PwC Securities and PwC Indonesia. He is a Graduate of the AICD's Company Directors Course, a Fellow of the Chartered Accountants and has a Bachelor of Commerce.

In his role on the Vocus Board, Mr Wiadrowski is Chair of the Audit Committee and Member of the Risk Committee.

Christine Holman

Non-Executive Director

PGradDipMgt, MBA, GAICD

Effective 24 August 2017

Ms Holman has extensive experience in the media and telecommunications sector working across a variety of functions including finance, commercial, technology and marketing. She was formerly the CFO and Commercial Director at Telstra Broadcast Services and sat on their Executive & Remuneration Committees.

Ms Holman is currently on the Boards of HT&E Ltd, previously APN News & Media Ltd, CSR Ltd, The State Library of NSW Foundation and The Bradman Foundation. She has an MBA and Post-Graduate Diploma in Management from Macquarie University and is a Graduate of the Australian Institute of Company Directors Course.

Ms Holman will join the Audit Committee and will sit on the Board of ASC International Group, a subsidiary of Vocus, representing the Vocus Group Board.

Michael Simmons

Non-Executive Director

BCom, FCPA, ACIS

Appointed 22 February 2016

Resigned 29 March 2017 to join the Vocus Executive Team as Chief Executive – Enterprise & Wholesale.

James Spenceley

Executive Director

Appointed 30 June 2010
Resigned 11 October 2016

Anthony Grist

Non-Executive Director

Appointed 8 July 2015

Resigned 11 October 2016

GENERAL COUNSEL & COMPANY SECRETARY

Ashe-lee Jegathesan
General Counsel & Company Secretary
LLB (Hons), GAICD

Appointed 22 February 2016

Prior to being appointed General Counsel & Company Secretary of Vocus Group Limited, Ms Jegathesan held the corresponding role for M2 Group Limited from May 2014.

Ms Jegathesan brings to Vocus more than 20 years' experience as a practicing lawyer, both in private practice with leading law firms, and in-house particularly in the IT and Telecommunications sector with global companies such as Nortel Networks, 3D Networks, and lastly, Melbourne IT Ltd, where she held the position of General Counsel and Company Secretary.

As part of her role at Vocus, Ms Jegathesan also has executive oversight of the Group Human Resources and Risk functions.

Ms Jegathesan was the recipient of the Lawyers Weekly 2012 Women in Law ACLA In-House Award. She is a member of the Law Institute of Victoria and the Australian Corporate Lawyers Association and is a Graduate member of the Australian Institute of Company Directors. Ms Jegathesan holds an honours degree in Law from the Australian National University.

DIRECTORS' SHAREHOLDINGS

The following table sets out the details of each director's relevant interest in the Company at the date of this report.

	Shares
D Spence	482,796
C Farrow	455,000
V Bowen	8,625,933
J Brett	426,000
R Phillippo	9,500
R Mansfield	12,500
D Wiadrowski*	4,265
C Holman**	–

No director has:

- a relevant interest in the shares of any related body corporate of Vocus Group Limited; or
- a relevant interest in debentures of Vocus; or
- rights or options over shares in, or debentures of, Vocus; or
- rights under a contract that confer a right to call for or deliver shares in, or debentures of, Vocus.
- * D Wiadrowski commenced 24 July 2017
- ** C Holman commenced 24 August 2017

DIRECTORS' MEETINGS

The number of directors' meetings, including meetings of each Board committee held during FY17 and the number of meetings attended by each director is as follows:

	Board Meeting		Audit Committee		Risk Committee		Remuneration Committee		Nomination Committee		Technology & Transformation	
Directors	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to attend	Attended
David Spence (Chair)*	19	19	2	2	3	3	–	–	2	2	3	3
Craig Farrow (Deputy Chair)	19	19	2	2	–	–	4	4	2	2	3	3
Jon Brett	19	18	6	6	5	5	–	–	–	–	–	–
Rhoda Phillippo	19	18	–	–	5	5	4	4	–	–	3	3
Vaughan Bowen	19	19	–	–	–	–	–	–	–	–	–	–
Robert Mansfield**	12	12	–	–	–	–	2	2	–	–	3	3
Michael Simmons***	11	11	4	4	2	2	–	–	–	–	–	–
Tony Grist ***	5	5	3	3	–	–	2	2	–	–	–	–
James Spenceley ***	5	5	–	–	–	–	–	–	–	–	–	–

* D Spence replaced M Simmons on Risk Committee from February 2017
** R Mansfield appointed 1 January 2017
*** Michael Simmons resigned 29 March 2017, Tony Grist and James Spenceley resigned 11 October 2016

Directors' Report (continued)

PRINCIPAL ACTIVITY

Vocus Group Limited (ASX: VOC) (Vocus) is a vertically integrated telecommunications service provider, operating in the Australian and New Zealand markets. The Company owns an extensive national infrastructure network of metro and back haul fibre connecting all capital cities and most regional centres across Australia and New Zealand. Vocus' infrastructure now connects directly to more than 5,000 buildings, and 70 data centres in Australia and New Zealand. Vocus now offers both consumer and wholesale NBN services through all 121 permanent NBN points of interconnect and 100% coverage of the UFB network in New Zealand. Vocus listed on the ASX in 2010.

Vocus owns a portfolio of brands targeting the enterprise, small business, government and residential market segments across Australia and New Zealand. Vocus also operates in the wholesale market providing high performance, high availability and highly scalable communications solutions which allow service providers to quickly and easily deploy new services for their own customer base.

REVIEW OF OPERATIONS AND RESULTS

Please refer to the Chairman and CEO Review and the Operating and Financial Review for further details relating to Vocus operations and results for FY17. The Operating and Financial Review includes information that Vocus shareholders would reasonably require to make an informed assessment of Vocus' operations, financial position, business strategies and prospects for future financial years.

This Operating and Financial Review is to be read in conjunction with, and forms part of, the Directors' Report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following changes in the state of affairs of the Company occurred during the year:

Acquisition of Nextgen Networks

On 26 October 2016, Vocus completed the acquisition of Nextgen Networks and two associated development projects, the North West Cable System Project and the Australia Singapore Cable Project (**ASC Project**), for a total upfront consideration of A$793.2 million (subject to customary adjustments) and deferred consideration of up to A$23.3 million.

Integration of the Nextgen Networks assets is tracking to expectations following creation of the Group Transformation Office. Further detail on the integration is available in the Operating and Financial Review.

Funding

Funding for the above detailed acquisition of Nextgen Networks and the two associated development projects was achieved through the completion of a fully underwritten entitlement offer, comprising 1 for 8.90 accelerated, renounceable entitlement offer with retail rights trading and the successful completion of its fully underwritten institutional placement. The institutional placement and entitlement offer raised approximately $652 million on the issue of approximately 80 million ordinary shares.

The balance of funding was procured through the Company's existing syndicated debt facilities.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Other than the event/s described below, no other significant events have occurred which would affect the Company's future earnings, operations or state of affairs.

Final Dividend

The Vocus Board has made the decision not to declare a final dividend for FY17 in light of the opportunities for investment across the business including the ASC Project combined with the focus of the Board on reducing the overall leverage in the business.

Other Significant Events

As was disclosed to the ASX, the Vocus Board was approached by two Private Equity companies in 2017: Kohlberg Kravis Roberts & Co. LP (together with its affliates, "KKR") and Affinity Equity Partners (S) Pte Ltd and its affliates ("Affinity"). The Company notified the ASX on 21 August 2017 that discussions with both KKR and Affinity around a potential transaction to acquire 100% of the shares in Vocus have now ceased.

Throughout the due diligence process the Company continued to pursue its standalone business plans. The Vocus Board and management believe these programs will deliver substantial returns for shareholders into the medium and long-term future.

LIKELY FUTURE DEVELOPMENTS AND RESULTS

The Operating and Financial Review, on page 27, which forms part of the Directors' Report outlines business prospects and strategies for future financial years in order to facilitate the informed decision making of shareholders.

ENVIRONMENTAL REGULATION AND PERFORMANCE

Vocus is not subject to any significant environment regulation under any law of the Commonwealth or of a State or Territory. Please refer to the Company's website for a copy of the Sustainability Report www.vocusgroup.com.au

CORPORATE GOVERNANCE

Our Corporate Governance Statement, detailing our compliance with the ASX Corporate Governance Council's "Corporate Governance Principles & Recommendations – 3rd Edition" can be found online at the Company's website at http://vocusgroup.com.au/about-us/corporate-governance/.

The Board believes that the Vocus corporate governance framework and policies comply with corporate governance best practice in Australia.

DIVIDENDS

Dividends paid during the financial year were as follows:

	2017 $'000	2016 $'000
Final dividend for the year ended 30 June 2016 of 8.00 cents per ordinary share (2015: 2.00 cent per ordinary share) paid on 4 October 2016	49,402[1]	4,606
Interim dividend for the year ended 30 June 2017 of 6.00 cents per ordinary share (2016: 7.60 cents per ordinary share) paid on 21 April 2017	37,221[1]	40,443
Special dividend for the year ended 30 June 2016 of 1.90 cents per ordinary share (2015: 5.10 cents) paid on 6 April 2016 (2015: 8 July 2016)	–	10,110
	86,623	**55,159**

1. Represents the gross dividend entitlement of all shareholders

INDEMNITIES AND INSURANCE

The Vocus Constitution provides that to the extent permitted by law and except as may be prohibited by the Corporations Act, each director and secretary of Vocus (and its subsidiaries) is indemnified against any liability (other than for legal costs where the indemnity is limited to reasonable legal costs) incurred by that person in the performance of their role.

The current and former directors and secretary of Vocus, as well as the Group CEO, CFO, Chief Executives of the business divisions and the Commercial Director are also party to a customary deed of access and indemnity.

During FY17, Vocus paid a premium in respect of a contract insuring the directors and officers of Vocus against any liability that may arise from the carrying out of their duties and responsibilities to the extent permitted by the Corporations Act. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the deductible or premium.

AUDITOR INDEMNITY

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor. During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

There were no applications for leave under section 237 of the Corporations Act made in respect of Vocus.

NON-AUDIT SERVICES

The amount paid or payable to the Company's external Auditor, Deloitte Touche Tohmatsu, for non-audit services during the year was $748,158. Details of the amounts paid for non-audit services are set out in note 38 to the financial statements.

In accordance with written advice from the Audit Committee, the directors are satisfied that the provision of non-audit services by Deloitte is compatible with the general standards of independence for auditors imposed by the Corporations Act for the following reasons:

- All non-audit services have been reviewed and approved by the Audit Committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professionals and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 49 of this report.

ROUNDING OF AMOUNTS

Vocus is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 (formerly ASIC Class Order 98/0100), and in accordance with that Instrument, amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

On behalf of the Directors,

David Spence

Non-Executive Chairman

Remuneration Report

Introductory Letter from Craig Farrow, Chair of the Remuneration Committee

Dear Fellow Shareholders,

On behalf of the Board, I am pleased to present the FY17 Remuneration Report, for which we will seek your support at the 2017 Annual General Meeting (AGM).

This report will outline the way our Executive Team is incentivised to deliver on our goals as well as detailing outcomes for the financial year to 30 June 2017.

Our approach to remuneration is designed to attract and help retain the right talent to deliver on the company's strategy, while aligning executive reward with company performance and shareholder outcomes. Our remuneration framework is intended to ensure that executive remuneration outcomes reflect whole of company performance, and reinforce our goals and values. It is based on our key value drivers and critical performance requirements, for both short and longer term outcomes.

Last year, following the merger with M2 Group Ltd, with the assistance of Aon Hewitt and Egan Associates (both external remuneration specialist consultants), the Remuneration Committee undertook a comprehensive review of Vocus' approach to executive remuneration, compared to other members of our industry as well as our ASX peers. This will be an ongoing process to ensure that Vocus practices remains in line with general trends.

In FY17 we delivered 50% growth in underlying NPAT compared to the prior corresponding period on an 119% increase in revenue. This result reflects a full 12 month contribution from the M2 business, (an additional $111.8m EBITDA compared to pcp) and an 8 month contribution from the Nextgen Networks business (the acquisition of which was completed on 26 October 2016, representing $62.5m EBITDA).

We acknowledge that our FY17 revenue and EBITDA performance was not at the level anticipated by the Vocus Board or the market at the beginning of the financial year. The letter from our Chairman and CEO as well as the Operating and Financial Review address some of the factors, both internal and external, which have impacted our financial performance and Vocus' share price.

Accordingly, those executives who form part of Key Management Personnel, other than the Group CEO (who elected to forfeit 100% of his potential STI award for FY17), received an average of 24.125% of their potential STI award, based on the company's financial performance for FY17 and the achievement of individual Key Performance Indicators (KPI's). The average achievement of KPI's for the Senior Executives, including the Group CEO, was 88.9%. The FY17 financial performance measure was not met and the Executives forfeited 50% of their potential STI as a result. Entitlement to the remaining 50% of the potential STI, was based upon KPI achievement, however, the Board elected to defer payment of 50% of that STI entitlement for all Executives, subject to a further first half FY18 budget earnings achievement hurdle. This led to the average STI award set out above, and reflects the principle that Executive Remuneration outcomes are directly linked to profit generation and shareholder interests.

Performance rights from legacy Amcom and M2 LTI plans were tested in July 2016, at the end of the relevant performance period. Further detail of the performance measures which were satisfied, and the performance rights which vested, are provided in this report.

Looking forward to FY18, it is anticipated that the remuneration increases which had previously been planned for both Board and Executives (as flagged in last year's remuneration report) will be deferred, and that these levels will remain mainly unchanged. LTI and STI measures in the form of both financial and non-financial KPI's will be established for the CEO and Executive team in the first three months of the financial year (STI's) and at the next grant (LTI's).

Our Board and Executive Team remain committed to delivering on our strategy and improving returns to shareholders. We invite your feedback on this report and our framework and thank you for your continued support.

Craig Farrow
Chair, Remuneration Committee

Remuneration report

This report details the remuneration framework and outcomes for Vocus' Key Management Personnel (KMP) for the year ended 30 June 2017 (FY17). The information in this Report has been prepared based on the requirements of the Corporations Act 2001 (Cth) (and Corporations Regulations 2001 (Cth)) and the applicable accounting standards.

The Remuneration Report is designed to provide shareholders with an understanding of Vocus' remuneration policies and philosophy and the link between the remuneration paid to KMP and Vocus' strategy and financial performance. Individual remuneration outcomes for Vocus' KMP are also provided in this Remuneration Report.

KMP are assessed each year and comprise the Directors of the company and Senior Executives. The term "Senior Executives" refers to the Group Chief Executive Officer (CEO) and those executives with authority and responsibility for planning, directing and controlling Vocus' activities, directly or indirectly.

For FY17, the following were assessed to be KMP:

Directors	
David Spence	Chairman
Craig Farrow	Deputy Chairman
Jon Brett	Non-executive Director
Rhoda Phillippo	Non-executive Director
Bob Mansfield	Non-executive Director (appointed 1 January 2017)
Vaughan Bowen	Executive Director
Tony Grist	Non-executive Director (resigned 11 October 2016)
Michael Simmons	Non-executive Director (resigned 29 March 2017)
James Spenceley	Executive Director (resigned 11 October 2016)

Senior Executives	
Geoffrey Horth	Group CEO
Mark Wratten	Group Chief Financial Officer (appointed 16 January 2017)
Scott Carter	Chief Executive, Consumer
Michael Simmons	Chief Executive, Enterprise & Wholesale (appointed 29 March 2017)
Mark Callander	Chief Executive, New Zealand
Richard Correll	Chief Financial Officer (ceased 24 December 2016)
Matt Hollis	Director, Corporate & Wholesale (ceased 24 December 2016)
Christopher Deere	Chief Technology Officer (ceased 31 March 2017)

Except as otherwise noted, all Directors and Senior Executives have held their positions for the duration of FY17.

Changes in KMP after the end of FY17

David Wiadrowski was appointed as a non-executive Director on 24 July 2017. Christine Holman was appointed as a non-executive Director effective from 24 August 2017. Details of their remuneration are not discussed in the Remuneration Report for FY17 but will be discussed in the FY18 Remuneration Report.

Remuneration Report (continued)

GOVERNANCE, POLICY AND FRAMEWORK

Governance

Remuneration Committee

The Remuneration Committee comprises independent non-executive Directors. During FY17, the Committee was chaired by Craig Farrow, Deputy Chairman of the Board. Other members of the Committee were:

Rhoda Phillippo

Tony Grist (until his resignation from the Board on 11 October 2016)

Bob Mansfield AO (from 1 January 2017)

From 1 August 2017, the members of the Remuneration Committee are Craig Farrow (Chair), Rhoda Phillippo and Jon Brett.

The Remuneration Committee is responsible for monitoring and advising the Board on remuneration matters, including setting Executive remuneration each year, which it does in line with the following objectives:

- aligning the remuneration framework, structures and decisions with shareholder interests;
- reinforcing a business culture of growth, innovation and agility;
- attracting and retaining the best talent to lead Vocus' to success; and
- managing people risks by encouraging prudent decision making, and
- giving due consideration to the law and corporate governance principles.

The Remuneration Committee also reviews and makes recommendations to the Board on Vocus' overall remuneration strategies, policies and practices.

Use of remuneration advisors

Under the provisions of the Committee's Charter, the Committee may engage the assistance and advice from external remuneration consultants. To ensure that any recommendations made by remuneration consultants are provided without undue influence being exerted by Executives, external remuneration consultants deliver their advice directly to members of the Committee. No Executives were present during any of the meetings or conversations held between the external remuneration consultants and members of the Committee.

In FY17, Egan Associates Pty Ltd ("Egan") continued to provide ongoing oversight of Vocus' board and executive remuneration framework and strategy.

The fees paid to Egan for services provided in FY17 amounted to $7,854.

No remuneration recommendation was made by Egan.

Voting and comments made at Vocus' 2016 Annual General Meeting ('AGM')

At the last AGM, 96.68% of the shareholders who voted, in person or by proxy, voted to adopt the remuneration report for the year ended 30 June 2016.

Remuneration policy and framework

Relationship between remuneration and performance generally

Executive remuneration is directly linked to Vocus' earnings and shareholder wealth over the long term. A summary of the key metrics relating to Vocus earnings and shareholder wealth or Total Shareholder Returns (TSR) are set out below.

Earnings for FY17 and the previous four financial years

	FY13 $'000	FY14 $'000	FY15 $'000	FY16 $'000	FY17 $'000
EBITDA	17,020	32,067	52,247	194,077	335,479
EBIT	8,155	20,355	33,563	116,469	141,914
Profit after income tax	5,098	12,925	19,850	64,091	(1,464,870)

TSR for FY17 and the previous four financial years

	FY13	FY14	FY15	FY16	FY17
Share price at financial year end ($)	2.10	4.76	5.77	8.42	3.37
Total dividends declared* (cents/share)	1.00	1.80	7.30	17.50	6.0
Diluted earnings per share** (cents/share)	6.85	15.86	19.08	18.60	(237.65)
Underlying diluted earnings per share** (cents per share)	11.45	16.08	17.38	29.87	24.65

* *includes special dividends*
** *the weighted average number of shares for 2015 and 2016 have been restated for the effect of the 1-for-8.9 rights issue completed in July 2016 in accordance with AASB 133 'Earnings per Share'*

Non-executive Director Remuneration Policy and framework

The non-executive Director remuneration policy is designed to provide fair remuneration that is sufficient to attract and retain non-executive Directors with the appropriate level of experience, knowledge, skills and judgment to steward the Company's success.

Non-executive Director remuneration consists of base fees and fees for membership on board committees, all of which are inclusive of all superannuation and other contributions.

	Board Fees	Audit Committee, Risk Committee Remuneration Committee	Wholesale Energy Risk Management Committee	Technology & Transformation Committee[1]	Nominations Committee[2]
Chairman[3]	$375,000	–	–	–	–
Deputy Chairman	$180,000	–	–	–	–
Non–executive Director	$140,000	–	–	–	–
Committee Chair	–	$30,000	$15,000	$60,000	–
Committee Member	–	$15,000	–	$15,000	–

1. Fee take into consideration the additional workload and expertise required of this role
2. Included in Board Fees
3. Fee includes service on all committees

Non-executive Directors also receive reimbursement of expenses properly incurred while carrying out their director duties.

At the last AGM, the non-executive Director annual aggregate fee pool was set at $1,700,000. Actual fees paid to non-executive directors in FY17 totalled $1,298,066.

As flagged in the prior financial year, an external benchmarking exercise was undertaken following the merger of Vocus with M2 Group Limited ("**M2**") which identified a reasonably substantial gap between the then current remuneration for non-executive Directors and the relevant industry benchmarks. Following an initial framing of the base director & committee fees at the point of the merger (February 2016) to align remuneration across the Board and create a consistent starting point, a two-stage increase was proposed to bring the level of fees payable to non-executive Directors to an appropriate benchmark and to enable Vocus to continue to seek, attract and retain qualified and talented Directors.

The first increase was implemented with effect from 1 July 2016. A further increase was proposed to be effective 1 July 2017; however, the Board has agreed that this increase should be deferred, and will be tabled for consideration again prior to FY19.

Non-executive directors do not receive incentive or performance based remuneration, nor are they entitled to retirement or termination benefits.

Executive Director Remuneration Policy and Framework

Executive Director remuneration is a combination of the remuneration policy objectives for non-executive Directors and for Executives, reflective of the hybrid nature of this role. It also considers an Executive Director's skill and experience, and the breadth of his or her mandate. Remuneration consists of a mix of cash and equity based remuneration, to create alignment with Vocus' longer term strategic growth.

Senior Executive Remuneration Policy and Framework

The Board is committed to developing and maintaining Senior Executive remuneration policy that is:

– equitable and aligned with the long-term interests of Vocus and its shareholders (including profit as a core component of plan design and sustainable growth in shareholder wealth); and
– which enables Vocus to attract and retain skilled Executives.

As a result of the benchmarking completed last year Vocus initiated a two year plan with the objective of bringing the annual remuneration packages paid to executives in line with market competitive remuneration relative to the market median. The Committee aims to ensure that Executives are appropriately and fairly remunerated for their roles by FY19.

Remuneration Report (continued)

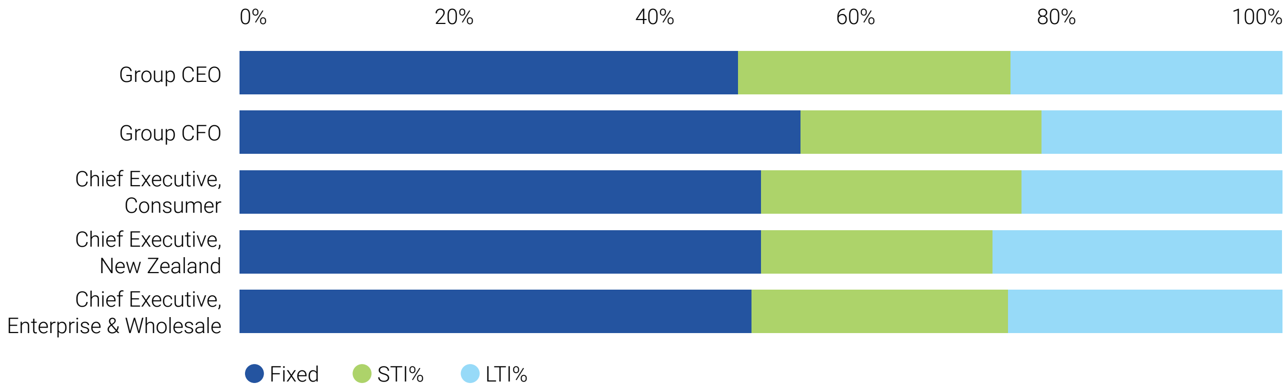
Remuneration policy and framework (continued)

Executive Remuneration Framework

Fixed	**Variable / "At Risk"**	
Based on market benchmarks that are fair and reflect an Executive's qualifications, proficiency, experience and performance.	Designed to reward achievement of Vocus' strategic goals over short and long term perspectives.	
	Short-term Incentive (STI) – Cash Aligned to shareholder value creation and overall business strategy with focus on short term financial and non-financial hurdles.	*Long term incentive (LTI) – Equity* Aligned to the achievement of increased shareholder wealth over the longer term.
Consists of cash salary, superannuation and other approved benefits	Based on performance assessed against both a financial hurdle and individual key performance indicators ('KPI's') being achieved.	Consists of Performance Rights over Shares which would vest after a three-year performance period based on several factors, including achieving a predetermined level of compound annual growth in Vocus' reported earnings per share (EPS) and achievement of annual target synergies.

In FY17, the level and mix of Executive remuneration was:

Remuneration mix



The mix of remuneration in FY17 is similar to the mix adopted in FY16 for 'like', and it is not intended that the principles applied to the remuneration mix for FY18 be varied.

Short Term Incentives (STI)

The Executive STI plan contemplates STI payments based on the following performance measures, both of equal weighting:

(a) Vocus achieving its published ASX guidance for net profit after tax ('NPAT') for the relevant financial year; and

(b) material achievement by the Executive of KPIs for the year.

KPI targets are based on a combination of budgeted revenue and cost, growth initiatives, customer and employee engagement, and other qualitative or project driven outcomes (including transformation and integration activities), as well as leadership, values and behavioural expectations.

Long Term Incentives (LTI)

There are several equity-based LTI plans currently in operation (both legacy and current). This has resulted primarily from the combination of Vocus, Amcom and M2 over FY16. Although existing entitlements in legacy plans remain, no additional grants have been, or are planned to be, made under these legacy plans.

Current – Vocus LTI Performance Rights Plan

The LTI Performance Rights Plan ("LTI Plan") is aimed at incentivising Executives and Senior Leaders to achieve targets which demonstrate sustainable growth. The LTI Plan also acts to retain key leaders in the business who have the capacity to influence strategy and direction and therefore supports Vocus' performance and aligns with the interests of shareholders over the longer term. Senior Leaders are viewed as the next tier of management below the Executive team and, other than in limited exceptions, report directly to one or more Executives.

A snapshot of the LTI Plan is set out in this table:

Form of grant	– Performance rights to be settled in Vocus shares – Participants are not required to pay for the grant or exercise of performance rights – Each Performance Right entitles the holder to one ordinary share in Vocus if the applicable Vesting Conditions are met – Performance Rights do not carry any voting or dividend entitlements
Frequency of grant	Annual
Number of performance rights granted	Based on the LTI "at risk" component of an Executive's total remuneration, measured on a face value basis, based on the value weighted average price (VWAP) value of the shares for an appropriate reference month (in FY17, the month was January 2017). Senior Leaders are granted a fixed number of Performance Rights.
Vesting Date	Upon expiry of the Vesting Period and testing of the Vesting Conditions
Expiry Date	2 years from Vesting Date. Performance Rights may be exercised at any time between the Vesting Date and the Expiry Date. The exception to this is Mr Bowen's Performance Rights, which are automatically converted to shares issued to Mr Bowen on the relevant Vesting Dates.
Vesting Period	3 year period (for Executives) or a 2 year period (for Senior Leaders), from 1 July in the year of grant to 30 June at the end of the Vesting Period
Vesting Conditions	Vesting Conditions include achieving a predetermined level of compound annual growth in Vocus' reported earnings per share ("EPS") and achievement of annual target synergies during the Vesting Period. The 'base point' for measuring the rate of EPS growth is the underlying EPS disclosed in Vocus' audited annual financial accounts for the financial year immediately preceding the year of grant.
Terminated Executives and Senior Leaders	If a good leaver, vesting will be on pro-rata basis at the discretion of the Board
Change of control	Vesting on pro-rata basis at discretion of the Board.
Face value per right (at grant date)	For FY17 it was $4.2449

Non-executive Directors do not participate in any of the STI or LTI plans.

FY17 Remuneration outcomes

Executive Directors

During FY17, there were 3 Executive Directors:

- Vaughan Bowen
- James Spenceley (until his resignation on 11 October 2016) and
- Michael Simmons (from 9 January 2017 until 29 March 2017, as interim Executive Director, Corporate & Wholesale Australia, prior to resigning his position as a director of the company and taking up the role of Chief Executive, Enterprise & Wholesale, on a permanent basis.

The Board does not currently anticipate that any person will be appointed as an additional Executive Director of Vocus in FY18.

Vaughan Bowen

At the 2016 AGM, shareholders approved a one-off grant of 100,000 Performance Rights to Mr Bowen, reflecting an equity component to his remuneration. The Performance Rights will vest in equal tranches on each of 1 July 2017, 1 July 2018 and 1 July 2019, subject to Mr Bowen's continued employment with Vocus at the relevant vesting dates. No further grant of equity based remuneration is proposed to be made to Mr Bowen in FY18. The first tranche vested on 1 July 2017.

As disclosed in last year's Remuneration Report, Mr Bowen is entitled to a legacy cash incentive payment relating to the longer-term performance of businesses which were acquired by M2, subject to performance measures being met. In FY17, Mr Bowen received payment of $350,000 being the second tranche of the incentive relating to the acquisition of the CallPlus business in New Zealand, the performance measures which were set at the time of the acquisition of that business (namely, the continued achievement of certain revenue and profit targets). The final tranche of this incentive ($300,000) remains due and payable in FY18 if the last of the performance measures are satisfied.

Remuneration Report (continued)

FY17 Remuneration outcomes (continued)

Michael Simmons (from 9 January 2017 to 29 March 2017)

During the period 9 January 2017 to 29 March 2017, Michael Simmons acted as an Executive Director of Vocus, holding the position of interim Executive Director, Corporate & Wholesale Australia. The terms of his appointment as Executive Director were disclosed to the ASX in accordance with the ASX Listing Rules.

The remuneration for this role consisted of a fixed monthly payment and there was no variable component or incentive paid to Mr Simmons in connection with this appointment.

On 29 March 2017, Mr Simmons resigned from the Board of Directors and accepted the position of Chief Executive, Enterprise & Wholesale, on a permanent basis. Mr Simmons did not receive any termination payment or any retirement benefits as a result of his resignation as a Director.

James Spenceley (resigned 11 October 2016)

James Spenceley was appointed Executive Director following the merger of Vocus with M2 in February 2016, and resigned from that role on 11 October 2016. Mr Spenceley did not receive a termination payment (other than the payment of salary in lieu of notice). At that time, Mr Spenceley did not hold any unvested shares under the Vocus Loan Funded Share Plan ("LFSP"). All vested shares under the LFSP which were not dealt with by the expiry date in accordance with the terms of the LFSP rules have since been forfeited.

As disclosed to the ASX on 27 June 2016, a once-off short term incentive of $125,000 was paid to Mr Spenceley in FY17 to reflect his contributions in FY16 as the Managing Director and CEO of Vocus and in the transition of responsibilities to the current CEO.

Senior Executives

KPI outcomes for FY17

At the end of FY17, the Remuneration Committee reviewed Vocus' audited annual results and individual performance against non-financial targets, as well as each Executive's contribution to overall business performance, and the transformation and integration activities undertaken throughout FY17.

The table below displays the KPI assessments for Senior Executives, for the FY17 full year:

	KPI achievement						
Executive	**Other Financial (30%)**	**Growth (10%)**	**Customer Satisfaction (10%)**	**Business Improvement (20%)**	**Leadership Values & Behaviours (15%)**	**Team Engagement (15%)**	**Total achieved (%)**
Geoff Horth	30%	0%	9%	17%	15%	15%	86%

	KPI achievement					
Executive	**Other Financial (50%)**	**Customer Satisfaction (10%)**	**Business Improvement (20%)**	**Leadership Values & Behaviours (10%)**	**Team Engagement (10%)**	**Total achieved (%)**
Mark Wratten	50%	10%	20%	10%	10%	100%

	KPI achievement						
Executive	**Other Financial (40%)**	**Growth (20%)**	**Customer Satisfaction (10%)**	**Business Improvement (10%)**	**Leadership Values & Behaviours (10%)**	**Team Engagement (10%)**	**Total achieved (%)**
Scott Carter	30%	10%	10%	10%	10%	10%	80%

	KPI achievement						
Executive	**Other Financial (40%)**	**Growth (20%)**	**Customer Satisfaction (15%)**	**Business Improvement (5%)**	**Leadership Values & Behaviours (10%)**	**Team Engagement (10%)**	**Total achieved (%)**
Mark Callander	37%	20%	13.5%	5%	10%	10%	95.5%

	KPI achievement						
Executive	**Other Financial (30%)**	**Growth (20%)**	**Customer Satisfaction (20%)**	**Business Improvement (10%)**	**Leadership Values & Behaviours (10%)**	**Team Engagement (10%)**	**Total achieved (%)**
Michael Simmons	30%	20%	20%	10%	10%	10%	100%

STI outcomes for FY17

STI entitlements are based on the following performance measures, both of equal weighting:

(a) Vocus achieving its published ASX guidance for net profit after tax ('NPAT') for the relevant financial year – this measure was not satisfied and therefore 50% of the maximum STI opportunity was forfeited by all Executives; and

(b) material achievement by the Executive of KPIs for the year – KPI achievements are set out above. However, despite the KPI achievements above entitling the Executives to receive a certain STI award (out of the maximum 50% STI opportunity), the Board elected to defer 50% of the STI award amount to be paid in the second half of FY18. This deferred STI award is subject to a subsequent additional vesting condition which is linked to Vocus' financial performance for first half of FY18 being in line with the forecasts underpinning Vocus' EBITDA guidance for the FY18 full year.

In addition, despite Geoff Horth achieving an assessment of 86% of his set KPI's, he has elected to forfeit the entirety of his FY17 STI entitlement.

Mark Callander also received payment of a one-off retention bonus of $94,447 (the Australian dollar equivalent of NZ$100,000) for his continued employment with Vocus for a period of 12 months following M2's acquisition of CallPlus. The right to receive this bonus was granted to Mr Callander by M2 in FY15.

The STI measures for FY18 will be established for the Group Chief Executive Officer and Executive team in the first three months of FY18.

LTI Plans

The total number of Performance Rights under the LTI Plan which were granted, vested (and automatically converted into shares) and shares issued in FY17 are:

Balance at 1 July 2016	Vested & Converted to shares	Lapsed/ Forfeited	Granted	Balance at 30 June 2017
927,109	(419,336)	(30,148)	1,039,868	1,517,493

LTI Plan Outcomes (Legacy Plans)

The performance rights which were granted to replace cancelled performance rights granted to certain Amcom and M2 employees prior to the relevant schemes of arrangement were tested on 1 July 2017 and having met the required performance conditions, vested and were automatically converted to shares. The vesting table is detailed below:

Legacy Plan	Performance measure	Test Date	% vested	No of Performance Rights vested
M2 FY14 LTI plan[2]	EPS measure deemed satisfied at issue (see Scheme booklet) RTSR[1] measure	1 July 2016	100%	213,973
M2 FY15 LTI plan[2]	Accelerated vesting due to termination of holder's employment	N/A	Pro-rated	62,905
Amcom LTI plan[3]	Continued employment of holder at vesting date	8 July 2016	100%	142,458

1. RTSR measure = Relative Total Shareholder Return measure. See below for further details.
2. 1 performance right = 1 share + dividends which would have been payable during the performance period in respect of the vested performance rights, as additional shares
3. 1 performance right = 1 share

Vesting of 50% of the performance rights in each tranche of the legacy M2 plan is subject to the satisfaction of a Relative Total Shareholder Return (RTSR) measure. This measures Vocus' total shareholder return performance over the 3-year Performance Period relative to movements in the following indices over the same period:

– the S&P/ASX 200 Index; and
– the S&P/ASX 200 Telecommunication Services Index.

Total shareholder return is the growth in share price plus dividends, assuming dividends are reinvested. To minimise the impact of any short-term share price volatility, Vocus' TSR is calculated using the VWAP over the 3 months up to and including the Grant Date of the M2 shares at the time, and adjusted according to the formula set out in this letter, and the end of the Performance Period, respectively.

The Relative TSR Performance Condition requires that Vocus' TSR growth over the Performance Period exceeds the 'threshold' growth rate (i.e. Index performance + 3%) before any of the Performance Rights vest.

The performance rights in the legacy M2 LTI FY14 plan which were tested in July 2016 satisfied the above measure and therefore vested.

The Vesting Period for the legacy M2 LTI plan (performance rights) for FY15 ended on 1 July 2017. Vesting Conditions have been tested and will be disclosed in further detail in the Remuneration Report for FY18.

In FY17, Executives and Senior Leaders were granted performance rights under the Vocus LTI Plan for FY17. Full disclosure on the Vesting Conditions applicable to this grant will be provided in the relevant year of vesting.

Remuneration Report (continued)

FY17 Remuneration outcomes (continued)

Performance Rights on issue as at 30 June 2017 are as follows:

Grant Date	Vesting Date	Number of Performance Rights	Performance Measures
22 Feb 2016	1 July 2017	159,664	Replacement M2 Performance Rights – earnings per share (EPS) Vesting Condition deemed satisfied at time of issue. Relative total shareholder return (TSR) to be measured.
22 Feb 2016	1 July 2018	158,281	Replacement M2 Performance Rights – earnings per share (EPS) Vesting Condition deemed satisfied at time of issue. Relative total shareholder return (TSR) to be measured.
1 April 2017	1 July 2018	540,000	The Rights issued to Senior Leaders (not including Executives) are subject to EPS and Synergies Achievement Vesting Conditions, over a two year performance period from 1 July 2016 to 1 July 2018.
1 April 2017	1 July 2019	399,868	The Rights issued to the Executive Team are subject to EPS and Synergies Achievement vesting conditions, over a three year performance period from 1 July 2016 to 1 July 2019.
1 April 2017	1 July 2017 1 July 2018 1 July 2019	33,333 33,333 33,334	Following approval by shareholders at the AGM, these Performance Rights were issued to the Executive Director (Vaughan Bowen) as part of his 2016 remuneration vest in three equal tranches, subject to on-going and continued employment at the relevant Vesting Dates.

Legacy Equity Based Compensation Plans

Employee Share Option Plan ("Option Plan")

The Option Plan is a legacy plan, established in 2010. Under this Option Plan, each option converts into one share on exercise. No amounts are paid or payable by the recipient of the option in respect of the option grant, although an exercise price is set at the date the options are granted. Options (in themselves) carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. All outstanding options have now vested, and no new options were granted in FY17 and no further options under the Option Plan are anticipated to be issued in any future financial year

The table below summarises the number of options outstanding as at 30 June 2017:

Issue date	Expiry date	Exercise price*	Number of options
1 August 2011	31 July 2018	$2.39	46,668
11 May 2012	10 May 2019	$1.89	7,500
22 February 2016	22 February 2023	$5.09	135,418
Total			**189,586**

* The exercise price of all options were reduced as of 5 August 2016 in accordance with the formula set out in the rules of the Options and Performance Share Plan, consistent with ASX Listing Rule 6.22.2, following the completion of Vocus' fully underwritten 1 for 8.90 accelerated renounceable entitlement offer with retail rights trading of Vocus ordinary shares. For further information see announcement 'Change to exercise price of options' lodged with the ASX on 28 July 2016.

The table below summarises the number of options that were exercised during FY17:

Grant date	Exercise price*	Number of shares issued
1 October 2010	$0.50	135,000
13 May 2011	$2.00	6,666
11 May 2012	$2.00	61,334
22 February 2016	$5.09	–
Total		**203,000**

* No amounts were unpaid in respect of exercised Options

Loan Funded Share Plan ("**LFSP**")

Shares were issued to Vocus Blue Pty Limited ("**Vocus Blue**"), a wholly-owned Subsidiary of Vocus, as part of the LFSP, a remuneration scheme designed to attract and retain key employees. Vocus Blue's sole purpose is to hold shares as trustee for the relevant beneficiaries (its Participants).

Participants are granted an interest-free loan by Vocus to purchase the beneficial interest in Vocus shares. The loans are limited recourse and any dividends received on the shares are used to reduce the loan balance net of tax payable. Participants are required to meet service requirements and performance conditions before being entitled to acquire full title to the shares and are required to repay the loan to do so. If Participants do not repay their respective loans before the expiry date of the loan (at the latest), the shares under the LFSP will be disposed of or bought back and the consideration on disposal or buy-back will be applied in reduction of the outstanding loan balance.

The shares held by Vocus Blue under the LFSP are included in the number of Vocus shares on issue. As at the date of this Remuneration Report, Vocus Blue held 2,149,364 shares on trust of behalf of its Participants. Of this total number, 741,395 shares were shares issued to former Vocus KMP. No shares were issued to Vocus Blue under the LFSP in FY17. No current KMP hold any shares under the LFSP.

A summary of LFSP shares held by former KMP is listed in the table below:

	Balance at 1 July 2016	Additions	Disposals/ Other[1]	Balance 30 June 2017
James Spenceley	1,555,907	–	1,555,907	–
Chris Deere	319,228	–	319,228	–
Richard Correll	639,885	–	639,885	–
Matt Hollis	66,667	–	66,667	–

1. Classed as disposal on cessation of employment or ceasing to be KMP (as relevant).
* There were no shares issued under the LFSP during FY17. Accordingly, fair value per share and issue price per share not included.

A summary of loans outstanding in relation to LFSP shares held by former KMP is listed in the table below:

	Balance at 1 July 2016	Additions	Reductions	Balance 30 June 2017
James Spenceley	6,278,115	–	6,278,115[1]	–
Chris Deere	1,711,490	–	1,711,490[1]	–
Richard Correll	2,463,574	–	2,463,574[2]	–
Matt Hollis	335,020	–	335,020[1]	–

1. LFS Plan shares were forfeited on cessation of employment and loan balance extinguished in accordance with the LFS Plan rules.
2. Classed as disposal on ceasing to be KMP.

OTHER REQUIRED DISCLOSURES

Service agreements

Remuneration and other terms of employment for KMP are formalised in service agreements. Agreements with the Group CEO, Executives (KMP) and Executive Directors are contracts of service. Agreements with non-executive Directors are contracts for service. Details of the relevant terms of these agreements are as follows

Key term	Executive Directors	Group CEO	Other Executives (KMP)
Duration of agreement:	No fixed term	No fixed term	No fixed term
Period of notice required to terminate agreement (by the relevant KMP):	Three months	Six months	Three months
Period of notice required to terminate agreement (by Vocus):	Three months	Twelve months	Three months
Potential Termination benefits	– Accelerated vesting of incentives pro-rated basis, at the Board's discretion at the time – Statutory leave entitlements	– In addition to notice, if termination occurs as a result of fundamental change, termination payment equal to 9 months' Fixed Remuneration. No additional payments if Company terminates employment otherwise with notice. – Accelerated vesting of LTI on a pro-rated basis, at the Board's discretion at the time – Statutory leave entitlements	– In addition to notice, maximum termination payment of 6 months' Fixed Remuneration, with additional notice periods / payments applicable for some KMP in certain change of control scenarios – Accelerated vesting of LTI on a pro-rated basis, at the Board's discretion at the time – Statutory leave entitlements
Remuneration:	As disclosed in the relevant section of the Remuneration Report.		

Remuneration Report (continued)

OTHER REQUIRED DISCLOSURES (continued)

Loans

Vocus has not made, guaranteed or secured, directly or indirectly, any loans in respect of KMP (or their close family members or controlled entities, other than in connection with the LFS Plan detailed in this Remuneration Report.

Other transactions

There were no transactions of the kind contemplated in item 22 of Regulation 2M.3.03 of the Corporations Regulations during FY17.

STATUTORY REMUNERATION DISCLOSURES

The following tables set out the statutory disclosures required under the *Corporations Act 2001* (Cth), *Corporations Regulations 2001* (Cth) and in accordance with the relevant Accounting Standards.

Remuneration Tables

Details of the remuneration of the Directors and other KMP (including comparative data for FY16) are set out in the following tables. The amounts shown are equal to the amount expensed in the company's financial statements.

Directors

		Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	2017 *2016*	Cash salary and fees $	Bonus / commission $	Non-monetary $	Super-annuation $	Employee leave $	Equity-settled ** $	Total $
Non–executive Directors								
D Spence		362,884	–	–	19,616	–	–	382,500
	2016	*213,739*	–	–	*18,330*	–	–	*232,069*
C Farrow[4]		228,750	–	–	–	–	–	228,750
	2016	*65,920*	–	–	–	–	–	*65,920*
J Brett		167,425	–	–	17,575	–	–	185,000
	2016	*147,662*	–	–	*14,028*	–	–	*161,690*
R Phillippo[4]		260,000	–	–	–	–	–	260,000
	2016	*58,793*	–	–	–	–	–	*58,793*
R Mansfield[3]		73,531	–	–	7,719	–	–	81,250
	2016	–	–	–	–	–	–	–
M Simmons[1, 4]		119,806	–	–	–	–	–	119,806
	2016	*51,667*	–	–	–	–	–	*51,667*
A Grist[2]		37,224	–	–	3,536	–	–	40,760
	2016	*104,782*	–	–	*9,954*	–	–	*114,736*
Executive Directors								
J Spenceley[2]		164,541	125,000	–	9,808	–	–	299,348
	2016	*658,192*	*250,000*	–	*19,308*	*855,000*	*1,030,504*	*2,813,004*
V Bowen[4]		299,231	350,000	–	28,427	30,783	142,665[5]	851,106
	2016	*82,265*	–	–	*10,000*	*17,167*	–	*109,432*

1. Denotes payments made for the period 1 July 2016 to 29 March 2017, including the period during which Mr Simmons acted in the capacity of interim Executive Director, until Michael Simmons resigned as a Director. Remuneration received as an Executive after that date is noted in the Executive Remuneration table which follows below.
2. For the period 1 July 2016 to 11 October 2016 (resignation as a Director)
3. For the period 1 January 2017 (appointment date) to 30 June 2017.
4. As disclosed in the Remuneration Report for FY16, remuneration data for FY16 is in respect of the period from 22 February 2016 (appointment date following implantation of M2 scheme of arrangement) to 30 June 2016.
5. Equity is the expense value of all Performance Rights as calculated under AASB 2 Share-Based Payment.

Executives

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees $	Bonus / commission $	Non-monetary $	Super-annuation $	Employee leave $	Equity-settled ** $	Total $
2017							
G Horth	1,061,769	–	–	35,192	99,751	672,675	1,869,387
M Wratten[1]	294,135	33,000	–	16,023	22,424	46,998	412,580
M Callander[8]	348,181	44,531	–	18,889	33,389	97,903	542,893
S Carter	510,625	60,000	–	29,965	45,975	322,794	969,359
M Simmons[2]	112,673	15,625	–	8,077	8,625	19,582	164,582
R Correll[3,11]	371,040	50,000	–	16,917	–	–	437,957
C Deere[4,7]	858,704	112,500	–	22,886	–	–	994,090
M Hollis[5,10]	138,783	246,615	–	14,712	–	–	400,110
2016							
G Horth[6]	284,103	118,667	37,740	10,000	34,426	166,279	651,215
R Correll	420,800	195,888	38,377	34,200	10,493	58,865	758,623
M Callander[6]	91,886	28,656	27,939	6,126	–	10,719	165,326
S Carter[6]	170,936	62,000	29,360	10,000	14,355	74,258	360,909
C Deere	249,692	88,000	–	19,308	30,935	37,216	425,151
M Hollis[13]	170,264	401,795	–	18,832	23,554	36,318	677,077
M Simpson[12]	208,029	112,500	–	19,763	4,760	31,314	376,366

1. For the period 16 January 2017 (date of commencement as Chief Financial Officer) to 30 June 2017.
2. For the period 29 March 2017 (date of commencement as Chief Executive, Enterprise & Wholesale) to 30 June 2017.
3. For the period 1 July 2016 to 24 December 2016 (date of cessation as Chief Financial Officer).
4. For the period 1 July 2016 to 31 March 2017 (date of cessation as Chief Technology Officer).
5. For the period 1 July 2016 to 24 December 2016 (date of resignation as Chief Executive, Enterprise and Wholesale).
6. Denotes payment from 22 February 2016 (date of implementation of M2 scheme of arrangement) up to 30 June 2017.
7. Cash Salary and Fees include termination entitlements of $576,460 paid upon cessation of employment (including payment in lieu of notice, accrued leave entitlements and redundancy pay) in accordance with individual contract entitlements. Note, not all amounts included are termination "benefits" within the meaning of Part 2D.2 of the Corporations Act.
8. Australian dollar equivalent shown of amounts paid in New Zealand dollars.
9. Equity is the expense value of all Performance Rights as calculated under AASB 2 Share-Based Payment.
10. Includes termination entitlements of $18,271 paid upon cessation of employment, which was limited to accrued leave. No payments in lieu of notice of termination were made. Amount shown as "Bonus/Commission" relates solely to commissions.
11. Cash Salary and Fees and Bonus/Commission columns include termination entitlements totaling $175,812 paid upon cessation of employment. No payments in lieu of notice of termination were made.
12. Denotes remuneration up to cessation as Company Secretary (22 February 2016).
13. Includes commissions earned of $206,795.

The following notes apply to both tables above unless otherwise specified.

- No short term compensated absences, short term cash profit sharing or other short term employee benefits were paid and are not listed
- Other than superannuation benefits, no other post-employment benefits were provided
- efits, no other post-employment benefits were provided]No payments were made to any KMP before the KMP started to hold the position as KMP as part of the consideration for the person agreeing to hold the position
- Includes share-based payments accounting expense for both options and shares under the LFSP.

Remuneration Report (continued)

STI Payments (Cash)

Name[1, 8]	Year[4]	Max potential STI opportunity[3]	FY17 STI awarded (%)	FY17 STI deferred (%)	FY17 STI forfeited (%)	Total Grant of STI ($)
G Horth	2017	$600,000	0[5]%	0%	100%	$0
	2016	$400,000	89%	–	11%	$356,000
M Wratten	2017	$132,000[6]	25%	25%	50%	$33,000
	2016	N/A	N/A	N/A	N/A	N/A
S Carter	2017	$300,000	20%	20%	60%	$60,000
	2016	$200,000	93%	N/A	7%	$186,000
M Callander[2]	2017	$200,000[2]	24%	24%	52%	$44,531
	2016	$200,000[2]	90%	N/A	10%	$179,448
M Simmons	2017	$63,700[7]	25%	25%	50%	$15,625
	2016	N/A	N/A	N/A	N/A	N/A

1. Mr Correll, Mr Deere and Mr Hollis have been excluded from the table above as they ceased to be KMP prior to 30 June 2017
2. Max potential STI opportunity in NZD. Total Grant of STI is in AUD based on an exchange rate of 0.92293 (NZD equivalent of $48,250)
3. The minimum STI opportunity is nil.
4. Effective date of grant for the FY17 STI was 1 July 2016.
5. Although Mr Horth achieved 86% of the KPI's that were set for FY17, Mr Horth has elected to forfeit his entitlement to an STI in FY17 in recognition of the overall Group performance
6. Pro-rated for period 16 January 2017 to 30 June 2017 (full year entitlement is $300,000)
7. Pro-rated for period 29 March 2017 to 30 June 2017 (full year entitlement is $250,000)
8. Payment of 50% of STI entitlement for FY17 was deferred by the Board. A subsequent vesting hurdle applies to this deferred component – this deferred STI award is subject to a subsequent additional vesting condition which is linked to Vocus' financial performance for first half of FY18 being in line with the forecasts underpinning Vocus' EBITDA guidance for the FY18 full year. Accordingly, the maximum potential STI opportunity in FY18 will be increased to reflect the deferred STI for FY17

Summary of LTI plans as at 30 June 2017 (Performance Rights)

Name[1]	Plan	Performance Period	Fair Value per right at time of issue	Total value of rights at time of issue	Future financial years in which grants may vest
V Bowen	FY17	–	$4.28	$142,665	FY18
		–	$4.13	$137,665	FY19
		–	$3.99	$133,002	FY20
G Horth	FY15	1/07/2014 – 1/07/2017	$6.97	$550,015	FY18
	FY16	1/07/2015 – 1/07/2018	$3.06	$184,266	FY19
	FY17	1/07/2016 – 1/07/2019	$3.99	$563,971	FY20
M Wratten	FY17	1/07/2016 – 1/07/2019	$3.99	$140,993	FY20
S Carter	FY15	1/07/2014 – 1/07/2017	$6.97	$256,677	FY18
	FY16	1/07/2015 – 1/07/2018	$3.06	$92,123	FY19
	FY17	1/07/2016 – 1/07/2019	$3.99	$281,985	FY20
M Callander	FY16	1/07/2015 – 1/07/2018	$3.06	$46,064	FY19
	FY17	1/07/2016 – 1/07/2019	$3.99	$234,988	FY20
M Simmons	FY17	1/07/2016 – 1/07/2019	$3.99	$58,746	FY20

1. Mr Correll, Mr Deere and Mr Hollis have been excluded from the table above as they ceased to be KMP before 30 June 2017

The maximum value of outstanding Performance Rights is unable to be estimated. On exercise, each Performance Right entitles the KMP to one fully paid ordinary share in Vocus. The share price of Vocus at the time of exercise is not known. The minimum value of outstanding performance rights is nil.

Number and value of LTI Performance Rights granted, vested and exercised during FY17

Name[1]	Balance at 1 July 2016	Rights Granted	Disposals/ vesting/[4] exercise other	Balance at 30 June 2017	Total value of rights at time of vesting[4]
V Bowen	–	33,333	–	33,333	–
	–	33,333	–	33,333	–
	–	33,334	–	33,334	–
G Horth	224,806	141,346	(82,299)	283,853	$625,466
M Wratten	–	35,337	–	35,337	–
S Carter	104,425	70,673	(35,911)	139,187	$272,923
M Callander	15,074	58,894	–	73,968	–
M Simmons	–	14,724	–	14,724	–

1. Mr Correll, Mr Deere and Mr Hollis have been excluded from the table above as they ceased to be KMP prior to 30 June 2017
2. No amount is payable on the exercise of the Performance Rights.
3. All rights that are vested are exercisable (therefore, there are no vested rights which are not exercisable).
4. Vesting Date is 1 July 2016

All Performance Rights which were granted prior to 1 July 2016 which vest are automatically converted into fully paid ordinary shares in Vocus and issued to the relevant participant at no cost. No further restrictions apply to those shares. Each Performance Right converts into one fully paid ordinary share in Vocus.

Options

	Balance at 1 July 2016	Options Granted	Disposals/ exercise vesting/ other	Balance at 30 June 2017	Total Options vested & exercisable at 30 June 2017	Exercise price
G Horth	135,418	–	–	135,418	135,418	$5.09

* No options were granted in FY17. Therefore, the percentage of options for FY17 that vested in FY17, and the percentage of options for FY17 that were forfeited in FY17, are both nil.

Remuneration Report (continued)

KMP Shareholding

The following table summarises the movements in the shareholdings of KMP (including their personally related entities) for FY17:

	Balance at 1 July 2016	Received as part of Remuneration[4]	Addition[5]	Disposals / Other	Balance at 30 June 2017
Directors					
D Spence	471,218	N/A	11,578	–	482,796
C Farrow	658,125	N/A	20,000	223,125	455,000
J Brett	400,000	N/A	26,000	–	426,000
R Phillippo	–	N/A	9,500	–	9,500
R Mansfield[1]	N/A	N/A	–	–	12,500
V Bowen	8,193,933	–	432,000	–	8,625,933
J Spenceley	4,200,000	–	–	4,200,000[8]	–
A Grist	3,200,000	–	170,000	3,370,000[8]	–
Executives[3]					
G Horth	678,098	90,723	–	365,691	403,130
M Wratten	N/A[6]	–	12,195	–	12,195
S Carter	150,000	39,857	–	–	189,587
M Callander[2]	47,500	–	21,394	–	68,894
M Simmons	19,481	–	22,439	–	41,920
M Hollis	200,092	–	–	200,092[7]	–
C Deere	2,433,997	–	–	2,433,997[7]	–
R Correll	547,996	–	–	547,996[7]	–

1. Joined the Board on 1 January 2017
2. Mark Callander: 46647 shares issued as payment for the acquisition of CallPlus were released from restriction on 1 July 2016
3. Does not include those KMP whose employment ceased during FY17 who did not receive shares on remuneration
4. On the vesting and conversion of Performance Rights granted in previous financial years as compensation
5. Other than as part of remuneration
6. Commenced as KMP on 16 January 2017
7. Classed as a disposal on ceasing to be KMP
8. This total reflects actual disposals of shares during FY17 as disclosed to the ASX in accordance with the Listing Rules, as well as the remaining balance being classed as a disposal on ceasing to be KMP

This concludes the remuneration report, which has been audited.

This directors' report is signed in accordance with a resolution of the directors passed on 23 August 2017 pursuant to s.298(2) of the Corporations Act.

On behalf of the Directors

David Spence
Non-Executive, Chairman

23 August 2017
Sydney

Operating and Financial Review

1. Group operating performance

1.1 Overview of Operations

Vocus Group Limited (ASX: VOC) (Vocus) is a vertically integrated telecommunications service provider, operating in the Australian and New Zealand markets. The Company owns an extensive national infrastructure network of metro and back haul fibre connecting all capital cities and most regional centres across Australia and New Zealand. Vocus' infrastructure now connects directly to more than 5,000 buildings, and 70 data centres in Australia and New Zealand. Vocus now offers both consumer and wholesale NBN services through all 121 NBN points of interconnect and 100% coverage of the UFB network in New Zealand. Vocus listed on the ASX in 2010.

Vocus owns a portfolio of brands targeting the enterprise, small business, government and residential market segments across Australia and New Zealand. Vocus also operates in the wholesale market providing high performance, high availability and highly scalable communications solutions which allow service providers to quickly and easily deploy new services for their own customer base.

1.2 Earnings Overview

Twelve months ended 30 June ($'m)	2016	2017	% chg
Statutory Revenue and Other income	829.9	1,820.6	119
Underlying EBITDA[1 2]	215.6	366.4	70
Statutory EBITDA	194.1	335.5	73
Underlying EBIT[3 4]	170.2	260.2	53
Statutory EBIT[3]	116.5	141.9	22
Underlying NPAT [5 6] after minority interests	101.7	152.3	50
Statutory NPAT [6] after minority interests	64.1	(1,464.9)	n/m[8]
Diluted earnings per share – (¢)	18.6	(237.65)	n/m[8]
Fully Diluted Underlying EPS (¢)[5]	29.5	24.7	(17)
Final dividend per share (¢)	8.0	–	(100)
Full year dividend per share (¢)[7]	15.6	6.0	(62)

1. Pre significant items and below the line costs of $30.9m ($20.7m costs in FY16)
2. EBITDA refers to earnings before net financing costs, depreciation and amortisation and tax,
3. Statutory EBIT refers to earnings before net financing costs, impairment costs and tax
4. Pre significant items costs of $118.3m (costs of $53.8m in FY17)
5. Pre significant items costs of $1,617.2m (pre significant costs of $37.6m in FY17)
6. NPAT refers to net profit after tax
7. FY16 does not include the special dividend of 1.9cps paid in April 2016
8. N/M – not meaningful

Vocus is managed from a financial and operational perspective as three business divisions.

Enterprise & Wholesale Australia

Provides telecommunications products and services to the enterprise, small business (includes the Commander SMB business) and wholesale segments of the Australian market including all levels of Government. The Division markets its services under the Vocus Communications brand. Services include Fibre & Ethernet, IP transit, voice and data centre and cloud services. *For further information on the strategy, business risks and financial performance of the division please refer to Section 2.1*

Consumer Australia

This division focuses predominantly on the value end of the consumer market offering a range of telecommunications products and services including broadband data, fixed voice and mobile services. Go to market brands are dodo™ and iPrimus. The division has entered the consumer power and gas market through the dodo™ and Commander power and gas brands. *For further information on the strategy and financial performance of the division please refer to Section 2.2*

New Zealand

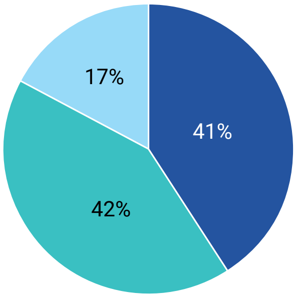
This division operates across all key segments of the market in New Zealand including Business, Government, Wholesale and Consumer. In Business, Government and Wholesale the division's key brand is Vocus Communications. The key Consumer brands are Slingshot and Orcon. The New Zealand business is run as a separate business to Australia and includes all New Zealand overhead and network related costs. *For further information on the strategy and financial performance of the division please refer to Section 2.3*

Operating and Financial Review

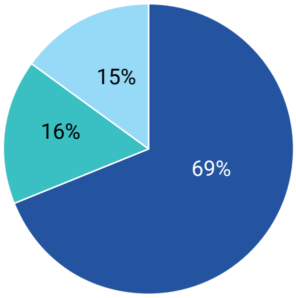
1. Group operating performance (continued)

FY17 Proforma Divisional Earnings Split

FY17 Proforma[1] Revenue Split by Division



FY17 Proforma[1] Underlying EBITDA Split by Division



- Enterprise & Wholesale Australia
- Consumer Australia
- New Zealand

Vocus' Group Services function includes the Australian Network & Technology function that manages the Group's Australian infrastructure and IT assets. The function also includes Australian Head Office activities such as commercial arrangements with third party carriers and shared services such as finance, legal, secretariat and human resources. The Australian head office function includes the costs associated with being an ASX listed company and the costs associated with the recently established Transformation Office.

1.3 Strategic Objective

Vocus' strategic objective is to be the leading alternative provider of secure, resilient telecommunications connectivity in the Australian and New Zealand market. The Company will look to grow its share of key market segments through the pursuit of measurably superior levels of customer service, while focusing on maintaining its efficient cost base advantage; ensuring competitive outcomes for customers and improved returns for shareholders.

Specifically Vocus' key business objectives are:

- Connectivity is the core, disciplined investment in our fibre network
- Leverage the expanded infrastructure platform and take share
  - Take advantage of the roll out of the NBN and UFB and continue market share gains
  - Leverage the Company's expanded sales platform and product set in the enterprise and government markets
  - Focus on winning a great share of every customers wallet
- Focus on house of brands strategy that talk very clearly to our target market segments
- Be the Most Loved Telco
  - Simplify our products and processes through automation
  - Put the customer in control with self help
  - Leverage our data to create actionable customer insights
- Grow Shareholder Returns
  - Drive our transformation program to achieve operational efficiencies safeguarding the business from competitive forces
  - Manage working capital effectively, ensure ownership and responsibility sits within the business
  - Appropriately allocate financial and human capital across the business to ensure that investment and effort is dedicated to Group wide priorities and that resources are managed effectively

In delivering on the Company's strategic objectives it remains focused on aligning with its core values:

- Live the values and create a great place to work. Vocus' values are unconventional developed by the senior leadership team to establish an environment conducive to achieve the goal to become a Top 10 great place to work. The key values are:
  - Clever Company no Muppets – we are awesome people with a great attitude unleashed and empowered to do our jobs
  - Have a Crack – we detest bureaucracy, we collaborate to find a smarter way, we take risks, we act decisively and we celebrate our wins
  - Don't screw the Customer – we put ourselves in the customers shoes, we make it easy to buy and easy to use
  - Don't be a d!@khead – we respect each other, we value relationships and we have the hard conversations

1.4 Key Opportunities and Business Risks

Key Opportunities

The rapidly changing telecommunications environment in Australia and New Zealand, driven in part by regulatory changes and in part by technological advancements and innovation, is creating a myriad of growth opportunities for a challenger telco to take share in markets that are still largely dominated by the incumbents. Innovation and technological advancements driving the rapid growth in demand for secure high speed data connectivity, both in the consumer and the enterprise market, are expected to continue to drive the underlying market growth for bandwidth at rates well above GDP growth. These conditions are expected to create opportunities for Vocus to grow its business, gain the benefits of scale and improve its market share.

1.4 Key Opportunities and Business Risks (continued)

Specifically some of the broad trends creating opportunities for Vocus include:

1. Shift from Copper to Fibre

- The shift from copper to fibre in the "last mile" customer access network in both Australia and New Zealand is driving a significant opportunity to win customers over the next 2-3 years. This shift is being pushed by Federal Governments in both countries keen to deliver the benefits that access to a high speed ubiquitous broadband platform can deliver in areas such as health and education. Consumer demand is driving uptake as the demand for faster more reliable broadband to facilitate activities such as interactive gaming, live streaming and IoT applications is starting to accelerate. Vocus' consumer brands are well positioned to increase market share above existing copper broadband levels as the migration occurs. In this environment Vocus will compete on a level playing field with the other carriers in terms of margin, improving its competitive position and protecting it to an extent from price erosion.

2. The shift from on premise to off premise/cloud computing

- The shift by the Enterprise market to cloud computing is driving the increasing demand for secure resilient connectivity creating opportunities for Vocus to leverage its infrastructure platform.

3. Growth in demand for upgraded network security systems

- Cyber security threats are becoming an increasing concern in the Wholesale, Enterprise & Government market segments. Requirements for improved security protocols and systems is resulting in an increase in resources and focus directed to this area. The completion of the Nextgen acquisition in October 2016 delivers Vocus a competitive network footprint in the Australian market. Vocus is now well placed to meet the growing requirements for Enterprise, Wholesale and Government organisations for highly secure, reliable connectivity and redundancy both in the domestic market and meeting their needs for connection with international markets.

4. The benefits of scale built through recent acquisitions

- The recent acquisition of Nextgen delivers Vocus the back haul infrastructure to create an end to end telecommunications network in Australia which rivals the incumbents. The network enables the Enterprise & Wholesale division to compete more effectively for contracts in the Large Enterprise, Wholesale and Government sectors opening up significant opportunities to grow market share in these market segments.

5. Technological Advancement

- Significant advancements in software and the customers desire to self-serve and problem shoot should drive material improvements in the ability of the Company to lower the cost of customer acquisition and service across all segments of the market;
- The evolution of wireless technology over the next five years, in particular towards 5G technology, is expected to also drive increased need for fibre to connect base stations. This could open up additional opportunities to increase capacity utilisation on Vocus' fibre network.

Key Risks

The following information sets out the major Group-wide risks. The risks below do not include generic macro related risks that could impact the Australian economy and they do not include specific financial risks which are identified in the commentary around the financial performance of the Company. All of the risks identified below could have a material impact on the value of the Company's brands and its reputation in the market. Vocus seeks to mitigate the potential impact of these risks through the effective management of and engagement with its key stakeholder base; an ongoing focus on its cost base and transformation program; and ensuring that it has effective systems and procedures in place to manage the business on a day-to-day basis and address the strategic issues and challenges that may impact the business over the medium term. The risks below are identified to assist investors in understanding the nature of the risks faced by Vocus and the industry in which it operates. The Company's risk management approach is set out in detail in the Corporate Governance Statement which is available on the Company's website www.vocusgroup.com.au.

1. Increased Competition and Exposure to Counterparty risk

- The shift from copper to fibre in the last mile customer access network in both Australia and New Zealand is driving a significant churn event over the next 2-3 years. The rollout of the NBN and UFB may facilitate the entry of new competitors; and an aggressive competitive response from incumbents that could have an adverse impact on the future financial performance of Vocus
- Increased competition in the Enterprise & Wholesale segments of the market as incumbents compete to retain share; and new technologies, such as fixed wireless and 5G open up opportunities for new entrants
- The Company is exposed to the financial and operational performance of third party suppliers including companies such as Optus, Telstra and the provider of the Vocus consumer call centre services in the Philippines, Acquire BPO Pty Ltd

2. Regulatory and Environmental Risks

- Vocus operates in increasingly regulated industries with significant penalties for non-compliance with regulations, including fines and undertakings that may include customer redress and restrictions on future marketing of services. The Company's future growth prospects are heavily reliant on its ability to market its services through its various sales channels. Any regulatory change, event or enforcement action which would restrict those activities could have a material adverse impact on the Company's growth and future financial performance
- The protection of customer, employee and third party data is critical. The regulatory environment surrounding information security and privacy is evolving and increasingly complex and demanding. Failure to comply with regulations in this area could have a material impact on the Company's reputation and its ability to compete and operate effectively in the market
- Changes in the Australian Accounting Standards and the Income Tax Assessment act could have a material impact on the Company's financial statements in future periods
- The Company's approach to environmental risks is outlined in the Sustainability report on the Company's website www.vocusgroup.com.au

Operating and Financial Review (continued)

1. Group operating performance (continued)

3. Network and Operational disruption

- The Company's ability to deliver its products and services could be impacted by material disruption or damage to both the Company and third party networks and products. This disruption could arise as a result of events which are to a certain extent beyond the Company's control such as employee negligence or un-authorised physical or electrical access. In addition the Company's ability to deliver its services could be impacted by remote access attacks, viruses and other forms of cybercrime.
- The Company's infrastructure assets are exposed to the impact of natural disasters across Australia and New Zealand including, seismic activity, in particular in New Zealand. Natural disasters do have the potential to impact the delivery of products and services resulting in significant business disruption.

4. Technology

- The telecommunications and IT industries are continually evolving as is consumer behavior and attitudes towards the use of technology. The ability of the Company to keep pace with changes in technology will dictate its ability to maintain and grow its existing market share and margins into the future
- Business integration and in particular the integration of the technology platforms acquired through the period of M&A over the last 3 years is a key risk to the Company achieving its stated rationalisation targets. Recognising these risks the Company has recently established a Transformation Office to manage and drive the key projects around integration and the migration of the business. The details of this were outlined at the Company's Strategy Day on 14 June 2017. The presentation can be found on the Company's website.
- In ensuring the Company remains competitive in the face of technology change it also important that it remains disciplined around capital investment to ensure that returns to shareholders are maximised

5. Financial and Commodity Markets

- The Energy business in both Australia and New Zealand is exposed to an extent to sharp movements in the price of both electricity and gas. The Company seeks to hedge its exposure to adverse fluctuations through the use of over the counter derivatives and contracts via the futures market
- The Company is subject to the risk of rising interest rates associated with borrowing on a floating rate basis
- The Company has some exposure to foreign currency fluctuations primarily on the translation of earnings from the New Zealand business and payments for access to offshore infrastructure and our call centre facilities
- The Company needs to ensure that it has access to a competitive cost of capital to enable it to operate effectively in its target markets. There may be external factors that impact the efficient working of capital markets at any particular point in time that could impact the Company's access to capital markets. There may also be Company specific issues impacting the Company's ability to access capital markets including its delivery on earnings expectations and its financial position.

1.5 Reconciliation of Underlying and Statutory Earnings

Twelve Months Ended 30 June 2017 ($'m)	EBITDA	EBIT	NPAT
Underlying Result	**366.4**	**260.2**	**152.3**
Significant Items:			
Gains on total return swaps	0.1	0.1	0.1
Gains/losses associated with foreign exchange & other	(0.6)	(0.6)	(1.3)
Net loss on disposal of assets	(4.7)	(4.7)	(4.1)
Amortisation of acquired customer intangibles arising from purchase price allocation	–	(61.0)	(42.7)
Amortisation of acquired software intangibles arising from purchase price allocation	–	(26.4)	(18.5)
Acquisition & integration Costs	(25.7)	(25.7)	(18.6)
Goodwill impairment	–	–	(1,532.1)
Total Significant Items	**(30.9)**	**(118.3)**	**(1,617.2)**
Statutory Result	**335.5**	**141.9**[1]	**(1,464.9)**

1. Pre impairments costs

1.6 FY17 Earnings Overview

$'m	PF FY16[1]	PF FY17[3]	FY16A	FY17A	%chg 16/17
Revenue & Other Income	**1,722.3**	**1,882.7**	**829.9**	**1,820.6**	**119**
Enterprise & Wholesale Australia	626.4	764.6	397.7	702.5	77
Consumer Australia[2]	797.2	795.1	287.6	795.1	176
New Zealand	298.7	323.0	144.6	323.0	123
Other	–	–	–	–	–
Underlying EBITDA		**389.5**	**215.6**	**366.4**	**70**
Enterprise & Wholesale Australia		378.1	186.4	346.4	86
Consumer Australia		124.9	59.7	124.9	109
New Zealand		57.5	28.6	57.5	101
Australian/Group Overheads		(50.9)	(28.5)	(50.9)	79
Network and Technology Costs		(120.1)	(30.6)	(111.5)	264
Depreciation			(36.9)	(87.6)	137
Underlying Amortisation			(8.5)	(18.6)	119
Underlying EBIT			**170.2**	**260.2**	**53**
Net financing costs			(24.4)	(40.9)	68
Underlying Profit before tax			**145.8**	**219.3**	**50**
Underlying Tax expense			(44.1)	(67.0)	52
Underlying Net Profit after Tax and min. interest			**101.7**	**152.3**	**50**
Significant items before tax			(53.8)	(1,650.4)	n/m
Significant items after tax			(37.6)	(1,617.2)	n/m
Net Profit/(loss) after Tax			**64.1**	**(1,464.9)**	**n/m**
Underlying EBITDA margin (%)			26%	20%	(23)
Fully Diluted Underlying EPS (¢)			29.5	24.7	(17)
Fully Diluted EPS (¢)			18.6	(237.65)	n/m
Diluted weighted average number of shares (m)			341	618	81
Full Time Employees[4]			1,534	2,053	34

1. Proforma FY16 earnings represent the Vocus FY16 reported earnings including the M2 earnings in FY16 year prior to the merger. Refer to page 46 for reconciliation
2. Consumer Australia represents the M2 Australian consumer business. It does not include M2 Australian Wholesale earnings or the Commander SMB business which are included in Enterprise & Wholesale
3. Proforma FY17 earnings include a full twelve month contribution from Nextgen refer to page 46 for reconciliation
4. Numbers do not include Dodo kiosk team members nor offshore call center team members

N/M not meaningful

For further details on the reconciliation between reported FY16 and FY17 and proforma numbers please refer to the Appendices commencing on page 46

Operating and Financial Review (continued)

1. Group operating performance (continued)

Revenue for the 12 month period to 30 June 2017 increased 119% over the pcp to $1.8bn driven by:

- The inclusion of a full twelve months of revenue from the M2 businesses versus the contribution from the business in FY16 post the completion of the acquisition on 22 February 2016 (the M2 merger contributed ~$481m revenue in FY16 and ~$1.3bn revenue for a full year contribution in FY17 across all three business divisions)
- An eight month contribution from the Nextgen acquisition completed on 26 October 2016; $127.1m revenue
- The result was impacted by a number of factors including:
  - The divestment of the Vocus owned non-core IT division (acquired as part of the Amcom takeover) in December 2015 (contributed ~$10.3m in 1HFY16)
  - The divestment of the Aggregato businesses in Australia and USA and the Cisco HCS voice platform (estimated impact ~$40m in revenue immaterial impact on EBITDA)
  - The $17m revenue contribution from a bespoke contract in FY16. A number of bespoke contracts were signed in FY17 but did not make a contribution to revenue in the year in line with accounting standards.

Further discussion regarding the factors driving revenue are contained in Section 2 covering the divisional performance

Deferred revenue brought to account in FY17 was $10.4m including an initial $3m contribution from NWCS and contributions from Nextgen and Amcom. *(The future run-off of deferred revenue through the P&L is contained in the Appendix on page 47)*

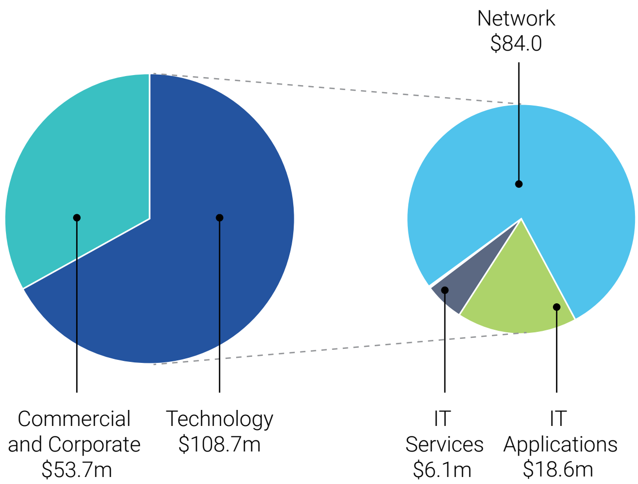
Gross profit margins declined from 47.5% in the pcp to 42.6% reflecting a full 12 month contribution from the lower margin mass market businesses in both Australia and New Zealand. Employee benefits expense increased 87% over the period reflecting the 33.8% increase in full time employees over the 12 month period following the Nextgen acquisition in October 2016, combined with a full 12 month employee cost associated with the M2 businesses.

Administration and other expenses increased 181% over the pcp primarily reflecting the costs associated with a full 12 month contribution from the outsourcing expenses associated with the Company's offshore call centre.

The deferred subscriber acquisition cost (SAC) balances for M2 were reset post the merger with Vocus in February 2016 as required by purchase price accounting. This has had the effect of delivering the P&L a net benefit in both FY16 and FY17 relative to cash flow while the level of costs "normalise" in the balance sheet. The net benefit to EBITDA in the P&L in FY17 across the three Divisions was $41.3m.

The SAC amortised through the P&L in FY17 increased ~200% over the pcp to $49.2m reflecting a full year contribution from the M2 business. *Refer to Appendix page 48 for a details on the treatment of deferred SACs in FY17*

Group Services Costs by Function $162.4M



Group Services costs in FY18 are forecast to increase from $162.4m to ~$175m driven primarily by a full period contribution from Nextgen (additional ~$9m in costs in FY18 primarily associated with the network).

1.7 EBITDA Bridge

	$'(m)
Underlying EBITDA at 30 June 2016	**215.6**
Price/Mix/Volume	5.2
Fibre build contract in pcp not carried forward	(12.0)
Increase in NBN CVC Costs	(18.4)
Contribution from M2 for additional ~8 months	111.8
Contribution from NextGen EBITDA for ~8 months	62.5
Contribution from Smart Business Telecom for ~7 months	3.6
Compensation payment	6.0
Electricity price volatility	(7.4)
EBITDA related to discontinued businesses	(0.5)
Underlying EBITDA at 30 June 2017	**366.4**

Underlying EBITDA increased 70% over the pcp to $366.4m. Key factors driving the result were:

- An initial contribution from eight months of the Nextgen acquisition completed on 26 October 2016 of $62.5m post synergies
- A full 12 month contribution from the M2 businesses (the M2 merger completed on 22 February 2016 contributed ~$89m underlying EBITDA in FY16 and an additional ~$112m EBITDA for a full year contribution in FY17 across the business)

Depreciation and amortisation increased 134% on the pcp to $106.2m driven by the full year impact of the M2 acquisition and 8 months of the Nextgen acquisition; combined with the increase in depreciation associated with the organic expansion of the Company's metro fibre network.

Depreciation and above the line amortisation in FY18 is currently estimated to increase to be in a range of $130-140m.

1.8 Net interest Costs

Net finance costs increased 68% on the pcp to $40.9m. 2HFY17 net interest costs increased 80% on the expense in 1HFY17 reflecting the increase in net debt post the Nextgen acquisition and the $2.3m benefit in 1HFY17 from interest earned on the equity raising completed in July 2016 to fund the Nextgen acquisition that closed on 26 October 2016. Net finance costs in FY18 are currently expected to be ~$50m.

1.9 Tax Reconciliation

Year Ended 30 June $('m)	2016	2017
Profit/(loss) before tax after underlying expenses	**92.2**	**(1,431.1)**
Add back: Impairment	–	1,532.1
Adjusted Profit/(loss) before tax	**92.2**	**101.0**
Income tax at 30%	27.7	30.3
Adjustment recognised in prior period	0.5	1.1
Tax allowances and incentives	(2.0)	(0.07)
Loss on sale of JV (NZ)	–	0.7
Other	1.7	1.7
Income tax expense recognised in the profit & loss	**27.9**	**33.7**
Effective tax rate (%)	**30.3**	**33.4**

The difference between the statutory tax rate of 30% and the effective tax rate of 33.4% was driven by a number of factors including the non-deductibility of the capital loss on the sale of Connect 8 shareholding in NZ and the impact of prior period adjustments including the over accrual of an R&D offset in the FY16 provision.

FY18 effective tax rate expected to be ~ 31%

1.10 Significant Items

Twelve Months Ended 30 June ($'m)	2016	2017
Acquisition and integration costs	(40.7)	(25.7)
Acquired software amortisation	(8.9)	(26.4)
Acquired customer contracts amortisation	(24.2)	(61.0)
Gains on total return swaps	19.5	0.1
Gains/losses associated with foreign exchange	1.5	(0.6)
Gain/Loss on disposal of non- core operations/other	(1.0)	(4.7)
Goodwill impairment	–	(1,532.1)
Total significant items before tax	**(53.8)**	**(1,650.4)**
Tax expense/benefit	16.2	33.2
Total significant items after tax	**(37.6)**	**(1,617.2)**

Costs taken below the line as significant items included:

- Acquisition and integration costs of $25.7m primarily associated with the payment of external professional fees associated with the Nextgen acquisition and associated equity raising, combined with integration and redundancy costs associated with the restructure of the business post the series of acquisitions
- Amortisation of acquired customer contract and acquired software intangibles of $87.4m, the increase on the pcp related primarily to the full year impact of merger with M2 in February 2016. *(The run off of below the line amortisation is outlined in the Appendix on page 48)*
- The loss on disposal of non-core assets includes the sale of the Company's 50% interest in Connect 8 and the sale of the Aggregato businesses
- Gains on total return swaps relate to Vocus' 16% relevant interest in Macquarie Telecom Group, which represents mark-to-market gains net of dividends received, brokerage costs and interest costs relating to those total returns swap arrangements. The shareholding in Macquarie Telecom was disposed of during 2HFY17

Operating and Financial Review (continued)

1. Group operating performance (continued)

– A non-cash impairment of $1,532m post tax spread across both the Australian, $1,333m and New Zealand, $199m cash generating units (CGUs)[1 2]. The primary changes in the assumptions used to value goodwill in the accounts are:
  - An increase in the discount rate used:
    - The Australian discount rate has increased from 8.5% to 9.9%
    - The New Zealand discount rate has increased from 9.01% to 10.2%

    The increase in the discount rate reflects the assessed risks associated with the 5 year average blended growth rate assumptions for revenue in the detailed business model:
    - The 5 year average blended rate across the Australian businesses is 7%
    - The 5 year average blended rate across the New Zealand businesses is 8.4%
  - A change in the terminal growth rate from 3% to 2.5%, reflecting the ongoing pricing pressure across the telecommunications industry
  - A reduction in the five year cumulative EBITDA estimates for both Australia and New Zealand

1.11 Cashflow

Twelve months ended 30 June ($'m)	2016	2017
Underlying EBITDA	**215.6**	**366.4**
Net cash from operating activities	72.0	131.4
Interest, finance costs, tax and JV distribution	54.7	59.7
Adjusted operating cash flow	**126.7**	**191.1**
Net interest and finance costs	(23.6)	(29.2)
Income taxes paid	(31.1)	(30.5)
Net cash from operating activities	**72.0**	**131.4**
Payments for property plant & equipment	(66.9)	(131.7)
Intangibles payments and proceeds[1]	(31.2)	(57.9)
Payments related to undersea cable projects[2]	–	(29.5)
Business acquisitions[3]	75.7	(801.5)
Other cash flows from investing activities	19.8	7.8
Investing cash flows	**(2.6)**	**(1,012.8)**
Proceeds from issue of shares	1.3	673.5
Change in borrowings	100.9	202.6
Repayment of leases	(7.2)	(12.3)
Dividends paid	(50.9)	(60.8)
Financing cash flows[4]	**44.1**	**803.0**
Net movement in cash	**113.5**	**(78.4)**
Cash conversion (%)[5]	**59%**	**52%**

1. Includes IRU payments and other intangibles
2. Relates to upfront payment to Alcatel Submarine Networks (ASN) on the ASC project
3. Includes acquisition of Nextgen Networks in October 2016, Switch Energy and Smart Business Telecom
4. Financing cash flows include proceeds from pro rata entitlement offer, dividends, change in borrowings and interest expense on borrowings and leases.
5. Cash conversion % is calculated by dividing adjusted operating cash flow (in table above) by Underlying EBITDA

1 CGU's prior to re-organisation
2 Refer ASX announcement 17 August 2017

1.11 Cashflow (continued)

Operating cash conversion over the full year was 52% impacted by a number of factors in the table above including:

- Cash received in advance on contracts secured in the Enterprise & Wholesale business relates to a number of bespoke contracts that are delivered across a number of years. One of these contracts includes a significant fibre build component. Revenue associated with these contracts will be recognised over the life of the contracts that range between 3 and 15 years. There was no revenue associated with these contracts recognised in the FY17 P&L in line with accounting standards.
- The difference between the upfront costs associated with new customer acquisition capitalised in the balance sheet and the level of expenses amortised through the P&L is expected to normalise by the end of the 1QFY18 based on current forecasts for subscriber acquisition growth. The net benefit to the P&L in FY18 is expected to be immaterial *(refer to Appendices for more detail on SAC on page 48)*
- Operating cash flow over the period was impacted by an overall 148% increase in subscriber acquisition costs compared to the pcp to $90.5m
- The impact of deferred revenue bought to account in FY17 was $10.4m primarily relating to initial revenues under the NWCS project, and the run off of contracts acquired through the Amcom and Nextgen acquisitions *(refer Appendices for information on the profile of deferred revenue over the next 13 years page 47)*
- The impact of the release of onerous provisions primarily relates to the un-wind of property leases and the Metronode contract assumed as part of the Nextgen acquisition.
- Other changes in networking capital primarily related to a large payables and accruals unwind.

Cash conversion in FY18 is forecast to be 85-90%. *The impact of deferred revenue and onerous contract unwind on cash conversion is detailed in the appendices on page 47.*

1.11.1 Cash flow to Underlying EBITDA Reconciliation

$'(m)	
Statutory Operating Cash flow	**191.1**
Cash Received in Advance on E&W contracts	(23.0)
Operating Cash flow related to current year activity	**168.1**
Difference between SAC expense and SAC capitalisation	41.3
Optus bounty roll off	11.3
Underlying net working capital movement	90.9
Acquisition & integration costs	22.9
Other	3.2
Short term cash conversion	**337.7**
Deferred revenue unwind	10.4
Onerous provision unwind	16.5
Lease straight lining	1.8
FY17 Underlying EBITDA	**366.4**

1.11.2 "Other" Changes in Net Working Capital

$ (m)	
Underlying net working capital movement	
Trade debtors	8.3
Prepayments	(14.7)
Inventory	(0.1)
Trade and other payables	58.7
Provisions	34.5
Other	4.2
Total other change in NWC	**90.9**

Operating and Financial Review (continued)

1. Group operating performance (continued)

In FY18 net working capital movements are expected to normalise.

Investing cash flows over the period were negative $1.0bn driven by:

- The acquisition of Nextgen for a total upfront consideration of $793.2m plus transaction costs
- Cash capital expenditure (excl ASC) of $189.6m including IRU payments in intangible items
- Expenditure on the ASC project was $29.5m (slightly below the original forecast of US$26.6m for FY17)
- Proceeds from the disposal of a number of small investments including the sale of the Macquarie Telecom stake and the sale of the Company's 50% interest in New Zealand services business Connect 8

1.12 Capital Expenditure

Twelve Months Ended 30 June ($'m)	**2016**	**2017**
Growth Capital Expenditure	89.0	122.4
Sustaining capital expenditure	–	18.0
Improvement capital expenditure[2]	–	16.5
IRU Payments	19.3	32.7
ASC project	–	29.5
Total Capital Expenditure[1]	**108.3**	**219.1**

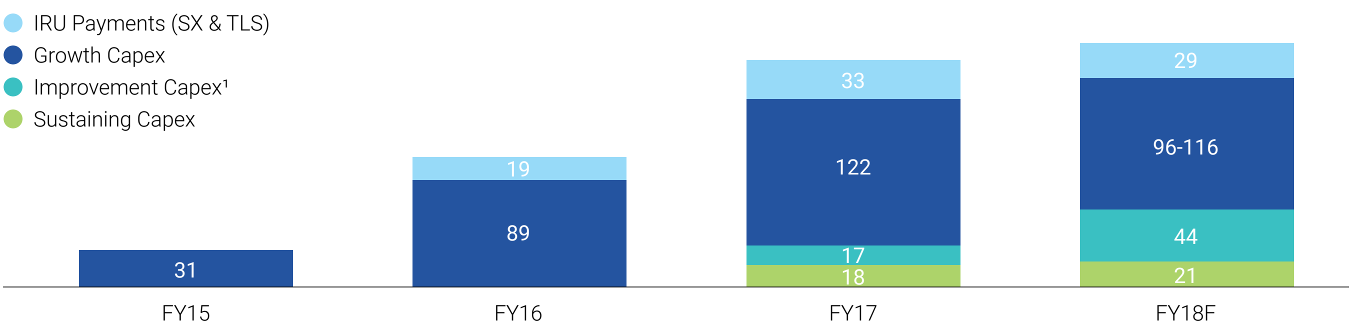
1. Cash Capital Expenditure
2. Capital Expenditure not defined in these categories in FY16

Capital Expenditure over the period was primarily driven by:

- Growth capex in Enterprise & Wholesale
- IRU payments reflecting the growth in demand for access to international services and access to NBN POIs
- The upfront costs associated with the ASC project of A$29.5m
- Improvement capex associated with augmenting core network capacity, upgrading network applications, integration of legacy platforms and investments in deploying new transformative operating systems

Capital Expenditure (excl ASC) in FY18 is expected to be in the range of $190-210m.

Forecast FY18 Capital Expenditure (A$'m)



1.12.1 Update on Australia Singapore Cable

Vocus has recently signed a contract variation which included the expansion of the project to incorporate the construction of a spur to Christmas Island following significant interest from a range of Government agencies (cost included in forecasts below). The cash flow profile associated with capex as per the contract variation is now expected to be:

- FY17 – US$22m
- 1HFY18 – US$32m
- 2HFY18 – US$6m
- 1HFY19 – US$122m

The project continues to track ahead of expectations and is expected to be ready for service in 1QFY19.

1.13 Balance Sheet

1.13.1 Summary Balance Sheet

Period Ended ($'m)	30 June 16	31 Dec 16	30 June 17
Cash	128.6	131.5	50.2
PP&E	522.4	1,531.0	1,543.0
Intangibles	3,757.1	3,793.0	2,212.1
– Goodwill	2,960.3	3,007.5	1,475.1
– Customer Intangibles	350.2	322.0	293.1
– IRU capacity	126.7	149.6	143.8
– Brands and other	192.6	191.6	182.4
– Software	127.3	122.3	117.7
Trade Receivables	144.4	178.1	167.1
Other assets	144.6	199.2	199.2
Total assets	**4,697.10**	**5,832.8**	**4,171.6**
Loans and borrowings	889.2	1,122.5	1,079.5
Other liabilities	633.6	876.8	789.0
Total Liabilities	**1,522.8**	**1,999.3**	**1,868.5**
Net Assets	**3,174.3**	**3,833.5**	**2,303.1**

Key movements in the balance sheet in FY17 primarily relate to the acquisition of Nextgen completed on 26 October 2017 for a total upfront consideration of $793.2m, including fibre assets of $909m, goodwill of $48.3m, projects under construction of $24.9m (NWCS) and deferred revenue of $160.2m.

The other key movement is the decline in the value of goodwill resulting from the $1,532m impairment recognised in the full year accounts following a review of the assumptions that underpin the valuation.

1.13.2 Net Debt

Period Ending ($'m)	30 June 16	31 Dec 16	30 June 17
Bank loans	828.8	1,071.1	1,031.4
Backhaul IRU liability	31.3	25.3	25.3
Lease liability	29.1	26.1	22.8
Borrowings per balance sheet	**889.2**	**1,122.5**	**1,079.5**
Cash	128.6	131.5	50.2
Net Debt	**760.6**	**991.0**	**1,029.3**

Net Debt over the 12 month period increased 35% to $1bn driven by a number of factors including a 74% increase in capital expenditure (excl ASC) to $189.6m, the upfront investment in the ASC project of US$22m, the purchase price of Nextgen net of the capital raising proceeds of $120m and the increase in subscriber acquisition costs.

1.13.3 Drawn Committed Syndicated Bank Debt Facilities

Facilities	31 Dec 16	30 June 17
A$1,095m	917.3	891.4
NZ$160m	153.8	140.0
Total	**1,071.1**	**1,031.4**

Operating and Financial Review (continued)

1.13.4 Financial Covenants

Financial Covenants	Covenant	Position at 30 June 2017
Leverage ratio	≤3.0x (Net debt/LTM EBITDA) unless a permitted acquisition (i.e. Nextgen) in which case ≤3.5x for 18 months	2.6x
Interest cover ratio	≥5.0x (LTM EBITDA[1]/LTM Net Interest Expense)	9.1x
Gearing	≤ 60% (Net Debt/(Net Debt + Equity)	30.9%

1. Adjusted LTM EBITDA

Vocus debt facilities were renegotiated in May 2016 following the completion of the merger with M2. Facilities are provided by a syndicate of 13 domestic and international banks. At balance date the Group's committed facilities had a remaining weighted average tenor of 3.1 years (30 June 2016 4.0 years).

Financial covenants remain compliant at balance date. Based on forecast net debt at 30 June 2018 in the range of $1.03-1.06bn the leverage ratio is expected to be ~2.65x.

1.14 Shareholder Returns

1.14.1 EPS and Dividends

Twelve Months Ended 30 June	2016	2017
Interim Dividend (¢)	7.6	6.0
Full Year Dividend (¢)	8.0	–
Payout Ratio[1] (%)	53%	24%
Fully diluted underlying EPS (cps)	29.5	24.7
Fully diluted statutory EPS (cps)	18.6	(237.65)

1. Based on underlying earnings

The Vocus Board made the decision not to declare a final dividend for the FY17 year in light of the opportunities to invest in strategic projects such as ASC combined with the focus of the Board on reducing the overall leverage in the business. An interim dividend of 6¢ per share fully franked was paid in April 2017.

The Vocus Board also does not anticipate paying an FY18 interim dividend.

The Board of Vocus expects to review future dividend payments in line with the growth of the business, taking into account the capital requirements and accretive infrastructure opportunities available at any point in time.

Fully diluted underlying EPS growth in FY17 was impacted by a full year of the expanded capital base of the Company following the capital raising completed in July 2016 to fund the acquisition of Nextgen completed in October 2016.

2. Divisional Performance

2.1 Enterprise & Wholesale Australia

The completion of the Nextgen acquisition in October 2016 delivered Vocus a competitive network footprint in the Australian market. Vocus is now well placed to meet the growing requirements of the Enterprise, Wholesale and Government segments of the market for secure high speed reliable connectivity and redundancy both in the domestic market and for connection with international markets.

The integration of the Amcom, M2 and Nextgen Enterprise businesses has delivered a broader product portfolio and the scale to address a wider section of the Enterprise & Government sector.

The Division's go to market brand is Vocus Communications. The Divisions activities encompass the small to medium business segment (SMB) bringing together the Vocus Communications brand with the Commander branded equipment.

2.1.1 Enterprise & Wholesale Australia Earnings Summary

$'m	PF FY16[3]	PF FY17[4]	FY16[2]	FY17[1 2]	%chg 16/17
Revenue & Other Income	**626.4**	**764.6**	**397.7**	**702.5**	**77**
– Fibre & Ethernet[1]	117.3	311.9	115.5	249.8	116
– Internet	128.0	128.2	92.8	128.2	38
– Voice	277.9	248.5	119.5	248.5	108
– Data Centre	54.6	41.6	44.4	41.6	(6)
– Other	48.6	34.4	25.5	34.4	35
Underlying EBITDA[5]		**378.1**	**186.4**	**346.4**	**86**
EBITDA margin (%)		49	47	49	4
Metro Fibre (kms)			2,624	25,486	871

1. FY17 Includes an eight month contribution from Nextgen of $127.1m in revenue and $85.5m in EBITDA post synergies
2. Now includes Commander earnings contribution refer page 46 for earnings reconciliation with past disclosure
3. Includes a full 12 month contribution from M2 Wholesale and Commander FY16 refer page 46 for detailed revenue reconciliation
4. Includes a full year of Nextgen an additional $62.1m in revenue and $31.7m in EBITDA refer reconciliation in Appendices page 46
5. Does not include a Network or Group Services cost allocation. Nextgen contribution post network costs was $62.5m

2.1.2 Enterprise & Wholesale Australia Revenue Bridge

	($'m)
FY16 Reported Revenue[1]	**397.7**
Organic growth in Corporate & Wholesale	19.8
Fibre build contract in prior period	(17.0)
Divestment of IT Services division	(10.3)
Contribution from M2 Wholesale for additional ~8 months	38.4
Contribution from Nextgen for ~8 months	127.1
Contribution from Commander for additional ~8 months	146.8
FY17 Reported Revenue	**702.5**

1. Included ~4 month contribution from M2 businesses. Merger occurred 22 February 2016

Revenue for the 12 month period to 30 June 2017 increased 77% on the pcp to $702.5m. Factors impacting the result include:

- An initial eight month contribution from the Nextgen acquisition ($127.1m contribution to Fibre & Ethernet revenues)
- A full twelve month contribution from the businesses acquired through the merger with M2 (an additional $185.2m in revenue).
  - The 108% increase in voice revenues includes the contribution from the M2 Wholesale and Commander businesses. Voice revenues were negatively impacted by the continuation of the structural decline in voice revenues in the SMB category as the substitution to mobile and the migration to VOIP continues
- Organic growth from new contracts net of contract cancellations
- FY16 revenue included a $17m contribution from a bespoke project contract. In FY17 the contribution from bespoke project based work was $23m cash flow received but not recognized in the P&L in FY17. Revenue and profit associated with these projects will be recognised in future years across the life of the contracts
- The impact of the sale of a non-core IT services platform in December 2015 of $10.3m in the pcp

Reconciliation with Proforma FY16 and FY17 are contained in the Appendix on page 46

Operating and Financial Review (continued)

2. Divisional Performance (continued)

2.1.3 EBITDA Bridge

	$'(m)
Underlying EBITDA at 30 June 2016[1]	**186.4**
Price/Mix/Volume/Cost	8.6
Increase in NBN CVC Costs	(2.7)
Fibre build contract in pcp not carried forward	(12.0)
Contribution from M2 Wholesale for additional ~8 months	14.4
Contribution from Commander for additional ~8 months	66.2
Contribution from Nextgen for ~8 months	85.5
Underlying EBITDA at 30 June 2017	**346.4**

1. Includes ~4 mth contribution from M2 Wholesale & M2 Commander. Merger occurred 22 February 2016

Underlying EBITDA for the 12 month period ended 30 June 2017 increased 86% on the pcp to $346.4m. Factors driving the result include:

- An initial eight month contribution from Nextgen $85.5m post synergies (pre overhead and network costs shown in Group Services)
- A full twelve month contribution from M2 Wholesale and Commander compared to 129 day contribution in FY16 post the merger with M2 in February 2016 ($80.6m additional EBITDA) *(refer appendices page 46 for proforma reconciliation)*
- The ~$12m EBITDA contribution from a bespoke project in FY16 that did not recur in FY17
- Investment in additional sales and provisioning resources during the year
- Organic growth in the business offset to an extent by pressure on pricing and contract cancellations
- The result benefited from a $10.3m difference between deferred and expensed SAC. *Refer appendices page 48 for detail on SAC benefit*

EBITDA margins improved reflecting the contribution from the Nextgen acquisition.

2.1.4 Outlook

Key Priorities

Enterprise & Wholesale is now focused on leveraging recently acquired businesses. Key priorities include:

- Grow share of market
  - Invest in Eastern region to drive market share to be in line with current Western market position
  - Focus on immediate $50M TCV opportunities in Victoria, NSW & Federal Government markets
  - Increase share of the Carrier & Carriage Service Providers market in wholesale
  - Partnering approach in small business
  - Implement a national account management regime to improve customer lifetime value
- Standardise and expand products to ensure consistency of offering and seamless delivery
- Improve automation of provisioning processes and customer self-help portals, drive down quote to cash
- Discipline around costs and capital allocation to improve returns to shareholder

Guidance

Enterprise & Wholesale FY18 earnings are forecast to grow:

- FY18 revenue is expected to grow at mid-single digit % growth compared to FY17 Proforma revenue[3]
- FY18 EBITDA is forecast to grow at high single digit % growth compared to FY17 Proforma EBITDA

Factors driving this growth include:

- A full 12 month contribution from Nextgen compared to 8 months in FY17
- Contribution in FY18 from bespoke customised contracts signed in FY17 are $21.0m in revenue and ~$13m EBITDA; ~$13.6m in cash revenue
- Growth flowing through from new contracts commenced in 4QFY17 ~$7m EBITDA
- Voice revenues in the SMB sector are expected to continue to decline offset to an extent by forecast growth in Enterprise voice services
- FY18 organic growth

3 E&W proforma earnings include a full 12 month contribution from Nextgen

2.2 Consumer – Australia

The Australian Consumer business is focused predominantly on the value end of the consumer market offering a range of telecommunications products and services including broadband data, voice, and mobile. The division also markets other household services under its key brands including gas, electricity, insurance and Fetch TV set top boxes.

The Division goes to market under a dual brand strategy: Dodo which is a low cost price seeker brand; and iPrimus which is a competitive value seeker brand.

The Consumer business has an estimated market share of the Consumer NBN broadband market of approximately 7.3% at 30 June 2017.

2.2.1 Earnings Summary

$'m	PF FY16[1]	FY16[2]	FY17	%chg 16/17
Total Revenue Consumer	**797.2**	**287.6**	**795.1**	**176**
Internet & Bundles	356.5	138.3	388.7	181
Voice Only	101.2	34.3	91.4	167
Mobile	71.3	22.4	53.1	137
Energy	173.7	66.8	211.7	217
Other[3]	34.7	10.1	37.5	272
Discontinued Businesses[4]	59.8	15.7	12.7	(19)
Underlying EBITDA[5]		**59.7**	**124.9**	**109**
EBITDA margin (%)		21	16	(24)
Consumer Broadband SIOs[6]		**528**	**547**	**4**
– Copper bundles ('000)		409	324	(21)
– Copper broadband ('000)		51	45	(12)
– NBN ('000)		68	178	162
ARPU copper broadband & bundles ($)[7]		60.62	61.04	
AMPU copper broadband & bundles ($)[7]		24.64	25.26	
ARPU NBN ($)[6]		64.54	64.23	
AMPU NBN ($)[6]		22.07	20.26	
Net churn rate copper per month[6]		2.4%	2.4%	
Net churn rate NBN per month[6]		1.5%	1.4%	
Consumer Market Share NBN excl satellite (%)		6.4	7.3	
Consumer Mobile SIOs ('000)		169	163	
Consumer Energy SIOs ('000)		**147**	**161**	
– Electricity		104	112	
– Gas		43	49	

1. Represents the M2 Australian Consumer business result for the full FY16 period excluding M2 Wholesale and Commander earnings and the Amnet business acquired in the Amcom acquisition. Refer page 46 for full reconciliation
2. Restated to remove Commander earnings transferred to Enterprise & Wholesale refer page 46 for full reconciliation. Includes the M2 Consumer business from the date of the merger 22 February 2016
3. Other includes Fetch TV
4. Discontinued businesses includes Aggregato US sales in FY16 and Aggregato Australia in FY16 and FY17
5. Underlying EBITDA now includes CVC charges as well as AVC charges
6. Now includes Engin subscribers
7. Average per user per month

Operating and Financial Review (continued)

2. Divisional Performance (continued)

2.2.2 Revenue Bridge

	$'(m)
FY16 Revenue	**287.6**
Price/Mix/Volume	43.0
Contribution from M2 for additional ~8 months	465.4
Contribution from Smart Business Telecom for ~7 months	14.8
Bounty revenue received in prior period	(14.0)
Compensation payment	6.0
Decline in hardware revenue	(4.7)
Revenue related to discontinued businesses	(3.0)
FY17 Revenue	**795.1**

Total Australian Consumer revenue was up 176% on the pcp to $795.1m. The result was driven by a number of factors primarily related to the full year impact of the M2 businesses post the merger in February 2016 ($465.4m additional revenue excluding discontinued businesses).

FY17 Consumer revenue declined marginally compared to Proforma FY16 revenue to $797.2m (table 2.2.1) driven by a number of factors including:

– Strong growth in Internet & Bundles reflecting the 5% growth over the pcp in broadband SIOs; offset to an extent by the ongoing weak trend in voice revenues reflecting mobile substitution and a decline in mobile revenue reflecting a 3% decline in mobile SIOs over the pcp

– The revenue impact of the sale of the Aggregato businesses compared to the pcp ~$35m

– The result included a strong increase in Energy revenues reflecting the 10% increase in Energy SIOs over the pcp

2.2.3 EBITDA Bridge

	$'(m)
Underlying EBITDA at 30 June 2016	**59.7**
Price/Mix/Volume/Cost	(2.1)
Increase in NBN CVC Costs	(15.8)
Contribution from M2 for additional ~8 months	81.4
Contribution from Smart Business Telecom for ~7 months	3.6
Compensation payment	6.0
Impact of volatility created by extreme weather events	(7.4)
EBITDA related to discontinued businesses	(0.5)
Underlying EBITDA at 30 June 2017	**124.9**

Underlying EBITDA increased 109% to $124.9m compared to EBITDA in the pcp primarily reflecting a full year contribution from the M2 Consumer business in FY17. Other factors impacting FY17 Underlying EBITDA included:

– CVC costs associated with the provision of NBN services are included in the EBITDA result. CVC costs increased from $2.3m in FY16 (CVC costs in FY16 for M2 Consumer for a full 12 months was $4.7m) to $20.5m in FY17 reflecting the growth in subscribers and the change in the mix of subscribers following the soft launch of iPrimus

– The impact of extreme weather events in NSW that impacted the profitability of the Energy business $7.4m

– The result benefited from a $25.7m difference between deferred and expensed SAC. *Refer appendices page 48 for detail on SAC benefit*

2.2.4 Outlook

Key Priorities

The Australian Consumer division's key priorities are:

– Drive top line growth through 2 leading consumer brands
  - Relaunch iPrimus, leverage awareness and target new customers
  - Focus on bundling energy, mobile and entertainment to drive value from existing customer base
  - Leverage dodo retail kiosk network and extend to new NBN areas

– Reducing cost to serve
  - Complete transformation of operations (Salesforce & Genesys) increasing customer satisfaction and delivering cost to serve improvements
  - Deliver new web and online capabilities to drive increased on line transactions
  - Drive simplification and automation

– Improve Returns
  - Focus data analytics to pre-empt churn
  - Increase share of wallet through bundling
  - Deliver a quality in home media streaming experience

Guidance

The Consumer Division's FY18 earnings are forecast to be:

– Revenue is forecast to grow at a high single digit percentage growth rate compared to the pcp driven by:
  - the rollout of the NBN and increasing share of the broadband market
  - focus on securing a higher share of wallet offering additional services such as energy and Fetch TV
  - the relaunch of iPrimus targeting a different segment of the consumer market

– FY18 EBITDA is expected to decline 15-20% on the pcp reflecting the headwind created by the benefit of DSACs ~$25.7m in the FY17 result

2.3 New Zealand

2.3.1 Earnings Summary

A$'m[1]	Proforma FY16[2]	FY16	Fy17	%chg 16/17
Revenue & Other Income	**298.7**	**144.6**	**323.0**	**123**
– Enterprise & Wholesale	118.2	84.1	150.2	79
– Consumer	180.5	60.5	172.8	186
Underlying EBITDA		**28.6**	**57.5**	**101**
EBITDA margin (%)		20	18	(10)
Broadband Consumer SIOs		**192**	**189**	**(2)**
– Copper broadband ('000)		165	144	(13)
– UFB ('000)		27	45	67
SMB SIOs ('000)		20	21	5
Broadband ARPU (NZ$)		71.37	71.21	–
Broadband AMPU (NZ$)		29.61	28.87	(2)
Net churn rate copper broadband (%)		2.8	3.0	7
Net churn rate UFB (%)		2.0	1.9	(5)
Market Share UFB (%)		11	13	18
Energy SIOs ('000)		–	5	100
Mobile SIOs ('000)		17	21	24

1. NZ earnings are converted into A$ monthly at the average conversion rate for the month
2. Proforma FY16 includes M2 New Zealand revenues for the FY16 period refer page 46

2.3.2 Earnings in New Zealand Dollars

NZD	FY16	1HFY17	FY17	%chg 16/17
Revenue	**151.2**	**167.1**	**342.0**	**126**
– Enterprise & Wholesale	88.0	74.3	159.0	81
– Consumer market	63.2	92.8	183.0	190
Underlying EBITDA	**30.0**	**31.7**	**60.9**	**103**
EBITDA margin %	20	19	18	(10)

Operating and Financial Review (continued)

2.3.3 New Zealand Revenue Bridge

	($'m)
FY16 Revenue	**144.6**
Contribution from M2 for additional ~8 months	163.6
Contribution from Switch Utilities	11.1
Organic growth	3.7
FY17 Revenue	**323.0**

New Zealand revenue increased 123% on the pcp to $323.0m. In NZD revenue increased 126% to NZ$342m. The result was driven by:

- A full 12 month contribution from the M2 New Zealand business. Revenue increased 8% on Proforma FY16 revenue. (Proforma FY16 earnings include a full 12 month contribution from M2 NZ). *Refer Appendices on page 46 for a full reconciliation of the proforma earnings)*
- An initial contribution from Switch Energy acquired in December 2016
- Growth in Enterprise & Wholesale driven largely by additional wholesale customers secured during the year

2.3.4 EBITDA Bridge

	$A'(m)
Underlying EBITDA at 30 June 2016	**28.6**
Price/Mix/Volume/Cost	(0.2)
Contribution from M2 for additional ~8 months	29.1
Underlying EBITDA at 30 June 2017	**57.5**

The New Zealand division reported 101% increase in Underlying EBITDA on the pcp to $57.5m. In NZD Underlying EBITDA increased 103% to NZ60.9m on the pcp. The result was driven by:

- A full 12 month contribution from the M2 NZ business post the M2 merger in February 2016
- The result benefited from a $5.3m difference between deferred and expensed SAC
- An initial contribution from the Switch Energy business acquired in December 2016

2.3.5 Outlook

Key Priorities

The key priorities for the New Zealand business in FY18 include:

- Drive top line growth
  - Broadband growth and UFB market share
  - Leverage size and scale to drive growth in all segments
  - Drive product penetration across all market segments
- Reduce cost to serve
  - Automate everything and deliver better customer outcomes
  - Reduced complexity through streamlining brands
  - Ensure investment improves resiliency while reducing costs
- Reduce churn
  - Deliver service and support on our customers terms
  - Bundle more services that complement the core
  - Improve business processes that impact customer experience

Guidance

In FY18 the New Zealand Division's revenue is expected to grow at high single digit percentage growth on the pcp and EBITDA is forecast to grow at low single digit percentage on the pcp. Factors expected to drive the result include:

- Top line growth in Consumer driven by modest net broadband growth and energy uptake
- Growth in Business and Enterprise driven by a direct sales approach leveraging a wider product set
- Strong growth in Wholesale activities on the back of new entrants leveraging the UFB roll out
- Ongoing competitive intensity in particular in the consumer market segment
- Earnings growth will be impacted by the head wind created by the net benefit to the P&L in FY17 of deferred SAC of $5.3m.

3. Group Outlook

Key Priorities

The key Group priorities in FY18 include:

- Focus on accelerating Company-wide transformation programs
  - Transformation team in place leaders appointed in each business unit
  - Key programs accelerated with priority given to projects that translate directly to earnings and improved customer experience
  - Initial benefits expected to flow in FY18, three year program to deliver all benefits
- Strategy in place to leverage the Company's assets and drive top line growth
  - Leverage the increased scale of the Company to drive growth in Enterprise/Government /Carrier markets
  - Take advantage of the rollout of NBN and UFB networks to take share in consumer markets in Australia and new Zealand
  - Unifying our product portfolio and markets to improve product penetration
  - Refining our brand portfolio and go to market strategy to optimise marketing spend
  - Transforming our technology environment to improve customer experience and create an efficient scalable platform for growth
- Focus on a reduction in costs
  - Execute on transformation to remove complexity and duplication – singular scale
  - Automate everything – programs in place across the business
  - Give the customer control; improve self-service portals
- Improve Returns
  - Cost focus to improve earnings efficiency
  - Discipline around capital allocation to improve cash returns
  - Improving capital management to drive cash returns for shareholders

FY18 Guidance – Group

	FY18 Guidance
Revenue	$1.9-2bn
Underlying EBITDA	$370-390m
D&A	$130-140m
Net Financing Costs	~$50m
Underlying NPAT	$140-150m
Below the line amortisation	~$87m
Capex (ex ASC)	$190-210m
ASC Capex	US$38m
Net Debt 30 June 2018	$1.03-1.06bn
Leverage Ratio 30 June 2018	~2.65x

- The 12 month benefit from the Nextgen acquisition (the four months prior to the completion of the acquisition in October 2016 represented $23.1m EBITDA)
- The FY18 results will be impacted by the headwinds resulting from the deferred subscriber acquisition costs (DSAC) benefit in FY17 of ~$41.3m, $13.3m in 2HFY17.
- Most significant impact in Consumer Australia (benefit in FY17 of $25.7m)
- Above the line depreciation will increase materially on the pcp primarily reflecting the acquisition of Nextgen
- Net interest expense will be materially higher given the positive offset of the funds from the capital raising in 1HFY17 and higher net debt levels
- Significant items taken below the line are expected to be a pre-tax non-cash expense of $87m related to the amortisation of acquired customer relationship and software balances. Significant items will include costs associated with the engagement with private equity firms
- Capital expenditure is expected to be in a range of $190-210m excl. ASC

FY18 Earnings Guidance – Divisions

	FY17 Proforma ($'m)		FY18 Forecast % chg	
	Revenue	EBITDA	Revenue	EBITDA
Australia				
– Enterprise & Wholesale	764.6	378.1	Mid–single digit growth	High single digit growth
– Consumer	795.1	124.9	High single digit growth	15–20% decline
New Zealand[1]	323.0	57.5	High single digit growth	Low single digit growth
Group Services	–	(171.0)	–	~(175)

- Top line growth forecast across all divisions driven by leveraging expanded platform, increasing penetration of key markets and growing share of wallet through expanded product set
- Increased competition in all segments driving ongoing focus on improving customer service and reducing cost to serve through automation

Operating and Financial Review (continued)

4. Appendix

4.1 Reconciliation from FY17 reported to FY17 Proforma Earnings

A$m	Fy17 Reported	Nextgen ~4mths prior to acquisition	FY17PF
Consumer[1]	795.1	–	795.1
Enterprise & Wholesale	702.5	62.1	764.6
New Zealand	323	–	323
Group Services	–	–	–
Revenue	**1,820.60**	**62.1**	**1,882.70**
Consumer[1]	124.9	–	124.9
Enterprise & Wholesale[2]	346.4	31.7	378.1
New Zealand	57.5	–	57.5
Segment EBITDA	**528.8**	**31.7**	**560.5**
Group Services	(162.4)	(8.6)	(171.0)
Underlying EBITDA	**366.4**	**23.1**	**389.5**

1. Consumer does not include Commander. Consumer now includes CVC costs of $20.5m
2. Enterprise & Wholesale now includes Commander SMB and CVC costs of $3.1m

4.2 Reconciliation from FY16 reported to FY16 Proforma Earnings

A$m	FY16 Reported	Commander	CVC Costs	Other	FY16 adjusted	M2 prior to merger	FY16PF
Consumer[1]	372.9	(94.1)	–	8.8	287.6	509.6	797.2
Enterprise & Wholesale[2]	310.4	94.1	–	(6.8)	397.7	228.7	626.4
New Zealand	144.6	–	–	–	144.6	154.1	298.7
Group Services/Other	2.9	–	–	(2.9)	–	–	–
Revenue	**830.8**	**–**	**–**	**(0.9)**	**829.9**	**892.4**	**1,722.3**
Consumer[1]	95.5	(36.4)	(2.3)	2.9	59.7	–	–
Enterprise & Wholesale[2]	155.0	36.4	(0.4)	(4.6)	186.4	–	–
New Zealand	28.6	–	–	–	28.6	–	–
Segment EBITDA	**279.1**	**–**	**(2.7)**	**(1.7)**	**274.7**	**–**	**–**
Group Services	(63.5)	–	2.7	1.7	(59.1)	–	–
Underlying EBITDA	**215.6**	**–**	**–**	**–**	**215.6**	**–**	**–**

1. In FY16 reported Consumer included Commander SMB and did not include CVC charges. The reported figure only includes M2 earnings from 22 February 2016
2. In FY16 Enterprise & Wholesale did not include Commander SMB or CVC charges
3. Interest income moved to net finance costs

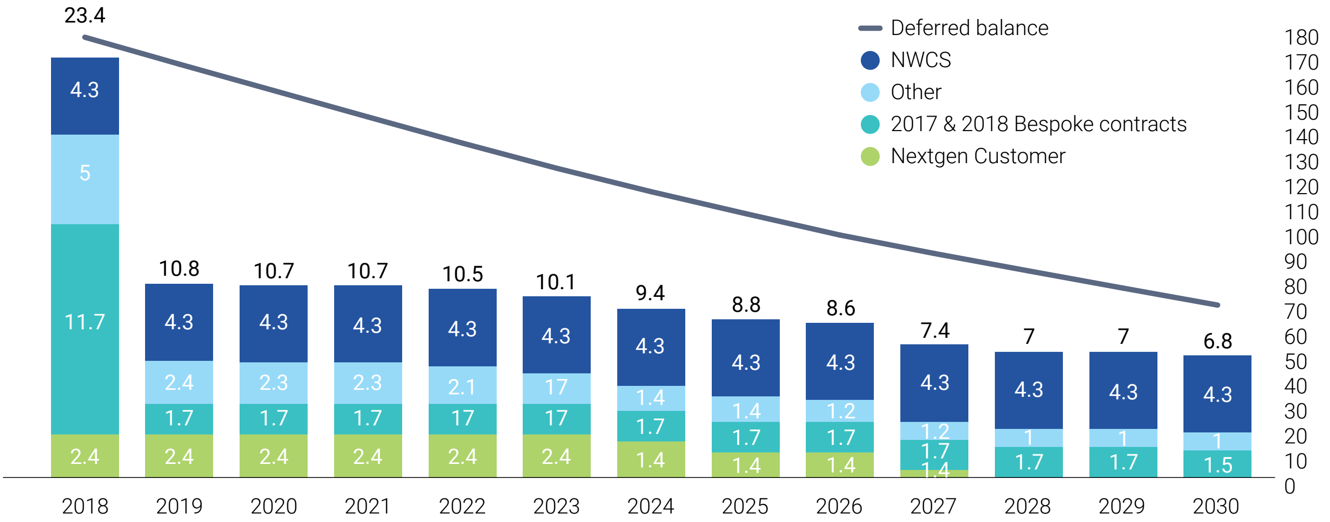
4.3 Reconciliation from 1HFY17 reported to 1HFY17 Restated

A$m	1HFY17 Reported	1HFY17 Commander	CVC Costs	Other	Restated 1HFY17	Nextgen 4mths	Proforma 1HFY17
Consumer[1]	517.6	(127.0)	–	5.5	396.1	–	396.1
Enterprise & Wholesale[2]	204.0	127.0	–	0.5	331.5	62.1	393.6
New Zealand	158.3	–	–	–	158.3	–	158.3
Group Services	6.0	–	–	(6.0)	–	–	–
Revenue	**885.9**	**–**	**–**	**–**	**885.9**	**62.1**	**948.0**
Consumer[1]	135.0	(53.4)	(7.1)	–	74.5	–	74.5
Enterprise & Wholesale[2]	102.5	53.4	(0.9)	2.9	157.9	31.7	189.6
New Zealand	30.1	–	–	–	30.1	–	30.1
Segment EBITDA	**267.6**	**–**	**(8.0)**	**2.9**	**262.5**	**31.7**	**294.2**
Group Services	(80.4)	–	8.0	(2.9)	(75.3)	(8.6)	(83.9)
Underlying EBITDA	**187.2**	**–**	**–**	**–**	**187.2**	**23.1**	**210.3**

1. 1HFY17 reported Consumer included Commander SMB and did not included CVC charges.
2. 1HFY17 reported Enterprise & Wholesale did not include Commander SMB or CVC charges

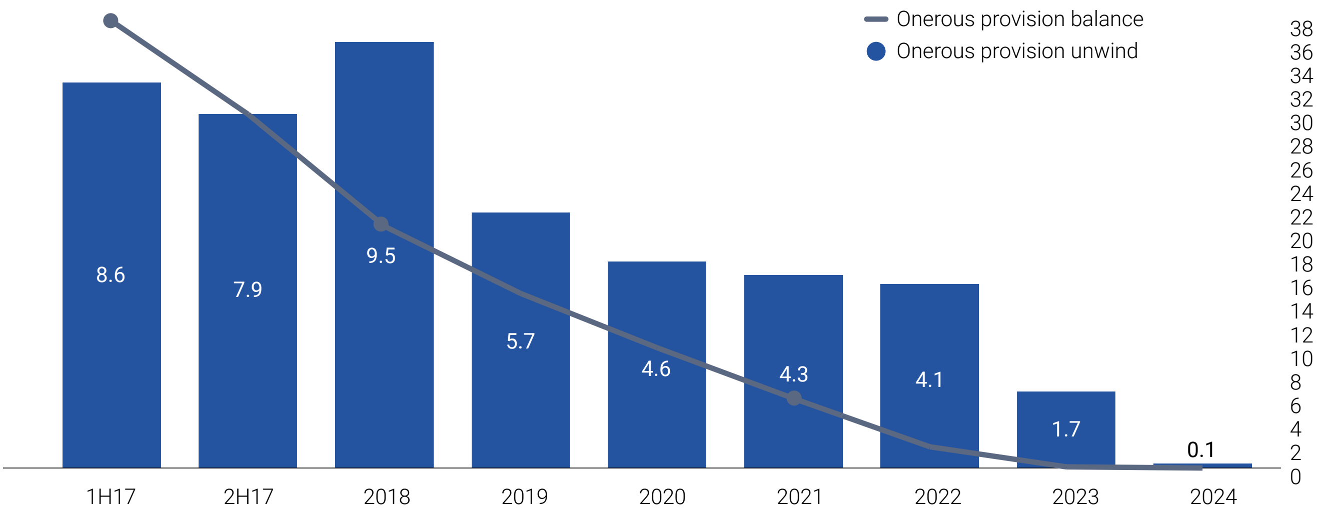
4.4 Deferred Revenue Profile 2018-2030

Deferred Revenue ($M)



Notes:
- All long term revenue sits within Enterprise & Wholesale and NZ
- Short term (monthly in advance) revenue is excluded from above
- NZD to AUD rate forecast at 0.96
- Includes only long-term deferred revenue (Deferral period 2+ years from receipt)
- NWCS – North West Cable System

4.5 Onerous provisions cash release profile



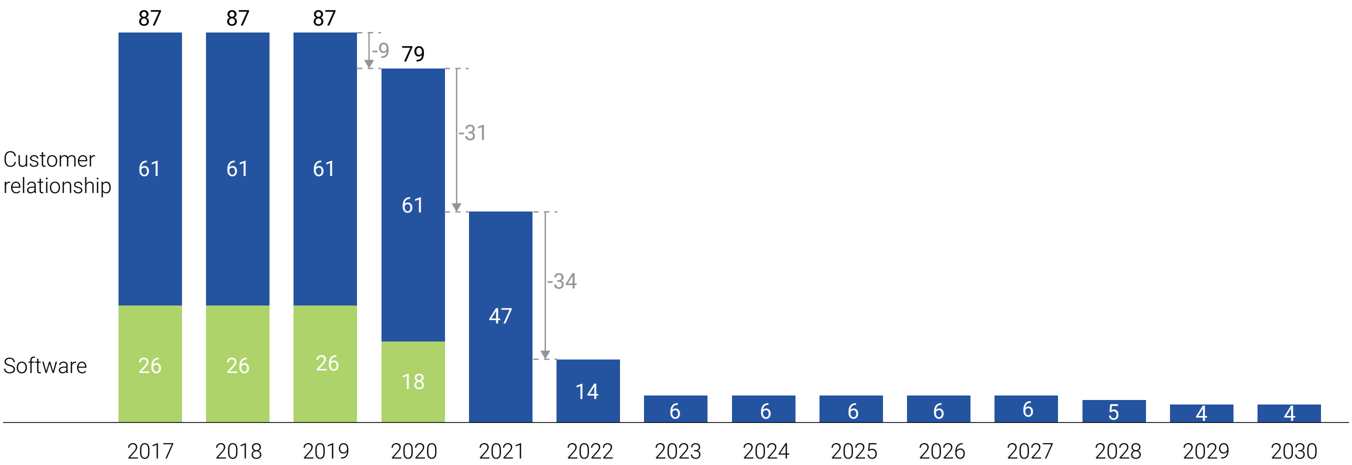
Notes:
1. Onerous contract provisions created on acquisitions
2. Include property leases and Metronode contract

Operating and Financial Review (continued)

4. Appendix (continued)

4.6 Below the line Amortisation of Acquired Customer Relationships and Software

Acquired Customer Relationship & Software ($M)



4.7 Treatment of Deferred Subscriber Acquisition costs

Deferred SAC ($'m)	**Consumer**	**NZ**	**EW**	**Total**
Deferred SAC balances 30/6/16	18	4.3	11.5	**33.8**
Deferred	25.5	10.6	10.7	**46.8**
Expensed	-9.2	-5	-4.7	**-18.9**
Deferred SAC balances 31/12/16	**34.3**	**9.9**	**17.5**	**61.7**
Deferred	25	7.6	11.1	**43.7**
Expensed	-15.6	-7.9	-6.8	**-30.3**
Deferred SAC balances 30/6/17	**43.7**	**9.6**	**21.8**	**75.1**
Current Deferred SAC	33.5	8.4	14.5	**56.3**
Non Current Deferred SAC	10.2	1.3	7.3	**18.8**
Deferred SAC balances 30/6/17	**43.7**	**9.7**	**21.8**	**75.1**

FY17 Movements	**Consumer**	**NZ**	**EW**	**Total**
Deferred	50.5	18.2	21.8	**90.5**
Expensed	-24.8	-12.9	-11.5	**-49.2**
Delta	25.7	5.3	10.3	**41.3**

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The Board of Directors
Vocus Group Limited
Level 10, 452 Flinders Street
Melbourne VIC 3000

23 August 2017

Dear Board Members

Vocus Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Vocus Group Limited.

As lead audit partner for the audit of the financial statements of Vocus Group Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

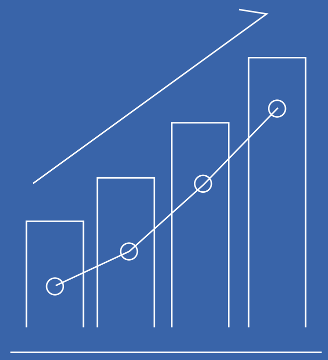
Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Don Pasquariello

Don Pasquariello
Partner
Chartered Accountants

Contents



Statement of profit or loss and other comprehensive income

For the year ended 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Revenue	5	1,820,578	829,946
Share of profits of joint ventures accounted for using the equity method		61	925
Other gains and losses	6	(30,925)	(20,651)
Expenses			
Network and service delivery		(1,059,657)	(440,427)
Employee benefits expense	7	(193,187)	(103,794)
Depreciation and amortisation expense	7	(193,565)	(78,487)
Administration and other expenses		(201,391)	(71,761)
Impairment of goodwill	15	(1,532,118)	–
Net finance costs	7	(40,905)	(23,585)
Profit/(loss) before income tax expense		(1,431,109)	92,166
Income tax expense	8	(33,761)	(27,914)
Profit/(loss) after income tax expense for the year		(1,464,870)	64,252
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Loss on the revaluation of available-for-sale financial assets, net of tax		–	(233)
Foreign currency translation		2,031	3,209
Net movement on hedging transactions, net of tax		(1,709)	6,623
Other comprehensive income for the year, net of tax		322	9,599
Total comprehensive income for the year		(1,464,548)	73,851
Profit/(loss) for the year is attributable to:			
Non-controlling interest		–	161
Owners of Vocus Group Limited	25	(1,464,870)	64,091
		(1,464,870)	64,252
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(161)	161
Owners of Vocus Group Limited		(1,464,387)	73,690
		(1,464,548)	73,851
		Cents	Cents
Basic earnings per share	11	(237.65)	18.64
Diluted earnings per share	11	(237.65)	18.60

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Statement of financial position

For the year ended 30 June 2017

	Note	Consolidated 2017 $'000	2016 $'000
Assets			
Current assets			
Cash and cash equivalents	21	50,194	128,629
Trade and other receivables	13	167,106	144,379
Prepayments		21,635	16,554
Deferred subscriber acquisition and hardware costs		57,454	19,222
Current tax asset		6,278	–
Derivative financial instruments	28	10,364	9,978
Other		14,454	14,922
Total current assets		327,485	333,684
Non-current assets			
Plant and equipment	14	1,542,979	522,413
Intangibles	15	2,212,110	3,757,068
Accrued revenue		2,928	1,279
Deferred subscriber acquisition and hardware costs		18,352	14,475
Deferred tax	9	61,745	57,403
Other		5,997	10,791
Total non-current assets		3,844,111	4,363,429
Total assets		4,171,596	4,697,113
Liabilities			
Current liabilities			
Trade and other payables	16	254,835	288,966
Provisions	19	56,974	25,020
Deferred revenue		62,337	62,202
Income tax		–	2,036
Borrowings	17	13,661	13,729
Derivative financial instruments	29	5,426	3,972
Other		3,517	4,639
Total current liabilities		396,750	400,564
Non-current liabilities			
Provisions	20	32,030	11,310
Deferred revenue		169,123	6,935
Borrowings	18	1,065,816	875,476
Deferred tax	10	194,534	216,320
Derivative financial instruments	30	1,545	5,390
Other		8,674	6,833
Total non-current liabilities		1,471,722	1,122,264
Total liabilities		1,868,472	1,522,828
Net assets		2,303,124	3,174,285
Equity			
Contributed equity	23	3,774,834	3,100,738
Reserves	24	22,703	16,306
Retained profits/(accumulated losses)	25	(1,494,413)	57,080
Equity attributable to the owners of Vocus Group Limited		2,303,124	3,174,124
Non-controlling interest		–	161
Total equity		2,303,124	3,174,285

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of changes in equity

For the year ended 30 June 2017

Consolidated	Contributed equity $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2015	144,244	3,847	48,148	–	196,239
Profit after income tax expense for the year	–	–	64,091	161	64,252
Other comprehensive income for the year, net of tax	–	9,599	–	–	9,599
Total comprehensive income for the year	–	9,599	64,091	161	73,851
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 23)	2,955,273	–	–	–	2,955,273
Share-based payments (note 31)	–	2,077	–	–	2,077
Arising upon business combinations (note 34)	–	2,004	–	–	2,004
Transfers	1,221	(1,221)	–	–	–
Dividends paid (note 12)	–	–	(55,159)	–	(55,159)
Balance at 30 June 2016	3,100,738	16,306	57,080	161	3,174,285

Consolidated	Contributed equity $'000	Reserves $'000	Retained profits/ (accumulated losses) $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2016	3,100,738	16,306	57,080	161	3,174,285
Loss after income tax expense for the year	–	–	(1,464,870)	–	(1,464,870)
Other comprehensive income for the year, net of tax	–	322	–	–	322
Total comprehensive income for the year	–	322	(1,464,870)	–	(1,464,548)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 23)	673,419	–	–	–	673,419
Disposal	–	–	–	(161)	(161)
Share based payments (note 31)	–	6,752	–	–	6,752
Transfers	677	(677)	–	–	–
Dividends paid (note 12)	–	–	(86,623)	–	(86,623)
Balance at 30 June 2017	3,774,834	22,703	(1,494,413)	–	2,303,124

The statement of changes in equity should be read in conjunction with the accompanying notes

Statement of cash flows

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash flows from operating activities			
Receipts from customers		1,886,200	862,745
Payments to suppliers and employees		(1,695,120)	(736,116)
		191,080	126,629
Dividends received		1	8
Interest received		2,181	879
Other finance costs paid		(31,389)	(24,464)
Income taxes paid		(30,456)	(31,063)
Net cash from operating activities	22	131,417	71,989
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired, acquisition and integration costs		(801,495)	75,698
Payments for property, plant and equipment		(131,710)	(66,899)
Payments for intangible assets		(57,912)	(31,169)
Payments for projects under construction		(29,450)	–
Proceeds from disposal of assets		7,677	265
Proceeds from total return swaps		128	19,520
Net cash used in investing activities		(1,012,762)	(2,585)
Cash flows from financing activities			
Proceeds from borrowings		202,567	695,948
Repayment of borrowings on business acquisitions		–	(595,000)
Repayment of finance leases and IRU liabilities		(12,295)	(7,340)
Proceeds from issue of shares, net of transaction costs		673,419	1,307
Dividends paid	12	(60,781)	(50,860)
Net cash from financing activities		802,910	44,055
Net increase/(decrease) in cash and cash equivalents		(78,435)	113,459
Cash and cash equivalents at the beginning of the financial year		128,629	15,170
Cash and cash equivalents at the end of the financial year	21	50,194	128,629

The above statement of cash flows should be read in conjunction with the accompanying notes

Notes to the financial statements

Note 1. Reporting Entity

The financial statements cover Vocus Group Limited as a Consolidated Entity consisting of Vocus Group Limited and the entities it controlled at the end of, or during, the year (collectively referred to as 'Vocus'). The financial statements are presented in Australian dollars, which is Vocus Group Limited's functional and presentation currency.

Vocus Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 10
452 Flinders Street
Melbourne Victoria 3000

A description of the nature of Vocus' operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 23 August 2017. The Directors have the power to amend and reissue the financial statements.

Note 2. Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for the revaluation of derivative financial instruments at fair value.

Net current asset deficiency

As at 30 June 2017, Vocus' current liabilities exceeded its current assets by $69,265,000. Vocus is satisfied that it will be able to meet all its obligations as they fall due given its strong profitability and operating cash flows, existing cash reserves and available finance facilities.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of Vocus (as a consolidated entity) only. Supplementary information about the parent entity is disclosed in note 39.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Revenue recognition

Revenue represents the fair value of the consideration received or receivable. Revenue is recognised in accordance with the policy set out in Note 5.

Impairment

The recoverable amounts of Vocus CGU'S have been determined based on a fair value less costs basis (being higher than value in use). The assessment of the recoverable amount requires the exercise of significant judgement about future market conditions, including growth rates and discount rates, as well as the impact of changing technologies and consumer preferences. Further details of the key judgements and estimates are set out in Note 15.

Business combinations

As discussed in note 34, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported. Finalisation of business combinations is 12 months from acquisition date.

Deferred subscriber acquisition and hardware costs

Subscriber acquisition costs are directly attributable to obtaining subscribers are capitalised pursuant to Interpretation 1042 Subscriber Acquisition Costs. Costs are capitalised when directly attributable to acquiring a new customer on a fixed term contract. The costs include commissions paid to internal and external sales personnel and non-refundable installation costs. Costs are amortised over the term of the customer contract, generally being between 12 and 36 months.

Deferred hardware costs are incremental costs associated with providing hardware under customer contracts. Costs are amortised over the related contract term between 12 and 24 months. There are deferred hardware costs of $15.6 million, the current portion being $12.8 million, non-current $2.8 million (2016: $9.7 million, the current portion being $6.0 million, non-current $3.7 million).

Notes to the financial statements (continued)

Note 4. Operating segments

Operating segments

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management. In 2017, Vocus has amended its operating segments to better align with the Group's changed organisational structure. In the prior year, Vocus operated and disclosed two operating segments, Australia and New Zealand. The prior year reporting segment information has been restated below in line with current year segments.

Operating segments represent the information reported to the chief operating decision makers (CODM), being the executive management team, for the purposes of resource allocation.

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution. Assets are managed on a geographical basis.

The directors of Vocus have chosen to organise the Group around the four main divisions in which the Group operates.

Specifically, the Group's reportable segments under AASB 8 are as follows:

- Consumer
- Enterprise & Wholesale
- New Zealand
- Group Services

Refer to Note 5 Revenue for a breakdown of revenue by products and services.

Major customers

During the year ended 30 June 2017 there were no customers of Vocus which contributed 10% or more of external revenue (2016: nil).

Segment revenues and results

Consolidated – 2017	Enterprise & Wholesale $'000	Consumer $'000	New Zealand $'000	Group Services $'000	Total $'000
Revenue					
Sales to external customers	702,506	795,122	322,949	–	1,820,577
Other revenue	–	–	1	–	1
Total revenue	702,506	795,122	322,950	–	1,820,578
EBITDA	346,441	124,877	57,520	(193,359)	335,479
Depreciation and amortisation					(193,565)
EBIT					141,914
Impairment of goodwill					(1,532,118)
Net finance costs					(40,905)
Loss before income tax expense					(1,431,109)
Income tax expense					(33,761)
Loss after income tax expense					(1,464,870)

Restated Consolidated – 2016	Enterprise & Wholesale $'000	Consumer $'000	New Zealand $'000	Group Services $'000	Total $'000
Revenue					
Sales to external customers	397,754	287,575	144,609	–	829,938
Other revenue	7	–	1	–	8
Total revenue	397,761	287,575	144,610	–	829,946
EBITDA	188,039	57,190	28,646	(79,637)	194,238
Depreciation and amortisation					(78,487)
EBIT					115,751
Net finance costs					(23,585)
Profit before income tax expense					92,166
Income tax expense					(27,914)
Profit after income tax expense					64,252

Note 4. Operating segments (continued)

Geographical Information

	Consolidated 2017 $'000	2016 $'000
Revenue		
Australia	1,497,628	685,329
New Zealand	322,949	144,609
	1,820,577	829,938
Non-current assets		
Australia	3,550,719	3,888,534
New Zealand	231,647	417,492
	3,782,366	4,306,026

The carrying amount of non-current assets excludes deferred tax assets.

Accounting policy for operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

Note 5. Revenue

	Consolidated 2017 $'000	2016 $'000
Sales revenue		
Revenue from operations	1,820,577	829,938
Other revenue		
Dividends	1	8
Revenue	1,820,578	829,946

Sales revenue by product set

	Consolidated 2017 $'000	2016 $'000
Fibre and Ethernet	291,759	153,755
Internet	713,397	311,293
Voice	391,613	171,473
Data centre	46,598	50,846
Mobile	72,805	26,704
Energy	222,863	66,761
Other	81,542	49,106
Total sales revenue	1,820,577	829,938

Notes to the financial statements (continued)

Note 5. Revenue (continued)

Accounting policy for revenue recognition

Revenue represents the fair value of the consideration received or receivable. Revenue is recorded net of sales returns, trade allowances, discounts, sales incentives, duties and taxes. Vocus generates revenue and other income primarily from the following business activities:

Rendering of services

Revenue is derived from the provision of internet, data centre, fibre and ethernet and voice services to corporate and wholesale customers. Revenues are recognised on a straight-line basis over the period that services are provided.

Consumer revenue is principally derived from providing telecommunication and gas and electricity services. Telecommunication services include fixed wire, mobile, data services and equipment sales. Products and services may be sold separately or in bundled packages.

Revenue for fixed wire, mobile and data services are recognised as revenue when services are performed. Revenue from services provided, but unbilled, are accrued at end of each period and unearned revenue (revenue billed in advance) for services to be provided in future periods is deferred.

Revenue from bundled offers is recognised when two or more activities or deliverables are sold under one single arrangement. The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on its relative fair value. A delivered item is considered a separate unit of accounting where it has value to the customer on a stand-alone basis and the fair value of any undelivered items cannot be terminated by the customer without incurring penalties.

Revenue from gas and electricity services supplied is recognised once the gas and electricity has been delivered to the customer and is measured through a regular review of usage meters. At the end of each reporting period, gas and electricity revenue includes an accrual for energy delivered to the customer but not yet billed (unbilled revenue)

Revenue for equipment sales is recognised when the device is delivered to the end customer and the sale is considered complete.

Long term customer contract revenue

For Corporate customers, accounting for long term contracts with separate performance obligations identified in the contract, where it is necessary, Vocus applies the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

Commission income

Commissions are received as incentives from upstream suppliers for connecting new customers. Revenue from such commissions is deferred and recognised over a period of life in line with the average period related to the customers' contracts.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Deferred revenue

Deferred revenue is revenue received in advance and is recognised as revenue over the period the services are provided.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Note 6. Other gains and losses

	Consolidated	
	2017 $'000	**2016 $'000**
Net loss on disposal of joint venture [1]	(2,613)	–
Gain on total return swaps [2]	128	19,520
Acquisition and integration costs [3]	(25,668)	(40,660)
Gains/(losses) associated with foreign exchange	(637)	1,445
Other gains/(losses)	(2,135)	(956)
Other gains and losses	(30,925)	(20,651)

1 The loss on disposal of joint venture arose on the sale of Vocus' 50% interest in Connect 8 Limited, a New Zealand fibre construction company to its joint venture partner, Spark New Zealand.
2 The gains on total return swaps for the year ended 30 June 2017 comprises of mark-to-market movements in relation to Vocus' 16% relevant interest in Macquarie Telecom Group Limited, net of dividends received, brokerage and interest costs relating to these total return swap arrangements. The 16% interest in Macquarie Telecom Group Limited was sold during the year.
3 Acquisition and integration costs for the year ended 30 June 2017 primarily comprise legal, professional services, redundancy and other costs relating to the acquisition and integration of Amcom, M2 and Nextgen. The Amcom and M2 transactions completed during the year ended 30 June 2016, while Nextgen was acquired in October 2016.

Note 7. Expenses

	Consolidated	
	2017 $'000	**2016 $'000**
Profit/(loss) before income tax includes the following specific expenses:		
Depreciation and amortisation		
Depreciation (note 14)	86,906	36,864
Amortisation (note 15)	106,659	41,623
Total depreciation and amortisation	193,565	78,487
Net finance costs		
Interest income	(5,026)	(879)
Interest expense	45,931	24,464
Net finance costs	40,905	23,585
Rental expense relating to operating leases	23,120	12,152
Employee benefits expense		
Salaries and wages expense	132,599	67,942
Employee on-costs expense	24,898	14,601
Employee leave expense	8,533	4,330
Share-based payment expense	2,291	2,077
Other employee benefits expense	24,866	14,844
Total employee benefits expense	193,187	103,794

Notes to the financial statements (continued)

Note 8. Income tax expense

	Consolidated 2017 $'000	Consolidated 2016 $'000
Income tax expense		
Current tax	35,970	23,392
Deferred tax – origination and reversal of temporary differences	(7,113)	3,994
Adjustment recognised for prior periods	1,118	451
Deferred tax – charged to equity	3,786	77
Aggregate income tax expense	33,761	27,914
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 9)	6,231	(5,782)
Increase/(decrease) in deferred tax liabilities (note 10)	(13,344)	9,776
Deferred tax – origination and reversal of temporary differences	(7,113)	3,994
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit/(loss) before income tax expense	(1,431,109)	92,166
Tax at the statutory tax rate of 30%	(429,333)	27,650
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	386	156
Impairment of goodwill	459,637	–
Share-based payments	687	623
Transaction costs	609	803
Tax allowances and incentives	(67)	(1,985)
Loss on sale of investment	723	–
Sundry items	459	267
	33,101	27,514
Adjustment recognised for prior periods	1,118	451
Difference in overseas tax rates	(458)	(51)
Income tax expense	33,761	27,914

	Consolidated 2017 $'000	Consolidated 2016 $'000
Amounts charged directly to equity		
Deferred tax assets (note 9)	3,372	69
Deferred tax liabilities (note 10)	414	8
	3,786	77

Note 8. Income tax expense (continued)

Accounting policy for tax

Income tax for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, except for (i) when the deferred tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or (ii) when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Tax consolidation legislation

Vocus Group Limited and its 100% owned Australian subsidiaries formed a tax consolidated group with effect from 14 September 2010. Vocus Group Limited is the head entity of the tax consolidated group. Members of Vocus have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidated Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. Vocus has applied the stand-alone taxpayer approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is discussed further below.

In addition to its current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable/(payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries.

Notes to the financial statements (continued)

Note 9. Non-current assets – deferred tax

	Consolidated 2017 $'000	Consolidated 2016 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Capital losses	37	37
Receivables	8,526	13,392
Property, plant and equipment	449	502
Accruals and provisions	25,526	25,156
Unrealised foreign exchange loss	214	424
Expenses deductible over five years	12,787	11,037
Unearned income	10,486	1,208
Other	3,720	5,647
Deferred tax asset	61,745	57,403
Movements:		
Opening balance	57,403	5,443
Credited/(charged) to profit or loss (note 8)	(6,231)	5,782
Charged to equity (note 8)	(3,372)	(69)
Additions through business combinations (note 34)	13,945	46,247
Closing balance	61,745	57,403

Note 10. Non-current liabilities – deferred tax

	Consolidated 2017 $'000	Consolidated 2016 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	27,189	27,589
Intangibles	146,923	171,084
Subscriber acquisition costs	16,852	10,109
Unrealised foreign exchange gain	562	158
Total return swaps	–	6,660
Other	3,008	720
Deferred tax liability	194,534	216,320
Movements:		
Opening balance	216,320	21,299
Charged/(credited) to profit or loss (note 8)	(13,344)	9,776
Charged to equity (note 8)	414	8
Additions through business combinations (note 34)	(8,856)	185,237
Closing balance	194,534	216,320

Note 11. Earnings per share

	Consolidated 2017 $'000	Consolidated 2016 $'000
Profit/(loss) after income tax	(1,464,870)	64,252
Non-controlling interest	–	(161)
Profit/(loss) after income tax attributable to the owners of Vocus Group Limited	(1,464,870)	64,091

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	616,391,779	343,831,985
Adjustments for calculation of diluted earnings per share:		
Options	20,017	194,094
Performance rights	1,645,562	493,780
Weighted average number of ordinary shares used in calculating diluted earnings per share	618,057,358	344,519,859

	Cents	Cents
Basic earnings per share	(237.65)	18.64
Diluted earnings per share	(237.65)	18.60

The weighted average number of ordinary shares for 2016 has been restated for the effect of the 1 for 8.9 rights issue completed in July 2016, in accordance with AASB 133 'Earnings per share'.

	Number
Weighted average number of ordinary shares used in calculating basic earnings per share (before restatement)	339,875,432
Adjustment required by AASB 133 'Earnings per share'	3,956,553
Weighted average number of ordinary shares used in calculating basic earnings per share (after restatement)	343,831,985

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Vocus Group Limited, 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 financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account 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.

Notes to the financial statements (continued)

Note 12. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
Final dividend for the year ended 30 June 2016 of 8.00 cents per ordinary share (2015: 2.00 cent per ordinary share) paid on 4 October 2016	49,402	4,606
Interim dividend for the year ended 30 June 2017 of 6.00 cents per ordinary share (2016: 7.60 cents per ordinary share) paid on 21 April 2017	37,221	40,443
Special dividend for the year ended 30 June 2016 of 1.90 cents per ordinary share (2015: 5.10 cents) paid on 6 April 2016 (2015: 8 July 2016)	–	10,110
	86,623	55,159

The directors have adopted a dividend policy to deliver growing dividends over time, reflective of profitability, cash position and investment opportunities.

The Vocus Dividend Reinvestment Plan (DRP) allows shareholders to elect to receive their dividends in the form of Vocus shares, offered at a discount of 1.5% to the volume weighted average price over the five trading days commencing on and including the next trading day following the dividend record date.

5,278,690 shares were issued in respect of the DRP for the year ended 30 June 2017.

Franking credits

	Consolidated 2017 $'000	Consolidated 2016 $'000
Franking credits available at the reporting date based on a tax rate of 30%	33,511	38,927
Franking credits that will arise from the payment of the amount of the June income tax payment made in July at the reporting date based on a tax rate of 30%	2,132	4,405
Franking credits available for subsequent financial years based on a tax rate of 30%	35,643	43,332
Franking debits that will arise from the payment of dividends declared subsequent to the reporting date based on a tax rate of 30%	–	(21,172)
Net franking credits available based on a tax rate of 30%	35,643	22,160

	Consolidated 2017 $'000	Consolidated 2016 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	35,643	22,160

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Accounting policy for dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Note 13. Current assets – trade and other receivables

	Consolidated 2017 $'000	Consolidated 2016 $'000
Trade receivables[1]	117,613	100,532
Less: Provision for impairment of receivables	(7,731)	(4,234)
	109,882	96,298
Other receivables	4,384	5,302
Accrued revenue	52,840	42,779
	167,106	144,379

[1] Trade receivables are presented after fair value adjustment to trade receivables arising on business combinations.

Impairment of receivables

An expense of $19,527,309 (2016: $7,474,000) has been recognised in profit or loss in respect of impairment of receivables for the year ended 30 June 2017.

The ageing of the impaired receivables provided for above are as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
1 to 3 months overdue	83	186
Over 3 months overdue	7,648	4,048
	7,731	4,234

Movements in the provision for impairment of receivables are as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
Opening balance	4,234	573
Additional provisions recognised	19,527	7,474
Receivables written off during the year as uncollectable	(16,030)	(3,813)
Closing balance	7,731	4,234

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $31,398,000 as at 30 June 2017 ($24,019,000 as at 30 June 2016).

These balances were not considered a credit risk on the aggregate balances after reviewing credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
1 to 3 months overdue	21,305	20,308
Greater than 3 months overdue	10,093	3,711
	31,398	24,019

Notes to the financial statements (continued)

Note 13. Current assets – trade and other receivables (continued)

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment. Trade receivables are generally due for settlement within 14 to 60 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that Vocus will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. In determining this, management makes judgment as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

Other receivables are recognised at amortised cost, less any provision for impairment.

Note 14. Non-current assets – plant and equipment

	Consolidated	
	2017 $'000	**2016 $'000**
Fibre assets – at cost	1,364,454	354,124
Less: Accumulated depreciation	(121,413)	(19,464)
	1,243,041	334,660
Data centre assets – at cost	66,874	62,477
Less: Accumulated depreciation	(18,447)	(13,754)
	48,427	48,723
Network equipment – at cost	179,130	69,702
Less: Accumulated depreciation	(50,083)	(8,113)
	129,047	61,589
Other plant and equipment – at cost	81,785	104,268
Less: Accumulated depreciation	(13,524)	(26,827)
	68,261	77,441
Projects under construction – at cost	54,203	–
	1,542,979	522,413

Note 14. Non-current assets – plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Fibre assets $'000	Data centre assets $'000	Network equipment $'000	Other plant and equipment $'000	Projects under construction $'000	Total $'000
Balance at 1 July 2015	127,176	42,280	31,283	3,880	–	204,619
Additions	41,654	3,862	11,810	19,990	–	77,316
Additions through business combinations (note 34)	162,958	7,791	31,800	64,570	–	267,119
Reclassifications	(493)	(7)	3,294	(483)	–	2,311
Disposals	(39)	–	–	(638)	–	(677)
Exchange differences	5,724	301	1,542	1,022	–	8,589
Transfers in/(out)	11,108	–	(8,635)	(2,473)	–	–
Depreciation expense	(13,428)	(5,504)	(9,505)	(8,427)	–	(36,864)
Balance at 30 June 2016	334,660	48,723	61,589	77,441	–	522,413
Additions	34,859	5,735	27,795	73,644	29,450	171,483
Additions through business combinations (note 34)	914,497	–	–	16,250	27,868	958,615
Adjustments to provisional business combinations	(5,470)	–	–	(1,313)	(2,922)	(9,705)
Exchange differences	(217)	(16)	(77)	(265)	(193)	(768)
Write off of assets	(166)	(19)	–	(11,968)	–	(12,153)
Transfers in/(out)	3,978	–	67,268	(71,246)	–	–
Depreciation expense	(39,100)	(5,996)	(27,528)	(14,282)	–	(86,906)
Balance at 30 June 2017	1,243,041	48,427	129,047	68,261	54,203	1,542,979

No impairment indicators are present relating to the carrying value of plant and equipment and network equipment.

Accounting policy for property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Fibre	10-50 years
Data centre	5-15 years
Network equipment	5-8 years
Plant and equipment	3-15 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Notes to the financial statements (continued)

Note 15. Non-current assets – intangibles

	Consolidated 2017 $'000	Consolidated 2016 $'000
Goodwill – at cost (less impairment)	1,475,096	2,960,303
IRU capacity – at cost	182,732	153,392
Less: Accumulated amortisation	(38,992)	(26,716)
	143,740	126,676
Customer intangibles – at cost	381,059	376,531
Less: Accumulated amortisation	(87,918)	(26,365)
	293,141	350,166
Software – at cost	162,333	139,793
Less: Accumulated amortisation	(44,592)	(12,499)
	117,741	127,294
Brands – at cost	180,500	190,500
Other intangibles – at cost	1,996	2,494
Less: Accumulated amortisation	(104)	(365)
	1,892	2,129
	2,212,110	3,757,068

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	IRU capacity $'000	Customer intangibles $'000	Software $'000	Brands & other intangibles $'000	Total $'000
Balance at 1 July 2015	43,242	58,323	18,877	3,764	1,188	125,394
Additions	–	19,372	–	9,478	2,319	31,169
Additions through business combinations (note 34)	2,916,946	55,175	355,643	124,696	192,327	3,644,787
Disposals	(3,108)	–	–	–	(785)	(3,893)
Exchange differences	3,223	(192)	42	468	2	3,543
Reclassifications	–	–	–	–	(2,309)	(2,309)
Amortisation expense	–	(6,002)	(24,396)	(11,112)	(113)	(41,623)
Balance at 30 June 2016	2,960,303	126,676	350,166	127,294	192,629	3,757,068
Additions	–	29,340	–	23,977	–	53,317
Additions through business combinations (note 34)	57,770	–	4,530	589	–	62,889
Adjustments to provisional business combinations	(9,792)	–	(528)	–	(10,000)	(20,320)
Disposal	–	–	–	(907)	(112)	(1,019)
Exchange differences	(1,067)	–	–	19	–	(1,048)
Impairment of goodwill	(1,532,118)	–	–	–	–	(1,532,118)
Amortisation expense	–	(12,276)	(61,027)	(33,231)	(125)	(106,659)
Balance at 30 June 2017	1,475,096	143,740	293,141	117,741	182,392	2,212,110

Note 15. Non-current assets – intangibles (continued)

Impairment testing

In accordance with Vocus' accounting policy, impairment testing has been undertaken at 30 June 2017 for all groups of cash generating units ('CGUs') with indefinite life intangible assets or where there is an indication of impairment.

As set out in note 4 Operating segments in the second half of the year ended 30 June 2017 Vocus amended its reportable segments and CGUs to better align with the Group's changed organisational structure. Vocus monitors goodwill at the CGU level. In the prior year and for the half year ended 31 December 2016 Vocus operated and disclosed two CGUs, Australia and New Zealand. On completing the organisational re-structure and related financial models, Vocus undertook impairment testing at firstly the Australian and New Zealand level and (set out below) impairment of goodwill was recognised at this CGU level. Immediately post-impairment the remaining goodwill was allocated to the new CGUs being Consumer, Enterprise & Wholesale and New Zealand on a relative fair value basis. The new CGU's were tested for impairment at 30 June 2017, with additional impairment being recognised (as set out below).

In reviewing the carrying value of goodwill the Company considers a number of factors including the discount rate and terminal growth rates used. The review has been undertaken utilising the detailed five year business plans for each of the CGUs and Group Services. These plans have been developed over the last few months taking into account the current competitive market environment, in particular in the Consumer broadband sector in both Australia and New Zealand.

The testing has been conducted using a fair value less cost to sell model ('FVLCTS'), estimated using discounted cash flows over a five year period plus a terminal value. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

Key assumptions used in the estimation of the recoverable amount during the testing for impairment of the Australia and New Zealand CGUs are set out below.

	Consolidated	
Australian CGU	**2017 %**	**2016 %**
Discount rate (post tax)	9.9	8.9
Terminal value growth rate	2.5	3.0
Cost of disposal	5.0	5.0

	Consolidated	
New Zealand CGU	**2017 %**	**2016 %**
Discount rate (post tax)	10.2	9.0
Terminal value growth rate	2.5	3.0
Cost of disposal	5.0	5.0

The discount rates reflect the markets determined risk adjusted rates for specific risks relating to each CGU and the markets in which they operate.

The terminal value growth rate represents the growth rate applied to extrapolate cash flows beyond the five year period. These growth rates are based on Vocus expectation on long term performance of the CGU.

Following the impairment review, the impairment charges recognised in the consolidated income statement within operating profit in respect of goodwill for the Australian and New Zealand CGU are $1,246,175,000 and $199,311,000, respectively.

Following the impairment loss recognised in the Australia and New Zealand CGUs, the recoverable amount for the Consumer and Enterprise & Wholesale CGUs was tested for impairment using the same methodology as noted above.

Notes to the financial statements (continued)

Note 15. Non-current assets – intangibles (continued)

The key assumptions used in the calculation were:

Consumer CGU	Consolidated 2017 %
Discount rate (post tax)	9.5
Terminal value growth rate	2.5
Cost of disposal	5.0

Enterprise & Wholesale CGU	Consolidated 2017 %
Discount rate (post tax)	10.0
Terminal value growth rate	2.5
Cost of disposal	5.0

Other key assumptions used in both calculations are:

- Forecasts for capital expenditure based on past experience required to maintain current fixed asset levels as well as expand the network to support future growth (including Transformation capital expenditure).
- Five year cash flow forecasts based on market expectations as approved by Senior Management and the Board of Directors, including expected synergistic benefits from recent mergers and market expectations.

Following the annual impairment review, an additional impairment charge was recognised in the consolidated income statement within operating profit in respect of goodwill for the Consumer CGU of $86,632,000.

Total impairment charge to the statement of profit and loss for the year ending 30 June 2017 was $1,532,118,000.

Post impairment of the Consumer CGU, The remaining goodwill in the statement of financial position was.

Goodwill post-impairment	Consolidated 2017 %
Consumer	192,538
Enterprise & Wholesale	953,592
New Zealand	328,966
	1,475,096

Sensitivity analysis

Following the impairment loss recognised in the Australia and New Zealand CGUs initially and the Consumer CGU post goodwill allocation, the recoverable amount for the Consumer and New Zealand CGUs are equal to the carrying amount. Therefore any adverse movement in a key assumption would lead to further impairment.

The estimated recoverable amount for the Enterprise & Wholesale CGU exceeded its carrying amount by approximately $87 million. Management has identified that a reasonable possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

Note 15. Non-current assets – intangibles (continued)

	Consolidated
Change required for carrying amount to equal recoverable amount	**2017 %**
Discount rate	0.3
Terminal value growth rate	0.4

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Intellectual property

Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Indefeasible Right to Use ('IRU')

Indefeasible right to use capacity are brought to account as intangible assets at cost, being the present value of the future cash flows payable for the right. Costs associated with IRU's are deferred and amortised on a straight-line basis over the period of their expected benefit.

Software

Costs associated with software, including those associated with capitalised development costs, are amortised on a straight-line basis over the period of their expected benefit, being its finite life of between 3 to 8 years.

An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. All other research costs are expensed as incurred.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

Customer intangibles

Customer intangibles acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their expected finite life of between 4 to 15 years.

Brands

Brands have indefinite useful lives. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. Assets with indefinite useful lives are reviewed each reporting period to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis. Deferred tax liability in relation to brands is based on the expected manner of recovery of the brands rather than the assumption that the asset will be sold.

Other intangibles

Other intangibles are amortised on a straight-line basis over the period of their expected benefit, except in the case of brands, which are not subsequently amortised.

Notes to the financial statements (continued)

Note 16. Current liabilities – trade and other payables

	Consolidated	
	2017 $'000	**2016 $'000**
Trade payables	60,413	116,907
Revenue received in advance	37,085	39,738
Accruals	121,914	101,157
Goods and services tax payable	7,195	8,384
Other payables	28,228	22,780
	254,835	288,966

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 17. Current liabilities – borrowings

	Consolidated	
	2017 $'000	**2016 $'000**
Backhaul IRU liability	6,585	5,992
Lease liability	7,076	7,737
	13,661	13,729

Note 18. Non-current liabilities – borrowings

	Consolidated	
	2017 $'000	**2016 $'000**
Bank loans	1,031,399	828,832
Backhaul IRU liability	18,678	25,263
Lease liability	15,739	21,381
	1,065,816	875,476

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2017 $'000	**2016 $'000**
Bank loans	1,031,399	828,832
Lease liability	22,815	29,118
	1,054,214	857,950

Note 18. Non-current liabilities – borrowings (continued)

Assets pledged as security

The bank loans are secured via general security deeds over Vocus' assets and undertakings.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2017 $'000	**2016 $'000**
Total facilities		
Bank loans	1,172,406	1,184,200
Bank guarantee / letter of credit facility	75,000	50,000
	1,247,406	1,234,200
Used at the reporting date		
Bank loans	1,031,399	828,832
Bank guarantee / letter of credit facility	67,203	29,293
	1,098,602	858,125
Unused at the reporting date		
Bank loans	141,007	355,368
Bank guarantee / letter of credit facility	7,797	20,707
	148,804	376,075

The Group's bank facility at 30 June 2017 consists of a $1,247,406,000 senior finance facility (2016: $1,234,200,000), comprising 3 year (A$585,000,000) and 5 year (A$510,000,000, NZ$160,000,000) facilities, including available facilities for bank guarantees / letters of credit and is non-amortising. Interest on the facility is recognised at the aggregate of the reference bank bill rate plus a margin.

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 19. Current liabilities – provisions

	Consolidated	
	2017 $'000	**2016 $'000**
Employee benefits	16,904	16,665
Deferred consideration	28,932	2,000
Onerous contracts	9,998	5,495
Make good	1,140	860
	56,974	25,020

Deferred consideration

Deferred consideration represents the obligation to pay consideration at a later time following the acquisition of a business or assets. Vocus applies provisional accounting for any business combination. Any reassessment of the liability during the earlier of the finalisation of the provisional accounting or 12 months from acquisition-date is adjusted for retrospectively as part of the provisional accounting rules in accordance with AASB 3 'Business Combinations'. Thereafter, at each reporting date, the deferred consideration liability is reassessed against revised estimates and any increase or decrease of the liability will result in a corresponding gain or loss to profit or loss.

Onerous contracts

A provision has been made for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The provision is calculated based on the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil the contract.

Notes to the financial statements (continued)

Note 19. Current liabilities – provisions (continued)

Make good

Make good represents the present value of the estimated costs to make good the premises leased by Vocus at the end of the respective lease terms.

Movements in provisions

Movement in provisions, excluding employee benefits, during the current financial year is set out below:

Consolidated – 2017	Deferred consideration $'000	Onerous contracts $'000	Make good $'000
Carrying amount at the start of the year	2,000	5,495	860
Additional provisions recognised	–	1,135	–
Additions through business combinations (note 34)	28,170	6,985	389
Amounts paid	(1,238)	(3,617)	(109)
Carrying amount at the end of the year	28,932	9,998	1,140

Accounting policy for provisions

Provisions are recognised when there is a present (legal or constructive) obligation as a result of a past event, it is probable Vocus will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Accounting policy for employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 20. Non-current liabilities – provisions

	Consolidated	
	2017 $'000	**2016 $'000**
Employee benefits	5,451	2,039
Onerous contracts	19,901	2,435
Make good	6,678	6,836
	32,030	11,310

Movements in provisions

Movement in provisions, excluding employee benefits, during the current financial year is set out below:

Consolidated – 2017	Onerous contracts $'000	Make good $'000
Carrying amount at the start of the year	2,435	6,836
Additions through business combinations (note 34)	20,755	1,921
Amounts used	(3,289)	(2,079)
Carrying amount at the end of the year	19,901	6,678

Note 21. Current assets – cash and cash equivalents

	Consolidated	
	2017 $'000	**2016 $'000**
Cash at bank	46,703	62,915
Cash on deposit	3,491	65,714
	50,194	128,629

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 22. Reconciliation of profit/(loss) after income tax to net cash from operating activities

	Consolidated	
	2017 $'000	**2016 $'000**
Profit/(loss) after income tax expense for the year	(1,464,870)	64,252
Adjustments for:		
Depreciation and amortisation	193,565	78,487
Impairment of goodwill	1,532,118	–
Share of profit – joint ventures	(61)	(925)
Share-based payments	6,752	2,077
Foreign exchange differences	–	(26)
Gain on total return swaps	(128)	(19,520)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	14,522	(9,569)
Increase in accrued revenue	(2,653)	(142)
Movement in derivatives	(2,777)	7,034
Movement in other assets	(10,657)	(1,047)
Increase in other operating assets	(41,471)	(32,783)
Decrease in trade and other payables	(61,545)	(2,645)
Decrease in other provisions	(15,926)	(10,055)
Movement in tax balances	(15,452)	(3,149)
Net cash from operating activities	131,417	71,989

Notes to the financial statements (continued)

Note 23. Equity – contributed equity

	Consolidated			
	2017 Shares	2016 Shares	2017 $'000	2016 $'000
Ordinary shares – fully paid	623,310,259	533,356,665	3,792,929	3,124,000
Less: Treasury shares*	(3,328,355)	(5,089,252)	(18,095)	(23,262)
	619,981,904	528,267,413	3,774,834	3,100,738

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2015	105,511,947		159,093
Issue of shares on conversion of options	7 July 2015	26,667	$0.00	–
Issue of shares for consideration of Amcom Telecommunications Limited	8 July 2015	124,482,876	$5.50	684,657
Issue of shares on conversion of performance rights	8 July 2015	74,978	$5.50	412
Issue of shares for loan funded share plan	20 August 2015	195,000	$5.95	1,160
Issue of shares on conversion of options	1 September 2015	12,500	$2.00	25
Issue of shares for loan funded share plan	14 September 2015	891,000	$5.53	4,927
Issue of shares on conversion of options	2 October 2015	12,999	$2.00	26
Issue of shares on conversion of options	2 October 2015	35,000	$0.50	18
Issue of shares for loan funded share plan	2 October 2015	220,623	$6.49	1,432
Issue of shares for loan funded share plan	9 November 2015	50,000	$6.38	319
Issue of shares for loan funded share plan	2 December 2015	293,554	$7.08	2,078
Issue of shares on conversion of options	2 December 2015	1,667	$2.00	3
Issue of shares on conversion of performance rights	15 December 2015	4,614	$5.50	25
Issue of shares on conversion of performance rights	12 January 2016	124,005	$5.50	682
Issue of shares on conversion of performance rights	15 January 2016	18,456	$5.50	102
Issue of shares for consideration of M2 Group Limited	23 February 2016	300,083,420	$7.53	2,259,628
Issue of shares on conversion of options	26 February 2016	100,000	$0.50	50
Issue of shares on conversion of options	5 April 2016	14,167	$2.00	28
Issue of shares pursuant to the dividend reinvestment plan	11 April 2016	1,203,192	$7.96	9,577
Less: Share issue costs, net of deferred tax		–	$0.00	(242)
Balance	30 June 2016	533,356,665		3,124,000
Issue of shares on conversion of performance rights	7 July 2016	249,488	$0.00	–
Issue of shares on institutional component of renounceable rights	11 July 2016	30,529,752	$7.55	230,500
Issue of shares on institutional placement	11 July 2016	23,752,969	$8.42	200,000
Issue of shares on conversion of performance rights	13 July 2016	166,641	$0.00	–
Issue of shares on retail component of renounceable rights	28 July 2016	29,440,005	$7.55	222,272
Issue of shares on conversion of performance rights	4 August 2016	29,149	$0.00	–
Issue of shares on conversion of options	24 August 2016	2,500	$1.89	5
Issue of shares pursuant to the dividend reinvestment plan	7 October 2016	2,514,456	$6.23	15,675
Issue of shares on conversion of performance rights	20 December 2016	311,395	$0.00	–
Issue of shares pursuant to the dividend reinvestment plan	21 April 2017	2,764,234	$3.68	10,172
Issue of shares on conversion of performance rights	30 June 2017	193,005	$3.51	677
Less: Share issue costs, net of deferred tax		–	$0.00	(10,372)
Balance	30 June 2017	623,310,259		3,792,929

Note 23. Equity – contributed equity (continued)

Movements in treasury shares[1]

Details	Date	Shares	Issue price	$'000
Balance	1 July 2015	(4,008,308)		(14,849)
Issue of shares for loan funded share plan	20 August 2015	(195,000)	$5.95	(1,160)
Issue of shares for loan funded share plan	14 September 2015	(891,000)	$5.53	(4,927)
Issue of shares for loan funded share plan	2 October 2015	(220,623)	$6.49	(1,432)
Issue of shares for loan funded share plan	9 November 2015	(50,000)	$6.38	(319)
Issue of shares for loan funded share plan	2 December 2015	(293,554)	$7.08	(2,078)
Shares transferred to beneficiaries [2]		569,233	$0.00	1,503
Balance	30 June 2016	(5,089,252)		(23,262)
Transfer of shares to participants		1,760,897	$0.00	5,167
Balance	30 June 2017	(3,328,355)		(18,095)

[1] Shares held by Vocus Blue Pty Limited

During the financial year ended 30 June 2017 nil shares (2016: 1,650,177) were issued to Vocus Blue Pty Limited, a wholly–owned subsidiary of Vocus Group Limited as part of its Loan Funded Share Plan remuneration scheme to attract and retain key employees. Vocus Blue Pty Limited's sole purpose is to hold shares as trustee for its beneficiaries (its 'participants'). The participants are granted a loan by Vocus to purchase the beneficial interest in shares. The loans are limited recourse to the participants and any dividends received in respect of the plan shares are used to reduce the loan balance net of tax payable. Participants are required to meet service requirements and performance conditions before being entitled to acquire full title to these shares and are required to repay the loan in order to do so.

The shares held by Vocus Blue Pty Limited have been deducted from equity as treasury shares in line with accounting standards.

[2] The transfer of shares to beneficiaries during the current and previous year is measured with reference to the loan value attaching to those shares.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management

Vocus' objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, adjustments may be made to the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Vocus would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Parent Entity's share price at the time of the investment.

The capital risk management policy remains unchanged from the 30 June 2016 Annual Report.

Accounting policy for issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the financial statements (continued)

Note 24. Equity – reserves

	Consolidated 2017 $'000	Consolidated 2016 $'000
Investment revaluation reserve	(233)	(233)
Foreign currency reserve	6,000	3,969
Share-based payments reserve	11,656	5,581
Hedge reserve	5,280	6,989
	22,703	16,306

Investment revaluation reserve

The reserve is used to recognise increments and decrements in the fair value of available-for-sale financial assets.

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees as part of their remuneration, and as part of their compensation for services. No gain or loss is recognised in profit or loss on purchase, sale, issue or cancellation of the Company's own equity instruments.

Hedging reserve – cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Investment revaluation $'000	Foreign currency $'000	Share-based payments $'000	Hedge $'000	Total $'000
Balance at 1 July 2015	–	760	2,721	366	3,847
Revaluation – gross	(233)	–	–	–	(233)
Foreign currency translation	–	3,209	–	–	3,209
Recognition of share-based payments	–	–	2,077	–	2,077
Net movement on hedging transactions	–	–	–	6,623	6,623
Arising upon business combinations (Note 34)	–	–	2,004	–	2,004
Transfers to contributed equity	–	–	(1,221)	–	(1,221)
Balance at 30 June 2016	(233)	3,969	5,581	6,989	16,306
Foreign currency translation	–	2,031	–	–	2,031
Recognition of share-based payments	–	–	6,752	–	6,752
Net movement on hedging transactions	–	–	–	(1,709)	(1,709)
Transfers to contributed equity	–	–	(677)	–	(677)
Balance at 30 June 2017	(233)	6,000	11,656	5,280	22,703

Note 25. Equity – retained profits/(accumulated losses)

	Consolidated 2017 $'000	Consolidated 2016 $'000
Retained profits at the beginning of the financial year	57,080	48,148
Profit/(loss) after income tax expense for the year	(1,464,870)	64,091
Dividends paid and payable (note 12)	(86,623)	(55,159)
Retained profits/(accumulated losses) at the end of the financial year	(1,494,413)	57,080

Note 26. Fair value measurement

Fair value hierarchy

The following tables detail assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated – 2017	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for sale financial assets	1,667	–	–	1,667
Electricity derivatives	–	10,364	–	10,364
Total assets	1,667	10,364	–	12,031
Liabilities				
Forward foreign exchange contracts	–	(3,025)	–	(3,025)
Interest rate swaps	–	(3,946)	–	(3,946)
Total liabilities	–	(6,971)	–	(6,971)

Consolidated – 2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for sale financial assets	1,998	–	–	1,998
Forward foreign exchange contracts	–	495	–	495
Electricity derivatives	–	9,483	–	9,483
Total assets	1,998	9,978	–	11,976
Liabilities				
Total return swaps	–	(439)	–	(439)
Forward foreign exchange contracts	–	(1,358)	–	(1,358)
Interest rate swaps	–	(7,565)	–	(7,565)
Total liabilities	–	(9,362)	–	(9,362)

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Notes to the financial statements (continued)

Note 26. Fair value measurement (continued)

Valuation techniques for fair value measurements

Available for sale financial assets uses observable values such as publically available equity prices at the end of the reporting period in the valuation and is classified as in the hierarchy as level 1.

The fair value of derivative financial instruments that are not traded on an active market is determined by using valuation methodologies and assumptions that are based on market conditions existing at the valuation date. These include:

- The use of forward electricity price curve derived from various inputs such as electricity futures market is used in calculating electricity derivatives.
- The interest rate yield curve and applying the net present value to future cash flows are techniques used in valuing interest rate swaps.
- The fair value of forward exchange contracts are determined by using forward exchange market rates in valuing forward exchange contracts.
- The fair value of total return swap contracts are derived from the market value of the underlying security, being the shares of Macquarie Telecommunications Group Limited, adjusted for receipts/payments made under the swap to balance date.

The fair value key assumptions used in impairment testing to determine the estimated recoverable amounts is outlined in Note 15.

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Note 27. Financial instruments

Financial risk management objectives

Vocus' activities expose it to a variety of financial risks including market risks such as foreign currency, price and interest rate, and credit and liquidity risks.

The Audit Committee has general oversight of those financial risks identified here. In addition, the Risk Committee oversees a formal risk management policy and risks identified are monitored by executive management on a regular basis to minimise the potential adverse effects these risks may have on financial performance.

Overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance where material. Derivative financial instruments such as forward foreign exchange contracts are used to hedge certain risk exposures or cash flow hedges where appropriate.

Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative activities, with the exception of the total return swap in relation to Vocus' 16% relevant interest in Macquarie Telecom Group Limited which was disposed of during the year.

Different methods are used to measure different types of risk to which Vocus is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

The Wholesale Energy Risk Management Committee is a sub-committee of the Risk Committee that provides direct oversight over the risks and hedging strategies undertaken to mitigate those risks relating to the Group's retail electricity and gas business in Australia and New Zealand.

Financial assets and liabilities comprise cash and cash equivalents, receivables, payables, bank loans and finance leases.

Note 27. Financial instruments (continued)

Market risk

Foreign currency risk

Certain transactions are denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The maturity, settlement amounts and the average contractual exchange rates of outstanding forward foreign exchange contracts at the reporting date was as follows:

	Sell Australian dollars		Average exchange rates	
	2017 $'000	**2016 $'000**	**2017**	**2016**
Buy US dollars				
Maturity:				
0 – 12 months	11,797	20,042	0.7538	0.7579
Buy Philippine Pesos				
Maturity:				
0 – 12 months	64,024	58,423	37.4858	34.1473
12 – 24 months	–	9,167	–	34.9091

These figures represent the Australian dollars to be sold under foreign exchange contracts to purchase US dollars and Philippine Pesos.

The carrying amount of foreign currency denominated financial assets and financial liabilities at the reporting date was as follows:

	Assets		Liabilities	
Consolidated	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**
US dollars	6,124	3,275	2,812	4,962
New Zealand dollars	1,340	5,687	38	38
Philippine Pesos	1,531	–	–	4,959
	8,995	8,962	2,850	9,959

Vocus is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to, the United States of America dollar (USD), New Zealand dollar (NZD) and Philippine peso (PHP). Vocus manages its foreign exchange rate risk by hedging its firm commitments and highly probable forecast transactions over varying time horizons. These hedges are undertaken centrally by Group Treasury.

As at 30 June 2017, future movements in USD/AUD currency of 5% (2016: 5%) will have an approximate $166,000 (2016: $80,000) increase or decrease to profit or loss and $357,000 increase or decrease (2016: $1,076,000 increase and $974,000 decrease) in equity in the financial year ending 30 June 2017.

As at 30 June 2017, future movements in NZD/AUD currency of 5% (2016: 5%) will have an approximate $65,000 (2016: $30,000) increase or decrease to profit or loss.

As at 30 June 2017, future movements in PHP/AUD currency of 5% (2016: 5%) will have an approximate $77,000 (2016: $236,000) increase or decrease to profit or loss and $3,077,000 increase or decrease (2016: $3,486,000 increase and $3,154,000 decrease) in equity in the financial year ending 30 June 2017.

Commodity risk

Vocus is exposed to commodity price risk associated with the purchase and/ or sale of electricity and to a lesser extent gas. To manage the price risks associated with electricity, Vocus enters into derivative instruments such as options and swaps. To manage gas price risk, Vocus has a supply agreement which has the commercial effect of limiting the price paid from the national pool on a certain amount of gas.

Based on a quarterly forecast of the required electricity supply, Vocus hedges the purchase price using future commodity purchase contracts. The forecast is deemed to be a highly probable transaction.

As at 30 June 2017, future movements in electricity price of 1% (2016: 1%) will have an approximate $26,000 increase or decrease to profit or loss (2016: $47,000) and $493,000 increase or decrease in equity (2016: $419,000).

Notes to the financial statements (continued)

Note 27. Financial instruments (continued)

Interest rate risk

Interest rate risk arises from term deposits, cash on deposit, bank loans and long-term borrowings. Term deposits, cash on deposit and borrowings at variable rates creates exposure to interest rate risk. To manage interest rate risk, the group enters into interest rate swaps or options. The interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Interest rate options economic effect of converting borrowings from floating rates to fixed rates if the option is exercised otherwise the borrowings remain floating.

Obligations under the IRU loan and finance leases are fixed as part of the defined repayment schedules. This mitigates interest rate risk in respect of these obligations.

As at the reporting date, Vocus had the following variable rate borrowings and interest rate swap and option contracts outstanding:

	2017		2016	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank overdraft and bank loans	3.75%	1,031,399	3.88%	828,832
Interest rate swaps (notional principal amount)	2.67%	(405,812)	2.70%	(379,222)
Interest rate option (notional principal amount)	3.10%	(50,000)	–	–
Net exposure to cash flow interest rate risk		575,587		449,610

As at 30 June 2017, future movements in interest rate of 50 basis points (2016: 50 basis points) will have an approximate $2,881,000 (2016: $2,232,000) increase or decrease to profit or loss and $2,029,000 (2016: $1,896,000) increase or decrease in equity in the financial year ending 30 June 2017.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss.

Vocus does not hold any credit derivatives to offset its credit exposure.

It is Vocus' policy that prior to all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit worthiness, financial position, past experience and industry reputation. Credit limits are set for each individual customer in accordance with parameters set by the board and are regularly monitored. Where appropriate, guarantees and security deposits are used as collateral to mitigate perceived risk. The maximum exposure to credit risk at the reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

In addition, receivable balances are monitored on an ongoing basis with the result that Vocus' exposure to bad debts is not significant. There are no significant concentrations of credit risk within Vocus.

Liquidity risk

Vigilant liquidity risk management requires the maintenance of sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

Liquidity risk is managed by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Note 27. Financial instruments (continued)

Remaining contractual maturities

The following tables detail Vocus' remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated – 2017	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables and accruals	182,327	–	–	–	182,327
Other payables	35,423	–	–	–	35,423
Interest-bearing – variable					
Bank loans	–	510,000	521,399	–	1,031,399
Interest-bearing – fixed rate					
Lease liability	8,112	5,466	4,397	13,501	31,476
IRU liability	7,842	7,700	12,812	–	28,354
Total non-derivatives	233,704	523,166	538,608	13,501	1,308,979
Derivatives					
Interest rate swaps net settled	2,505	1,008	428	–	3,941
Forward foreign exchange contracts net settled	3,025	–	–	–	3,025
Total derivatives	5,530	1,008	428	–	6,966

Consolidated – 2016	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables and accruals	218,064	–	–	–	218,064
Other payables	62,518	–	–	–	62,518
Deposits held	326	–	–	–	326
Interest-bearing – variable					
Bank loans	–	–	828,832	–	828,832
Interest-bearing – fixed rate					
Lease liability	9,032	7,584	9,139	13,117	38,872
IRU liability	7,542	7,842	20,513	–	35,897
Total non-derivatives	297,482	15,426	858,484	13,117	1,184,509
Derivatives					
Interest rate swaps net settled	2,207	2,591	2,767	–	7,565
Forward foreign exchange contracts net settled	1,326	32	–	–	1,358
Total return swap net settled	439	–	–	–	439
Total derivatives	3,972	2,623	2,767	–	9,362

Notes to the financial statements (continued)

Note 28. Current assets – derivative financial instruments

	Consolidated 2017 $'000	Consolidated 2016 $'000
Forward foreign exchange contracts – cash flow hedges	–	495
Electricity derivatives – cash flow hedges	10,364	9,483
	10,364	9,978

Forward foreign exchange contracts

Vocus have designated into forward exchange hedge relationships to buy and sell specified amounts of foreign currency denominated in USD and Philippine Peso in the future at stipulated exchange rates. The objective of entering the forward exchange contracts is to protect Vocus against unfavourable exchange rate movements for high probable forecasted purchase of inventory and payments for services.

The forward exchange contracts mature within the next financial year and have been designated based on forecasted foreign currency denominated purchases. Gains or losses recognised in the cash flow hedge reserve in equity on forward foreign exchange contracts as of 30 June 2017 will be released to the income statement when the underlying anticipated transactions affect the income statement or included in the carrying value of asset or liabilities acquired.

Interest rate swaps

Vocus currently holds interest swap agreements to protect the syndicated loan facility from exposure to increasing interest rates. A hedge relationship was designated on this date. Under these interest rate swap agreements, the Group pays a fixed rate of interest between 2.16% and 2.80% per annum, and receives interest at a variable rate.

The contracts require settlement of net interest receivable or payable each 90 days.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the cash flow hedge reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised.

Electricity derivatives

Vocus manages this exposure of floating purchase price of electricity through the purchase of electricity futures and over-the-counter contracts. The hedged anticipated electricity purchase and sale transactions are expected to occur for each half hour period throughout the next quarter from the reporting date consistent with the forecast demand from customers over this period. Gains or losses recognised in the cash flow hedge reserve in equity on the forward foreign exchange contracts as of 30 June 2017 will be released to the income statement when the underlying anticipated purchase or sale transactions are recognised in the income statement.

Accounting policy for derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Cash flow hedges

Cash flow hedges are used to cover exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Note 29. Current liabilities – derivative financial instruments

	Consolidated 2017 $'000	2016 $'000
Forward foreign exchange contracts – cash flow hedges	3,025	1,326
Interest rate swap contracts – cash flow hedges	2,401	2,207
Total return swaps	–	439
	5,426	3,972

Note 30. Non-current liabilities – derivative financial instruments

	Consolidated 2017 $'000	2016 $'000
Forward foreign exchange contracts – cash flow hedges	–	32
Interest rate swap contracts – cash flow hedges	1,545	5,358
	1,545	5,390

Note 31. Share-based payments

Legacy Employee Share Option Plan

An employee share option plan was established in 2010 whereby Vocus, at the discretion of the Board, granted options over ordinary shares in the Parent Entity to selected employees.

Each employee share option converts into one ordinary share of the Parent Entity on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

Set out below are summaries of options granted under the plan:

2017

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/08/2011	31/07/2018	$2.39	46,668	–	–	(13,334)	33,334
11/05/2012	10/05/2019	$1.89	7,500	–	–	–	7,500
22/02/2016	22/02/2023	$5.09	135,418	–	–	–	135,418
			189,586	–	–	(13,334)	176,252
Weighted average exercise price			$4.37	$0.00	$0.00	$2.39	$4.52

Notes to the financial statements (continued)

Note 31. Share-based payments (continued)

The exercise price of all options were reduced as of 5 August 2016 in accordance with the formula set out in the rules of the Vocus Options and Performance Share Plan, consistent with ASX Listing Rule 6.22.2, following the completion of Vocus' fully underwritten 1 for 8.90 accelerated renounceable entitlement offer with retail rights trading of Vocus ordinary shares. For further information see announcement 'Change to exercise price of options' lodged with the ASX on 28 July 2016.

Options issued on the 22nd of February 2016 were replacement options for the cancelled M2 Group Ltd options on the merger of M2 Group Ltd and Vocus, effective 22 February 2016.

2016

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/10/2010	30/09/2017	$0.50	135,000	–	(135,000)	–	–
13/05/2011	12/05/2018	$2.00	6,666	–	(6,666)	–	–
01/08/2011	31/07/2018	$2.50	46,668	–	–	–	46,668
11/05/2012	10/05/2019	$2.00	68,834	–	(61,334)	–	7,500
22/02/2016	22/02/2023	$5.20	–	135,418	–	–	135,418
			257,168	135,418	(203,000)	–	189,586
Weighted average exercise price			$1.30	$5.20	$1.00	$0.00	$4.41

The fair value of the 176,252 (2016: 189,586) shares under option at 30 June 2017 was $98,401 (2016: $108,401).

No options were exercised during the year ending 30 June 2017.

Performance Rights Plan

As part of the Amcom Scheme Implementation Agreement, Vocus agreed to issue Vocus Performance Rights to replace existing Amcom performance rights held by certain Amcom employees. Similarly, as part of the M2 Scheme Implementation Agreement, Vocus agreed to issue Vocus Performance Rights to replace existing M2 performance rights held by M2 employees.

Set out below are summaries of performance rights granted under the plan:

2017

Grant date	Vesting date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
08/07/2015	08/07/2016	142,458	–	(142,458)	–	–
22/02/2016	01/07/2016	213,973	–	(213,973)	–	–
22/02/2016	01/07/2017	382,249	–	(222,585)	–	159,664
22/02/2016	01/07/2018	188,429	–	–	(30,148)	158,281
01/04/2017	01/07/2017	–	33,333	–	–	33,333
01/04/2017	01/07/2018	–	573,333	–	–	573,333
01/04/2017	01/07/2019	–	433,202	–	–	433,202
		927,109	1,039,868	(579,016)	(30,148)	1,357,813

The fair value of performance rights issued during the period was as follows:
- Granted on the 1st of April 2017 and vesting on the 30th of June 2017 – $4.28
- Granted on the 1st of April 2017 and vesting on the 30th of June 2018 – $4.13
- Granted on the 1st of April 2017 and vesting on the 30th of June 2019 – $3.99

2016

Grant date	Vesting date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
08/07/2015	08/07/2016	–	364,511	(222,053)	–	142,458
22/02/2016	01/07/2016	–	213,973	–	–	213,973
22/02/2016	01/07/2017	–	382,249	–	–	382,249
22/02/2016	01/07/2018	–	188,429	–	–	188,429
		–	1,149,162	(222,053)	–	927,109

Note 31. Share-based payments (continued)

Loan Funded Share Plan

Shares were issued to Vocus Blue Pty Limited, a wholly-owned subsidiary of Vocus Group Limited as part of Vocus' Loan Funded Share Plan remuneration scheme to attract and retain key employees. Vocus Blue Pty Limited's sole purpose is to hold shares as trustee for its beneficiaries (its 'participants'). The participants are granted a loan by Vocus to purchase the beneficial interest in Vocus shares. The loans are limited recourse to the participants and any dividends received in respect of the plan shares are used to reduce the loan balance net of tax payable. Participants are required to meet service requirements and performance conditions before being entitled to acquire full title to these shares and are required to repay the loan in order to do so. The shares will progressively become unrestricted over a period determined by each employee's loan agreement, subject to continuous employment with Vocus.

During the financial year ended 30 June 2017 no shares were issued to Vocus Blue Pty Limited (2016: 1,650,177). At 30 June 2017, Vocus Blue Pty Limited held 3,328,355 (2016: 5,089,252) shares in trust under the Loan Funded Share Plan remuneration scheme.

Accounting policy for share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Binominal or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether Vocus receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of Vocus or the employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of Vocus or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 32. Key management personnel disclosures

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Vocus is set out below:

	Consolidated	
	2017 $	**2016 $**
Short-term employee benefits	6,446,573	4,891,064
Post-employment benefits	249,342	202,863
Long-term benefits	240,947	990,690
Share-based payments	1,302,617	1,445,473
	8,239,478	7,530,090

Notes to the financial statements (continued)

Note 33. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 37:

Name	Principal place of business / Country of incorporation	Ownership interest 2017 %	Ownership interest 2016 %
Vocus Group Holdings Pty Limited	Australia	100.00%	100.00%
Vocus Holdings Pty Limited	Australia	100.00%	100.00%
Vocus Pty Limited	Australia	100.00%	100.00%
Vocus Connect Pty Limited	Australia	100.00%	100.00%
Vocus Data Centres Pty Limited	Australia	100.00%	100.00%
Vocus Fibre Pty Limited	Australia	100.00%	100.00%
Perth International Exchange Pty Limited atf the Perth IX Trust (trading as Perth IX)	Australia	100.00%	100.00%
Vocus Blue Pty Limited*	Australia	100.00%	100.00%
Ipera Communications Pty Limited	Australia	100.00%	100.00%
Amcom Telecommunications Pty Limited	Australia	100.00%	100.00%
Amcom Pty Limited	Australia	100.00%	100.00%
aCure Technology Pty Limited	Australia	100.00%	100.00%
Global Networks AMC Data Centre Pty Limited	Australia	100.00%	100.00%
Amcom East Pty Limited*	Australia	100.00%	100.00%
Amnet Broadband Pty Limited	Australia	100.00%	100.00%
Amcom Data Centres Pty Limited	Australia	100.00%	100.00%
Amcom IP Tel Pty Limited	Australia	100.00%	100.00%
M2 Group Pty Limited	Australia	100.00%	100.00%
M2 Loyalty Programs Pty Limited*	Australia	100.00%	100.00%
M2 Group Franchising Pty Limited	Australia	100.00%	100.00%
M2 Commander Pty Limited	Australia	100.00%	100.00%
2Talk Pty Limited*	Australia	100.00%	100.00%
M2 Telecommunications Pty Limited	Australia	100.00%	100.00%
M2 Clear Pty Limited	Australia	100.00%	100.00%
Southern Cross Telco Pty Limited	Australia	100.00%	100.00%
People Telecom Pty Limited*	Australia	100.00%	100.00%
People Telecommunications Pty Limited*	Australia	100.00%	100.00%
M2 Wholesale Pty Limited	Australia	100.00%	100.00%
Wholesale Communications Group Pty Limited*	Australia	100.00%	100.00%
M2 Wholesale Services Pty Limited	Australia	100.00%	100.00%
Primus Telecom Holdings Pty Limited	Australia	100.00%	100.00%
First Path Pty Limited	Australia	100.00%	100.00%
Primus Network (Australia) Pty Limited	Australia	100.00%	100.00%
Primus Telecom Pty Limited	Australia	100.00%	100.00%
Hotkey Internet Services Pty Limited*	Australia	100.00%	100.00%
Primus Telecommunications Pty Limited	Australia	100.00%	100.00%
Primus Telecommunications (Australia) Pty Limited*	Australia	100.00%	100.00%
Dodo Australia Holdings Pty Limited	Australia	100.00%	100.00%
No Worries Online Pty Limited*	Australia	100.00%	100.00%
Dodo Group Services Pty Limited*	Australia	100.00%	100.00%
Pendo Industries Pty Limited*	Australia	100.00%	100.00%
Dodo Services Pty Limited	Australia	100.00%	100.00%
Dodo Insurance Pty Limited*	Australia	100.00%	100.00%
Secureway Pty Limited*	Australia	100.00%	100.00%
M2 Energy Pty Limited*	Australia	100.00%	100.00%
Eftel Pty Limited	Australia	100.00%	100.00%
Eftel Wholesale Pty Limited*	Australia	100.00%	100.00%
Club Telco Pty Limited*	Australia	100.00%	100.00%
Eftel Corporate Pty Limited*	Australia	100.00%	100.00%
Visage Telecom Pty Limited*	Australia	100.00%	100.00%
Engin Pty Limited	Australia	100.00%	100.00%
Eftel Retail Pty Limited*	Australia	100.00%	100.00%
Aggregato Global Limited*	Australia	–	61.20%
Vocus (New Zealand) Holdings Limited	New Zealand	100.00%	100.00%
Vocus (New Zealand) Limited	New Zealand	100.00%	100.00%
Vocus Data Centres (New Zealand) Limited	New Zealand	100.00%	100.00%
Data Lock Limited	New Zealand	100.00%	100.00%
M2 Group NZ Limited	New Zealand	100.00%	100.00%
CallPlus Holdings Limited	New Zealand	100.00%	100.00%
2Talk Limited	New Zealand	100.00%	100.00%
CallPlus Australia Holdings Limited	New Zealand	100.00%	100.00%

Note 33. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation	Ownership interest 2017 %	2016 %
CallPlus Limited	New Zealand	100.00%	100.00%
Blue Reach Limited	New Zealand	100.00%	100.00%
Slingshot Communications Limited	New Zealand	100.00%	100.00%
CallPlus Services Limited	New Zealand	100.00%	100.00%
CallPlus Trustee Limited	New Zealand	100.00%	100.00%
Orcon Limited	New Zealand	100.00%	100.00%
CallPlus Assets Limited	New Zealand	100.00%	100.00%
Flip Services Limited	New Zealand	100.00%	100.00%
CallPlus Services Australia Limited	New Zealand	100.00%	100.00%
M2 NZ Limited	New Zealand	100.00%	100.00%
Nextgen Networks Group Pty Limited	Australia	100.00%	–
Nextgen Networks Pty Limited	Australia	100.00%	–
Nextgen Telecom (WA) Pty Ltd	Australia	100.00%	–
Nextgen Telecom Pty Ltd	Australia	100.00%	–
Nextgen Services Pty Limited	Australia	100.00%	–
Nextgen Pure Data Pty Ltd	Australia	100.00%	–
Skiron Holdco Pty Limited	Australia	100.00%	–
Skiron Finco Pty Limited	Australia	100.00%	–
Skiron OpCo Pty Limited	Australia	100.00%	–
Australia-Singapore Cable (Australia) Pty Limited	Australia	100.00%	–
ASC International Group Pty Limited	Australia	100.00%	–
Australia-Singapore Cable International Limited*	Bermuda	100.00%	–
Australia-Singapore Cable (Singapore) Pte Ltd*	Singapore	100.00%	–
Switch Utilities Limited	New Zealand	100.00%	–
Switch Utilities Southern Limited	New Zealand	100.00%	–
Switch Utilities Wellington Limited	New Zealand	100.00%	–

Deed of cross guarantee

The wholly-owned entities listed above (other than those identified with an asterisk) are party to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the relevant wholly-owned entities have been relieved from the requirement to prepare financial statements and Directors' report under ASIC Class Order 98/1418 or ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 (as relevant).

The companies that are part of the deed of cross-guarantee represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Vocus Group Limited, they also represent the 'Extended Closed Group'.

The statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group' can be found in the consolidated statement of profit or loss and other comprehensive income and statement of financial position along with the note on Vocus Group Limited as parent found in these financial statements.

Note 34. Business combinations

2017

Nextgen Networks, North-West Cable System and Australia Singapore Cable

On 26 October 2016, Vocus Group Limited (formerly Vocus Communications Limited) acquired 100% of the ordinary shares of Nextgen Networks ("Nextgen") and two development projects, the North-West Cable System ("NWCS") and the Australia Singapore Cable ("ASC") for the upfront consideration of $793,153,000 and contingent consideration of $23,288,000. The acquisition provides Vocus ownership of critical infrastructure to connect its metropolitan infrastructure to a larger inter-capital fibre optic network, thereby connecting mainland capital cities to regional and remote areas on one owned network.

Goodwill of $48,227,000 represents the residual value of the purchase price of the acquisition over the fair value of identified tangible and intangible assets, and has been determined on a provisional basis due to the size and complexity of the transaction. Independent valuation of tangible assets along with identifiable intangibles such as customer contracts and relationships is ongoing. Contingent consideration has currently been estimated on management's estimate of whether the acquired entity will meet various set targets.

The acquired business contributed revenues of $127,103,000 to Vocus for the period from 26 October 2016 to 30 June 2017. If the acquired entity formed part of the Group for the entire financial year, contributed revenues would have been $189,203,000.

Notes to the financial statements (continued)

Note 34. Business combinations (continued)

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	22
Trade and other receivables	26,593
Inventories	774
Prepayments	5,297
Fibre assets	909,027
Projects under construction	24,946
Other plant and equipment	14,715
Deferred tax asset	20,264
Trade and other payables	(23,963)
Deferred tax liability	(7,923)
Provisions	(41,306)
Deferred revenue	(160,232)
Net assets acquired	768,214
Goodwill	48,227
Acquisition-date fair value of the total consideration transferred	816,441
Representing:	
Cash paid or payable to vendor	793,153
Contingent consideration	23,288
	816,441
Acquisition costs expensed to profit or loss	7,033

Switch Utilities

On 1 December 2016, Vocus (New Zealand) Holdings Limited acquired Switch Utilities, an energy retailer in New Zealand for upfront consideration of $5,405,000 and a provisional deferred consideration of $4,209,000. The acquisition provides Vocus the ability to bundle energy with its telecommunications products in New Zealand.

Goodwill of $8,761,000 represents the residual value of the purchase price of the company over the fair value of identified tangible and intangible assets (amounting to $854,050), and has been determined on a provisional basis.

Smart Business Telecom

On 10 February 2017, Eftel Pty Limited (100% subsidiary of Vocus) completed the acquisition of the business (acquisition effective 1 December 2016) and certain assets of Smart Business Telecom ("SBT"), a significant wholesale customer of the Vocus Group. Total consideration includes $2,961,000 upfront cash and provisional deferred consideration amounting to $1,418,000. The acquisition provides Vocus the ability to retain proven wholesale customers with track record of building customer lists as an exclusive NBN customer of Vocus.

Goodwill of $1,210,000 represents the residual value of the purchase price of the company over the fair value of identified net assets (including customer contracts of $4,542,000), and has been determined on a provisional basis.

M2 Group Limited

On 22 February 2016, Vocus acquired 100% of the share capital of M2 Group Limited ('M2') for total consideration of $2,259,628,000 settled by the issuance of 300,083,420 ordinary shares, 135,418 options and 784,651 performance rights in the Company. The issue of Vocus shares was at a share price of $7.53. The value of options and performance rights has been split between amounts relating to consideration and to post-acquisition remuneration. Non-controlling interests acquired were measured at fair value. The accounting for the business combination was provisional at 30 June 2016, and it has since been declared as finalised.

Goodwill of $2,363,012,000 represents the residual value of the purchase price of the company over the fair value of identified tangible and intangible assets.

Management has identified Vocus as the acquirer in accordance with the guidance contained in AASB 3 for both transactions and concluded that the guidance on reverse acquisitions did not apply as the issuing entity (Vocus) was identified as the acquirer.

Note 34. Business combinations (continued)

The final values identified in relation to the acquisition are outlined below:

	Fair value $'000
Cash and cash equivalents	73,911
Trade receivables and other receivables	92,811
Inventories	4,441
Prepayments	8,425
Property, plant and equipment	88,689
Customer intangibles	289,500
Software	117,851
Brand and other intangibles	181,198
IRU capacity	55,175
Income tax	5,666
Deferred tax asset	27,856
Other financial assets	1,900
Trade and other payables	(246,602)
Deferred tax liability	(133,340)
Provisions	(29,304)
Deferred revenue	(50,562)
Bank loans	(549,000)
IRU and lease liability	(31,725)
Derivative financial instruments	(5,636)
Other liabilities	(4,638)
Net liabilities acquired	(103,384)
Goodwill	2,363,012
Acquisition-date fair value of the total consideration transferred	2,259,628
Representing:	
Vocus Communications Limited shares issued to vendors	2,259,628
Acquisition costs expensed to profit or loss	13,109

Accounting policy for business combinations

The acquisition method of accounting is used to account for business combinations.

The consideration is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, an assessment is made of the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, a re-measurement of any previously held equity interest in the acquiree at the acquisition-date fair value is made and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill.

Goodwill relates to future synergies from combining operations of the acquiree and the acquirer, intangibles that do not qualify for separate recognition, and other factors. Goodwill is not deductible for tax purposes.

If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Notes to the financial statements (continued)

Note 35. Commitments

	Consolidated 2017 $'000	Consolidated 2016 $'000
Lease commitments – operating		
The operating leases relate primarily to offices and data centre locations. Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	19,875	31,581
One to five years	50,750	87,403
More than five years	44,046	59,401
	114,671	178,385

	Consolidated 2017 $'000	Consolidated 2016 $'000
Lease commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	8,112	9,031
One to five years	9,863	16,724
More than five years	13,501	13,117
Total commitment	31,476	38,872
Less: Future finance charges	(8,661)	(9,754)
Net commitment recognised as liabilities	22,815	29,118
Representing:		
Lease liability – current (note 17)	7,076	7,737
Lease liability – non-current (note 18)	15,739	21,381
	22,815	29,118
Backhaul IRU commitments – finance		
Backhaul IRU commitments represent an indefeasible right to use (IRU) purchased to access NBN Points of Interconnect. The liability is accounted for as a finance lease and is payable in annual instalments over a six year period, whilst the asset is recorded as an intangible and amortised over its effective life. Committed at the reporting date and recognised as liabilities, payable:		
Within one year	7,842	7,541
One to five years	20,512	28,355
Total commitment	28,354	35,896
Less: Future finance charges	(3,091)	(4,641)
Net commitment recognised as liabilities	25,263	31,255
Representing:		
Backhaul IRU liability – current (note 17)	6,585	5,992
Backhaul IRU liability – non-current (note 18)	18,678	25,263
	25,263	31,255
Other financial commitments		
Vocus has a financial commitment in relation to a 10 year contract for the outsourcing of sales and technical support, customer services and provisioning costs. The minimum future commitment is payable as follows:		
Within one year	31,158	–
One to five years	87,676	–
More than five years	50,918	–
	169,752	–

Note 35. Commitments (continued)

	Consolidated 2017 $'000	Consolidated 2016 $'000
Fibre and network equipment (related to finance lease commitments)		
Finance lease commitments includes contracted amounts for various network plant and equipment at the following values under finance leases expiring within one to five years. Under the terms of the leases, there is an option to acquire the leased assets for predetermined residual values on the expiry of the leases.		
Fibre and Network equipment – at cost	30,879	44,936
Less: Accumulated depreciation	(14,173)	(14,776)
Written down value	16,706	30,160
Australia Singapore Cable		
Capital commitment to build a 4,600km submarine cable system linking Australia to Singapore and Indonesia		
Within one year	49,562	–
One to five years	159,634	–
	209,196	–
Purchase commitments – IRU capacity		
The purchase commitments relate to the purchase programme for additional undersea cable capacity, announced on 19 February 2015. Capacity is allocated and paid in annual instalments over a six year period. Committed at the reporting date but not recognised as assets or liabilities, payable:		
Within one year	3,653	16,679
One to five years	18,186	39,388
	21,839	56,067

Note 36. Contingent liabilities

	Consolidated 2017 $'000	Consolidated 2016 $'000
Bank guarantees for operating leases	67,203	29,293

The bank guarantee / letter of credit facility was used to issue bank guarantees for property leases and other performance contracts and replaces the multi-option facility present in the prior year.

From time to time, the Group may be subject to litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect the Group's results. There are no proceedings ongoing at balance date, either individually or in aggregate, which are likely to have a material effect on the Group's financial position.

Notes to the financial statements (continued)

Note 37. Other significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Certain comparative amounts in the statement of profit or loss and statement of financial position have been reclassified as a result of a change in classifications during the current year.

Principles of consolidation

The consolidated financial statements of Vocus comprise of the financial statements of Vocus Group Limited and its subsidiaries where it is determined that there is a capacity to control. Vocus 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in Vocus are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Vocus.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the net asset value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of Vocus. Losses incurred by Vocus are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where Vocus loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. Vocus recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Vocus Group Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Estimation of useful lives of assets

The estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets is determined by the Company. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Vocus' normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Vocus' normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, fair value is established by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Vocus has transferred substantially all the risks and rewards of ownership.

Note 37. Other significant accounting policies (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or (ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Impairment of financial assets at amortised cost

Vocus assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that Vocus will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New, revised or amending Accounting Standards and Interpretations adopted

Vocus has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period of which none had significant impact.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by Vocus for the annual reporting period ended 30 June 2017. Vocus's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to Vocus, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance.

The Group has completed a preliminary assessment of AASB 9 Financial Instruments and is currently working through the financial statement impact of this new standard. The magnitude of the financial impacts on transition and on the comparative financial year is yet to be determined, as a result, at this time Vocus cannot make a reasonable quantitative estimate of the effects of the new standard.

Notes to the financial statements (continued)

Note 37. Other significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. 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 those goods or services). The standard may impact the way revenue is recognised by Vocus on application from 1 July 2018.

The Group has completed a preliminary assessment on AASB 15 Revenue from Contracts with Customers and is currently working through the financial statement impact of this new standard. The Group has also engaged advisors and is working through implementing this standard. The magnitude of the financial impacts on transition and on the comparative financial year is yet to be determined, as a result, at this time Vocus cannot make a reasonable quantitative estimate of the effects of the new standard.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Items currently classified as operating leases will be capitalised in the statement of financial position with a liability corresponding to the capitalised lease also being recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). Vocus will adopt this standard from 1 July 2019.

The Group is currently assessing the impact of AASB 16 Leases on its financial results. The magnitude of the financial impacts on transition and on the comparative financial year is yet to be determined, as a result, at this time Vocus cannot make a reasonable quantitative estimate of the effects of the new standard.

Note 38. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company, and its network firms:

	Consolidated	
	2017 $	**2016 $**
Audit services – Deloitte Touche Tohmatsu		
Audit or review of the financial statements	745,000	550,000
Other services – Deloitte Touche Tohmatsu		
Tax compliance services	527,179	206,792
Due diligence services	–	743,746
Other non-audit services	113,252	43,261
	640,431	993,799
	1,385,431	1,543,799
Audit services – network firms of Deloitte Touche Tohmatsu		
Audit or review of the financial statements	100,000	124,567
Other services – network firms of Deloitte Touche Tohmatsu		
Other non-audit services	107,727	57,873
	207,727	182,440

Note 39. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2017 $'000	**2016 $'000**
Profit/(loss) after income tax	(1,389,853)	63,823
Total comprehensive income	(1,389,853)	63,823

Statement of financial position

	Parent	
	2017 $'000	**2016 $'000**
Total current assets	70	6,710
Total assets	2,370,070	3,130,456
Total current liabilities	36,899	643
Total liabilities	37,204	1,284
Equity		
Contributed equity	3,778,915	3,104,820
Share-based payments reserve	16,244	10,170
Options reserve	103	103
Retained profits/(accumulated losses)	(1,462,396)	14,079
Total equity	2,332,866	3,129,172

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The Parent Entity is a party to a deed of cross guarantee (refer Note 33) under which it guarantees the debts of its subsidiaries as at 30 June 2017 and 30 June 2016.

Capital commitments – Property, plant and equipment

The Parent Entity had no capital commitments for property, plant and equipment at as 30 June 2017 and 30 June 2016.

Significant accounting policies

The accounting policies of the Parent Entity are consistent with those of Vocus, as disclosed in these notes to these financial statements.

Note 40. Related party transactions

Parent entity

Vocus Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 33.

Key management personnel

Disclosures relating to key management personnel are set out in note 32 and the remuneration report included in the Directors' report.

Transactions with related parties

There were no transactions with related parties during the current and previous financial year.

Loans to executives for the year ended 30 June 2017 are in relation to the Company's Loan Funded Share Plan. A schedule detailing the loan amounts and movements during the year is included in the Remuneration Report.

Note 41. Events after the reporting period

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Vocus's operations, the results of those operations, or the state of affairs in future financial years.

Directors declaration

In the Directors' opinion:

– the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

– the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 37 to the financial statements;

– the attached financial statements and notes give a true and fair view of the Vocus's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

– there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

– at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 33 to the financial statements.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

David Spence
Non-Executive, Chairman

23 August 2017
Sydney

Independent Auditor’s Report

Deloitte Touche Tohmatsu
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Independent Auditor’s Report to the members of Vocus Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Vocus Group Limited (the Company) and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2017, 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, and 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:

(i) giving a true and fair view of the Group’s financial position as at 30 June 2017 and of its financial performance for the year then ended; and

(ii) 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 the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor’s report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Revenue recognition	
Refer Note 5 for disclosure of revenue by product set and for the accounting policy for revenue recognition. The key judgements with respect to the recognition of revenue in accordance with AASB 118 *Revenue* are: • For Corporate customers, accounting for long term contracts with separate performance obligations identified in the contract, where it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction • For Consumer customers, the accuracy of revenue recorded for new products and services (plans) introduced in the year, including multiple element arrangements (bundled offers), given the complexity of systems and the impact of changing Consumer plans to revenue recognition; and • For both types of customers, the timing of revenue recognition. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed.	Our audit response included: • Evaluating and testing the controls over the capture and measurement of revenue transactions, accuracy and timing of revenue recognition and change control procedures for IT systems that bill material revenue streams. When testing controls was not considered to be an appropriate or efficient testing approach, alternative audit procedures were performed on the financial information being produced by the systems • For Corporate customers, selecting a sample of material long term contracts, focussing on new material contracts entered into during the year, to determine if they have been appropriately accounted for in accordance with AASB 118 *Revenue* • For Consumer customers, testing on a sample basis the accuracy of revenue recorded for new plans, including authorisation of rate changes and input of this information to billing systems, as well as appropriate revenue recognition for bundled offers; and • For both types of customers, testing the appropriateness of the timing of revenue recognition in the year or, where appropriate, deferral to a subsequent period when services are performed, by checking a sample of customer bills to agreed contracts and plans, and checking revenue was recognised in the correct period. We also assessed the appropriateness of the related disclosures in Note 5 to the financial statements.
Nextgen Networks business combination	
Refer Note 34 for the Group's disclosure of the Nextgen Networks business combination and the accounting policy for business combinations. On 26 October 2016, the Group acquired 100% of the ordinary shares of Nextgen Networks and two development projects, the North-West Cable System and the Australia Singapore Cable for upfront consideration of $793m and contingent consideration of $23m. Accounting for the acquisition required a significant amount of management judgement, particularly in relation to the identification and valuation of identifiable assets acquired and assignment of their	Our procedures included but were not limited to: • Evaluating management's assessment of the transaction in accordance with AASB 3 *Business Combinations* • Evaluating completeness of the assets and liabilities identified in the acquisition accounting against the Share Sale and Purchase Agreement and our understanding of the business acquired, including the estimate of contingent consideration • Assessing management's purchase price allocation in relation to the acquisition, including relevant information that management obtained from valuation experts in relation to the identification and valuation of identifiable assets acquired

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useful lives, and the liabilities assumed at acquisition date.	and liabilities assumed are in accordance with AASB 3 • In conjunction with our valuation specialists challenging the work performed by management's expert by: – Assessing the competence and capability of management's expert – Assessing the appropriateness of the models utilised in the valuation of identifiable assets acquired by management's expert – Validating the assumptions used in the model against historical performance and industry benchmarks – Subjecting the key assumptions to sensitivity analysis and • Evaluating the useful lives associated with the acquired tangible assets including assessment of management's estimation and whether it is consistent with Group policy and/or the relevant accounting standards. We also assessed the appropriateness of the related disclosures in Note 34 to the financial statements.
Carrying value of non-current assets, including goodwill	
Refer Note 15 for the Group's disclosure for impairment of non-current assets, including goodwill, and the accounting policy for impairment testing. As at 30 June 2017, the Group has total non-current assets of $3,844m, which includes goodwill of $1,475m. An impairment of Goodwill of $1,445.4m was recognised in the current year related to the Australian and New Zealand Cash Generating Units (CGUs). Additional impairment of $86.6m was recognised in the current year related to the Consumer CGU. Total impairment of Goodwill for the year being $1,532m. The assessment of the recoverable amount requires the exercise of significant judgement about future market conditions, including growth rates and discount rates, as well as the impact of changing technologies and consumer preferences. Management annually assesses specific non-current assets for indicators of impairment which includes an assessment of asset useful lives (e.g. brands).	Our procedures included, but were not limited to: • Understanding the process that management undertook to perform their assessment • Evaluating management's assessment for indicators of impairment for specific assets and confirming that there were no significant losses of customers, asset obsolescence or degradation, which may have resulted in redundant assets or changes to existing asset useful lives • Evaluating the fair value less costs to sell models prepared by management and validating the reasonableness of the assumptions used to calculate the discount rates, long-term growth rates and terminal values compared to historical performance and industry benchmarks to ensure compliance with the requirements of AASB 136 *Impairment of Assets* • Evaluating the implied multiples of the fair value less costs to sell models against recent transactions and market data • Assessing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins • Comparing cash flow forecasts to market growth expectations

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	• Assessing historical forecasting accuracy and • Subjecting the key assumptions to sensitivity analyses. We also assessed the appropriateness of the related disclosures in Note 15 to the financial statements.
Capitalisation of costs	
Refer to Note 14 and Note 15 for the Group's disclosure and accounting policy for tangible and intangible assets respectively. The Group capitalises certain costs that are directly attributable to the development of tangible (e.g. network) or intangible (e.g. software) assets in accordance with AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangibles Assets*. As at 30 June 2017, the Group has tangible and intangible assets totalling $3,755m. Refer Note 3 for the Group's disclosure and accounting policy for deferred subscriber acquisition costs. In accordance with Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*, the Group defers certain costs pertaining to upfront commissions paid to internal and external sales personnel upon acquiring new service contracts (deferred subscriber acquisition costs), which are amortised over the term of the customer contract. As at 30 June 2017, the Group has deferred subscriber acquisition costs totalling $60.2m. Significant management judgement is required in determining costs that can be capitalised or deferred as well as the depreciation and amortisation rates applied.	Our procedures included: • Obtaining an understanding of the key controls in place over cost capitalisation and the process for recording and identifying qualifying costs to be capitalised • Evaluating whether the nature of costs capitalised is in accordance with the relevant accounting standard • On a sample basis tested costs capitalised to invoices, payroll and inventory records • Evaluating the appropriateness of the depreciation and amortisation rates and remaining useful lives applied; and • Evaluating the appropriateness of the carrying value of tangible and intangible assets, including deferred subscriber acquisition costs by considering indicators of impairment and asset obsolescence. We also assessed the appropriateness of the related disclosures in Notes 3, 14 and 15 to the financial statements.

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Other Information

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 2017, 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 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.

Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities 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 judgement 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

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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's 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 with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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 Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 26 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Vocus Group Limited, for the year ended 30 June 2017, 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Don Pasquariello

Ryan Hansen

Don Pasquariello
Partner
Chartered Accountants
Sydney, 23 August 2017

Ryan Hansen
Partner

Corporate Directory

Vocus Group Limited
ACN 084 115 499
ABN 96 084 115 499

Registered office	Level 10, 452 Flinders Street Melbourne VIC 3000 Telephone: 03 9923 3000 Facsimile: 03 9674 6599	
Investor Relations	investors@vocus.com.au	
Stock Exchange	Vocus is listed on the Australian Securities Exchange Ltd (ASX) under the Issuer code: VOC	
Share Registry	Computershare Investor Services Pty Limited Level 4, 60 Carrington Street Sydney NSW 2000 Ph: 1300 850 505 (for callers within Australia) or +61 3 9415 4000 (for callers outside Australia) To view or update your holding details online, please go to: www.investorcentre.com	
Directors	David Spence	Non-Executive Chairman
	Craig Farrow	Non-Executive Deputy Chairman
	Vaughan Bowen	Executive Director
	Jon Brett	Non-Executive Director
	Rhoda Phillippo	Non-Executive Director
	Robert Mansfield	Non-Executive Director
	David Wiadrowski	Non-Executive Director
	Christine Holman	Non-Executive Director
	Ashe-lee Jegathesan	Company Secretary
	Geoff Horth	Group CEO
	Mark Wratten	Chief Financial Officer
Auditor	Deloitte Touche Tomatsu Grosvenor Place, 225 George Street Sydney NSW 2000	
Key Dates	Half-year end – 31 December 2017 Year end – 30 June 2018	
Annual General Meeting – 24 October 2017	The 2017 Annual General Meeting will be held at the Theatrette, Dexus Place, 385 Bourke St, Melbourne. Please refer to our website for further detail and a webcast of the meeting: www.vocusgroup.com.au.	
Website and further information	Further company information, including announcements, presentations, further historical information and background, please visit www.vocusgroup.com.au. This report can also be found online via http://vocusgroup.com.au/ A full copy of our Sustainability Report, reviewing our environmental, social and economic impact, can be found online via http://vocusgroup.com.au/sustainability/sustainability-report/. Our full Corporate Governance Statement can be found at http://vocusgroup.com.au/about-us/corporate-governance/.	

ASX Additional Information

Additional information required by the Australian Securities Exchance Ltd listing rules and not shown elsewhere in this report is as follows. This information is current as at 25 July 2017

(a) Distribution of equity holders of securities

(i) Ordinary share capital

622,131,268 fully paid ordinary shares are held by 43,839 shareholders

(ii) Options

176,252 options are held by 4 individual option holders

The numbers of shareholders, by size of holding, in each class are:

Range	Total holders	Units	% Units
1 - 1,000	14,531	6,872,097	1.1
1,001 - 5,000	18,995	49,182,208	7.91
5,001 - 10,000	5,698	41,651,882	6.7
10,001 - 100,000	4,396	99,796,213	16.04
100,001 Over	219	424,628,868	68.25
Rounding			
Total	**43,839**	**622,131,268**	**100**

Unmarketable Parcels:

Range	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 3.5200 per unit	143	1,916	131,032

(b) Substantial holders

Substantial holders at 25 July 2017 were:

Greencape Capital Pty Ltd	8.14%
Challenger Limited	7.44%
Yarra Funds Management Limited	5.7977%

(c) Twenty Largest Shareholders

Names of the 20 largest shareholders of Vocus ordinary shares and the percentage of capital each holds:

1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	96,192,482	15.46
2.	J P MORGAN NOMINEES AUSTRALIA LIMITED	82,122,797	13.2
3.	CITICORP NOMINEES PTY LIMITED	54,082,132	8.69
4.	NATIONAL NOMINEES LIMITED	39,391,533	6.33
5.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	17,484,274	2.81
6.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	9,216,283	1.48
7.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	8,377,386	1.35
8.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	8,255,101	1.33
9.	BNP PARIBAS NOMS PTY LTD <DRP>	7,796,905	1.25
10.	ARGO INVESTMENTS LIMITED	6,152,447	0.99
11.	MR VAUGHAN BOWEN <V G BOWEN FAMILY A/C>	5,833,136	0.94
12.	TEFIG PTY LTD <AJ ABERCROMBIE S/FUND A/C>	5,342,835	0.86
13.	THE ABERCROMBIE GROUP PTY LTD <THE PHILADELPHIA A/C>	4,657,165	0.75
14.	XUE INVESTMENTS PTY LIMITED <XUE FAMILY A/C>	3,850,500	0.62
15.	UBS NOMINEES PTY LTD	3,334,032	0.54
16.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	3,159,450	0.51
17.	THIRTY FOURTH ZULU PTY LTD <HAMILTON SUPERANNUATION NO 3 A>	2,599,151	0.42
18.	DENNIS N BASHEER SUPERANNUATION PTY LTD <DENNIS N BASHEER S/F A/C>	2,450,330	0.39
19.	VOCUS BLUE PTY LTD <THE VOCUS SHARE PLAN A/C>	2,149,364	0.35
20.	MR VAUGHAN GARFIELD BOWEN + MRS CAROLINA NUNN <BOWEN FAMILY SUPER FUND A/C>	2,142,599	0.34
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		**364,589,902**	**58.60337211**
Total Remaining Holders Balance		**257,541,366**	**41.39662789**

Voting Rights - Ordinary Shares

By virtue of the Company's Constitution, outlined in Clause 34, voting rights for ordinary shares are:
a) on a show of hands, each member has one vote;
b) (subject to section 250L(4)) on a poll, each member has:
i) for each fully paid share held by the member, one vote; and
ii) for each partly-paid share held by the member, a fraction of a vote equivalent to the proportion which the amount paid (not credited nor paid in advance of a call) is of the total amounts paid and payable (excluding amounts credited) for the share.

Restricted Securities

At 30 June 2017, Vocus had 417,861 shares (purchased by and gifted to team members) held in escrow, per the terms of the Vocus Communications Limited Employee Share Plan (Salary Sacrifice) and Vocus Communications Employee Share Grant ($1000)

On-Market Buy-Back

There is no on-market share buy-back in operation.

VOCUS
GROUP