ANNUAL REPORT 2018

VOCUS GROUP

ABOUT THIS REPORT

The Annual Report 2018 is a summary of Vocus operations, activities and financial position for the 12 month period to 30 June 2018. Vocus Group Limited is the parent company of the Vocus group of companies. In this report, unless otherwise stated, references to "Vocus", "the Group", "the Company", "we", "our" and "us" refer to Vocus Group Limited and its controlled entities. In this report, references to the financial year refer to the period 1 July to 30 June unless otherwise stated.

All dollar figures are expressed in Australian dollars, unless otherwise stated.

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 our website via http://vocusgroup.com.au/about-us/corporate-governance/

REPORT OBJECTIVES

This report meets our governance and compliance requirements, and has been written to provide shareholders and interested parties with clear, easy to understand information on the Company and its performance in FY18.

ADDITIONAL INFORMATION

This report can also be found online via http://vocusgroup.com.au/investors/company-performance/annual-reports/

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/

KEY DATES

Financial Year End – 30 June 2018

Annual General Meeting – 30 October 2018

The 2018 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

CONTENTS

$366M
UNDERLYING EBITDA
UP 7%

WON CONTRACT TO BUILD
CORAL SEA CABLE

Australia Singapore Cable
COMPLETED UNDER BUDGET AND ON SCHEDULE ON TRACK
Ready For Service
14 September 2018

ENTERPRISE, GOVERNMENT & WHOLESALE REVENUE UP 11%*
* on pcp, FY17 adjusted pro forma

Connected North West Cable System
HIGH-SPEED FIBRE NETWORK ACROSS NORTH-WEST AUSTRALIA

NBN MARKET SHARE GREW FROM 8.2% TO 8.9%

Cost to serve in Consumer
REDUCED
through increasing digitisation

Amongst the
FASTEST GROWING
energy retailers in New Zealand

CASH CONVERSION AT 88%
IMPROVED & IMPROVING

Board and executive
LEADERSHIP RENEWED

PERFORMANCE HIGHLIGHTS

ABOUT US

We are proud to have built a world class telecommunications infrastructure platform across Australia and New Zealand to support the rapid growth in demand for increasingly resilient, secure and reliable network connectivity. Our Australian fibre network connects capital mainland cities with Auckland, stretching across the Tasman and connecting north and south islands of New Zealand, and to the United States, Singapore and Hong Kong.

We focus on making our products simple, reliable and easy to use and our processes highly automated to give our customers the ability to manage their own experience. At every step, we work to be more intuitive to our customers' needs.

Our culture and values centre around drawing the best out of our team members while taking care of our customers and creating value for shareholders.

Connectivity means more to us than fibre in the ground – our culture is connected to the way we do business, the way we work together and the results for our customers and shareholders.

30,000KM
fibre network spanning Australia and New Zealand

OUR NETWORK
CONNECTED TO GROW

- VOCUS
- ASC
- ASC PENDING CONSTRUCTION
- RBBP FIBRE
- 3RD PARTY

VOCUS GROUP

AUSTRALIA

CONSUMER

dodo — A promise to deliver simplicity and fairness to our customers.

iPrimus — iPrimus was one of Australia's first true broadband challengers.

ENTERPRISE & WHOLESALE

Vocus communications — Strong, reliable connectivity

engin — Leading IP voice provider

Commander — Business Communications

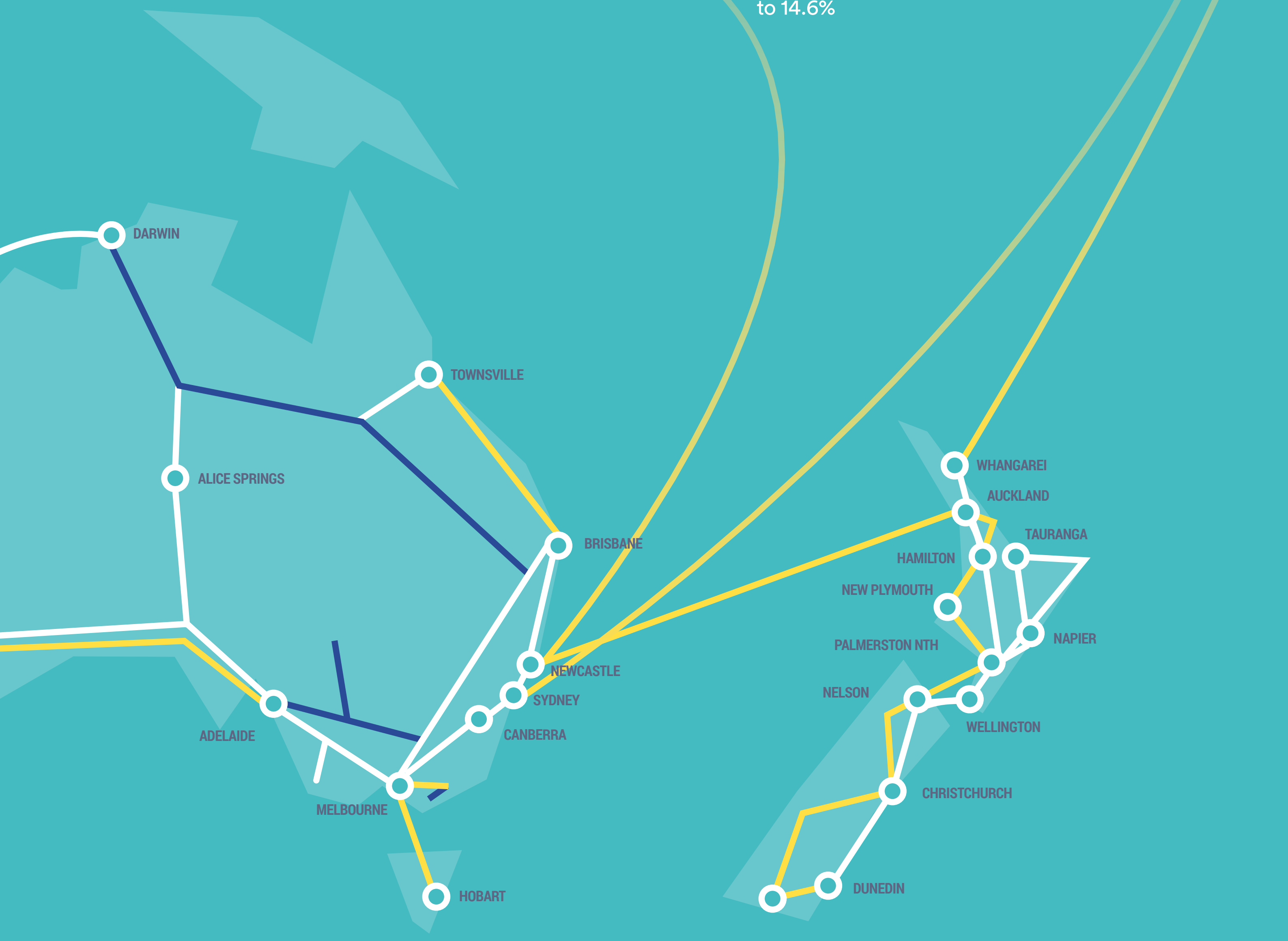
5,500
More than 5,500 buildings on-net

23
data centres on-net

196%
increase in team members volunteering

46,000
(total) services connected to NZ's UFB, taking our market share to 14.6%

2,000+
Team Members in Australia and New Zealand



NEW ZEALAND

CONSUMER

Slingshot – Broadband for Kiwi families

Flip – Cheap and cheerful broadband

Switch utilities ltd – Energy services to larger asset owners

Orcon – Driving innovation in the NZ market

ENTERPRISE & WHOLESALE

Vocus communications – For Businesses, Government and Wholesale

2talk – Provider of VoIP

CHAIRMAN'S & CEO'S REPORT

DEAR SHAREHOLDERS,

We are very pleased to present the Vocus Annual Report for the 2018 financial year.

Throughout what has been a very busy year, we have made significant and tangible changes that will re-invigorate the company and enable us to deliver the growth we are focused on achieving. We will provide an overview of these changes, but first we would like to discuss the performance of the business in FY18.

Financial and business performance

For FY18, the business delivered results in line with guidance given in February 2018, with revenue growth of 2% to $1.9 billion and underlying EBITDA growth of 7% to $366 million.

The Enterprise, Government & Wholesale business performed strongly, with underlying EBITDA growth of 15% on revenue growth of 11%. The result was driven by a disciplined and structured approach to sales, with targeted expansion of our sales presence on the East Coast, as well as improvements to the product mix through increasing sales on our long-haul network. Significant improvements to internal processes and customer self-service toolboxes have delivered an improved customer experience.

The New Zealand business continued to perform well, with a 4% increase in revenue translating to 8% growth in underlying EBTIDA. The NZ Enterprise & Wholesale segment grew market share in voice and data, with new market entrants and increasing bandwidth demands nationwide. The NZ Consumer segment performance was driven by bundled energy and a focus on taking unfair share in UFB footprints, whilst the 2talk brand leveraged the nationwide partner program to drive SMB growth.

The Australian Consumer telecommunications market is extremely competitive and undergoing significant disruption as it transitions to the National Broadband Network (NBN). The Consumer Australia segment retained its NBN market share as we progressed the digitisation of our sales channel, which has lowered our sales costs and helped to attract a longer-term customer through improved sales methods. This digitally-led approach has extended to our service model, improving customer experience with the re-launch of the Dodo brand, website and customer self-service toolbox.

The performance of the Commander business in the Small to Medium Business (SMB) segment was disappointing, with a revenue decline of 15% leading to an 11% decline in underlying EBTDA. A historical focus on removing cost at the expense of the long-term sustainability of the business contributed to this underperformance. Steps are being urgently taken to address these issues, including increasing focus and accountability, by separating Commander into a stand-alone business that reports to the Chief Executive.

Our network

Vocus prides itself on its fast, flexible and reliable network. We have made significant progress towards the implementation of a single advanced core network during the year. This, together with the ongoing consolidation and decommissioning of legacy assets and capacity upgrades to our network, will deliver ongoing benefits.

In June, we won a contract with the Australian Government to construct a sub-marine cable between Solomon Islands, Papua New Guinea and Australia (the 'Coral Sea Cable'), and a domestic cable network within Solomon Islands. This is a significant win for Vocus, made possible by our recent success with international submarine cables and the strength of our relationship with the Government based on years as a trusted provider of secure, reliable connectivity. The Coral Sea Cable will bring high-speed international telecommunications to Solomon Islands for the first time and will vastly improve the connectivity of Papua New Guinea, bringing significant economic and social benefits to both countries.

On 3 September 2018, we announced a collaboration with the Northern Territory Government to construct a new fibre optic cable link between Darwin and the Tiwi Islands. For the first time, communities located on Melville and Bathurst Islands will have access to a reliable, high capacity and trusted fibre optic link to the mainland. This was made possible by connecting through our 2,100km sub-sea North West Cable System (NWCS), which also had two foundation customers connected during the year.

Affordable and reliable fibre optic connectivity is a fundamental pre-requisite for participation in the global digital economy. Vocus is proud to play a significant role in delivering this capability to the people and communities to the north of Australia.

On 14 September 2018, the 40TB Australia Singapore Cable (ASC), our 4,600km submarine cable linking Perth to Singapore was declared Ready For Service. The ASC is a highly strategic asset that not only enables us to unlock the rapid growth in demand for data capacity in Asia, it also extends the reach of our domestic network. It will drive revenue opportunities for our domestic fibre assets as we enter into deep partnerships with key international players. Over 2.5Tbps of capacity has been sold on the ASC system to date, including to a major global OTT customer. Now that the system is live, sales activity is expected to gain momentum.

Capital structure and dividends

In FY18, we closed a new and increased debt facility of A$1,270 million and NZ$150 million, removing any requirement to divest assets and providing financial headroom and flexibility to execute strategic opportunities over the coming years. Net debt at the end of the period was $1 billion, within the expected range.

Discipline on operating and capital expenditure will continue to be a focus in FY19 and we will continue to operate comfortably within our existing bank facilities and covenants.

The Vocus Board has decided not to declare a dividend in FY18 due to competing demands for capital investment across the business, in particular the Australia Singapore Cable, and our focus on reducing leverage in the business.

Board renewal

The process of board renewal continued during the year, as the founder of M2 Group, Vaughan Bowen, and long-term M2 director Craig Farrow both stepped down from the board, followed by long-term Vocus director Jon Brett and Rhoda Phillippo. We would like to thank these directors for their contributions.

The Board was pleased to welcome John Ho and Julie Fahey as non-executive directors in January and February respectively, and Kevin Russell as Group Managing Director and Chief Executive Officer and Mark Callander as an executive director in May. Two additional non-executive directors, Bruce Akhurst and Matthew Hanning, commenced on 1 September 2018. The appointed directors hold an excellent mix of skills gained from decades of experience either within or alongside the telecommunications industry, or leading successful, global businesses.

Setting the platform for growth

Vocus' primary focus going forward is sustainable, profitable growth. We have an excellent set of fibre network infrastructure assets, and our market share is low relative to these assets. Our priority is to leverage these assets to maximise profitable growth within our core Australian and New Zealand infrastructure focused businesses. Our target is to double revenue from these businesses over the next five years.

Key to the success of the business is having the right leadership. Along with our new Group Managing Director and CEO, Kevin Russell, we have been fortunate to attract several senior executives who know how to win in their markets and are excited by the opportunities Vocus presents. These appointments, together with some internal changes, will re-invigorate company management.

With the team in place, we can dedicate our attention to implementing our strategy. This will require re-investment in the next 12 months to replenish prior year cost outs and establish a sustainable cost base to drive future revenue growth.

To our management and employees, we wish to express our sincere appreciation for your commitment and contribution during a period of significant internal change.

To our shareholders, we would like to take this opportunity to thank you for your continued support and investment. Vocus has a new Board, new executive leadership and a new growth strategy to drive sustainable, profitable growth. We are focused and energised to generate returns for our shareholders and we look forward to sharing a successful year with you.

Robert Mansfield AO
Chairman

Kevin Russell
Group Managing Director and CEO

Sustainability reporting is increasingly in focus as investors and potential employees look to how a company behaves beyond its financial statements.

We are proud to be a company that performs well sustainably and motivates its team members to be actively involved in the community.

SUSTAINABILITY AT VOCUS

Priorities and Achievements

	FY18 ACHIEVEMENTS
Community	Against our target of increasing Volunteering by 5%, we achieved: ○ An increase in the number of team members giving their time of 196%; ○ An increase in the number of hours given to charities of 148%.
Suppliers	Introduction of a Procurement Team with roadmap to supplier screening to ensure standards of environmental and social governance are met and that, as far as possible, we source from companies that meet our criteria.
Environment	We achieved a reduction in customer invoice printing of 0.2%.
Diversity	While our gender diversity statistics reflected a decline at the senior leadership level at the end of the period, a number of appointments after 30 June improve this balance and reflect on the commitment of the new management team to diversity.
Team	75 team members participated in our Leadership Development Program and 32 participated in our Mentoring Program.
	Won Customer Service Team of the Year (small) in our Enterprise & Wholesale segment.

FY19 PRIORITIES

We will aim to maintain this high level of charitable activity and increase the number of team members participating in skilled volunteering by 5%.

Review supply to ensure that, where possible, we are making the best choice to meet the needs of our environment and stakeholders.

We commit to improving the gender balance at the senior leadership level in FY19

We have recruited an Executive dedicated to People and Culture, starting in September 2018, to optimise the substantial asset that is our team.

In addition to a number of initiatives in place to improve our customer service in FY19, we have promoted our GM of Assurance and Delivery to the Executive Team, ensuring that our Customer has a seat at the Executive table.

We invite shareholders to view a detailed Sustainability Report, which covers our progress within the context of the GRI Standards and is available via our website: vocusgroup.com.au/sustainability/sustainability-report/

DIRECTORS' REPORT

The names and details of the directors of Vocus during FY18 and at the date of this report are as follows:

Robert Mansfield, AO
Non-Executive Chairman

B Com, DBHon

Appointed Non-Executive Director 1 January 2017
Appointed Chairman 6 March 2018

Experience: Mr Mansfield has held CEO positions at McDonald's Australia Limited, Wormald International Limited, Optus Communications and John Fairfax. He has 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 was appointed Director of Telstra Corporation Limited. On 1 January 2000 he became Telstra's non-executive Chairman and served until April 2004.

Committee Memberships: Chair of the Nomination Committee

Current Directorships and other interests: Chairman of the Board of Governors; Steve Waugh Foundation; George Gregan Foundation; National Drug and Alcohol Research Centre

Other listed company Directorships (last 3 years): None

Honours and Awards: 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.

Kevin Russell
Group Managing Director & Chief Executive Officer

B Acc/CompSc, MICAS

Appointed 28 May 2018

Experience: Mr Russell is an internationally experienced CEO with more than 20 years in the telecommunications industry in Australia, the UK, USA and Israel. His experience includes roles as CEO at Hutchison Three Australia; CEO at Hutchison Three UK; Country Chief Officer & CEO, Consumer at Optus Communications; and Group Executive, Retail at Telstra.

Committee Membership: Member of the People & Remuneration Committee, the Audit & Risk Committee and Wholesale Energy Risk Management Sub-Committee

Current Directorships and other interests: None

Other listed company Directorships (last 3 years): Non-Executive Director of Cycling Australia

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.

Retired 22 August 2018

Experience: Mr Brett has extensive experience in the areas of management, operations, finance and corporate advisory, including as founder of the First Wine Fund; CEO of Techway Limited, which pioneered internet banking in Australia; the Non-Executive Deputy President of the National Roads and Motoring Association; an executive Director of Investec Wentworth Private Equity and a member of Investec Bank Australia's Investment and Credit committees.

Committee Membership: Member of the People & Remuneration and Audit & Risk Committees

Current Directorships and other interests: Chair of Stridecorp; Chair of Helen Lynch Syndicate (which is part of an organisation dedicated to promoting Women on Boards); Director of several unlisted companies

Other listed company Directorships (last 3 years): The PAS Group Limited (2014 – 2016); Godfreys Limited (2012 – 2016)

Rhoda Phillippo
Non-Executive Director

MSc, MInstD

Appointed 22 February 2016

Retired 22 August 2018

Experience: 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).

Committee Membership: Member of the People & Remuneration Committee, Audit & Risk Committee, and Chair of the Wholesale Energy Risk Management Sub-Committee

Current Directorships and other interests: Chair of Snapper Services Ltd in New Zealand; Non-Executive Director of LINQ (a technology start up in New Zealand); Alternate Director for the Future Fund's investment in Perth Airport; Non-Executive Director of Datacom

Other listed company Directorships (last 3 years): Vix Technology and Vix Investments (2013 – 2017)

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 2018 ('FY18') in compliance with the provisions of the *Corporations Act 2001* ('Corporations Act').

David Wiadrowski
Non-Executive Director

B Com, FCA, GAICD

Appointed 24 July 2017

Experience: Mr Wiadrowski was a partner at PwC for 25 years, during which time he was the National Telecommunications, Infocoms, Communications, Entertainment and Media Industry Leader; the Chief Operating Officer of the PwC Australia Assurance business and the lead audit partner on a number of major clients in the ASX 200. Mr Wiadrowski was a Non-Executive Director of the Elevacao Foundation and Board Member of PwC Securities and PwC Indonesia.

Committee Membership: Chair of the Audit & Risk Committee and a Member of the Nomination Committee

Current Directorships and other interests: Advisory Board Member of the Cambodian Children's Fund

Other listed company Directorships (last 3 years): None

John Ho
Non-Executive Director

B Sc, B Com

Appointed 8 January 2018

Experience: Mr Ho is the Founder and Chief Investment Officer of Janchor Partners, a long-term industrialist investor based in Hong Kong. Prior to founding Janchor Partners in 2009, Mr Ho acquired global experience including with the Boston Consulting Group in Australia, Citadel Investment Group in the US and as Head of Asian Investing at The Children's Investment Fund.

Committee Memberships: Member of the People & Remuneration and Nomination Committees

Current Directorships and other interests: Deputy Chairman of the Hong Kong Stock Exchange Listing Committee; Non-Executive Chairman of Bellamy's Australia Limited and Non-Executive Director of Rokt (an e-commerce marketing company)

Other listed company Directorships (last 3 years): None

Julie Fahey
Non-Executive Director

B AppSc

Appointed 2 February 2018

Experience: Ms Fahey has more than 30 years' experience in technology and the management of large-scale transformation programs, including as National Managing Partner, Markets and National Lead Partner, Telecommunications, Media & Technology for KPMG. Ms Fahey's executive career spanned a range of roles including Chief Information Officer of General Motors Holden (Australia) and Deputy Managing Director of SAP Australia.

Committee Memberships: Chair of the Remuneration Committee

Current Directorships and other interests: Non-Executive Director with IRESS Ltd and Seek Ltd. She is also a Non-Executive Director of a small number of IT&T companies, and a not-for-profit organisation

Other listed company Directorships (last 3 years): None

Mark Callander
Executive Director

BMS

Appointed 28 May 2018

Experience: Mr Callander has more than 20 years' experience in the New Zealand telco market. After a period at Telecom New Zealand he joined CallPlus, where he became CEO in 2009. Mr Callander managed the CallPlus integration with M2 in 2015, and then the NZ merger with Vocus the following year. He is also CEO of the Vocus New Zealand business.

Committee Membership: Member of the Wholesale Energy Risk Management Sub-Committee

Current Directorships and other interests: Board Member of the New Zealand Telecommunications Forum and Director of the Elevator Group

Other listed company Directorships (last 3 years): None

On 22 August 2018, Vocus announced the appointment of two new Non-Executive Directors to the Board, commencing 1 September 2018.

Bruce Akhurst
Non-Executive Director

Experience: Mr Akhurst's management experience spans decades in the telecommunications industry and includes roles as Group Managing Director of Telstra Media, Telstra Wholesale and Telstra Legal and Regulatory. Prior to joining Telstra, Mr Akhurst was Managing Partner at Mallesons Stephen Jaques (now King & Wood Mallesons). He is a former Chairman of Foxtel and former director of a number of Telstra subsidiary companies, including CSL and Telstra Clear.

Current Directorships and other interests: Non-Executive Director of Tabcorp Holdings Ltd, Chairman of Peter MacCallum Cancer Foundation, Executive Chairman of adstream Holdings Pty Ltd and Director of Paul Ramsay Holdings.

Other listed company Directorships (last 3 years): None

Matthew Hanning,
Non-Executive Director

Experience: Mr Hanning was previously a partner at Clayton Utz, a Managing Director at Morgan Stanley with senior management roles in both Australia and Hong Kong and a Group Managing Director at UBS with management responsibility for Asia Pacific investment banking. At UBS, Mr Hanning was a member of the Investment Bank Executive Committee which managed the activities of the Investment Bank globally. He was based in Hong Kong from 2005 to 2016. Mr Hanning left UBS in 2016 to return to Australia.

Current Directorships and other interests: Chairman of SAI Global Pty Ltd, a Non-Executive Director of Clayton Utz and a Senior Adviser to Baring Private Equity Asia.

Other listed company Directorships (last 3 years): None

DIRECTORS' REPORT (cont.)

David Spence
Non-Executive Chairman

B Com, CA (SA)
Appointed Director 24 June 2010
Resigned 3 October 2017

Vaughan Bowen
Executive Director

B Com, MAICD
Appointed Director 22 February 2016
Appointed Chairman 3 October 2017
Resigned 6 March 2018

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
Resigned 6 March 2018

Christine Holman
Non-Executive Director

PGradDipMgt, MBA, GAICD
Appointed 24 August 2017
Resigned 13 November 2017

GENERAL COUNSEL & COMPANY SECRETARY

Ashe-lee Jegathesan
General Counsel & Company Secretary

LLB (Hons), GAICD

Appointed 22 February 2016

Experience: Ms Jegathesan has held the role of General Counsel & Company Secretary of Vocus Group Limited since its merger with M2 in 2016. Ms Jegathesan has had 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, Melbourne IT Ltd, and M2 (prior to the merger) where she held similar senior executive roles.

As part of her role at Vocus, Ms Jegathesan has executive oversight of the Group's Risk Management and Regulatory Functions, Corporate Social Responsibility and during the year, also oversaw the Group's Human Resources function. She also serves on the Telco Together Foundation's Advisory Board as the Vocus representative.

Ms Jegathesan was the recipient of the Lawyers Weekly 2012 Womenin Law ACLA In-House Award.

DIRECTORS' MEETINGS

The number of directors' meetings, including meetings of each Board committee held during FY18 and the number of meetings attended by each director is as follows:

Directors	Board Meeting		Audit Committee		Risk Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Robert Mansfield (Chair)	24	24	0	0	0	0
Kevin Russell	2	2	0	0	0	0
Jon Brett	24	24	5	5	2	2
Rhoda Phillippo	24	16	0	0	2	2
David Wiadrowski	24	24	5	5	2	2
John Ho	12	10	0	0	0	0
Julie Fahey	12	9	0	0	0	0
Mark Callander	3	3	0	0	0	0
David Spence	9	9	4	4	0	0
Christine Holman **	4	4	1	1	0	0
Vaughan Bowen ***	15	15	0	0	0	0
Craig Farrow ****	15	15	5	5	0	0

* The Audit Committee and Risk Committee combined effective January 2018.
** Christine Holman resigned 13 November 2017.
*** Vaughan Bowen resigned 6 March 2018.
**** Craig Farrow resigned 6 March 2018.

DIRECTORS' SHAREHOLDINGS

The following table sets out the details of each director's relevant interest in the Company[*].

Director	Shares
R Mansfield	12,500
K Russell	–
J Brett	426,000
R Phillippo	9,500
D Wiadrowski	4,265
J Ho[1]	57,490,290
J Fahey	–
M Callander	74,394
B Akhurst[2]	–
M Hanning[2]	441,000
D Spence[3]	482,796
V Bowen[4]	8,869,766
C Farrow[5]	455,000
C Holman[6]	20,000

1. John Ho is the founder and chief investment officer of Janchor Partners, which owns a 17.9% interest in Vocus (constituted by a relevant interest of 9.24% of Vocus' voting shares and an economic interest through cash settled equity derivatives in a further 8.66%).
2. Appointed 22 August 2018, effective 1 September 2018.
3. Ceased to be a director on 3 October 2017.
4. Ceased to be a director on 6 March 2018.
5. Ceased to be a director on 6 March 2018.
6. Ceased to be a director on 13 November 2017.

* New director holdings are dated at their appointment. All other director holdings are at the date of this report.

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.

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. Sub-marine cable projects completed by Vocus include the 2,100km North-West Cable System, completed in September 2016, and the 4,600km Australia-Singapore Cable, scheduled for completion in Q1 FY19. Vocus 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 FY18. 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.

Audit and Risk Committee *		People and Remuneration Committee		Nomination Committee		Technology Oversight Committee	
Eligible to attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to attend	Attended
0	0	0	0	2	2	6	6
1	1	0	0	0	0	0	0
5	5	8	8	0	0	0	0
5	4	8	8	0	0	6	6
5	5	0	0	2	2	0	0
0	0	4	3	2	2	0	0
0	0	3	3	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	5	5	0	0	5	3

DIRECTORS' REPORT (cont.)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

Funding and Dividend

As disclosed to the ASX on 25 June 2018, Vocus closed a new and increased syndicated debt facility of A$1,270million and NZ$150million to provide the Company with the flexibility required to execute on strategic initiatives over the coming years. Whilst interest cover and gearing ratios remain unchanged, the Net Leverage Ratio ("NLR")[1] has been amended to provide financial headroom and flexibility.

The new facility has a weighted average tenure of 3.4 years and the Syndicated Facility Agreement stipulates that dividends will not be paid until NLR is below 2.25x for two consecutive testing dates.

Private Equity Offer

Vocus Group Limited (Vocus or the Company) (ASX:VOC) announced on 7th June 2017 that it had received a preliminary, indicative and non-binding proposal from Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, KKR) to acquire 100% of the shares in Vocus (on a fully diluted basis) at a price of $3.50 cash per share, via a scheme of arrangement. Vocus further announced on 11th July 2017 that it had received an additional preliminary, indicative and non-binding proposal from Affinity Equity Partners (S) Pte Ltd and its affiliates (Affinity) to acquire all of the shares in the Company at a price of $3.50 cash per share, via a scheme of arrangement.

On 21 August 2017 the Board further announced that discussions with both KKR and Affinity around a potential transaction The Company notified the ASX on 21 August 2017 that discussions with both Kohlberg Kravis Roberts & Co L.P. and Affinity Equity Partners (S) Pte Ltd around a potential transaction to acquire 100% of the shares in Vocus ceased.

1. Net Leverage Ratio is defined in the Syndicated Facility Agreement as Net Debt/ LTM EBITDA.

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.

LIKELY FUTURE DEVELOPMENTS AND RESULTS

The Operating and Financial Review, on page 30, 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, www.vocusgroup.com.au, for a copy of the Sustainability Report.

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

The Vocus Board has made the decision not to declare a final dividend for the year ended 30 June 2018 for a number of reasons, including the competing demands for capital investment across the business, in particular the Australia Singapore Cable, combined with our focus on reducing leverage in the business.

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 CFO and divisional Chief Executives are also party to a customary deed of access and indemnity.

During FY18, 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 $560,291 (2017: $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 47 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.

REMUNERATION REPORT

INTRODUCTORY LETTER FROM JULIE FAHEY, CHAIR OF THE PEOPLE AND REMUNERATION COMMITTEE

Dear Fellow Shareholders,

On behalf of the Board, I am pleased to present our Remuneration Report for FY2018.

I was appointed to the role of Chair of the Remuneration Committee in February 2018 and wish to acknowledge the contribution of the outgoing Chairman, Rhoda Phillippo and the outgoing member, Jon Brett. Rhoda chaired the Committee through a very difficult time and I want to thank her and Jon Brett for their passion, perseverance and support in guiding us through to a renewed remuneration strategy which we believe, will support our objective of creating sustained, long-term shareholder wealth.

As shareholders, you would be aware of our recent difficult journey. A key priority in 2018 has been the renewal of the Board. Four new directors have been appointed to the Board, since the last AGM. These include:

- my appointment as an independent non-executive director (February 2018)
- John Ho, the founder and chief investment officer of Janchor Partners, a major shareholder (January 2018)
- our new Managing Director and Chief Executive Officer, Kevin Russell (May 2018)
- our New Zealand Chief Executive, Mark Callander (May 2018)

Kevin has undertaken a significant refresh of the both the Executive and Senior Leadership team over the last few months, as he continues to develop the business strategy for the next 3 to 5 years. We believe that these changes will stand us in good stead as we seek to create sustained long-term wealth for our shareholders.

This report details the remuneration outcomes achieved by our key management personnel (KMP) for the financial year to 30 June 2018.

Despite the many challenges faced by Vocus in FY18 and the significant disruption experienced by the telecommunications industry as a whole, Vocus has been able to deliver:

- organic growth in both revenue and EBITDA,
- significant improvements in cash management performance, and
- an improved net debt position.

The People & Remuneration Committee regularly reviews the executive remuneration framework to ensure it remains aligned with Vocus' business strategy and shareholders' interests. In 2018, the refreshed Committee and Board undertook a thorough review of executive remuneration. We have redesigned our remuneration approach to simplify it, make it more transparent, attract the best executive talent we can and strengthen its alignment with our 3 to 5-year growth aspirations. This new executive remuneration framework will be effective from FY19.

In FY19, a one-off grant of options will be made to a small number of eligible participants, under a new long-term incentive plan, and will replace short-term incentives generally. These options will have a three-year performance period, measuring Vocus' Total Shareholder Return, and vesting will be staggered over a three to five-year period from grant. A minimum shareholding guideline will also be introduced from FY19. The result will be a remuneration framework heavily weighted towards at-risk long-term incentives, aligned to long-term and sustainable shareholder value creation.

We believe these changes are in the long-term best interests of Vocus and shareholders.

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.

Julie Fahey
Chair, People and Remuneration Committee

This report details the remuneration framework and outcomes for Vocus' Key Management Personnel (KMP) for the year ended 30 June 2018 (FY18). 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 philosophy and framework and the link between the remuneration paid to KMP and Vocus' strategy and financial performance. Individual remuneration outcomes for Vocus' KMP are also set out in this Remuneration Report.

KMP comprise members of Vocus' Board of Directors and its Executives. The term "Executives" refers to the Group Managing Director and Chief Executive Officer (CEO) and to those executives with authority and responsibility for planning, directing and controlling Vocus' activities, directly or indirectly, as outlined below.

For FY18, the following were assessed to be KMP:

Directors

Bob Mansfield	Chairman
David Wiadrowski	Non-Executive Director (Chair, Audit & Risk Committee) (appointed 24 July 2017)
Julie Fahey	Non-Executive Director (Chair, People & Remuneration Committee) (appointed 2 February)
John Ho	Non-Executive Director (appointed 8 January 2018)
Jon Brett	Non-Executive Director
Rhoda Phillippo	Non-Executive Director (Chair, Technology Committee and Chair, Wholesale Energy Risk Management Committee)

Former Directors

Vaughan Bowen	Chairman (resigned 6 March 2018)
David Spence	Chairman (resigned 3 October 2017)
Craig Farrow	Deputy Chairman (resigned 6 March 2018)
Christine Holman	Non-executive Director (appointed 24 August 2017 and resigned 13 November 2017)

Senior Executives

Kevin Russell	Group Managing Director & Chief Executive Officer (appointed 28 May 2018)
Mark Callander	Executive Director and Chief Executive, New Zealand (appointed Executive Director 28 May 2018)
Mark Wratten	Group Chief Financial Officer
Michael Simmons	Chief Executive, Enterprise & Wholesale and Interim Group CEO (26 February 2018 to 30 June 2018)
Sandra de Castro	Chief Executive, Consumer (appointed 15 January 2018)

Former Executives

Geoffrey Horth	Group CEO (ceased as KMP 26 February 2018)
Scott Carter	Chief Executive, Consumer (ceased as KMP 19 April 2018)

Except as otherwise noted, all Directors and Senior Executives have held their positions for the duration of FY18.

Appointments of Executive Directors (28 May 2018)

Kevin Russell was appointed to the role of Group Managing Director & Chief Executive Officer (CEO) in May 2018. The terms of his remuneration were outlined in the ASX disclosure dated 21 May 2018.

Mark Callander was appointed to the Board of Vocus in May 2018. In addition, Mark holds the position of Chief Executive New Zealand. The terms of his remuneration were also outlined in the same ASX disclosure and his FY18 remuneration outcomes are set out in the relevant section of this report.

Changes in KMP after the end of FY18

Jon Brett and Rhoda Phillippo resigned from the Board of Directors with effect from 22 August 2018.

Since the end of FY18, the Executive Team structure has been reviewed and a number of new executives will join the team over the next few months. These appointments reflect the Company's focus on delivering its strategy, by ensuring that it has the leadership talent and capability in place at the executive level.

REMUNERATION REPORT (cont.)

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 FY18 and the previous four financial years	FY14	FY15	FY16	FY17	FY18
	$'000	$'000	$'000	$'000	$'000
EBITDA	32,067	52,247	194,077	335,479	360,416
EBIT	20,355	33,563	116,469	141,914	130,808
Profit after income tax	12,925	19,850	64,091	(1,464,870)	61,045

TSR for FY18 and the previous four financial years	FY14	FY15	FY16	FY17	FY18
Share price at financial year end ($)	4.76	5.77	8.42	3.37	2.31
Total dividends declared* (cents/share)	1.80	7.30	17.50	6.0	0.0
Diluted earnings per share** (cents/share)	15.86	19.08	18.60	(237.65)	9.79
Underlying diluted earnings per share** (cents per share)	16.08	17.38	29.87	24.65	20.37

* 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'

Executive Director Remuneration Policy and Framework

Executive Director remuneration reflects the hybrid nature of this role and takes into account the individual's skill and experience, and the breadth of the mandate across both an executive and board function. Remuneration consists of a mix of fixed cash and variable 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 a senior executive remuneration policy that is:

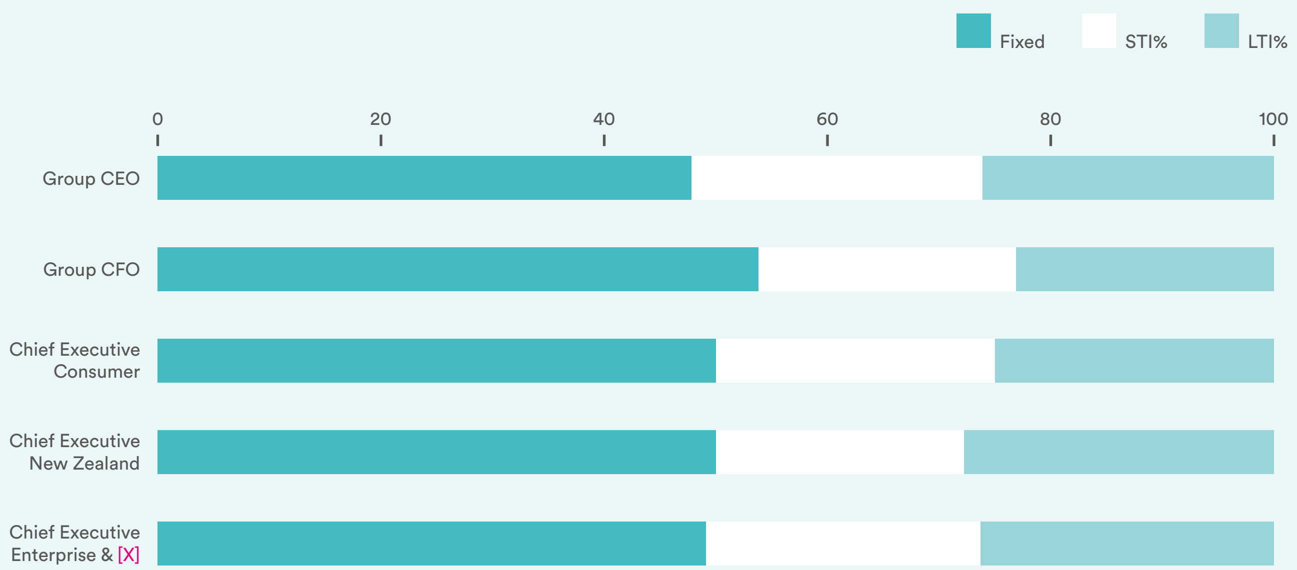
- equitable and aligned with the long-term interests of Vocus and its shareholders (including profit as a core component of plan design and sustainable growth in shareholder wealth); and
- which enables Vocus to attract and retain skilled executive leaders.

FY18 Executive Remuneration

Fixed	Variable/'At Risk'	
Based on market benchmarks that are fair and reflect an Executive's qualifications, proficiency, experience and performance. Consists of cash salary, superannuation and other approved benefits.	Designed to reward achievement of Vocus' strategic goals over short and long term perspectives.	
	Short-term Incentive (STI) – Cash	**Long term incentive (LTI) – Performance rights**
	Aligned to shareholder value creation and overall business strategy with focus on short term financial and non-financial hurdles. Based on performance assessed against 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) The Board's assessment of achievement by the Executive against specific Key Performance Indicator (KPI) targets for the year. KPI targets are based on a combination of budgeted revenue and cost for a division or function, achievement of growth initiatives, improvements in customer and employee engagement, and other qualitative or project driven outcomes (including transformation and integration activities), as well as cultural elements such as leadership, values and behavioural expectations.	Aligned to the achievement of increased shareholder wealth over the longer term. Based on performance measures over a 3 year period which include Earnings per share (EPS) and Transformation Benefits Achievements. The measures are tested following the release of annual financial results after the end of the performance period and vest if the measures are satisfied. Participants in the plan are not permitted to hedge their interest in the performance rights.

The mix of remuneration (between fixed remuneration, maximum STI entitlement and the face value of the grant of performance rights) in FY18 is similar to the mix adopted in FY17, and was:

Remuneration Mix



REMUNERATION REPORT (cont.)

FY19 Executive Remuneration Framework

The Committee regularly reviews the executive remuneration framework to ensure it remains aligned with Vocus' business strategy and shareholders' interests. Given the significant challenges facing Vocus, and the need to integrate business units to achieve our strategy, the Committee and the Board undertook a detailed review of executive remuneration in 2018.

Commencing in FY19, our executive remuneration framework has been re-designed to better:

1. Focus executives on achieving Vocus' strategic turnaround and growth plan;
2. Support the leadership team's pursuit of group-wide success and group-wide goals;
3. Align executive remuneration outcomes with shareholder outcomes and long-term value creation;
4. Attract, motivate and retain the best executive talent; and
5. Increase simplicity and transparency of executive remuneration for all stakeholders.

A summary of the FY19 executive remuneration framework is as follows:

- Fixed remuneration – Will be based upon individual skills and experience of executives, internal and external market comparators, and stakeholder and community expectations
- Short term incentives – Discontinued in lieu of new LTI plan other than a small number of transition arrangements which may be required to be "grandfathered"
- Long term incentives – Existing performance rights plan replaced with share options:
  - A one-off grant of options for the period FY19-21 with no further grants until at least FY22.
  - Is 100% 'at risk', with a three-year performance period: 1 July 18 to 30 June 21.
  - Absolute total shareholder return (TSR) performance measure, with 50% vesting at 50% TSR, with a sliding scale to 100% vesting at 100% TSR.
  - Staggered vesting at the end of the three-year performance period.
- Remuneration mix – Weighted heavily toward at-risk long term incentives, aligned to long-term and sustainable shareholder value creation.
- Minimum shareholding guideline:
  - MD: 150% of fixed remuneration within 5 years.
  - All other executive KMP: 75% of fixed remuneration within 5 years.

Further detail of the new executive remuneration framework will be set out in the FY19 Remuneration Report.

FY18 REMUNERATION OUTCOMES

Executive Directors

During FY18, there were 3 Executive Directors (each for different periods of time):

- Vaughan Bowen (from 1 July 2017 until 3 October 2017);
- Kevin Russell (from 28 May 2018); and
- Mark Callander (from 28 May 2018).

The Board does not currently anticipate appointing any other Executive Directors.

Details relating to the FY18 remuneration received by Kevin Russell and Mark Callander are set out in this Report.

Vaughan Bowen (Executive Director until 3 October 2017, then Non-Executive Chairman until 6 March 2018)

Vaughan Bowen transitioned from an executive role to that of Non-Executive Chairman from 3 October 2017. At that time, in addition to the decrease in remuneration resulting from the change of role, Vaughan waived his rights to the remaining unvested performance rights held by him (totaling 66,667 which were due to vest on 1 July 2018 and 1 July 2019 respectively). The first tranche of the grant made in FY16 vested on 1 July 2017 and were converted to shares which were issued to Vaughan at that time.

As disclosed in both the 2016 and 2017 Remuneration Report, Vaughan was entitled to an incentive payment relating to the longer-term performance of businesses which were acquired by M2, subject to certain performance measures being met. The last tranche of this incentive ($300,000) related to the acquisition of the CallPlus business in New Zealand. Payment was subject to certain revenue and profit targets continuing to be achieved, and upon these measures being met, payment of this last tranche was made in July 2017.

As a non-executive director at the time of resignation, Vaughan was not entitled to any retirement benefits, and did not receive any.

Executives

STI outcomes for FY18

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. When tested against the initial ASX guidance provided in August 2017, this measure was not satisfied. However, when tested against the revised ASX guidance issued in February 2017, this performance measure was satisfied. Given the changes that had taken place at Board and Executive level through 2018, and the significant efforts and leadership demonstrated during the year by the Senior Executives referred to in this Report, the Board considered it appropriate to use its discretion to use the revised ASX guidance rather than the original guidance, as the relevant measure.

(b) material achievement by a Senior Executive of individual KPIs for the year. The table below outlines the FY18 KPI assessments for the year. For most of the categories, a binary measurement was applied to determine achievement, i.e. if the target was met, then the full score was achieved, and if not, then none of the score was achieved. The maximum proportion of the STI entitlement a Senior Executive can be awarded in this category is 50%.

Executive	KPI achievement					Total achieved (100%)
Mark Wratten	**Financial**			**Non-Financial**		
	Functional Budget *(10%)*	Capital Expenditure targets *(20%)*	Cash Management focus (Working Capital) *(30%)*	Business Improvement *(30%)*	Values & Team Engagement *(10%)*	
	–	20	30	30	10	90

Executive	KPI achievement					Total achieved (100%)
Mark Callander	**Financial**			**Non-Financial**		
	Functional Budget *(60%)*	Cash targets *(10%)*	Growth targets *(10%)*	Customer Satisfaction *(10%)*	Values & Team Engagement *(10%)*	
	30	10	–	10	10	60

Executive	KPI achievement					Total achieved (100%)
Sandra de Castro[1]	**Financial**			**Non-Financial**		
	Functional Budget *(60%)*	Cash targets *(10%)*	Growth targets *(10%)*	Customer Satisfaction *(10%)*	Values & Team Engagement *(10%)*	
	30	10	–	10	10	60

Executive	KPI achievement					Total achieved (100%)
Michael Simmons[2]	**Financial**			**Non-Financial**		
	EBITDA target *(30%)*	Cash *(5%)*	Growth *(5%)*	Customer Satisfaction *(5%)*	Values & Team Engagement *(5%)*	
	30	–	–	10	10	50

Executive	Additional KPI's applicable to period Feb to June 2018		Total achieved (100%)
Michael Simmons[2]	**Financial**	**Non-Financial**	
	Group EBITDA Target (50%)	Group Values & Team Engagement (50%)	
	25	50	75

1. Commenced in role January 2018, therefore these measurements relate to the period January to June 2018.
2. Michael Simmons was also awarded an additional STI payment of $100,000 for FY18 in recognition of his additional responsibilities as interim CEO. The KPI's which applied, and assessment of his performance are set out above.

No STI was awarded to those Executives who ceased as KMP during FY18.

REMUNERATION REPORT (cont.)

FY18 Vocus Long Term Incentive Plan Fixed

In FY18, grants of performance rights ("LTI Plan") were made to Executives. Non-Executive Directors do not participate in the LTI Plan.

A summary of the terms of the grant made to Senior Executives is set out in the following 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 (ceased from FY19).
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) of Vocus Shares traded on the ASX during both the 10-day and 20-day period around the date of release of the full year results for 2016 (August 2017).
Vesting Date	Upon expiry of the Vesting Period and completion of the testing of the Vesting Conditions.
Vesting Period (or Performance Period)	3 year period from 1 July 2017 to 30 June 2020.
Vesting Conditions	Vesting Conditions are achieving a predetermined level of compound annual growth in Vocus' reported earnings per share ("EPS") and achievement of transformation benefits 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. These measures will be disclosed after the performance period ends.
Expiry Date	2 years from Vesting Date. Performance Rights may be exercised at any time between the Vesting Date and the Expiry Date.
Terminated Executives	Treatment of performance rights will depend on whether the departing executive meets the criteria for a "good leaver". This depends primarily on the circumstances of the individual's cessation of employment. Where this is the case, the plan rules provide for the Board to be able to exercise its discretion in relation to the treatment of a pro-rated number of performance rights including the acceleration of vesting for these performance rights. Where a departing executive is not deemed a "good leaver", performance rights held by that executive will lapse upon departure.
Change of control	Vesting on pro-rata basis (for time) at discretion of the Board.
Face value per right (at grant date)	$2.48

This LTI plan will be treated as a legacy plan from FY19 following the introduction of the new LTI plan detailed earlier in this report.

Outcomes – Replacement Grants (Tranches 2 and 3) for Cancelled rights made to former M2 KMP

Tranche 2

The second tranche performance rights which were granted to replace cancelled performance rights granted to eligible M2 KMP prior to the Vocus merger scheme of arrangement were tested on 1 July 2017. The vesting table is detailed below:

Legacy Plan	Performance measure	Test Date	% vested	Number of Performance Rights vested
M2 FY15 LTI plan	50% of the performance rights – EPS measure which was deemed satisfied at issue (see Scheme booklet)	1 July 2017	100%	60,288[2]
	50% of the performance rights – RTSR measure		0%	0
Total			50%	60,288[2]

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

The RTSR measure tests 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 used in the M2-Vocus merger (Merger ratio 1.625), and the end of the Performance Period, respectively.

The Relative TSR Performance Condition required 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. This condition was not satisfied when tested in July 2017 and accordingly the 50% of the total of the performance rights in this tranche, which related to this measure, were forfeited.

Tranche 3

The third and final tranche performance rights which were granted to replace cancelled performance rights granted to eligible M2 employees prior to the Vocus merger scheme of arrangement were tested on 1 July 2018. The vesting table is detailed below:

Legacy Plan	Performance measure	Test Date	% vested	Number of Performance Rights vested
M2 FY16 LTI plan	7.5% per annum compound growth in the Vocus share price over the performance period based on a starting Vocus share price of $6.49 per share	1 July 2018	0	0

As the Vesting Conditions for this tranche were not satisfied, all the performance rights granted in this tranche were forfeited.

Performance Rights on issue to KMP as at 30 June 2018 are as follows:

Grant Date	Vesting Date	Number of Performance Rights	Performance Measures
22 February 2016[1]	1 July 2018	15,074	Refer above – the performance measures were not met, therefore these Rights lapsed following testing.
1 April 2017	1 July 2019	108,954	The Rights issued to the Executives are subject to EPS and Synergies Achievement vesting conditions, over a three-year performance period.
1 May 2018	1 July 2020	447,154	The Rights issued to the Executives are subject to EPS and other transformation target conditions, over a three-year performance period.

1. Performance Rights granted as replacement rights for the legacy FY16 LTI plan.

REMUNERATION REPORT (cont.)

LEGACY EQUITY BASED COMPENSATION PLANS

There are two remaining legacy equity-based LTI plans currently in operation as each of Amcom, Vocus and M2 had equity-based LTI plans in place prior to 2016. These are an Employee Share Option plan and a Loan Funded Share plan. Following the lapse of all unvested performance rights granted in Tranche 3 of the M2 replacement grants, no KMP hold any residual entitlements under any of the legacy equity-based LTI plans which remain on foot. No additional grants have been, or are planned to be made under these legacy plans, in future.

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. Fees are inclusive of all superannuation and other contributions. Non-Executive Directors also receive reimbursement of expenses properly incurred while carrying out director duties.

	Board Fees	Audit & Risk Committee[1]	Remuneration Committee	Wholesale Energy Risk Management Committee	Technology Oversight Committee[2]	Nominations Committee[3]
Chairman[4]	$375,000	–	–	–	–	–
Deputy Chairman[5]	$180,000	–	–	–	–	–
Non-Executive Director	$140,000	–	–	–	–	–
Committee Chair	–	$45,000	$30,000	$15,000	$60,000	–
Committee Member	–	$22,500	$15,000	–	$15,000	–

1. The Audit Committee and Risk Committee were combined into a single Audit & Risk Committee in January 2018, prior to which the fees for each of these individual Committees were identical to the fees for the Remuneration Committee.
2. Fees take into consideration the additional workload and expertise required of the role of Chair of this Committee. This Committee was initially formed as the Technology and Transformation Committee, and upon the establishment of a Transformation Office, was re-scoped to the Technology Oversight Committee. This committee ceased on 30 June 2018.
3. No additional fees are payable for service on this committee.
4. Fees include service on all committees.
5. This fee was only payable during that part of FY18 when this position was filled and is not applicable in FY19.

The Non-Executive Director annual aggregate fee pool was set at $1,700,000 at the 2016 AGM. Actual fees paid to Non-Executive Directors in FY18 totalled $1,504,813.

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

OTHER REQUIRED DISCLOSURES

Service agreements

Remuneration and other terms of employment for Executives 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	Group MD & CEO	Other Senior Executives (Including Executive Director) (KMP)
Duration of agreement:	No fixed term	No fixed term
Period of notice required to terminate agreement (by the relevant KMP):	Six months	Three months
Period of notice required to terminate agreement (by Vocus):	Twelve months	Three months
Potential Termination benefits	○ 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

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 transactions

There were no transactions of the kind contemplated in item 22 of Regulation 2M.3.03 of the Corporations Regulations during FY18.

REMUNERATION REPORT (cont.)

GOVERNANCE

Governance

Responsibility for the oversight of remuneration at Vocus lies with the People & Remuneration Committee. Under its Charter, this 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;
- attracting and retaining the best talent to lead Vocus to success;
- reinforcing a business culture of growth, innovation and agility;
- managing people risks by encouraging prudent decision making; and
- giving due consideration to the law and corporate governance principles.

Members of the People & Remuneration Committee also sit across other board committees, including the Audit & Risk Committee and the Nomination Committee. The People & Remuneration Committee seeks input from other committees as needed on matters of relevance to both committees, and also engages with and reports to the Board on a monthly basis on its activities.

The Committee

The Committee comprises three (3) Non-Executive Directors and was chaired at all times by an independent Non-Executive Director.

During FY18, the Committee was chaired by Craig Farrow (1 July 2017 until 31 December 2017), Rhoda Phillippo (1 January 2018 until 8 March 2018) and subsequently by Julie Fahey from that date.

Jon Brett, Rhoda Phillippo and John Ho were members of the Committee during FY18.

Use of remuneration advisors

Under the provisions of the Committee's Charter, the Committee may engage the assistance and advice from external remuneration advisors. 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.

In the early part of FY18, Egan Associates Pty Ltd ("Egan") continued to provide ongoing support and counsel to the Committee on Vocus' board and executive remuneration framework and strategy. No remuneration recommendations were made by Egan.

In March 2018, the Committee engaged Ernst & Young ("EY") to provide support and advice in relation to the design and implementation of a new long-term incentive plan, which would replace the existing plans, and which is more aligned with increasing shareholder value over a longer-term period. No remuneration recommendations were made by EY.

Voting and comments made at Vocus' 2017 Annual General Meeting ('AGM')

At the last AGM, 82.58% of the shareholders who voted, in person or by proxy, voted to adopt the remuneration report for the year ended 30 June 2017.

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 FY17) who held these positions during FY18 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	
		Cash salary and fees	Bonus/ commission	Non-monetary	Superannu-ation	Employee leave	Equity-settled **	Total
Non-executive Directors:		$	$	$	$	$	$	$
R Mansfield[1]	**2018**	**222,382**	**–**	**–**	**21,126**	**–**	**–**	**243,508**
	2017	73,531	–	–	7,719	–	–	81,250
D Wiadrowski[2]	**2018**	**159,763**	**–**	**–**	**15,177**	**–**	**–**	**174,940**
	2017	N/A	–	–	–	–	–	N/A
J Brett	**2018**	**168,406**	**–**	**–**	**15,868**	**–**	**–**	**184,274**
	2017	167,425	–	–	17,575	–	–	185,000
R Phillippo	**2018**	**257,782**	**–**	**–**	**–**	**–**	**–**	**257,782**
	2017	260,000	–	–	–	–	–	260,000
J Fahey[3]	**2018**	**67,081**	**–**	**–**	**6,373**	**–**	**–**	**73,454**
	2017	N/A	–	–	–	–	–	N/A
J Ho[4]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	N/A	–	–	–	–	–	N/A
D Spence[5]	**2018**	**109,779**	**–**	**–**	**10,429**	**–**	**–**	**120,208**
	2017	362,884	–	–	19,616	–	–	382,500
C Farrow[6]	**2018**	**138,421**	**–**	**–**	**–**	**–**	**–**	**138,421**
	2017	228,750	–	–	–	–	–	228,750
V Bowen[7]	**2018**	**249,429**	**–**	**–**	**23,696**	**–**	**–**	**273,125**
	2017	299,231	350,000	–	28,427	30,783	142,665	851,106
M Simmons[8]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	119,806	–	–	–	–	–	119,806
A Grist[9]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	37,224	–	–	3,536	–	–	40,760
C Holman[10]	**2018**	**35,709**	**–**	**–**	**3,392**	**–**	**–**	**39,101**
	2017	N/A	–	–	–	–	–	N/A
Executive Directors:								
J Spenceley[11]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	164,541	125,000	–	9,808	–	–	299,348

1. Reflects remuneration as a Non-Executive Director (1 July 2017 to 6 March 2018) and as Chairman (6 March 2018 to 30 June 2018).
2. For the period 24 July 2017 (appointment as a Non-Executive Director) to 30 June 2018.
3. For the period 2 February 2018 (appointment as a Non-Executive Director) to 30 June 2018.
4. For the period 8 January 2018 (appointment as a Non-Executive Director) to 30 June 2018. As notified to the ASX at the time of appointment, John Ho has waived his entitlement to receive fees relating to his role as a Non-Executive Director.
5. For the period 1 July 2017 to 24 October 2017 (retirement as a Non-Executive Director).
6. For the period 1 July 2017 to 5 March 2018 (resignation as a Non-Executive Director).
7. For the period 1 July 2016 to 26 September 2017, Vaughan Bowen was an Executive Director, and from 11 October 2017 until 5 March 2018 (when Vaughan Bowen resigned as a director).
8. For the period 1 July 2016 to 29 March 2017 (resigned as a Director).
9. For the period 1 July 2016 to 11 October 2016 (resigned as a Director).
10. For the period 24 August 2017 (appointment as a Non-Executive Director) to 13 November 2017 (resigned as a Director).
11. For the period 1 July 2016 to 11 October 2016 (resigned as a Director).

REMUNERATION REPORT (cont.)

Executives

	Short-term benefits			Post employment benefits	Long-term benefits	Share based payments[13]	
	Cash salary and fees	Bonus/ commission	Non-monetary	Superannu-ation	Employee leave	Equity-settled **	Total
2018	$	$	$	$	$	$	$
K Russell	97,459	–	511	2,267	7,093	–	107,330
M Wratten	737,500	332,500	10,080	25,000	51,243	77,238	1,233,561
M Callander[2]	548,296	219,318	31,220	16,564	11,399	93,977	920,714
M Simmons[3]	675,000	300,000	5,640	25,000	73,947	26,561	1,106,148
S de Castro[4]	262,225	120,000	3,743	11,401	7,099	18,399	422,868
G Horth5	1,671,706	–	25,152	16,277	16,856	59,405	1,789,396
S Carter6	933,797	–	6,517	19,849	(16,582)	36,219	979,800
2017	$	$	$	$	$	$	$
G Horth	1,061,769	–	38,630	35,192	99,751	672,675	1,908,017
M Wratten[7]	294,135	33,000	4,569	16,023	22,424	46,998	417,149
M Callander[8]	348,181	44,531	32,542	18,889	33,389	97,903	575,435
S Carter	510,625	60,000	8,208	29,965	45,975	322,794	977,567
M Simmons[9]	112,673	15,625	1,441	8,077	8,625	19,582	166,023
R Correll[10]	371,040	50,000	4,874	16,917	–	–	442,831
C Deere[11]	858,704	112,500	–	22,886	–	–	994,090
M Hollis[12]	138,783	246,615	–	14,712	–	–	400,110

1. For the period 28/5/2018 (date of commencement as Chief Executive Officer) until 30 June 2018.
2. Australian dollar equivalent shown of amounts paid in New Zealand dollars (FY18 total NZ$900,018). Conversion rate used as at 30/6/2018, 0.91383 AU$.
3. Denotes remuneration as Chief Executive – Enterprise & Wholesale for the full year, as well as in the role of Interim Chief Executive Officer from 23/2/2018 until 28/5/2018. Ceased as KMP on 1 July 2018, with employment to formally end at the end of the termination period (January 2019).
4. For the period 15 January 2018 (date of commencement as Chief Executive, Consumer) until 30 June 2018.
5. Denotes remuneration up to cessation of role as KMP (23 February 2018) and includes termination entitlements of $971,775 (payment in lieu of notice, accrued leave entitlements and severance pay in accordance with individual contract entitlement).
6. Denotes remuneration up to cessation of role as KMP (16 April 2018) and includes termination entitlements of $477,272 (payment in lieu of notice, accrued leave entitlements and severance pay in accordance with individual contract entitlement).
7. For the period 16 January 2017 (date of commencement as Chief Financial Officer) and 30 June 2017.
8. Australian dollar equivalent shown of amounts paid in New Zealand dollars.
9. For the period 29 March 2017 (date of commencement as Chief Executive, Enterprise & Wholesale) to 30 June 2017.
10. For the period 1 July 2016 to 24 December 2016 (date of cessation as Chief Financial Officer).
11. For the period 1 July 2016 to 31 March 2017 (date of cessation as Chief Technology Officer).
12. For the period 1 July 2016 to 24 December 2016 (date of resignation as Chief Executive, Enterprise and Wholesale).

** Equity settled is the expense value of all Performance Rights as calculated under AASB 2 Share-Based Payments.

The following notes apply to both tables above unless otherwise specified

- Cash Salary and Fees do not include termination entitlements paid upon cessation of employment (including payment in lieu of notice, accrued leave entitlements and severance pay) in accordance with individual contract entitlement.
- 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
- 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 Performance Rights

STI Payments (Cash)

Name	Year	Max potential STI opportunity	STI awarded (%)	STI deferred (%)[8]	STI forfeited (%)	Total Grant of STI ($)
M Wratten	**2018**	**$350,000**	**95%**	**–**	**5%**	**$332,500**
	2017	$132,000[1]	25%	25%	50%	$33,000
M Callander	**2018**	**$300,000[2]**	**80%**	**–**	**20%**	**$240,000**
	2017	$200,000[3]	24%	24%	52%	$44,531
M Simmons	**2018**	**$400,000[4]**	**75%**	**–**	**25%**	**$300,000**
	2017	$63,700[5]	25%	25%	50%	$15,625
S de Castro	**2018**	**$150,000[6]**	**80%**	**–**	**20%**	**$120,000**
	2017	N/A	–	–	–	N/A
G Horth	**2018**	**$600,000**	**–**	**–**	**–**	**–**
	2017	$600,000	–[7]	–	100%	–
S Carter	**2018**	**$300,000**	**–**	**–**	**–**	**–**
	2017	$300,000	20%	20%	60%	$60,000

1. Pro-rated for period 16 January 2017 to 30 June 2017 (full year entitlement was $300,000).
2. Max potential STI opportunity in NZD. Total grant of STI is in shown above in NZD based on an exchange rate of 0.91383 (AUD equivalent of $274,148).
3. Max potential STI opportunity in NZD. Total grant of STI is in shown above in NZD based on an exchange rate of 0.92293 (AUD equivalent of $182,766).
4. This includes both Michael Simmons' STI entitlement of $300,000 in his role as Chief Executive, Enterprise & Wholesale, plus an additional $100,000 STI entitlement relating to the role of Interim Group CEO for the period 28 February 2018 to 30 June 2018.
5. Pro-rated for period 29 March 2017 to 30 June 2017 (full year entitlement is $300,000).
6. Pro-rated for the period 8 January 2018 to 30 June 2018 (full year entitlement is $300,000).
7. Although Geoff Horth achieved 86% of the KPIs that were set for FY17, he elected to forfeit his entitlement to an STI in FY17 in recognition of the overall Group performance.
8. Payment of 50% of STI entitlement for FY17 was deferred by the Board. A subsequent vesting hurdle applied to this deferred component (namely, Vocus Group meeting its underlying NPAT guidance for the first half of FY18) which was satisfied. Payment of this remaining amount was made in February 2018 to eligible individuals. This was a one-off adjustment.

Summary of LTI plans as at 30 June 2018 (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
M Callander[2]	FY16[2]	1/07/2015 – 1/07/2018	$3.06	$46,064	FY19
	FY17	1/07/2016 – 1/07/2019	$3.99	$234,988	FY20
	FY18	**1/07/2017 – 1/07/2020**	**$2.48**	**$302,439**	**FY21**
M Wratten	FY17	1/07/2016 – 1/07/2019	$3.99	$140,993	FY20
	FY18	**1/07/2017 – 1/07/2020**	**$2.48**	**$352,845**	**FY21**
M Simmons	FY17	1/07/2016 – 1/07/2019	$3.99	$58,746	FY20
	FY18	**01/07/17 – 01/07/2020**	**$2.48**	**$302,439**	**FY21**
S de Castro	**FY18**	**01/07/17 – 01/07/2020**	**$2.48**	**$151,220**	**FY21**

1. G Horth and S Carter have been excluded from the table above as they ceased to be KMP before 30 June 2018.
2. These Rights have not satisfied the performance measures when tested following the end of the financial year, and therefore have lapsed. This will be in reported in the FY19 Remuneration Report.

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.

REMUNERATION REPORT (cont.)

Number and value of LTI Performance Rights granted, vested and exercised during FY18

Name	Balance at July 2017	Rights Granted	Disposals/vesting/ exercise other	Balance at 30 June 2018	Total value of rights at time of vesting[3]
M Wratten	35,337	142,276	–	177,613	–
M Callander	73,968	121,951	–	195,919	–
M Simmons	14,724	121,951	–	136,675	–
S de Castro	–	60,976	–	60,976	–
V Bowen	33,333	–	(33,333)[1]	–	$116,999
	66,667	–	(66,667)[2]	–	–
G Horth[4]	283,853	–	(82,209)	201,644	$155,278
S Carter[4]	139,187		(38,365)	100,822	$139,795

1. These performance rights vested in July 2017 in accordance with their vesting conditions.
2. These performance rights were waived/forfeited in October 2017, upon Mr Bowen being appointed Chairman and becoming a non-executive director.
3. Vesting Date is 1 July 2017.
4. G Horth and S Carter both ceased as KMP during the second half of FY18. No rights were granted to either of them during FY18.

All Performance Rights which were granted prior to 1 July 2018 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.

KMP Shareholding

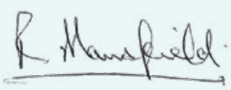
	Balance at 1 July 2017	Received as part of Remuneration	Addition	Disposals/Other	Balance at 30 June 2018
Directors					
R Mansfield	12,500	N/A	–	–	12,500
K Russell[1]	N/A	–	–	–	–
J Brett	426,000	N/A	–	–	426,000
R Phillippo	9,500	N/A	–	–	9,500
D Wiadrowski[2]	N/A	N/A	4,265	–	4,265
J Ho[3]	N/A	N/A	57,490,290		57,490,290
J Fahey[4]	N/A	N/A	–	–	–
M Callander[5]	68,894	–	5,500	–	74,394
Former Directors					
D Spence[6]	482,796	N/A	–	N/A	N/A
C Farrow[7]	455,000	–	–	N/A	N/A
V Bowen[7]	8,625,933	33,333	243,833	N/A	N/A
C Holman[8]	N/A	–	–	N/A	N/A
Executives					
M Wratten	12,195	–	20,000	–	32,195
M Simmons	41,920	–	–	–	41,920
S de Castro[9]	N/A	–	–	–	–
Former Executives					
G Horth[10]	403,130	44,291	275,000	N/A	N/A
S Carter[10]	189,587	20,670	–	N/A	N/A

1. Appointed as Group Managing Director and Chief Executive Officer on 28 May 2018.
2. Appointed as a Non-Executive Director on 24 July 2017.
3. Appointed as a Non-Executive Director on 8 January 2018. John Ho is the founder and chief investment officer of Janchor Partners, which owns a 17.9% interest in Vocus (constituted by a relevant interest of 9.24% of Vocus' voting shares and an economic interest through cash settled equity derivatives in a further 8.66%).
4. Appointed as a Non-Executive Director on 2 February 2018.
5. Appointed as Executive Director on 28 May 2018. In prior years, M Callander has been reported as an Executive.
6. Ceased as a Non-Executive director on 28 October 2017.
7. Ceased as a Non-Executive director on 5 March 2018.
8. Appointed as a Non-Executive Director on 24 August 2017 and ceased to be a Director on 13 November 2017.
9. Appointed to role on 15 January 2018.
10. Ceased to be a KMP during the course of the year.

This concludes the remuneration report, which has been audited.

This directors' report is signed in accordance with a resolution of the directors passed on 22 August 2018 pursuant to s.298 (2) of the Corporations Act.

On behalf of the Directors



Robert Mansfield
Non-Executive Chairman
22 August 2018

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 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 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.

For the year ended 30 June 2018, Vocus was managed from a financial and operational perspective as three operating segments; Enterprise & Wholesale Australia, Consumer Australia, and New Zealand.

Enterprise & Wholesale Australia

Provides telecommunications products and services to the enterprise, small business (including Commander, our SMB brand) and wholesale segments of the Australian market and 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 financial performance of the division please refer to **Section 2.1**.

Consumer Australia

Consumer Australia 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. Its go to market brands are **dodo**™ and **iPrimus**™. The division also operates in the consumer power and gas market. For further information on the 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 financial performance of the division please refer to **Section 2.3**.

Group Services

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 finance, legal, secretariat and human resources.

1.2 Reported Earnings Overview

$m	FY18 Reported FX	FY18 Constant FX	FY17 Reported FX	$ Constant FX change	% Constant FX change
Statutory Revenue and Other income	1,898.2	1,906.3	1,820.6	85.7	+5%
Statutory EBITDA[1]	360.4	361.9	335.5	26.4	+8%
Statutory EBIT[2]	130.8	131.7	141.9	(10.2)	-7%
Statutory NPAT[3] after minority interests	61.0	61.3	(1,464.9)	1,526.2	NM

1. EBITDA refers to earnings before net financing costs, tax, depreciation and amortisation.
2. EBIT refers to earnings before net financing costs, impairment and tax.
3. NPAT refers to net profit after tax.
NM – not meaningful.

1.3 Reconciliation of Statutory to Underlying Earnings

The key significant item in FY18 relates to the amortisation of acquired customer intangibles, which is a similar amount to FY17. The amortisation profile of acquired customer and software intangibles is provided in Appendix 4.3.

FY18 $m	EBITDA	EBIT	NPAT
Statutory Result	**360.4**	**130.8**	**61.0**
Significant Items			
Gains/losses associated with foreign exchange & other	(1.8)	(1.8)	(1.0)
Amortisation of acquired customer intangibles arising from purchase price allocation	–	61.9	43.4
Amortisation of acquired software intangibles arising from purchase price allocation	–	26.4	18.5
Other significant items[1]	7.5	7.5	5.2
Total Significant Items	**5.7**	**94.0**	**66.1**
Underlying Result	**366.1**	**224.8**	**127.1**

1. Costs associated with the NZ divestment, the KKR/Affinity defense and KMP redundancies.

1.4 Revenue and Underlying EBITDA Earnings Overview

To achieve the most appropriate base from which to analyse the performance of Vocus in FY18, the Board believes that certain adjustments are required to the divisional numbers included in the FY17 Reported results. These adjustments include reallocations of costs between divisions, proforma adjustments to reflect the full period impact of acquisitions and divestments, impact of deferred subscriber acquisition costs (SAC) and adjustments to remove large one-off items. The FY17 Adjusted Pro forma results are derived from these adjustments and a reconciliation to the FY17 Reported results is included in Appendix 4.5.

Discussion of the factors driving revenue and EBITDA are contained in the commentary on divisional performance.

$m	FY18 Reported	FY18 Constant FX[2]	FY17 Adjusted Pro forma[1]	$ Constant FX change	% Constant FX change
Revenue	**1,898.2**	**1,906.3**	**1,869.1**	**37.2**	**+2%**
Enterprise, Wholesale & Government Australia (excl Commander)	568.9	568.9	512.2	56.7	+11%
Commander (SMB)	203.9	203.9	241.2	(37.3)	-15%
Consumer Australia	790.3	790.3	785.1	5.2	+1%
New Zealand	335.0	343.2	330.6	12.6	+4%
Underlying EBITDA	**366.1**	**367.5**	**342.6**	**24.9**	**+7%**
Underlying EBITDA Margin (%)	**19.3%**	**19.3%**	**18.3%**	**n/a**	**+1%**
Enterprise, Wholesale & Government Australia (excl Commander)	318.7	318.7	276.9	41.8	+15%
Commander (SMB)	87.1	87.1	97.6	(10.5)	-11%
Consumer Australia	84.4	84.4	86.3	(1.9)	-2%
New Zealand	56.6	58.0	53.7	4.3	+8%
Australian/Group Overheads	(180.7)	(180.7)	(171.9)	(8.8)	+5%

1. Refer to Section 4.5 for information on adjustments made to FY17 Reported to arrive at FY17 Adjusted Pro forma.
2. Amounts converted into A$ monthly at the average conversion rate for the month used for FY17.

OPERATING AND FINANCIAL REVIEW (cont.)

1.5 Underlying NPAT Overview

$m	FY18 Reported	FY18 Constant FX	FY17 Reported	$ Constant FX change	% Constant FX change
Underlying EBITDA	**366.1**	**367.5**	**366.4**	**1.1**	**+0%**
Underlying Depreciation & Amortisation	**(141.3)**	**(141.8)**	**(106.2)**	**35.6**	**+34%**
Underlying Depreciation	(117.1)	(117.5)	(87.6)	29.9	+34%
Underlying Amortisation	(24.2)	(24.3)	(18.6)	5.7	+31%
Underlying EBIT	**224.8**	**225.7**	**260.2**	**(34.5)**	**-13%**
Net financing costs	(41.0)	(41.1)	(40.9)	(0.2)	1%
Underlying Profit before tax	**183.8**	**184.6**	**219.3**	**(34.7)**	**-16%**
Underlying Tax expense	(56.7)	(57.2)	(67.0)	9.8	-15%
Underlying Net Profit after Tax	**127.1**	**127.4**	**152.3**	**(25.1)**	**-16%**
Significant items before tax	(94.0)	(94.0)	(1,650.4)	1,556.4	NM
Significant items after tax	(66.1)	(66.1)	(1,617.2)	1,551.1	NM
Net Profit after Tax	**61.0**	**61.3**	**(1,464.9)**	**1,526.2**	**NM**

1.6 Depreciation, amortisation and financing costs

Underlying depreciation and amortisation of $141.8m on a constant currency basis, increased $35.6m on the pcp (+34%) driven by the full year impact of the Nextgen acquisition (~$18m); combined with the increase in depreciation associated with recent spend levels.

Net finance costs increased 1% on the constant currency pcp to $41.1m, reflecting the incremental four month period of debt relating to the Nextgen acquisition and ASC project funding offset by interest income.

1.7 Cashflow

$m	FY18 Reported	FY17 Reported
Net cash from operating activities	**252.5**	**131.4**
Payments for property plant & equipment	(123.2)	(131.7)
Intangibles payments and proceeds[1]	(42.9)	(57.9)
Payments related to undersea cable projects[2]	(52.5)	(29.5)
Business acquisitions[3]	–	(801.5)
Other cash flows from investing activities	(1.9)	7.8
Investing cash flows	**(220.5)**	**(1,012.8)**
Proceeds from issue of shares	–	673.5
Change in borrowings	(1.9)	202.6
Payment of upfront borrowing costs[4]	(8.2)	–
Repayment of leases	(14.1)	(12.3)
Dividends paid	–	(60.8)
Financing cash flows[5]	**(24.2)**	**803.0**
Net movement in cash	**7.8**	**(78.4)**

1. Includes IRU payments and other intangibles.
2. Relates to payments on the ASC project.
3. Includes acquisition of Nextgen Networks in October 2016, Switch Utilities and Smart Business Telecom.
4. Relates to upfront borrowing costs paid for the new syndicated debt facility, refer to Section 1.10 for further information.
5. Financing cash flows include proceeds from pro rata entitlement offer, dividends, change in borrowings and interest expense on borrowings and leases.

Net cash from operating activities over the period was $252.m, an increase of $121.1m from the prior period driven by the normalisation of working capital balances ($1.0m positive in the current period compared to $90.9m negative in the prior period) and deferred SAC movements ($4.7m positive in the current period compared to $41.3m negative in the prior period).

Investing cash flows over the period was negative $220.5m driven by cash capital expenditure (excl ASC) of $166.1m. This is discussed further in Section 1.8.

OPERATING AND FINANCIAL REVIEW (cont.)

1.7.1 Cash Conversion

$m	FY18 Reported	FY17 Reported
Underlying EBITDA	**366.1**	**366.4**
Net cash from operating activities	252.5	131.4
Interest, finance costs, tax and JV distribution	71.0	59.7
Adjusted Operating Cashflow	**323.5**	**191.1**
Cash Conversion (%)[1,2]	***88%***	***52%***
Cash received in advance	–	(23.0)
Actual Operating Cash flow	**323.5**	**168.1**
Actual Cash Conversion (%)	***88%***	***46%***

1. Cash conversion % is calculated by dividing Adjusted Operating Cashflow by Underlying EBITDA.
2. Cash conversion as reported in FY17, which includes $23m in cash received in advance. Removing this amount results in cash conversion of 46%. There was no cash received in advance in FY18.

1.7.2 Actual Operating Cashflow to Underlying EBITDA Reconciliation

$m	FY18 Reported	FY17 Reported
Actual Operating Cash flow	**323.5**	**168.1**
Conversion	***88%***	***46%***
Net benefit from SAC	(4.7)	41.3
Underlying net working capital movements	(1.0)	90.9
Optus bounty unwind	–	11.3
Significant items	7.7	22.9
Other	–	3.2
Short term cash conversion	**325.5**	**337.7**
Conversion	***89%***	***92%***
Deferred revenue unwind	24.8	10.4
Onerous provision unwind	10.2	16.5
Other	5.6	1.8
Underlying EBITDA	**366.1**	**366.4**

Operating cash conversion has improved to 88%, from a comparable base of 46% once adjusted for cash received in advance. The key factors driving the improvement are:

- The net benefit from deferred subscriber acquisition costs (SAC) resulting from normalising 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. The net benefit to the P&L in FY18 was ($4.7m) compared to $41.3m in FY17 *(refer to Appendix for more detail on SAC)*.
- The net working capital position has normalised with minimal movement in FY18 compared to FY17.
- Deferred revenue bought to account in FY18 was $24.8m, primarily relating to initial revenues recognised under the North West Cable System project and the run off of contracts acquired through the Amcom and Nextgen acquisitions *(refer Appendix 4.1 for information on the profile of deferred revenue over the next 12 years)*.
- 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 ($10.2m in FY18 compared to $16.5m in FY17).

1.8 Capital Expenditure

$m	FY18	FY17
Growth Capital Expenditure	117.6	122.4
Sustaining Capital Expenditure	21.4	18.0
Improvement Capital Expenditure	27.1	16.5
IRU Payments	–	32.7
Total Capital Expenditure (excluding ASC)	**166.1**	**189.6**
ASC	52.5	29.5
Total Capital Expenditure	**218.6**	**219.1**

Capital Expenditure over the period was primarily driven by:

- Implementation of single advanced core network
- Consolidation of NOC and network/IT hardware
- Network capacity upgrades
- Implementation of improved digital sales and service capability across **dodo**™ and **iPrimus**™
- Network resiliency and security
- Customer builds in Enterprise & Wholesale

1.8.1 Update on Australia Singapore Cable

All construction work for the ASC marine project is now completed between Singapore, Perth and Indonesia and full end to end testing is well advanced. The complementary upgrades to the terrestrial networks at each end are also in final testing, with the overall network scheduled for commercial service from mid-September 2018.

Final capex payments in relation to ASC of A$162m is expected to be paid during H1 FY19 when the cable is declared ready for service (RFS).

1.9 Net Debt

$m	As at 30 June 2018	As at 30 June 2017
A$1,270m	915.0	891.4
NZ$150m	110.1	140.0
Bank loans	**1,025.1**	**1,031.4**
Backhaul IRU liability	18.7	25.3
Lease liability	15.3	22.8
Borrowings per balance sheet	**1,059.1**	**1,079.5**
Cash	(57.9)	(50.2)
Net Debt	**1,001.2**	**1,029.3**

OPERATING AND FINANCIAL REVIEW (cont.)

On June 25, 2018, the Group closed a new and increased syndicated debt facility of AU$1,270 million and NZ$150 million. The new facility will provide the Group flexibility required to execute its growth strategy over the coming years. The covenants relating to the interest and gearing ratios remain unchanged, however, the Net Leverage Ratio ("NLR") has been amended. The maximum NLR ratio is summarised below:

Testing Date	As at 30 June 2018 and 31 December 2018	As at 30 June 2019 and 31 December 2019	As at 30 June 2020	As at 31 December 2020 and thereafter
Maximum Net Leverage Ratio (NLR)	3.75x	3.50x	3.25x	3.00x

The new facility has a weighted average tenure of 3.4 years and the facility agreement stipulates that dividends will not be paid until the NLR is below 2.25x for two consecutive testing dates.

The former debt facility, consisting of AU$1,095 million and NZ$160 million, has been concurrently repaid and cancelled.

The change in Net Debt from the pcp was driven by a number of factors including the funding of capital expenditure, ASC project and normalisation of working capital balances.

1.9.1 Financial Covenants

Financial Covenant[1]		As at 30 June 2018
Net Leverage Ratio	≤3.75x (Net debt/LTM EBITDA)	2.73x
Interest Cover Ratio	≥5.0x (LTM EBITDA/LTM Net Interest Expense)	8.9x
Gearing	≤ 60% (Net Debt/(Net Debt + Equity)	30%

1. Bank methodology used to in the calculation of financial covenants.

Vocus Group is compliant with its syndicated facility financial covenants.

2. DIVISIONAL PERFORMANCE

2.1 Enterprise & Wholesale Australia

The Division includes the Enterprise, Wholesale and Government business segment and our Small to Medium (SMB) segment. The go to brand in market is predominantly Vocus Communications, within the Enterprise, Government & Wholesale segments. The Small to Medium (SMB) business segment operates under the Commander brand.

2.1.1 Earnings Summary – Enterprise, Wholesale & Government (excl SMB)

$m	FY18	FY17 Adjusted Pro forma[1]	$ change	% change
Revenue	**568.9**	**512.2**	**56.7**	**+11%**
Data Networks	419.8	361.5	58.3	+16%
Voice	79.8	74.8	5.0	+7%
Data Centre	46.0	45.9	0.1	+0%
Other	23.3	30.0	(6.7)	-22%
Underlying EBITDA	**318.7**	**276.9**	**41.8**	**+15%**
EBITDA margin (%)	56.0	54.1	n/a	+1.9

1. Refer to Section 4.5 for information on adjustments made to FY17 Reported to arrive at FY17 Adjusted Pro forma.

Revenue increased 11% on the adjusted pro forma pcp by $56.7m, driven by:

- Stabilisation of churn due to introduction of new Account Management program, which has also driven growth in the existing customer base
- Investment in acquisition team on East Coast and National Business Partner Program which has contributed to new customer sales
- Strategic Partner Program launched resulting in large wins in Enterprise Segment
- Large network wins in wholesale helping contribute to fibre network expansion and sales uplift
- Increased sales on longhaul network driving Ethernet uplift
- Strong growth in wholesale NBN SIOs

Underlying EBITDA for the period increased 15% on the comparable pcp by $41.8m driven by the EBITDA impact of increased revenue and due to a shift in product mix, better cost control and pricing discipline.

2.1.2 Earnings Summary – Commander (SMB)

$m	FY18	FY17 Adjusted Pro forma[1]	$ change	% change
Revenue	**203.9**	**241.2**	**(37.3)**	**-15%**
Data Networks	36.0	38.8	(2.8)	-7%
Voice	138.7	166.7	(28.0)	-17%
Other	29.2	35.7	(6.5)	-18%
Underlying EBITDA	**87.1**	**97.6**	**(10.5)**	**-11%**
EBITDA margin (%)	42.7	40.5	n/a	+2.2

1. Refer to Section 4.5 for information on adjustments made to FY17 Reported to arrive at FY17 Adjusted Pro forma.

Comparable revenue decreased 15% on the pcp by $37.3m, driven by:

- Customer loss through poor customer service, lack of investment and mismanaged NBN opportunity
- NBN roll out reducing legacy revenue (PSTN, ISDN and ADSL)
- Increased migration to VOIP

Underlying EBITDA for the period decreased 11% on the pcp, driven by:

- Cost reduction initiatives which have improved margins but at the expense of sustainable business:
  - Offshoring service centres and operations
  - Elimination of marketing and business development

OPERATING AND FINANCIAL REVIEW (cont.)

2.2 Consumer – Australia

The Australian Consumer business offers broadband data, voice, mobile telecommunications and Fetch TV to households. The division also markets gas and electricity services as either standalone or bundled with Broadband as part of the **dodo™** brand.

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 7.4% at 30 June 2018.

2.2.1 Earnings Summary

$m	FY18	FY17 Adjusted Pro forma[1]	$ change	% change
Revenue	**790.3**	**785.1**	**5.2**	**1%**
Broadband	393.6	392.1	1.5	+0%
Voice Only	70.1	96.0	(25.9)	-27%
Mobile	56.3	53.2	3.1	+6%
Energy	235.6	211.7	23.9	+11%
Other	34.7	32.1	2.6	+8%
Underlying EBITDA	**84.4**	**86.3**	**(1.9)**	**-2%**
EBITDA margin (%)	10.7	11.0	n/a	-0.3

1. Refer to Section 4.5 for information on adjustments made to FY17 Reported to arrive at FY17 Adjusted Pro forma.

SIO's	As at 30 June 2018	As at 30 June 2017	$ change	% change
Consumer Broadband SIOs	**520**	**547**	**(27)**	**-5%**
– Copper broadband and bundles ('000)	222	369	(147)	-40%
– NBN ('000)	298	178	120	+67%
Consumer Mobile SIOs ('000)	**155**	**163**	**(8)**	**-5%**
Consumer Energy SIOs ('000)	**140**	**161**	**(21)**	**-13%**
– Electricity	95	112	(17)	-15%
– Gas	45	49	(4)	-10%

Metrics	H2 FY18	H1 FY18	H2 FY17
ARPU copper broadband & bundles ($)	58.85	59.99	60.11
AMPU copper broadband & bundles ($)	24.49	24.64	23.82
ARPU NBN ($)	63.69	62.00	63.38
AMPU NBN ($)	20.84	18.94	18.34
Net churn rate copper broadband & bundles per month	2.3%	2.4%	2.5%
Net churn rate NBN per month	1.4%	1.5%	1.6%

Consumer revenue is up slightly on the adjusted pro forma pcp to $790.3m and was driven by:

- Broadband revenue growth of $1.5m was driven by accelerating migration from copper broadband & bundles to NBN, with its associated higher ARPU. An overall SIO decline of 5% was offset by a beneficial 8% average ARPU differential. Broadband SIO decline was driven by discontinued brands and market share of NBN. Market share of NBN SIO's declined slightly (compared to 31 December 2017) due to transitioning marketing strategy to a refreshed **dodo**™ brand.
- Energy revenue growth of $23.9m was principally due to price rises following increasing wholesale input costs. SIO decline of 13% is offset by the price increases.
- Mobile growth of $3.1m was driven by ARPU increase during the period. The SIO decline is in the mobile wireless broadband product which is now only offered as a prepaid service. Mobile phone services have grown by 9.6%.
- Voice revenue decline of $25.9m is consistent with the sector trend and continues to be weaken, due to the NBN migration and substitution to mobile.

Underlying EBITDA decreased 2% to $84.4m compared to adjusted pro forma EBITDA in the pcp driven by:

- Broadband decline due to the migration from higher AMPU copper broadband & bundles to lower AMPU NBN. The impact of the migration has been slightly offset by an increase in AMPU for NBN year on year and cost out driven by digitisation.
- Energy growth as a result of the price increases in Q1 2018.
- Voice decline in line with the erosion in Voice revenue.
- Mobile AMPU has declined at a higher rate than revenue principally due to a shift in the product mix from lower ACPU mobile wireless broadband product to the higher ACPU mobile phone services.
- Decline of $2.5m due to the closure of Pendo and Insurance product offerings throughout the year.

2.3 New Zealand

2.3.1 Earnings Summary

NZD $m	FY18	FY17 Adjusted Pro Forma[1]	$ change	% change
Revenue	**363.5**	**350.2**	**13.3**	**+4%**
Enterprise & Wholesale	175.9	167.2	8.7	+5%
Consumer	187.6	183.0	4.6	+3%
Underlying EBITDA	**61.3**	**56.9**	**4.4**	**+8%**
EBITDA margin %	16.9	16.0	n/a	+1%

1. Refer to Section 4.5 for information on adjustments made to FY17 Reported to arrive at FY17 Adjusted Pro forma.

OPERATING AND FINANCIAL REVIEW (cont.)

SIO's	As at 30 June 2018	As at 30 June 2017	$ change	% change
Broadband Consumer SIOs	**194**	**189**	**5**	**+3%**
Copper broadband ('000)	122	144	(22)	-15%
UFB ('000)	72	45	27	+60%
SMB SIOs ('000)	22	21	1	+5%
Energy SIOs ('000)	17	5	12	+240%
Mobile SIOs ('000)	24	21	3	+14%

Key Statistics	H2 FY18	H1 FY18	H2 FY17
Broadband ARPU (NZ$)	70.05	71.10	71.21
Broadband AMPU (NZ$)	27.71	28.40	28.87
Net churn rate copper broadband (%)	2.6	2.3	3.0
Net churn rate UFB (%)	1.5	1.6	1.9
Market Share UFB (%)	13	13	13

New Zealand revenue increased 4% on the adjusted pro forma pcp to $363.5m. The result was driven by:

- Growth in the Wholesale market segment across voice and data services
- Growth in energy revenues through improved bundling in Consumer segment along with additional sales investment in the small-medium business segment
- Growth in broadband customer numbers largely driven by improved churn across both copper and fibre services

Underlying EBITDA increased 8% to $61.3m compared to adjust pro-forma EBITDA in the pcp primarily reflecting:

- Organic improvements across the various market segments
- Digital and process automation
- Continued management of overheads, network costs and cost reduction across the business

2.3.2 Earnings in Australian Dollars

Set out below is a comparison of the Australian dollar FY18 reported and constant currency results against FY17 reported financial results.

AUD $m	FY18[1] Reported FX	FY18[2] Constant FX	FY17[1] Adjusted Pro Forma FX	% change
Revenue	**335.0**	**343.2**	**330.6**	**+4%**
Enterprise & Wholesale	162.1	166.1	157.8	+5%
Consumer	172.9	177.1	172.8	+2%
Underlying EBITDA	**56.6**	**58.0**	**53.7**	**8%**
EBITDA margin (%)	16.9	16.9	16.2	+0.7%

1. NZ earnings are converted into A$ monthly at the average conversion rate for the month.
2. NZ earnings were converted into A$ monthly at the average conversion rate for the month used for FY17.

The New Zealand earnings in Australian dollars were impacted negatively due to foreign exchange rates by $8.2m AUD at a revenue level and $1.4m at an EBITDA level.

2.4 Group Services

2.4.1 EBITDA Bridge

$m	
FY17 Adjusted Pro Forma Underlying EBITDA	**(171.9)**
One-off consulting and investment in resources	(7.4)
Other	(1.4)
FY18 Underlying EBITDA	**(180.7)**

1. Refer to Section 4.5 for information on adjustments made to FY17 Reported to arrive at FY17 Adjusted Pro forma.

Group Services costs increased compared to the pcp with main driver being one off consulting costs and investment in resources to drive our critical transformation projects.

3. GROUP OUTLOOK

3.1 Group Strategy

Vocus market share is low relative to our national and international fibre and network assets. Accordingly, our priority is to maximize profitable growth within our core Enterprise, Government & Wholesale markets in Australia and New Zealand, by leveraging these fibre and network assets. Our target is to double revenue from these businesses in Australia and New Zealand within five years.

To be sustainable, growth must be managed within available resources and both cost and capex efficiency must be driven by alignment to our strategy. Smarter execution will be the cultural DNA of the organisation.

The opportunity within each of the segments that we operate in is different and is described below.

Enterprise, Government, Wholesale Segment

Within the Australian Enterprise segment, Vocus has a low market share in all geographies and sectors outside Western Australia. Considering the increasing demands for diversity across multiple providers, and the underserved mid-sized organisations, the Board believes Vocus has a strong opportunity in this segment.

To drive the growing momentum within Enterprise, we will need to strengthen our sales capability and commercial operations, differentiate our customer experience and engagement, and simplify our existing product set.

Vocus is well represented in some elements of the government sector, particularly the Western Australia government. However, we have a low share on the East Coast, especially the key state governments of NSW and Victoria, which are a key area of focus to generate growth.

A key focus of the Wholesale segment during FY19 is to further enable ISPs and business providers with NBN product. In addition, completion of the Australia Singapore Cable in mid-September gives access to rapidly growing demand for data from Asia, along with East Coast diversity.

OPERATING AND FINANCIAL REVIEW (cont.)

Commander, our Small Medium Business (SMB) segment

The SMB segment is being established as an independent business unit in FY19. It operates under the Commander brand and is currently highly skewed to legacy voice and data products, such as PSTN, ISDN and ADSL. This legacy revenue is declining due to the accelerating migration to NBN, VOIP and mobile solutions. In addition, whilst certain cost reduction decisions, such as the elimination of marketing spend, have improved margins in the short term, they have been to the overall detriment to the business.

The SMB segment is a growing segment of the ICT market. Commander is an established brand within this sector, albeit with a <5% market share. SMB is an important contributor to Vocus profitability and current issues are being urgently addressed. The key priorities are to focus on customers and to re-establish brand and distribution presence.

Consumer segment

The NBN creates an opportunity to grow share in the broadband market, particularly during the roll out phase, which will trigger consumers to consider their available options. The NBN is also creating an EBITDA headwind for the business, due to reduced reseller margins. Accordingly, our operating model is changing to be digitally driven sales and service, driving down both cost to acquire and cost to serve, in order to build a scalable, low cost business. The **dodo**™ brand relaunched in August 2018 to drive broadband sales, as well as being the basis for cross selling products such as mobile and energy.

New Zealand

Within New Zealand, we have a low market share relative to network assets and we are positioned as the only credible alternative to major incumbents. It is important that we actively manage our fibre network to deliver ownership economics and build sales capabilities in the enterprise segment, whilst maintaining a low cost operating model through digital investment.

3.2 FY2019 guidance

We are re-investing in the business during FY19 in order to drive revenue and earnings growth in FY20 and beyond. Discipline in operating and capital expenditure will continue to be a focus in FY19 and we will operate comfortably within our existing bank facilities and covenants.

For FY19, expectations are:

- Underlying EBITDA – $350m – $370m
- D&A range – $160m – $165m
- Capex (ex ASC) – $160m – $170m
- ASC capex in H1FY19 – c. $162m (as previously guided)

3.3 Business 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**.

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 across the industry. 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.
- Vocus is also exposed to risks in relation to timing and format of the future NBN roll out strategy and the CVC pricing model. NBN Co continues to evolve their wholesale pricing model in order to encourage take up of faster speed tiers, which has an impact on profitability of NBN plans for all RSPs. During the year there were also delays in relation to premises planned to be migrated onto the NBN using the upgraded HFC access network as NBN Co decided changes were required to the product to improve customer experience.
- 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 and Commander contact centre services in the Philippines, Acquire BPO Pty Ltd.

Regulatory and Environmental Risks

- Vocus operates in increasingly regulated industries, and our products and services are subject to ongoing industry-wide scrutiny from a range of regulators and agencies. In addition, there are 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. Mandatory data breach reporting was implemented in Australia in February 2018. 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
- The Telecommunications Sector Security Reforms (TSSR) are currently in an implementation phase and commence in September 2018. This legislation places an obligation on Vocus to notify the government of proposed changes to a wide range of our networks and services
- The Company has completed the lay of the Australia Singapore Cable (a sub-sea cable between Perth and Singapore via Indonesia) and is now in the configuration phase of the project. The sub-sea fibre path will be subject to the risk of fibre cuts, which can give rise to long lead times to identify and repair, particularly if the cut occurs in deep water. The project is also at risk of regulatory risks, for example the granting of necessary permits or the requirements for local partners
- 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**

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 unauthorised 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, particularly in New Zealand. Natural disasters do have the potential to impact the delivery of products and services resulting in significant business disruption

Technology

- The telecommunications and IT industries are continually evolving as are consumer behaviour 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
- The ability to deliver our planned product and platform integration and consolidation is a key risk to the Company. Migration to the Company's future Technology architectural state will deliver improved resilience and a better customer experience
- 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
- As the international transit market competitive landscape continues to evolve; in order for Vocus to attract customers on its international routes, decisions made in relation to the Australia-Singapore cable system need to align with the requirements of capacity buyers

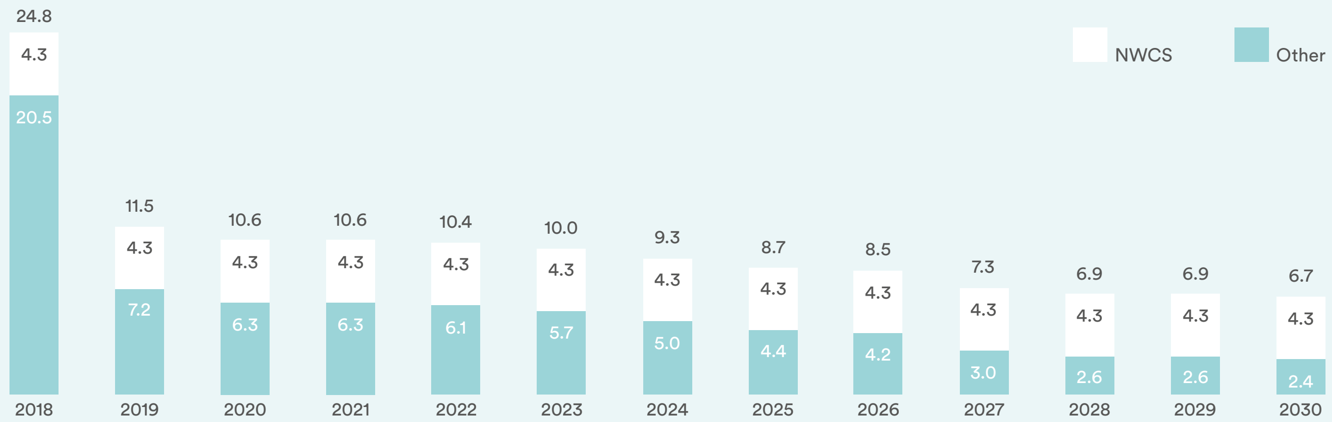
Financial and Commodity Markets

- 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

OPERATING AND FINANCIAL REVIEW (cont.)

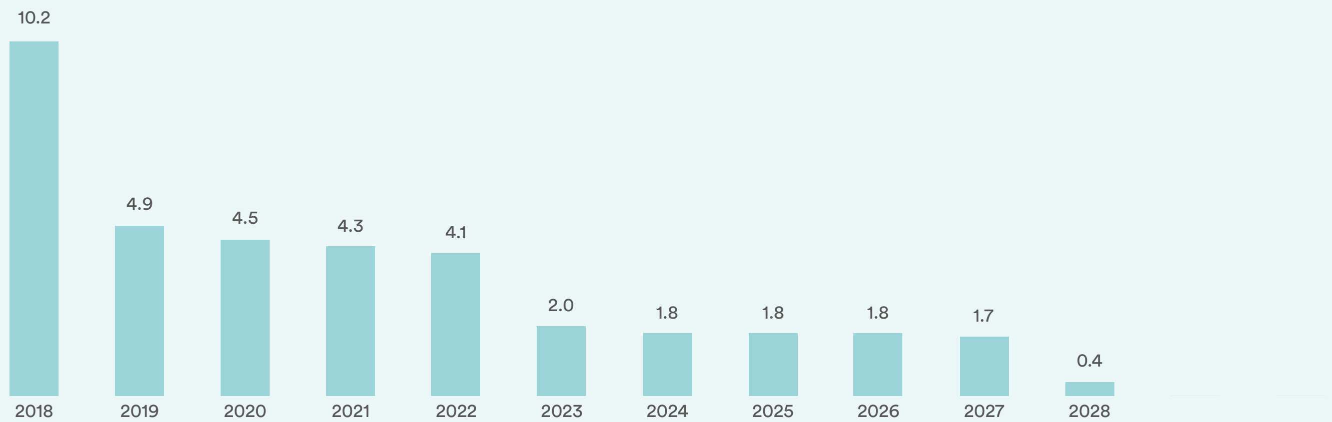
4. APPENDIX

4.1 Deferred Revenue Profile 2018-2030

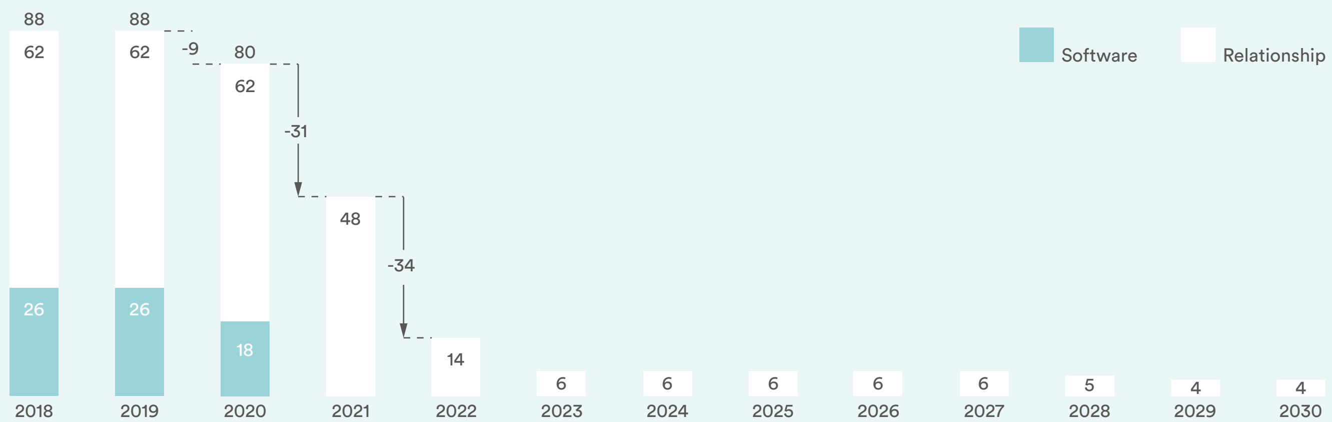


Notes:
1. All long term deferred revenue sits within Enterprise & Wholesale & NZ.
2. Short term (monthly in advance) revenue is excluded from the above.

4.2 Onerous Provision Cash Release Profile



4.3 Below the line Amortisation of Acquired Customer Relationships and Software



4.4 Treatment of Subscriber Acquisition Costs

Deferred SAC ($m)	Consumer	EW	NZ	Foreign Exchange Adjustments	Total	NZ (in NZD)
Deferred SAC Balances 30/6/2016	**18.0**	**11.5**	**4.3**	**0.0**	**33.8**	**4.5**
Deferred	50.5	21.8	18.0	0.0	**90.3**	19.2
Expensed	(24.8)	(11.5)	(12.8)	0.1	**(49.0)**	(13.6)
Deferred SAC Balances 30/6/2017	**43.7**	**21.8**	**9.6**	**0.1**	**75.1**	**10.1**
Net Benefit	*25.7*	*10.3*	*5.3*	*0.0*	*41.3*	*5.6*
Deferred SAC Balances 30/6/2017	**43.7**	**21.8**	**9.6**	**0.1**	**75.1**	**10.1**
Deferred	35.2	23.7	19.0	(0.2)	**77.7**	20.2
Expensed	(45.4)	(20.2)	(16.5)	(0.3)	**(82.3)**	(17.6)
Deferred SAC balances 30/06/2018	**33.5**	**25.3**	**12.0**	**(0.4)**	**70.4**	**12.7**
Net Benefit	*(10.2)*	*3.5*	*2.4*	*(0.5)*	*(4.7)*	*2.6*

Differential	Consumer	EW	NZ	Foreign Exchange Adjustment	Total	NZ (in NZD)
Net Benefit	35.9	6.7	2.8	0.5	46.0	3.0
Expense	(20.6)	(8.7)	(3.8)	(0.4)	(33.3)	(4.0)

OPERATING AND FINANCIAL REVIEW (cont.)

4.5 Reconciliation from FY17 Reported to FY17 Adjusted Pro Forma

To achieve the most appropriate base from which to analyse the performance of Vocus in FY18, the Board believes that certain adjustments are required to the divisional numbers included in the FY17 Reported results. These adjustments include reallocations of costs between divisions, proforma adjustments to reflect the full period impact of acquisitions and divestments, impact of deferred subscriber acquisition costs (SAC) and adjustments to remove large one-off items.

$m	FY17 Reported	NextGen[1]	Switch Utilities[2]	Smart Business Telecom[3]	Discon-tinued Businesses[4]	Compen-sation Payment[5]	SAC Expense Adjustment[6]	Purchase Price Adjust-ments[7]	Realloca-tions Between Divisions[8]	FY17 Adjusted Pro forma
Revenue	**1,820.6**	**62.1**	**7.6**	**(0.2)**	**(15.0)**	**(6.0)**	**–**	**–**	**–**	**1,869.1**
Enterprise & Wholesale (excl SMB)	461.3	62.1	–	(8.9)	(2.3)	–	–	–	–	512.2
SMB	241.2	–	–	–	–	–	–	–	–	241.2
Consumer	795.1	–	–	8.7	(12.7)	(6.0)	–	–	–	785.1
New Zealand	323.0	–	7.6	–	–	–	–	–	–	330.6
Underlying EBITDA	**366.4**	**23.1**	**–**	**(0.6)**	**(1.9)**	**(6.0)**	**(33.1)**	**(5.3)**	**–**	**342.6**
Enterprise & Wholesale (excl SMB)	243.9	31.7	–	(2.3)	(1.6)	–	(3.8)	–	9.0	276.9
SMB	102.5	–	–	–	–	–	(4.9)	–	–	97.6
Consumer	124.9	–	–	1.7	(0.3)	(6.0)	(20.6)	(5.3)	(8.1)	86.3
New Zealand	57.5	–	–	–	–	–	(3.8)	–	–	53.7
Group Services	(162.4)	(8.6)	–	–	–	–	–	–	(0.9)	(171.9)

1. Adjustments relate to additional 4 months of Nextgen.
2. Adjustments relate to additional 5 months of Switch Utilities.
3. Adjustments relate to additional 5 months of Smart Business Telecom, prior to its acquisition by the Consumer division, Smart Business Telecom was a customer of Enterprise & Wholesale.
4. Adjustment relates to ACC and Aggregato which were divested in FY2017.
5. Compensation payment relates to Telstra, which was received in FY2017.
6. Adjustment relates to normalisation of SAC expense year on year.
7. Adjustment relates to purchase price adjustments which were made in FY2017 and did not occur in FY2018.
8. Adjustment relates to reallocation between divisions which have a net nil impact.

AUDITOR'S INDEPENDENCE DECLARATION

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

22 August 2018

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 2018, 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

Ryan Hansen

Ryan Hansen
Partner
Chartered Accountants

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	2018 $'000	Consolidated 2017 $'000
Revenue	5	1,898,159	1,820,578
Share of profits of joint ventures accounted for using the equity method		–	61
Other gains and losses	6	(5,732)	(30,925)
Expenses			
Network and service delivery		(1,108,904)	(1,059,657)
Employee benefits expense	7	(201,507)	(193,187)
Depreciation and amortisation expense	7	(229,608)	(193,565)
Administration and other expenses		(221,600)	(201,391)
Impairment	15	–	(1,532,118)
Net finance costs	7	(40,978)	(40,905)
Profit/(loss) before income tax expense		89,830	(1,431,109)
Income tax expense	8	(28,785)	(33,761)
Profit/(loss) after income tax expense for the year attributable to the owners of Vocus Group Limited	25	61,045	(1,464,870)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(7,933)	2,031
Net movement on hedging transactions, net of tax		(3,220)	(1,709)
Loss on revaluation of available-for-sale financial assets		(667)	–
Other comprehensive income for the year, net of tax		(11,820)	322
Total comprehensive income for the year attributable to the owners of Vocus Group Limited		**49,225**	**(1,464,548)**
		Cents	**Cents**
Basic earnings per share	11	9.81	(237.65)
Diluted earnings per share	11	9.79	(237.65)

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	2018 $'000	Consolidated 2017 $'000
Assets			
Current assets			
Cash and cash equivalents	21	57,914	50,194
Trade and other receivables	13	192,963	167,106
Prepayments		32,928	21,635
Deferred costs		54,895	57,454
Current tax asset		–	6,278
Derivative financial instruments	28	14,756	10,364
Other		11,853	14,454
Total current assets		365,309	327,485
Non-current assets			
Plant and equipment	14	1,672,724	1,542,979
Intangibles	15	2,108,451	2,212,110
Accrued revenue		6,321	2,928
Deferred costs		15,521	18,352
Deferred tax	9	48,429	61,745
Other		12,347	5,997
Total non-current assets		3,863,793	3,844,111
Total assets		**4,229,102**	**4,171,596**

STATEMENT OF FINANCIAL POSITION (cont.)

As at 30 June 2018

	Note	2018 $'000	Consolidated 2017 $'000
Liabilities			
Current liabilities			
Trade and other payables	16	323,264	254,835
Provisions	19	39,604	56,974
Deferred revenue		52,240	62,337
Income tax		10,828	–
Borrowings	17	11,244	13,661
Derivative financial instruments	29	1,330	5,426
Other		796	3,517
Total current liabilities		439,306	396,750
Non-current liabilities			
Provisions	20	32,192	32,030
Deferred revenue		159,925	169,123
Borrowings	18	1,047,900	1,065,816
Deferred tax	10	171,850	194,534
Derivative financial instruments	30	13,349	1,545
Other		10,836	8,674
Total non-current liabilities		1,436,052	1,471,722
Total liabilities		**1,875,358**	**1,868,472**
Net assets		**2,353,744**	**2,303,124**
Equity			
Contributed equity	23	3,775,454	3,774,834
Reserves	24	11,658	22,703
Accumulated losses	25	(1,433,368)	(1,494,413)
Total equity		**2,353,744**	**2,303,124**

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 2018

	Contributed equity $'000	Reserves $'000	Retained Profits/ (Accumulated losses) $'000	Non-controlling interest $'000	Total equity $'000
Consolidated					
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

	Contributed equity $'000	Reserves $'000	Retained Profits/ (Accumulated losses) $'000	Non-controlling interest $'000	Total equity $'000
Consolidated					
Balance at 1 July 2017	3,774,834	22,703	(1,494,413)	-	2,303,124
Profit after income tax expense for the year	–	–	61,045	–	61,045
Other comprehensive income for the year, net of tax	–	(11,820)	–	–	(11,820)
Total comprehensive income for the year		(11,820)	61,045	–	49,225
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 23)	136	–	–	–	136
Share based payments (note 31)	–	911	–	–	911
Transfers	484	(136)	–	–	348
Balance at 30 June 2018	3,775,454	11,658	(1,433,368)	–	2,353,744

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Note	Consolidated 2018 $'000	Consolidated 2017 $'000
Cash flows from operating activities			
Receipts from customers		1,849,614	1,886,200
Payments to suppliers and employees		(1,526,092)	(1,695,120)
		323,522	191,080
Dividends received		–	1
Interest received		651	2,181
Other finance costs paid		(53,098)	(31,389)
Income taxes paid		(18,589)	(30,456)
Net cash from operating activities	22	252,486	131,417
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired, acquisition and integration costs		(1,944)	(801,495)
Payments for property, plant and equipment		(123,220)	(131,710)
Payments for intangible assets		(42,917)	(57,912)
Payments for projects under construction		(52,512)	(29,450)
Proceeds from disposal of assets		–	7,677
Proceeds from total return swaps		–	128
Net cash used in investing activities		(220,593)	(1,012,762)
Cash flows from financing activities			
Repayment of former debt facility		(1,011,651)	–
Drawdown of new debt facility		1,025,116	–
(Repayments)/Proceeds from borrowings		(15,406)	202,567
Repayment of finance leases and IRU liabilities		(14,050)	(12,295)
Proceeds from issue of shares, net of transaction costs		–	673,419
Dividends paid	12	–	(60,781)
Payment of Upfront borrowing costs		(8,182)	–
Net cash from/(used in) financing activities		(24,173)	802,910
Net increase/(decrease) in cash and cash equivalents		7,720	(78,435)
Cash and cash equivalents at the beginning of the financial year		50,194	128,629
Cash and cash equivalents at the end of the financial year	21	57,914	50,194

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

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 22 August 2018. 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 2018, Vocus' current liabilities exceeded its current assets by $73,997,000. 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 cash generating units ("CGUs") have been determined based on a value-in-use basis (being higher than fair value less cost to sell).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.

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 $6.4 million, the current portion being $5.7 million, non-current: $0.7 million (2017: $15.6 million, the current portion being $12.8 million, non-current $2.8 million).

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 4. Operating segments

Reporting 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.

Operating segments represent the information reported to the chief operating decision makers (CODM), being the executive management team, for the purposes of resource allocation and assessment of segment performance focuses on the jurisdiction in which the services are delivered or provided.

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution. Corporate costs are allocated to segments (and included within segment EBITDA) with reference to the resources allocated to provide those services to each segment.

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

The reportable segments represent the group's cash-generating units for impairment testing purposes, except for Group Services which is allocated to the three cash-generating units.

Major customers

During the year ended 30 June 2018 there were no customers of Vocus which contributed 10% or more of external revenue (2017: nil).

Segment revenues and results

Consolidated – 2018	Enterprise & Wholesale $'000	Consumer $'000	New Zealand $'000	Group Services $'000	Total $'000
Revenue					
Sales to external customers	772,798	790,313	335,048	–	1,898,159
Total revenue	**772,798**	**790,313**	**335,048**	**–**	**1,898,159**
EBITDA	**405,841**	**84,421**	**56,567**	**(186,413)**	**360,416**
Depreciation and amortisation					(229,608)
Net finance costs					(40,978)
Profit before income tax expense					**89,830**
Income tax expense					(28,785)
Profit after income tax expense					**61,045**

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)
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)**

Revenue by geographical area

Enterprise and Wholesale and Consumer both predominantly earn revenue in Australia with insignificant rest of world income, the New Zealand segment only earns revenue in New Zealand.

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	
	2018 $'000	2017 $'000
Sales revenue		
Revenue from operations	1,898,159	1,820,577
Other revenue		
Dividends	–	1
Revenue	1,898,159	1,820,578

	Consolidated	
Sales revenue by product set	2018 $'000	2017 $'000
Fibre/Ethernet/Internet	1,072,625	1,005,156
Voice	340,895	391,613
Data centre	49,000	46,598
Mobile	71,956	72,805
Energy	274,544	222,863
Other	89,139	81,542
Total sales revenue	**1,898,159**	**1,820,577**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 5. Revenue (cont.)

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.

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.

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.

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	
	2018 $'000	2017 $'000
Net loss on disposal of joint venture	–	(2,613)
Gain on total return swaps	–	128
Acquisition and integration costs	–	(25,668)
Gains/(losses) associated with foreign exchange	658	(637)
Other gains/(losses)	(6,390)	(2,135)
Other gains and losses	**(5,732)**	**(30,925)**

Note 7. Expenses

	Consolidated	
Profit/(loss) before income tax includes the following specific expenses:	2018 $'000	2017 $'000
Depreciation and amortisation		
Depreciation (note 14)	116,140	86,906
Amortisation (note 15)	113,468	106,659
Total depreciation and amortisation	**229,608**	**193,565**
Net finance costs		
Interest income	(3,363)	(5,026)
Interest expense	44,341	45,931
Net finance costs	**40,978**	**40,905**
Rental expense relating to operating leases	**19,207**	**23,120**
Employee benefits expense		
Salaries and wages expense	140,866	132,599
Employee on-costs expense	23,907	24,898
Employee leave expense	13,990	8,533
Share-based payment expense	573	2,291
Other employee benefits expense	22,171	24,866
Total employee benefits expense	**201,507**	**193,187**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 8. Income tax expense

	Consolidated 2018 $'000	Consolidated 2017 $'000
Income tax expense		
Current tax	36,677	35,970
Deferred tax – origination and reversal of temporary differences	(4,721)	(7,113)
Adjustment recognised for prior periods	862	1,118
Deferred tax – charged to equity	(4,033)	3,786
Aggregate income tax expense	**28,785**	**33,761**
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets (note 9)	14,595	6,231
Decrease in deferred tax liabilities (note 10)	(19,316)	(13,344)
Deferred tax – origination and reversal of temporary differences	**(4,721)**	**(7,113)**
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit/(loss) before income tax expense	89,830	(1,431,109)
Tax at the statutory tax rate of 30%	26,949	(429,333)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	–	459,637
Entertainment expenses	369	386
Share-based payments	172	687
Transaction costs	378	609
Tax allowances and incentives	–	(67)
Loss on sale of investment	–	723
Sundry items	580	459
	28,448	33,101
Adjustment recognised for prior periods	862	1,118
Difference in overseas tax rates	(525)	(458)
Income tax expense	**28,785**	**33,761**

	Consolidated 2018 $'000	Consolidated 2017 $'000
Amounts charged/(credited) directly to equity		
Deferred tax assets (note 9)	(1,279)	3,372
Deferred tax liabilities (note 10)	2,536	414
	1,257	**3,786**

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 (cont.)

30 June 2018

Note 9. Non-current assets – deferred tax

	Consolidated	
	2018 $'000	2017 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Capital losses	37	37
Receivables	7,358	8,526
Property, plant and equipment	395	449
Accruals and provisions	24,385	25,526
Unrealised foreign exchange loss	1,614	214
Expenses deductible over five years	7,953	12,787
Unearned income	6,687	10,486
Other	–	3,720
Deferred tax asset	**48,429**	**61,745**
Movements:		
Opening balance	61,745	57,403
Charged to profit or loss (note 8)	(14,595)	(6,231)
Credited/(charged) to equity (note 8)	1,279	(3,372)
Additions through business combinations (note 34)	–	13,945
Closing balance	**48,429**	**61,745**

Note 10. Non-current liabilities – deferred tax

	Consolidated	
	2018 $'000	2017 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	24,251	27,189
Intangibles	123,492	146,923
Subscriber acquisition costs	20,830	16,852
Unrealised foreign exchange gain	3,267	562
Other	10	3,008
Deferred tax liability	**171,850**	**194,534**
Movements:		
Opening balance	194,534	216,320
Credited to profit or loss (note 8)	(19,316)	(13,344)
Charged to equity (note 8)	2,536	414
Additions through business combinations (note 34)	(5,904)	(8,856)
Closing balance	**171,850**	**194,534**

Note 11. Earnings per share

	Consolidated	
	2018 $'000	2017 $'000
Profit/(loss) after income tax attributable to the owners of Vocus Group Limited	**61,045**	**(1,464,870)**
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	622,220,628	616,391,779
Adjustments for calculation of diluted earnings per share:		
Options	–	20,017
Performance rights	1,416,433	1,645,562
Weighted average number of ordinary shares used in calculating diluted earnings per share	**623,637,061**	**618,057,358**
	Cents	Cents
Basic earnings per share	9.81	(237.65)
Diluted earnings per share	9.79	(237.65)

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 (cont.)

30 June 2018

Note 12. Earnings per share

Dividends

	Consolidated	
Dividends paid during the financial year were as follows:	2018 $'000	2017 $'000
Final dividend for the year ended 30 June 2017 of nil cents per ordinary share	–	49,402
Interim dividend for the year ended 30 June 2017 of 6.00 cents per ordinary share	–	37,221
	–	**86,623**

The Vocus Board has made the decision not to declare a final dividend for the year ended 30 June 2018 for a number of reasons, including the competing demands for capital investment across the business, in particular the Australia Singapore Cable, combined with our focus on reducing leverage in the business.

Franking credits

	Consolidated	
	2018 $'000	2017 $'000
Franking credits available at the reporting date based on a tax rate of 30%	46,760	33,511
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%	3,861	2,132
Net franking credits available based on a tax rate of 30%	**50,621**	**35,643**

	Consolidated	
	2018 $'000	2017 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	**50,621**	**35,643**

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.

Note 13. Current assets – trade and other receivables

	Consolidated 2018 $'000	Consolidated 2017 $'000
Trade receivables*	159,069	117,613
Less: Provision for impairment of receivables	(24,879)	(7,731)
	134,190	**109,882**
Other receivables	2,036	4,384
Accrued revenue	56,737	52,840
	192,963	**167,106**

* Trade receivables are presented after fair value adjustment to trade receivables arising on business combinations.

Impairment of receivables

An expense of $23,593,636 (2017: $19,527,309) has been recognised in profit or loss in respect of impairment of receivables for the year ended 30 June 2018.

The ageing of the impaired receivables provided for above are as follows:	Consolidated 2018 $'000	Consolidated 2017 $'000
1 to 3 months overdue	700	83
Over 3 months overdue	24,179	7,648
	24,879	**7,731**

Movements in the provision for impairment of receivables are as follows:	Consolidated 2018 $'000	Consolidated 2017 $'000
Opening balance	7,731	4,234
Additional provisions recognised	23,594	19,527
Receivables written off during the year as uncollectable	(6,446)	(16,030)
Closing balance	**24,879**	**7,731**

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $52,428,000 as at 30 June 2018 ($31,398,000 as at 30 June 2017).

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 2018 $'000	Consolidated 2017 $'000
1 to 3 months overdue	34,565	21,305
Greater than 3 months overdue	17,863	10,093
	52,428	**31,398**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

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

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	
	2018 $'000	2017 $'000
Fibre assets – at cost	1,435,127	1,364,454
Less: Accumulated depreciation	(175,876)	(121,413)
	1,259,251	**1,243,041**
Data centre assets – at cost	68,574	66,874
Less: Accumulated depreciation	(26,125)	(18,447)
	42,449	**48,427**
Network equipment – at cost	230,965	179,130
Less: Accumulated depreciation	(91,306)	(50,083)
	139,659	**129,047**
Other plant and equipment – at cost	70,983	81,785
Less: Accumulated depreciation	(23,181)	(13,524)
	47,802	**68,261**
Projects under construction – at cost	183,563	54,203
	1,672,724	**1,542,979**

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	Fibre assets $'000	Network equipment $'000	Other plant and equipment $'000	Projects under construction $'000	Total $'000
Balance at 1 July 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
Additions	77,250	2,009	48,844	14,083	112,338	254,524
Exchange differences	(3,562)	(670)	(823)	249	1,929	(2,877)
Write off of assets	(3,223)	(1,225)	(1,314)	–	–	(5,762)
Transfers in/(out)	457	1	163	(15,714)	15,093	–
Depreciation expense	**(54,712)**	**(6,093)**	**(36,258)**	**(19,077)**	**–**	**(116,140)**
Balance at 30 June 2018	**1,259,251**	**42,449**	**139,659**	**47,802**	**183,563**	**1,672,724**

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 (cont.)

30 June 2018

Note 15. Non-current assets – intangibles

	Consolidated	
	2018 $'000	2017 $'000
Goodwill – at cost	**1,453,584**	**1,475,096**
IRU capacity – at cost	182,732	182,732
Less: Accumulated amortisation	(53,343)	(38,992)
	129,389	**143,740**
Customer intangibles – at cost	381,033	381,059
Less: Accumulated amortisation	(149,894)	(87,918)
	231,139	**293,141**
Software – at cost	192,822	162,333
Less: Accumulated amortisation	(80,788)	(44,592)
	112,034	**117,741**
Brands – at cost	180,500	180,500
Other intangibles – at cost	1,958	1,996
Less: Accumulated amortisation	(153)	(104)
	1,805	**1,892**
	2,108,451	**2,212,110**

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 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	(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
Additions	–	–	–	31,295	–	31,295
Adjustments to provisional business combinations	(17,967)	–	–	–	–	(17,967)
Disposal	–	–	–	(61)	(37)	(98)
Exchange differences	(3,545)	–	–	(652)	776	(3,421)
Amortisation expense	**–**	**(14,351)**	**(62,001)**	**(36,289)**	**(827)**	**(113,468)**
Balance at 30 June 2018	**1,453,584**	**129,389**	**231,140**	**112,034**	**182,304**	**2,108,451**

Allocation of goodwill

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Consumer
- Enterprise & Wholesale
- New Zealand

The carrying amount of goodwill allocated to each cash-generating unit was:	Consolidated 2018 $'000	Consolidated 2017 $'000
Consumer	192,538	192,538
Enterprise & Wholesale	935,545	953,592
New Zealand	325,501	328,966
	1,453,584	**1,475,096**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

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

Impairment testing

In accordance with the Group's accounting policy, impairment testing has been undertaken at 30 June 2018 for all groups of cash generating units (CGUs) with indefinite life intangible assets or where there is an indication of impairment. The Group considered the relationship between its market capitalisation and the book value of its equity, among other factors, when reviewing for indicators of impairment.

For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash-generating units. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognised for goodwill are not reversible in subsequent periods.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

The Value in Use models are based on the Senior Management and Board approved five year cashflow forecasts. The five year forecasts use management estimates to determine income, expenses, capital expenditure and cashflows for each CGU. In determining the forecasts Senior Management developed a view on the future increases in customer numbers, market share and the mix of the groups product offerings as well as margin per customer as well as the capital and operational expenditure requirements. These determinations were based on past experience and expectations of the future.

Key assumptions used in the value in use estimation of the recoverable amount during the testing for impairment of the Consumer, Enterprise & Wholesale and New Zealand CGUs are set out below (consistent with prior year).

	Consumer %	Enterprise & Wholesale %	New Zealand %
Discount rate (post tax)	9.5%	10.0%	10.2%
Terminal value growth rate	2.5%	2.5%	2.5%

The discount rates reflect the market 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 of long term performance of the CGU's.

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.
- The five year cashflow forecasts.

The result of those impairment tests was that there was no impairment identified for the Consumer, Enterprise & Wholesale and New Zealand CGUs at 30 June 2018 (2017: $1,532,118,000).

Sensitivity analysis

The estimated recoverable amount for the Consumer, Enterprise & Wholesale and New Zealand CGUs exceeded their carrying amount. 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.

Change required for carrying amount to equal recoverable amount	Consumer %	Enterprise & Wholesale %	New Zealand %
Discount rate (post tax)	0.5%	0.3%	1.1%
Terminal value growth rate	0.6%	0.3%	1.5%

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 (cont.)

30 June 2018

Note 16. Current liabilities – trade and other payables

	Consolidated	
	2018 $'000	2017 $'000
Trade payables	48,328	60,413
Revenue received in advance	32,677	37,085
Accruals	141,843	121,914
Projects under construction accruals	71,335	–
Goods and services tax payable	9,321	7,195
Other payables	19,760	28,228
	323,264	**254,835**

Refer to note 27 for further information on financial instruments.

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	
	2018 $'000	2017 $'000
Backhaul IRU liability	6,766	6,585
Lease liability	4,478	7,076
	11,244	**13,661**

Refer to note 18 for further information on assets pledged as security and financing arrangements.

Refer to note 27 for further information on financial instruments.

Note 18. Non-current liabilities – borrowings

	Consolidated 2018 $'000	Consolidated 2017 $'000
Bank loans	1,025,116	1,031,399
Backhaul IRU liability	11,912	18,678
Lease liability	10,872	15,739
	1,047,900	**1,065,816**

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:	Consolidated 2018 $'000	Consolidated 2017 $'000
Bank loans	1,025,116	1,031,399
Lease liability	15,350	22,815
	1,040,466	**1,054,214**

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 2018 $'000	Consolidated 2017 $'000
Total facilities		
Bank loans	1,332,074	1,172,406
Bank guarantee/letter of credit facility	75,000	75,000
	1,407,074	**1,247,406**
Used at the reporting date		
Bank loans	1,025,116	1,031,399
Bank guarantee/letter of credit facility	68,900	67,203
	1,094,016	**1,098,602**
Unused at the reporting date		
Bank loans	306,958	141,007
Bank guarantee/letter of credit facility	6,100	7,797
	313,058	**148,804**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

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

During the financial year, Vocus Group, closed a new and increased syndicated debt facility. The Group's new bank facility at 30 June 2018 consists of a $1,407,074,000 senior finance facility (2017: $1,247,406,000), comprising 2 year AU$175,000,000 amortising CAPEX facility, 2 year AU$75,000,000 bank guarantee/letters of credit facility, 3 year AU$510,000,000 and NZ$150,000,000 facilities and 4 year AU$510,000,000 facilities that are non-amortising and can be used for general corporate purposes. Interest on the facility is recognised at the aggregate of the reference bank bill rate plus a margin.

The former debt facility, consisting of A$1,095,000,000 and NZ$160,000,000, was concurrently repaid and cancelled.

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	
	2018 $'000	2017 $'000
Employee benefits	20,006	16,904
Deferred consideration	14,341	28,932
Onerous contracts	5,138	9,998
Make good	119	1,140
	39,604	**56,974**

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. 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.

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 – 2018	Employee benefits $'000	Employee benefits $'000	Onerous contracts $'000	Make good $'000
Carrying amount at the start of the year	16,904	28,932	9,998	1,140
Additional provisions recognised	12,366	–	–	–
Additions through business combinations (note 34)	–	(12,465)	–	–
Amounts transferred from non-current	3,171	–	4,851	119
Amounts paid	**(12,435)**	**(2,126)**	**(9,711)**	**(1,140)**
Carrying amount at the end of the year	**20,006**	**14,341**	**5,138**	**119**

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.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 20. Non-current liabilities – provisions

	Consolidated	
	2018 $'000	2017 $'000
Employee benefits	2,795	5,451
Onerous contracts	22,069	19,901
Make good	7,328	6,678
	32,192	**32,030**

Movements in provisions

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

Consolidated – 2018	Employee benefits $'000	Employee benefits $'000	Onerous contracts $'000
Carrying amount at the start of the year	5,451	19,901	6,678
Additional provisions recognised	515	7,877	1,140
Amounts transferred to current	(3,171)	(4,851)	(119)
Amounts used	–	(858)	(350)
Payments	–	–	(21)
Carrying amount at the end of the year	**2,795**	**22,069**	**7,328**

Note 21. Current assets – cash and cash equivalents

	Consolidated	
	2018 $'000	2017 $'000
Cash at bank	57,347	46,703
Cash on deposit	567	3,491
	57,914	**50,194**

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	
	2018 $'000	2017 $'000
Profit/(loss) after income tax expense for the year	61,045	(1,464,870)
Adjustments for:		
Depreciation and amortisation	229,608	193,565
Impairment of goodwill	–	1,532,118
Share of profit – joint ventures	–	(60)
Share-based payments	911	6,752
Gain on total return swaps	–	(128)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(25,858)	14,522
Increase in accrued revenue	(3,393)	(2,653)
Movement in derivatives	97	(2,777)
Movement in other assets	(1,470)	(10,657)
Increase in other operating assets	(37,046)	(41,471)
Increase/(decrease) in trade and other payables	38,062	(61,545)
Decrease in other provisions	(17,209)	(15,926)
Movement in tax balances	7,739	(15,452)
Net cash from operating activities	**252,486**	**131,417**

Note 23. Equity – contributed equity

			Consolidated	
	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Ordinary shares – fully paid	622,184,466	623,310,259	3,786,465	3,792,929
Less: Treasury shares*	(2,055,645)	(3,328,355)	(11,011)	(18,095)
	620,128,821	**619,981,904**	**3,775,454**	**3,774,834**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 23. Equity – contributed equity (cont.)

Details	Date	Shares	Issue price	$'000
Balance	1 July 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
Employee share scheme buyback	14 July 2017	(1,178,991)	$0.00	(6,600)
Issue of shares on conversion of performance rights	10 August 2017	33,334	$2.39	80
Issue of shares on conversion of options	10 August 2017	7,500	$1.89	14
Issue of shares on conversion of options	10 August 2017	12,364	$3.45	42
Balance	**30 June 2018**	**622,184,466**		**3,786,465**

Movements in treasury shares*

Details	Date	Shares	Issue price	$'000
Balance	1 July 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)
Employee share scheme buyback		1,178,991	$0.00	6,600
Transfer of shares to participants**		93,719	$0.00	188
Forfeiture of loan funded share plan		–	$0.00	296
Balance	**30 June 2018**	**(2,055,645)**		**(11,011)**

* Shares held by Vocus Blue Pty Limited
During the financial year ended 30 June 2018 nil shares (2017: nil) 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.

** The transfer of shares to participants 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 2017 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 (cont.)

30 June 2018

Note 24. Equity – reserves

	Consolidated 2018 $'000	Consolidated 2017 $'000
Investment revaluation reserve	(900)	(233)
Foreign currency translation reserve	(1,933)	6,000
Share-based payments reserve	12,431	11,656
Hedge reserve	2,060	5,280
	11,658	**22,703**

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 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
Foreign currency translation	–	(7,933)	–	–	(7,933)
Recognition of share-based payments	–	–	911	–	911
Net movement on hedging transactions	–	–	–	(3,220)	(3,220)
Net movements on investments	(667)	–	–	–	(667)
Transfers to contributed equity	–	–	(136)	–	(136)
Balance at 30 June 2018	**(900)**	**(1,933)**	**12,431**	**2,060**	**11,658**

Note 25. Equity – accumulated losses

	Consolidated 2018 $'000	Consolidated 2017 $'000
Retained profits/(accumulated losses) at the beginning of the financial year	(1,494,413)	57,080
Profit/(loss) after income tax expense for the year	61,045	(1,464,870)
Dividends paid and payable (note 12)	–	(86,623)
Accumulated losses at the end of the financial year	**(1,433,368)**	**(1,494,413)**

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: Derived from valuation techniques that include inputs for the instrument that are not based on observable market data.

Consolidated – 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Available-for sale financial assets	1,000	–	–	1,000
Electricity derivatives	–	5,984	–	5,984
Forward foreign exchange contracts	–	9,200	–	9,200
Total assets	**1,000**	**15,184**	**–**	**16,184**
Liabilities				
Interest rate swaps	–	(2,869)	–	(2,869)
Electricity derivatives	–	(7,978)	(3,832)	(11,810)
Deferred consideration	–	–	(14,341)	(14,341)
Total liabilities	**–**	**(10,847)**	**(18,173)**	**(29,020)**

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)
Deferred consideration	–	–	(28,932)	(28,932)
Total liabilities	**–**	**(6,971)**	**(28,932)**	**(35,903)**

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.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 26. Fair value measurement (cont.)

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.

During the year Vocus the Group entered into a long term energy swap which is classified as a level 3 instrument as the primary input, being the long term electricity price curve beyond 3 years, is not directly observable in the market.

The fair value of this energy derivative is determined as the present value of future contracted cash flows and credit adjustments. The valuation of this instrument is sensitive to changes in this long term electricity price beyond 3 years, with a $1/MWh movement (on average over the duration of the unobservable period) resulting in a $1 million change in the valuation.

Valuation techniques for fair value measurements

Available for sale financial assets uses observable values such as publicly 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.

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 and Risk Committee has general oversight of those financial risks identified here. In addition, it oversees formal risk management policies 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.

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 Audit and 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.

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	
	2018 $'000	2017 $'000	2018	2017
Buy US dollars				
Maturity:				
0 – 12 months	229,115	11,797	0.7657	0.7538
12 – 24 months	18,986	–	0.7520	–
Buy Philippine Pesos				
Maturity:				
0 – 12 months	32,066	64,024	40.4900	37.4858
12 – 24 months	26,500	–	41.1300	–

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	2018 $'000	2017 $'000	2018	2017
US dollars	9,167	6,124	73,319	2,812
New Zealand dollars	563	1,340	–	38
Philippine Pesos	–	1,531	362	–
	9,730	**8,995**	**73,681**	**2,850**

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 2018, future movements in USD/AUD currency of 5% (2017: 5%) will have an approximate $3,215,000 (2017:$166,000) increase or decrease to profit or loss and $12,860,000 increase or decrease (2017: $357,000) in equity in the financial year ending 30 June 2018.

As at 30 June 2018, future movements in NZD/AUD currency of 5% (2017: 5%) will have an approximate $28,000 (2017:$65,000) increase or decrease to profit or loss.

As at 30 June 2018, future movements in PHP/AUD currency of 5% (2017: 5%) will have an approximate $18,000 (2017:$77,000) increase or decrease to profit or loss and $2,973,000 increase or decrease (2017:$ 3,077,000) in equity in the financial year ending 30 June 2018.

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 2018, future movements in electricity price of 1% (2017: 1%) will have an approximate $2,000 increase or decrease to profit or loss (2017: $26,000) and $1,826,000 increase or decrease in equity (2017: $493,000).

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 27. Financial instruments (cont.)

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 have the 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:

	2018		2017	
Consolidated	Weighted average interest rate %	$'000	Weighted average interest rate %	$'000
Bank overdraft and bank loans	4.40%	1,025,116	3.75%	1,031,399
Interest rate swaps (notional principal amount)	2.55%	(292,553)	2.67%	(405,812)
Interest rate option (notional principal amount)	3.10%	(50,000)	3.10%	(50,000)
Net exposure to cash flow interest rate risk		**682,563**		**575,587**

As at 30 June 2018, future movements in interest rate of 50 basis points (2017: 50 basis points) will have an approximate $3,413,000 (2017: $2,881,000) increase or decrease to profit or loss and $323,000 (2017: $2,029,000) increase or decrease in equity in the financial year ending 30 June 2018.

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.

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 – 2018	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	261,506	–	–	–	261,506
Other payables	29,081	–	–	–	29,081
Interest-bearing – variable					
Bank loans	–	–	1,025,116	–	1,025,116
Lease liability	5,440	2,350	2,928	12,120	22,838
IRU liability	7,700	6,406	6,407	–	20,513
Total non-derivatives	**303,727**	**8,756**	**1,034,451**	**12,120**	**1,359,054**
Derivatives					
Interest rate swaps net settled	1,330	1,153	386	–	2,869
Forward foreign exchange contracts net settled	(8,767)	(433)	–	–	(9,200)
Total derivatives	**(7,437)**	**720**	**386**	**–**	**(6,331)**

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**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 28. Current assets – derivative financial instruments

	Consolidated	
	2018 $'000	2017 $'000
Forward foreign exchange contracts – cash flow hedges	8,772	–
Electricity derivatives – cash flow hedges	5,984	10,364
	14,756	**10,364**

Refer to note 26 for further information on fair value measurement.

Forward foreign exchange contracts

Vocus has entered a 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 highly probable forecasted purchases of inventory, capital equipment and payments for services.

The forward exchange contracts 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 2018 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 an interest cap and swap agreements to protect the syndicated loan facility from exposure to increasing interest rates. Under 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.

Under interest rate cap agreements, the Group pays a maximum rate of 3.16% (strike) if the three-month floating rate is higher for a 3-month period and receives interest at a variable rate. If the interest rate cap is not exercised Vocus pays the then 3-month floating rate for that period and receives interest at a variable rate. The strike rate is assessed against the 3 month variable rate each 90 days.

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 the income statement when the hedged interest expense is recognised.

Electricity derivatives

Vocus manages this exposure of floating purchase price of electricity through the purchase of electricity swaps and options contracts via the futures and over-the-counter markets. 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 electricity swap and option contracts as of 30 June 2018 will be released to the income statement when the underlying anticipated purchase or sale transactions are recognised in the income statement. For option contracts only the amount that has intrinsic value is recognised in the cash flow hedge reserve. Extrinsic value is 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 2018 $'000	Consolidated 2017 $'000
Forward foreign exchange contracts – cash flow hedges	–	3,025
Interest rate swap contracts – cash flow hedges	1,330	2,401
	1,330	**5,426**

Refer to note 27 for further information on financial instruments.

Refer to note 26 for further information on fair value measurement.

Note 30. Non-current liabilities – derivative financial instruments

	Consolidated 2018 $'000	Consolidated 2017 $'000
Interest rate swap contracts – cash flow hedges	1,539	1,545
Electricity derivatives – cash flow hedges	11,810	–
	13,349	**1,545**

Refer to note 27 for further information on financial instruments.

Refer to note 26 for further information on fair value measurement.

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:

2018 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	33,334	–	(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
			176,252	**–**	**(40,834)**	**–**	**135,418**
Weighted average exercise price			$4.44	$0.00	$2.30	$0.00	$5.09

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 31. Share-based payments (cont.)

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			$4.44	$0.00	$2.30	$0.00	$5.09

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:

2018 Grant date	Vesting date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
22/02/2016	01/07/2017	319,344	–	(159,680)	(159,664)	–
22/02/2016	01/07/2018	158,281	–	–	(15,074)	143,207
01/04/2017	01/07/2017	33,333	–	(33,333)	–	–
01/04/2017	01/07/2018	573,333	–	–	(138,333)	435,000
01/04/2017	01/07/2019	433,202	–	–	(82,781)	350,421
01/05/2018	01/07/2020	–	569,104	–	–	569,104
		1,517,493	**569,104**	**(193,013)**	**(395,852)**	**1,497,732**

The fair value of performance rights issued during the period was $2.48.

2017 Grant date	Expiry 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	–	(62,905)	–	319,344
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**	**(419,336)**	**(30,148)**	**1,517,493**

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 2018 no shares were issued to Vocus Blue Pty Limited (2017: nil). At 30 June 2018, Vocus Blue Pty Limited held 2,029,595 (2017: 3,328,355) 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	
	2018 $	2017 $
Short-term employee benefits	7,389,297	6,536,837
Post-employment benefits	212,538	249,342
Long-term benefits	150,995	240,947
Share-based payments	311,799	1,302,617
	8,064,629	**8,329,743**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

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 2018 %	Ownership interest 2017 %
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%

Name	Principal place of business/ Country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %
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%
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%
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%	100.00%
Nextgen Networks Pty Limited	Australia	100.00%	100.00%
Nextgen Telecom (WA) Pty Ltd	Australia	100.00%	100.00%

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 33. Interests in subsidiaries (cont.)

Name	Principal place of business/ Country of incorporation	Ownership interest 2018 %	2017 %
Nextgen Telecom Pty Ltd	Australia	100.00%	100.00%
Nextgen Services Pty Limited	Australia	100.00%	100.00%
Nextgen Pure Data Pty Ltd	Australia	100.00%	100.00%
Skiron Holdco Pty Limited	Australia	100.00%	100.00%
Skiron Finco Pty Limited	Australia	100.00%	100.00%
Skiron OpCo Pty Limited	Australia	100.00%	100.00%
Australia-Singapore Cable (Australia) Pty Limited	Australia	100.00%	100.00%
ASC International Group Pty Limited	Australia	100.00%	100.00%
Australia-Singapore Cable International Limited*	Bermuda	100.00%	100.00%
Australia-Singapore Cable (Singapore) Pte Ltd*	Singapore	100.00%	100.00%
Switch Utilities Limited	New Zealand	100.00%	100.00%
Switch Utilities Southern Limited	New Zealand	100.00%	100.00%
Switch Utilities Wellington Limited	New Zealand	100.00%	100.00%
Australia-Singapore Cable OpCo Pty Limited*	Australia	100.00%	–
Australia-Singapore Cable HoldCo Pty Limited*	Australia	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 Australian 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 'Extended 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

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 $10,990,000. 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. The accounting for the business combination was provisional at 30 June 2017, and it has since been declared as finalised.

Goodwill of $30,180,000 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. Contingent consideration has currently been estimated on managements 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.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	22
Trade and other receivables	26,430
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	(23,962)
Deferred tax liability	(2,012)
Provisions	(41,306)
Deferred revenue	(160,232)
Net assets acquired	773,963
Goodwill	30,180
Acquisition-date fair value of the total consideration transferred	**804,143**
Representing:	
Cash paid or payable to vendor	793,153
Contingent consideration	10,990
	804,143
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 $8,841,000 represents the residual value of the purchase price of the company over the fair value of identified tangible and intangible assets. The accounting for the business combination was provisional at 30 June 2017, and it has since been declared as finalised.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 34. Business combinations (cont.)

Smart Business Telecom

On 10 February 2017, Eftel Pty Limited (100% subsidiary of Vocus) completed the acquisition of the business 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). The accounting for the business combination was provisional at 30 June 2017, and it has since been declared as finalised.

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.

Note 35. Commitments

	Consolidated	
	2018 $'000	2017 $'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	25,777	26,999
One to five years	80,826	83,054
More than five years	88,733	106,228
	195,336	**216,281**

* Prior year numbers have been restated. The adjustment had no impact on amounts in the statement of financial position or statement of profit or loss.

	Consolidated 2018 $'000	Consolidated 2017 $'000
Lease commitments – finance Committed at the reporting date and recognised as liabilities, payable:		
Within one year	5,440	8,112
One to five years	5,278	9,863
More than five years	12,120	13,501
Total commitment	22,838	31,476
Less: Future finance charges	(7,488)	(8,661)
Net commitment recognised as liabilities	**15,350**	**22,815**
Representing: Lease liability – current (note 17)	4,478	7,076
Lease liability – non-current (note 18)	10,872	15,739
	15,350	**22,815**
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	7,700	7,842
One to five years	12,813	20,512
Total commitment	20,513	28,354
Less: Future finance charges	(1,835)	(3,091)
Net commitment recognised as liabilities	**18,678**	**25,263**
Representing: Backhaul IRU liability – current (note 17)	6,766	6,585
Backhaul IRU liability – non-current (note 18)	11,912	18,678
	18,678	**25,263**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 35. Commitments (cont.)

	Consolidated 2018 $'000	Consolidated 2017 $'000
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	27,879	31,158
One to five years	72,216	87,676
More than five years	36,558	50,918
	136,653	**169,752**
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	30,123	30,879
Less: Accumulated depreciation	(17,908)	(14,173)
Written down value	**12,215**	**16,706**
Australia Singapore Cable		
Capital commitment to build a 4,600km submarine cable system linking Australia to Singapore and Indonesia		
Within one year	165,218	49,562
One to five years	–	159,634
	165,218	**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	3,653
One to five years	18,186	18,186
	21,839	**21,839**

Note 36. Contingent liabilities

	Consolidated 2018 $'000	Consolidated 2017 $'000
Bank guarantees for operating leases	68,900	67,203

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.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

Note 37. Other significant accounting policies (cont.)

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 2018. Vocus' 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 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. Vocus will apply the new standard from 1 July 2018. The key changes within AASB 9 involve the introduction of new:

- classification and measurement models for financial assets.
- hedge accounting requirements to more closely align the accounting treatment with the risk management activities of the entity.
- impairment requirements employing an 'expected credit loss' model to recognise the required allowance.

The Group has completed its assessment of AASB 9 Financial Instruments and does not expect a material impact. Additional disclosures will be required in the financial statements, primarily in the area of expected credit losses and hedging.

AASB 15 Revenue from Contracts with Customers

AASB15 provides a single standard for revenue recognition and is applicable to annual reporting periods beginning on or after 1 January 2018. Vocus will apply the new standard from 1 July 2018. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Key areas considered in the assessment of the new standard included:

- Bundling of goods and services
- Reviewing material contracts to determine the transaction price and allocation of the transaction price to the performance obligations
- Upfront activation, build activities and installation charges

The Group has completed its assessment of AASB 15 and does not expect a material impact on revenue recognition from adopting the standard. As noted Vocus Group does not expect a material impact on revenue recognition, however, we are yet to fully implement the AASB 15 requirements across all parts of our business and should we identify any further changes we will reflect these in our final adjustments in the 2019 financial year.

The Group will also be required to present a number of additional disclosures in the Financial Statements.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. Vocus will adopt the standard from 1 July 2019. The standard replaces AASB 117 'Leases' and will result in almost all leases being recognised on the balance sheet. The only exceptions are short-term and low-value leases.

Under the new standard:

- the distinction between operating and finance leases is removed
- previously disclosed operating leases are now recognized on the balance sheet through an asset (the right to use the leased item) and a financial liability (lease payments) are recognized
- 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 lease liability (included in finance costs).

The accounting for lessors will not significantly change.

The Group is currently assessing the impact of AASB 16 Leases on its financial results.

Note 38. Remuneration of auditors

	Consolidated	
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:	2018 $'000	2017 $'000
Audit services – Deloitte Touche Tohmatsu		
Audit or review of the financial statements	838,640	745,000
Other services – Deloitte Touche Tohmatsu		
Tax compliance services	281,926	527,179
Other non-audit services	181,148	113,252
	463,074	640,431
	1,301,714	**1,385,431**
Audit services – network firms of Deloitte Touche Tohmatsu		
Audit or review of the financial statements	167,850	100,000
Other services – network firms of Deloitte Touche Tohmatsu		
Other non-audit services	97,217	107,727
	265,067	**207,727**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

30 June 2018

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 2018 $'000	Parent 2017 $'000
Loss after income tax	(48,499)	(1,389,853)
Total comprehensive income	(48,499)	(1,389,853)

Statement of financial position	Parent 2018 $'000	Parent 2017 $'000
Total current assets	99	70
Total assets	2,340,129	2,370,070
Total current liabilities	53,751	36,899
Total liabilities	56,995	37,204
Equity		
Contributed equity	3,779,370	3,778,915
Share-based payments reserve	17,018	16,244
Other reserves	(2,360)	103
Accumulated losses	(1,510,894)	(1,462,396)
Total equity	**2,283,134**	**2,332,866**

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 2018 and 30 June 2017.

Capital commitments – Property, plant and equipment

The Parent Entity had no capital commitments for property, plant and equipment at as 30 June 2018 and 30 June 2017.

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.

Note 41. Events after the reporting period

No matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Vocus' operations, the results of those operations, or the Vocus's 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' financial position as at 30 June 2018 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

R. Mansfield

Robert Mansfield
Non-Executive, Chairman

22 August 2018
Sydney

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VOCUS GROUP LIMITED

Deloitte.

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 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 2018 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.

Deloitte.

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td colspan="2">Revenue recognition</td></tr>
<tr><td>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 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. Where the contracts include an identifiable amount for subsequent servicing, that amount is deferred and recognised over the period the service is provided; and
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.</td><td>Our procedures included, but were not limited to:
Evaluating 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 assess if they have been appropriately accounted for in accordance with the relevant accounting standards;
For Corporate customers, testing the appropriateness of the timing of revenue recognition for new material contracts in the year or, where appropriate, deferral to a subsequent period when services are performed, by selecting a sample of customer bills and tracing to agreed contracts and plans, and assessing revenue was recognised in the correct period; and
For Consumer customers, testing on a sample basis the accuracy of revenue recorded for new products and services (plans), including authorisation of changes and input of this information to billing systems, as well as appropriate revenue recognition for bundled offers.
We also assessed the appropriateness of the disclosures in Note 5 to the financial statements.</td></tr>
<tr><td colspan="2">Carrying value of non-current assets, including goodwill</td></tr>
<tr><td>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 2018, the Group has total non-current assets of $3,863m, which includes goodwill of $1,454m.

The assessment of the recoverable amount requires the exercise of significant judgement about future market conditions, including revenue growth rates, EBITDA margins and discount rates, as well as the impact of changing technologies and consumer preferences.

Management annually assesses specific non-current assets (such as brands and customer contracts) for indicators of impairment.</td><td>Our procedures included, but were not limited to:
Understanding the process that management undertook to perform their assessment;
Evaluating management's annual impairment assessment for impairment of non-current assets, including goodwill;
Evaluating the value in use models prepared by management and validating the reasonableness of the assumptions used to calculate the discount rates and terminal value growth rates;
Evaluating the projected cash flows, including the assumptions relating to revenue growth rates, EBITDA margins and capital expenditure considering historical forecast accuracy;
Evaluating the implied multiples of the value in use models against recent transactions and market data; and
Subjecting the key assumptions to sensitivity analyses.
We also assessed the appropriateness of the disclosures in Note 15 to the financial statements.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VOCUS GROUP LIMITED (cont.)

Deloitte.

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 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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.

Deloitte.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group'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 14 to 29 of the Directors' Report for the year ended 30 June 2018.

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

Responsibilities

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ryan Hansen

Ryan Hansen
Partner
Chartered Accountants
Melbourne, 22 August 2018

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Ltd listing rules and not shown elsewhere in this report is as follows. This information is current as at 7 September 2018

(a) Distribution of equity holders of securities

(i) Ordinary share capital

622,184,466 fully paid ordinary shares are held by 35,753 shareholders

Range	Total holders	Units	% Units
1 – 1,000	12352	5,766,766	0.93
1,001 – 5,000	15093	39,049,290	6.28
5,001 – 10,000	4575	33,536,472	5.39
10,001 – 100,000	3536	80,782,252	12.98
100,001 Over	197	463,049,686	74.42
Rounding			0
Total	**35753**	**622,184,466**	**100**

Unmarketable Parcels	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 2.9700 per unit	169	2,095	170,240

(b) Substantial holders

Substantial holders at 7 September 2018 were:

Janchor Partners Limited	17.9%*
Greencape Capital Pty Ltd	9.18%
Challenger Limited	8.61%
Yarra Funds Management Limited	7.9082%

* Janchor owns a 17.9% interest in Vocus (constituted by a relevant interest of 9.24% of Vocus' voting shares and an economic interest through cash settled equity derivatives in a further 8.66%).

(c) Twenty Largest Shareholders

Names of the 20 largest shareholders of Vocus ordinary shares and the percentage of capital each holds:

Rank	Name	Units	% of Units
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	100017461	16.08
2.	CITICORP NOMINEES PTY LIMITED	70205262	11.28
3.	J P MORGAN NOMINEES AUSTRALIA LIMITED	61596629	9.9
4.	JANCHOR PTNRS OPPORTUNITIES MASTER FUND	27280482	4.38
5.	NATIONAL NOMINEES LIMITED	25961985	4.17
6.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	23252885	3.74
7.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	17484168	2.81
8.	JANCHOR PTNRS PAN ASIAN MF	11860840	1.91
9.	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	9968269	1.6
10.	BNP PARIBAS NOMS PTY LTD <DRP>	8743833	1.41
11.	ARGO INVESTMENTS LIMITED	6152447	0.99
12.	MR VAUGHAN BOWEN <V G BOWEN FAMILY A/C>	5833136	0.94
13.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	5787904	0.93
14.	TEFIG PTY LTD <AJ ABERCROMBIE S/FUND A/C>	5342835	0.86
15.	THE ABERCROMBIE GROUP PTY LTD <THE PHILADELPHIA A/C>	4657165	0.75
16.	XUE INVESTMENTS PTY LIMITED <XUE FAMILY A/C>	3965399	0.64
17.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3869633	0.62
18.	UBS NOMINEES PTY LTD	2490235	0.4
19.	CANNES MANAGEMENT PTY LTD <KESTELMAN FAMILY NO 2 A/C>	2442500	0.39
20.	NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	2362117	0.38
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		**399275185**	**64.17**
Total Remaining Holders Balance		**222909281**	**35.82**

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 2018, Vocus had 538,188 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.

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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
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INVESTOR RELATIONS

Investor Relations queries can be directed to:

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Melbourne VIC 3000

Telephone: 03 9923 3000
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AUSTRALIAN SECURITIES EXCHANGE LISTING

Vocus is listed on the Australian Securities Exchange (ASX) under the Issuer code: VOC

SHARE REGISTRY

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To view or update your holding details online, please go to: www.investorcentre.com

DIRECTORS

Robert Mansfield, AO	Non-Executive Chairman
David Wiadrowski	Non-Executive Director
John Ho	Non-Executive Director
Julie Fahey	Non-Executive Director
Bruce Akhurst	Non-Executive Director
Matthew Hanning	Non-Executive Director

Company Secretary
Ashe-lee Jegathesan

Group Managing Director & CEO
Kevin Russell

Group CFO
Mark Wratten

AUDITOR

Deloitte Touche Tohmatsu
Grosvenor Place, 225 George St
Sydney NSW 2000