Date: 25 September 2020

The Manager
Market Announcements Office
Australian Securities Exchange Limited
20 Bridge St
Sydney NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam,

Annual Report

Please find attached the Vocus 2020 Annual Report Notice for release to the market.

Authorised for release by:

Simon Lewin
Company Secretary

Level 10, 452 Flinders Street,
Melbourne VIC 3000 Australia

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vocus.com.au

Annual Report 2020

VOCUS

Brilliant Made Simple.

About this report

The Annual Report 2020 is a summary of Vocus operations, activities and financial position for the 12 month period to 30 June 2020. 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 – 4th edition" can be found online at our website via www.vocus.com.au/legal/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 FY20.

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 www.vocus.com.au/about-vocus/sustainability.

Key Dates

Financial Year End – 30 June 2020.
Annual General Meeting – 28 October 2020.

Given the uncertainty and potential health risks created by the COVID-19 pandemic, the 2020 Annual General Meeting of Vocus Group Limited will be a virtual meeting, which will be conducted online. Please refer to our website (www.vocusgroup.com.au) for further details.

Our refreshed brand is more representative of the Vocus business today and its strategic direction for the future.

Our new brand colours are taken directly from the colour coding of fibre optic cables.

Our branding reflects our aim to deliver experiences for customers that are Brilliant Made Simple.

Our Vocus 'O' represents a cross section of fibre optic cable.

A simple, clear and modern identity.

Contents

Letter from the Chairman and CEO

Dear Shareholders,

Delivering on our strategy

FY20 marked year two of Vocus' three-year turnaround strategy and it was a year of strong operational execution and financial progress.

Year one was the foundational year to get the right structure, the right people, and the right strategy in place. Year two has been a critical year for rebuilding Vocus as an organisation – where we stopped talking and started delivering, demonstrating progress and building momentum in building a strong, sustainable and growing business.

Vocus' FY20 results provide an endorsement that our strategy is the right one and the turnaround is firmly on-track. This year has been characterised by building momentum in our core markets, a stronger balance sheet and increasing stability as we manage through the financial headwinds caused by the transition away from legacy copper-based products in the Australian Retail business.

We have made it clear that Vocus Network Services (VNS) is our core business positioned to capitalise on our market opportunity as Australia's specialist fibre and network solutions provider. Our FY20 results show this ambition is being achieved: VNS has seen EBITDA growth of 10%, with positive momentum in underlying recurring revenue and an improving customer profile. Our average Enterprise deal was 24% larger than just 12 months ago and our pipeline is strong.

FY20 saw a refresh of our brand to reflect our vision for the company: Vocus Group and Vocus Communications are now simply Vocus, and our prompted brand awareness is up from 25% in FY19 to 48% in FY20. Our new branding was accompanied by a declaration of who we are and what we do: Brilliant Made Simple.

Our vision for Vocus is to be the challenger our customers deserve and our people are proud of every day, and we've seen the best of Vocus in pursuing this vision during COVID-19. Delivery timeframes for customers were reduced from weeks to days and sometimes minutes, staff seamlessly shifted to working from home, and our offshore contact centres rapidly re-established manageable service levels despite lockdowns.

COVID-19 is clearly accelerating market change. We believe that the challenger benefits in times of change and disruption, and we see opportunities evolving that Vocus can capitalise on in the immediate term. The first trend is the acceleration of digitisation and the resulting demand for bandwidth where our strength lies with high-capacity, low-latency connectivity across Australia and New Zealand and into Asia. The second trend is an increased focus on cybersecurity – ideally suited to our recent investments in secure network capabilities. The third trend is changing customer expectations on speed, flexibility and value – and our culture is a competitive strength, allowing us to rapidly respond to our customers' needs. In summary, we feel well positioned to win in a post COVID-19 world.

Throughout COVID-19 we have acted purposefully and made tough decisions, including some reprioritisation of capex for our Future State network program, reshaping our strategy for the small business market, and an employee restructure impacting 6% of our people. We've learned a lot about our culture, our customers, our suppliers, our partners and our business model in this period, and we are evolving to be stronger business as a result.

We would like to thank our people. The year saw extraordinary operational challenges posed by bushfires and the COVID-19 pandemic, and our priority is to always provide a safe working environment for our people who deliver the critical telecommunications infrastructure that connects the modern economy. The team have been simply outstanding in successfully working through these challenges with minimal impact on day to day operations. Again, thank you.

There are broader indicators of Vocus' success in FY20. The refinancing of our debt facilities and the extension of their duration is a clear vote of confidence from our lenders, both existing and new. The fact that the debt syndication was oversubscribed in a period of global economic uncertainty shows the underlying strength of Vocus' business, and the new loan facility gives Vocus financial stability and flexibility as we enter the next phase of the company's growth and business transformation.

Milestones as Australia's specialist fibre and network solutions provider

FY20 saw Vocus achieve several milestones, reinforcing our position as Australia's specialist fibre and network solutions provider. We successfully completed the 4,700km Coral Sea Cable System for the Australian Government in December 2019 – a month ahead of schedule – connecting Sydney to our Pacific Island neighbours in the Solomon Islands and Papua New Guinea.

This major submarine cable was delivered just 15 months after the completion of Vocus' own 4,600km Australia Singapore Cable (ASC), which continues to bring traffic on to our national domestic fibre network and attract strong sales from major international customers.

Another milestone was the announcement that Vocus will deliver the 'Terabit Territory' project in partnership with the Northern Territory Government, upgrading the fibre backbone in the NT to a total capacity of 20 Terabits per second and solidifying Vocus' fibre infrastructure in Australia's north-west.

The Terabit Territory project also provides a key strategic infrastructure opportunity for Vocus to establish a new fibre connection between Darwin and Singapore, linking the 2,100km North-West Cable System (NWCS) from Darwin to Port Hedland to ASC which stretches from Perth to Singapore via Indonesia. The NWCS connects a number of major offshore oil and gas facilities in the Timor Sea, and was recently extended to connect Darwin to the Tiwi Islands.

Business Performance

Our FY20 financial results show clear progress in Vocus' turnaround. The strategy to grow the VNS and New Zealand businesses is being consistently executed, and the Australian Retail Consumer segment has stabilised with the majority of legacy revenues now behind it.

Vocus Network Services has delivered a standout performance in the market. Recurring revenue grew 6%, and data network revenue grew 3% for the year. Gross margin grew 5% for the full year, and recurring margin was stronger in the second half of the year, which demonstrates good momentum. Overall, VNS EBITDA grew a strong 10% for the year.

Our New Zealand business delivered growth for the fifth consecutive year. Its bundling strategy across broadband and energy in the Consumer market continues to drive growth. Significantly, the business is now also pursuing acquisitions and the purchase of Stuff Fibre grew the broadband subscriber base by 10%. The Wholesale business also had a strong year with increased bandwidth demands and the overall EBITDA grew 4% year-on-year with stable margins.

Retail showed significant progress in stabilising the business, with year-on-year revenue declines improving from – 12% in H1 to – 6% in H2. The Consumer business was stable in the second half and has a clear line of sight to profitable growth through bundling broadband, energy and mobile services. The small and medium business segment, however, faces increasingly challenging market conditions. The Retail SMB business will continue to navigate the decline in legacy revenues over the coming year and will prepare for a difficult environment through COVID-19 as Government support is withdrawn.

Outlook

In summary, the second year of our turnaround was a critical execution year and with the turnaround firmly on track, we are now starting to see the longer-term financial shape of our different business units. VNS and New Zealand are well-positioned to benefit from the accelerating market trends due to COVID-19 and our Retail business is stabilising.

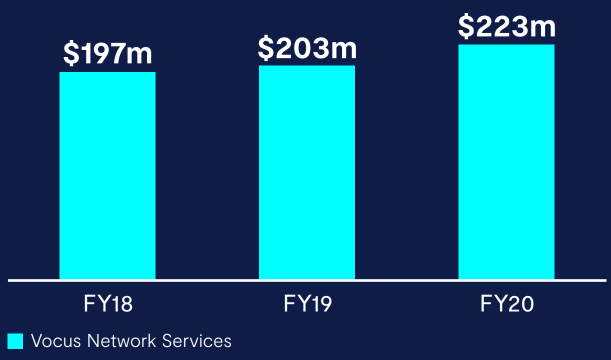
As we move into FY21 our focus is shifting to winning in market and capitalising on the progress we have made in the past 12 months.

Kevin Russell,
Group CEO

Bob Mansfield,
Chairman

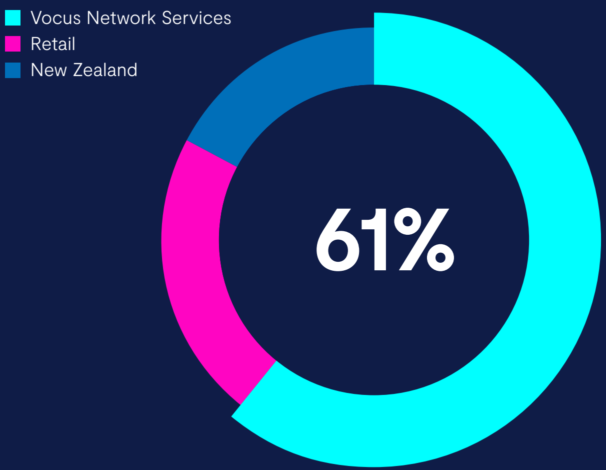
VNS established as core growth engine

3 Year EBITDA ($m)

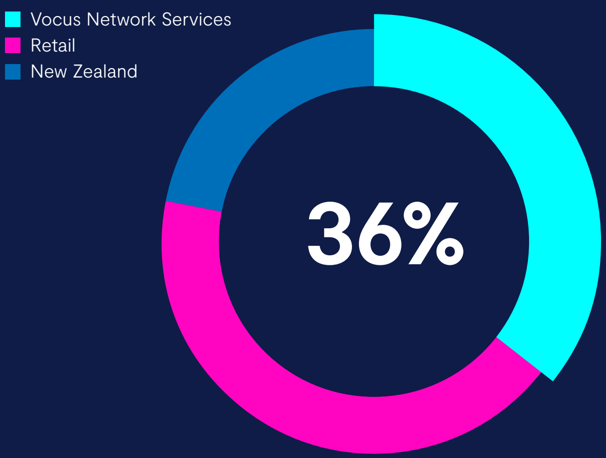


Business Unit Contribution

EBITDA



Recurring revenue



Vocus Network Services

Vocus Network Services cemented its position as Australia's specialist fibre and network solutions provider in FY20. Key measures of success in FY20 included a strong operational response to bushfires and COVID-19, a shift to higher-value Enterprise and Government customers, and significant progress in transforming operations – both in delivery and modernising our network.

The underlying strength of VNS was on display in FY20 as the business responded flawlessly to both severe bushfires and the impact of COVID-19. Vocus lived up to its reputation as Australia's specialist fibre and network solutions provider when our network remained resilient as bushfires inflicted major damage on telecoms infrastructure across the country. Similarly, when COVID-19 struck, VNS responded rapidly to a surge in demand as our customers shifted their businesses to a work-from-home environment.

Mobilised to meet increased data demand due to COVID-19

New products and partnerships

Refreshed Vocus brand

Consolidation and modernisation of networks and technology

Vocus Network Services

Vocus' targeted approach to market has seen the business winning larger, more complex deals – with our average deal size growing by close to 25% year on year. The business has also sharpened its focus on four key industries: Care (Health, aged and community services); Mining, Resources and Utilities; Financial Services; and Government.

Vocus' credibility in market is reflected in new customers including Commonwealth Government agencies such as the Bureau of Meteorology, State Government agencies including SA Health and NSW Health, and and a number of major Enterprise customers.

Vocus has earned the industry's respect as 'the carrier's carrier', and this reputation came to the fore as our network allowed our wholesale customers' networks to continue operating in the face of major disruptions caused by bushfires and COVID-19.

The strength of our relationships with our major carriers and 'Over The Top' (OTT) service providers resulted in a growth in spend from strategic accounts, as well as a solid pipeline of opportunities going into FY21.

A key highlight for the year was the growth of the NBN wholesale business, where Vocus continued to win business for VNNI and core backhaul products.

FY21 provides clear opportunity for Vocus to win business in the wholesale 5G backhaul market. Vocus has a unique position as an independent fibre backhaul provider without any mobile infrastructure, allowing for economies of scale to mobile operators which have been required to invest heavily in 5G spectrum and radio access network equipment.

Vocus Enterprise and Government chief executive Andrew Wildblood with Zoom Head of Channels and Business Development Laura Padilla.

Google Cloud A/NZ Country Director Colin Timm with Vocus Enterprise & Government chief executive Andrew Wildblood.

Products & Partnerships

Vocus Network Services solidified its product line up to meet the market opportunity in FY20, launching SD-WAN, Cloud IaaS, Google Cloud, Secure Internet Gateway, and three NBN products – Enterprise Ethernet, Internet, and Business Satellite.

VNS also reinvigorated its channel and partner program, resulting in 17% year-on-year growth in indirect revenues. New Partner Solutions allows Vocus to sell expanded offerings to customers on a single Vocus bill. VNS launched the Google Cloud partnership, enhanced engagement with NBN, and established strategic partnerships with Fortinet, Equinix and Nokia.

Vocus was also the first Australian telco to forge a strategic partnership with Zoom, announced in March 2020 just as the impact of COVID-19 was forcing businesses to re-think how they operate.

New Vocus Brand

Vocus consolidated its Vocus Group and Vocus Communications brands into a single, refreshed Vocus brand in FY20. Alongside Vocus' new tag line of 'Brilliant Made Simple', the refresh saw brand consideration increase by 2.5x since 2018, with Vocus now ranked as the 3rd most trusted provider against far larger and more well-established competitors. Vocus prompted brand awareness is up from 25% in FY19 to 48% in FY20.

Image 1: Vocus CEO Kevin Russell joins Minister for Foreign Affairs Senator the Hon. Marise Payne and officials from Papua New Guinea, the Solomon Islands and La Perouse Aboriginal Land Council for the landing of the Coral Sea Cable System.

Image 2: Announcement of the Terabit Territory project with NT Chief Minister Michael Gunner, Vocus General Manager of Government and Special Projects Michael Ackland, and NT Treasurer Nicole Manison.

Large Infrastructure Projects

FY20 saw Vocus again prove its unique and market-leading capability for delivering large infrastructure projects. Having successfully completed the Australia Singapore Cable in FY19, Vocus delivered the Coral Sea Cable System for the Australian Government in FY20. This cable system connects Australia to Papua New Guinea and the Solomon Islands, and was completed ahead of schedule by a team with unparalleled experience in submarine cable projects.

Vocus will also deliver a massive boost to broadband capacity in the Northern Territory, upgrading the NT's internet backbone to a total capacity of 20 Terabits per second. The Terabit Territory project, announced with the NT Government, also provides a key strategic infrastructure opportunity for Vocus to establish a new fibre connection between Darwin and Singapore with the opportunity to link the North-West Cable System (NWCS) from Darwin to Port Hedland to the Australia-Singapore Cable (ASC), connecting Perth to Singapore via Indonesia.

Northern Minerals

Vocus worked with major resources operator Northern Minerals to get one of Australia's most isolated locations online. The Browns Range Pilot Plant, located in northern Western Australia, is more than 160km away from the nearest major town of Halls Creek – which makes attracting and retaining employees a key challenge for the business.

Vocus delivered a business nbn Satellite Service to the site to provide internet access, with the new connectivity resulting in an immediate increase in employee morale. Despite being in such a remote location, staff on the site can now reliably enjoy streaming entertainment services such as on-demand video and music, as well as video calls with loved ones back home. Productivity has also improved thanks to improved access to remote systems such as data historian and accounting software.

Network Simplification

Vocus has made significant progress towards the goal of radically simplifying the networks and systems the company inherited through numerous historic mergers and acquisitions.

By the end of FY20 VNS had shut down three billing systems, 44 DSLAMS, and commenced the migration off numerous legacy network platforms – laying a solid foundation for further consolidation in FY21. This work has contributed to VNS achieving significant cost reductions while also improving delivery timeframes, increasing service-level agreement performance, and achieving its highest-ever customer satisfaction scores.

COVID-19 provided the opportunity to reprioritise the network modernisation program to focus on the customer experience. The digitisation and automation strategy was accelerated to deliver improvements to the user experience, while capex-intensive infrastructure work was de-prioritised to keep costs under control without impacting customers.

Removed 3 billing systems and 44 DSLAMS

Migration off legacy platforms underway

Achieving significant cost reductions

New Zealand

Vocus New Zealand completed its fifth consecutive year of growth in FY20, continuing to drive profitable growth in consumer broadband and energy. A highlight for the year was the acquisition of Stuff Fibre, which grew the NZ broadband user base by 10% to 226,000 services in operation.

The New Zealand business, like Australia, demonstrated a strong operational response to COVID-19. COVID-19 lockdowns resulted in an increased proportion of Retail customers moving onto Gigabit broadband services. Vocus NZ finished FY20 with 25% market share of Gigabit connections, which have a better churn profile than lower-speed services. Vocus' Orcon brand also became the first broadband retailer to launch a new 4Gbps residential service.

Vocus NZ's network set new records for data throughput during lockdowns due to surges in video streaming. Substantial investment in network capacity was undertaken in preparation for the 2019 Rugby World Cup, with these investments providing a robust network capable of managing record peaks when COVID-19 hit – and positioning the business well for future growth.

COVID-19 also resulted in new Enterprise and Government demand for increased bandwidth and improved redundancy. Vocus' network ownership was critical during this time, and enabled the business to effectively work with larger customers to provide resilient services throughout lockdowns.

In response to lockdowns, the New Zealand business is rolling out a 'Work Anywhere' program, allowing staff to work at home, in the office, or a hybrid of the two. Work Anywhere has been designed to increase staff satisfaction and engagement, and will also result in rationalisation of office space.

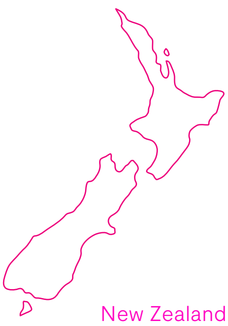
New Zealand implemented a number of software developments in FY20 to improve productivity through automation, providing customers with self-management tools across all products. This has resulted in improved revenue-per-employee, the key success metric for the NZ Retail business.

The consumer business also rebuilt its billing platform to allow customers to choose between weekly, fortnightly and monthly billing – a key point of difference in a market where consumers are looking for better ways to manage their household spend. The new platform will also be leveraged across Business and Wholesale market segments.

226,000-strong broadband customer base following Stuff Fibre acquisition

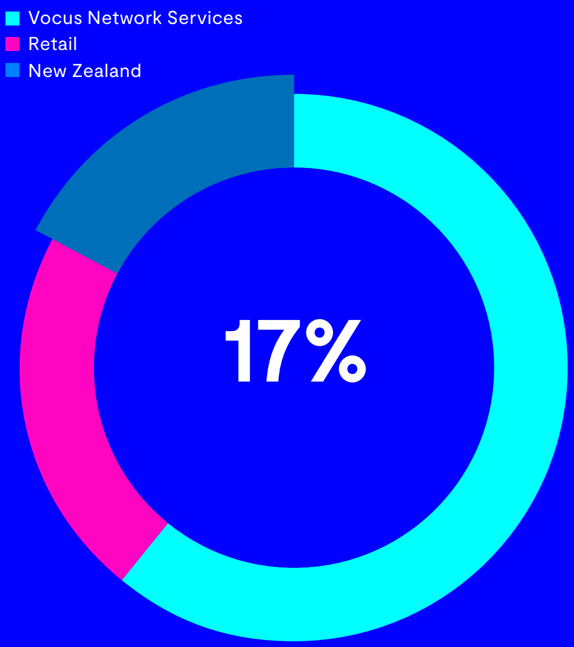
25% market share of Gigabit broadband connections

Resilient network during unprecedented demand due to COVID-19

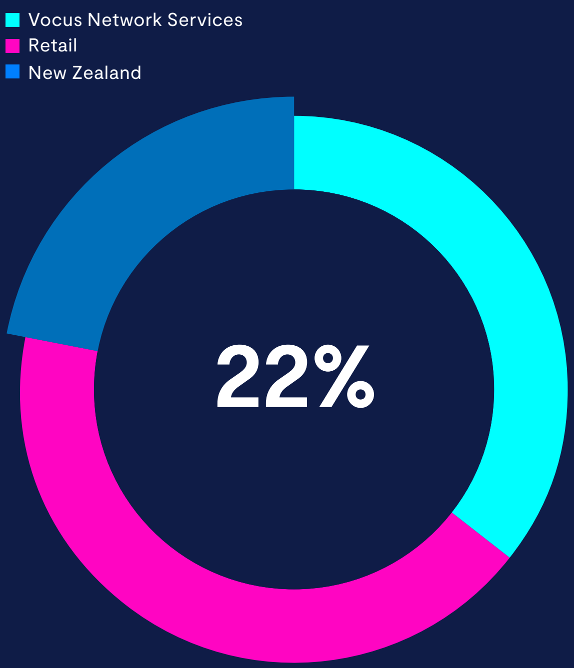


Business Unit Contribution

EBITDA



Recurring revenue



Westforce Credit Union

Headquartered in Avondale, Auckland, Westforce Credit Union's branches stretch from Whangarei to Pukekohe. All of Westforce's technological resource was centralised in Avondale, leaving them vulnerable to operation-wide outages. For a financial services provider this represented a significant risk. Westforce was also struggling with voice and data bandwidth issues, forcing important video conferencing to be scheduled off-peak or even out-of-hours to avoid disrupting their network.

The Vocus solutions team quickly identified several ways to improve Westforce's IT and communications landscape. As Westforce's needs changed and grew, it was essential that flexibility and scalability were built into a truly 'future-proof' solution. With bandwidth restrictions already affecting operations, the team took the opportunity to dramatically increase the scalability of Westforce's network in their proposed solution.

Within the space of eight weeks, Vocus had delivered a suite of services to modernise Westforce's network, including Managed WAN, Mobile, IP Telephony, fibre, SIP trunking, and Infrastructure-as-a-Service.

"Not only did we get significantly greater bandwidth at an affordable cost, there's a great deal more all-round reassurance about our resilience."

— Victor Martick, General Manager, Westforce Credit Union

Retail

FY20 was a transformational year for the Retail business as it continues to navigate the headwinds posed by the structural decline of legacy copper products. Growth in NBN, IP Voice, mobile and energy customers is helping offset this decline with current products now representing the majority of the Retail business.

The Retail Consumer business – Dodo and iPrimus – is projected to return to growth in FY21, with more than 90% of Dodo's FY20 revenue coming from current products and the transition from legacy nearing completion in FY21.

Retail Consumer brands are focussed on multi-product customer growth – holding and leveraging the base of NBN broadband customers and cross-selling to provide energy and mobile products. Retail's success in FY21 will be measured by increasing the number of products sold to each customer and improving average revenue per user (ARPU) while minimising churn. The Dodo business has had great success with the 'chip in' campaign – where an energy service can 'chip in' credits towards a customer's broadband bill. The business will continue to build on this success in FY21 as more customers combine energy and internet.

Retail also made great strides in simplifying the Consumer business in FY20, providing the platform for growth in FY21. Improvements to digital capabilities saw self-service transactions double in the year, while simultaneously reducing complaints and improving delivery metrics. The coming year will see the Consumer business continue to simplify its product set in conjunction with the launch of a new cloud based technology stack to further reduce operational complexity and enable more rapid introduction of new offers to market.

Operational improvements made within the Retail business proved critical to the organisational response to COVID-19. With lockdowns impacting the Manila customer service centre, the business implemented processes and technology capabilities to enable Manila staff to work-from-home, prioritised enquiries to ensure urgent issues were addressed quickly, and swiftly addressed the backlog as service levels were progressively restored. Retail has also improved hardship provisions to help customers impacted by COVID-19.

The small business market served by Commander and Engin will require more time to transition from legacy copper to NBN products, with FY22 projected as the end of the legacy decline and FY23 the year where the segment returns to growth. FY21 will focus on ensuring every business customer is prepared for the move to the NBN, with improved products and services to manage the migration process.

Retail Consumer revenue stable in H2 and primed for growth

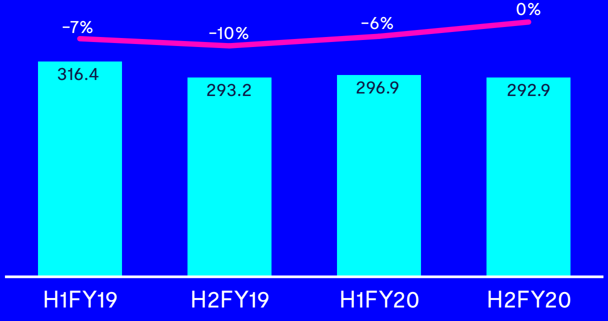
Legacy decline largely complete in Consumer

Delivery and self-service metrics improving, customer complaints declining

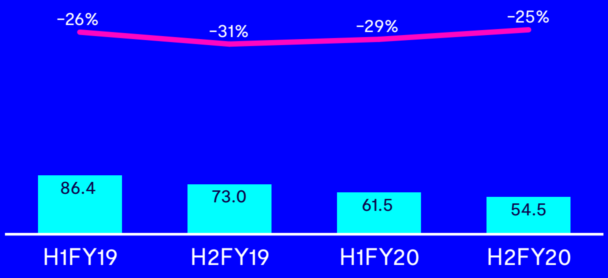
Retail

Consumer Retail revenue stable in H2

Consumer ($m, %YoY)

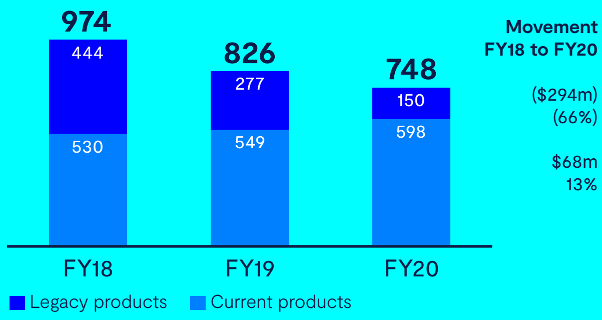


Business ($m, %YoY)

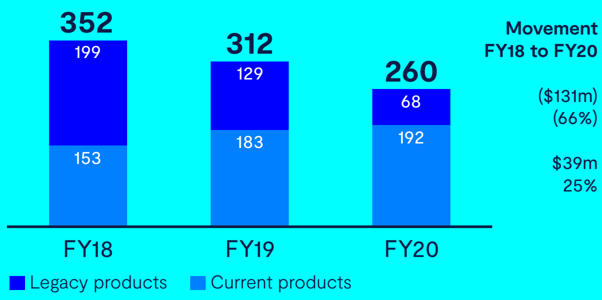


Retail legacy erosion substantially complete by end of FY21

Revenue ($m)

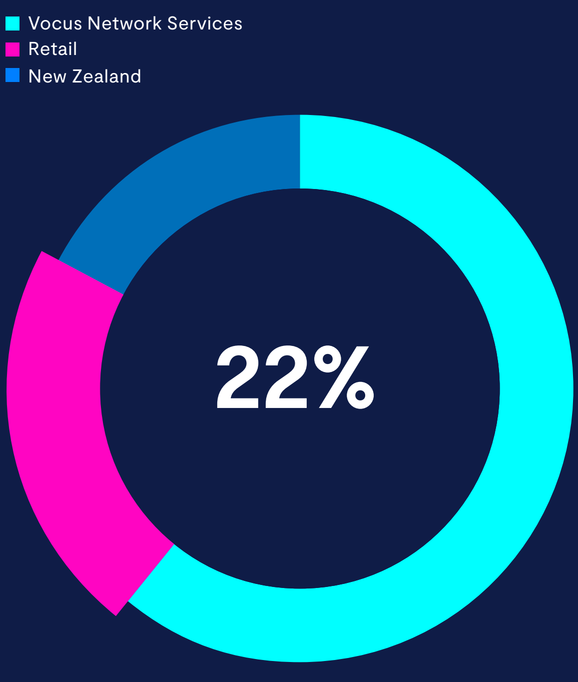


Gross Margin ($m, excludes allocations)

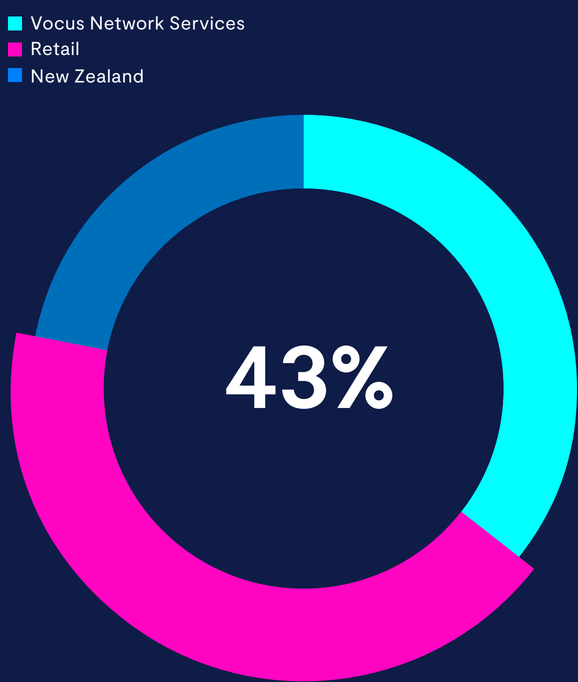


Business Unit Contribution

EBITDA



Recurring revenue



Sustainability

FY20 saw Vocus conduct its first Sustainability Survey, which attracted a widespread engagement from across the business and confirmed the Sustainability Priorities of our Environment, our Workplace, and our Customers.

With a focus on the Environment, Vocus has extended its publication of emissions data – this year including carbon emissions from data centres and offices in addition to motor vehicle fleet and air travel. Vocus has joined the Australian Packaging Covenant to demonstrate the company's commitment to monitoring the environmental impact of packaging, and has completed the first year of data collection and reporting in this area. Vocus will work to maintain the reduction in carbon emissions which has come about as a result of reduced travel activity due to COVID-19.

Vocus' data centres are the primary source of electricity usage across the group, with offices representing a secondary pool of electricity usage. Vocus continually reviews data centre operations to maximise energy-efficiency. During FY20 Vocus deployed a range of new efficiency processes and systems, including investments in new cooling technologies to reduce power consumption, automation of air conditioning via Data Centre Infrastructure Management systems, and upgrades and consolidation of legacy power systems resulting in substantial energy savings.

Vocus' Sydney, Melbourne and Perth offices have 5 star or above NABERS Energy ratings.

Vocus is also active in the community. Through Vocus' partnership with the Telco Together Foundation, staff have completed 90 volunteer placements totalling more than 540 volunteer hours. Due to COVID-19, in-person volunteering activities are currently on hold and will be resumed as soon as it is safe and practical to do so. Vocus is also working with the Telco Together Foundation to publish a Modern Slavery Statement on behalf of the telecommunications industry.

In FY20 Vocus held its first-ever "5 Weeks of Diversity" celebrations, with the theme "All About VocUS". The initiative aimed to further promote a culture where the diversity of Vocus staff is celebrated, accepted and valued. Vocus will launch a new policy for FY21 which recognises the cultural diversity of staff by making some public holidays flexible for religious or cultural reasons. The policy will allow staff to swap some public holidays for a significant religious or cultural day which is relevant to their cultural background.

The company also continued to invest in the Vocus Leadership Development programme, investing 2,400 hours in training future leaders. The Skills Growth Indicator program was rolled out to 720 employees in FY20.

Improved carbon footprint management

Joined the Australian Packaging Covenant to optimise resource use

"5 Weeks of Diversity" celebrations to promote diversity and inclusion

Directors' Report and Financial Statements

Directors' Report

Directors

The names and details of the directors of Vocus during FY20 and at the date of this report are as follows:

Robert Mansfield, AO (a)
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 as a Director of Telstra Corporation Limited. On 1 January 2000, he became Telstra's non-executive Chairman and served in that capacity until April 2004.

Committee Memberships: Chair of the Nomination Committee.

Current Directorships and other interests: Chairman of the Board of Governors of the Steve Waugh 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 (b)
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 25 years in the telecommunications industry in Hong Kong, Israel, Australia, the UK and USA. 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: Standing invitee of the Audit & Risk Committee, Wholesale Energy Risk Management Sub-Committee and People & Remuneration Committee.

Current Directorships and other interests: None

Other listed company Directorships (last 3 years): None

David Wiadrowski (c)
Non-Executive Director

B Com, FCA, GAICD

Appointed 24 July 2017

Experience: Mr Wiadrowski is an experienced listed company director with strong commercial acumen and financial credentials derived from extensive experience at PwC as well board roles currently held at Vocus, Carsales.com Limited, oOh!media Limited and Life360 Inc. Mr Wiadrowski's passion for business comes from his role as a Partner at PwC, including 5 years as the Chief Operating Officer of PwC Assurance where he was responsible for managing the firm's largest business unit. Mr Wiadrowski's specific experience includes major transformation initiatives, M&A, CEO selection, board renewal and takeover defences. Mr Wiadrowski has extensive business and industry knowledge with a particular focus on digitally enabled and disrupted businesses having led PwC's Telco, Media and Technology (TMT) practice for 8 years.

Mr Wiadrowski is entitled to receive payments from PwC as part of a retirement plan. The payments are based on a set formula relating to his partnership and tenure with PwC. The amount is fixed and is not dependent on the revenues, profits or earnings of PwC. The Board is satisfied that this does not affect Mr Wiadrowski's independence as a non-executive Director, nor does it constitute a conflict of interest and complies with the Corporations Act. The Board has, however, put in place appropriate safeguards to address any perceived conflicts of interest if they were to arise from time to time.

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 2020 ('FY20') in compliance with the provisions of the *Corporations Act 2001* ('Corporations Act').

Committee Membership: Chair of the Audit & Risk Committee, Chair of the Wholesale Energy Risk Management Committee and a Member of the Nomination Committee.

Current Directorships and other interests: Non-Executive Director of Carsales.com Limited, oOh!media Limited and Life360 Inc; Advisory board member of the Cambodian Children's Fund.

Other listed company Directorships (last 3 years): None

John Ho (d)
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: Non-Executive Director of Rokt (an e-commerce marketing company).

Other listed company Directorships (last 3 years): Non-Executive Chairman of Bellamy's Australia Ltd.

Julie Fahey (e)
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 People & Remuneration Committee and Member of the Audit & Risk Committee.

Current Directorships and other interests: Non-Executive Director with IRESS Ltd and Seek Ltd. She is also a board member of two private companies, headquartered in New Zealand, a not-for-profit organisation and is a member of the Latrobe University Council.

Other listed company Directorships (last 3 years): None

Mark Callander (f)
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 merge with Vocus the following year and is CEO of the Vocus New Zealand business.

Committee Membership: Standing invitee of the Audit & Risk Committee and 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

Matthew Hanning (g)
Non-Executive Director

LLB (Hons), B Ec, Masters of Applied Finance

Appointed 1 September 2018

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.

Committee Membership: Member of the Audit & Risk Committee.

Current Directorships and other interests: Chairman of SAI Global Holdings II (Australia) Pty Ltd, Senior Adviser to Baring Private Equity Asia, and director of Blackwattle Group Holdings (and various subsidiaries).

Other listed company Directorships (last 3 years): None

Bruce Akhurst (h)
Non-Executive Director

B Ec (Hons), LLB, FAICD

Appointed 1 September 2018

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.

Committee Membership: Member of the People & Remuneration Committee.

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; Council member of RMIT University.

Other listed company Directorships (last 3 years): None

General Counsel & Company Secretary

Simon Lewin
General Counsel & Company Secretary

LLB, B.BSYS

Appointed 25 September 2019

Experience: Mr Lewin has 15 years' experience as a practicing lawyer, both in private practice and in-house. He originally joined the Vocus team in 2016 and was subsequently appointed to the role of Deputy General Counsel in 2018, where he oversaw the legal and compliance functions. In 2019 his team was named as a finalist in the Technology, Media and Telecommunications legal team of the Year. Mr Lewin's past experience includes roles with Cadbury (now Mondelez International) and Mills Oakley Lawyers, where he gained extensive experience across Corporate Advisory, M&A and strategy development, Information Technology and competition regulation.

As part of his role at Vocus, Mr Lewin also has executive oversight of the Regulatory Affairs and Risk functions.

Directors' shareholdings

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

	Shares
R Mansfield	125,500
K Russell	200,000
D Wiadrowski	23,000
J Ho [1]	57,490,290
J Fahey	7,510
M Callander	74,394
Bruce Akhurst	50,000
Matthew Hanning	500,000

1 John Ho is the founder and chief industrialist investor of Janchor Partners. Janchor Partners Pan-Asian Master Fund and Janchor Partners Opportunities Master Fund together own a 17.9% interest in Vocus (constituted by a relevant interest of 9.26% of Vocus' voting shares and an economic interest through cash settled equity derivatives in a further 8.66%). Mr Ho holds more than 20% of the voting interests in Janchor Partners Pan-Asian Master Fund and Janchor Partners Opportunities Master Fund.

No director has (other than as stated below):

- 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 (other than Kevin Russell and Mark Callander, details of which are set out in the Remuneration Report); or
- rights under a contract that confer a right to call for or deliver shares in, or debentures of, Vocus.

Directors' meetings

The number of directors' meetings, including meetings of each Board committee held during FY20 and the number of meetings attended by each director is as follows:

	Board Meeting		Audit and Risk Committee		People and Remuneration Committee		Nomination Committee	
Directors	**Eligible to Attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to Attend**	**Attended**	**Eligible to Attend**	**Attended**
Robert Mansfield	13	13	0	0	0	0	2	2
Kevin Russell	13	13	9*	4	5*	3	0	0
David Wiadrowski	13	13	9	9	0	0	2	2
John Ho	13	13	0	0	5	5	2	2
Julie Fahey	13	9	9	8	5	5	0	0
Mark Callander	13	12	0	0	0	0	0	0
Bruce Akhurst	13	12	0	0	5	5	0	0
Matthew Hanning	13	12	9	7	0	0	0	0

* Standing invitee, not member of relevant Committee.

Principal activity

Vocus Group Limited (ASX: VOC) is Australia's specialist fibre and network solutions provider, connecting all mainland capitals with Asia. Regionally, Vocus has backhaul fibre connecting most regional centres in Australia. Vocus also operates an extensive and modern network in New Zealand, connecting the country's capitals and most regional centres. In total, the Vocus terrestrial network is c.30,000 route-km of high performance, high availability fibre-optic cable supported by 4,600km of submarine cable connecting Singapore, Indonesia and Australia and 2,100km of submarine cable between Port Hedland and Darwin and connecting offshore oil and gas facilities in the Timor Sea. Vocus owns a portfolio of well-recognised brands catering to enterprise, government, wholesale, small business and residential customers across Australia and New Zealand.

Review of Operations and Results

Please refer to the Operating and Financial Review for further details relating to Vocus operations and results for FY20. The Operating and Financial Review includes information that Vocus shareholders would reasonably require to make an informed assessment of Vocus operations, financial position, business strategies and prospects for future financial years.

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

Significant changes in state of affairs

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

Class action

On 4 May 2020, the Federal Court of Australia approved the settlement of the securities class action filed by Slater & Gordon, on behalf of persons who acquired an interest in Vocus shares from 29 November 2016 to the close of trade on 2 May 2017. The settlement amount was $35 million inclusive of interest and costs. Vocus contributed $3.5 million to the settlement, which was reported as a significant item below underlying EBITDA. The remainder of the settlement was fully insured. Vocus' Board determined that the agreement to settle the class action was a commercial decision made in the best interest of the company and its shareholders.

COVID-19

In March 2020, the World Health Organization declared the COVID-19 outbreak as a pandemic. The COVID-19 pandemic has had significant adverse impacts on the global economy. The Company has conducted business with substantial modifications to employee work locations and monitoring of the financial implications of the pandemic. While the Company has not experienced significant disruptions to its operations or material impacts on its financials thus far, the Company is unable to predict the full impact that the COVID-19 pandemic will have on its operations and financial performance nor the length of duration of the pandemic.

Significant events after balance date

Other than the event/s described elsewhere, 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, 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 – 4th Edition" can be found online at the Company's website http://vocusgroup.com.au/about-us/corporate-governance/. Whilst Vocus is not required to measure its governance practices against the 4th Edition until the financial year ending 30 June 2021, Vocus has elected to adopt the 4th Edition earlier. The Board believes that the Vocus Corporate Governance framework and policies comply with corporate governance best practice in Australia.

Dividends

No dividends were recommended, declared or paid during FY20. As disclosed to the ASX on 4 June 2020, Vocus closed a new syndicated debt facility with its lenders. The Syndicated Facility Agreement stipulates that dividends will not be paid until the Net Leverage Ratio[1] is below 2.25x for two consecutive testing dates.

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

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 FY20, 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, PricewaterhouseCoopers ('PwC'), for non-audit services during the year was $41,547. Details of the amounts paid for non-audit services are set out in note 40 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 PwC 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 48 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 Shareholders,

On behalf of the Board, I am pleased to present our Remuneration Report for FY2020.

Over the past 2 years, I'm pleased to say, we have made great progress in building an exceptional leadership team at Vocus. After a refresh of the Board and Executive during FY18 and FY19, there have been no changes to the Board during FY20 and, apart from our new Chief Financial Officer who joined us in January 2020, there were no other changes to our Key Management Personnel.

The quality and continuity within the new leadership team is a key factor in our strong operational and financial progress this year. Whilst this is discussed in detail in the Operating and Financial Review, some of the key highlights in FY20 have been:

- EBITDA growth of 10% in our core VNS business;
- Building momentum in underlying recurring revenue and an improving customer profile;
- Establishing a sustainable business model for Consumer NBN;
- Excellent operational resilience through bushfires and COVID-19; and
- Improved financial discipline and a strong cost out focus.

We have introduced a goals alignment and review process, which includes a balance of financial and non-financial goals for all our employees. Our philosophy is that how we achieve our goals is just as important as the goals themselves if we are to build a sustainable, resilient business for our customers and shareholders. The non-financial goals align with our stated values of:

- One Team;
- Disruptive Thinking;
- People are the Difference; and
- Crazy about Customers.

Our approach to executive remuneration, as outlined in our FY2018 Remuneration Report, was re-designed during FY2018 to ensure that we were able to attract, motivate and retain the high calibre talent we were seeking, and to align and focus that talent on developing and executing the long-term strategic plan of the company.

The "FY19 Plan" was structured as a grant of options that covered three financial years – FY19, FY20 and FY21 – with a five-year vesting period. No other Long Term Incentive plans have been granted to executives in relation to either FY20 or FY21. In addition, all Short-Term Incentives were removed for these years. The testing date for the FY19 Plan is in September 2021 and is based on a single measure of Absolute Total Shareholder Return ("ATSR").

This remuneration structure is designed to ensure the team is focused on the growth of the organisation as a whole, rather than the performance of individual business units, and is very strongly aligned to shareholders.

To date, I believe that the FY19 Plan has been very successful, as it has assisted in attracting excellent talent, a significant achievement given prior weak market perception, and it has motivated and aligned executives to shareholder value creation.

There is no doubt that the COVID-19 pandemic has and will continue to have an impact on global and local share markets and, as a result, the Vocus share price. There is also no doubt, the volatility will continue for some time and the economic uncertainty remains.

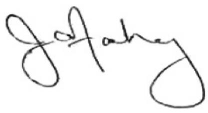
We recognise that the COVID-19 environment could impact our ability to drive shareholder value in the coming year, which is the final year of the three-year measurement period.

With ATSR growth the only measure for the successful vesting of the Long Term Incentive Plan, the ability of FY19 Plan to continue to be a motivator and retention tool is at risk. Given this, the Remuneration committee has recently sought advice and held discussions with proxy advisers and other stakeholders to consider mitigation strategies for this risk and consider whether Board discretion may be applied.

The intent of any board discretion would be to ensure that the executive remuneration rewards performance and remains a motivator and a retention tool for our high performing executive team. No decisions have yet been made and further feedback will be sought from stakeholders before a conclusion is reached.

Our Board and Executive Team continue to be committed to our strategy and believe that it will create sustainable long-term wealth for our business and shareholders.

This report details the remuneration outcomes achieved by our key management personnel (KMP) for the financial year to 30 June 2020. We invite your feedback on this report and our current and future 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 2020 (FY20). 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' longer-term 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 & Chief Executive Officer (MD & CEO) and to those executives with authority and responsibility for planning, directing and controlling Vocus' activities, directly or indirectly, as outlined below.

For FY20, the following were assessed to be KMP:

Non-Executive Directors:	
Robert Mansfield	Non-Executive Chairman
David Wiadrowski	Non-Executive Director (Chair, Audit & Risk Committee)
Julie Fahey	Non-Executive Director (Chair, People & Remuneration Committee)
John Ho	Non-Executive Director
Bruce Akhurst	Non-Executive Director
Matthew Hanning	Non-Executive Director
Executive Directors:	
Kevin Russell	Group Managing Director & Chief Executive Officer
Mark Callander	Executive Director & Chief Executive, New Zealand and Wholesale
Executives:	
Ellie Sweeney	Chief Operating Officer
Andrew Wildblood	Chief Executive, Enterprise and Government
Antony De Jong	Chief Executive, Retail
Nitesh Naidoo	Group Chief Financial Officer (appointed 20 January 2020)
Former Executives:	
Mark Wratten	Group Chief Financial Officer (ceased 19 January 2020)

Except as otherwise noted, all Directors and Executives have held their positions for the duration of FY20.

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 FY20 and the previous four financial years

	FY16	FY17	FY18	FY19	FY20
	$'000	$'000	$'000	$'000	$'000
EBITDA	194,077	335,479	360,416	349,107	361,312
EBIT	116,469	141,914	130,808	105,750	(108,909)
Profit after income tax	64,091	(1,464,870)	61,045	34,009	(178,166)

TSR for FY20 and the previous four financial years

	FY16	FY17	FY18	FY19	FY20
Share price at financial year end ($)	8.42	3.37	2.31	3.27	2.95
Total dividends declared [1] (cents/share)	17.50	6.0	0.0	0.0	0.0
Diluted earnings per share [1] (cents/share)	18.60	(237.65)	9.79	5.40	(28.74)
Underlying diluted earnings per share [2] (cents per share)	29.87	24.65	20.37	16.74	16.04

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

Non-Executive Director Remuneration Policy and framework

The Non-Executive Director remuneration policy is designed to provide fair remuneration that is sufficient to attract and retain Non-Executive Directors with the appropriate level of experience, knowledge, skills and judgment to steward the Company's success. The level of remuneration paid to Non-Executive Directors is regularly benchmarked, most recently in December 2018.

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

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 FY20 totalled $1,085,073. There is no expectation that fees will be increased for FY21.

	Board Fees	Audit & Risk Committee [1]	People and Remuneration Committee	Wholesale Energy Risk Management Committee	Nominations Committee [2]
Chairman [3]	$375,000		–	–	–
Non-Executive Director	$140,000		–	–	–
Committee Chair	–	$45,000	$30,000	$15,000	–
Committee Member	–	$22,500	$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. No additional fees are payable for service on this committee.
3. Fees include service on all committees.

The Board adopted in FY19 a minimum shareholding guideline for Non-Executive Directors. Each Non-Executive Director must, within three years of being appointed, establish and maintain the minimum shareholding level value equal to one year's base fees. The value is to be based on the number of shares held multiplied by the higher of the share price on the purchase date or on the last trading day of the relevant financial period, to ensure alignment of directors' interests with those of shareholders.

Executive Remuneration Policy and Framework

The Board is committed to developing and maintaining an executive remuneration policy that:

- enables Vocus to attract and retain skilled executive leaders; and
- is equitable and aligned with the long-term interests of Vocus and its shareholders; and
- rewards the achievement of Vocus' goals and longer-term strategic plan.

Vocus' remuneration framework and policy, for the Group as a whole, is regularly considered by the People & Remuneration Committee to ensure that both the framework and policy remains aligned with Vocus' business strategy and shareholders' interests, as well as remaining consistent with market conditions and drivers.

FY20 Executive Remuneration

In FY18, following a thorough review by the Board, Vocus' executive remuneration policy and framework was re-designed to better:

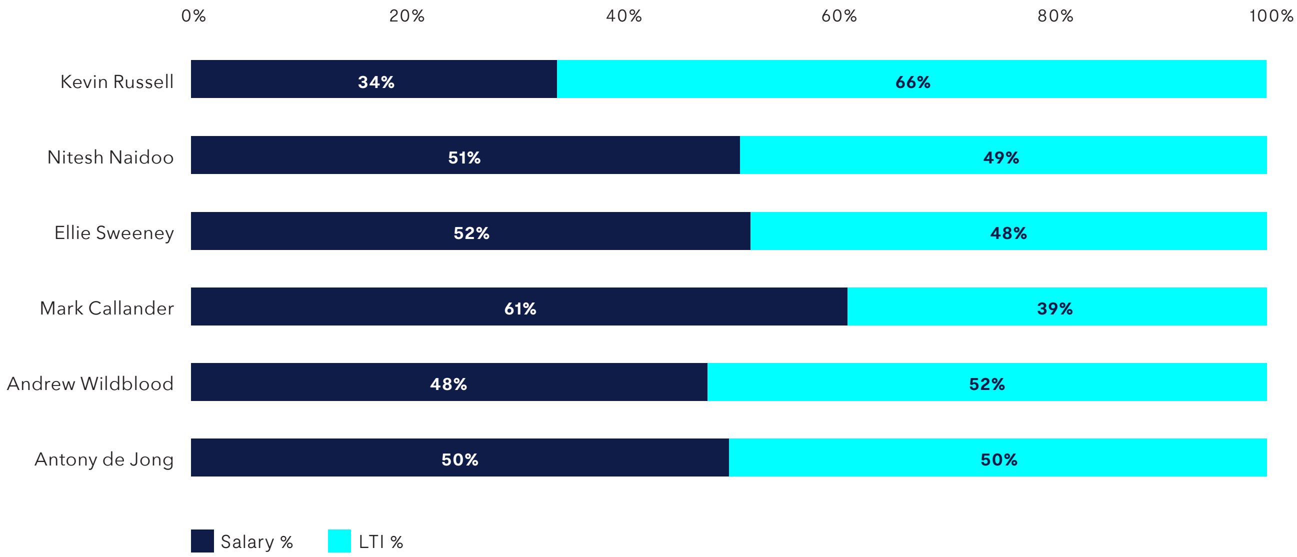
- Focus executives on achieving Vocus' strategic turnaround and growth plan;
- Support the leadership team's pursuit of group-wide success, and group-wide goals;
- Align executive remuneration outcomes with shareholder outcomes and long-term value creation;
- Attract, motivate and retain the best executive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

A summary of the executive remuneration framework is as follows:

Remuneration mix	Weighted heavily toward at-risk long-term incentives, aligned to long-term and sustainable shareholder value creation. See chart below.
Fixed remuneration	Reflects individual skill and experience of individual executives, internal and external market comparators, and stakeholder and community expectations.
Long term incentives	In the form of share options as follows: • 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 (ATSR) performance measure, with 50% vesting at 50% ATSR, with a sliding scale to 100% vesting at 100% TSR; and • Staggered vesting at the end of the three-year performance period.
Short term incentives	There is no short-term incentive component in the current executive remuneration framework.
Minimum shareholding guideline (new)	MD & CEO: 150% of fixed remuneration within 5 years. All other executive KMP: 75% of fixed remuneration within 5 years. Vested options (whether exercised or not) and unvested options (which are no longer subject to performance hurdles other than the passing of time) will form part of an executive's MSG.

The Board believes that a requirement to acquire and maintain a significant shareholding is strongly aligned to, and supportive of, the intention of the new remuneration framework; accordingly, a minimum shareholding guideline was introduced to facilitate maintained alignment of executives with shareholders.

Remuneration Mix



FY20 performance

As mentioned last year, the removal of short-term incentives ensures the following:

- An executive team united to deliver long-term growth for the Vocus Group and its shareholders;
- The elimination of monetary incentives that can drive a focus on short-term goal achievement at the expense of long-term sustainable growth;
- Maximising group result and not individual divisional results prioritized by all executives given short term incentives are typically heavily weighted to an individual's contribution in one-year period;
- Executives are not being rewarded due to the actions taken in previous periods by past executives; and
- That where necessary, executives' key areas of focus and goals can be flexible and change during the year to accommodate opportunities that arise.

Individual executives have annual goals or key performance indicators, against which each executive's performance is measured and assessed, despite there being no short term incentives in executive remuneration. Achievement of the goals and key performance indicators is expected as part of an individual's core performance of their role. These goals are ambitious and are aligned with milestones necessary for the successful achievement of Vocus' long term growth ambitions. Goals at Vocus Group are reviewed regularly via check-in-conversations and are cascaded down into the business. Both quantitative and qualitative goals are documented for each executive, supporting Vocus' philosophy that the "how" we achieve what we need to achieve is just as important for our success as the "what" we achieve. Specifically, our Executive Leadership team each have a series of goals which include the delivery of financial performance, as well as non-financial indicators focused on their leadership of the Vocus values and behaviours.

Retention Payments and Sign-on Bonuses

In FY20, a small number of KMP received a one-off payment, either as a retention payment or a sign-on bonus. Details of these are set out in the relevant statutory table, together with an explanation of the purpose for the payment, and the method of calculation and criteria applied.

Vocus Long Term Incentive (Options) Plan

Non-Executive Directors do not participate in the long-term incentive plan.

In FY19, grants of options ("Options") were made to a small number of eligible senior managers within the business, including KMP. The grants of options made to the two executive directors, Kevin Russell and Mark Callander, were approved by shareholders at the Annual General Meeting held in October 2018.

A summary of the key elements of the grants made under this plan is set out in the following table:

Grant date	**14 December 2018**
Number of Options to be granted and other details	This grant represents the aggregate of 3 years of the LTI component of the individual Executive's remuneration package, noting that for other eligible senior managers, the number of options granted were not reflective necessarily of this measure. The Executives will not be entitled to participate in any short-term incentive plan during that period. Options were granted in three (3) separate tranches: Tranche 1 – 50% of Options with 3 year performance period and 3 year vesting period; Tranche 2 – 25% of Options with 3 year performance period and 4 year vesting period; and Tranche 3 – 25% of Options with 3 year performance and 5 year vesting period.
Form of Grant	Each Option is a right to acquire one fully-paid ordinary share in the Company (Share), upon satisfaction of the applicable vesting conditions (including performance hurdles and continued employment with the Company) and payment of the exercise price. The specific vesting conditions are outlined below. The exercise price payable varies between the individuals and is based on the one calendar month volume weighted average price ('VWAP') of a Share for the month of July 2018 or in the month prior to the individual's employment, if they were not employed in July 2018. Options do not carry a right to vote or to receive dividends, or in general, a right to participate in other corporate actions such as bonus issues.
Performance hurdle	The number of Options that may become capable of vesting (subject to continued employment with the Company until the vesting dates) for each tranche is dependent on the Company's ATSR performance for the performance period (see section below for detail on the performance period). ATSR measures the return to shareholders in respect of Shares over the performance period. The ATSR achieved by the Company in the performance period will be compared to the target set by the Board to determine the percentage of Options that may vest. The starting target share price will be $2.38, being the one calendar month VWAP of a Share for the month of July 2018. The vesting schedule is summarised in the following table:

Company's absolute TSR over the performance period compared to target (%)	**Proportion of Options that become capable of vesting in each tranche (%)**
100% or greater	100%
Between 50% and 100%	Straight-line vesting between 50% and 100%
Equal to 50%	50%
Less than 50%	Nil

Performance hurdle (continued)	The Board retains discretion to adjust the ATSR target and/or how ATSR performance is calculated to address matters that materially affect TSR outcomes and are considered by the Board to be outside management's influence and/or control.
Performance period	1 July 2018 to the date that is one calendar month following the announcement of the Company's FY21 full-year results. The vesting period for Tranche 1 will be the performance period, whilst for Tranches 2 and 3, this will end on the date the Company announces its full-year results for the next 2 financial years.

Grant date	**14 December 2018**
Vesting Dates	The date on which the Board determines the relevant tranche of Options vest (based on the extent to which the performance hurdle is met at the end of the performance period and subject to continued employment), to occur within a reasonable period after the end of the relevant vesting period.
Exercise period	The exercise period will commence on the day following the relevant vesting date for each tranche and will end on 31 August 2025.
Exercise of Options and allocation of shares	Upon vesting and subject to the Company's Share Trading Policy, and payment of the exercise price, vested Options may be exercised during the exercise period. Upon exercise of vested Options, participants will be allocated the relevant number of Shares corresponding to the number of vested Options exercised (as soon as practicable following exercise). Upon allocation of the Shares, the participants will be entitled to receive dividends and voting rights along with other Company shareholders. However, under the Plan Rules, the Board may also determine to either: a) settle exercised vested Options in cash (equal in value to the Shares underlying the Options being exercised, less the corresponding exercise price, and is inclusive of any statutory superannuation contributions); or b) deliver the net number shares on the exercise of vested Options where the net number of Shares is equal to the excess between the market value of the Shares underlying the Options being exercised less the corresponding exercise price.
Price payable for securities	No amount will be payable by the participants in respect of the grant of Options. Upon exercise of vested Options, the participants will be required to pay the exercise price in order to be allocated Shares in the Company (unless net-settlement of the Options apply).
Termination of Executive employment	Treatment of options 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 a departing executive is not deemed a "good leaver", options held by that executive will lapse upon departure.
Change of control	Vesting at discretion of the Board.
Adjustments	In the event the Company undertakes a corporate action or capital reconstruction (including, for example, a bonus or rights issue, or a capital reorganisation), the Board may adjust the terms of Options in order to ensure that no material advantage or disadvantage accrues to the holder.
Other information	No other directors in the Company other than Mr Russell and Mr Callander are eligible to participate in the LTI (Options) Plan.

Subsequent grants of Options under this plan were made to a small number of eligible Senior Managers and KMP in FY20. The terms of the offer were the same as the original offer, with the exercise price being calculated as the volume weighted average price ('VWAP') one calendar month prior to the grant date.

Legacy equity based compensation plans

There are a number of legacy equity-based LTI plans currently in operation. In addition to the Vocus Long Term Performance Rights Plan introduced in 2016 (FY2017), each of Amcom, Vocus and M2 had equity-based LTI plans in place prior to the merger between Vocus and M2 Group which was completed in February 2016. These are an Employee Share Option plan and a Loan Funded Share plan. No KMP holds any residual entitlements under any of the legacy equity-based LTI plans which remain on foot.

Grants were made under the Vocus Long Term Performance Rights Plan in FY18, details of which are set out below.
No further grants will be made under this plan. The only KMP who hold any residual entitlements under this plan is Mark Callander. No additional grants have been or are planned to be made under these legacy plans, in future. Non-Executive Directors do not participate in any of these plans.

A summary of the terms of the grants made to Executives in FY18 are 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	One grant each in FY18
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 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 has been treated as a legacy plan from FY19 following the introduction of the new LTI plan detailed earlier in this report.

Performance Rights on issue to KMP (under the above plan) as at 30 June 2020 are as follows:

Grant Date	Vesting Date	Number of Performance Rights	Performance Measures
1 May 2018 [1]	1 July 2020	121,951	The Rights are subject to EPS and other transformation target conditions, over a three-year performance period.

1 The vesting conditions will be tested and determined at the board meeting following the release of annual results in August 2020. The outcomes will be disclosed in next year's Remuneration report.

Other required disclosures

Service agreements

Remuneration and other terms of employment for Executives are formalised in service agreements. Agreements with the Group MD & CEO and Executives (KMP) are contracts of service.

Key Term	Group MD & CEO	Other KMP Executives (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	No more than three months (note termination payment applies)
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.	○ In addition to any notice period, a termination payment of 6 months' Fixed Remuneration.
	○ Accelerated vesting of LTI on a pro-rated basis, at the Board's discretion at the time.	○ Accelerated vesting of LTI on a pro-rated basis, at the Board's discretion at the time.
	○ Statutory leave entitlements.	○ 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 FY20.

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 FY20, the Committee was chaired by Julie Fahey.

John Ho and Bruce Akhurst were members of the Committee during FY20. Kevin Russell, as Group MD & CEO, the General Counsel and Company Secretary and the Head of People & Culture are standing invitees to all Committee meetings. All other Directors were invited to attend all meetings if they wished to do so.

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.

The Committee engaged Ernst & Young ("EY") to provide support and advice in relation to the design and structure of the FY19 long-term incentive plan. Under the terms of the engagement, EY did not provide remuneration recommendations as defined in Section 9B of the *Corporations Act 2001*.

Voting and comments made at Vocus' 2019 Annual General Meeting ('AGM')

At the last AGM, 98.32% of the shareholders who voted, in person or by proxy, voted to adopt the remuneration report for the year ended 30 June 2019.

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 FY19) who held these positions during FY20 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 $**	**Super-annuation $**	**Employee leave $**	**Equity-settled $**	**Total $**
2020							
R Mansfield	354,071	–	–	21,003	–	–	375,074
D Wiadrowski	182,648	–	–	17,352	–	–	200,000
J Fahey	175,799	–	–	16,701	–	–	192,500
J Ho [1]	–	–	–	–	–	–	–
B Akhurst	141,553	–	–	13,447	–	–	155,000
M Hanning	148,402	–	–	14,098	–	–	162,500
2019							
R Mansfield	350,000	–	–	25,000	–	–	375,000
D Wiadrowski [2]	181,636	–	–	17,255	–	–	198,891
J Fahey [3]	172,816	–	–	16,418	–	–	189,234
J Ho [1]	–	–	–	–	–	–	–
B Akhurst [4]	117,442	–	–	11,157	–	–	128,599
M Hanning [4]	123,124	–	–	11,697	–	–	134,821
J Brett [5]	23,157	–	–	2,200	–	–	25,357
R Phillippo [5]	27,500	–	–	–	–	–	27,500

1. 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.
2. Reflects remuneration as a WERM Committee Member up to 22 August 2018 and commencement as WERM Chair on 23 August 2018.
3. Reflects remuneration as a Technology Committee Member up to 22 August 2018 and commencement as Audit & Risk Committee Member on 23 August 2018.
4. Reflects remuneration as a Non-Executive Director (1 September 2018 to 30 June 2019).
5. For the period 1 July 2018 to 22 August 2018 (retirement as a Non-Executive Director).

Executives

The Actual remuneration table sets out the actual value of the remuneration received by the Executives during the year. The figures in actual remuneration table are different from those shown in the Accounting Remuneration table which includes apportioned accounting value for all unvested LTI grant for the year (which remain subject to satisfaction of performance and service conditions and may not ultimately vest) and non-monetary benefits. The Actual Remuneration table excludes unvested LTI's and non-monetary benefits.

Actual Remuneration

		Short-term benefits		Post employment benefits	Long-term benefits	Share based payments	
	Cash salary and fees $	One-off payments $	Non-monetary $	Super-annuation $	Employee leave [8] $	Equity-settled $	Total $
2020							
K Russell	1,054,327	–	–	25,000	17,409	–	1,096,736
M Callander [1]	738,936	467,639	–	17,468	(96,922)	–	1,127,121
N Naidoo [2]	255,962	320,000	–	11,111	10,875	–	597,948
A Wildblood	605,000	–	–	25,000	16,910	–	646,910
A De Jong	539,423	–	–	25,000	(1,553)	–	562,870
E Sweeney	605,000	–	–	25,000	14,458	–	644,458
M Wratten [3]	928, 159	–	–	12,388	(66,336)	–	874,211
2019							
K Russell	1,075,000	–	–	25,000	26,261	–	1,126,261
M Callander [1]	713,672	286,971	–	43,795	107,095	–	1,151,533
M Wratten	725,000	–	–	25,000	18,910	–	768,910
A Wildblood [4]	265,934	324,230	–	10,989	19,111	–	620,264
A De Jong [5]	456,319	–	–	20,742	41,322	–	518,383
E Sweeney [6]	184,492	–	–	7,624	16,132	–	208,248
S de Castro [7]	709,834	–	–	17,514	(7,099)	–	720,249

The disclosures in the Accounting Remuneration table are calculated in accordance with the accounting standards and accordingly differ from the information presented in Actual Remuneration table.

	Accounting Remuneration						
		Short-term benefits		Post employment benefits	Long-term benefits	Share based payments	
	Cash salary and fees $	One-off payments $	Non-monetary $	Super-annuation $	Employee leave [8] $	Equity-settled $	Total $
2020							
K Russell	1,054,327	–	4,518	25,000	17,409	2,097,188	3,198,442
M Callander [1]	738,936	467,639	39,838	17,468	(96,922)	754,988	1,921,947
N Naidoo [2]	255,962	320,000	844	11,111	10,875	571,900	1,170,692
A Wildblood	605,000	–	5,646	25,000	16,910	710,124	1,362,680
A De Jong	539,423	–	4,059	25,000	(1,553)	559,250	1,126,179
E Sweeney	605,000	–	5,646	25,000	14,458	603,678	1,253,782
M Wratten [3]	928,159	–	5,419	12,388	(66,336)	53,129	932,759
2019							
K Russell	1,075,000	–	5,454	25,000	26,261	2,097,188	3,228,903
M Callander [1]	713,672	286,971	40,216	43,795	107,095	497,516	1,689,265
M Wratten	725,000	–	7,021	25,000	18,910	459,490	1,235,421
A Wildblood [4]	265,934	324,230	1,208	10,989	19,111	311,287	932,759
A De Jong [5]	456,319	–	3,266	20,742	41,322	559,250	1,080,899
E Sweeney [6]	184,492	–	362	7,624	16,132	183,584	392,194
S de Castro [7]	709,834	–	5,458	17,514	(7,099)	–	725,707

1. Australia dollar equivalent shown of amounts paid in New Zealand dollars $790,070 (FY19 total NZ$746,074). Conversion rate used as at 30/6/20 0.9353. Retention bonus (2nd and final tranche) was awarded in recognition of the achievement of NZD$59m EBITDA for the NZ business in FY19.
2. For the period 20 January 2020 (date of commencement as Chief Financial Officer) until 30 June 2020. One-off payment received represents a sign-on bonus paid to Executive.
3. Denotes remuneration up to cessation of role as KMP (19 January 2020) and includes termination benefits $543,750 (payment in lieu of notice, accrued leave entitlements and severance pay in accordance with individual contract entitlement).
4. For the period 21 January 2019 (date of commencement as Chief Executive, Enterprise & Government) until 30 June 2019. One-off payment received represents a sign-on bonus paid to Executive.
5. For the period 1 September 2018 (date of commencement as Chief Executive, Retail) until 30 June 2019.
6. For the period 11 March 2019 (date of commencement as Chief Operating Officer) until 30 June 2019.
7. Denotes remuneration up to cessation of role as KMP (7 November 2018) and includes termination benefits $583,400 (payment in lieu of notice, accrued leave entitlements and severance pay in accordance with individual contract entitlement).
8. Negative employee leave balances occur when the number of leave days taken exceeds the number of leave days accrued in the year or upon termination.

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; and
- The Accounting Remuneration table includes share-based payments accounting expense for both Options and Performance Rights.

Summary of LTI plans as at 30 June 2020 (Performance Rights)

Name	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	FY18[1]	1/07/2017 – 1/07/2020	$2.48	$302,439	FY21

1. These rights have not satisfied the performance measures when tested following the end of the financial year, and therefore have lapsed.

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

Number and value of LTI Performance Rights granted, vested and exercised during FY20

Name	Balance at 1 July 2019	Rights Granted	Disposals/ vesting/ exercise other	Balance at 30 June 2020	Total value of rights at time of vesting
M Wratten	177,613	–	177,613[1]	–	–
M Callander	180,845	–	58,894[2]	121,951	–

1. Lapsed following cessation of employment.
2. Lapsed following testing of performance measures in August 2019.

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.

Summary of LTI plans as at 30 June 2020 (Options)

Name[1]	Plan	Exercise Price	Performance Period	No. of options in each tranche	Fair Value per option at time of issue	Total value of options at time of issue	Future financial years in which grants may vest
K Russell	FY19	$2.38	1/07/2018 – 1/07/2021	3,750,000	$0.99	$3,712,500	FY22
			1/07/2018 – 1/07/2022	1,875,000	$1.01	$1,893,750	FY23
			1/07/2018 – 1/07/2023	1,875,000	$1.03	$1,931,250	FY24
M Callander	FY19	$2.38	1/07/2018 – 1/07/2021	1,350,000	$0.99	$1,336,500	FY22
			1/07/2018 – 1/07/2022	675,000	$1.01	$681,750	FY23
			1/07/2018 – 1/07/2023	675,000	$1.03	$695,250	FY24
A De Jong	FY19	$2.38	1/07/2018 – 1/07/2021	1,000,000	$0.99	$990,000	FY22
			1/07/2018 – 1/07/2022	500,000	$1.01	$505,000	FY23
			1/07/2018 – 1/07/2023	500,000	$1.03	$515,000	FY24
A Wildblood	FY19	$2.38	1/07/2018 – 1/07/2021	1,350,000	$0.78	$1,053,000	FY22
			1/07/2018 – 1/07/2022	675,000	$0.79	$533,250	FY23
			1/07/2018 – 1/07/2023	675,000	$0.81	$546,750	FY24
E Sweeney	FY19	$2.78	1/07/2018 – 1/07/2021	1,200,000	$0.71	$852,000	FY22
			1/07/2018 – 1/07/2022	600,000	$0.72	$432,000	FY23
			1/07/2018 – 1/07/2023	600,000	$0.74	$444,000	FY24
N Naidoo	FY19	$3.18	1/07/2018 – 1/07/2021	700,000	$0.72	$504,000	FY22
			1/07/2018 – 1/07/2022	350,000	$0.74	$259,000	FY23
			1/07/2018 – 1/07/2023	350,000	$0.76	$266,000	FY24

1 Ellie Sweeney and Antony de Jong have been allocated additional Options. The initial 2019 LTI Offer of Options was lower than desirable at the time due to the 5% limit on issued equity under Class Order 14/1000. This will be reported in the FY21 Remuneration Report.

Number and value of LTI Options granted, vested and exercised during FY20

Name	Balance at 1 July 2019	Options Granted	Disposals/ vesting/ exercise other	Balance at 30 June 2020	Total value of options at time of vesting
K Russell	7,500,000	–	–	7,500,000	–
Antony De Jong[1]	2,000,000	–	–	2,000,000	–
Andrew Wildblood	–	2,700,000	–	2,700,000	–
Ellie Sweeney[1]	–	2,400,000	–	2,400,000	–
Nitesh Naidoo[2]	–	1,400,000	–	1,400,000	–

1. Ellie Sweeney and Antony de Jong have been allocated additional Options. The initial 2019 LTI Offer of Options was lower than desirable at the time due to the 5% limit on issued equity under Class Order 14/1000. This will be reported in the FY21 Remuneration Report.
2. Appointed to the role of Chief Financial Officer on 20 January 2020.

KMP Shareholding

The following table summarises the movements in the shareholdings of KMP (including their personally related entities) for FY20:

	Balance at 1 July 2019	Received as part of Remuneration	Additions	Disposals/ Other	Balance at 30 June 2020
Directors					
R Mansfield	78,500	N/A	47,000	–	125,500
D Wiadrowski	19,000	N/A	4,000	–	23,000
J Ho [1]	57,490,290	N/A	–	–	57,490,290
J Fahey	–	N/A	7,510	–	7,510
B Akhurst	50,000	N/A	–	–	50,000
M Hanning	500,000	N/A	–	–	500,000
K Russell	–	–	200,000	–	200,000
M Callander	74,394	–	–	–	74,394
Executives					
A Wildblood	5,338	–	19,000	–	24,338
A de Jong	30,000	–	40,000	–	70,000
E Sweeney	N/A	–	–	–	–
N Naidoo [2]	N/A	–	–	–	–
Former Executives					
M Wratten [3]	33,661	–	–	–	N/A

1. John Ho is the founder and chief investment officer of Janchor Partners, which owns a 18.2% interest in Vocus (constituted by a relevant interest of 9.3% of Vocus' voting shares and an economic interest through cash settled equity derivatives in a further 8.9%).
2. Appointed to the role on 20 January 2020.
3. Ceased to be KMP on 19 January 2020.

This concludes the remuneration report, which has been audited.

This directors' report is signed in accordance with a resolution of the directors passed on 19 August 2020 pursuant to s.298(2) of the Corporations Act.

On behalf of the Directors

Robert Mansfield
Non-Executive, Chairman

19 August 2020
Sydney

Operating and Financial Review

1. Group operating performance

1.1 Overview of Operations

Vocus Group Limited (ASX: VOC) (Vocus) is a specialist fibre and network solutions provider. The Company owns an extensive national infrastructure network of metro and back haul fibre, connecting capital cities and regional centres across Australia, New Zealand and into Asia. It is the second largest fibre network in Australia.

Vocus targets the enterprise, government, wholesale, small business and residential market segments through a portfolio of brands. Vocus offers both consumer and wholesale NBN services within Australia through all 121 NBN points of interconnect, as well as 100% coverage of the UFB network in New Zealand.

Vocus Network Services

Vocus Network Services operates under the Vocus brand and provides telecommunications products and services to the enterprise and wholesale businesses, and all levels of Government, in the Australian market. Products and services include Networks and Connectivity, Data centres, Cloud Platforms and Security, and Workplace Collaboration. Within the wholesale segment, Vocus provides 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 further information on the financial performance of the division please refer to Section 2.1.

Retail

Retail focuses on the price sensitive and value seeking segments of the consumer market and the small to medium business segment. It provides telecommunications products and services including broadband, voice and mobile services, as well as energy products. Within the Consumer business, the go to market brands are dodo™ and iPrimus™ with some small legacy brands from prior acquisitions also maintained. Commander™ and Engin™ are the go-to market brand for the small and medium business segment. For further information on the financial performance of the division please refer to Section 2.2.

New Zealand

New Zealand operates in all key segments of the market, including Enterprise, Government, Wholesale and Consumer. In Enterprise, Government and Wholesale the division's key brand is Vocus. 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.

The Operating and Financial Review excludes the impact on AASB 16 *Leases* from underlying results, table 1.2, 1.3 and 1.4 provides a reconciliation between Statutory EBITDA to Underlying EBITDA. Section 2.5 shows the impact of AASB 16 *Leases* on the Profit and Loss, Balance sheet and Statement of Cashflows for the year ended 30 June 2020.

1.2 Reported Earnings Overview

$m	30 June 2020	30 June 2019	$ change	% change
Statutory Revenue	1,778.2	1,892.3	(114.1)	(6.0)
Recurring	1,752.6	1,772.6	(20.0)	(1.1)
Large infrastructure revenue	25.5	119.7	(94.2)	NM[6]
Statutory EBITDA[1]	**361.3**	**349.1**	**12.2**	**3.5**
Depreciation	(152.4)[4]	(127.1)	25.3	19.9
Amortisation	(115.7)[5]	(116.3)	(0.6)	(0.5)
Impairment	(202.1)	–	(202.1)	NM[6]
Statutory EBIT[2]	**(108.9)**	**105.7**	**(214.6)**	**NM[6]**
Net finance costs	(56.3)	(53.1)	3.2	6.0
Income tax expense	(13.0)	(18.7)	(5.7)	(30.5)
Statutory NPAT[3] after minority interests	**(178.2)**	**34.0**	**(212.1)**	**NM[6]**

1. EBITDA refers to earnings before net financing costs, tax, depreciation, amortization and impairment.
2. EBIT refers to earnings before net financing costs and tax.
3. NPAT refers to net profit after tax.
4. Depreciation includes $17.8m related to the adoption of AASB 16 *Leases*.
5. Amortisation includes $79.5m related to amortization of customer relationships and software.
6. Not meaningful.

1.3 Reconciliation of Statutory to Underlying Results

The key significant item for the year ended 30 June 2020 mainly relates to the amortization from purchase price allocation, and the impairment of the Australian Retail division.

FY20 $m	EBITDA	EBIT	NPAT
Statutory Result	361.3	(108.9)	(178.2)
Significant Items			
AASB 16 *Leases* [1]	(21.7)	(3.9)	4.6
Gains/losses associated with foreign exchange & other	(0.2)	(0.2)	(0.1)
Net loss on disposal of assets	0.9	0.8	0.6
Long term incentive	7.8	7.8	7.8
Amortisation from purchase price allocation [2]	–	79.5	55.7
Other significant items [3]	12.4	12.4	8.6
Impairment [4]	–	202.1	202.1
Total Significant Items	(0.8)	298.5	279.3
Underlying Result	360.5	189.6	101.1

1. AASB 16 *Leases* introduces a single, on-balance sheet lease accounting model for all leases where the Group is the lessee. The Group has adopted AASB 16 *Leases* using the modified retrospective transition approach effective 1 July 2019 with no restatement of comparative information, refer to Note 39 of the financial statements and section 2.5 of the Operating and Financial Review.
2. The amortisation expense relates to acquired customer relationships and software.
3. Other significant items includes settlement of the Class action lawsuit settlement amount and legal fees, restructuring provision and other miscellaneous expenses.
4. A non-cash impairment of $202.1m post tax has been taken to the Australia Retail CGU, of which $200.1m related to goodwill impairment and $2.0m related to Brands. The primary changes in the assumptions used to value goodwill for the Retail CGU are:
   - Discount rate used for AU Retail increased from 9.5% to 11.0%; and
   - Terminal growth rate has remained unchanged from prior year.

The changes to the discount rate noted above reflects the assessed risks associated with the 5 year average growth rate assumptions used in the 5 year forecasts as well as the impact of AASB 16 *Leases* accounting standard, refer to Note 15 in the Financial Statements for further information.

1.4 Reconciliation of Underlying EBITDA to Statutory NPAT

$m	30 June 2020	30 June 2019	$ change	% change
Underlying EBITDA	360.5	360.1	0.4	0.1
Underlying depreciation & amortisation	(170.9)	(155.1)	15.8	10.2
Underlying depreciation [1]	(134.6)	(127.1)	7.5	5.9
Underlying amortisation [2]	(36.3)	(28.0)	8.3	29.6
Underlying EBIT	189.6	205.0	(15.4)	(7.5)
Underlying net financing costs [3]	(45.9)	(53.1)	(7.2)	(13.6)
Underlying Profit before tax	143.8	152.0	(8.2)	(5.4)
Underlying tax expense	(42.7)	(46.5)	(3.8)	(8.2)
Underlying Net Profit after Tax	101.1	105.5	(4.4)	(4.2)

1. Underlying depreciation excludes $17.8m related to the adoptions of AASB 16 *Leases*, please refer to section 2.5.
2. Underlying amortisation excludes $79.5m related to acquired customer relationships and software.
3. Underlying net finance costs exclude $10.4m related to the adoption of AASB 16 *Leases*, please refer to section 2.5.

1.5 Revenue and Underlying EBITDA Earnings Overview

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

$m	30 June 2020	30 June 2019	$ change	% change
Recurring Revenue	1,752.6	1,772.6	(20.0)	(1.1)
Vocus Network Services	626.3	590.3	36.0	6.1
Retail	748.0	826.1	(78.1)	(9.5)
New Zealand	378.3	356.2	22.1	6.2
Large Infrastructure Revenue	25.5	119.7	(94.2)	NM [2]
Total Revenue	1,778.2	1,892.3	(114.1)	(6.0)
Direct Costs [3]	(1,003.2)	(1,088.8)	(85.6)	(7.9)
Gross Margin	775.0	803.5	(28.5)	(3.5)
Overhead Costs [3]	(414.5)	(443.4)	(28.9)	(6.5)
Underlying EBITDA [3]	360.5	360.1	0.4	0.1
Underlying EBITDA Margin (%)	20.3%	19.0%	N/A	130bps
Vocus Network Services	222.9	202.8	20.1	9.9
Retail	80.1	102.9	(22.8)	(22.2)
New Zealand [1]	62.0	59.0	3.0	5.1
Corporate	(4.6)	(4.6)	(0.0)	(0.0)

1. Amounts presented in section 2.3 are converted to NZD using the average FX rate of 1.05 in FY20 and 1.07 in FY19.
2. Not meaningful.
3. Excludes AASB 16 *Leases*.

1.6 Depreciation and amortisation

Depreciation and amortisation of $268.1m, increased $24.7m on the prior period (+10.2%) was mainly driven by the adoption of AASB 16 *Leases* and the depreciation on the Right-of-Use assets of $17.8m, the Australia Singapore Cable being depreciated since entering commercial service in September 2018, as well as the increase in depreciation and amortization associated with increased capital expenditure.

1.7 Net finance costs and income tax expense

Net finance costs increased by $3.2m on prior period to $56.3m and decreased by $7.1m excluding the impact of AASB 16 *Leases*. This was mainly driven by lower interest rates and lower average debt levels in the current period.

Income tax expense on statutory profit in the period was $112.9m, compared to $18.7m million in the prior period. This resulted in an effective tax rate (excluding goodwill) of 35.2%, against an effective tax rate of 35.5% in the prior period. This decrease was largely driven by a decrease in non-deductible expenses in the current period. The effective tax rate is higher than the corporate tax rate, due to non-deductible permanent differences such as entertainment and share based payments. Reconciliation of effective tax rate is detailed in Note 7 in the financial statements.

1.8 Cashflow [1]

$m	30 June 2020	30 June 2019	$ Change
Net cash from operating activities	266.2	296.8	(30.6)
Net cash used in investing activities	(200.5)	(320.1)	119.6
Operating free cash flows	65.7	(23.3)	89.0
Net cash (used in)/from financing activities	(93.3)	52.6	(145.9)
Net movement in cash	(27.6)	29.3	56.9

1. This table excludes the impact of AASB 16 *Leases*, refer to section 2.5.

Net cash from operating activities over the period was $266.2m, a decrease of $30.6m from $296.8m in the prior period mainly driven by:

- An increase in finance costs paid of $14.1m, mainly due to timing of interest payments related to re-financing activities offset by a decrease in income taxes paid of $8.3m; and
- A net reduction in collections of $24.8m mainly driven by revenue receipts in prior year related to large ASC contract and associated upfront payments.

Net cash used in investing activities over the period was $(200.5)m, a decrease of $119.6m from $(320.1)m in the prior period mainly driven by:

- A decrease in spend on the Australia Singapore Cable of $139.4m which was completed in the prior comparative period;
- A net decrease of $5.1m in spend on purchases of businesses. In FY19, Vocus paid $12.8m in relation to deferred consideration from historic acquisitions, in FY20, $7.7m was paid in relation to Stuff Fibre New Zealand; and
- A net decrease from proceeds from sale of assets of $1.3m; partially offset by
- An increase in spend on growth, sustaining and improvement capital expenditure of $31.2m, for further details refer to section 1.9.

Net cash used in financing activities over the period was $(93.3)m, a decrease of $145.9m from $52.6m in the prior period mainly driven by:

- A decrease in proceeds from borrowing of $134.6m, due to $70.4m in repayments during the period, compared to $64.2m in proceeds from borrowings in the prior comparative period; and
- Payments of upfront borrowing costs for Vocus' new facility of $13.0m; partially offset by
- A decrease in lease liability payments of $1.7m.

1.8.1 Adjusted Operating Cashflow [1]

$m	30 June 2020	30 June 2019
Net cash from operating activities	266.2	296.8
Interest, finance costs and tax	68.5	62.4
Adjusted Operating Cashflow	334.7	359.2

1. This table excludes the impact of AASB 16 *Leases*, refer to section 2.5.

1.8.2 Cash Conversion [1]

$m	30 June 2020	30 June 2019
Underlying EBITDA	360.5	360.1
Underlying net working capital movements	(10.8)	15.4
Historic unwind		
Deferred revenue unwind	(10.5)	(11.5)
Onerous provision unwind	(4.5)	(4.9)
Adjusted Operating Cashflow	334.7	359.2
Cash Conversion	93%	100%

1. Cash conversion % is calculated by dividing Adjusted Operating Cashflow by Underlying EBITDA.

Cash conversion has decreased to 93%, from a comparable base of 100%. The key factors driving the decrease are:

- Negative underlying net working capital movement of $10.8m, mainly related to negative movement in deferred revenue and prepayments relating to a large ASC contract;
- Historic deferred revenue brought to account was $10.5m, primarily relating to revenues recognised under the North West Cable System project and the run-off of contracts acquired through the Amcom and Nextgen acquisitions; and
- The release of onerous provisions on $4.5m, primarily relates to the un-wind of property leases and the Metronode contract assumed as part of the Nextgen acquisition.

1.9 Cash Capital Expenditure

$m	30 June 2020	30 June 2019[1]
Growth	114.1	84.9
Sustaining	32.9	41.2
Improvement	53.5	43.2
Capital Expenditure (excluding ASC)	200.5	169.3
Australia Singapore Cable	–	139.4
Total Capital Expenditure	200.5	308.7

1. Excludes $12.7m in deferred consideration and $1.3m in proceeds from sale of assets.

Growth capex over the period is linked to continued investment in our customers.

Sustaining capex has increased with investment into capacity and platform capabilities across the Vocus network.

Improvement capex – investment into platforms to generate productivity savings and improve efficiency mainly related to Future State network transformation, which will simplify and modernise our network.

1.10 Net Debt

$m	As at 30 June 2020	As at 30 June 2019
AUD facility limit of A$1,242m and is drawn to:	935.0	989.0
New Zealand facility limit of NZ$135m and is drawn to in AUD:	86.5	105.2
Bank loans	**1,021.5**	**1,094.2**
Upfront borrowing costs	(13.0)	(5.7)
Backhaul IRU liabilities	6.1	11.9
Lease liabilities	11.4	15.5
Borrowings	**1,026.0**	**1,115.9**
Cash	(59.6)	(87.2)
Net Debt	**966.4**	**1,028.7**

The Group has a syndicated debt facility of AU$1,242.0 million (including a $125m bank guarantee/letters of credit facility) and NZ$135 million. The facility provides the Group the flexibility required to execute its growth strategy over the coming years.

The maximum allowable Net Leverage Ratio (NLR) for the facility is summarised below:

Testing Date	Maximum Net Leverage Ratio (NLR)
30 June 2020	3.25x
31 December 2020	3.25x
30 June 2021 and thereafter	3.00x

The 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 which is six-monthly.

1.10.1 Financial Covenants

Financial Covenant [1]		As at 30 June 2020
Net Leverage Ratio	≤3.25x (Net debt/LTM EBITDA)	2.69x
Interest Cover Ratio	≥5.0x (LTM EBITDA/LTM Net Interest Expense)	7.9x
Gearing	≤ 60% (Net Debt/(Net Debt + Equity))	29.0%

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

Vocus Group is compliant with its syndicated facility financial covenants as at 30 June 2020. The Group measures its financial covenants excluding the impact of AASB 16 *Leases* accounting standard.

2. Divisional performance

2.1 Vocus Network Services

The Vocus Network Services division comprises the Enterprise, Government and Wholesale business segments. The brand used in market is predominantly Vocus Communications.

2.1.1 Earnings Summary – Vocus Network Services

$m	30 June 2020	30 June 2019	$ Change	% Change
Revenue	**651.9**	**710.0**	**(58.1)**	**(8)**
Recurring	626.3	590.3	36.0	6
Large infrastructure revenue	25.5	119.7	(94.2)	NM [2]
Recurring revenue	**626.3**	**590.3**	**36.0**	**6**
Data Networks	408.9	396.7	12.2	3
Voice	93.0	89.6	3.4	4
NBN wholesale	73.6	52.0	21.6	42
Data Centre	38.1	41.0	(2.9)	(7)
Other	12.7	11.0	1.7	15
Direct costs	**(257.7)**	**(333.7)**	**(76.0)**	**(23)**
Cost of Goods Sold	(212.6)	(280.1)	(67.5)	(24)
Infrastructure & Operations costs allocation [1]	(45.1)	(53.6)	(8.5)	(16)
Gross Margin	**394.2**	**376.3**	**17.9**	**5**
Overheads	**(171.2)**	**(173.4)**	**(2.2)**	**(1)**
Selling, General and Administration costs	(71.4)	(67.7)	3.7	6
Infrastructure & Operations costs allocation [1]	(66.5)	(70.0)	(3.5)	(5)
Corporate costs allocation [1]	(33.3)	(35.7)	(2.4)	(7)
Underlying EBITDA	**222.9**	**202.8**	**20.1**	**10**
EBITDA margin (%)	34.2%	28.6%		

1. Allocation methodology set out in section 2.4.
2. Not meaningful.

Recurring revenue increased by $36.0m on the prior comparative period to $626.3m, driven by:

- Growth from international customers and continued sales on Australia Singapore Cable;
- Improved new sales and customer retention in the Enterprise segment following investments in capability; and
- Positive momentum maintained in NBN services across Wholesale and Enterprise; offset by
- A material one-off churn event from VHA migrating services to TPG. This impacted FY20 revenues by $12m to prior comparative period.

Large infrastructure revenue decreased by $94.2m on the prior period comparative to $25.5m, driven by the reduction in project revenues from the Coral Sea cable build which was completed in December 2019.

Overall overheads have reduced 1% on prior comparative period driven by cost savings from the negotiation of supplier contracts across the business. This has been partially offset by additional investment in products and marketing capabilities to drive new customer growth in the Enterprise and Government segments.

Underlying EBITDA for the period increased by 10% on the prior comparative period. The EBITDA margin is higher due to a change in revenue mix. Revenue generated from the Coral Sea cable construction project which attracts a lower margin has decreased by $91.6m compared to the prior comparative period.

2.2 Retail

The Australian Retail business services the consumer and small to medium business markets. Consumer offerings include bundled broadband data, stand-alone voice, mobile services and Fetch TV under the iPrimus™ and dodo™ brands. The division also markets gas and electricity services in selected states as either standalone or bundled with broadband as part of the dodo™ brand.

In the Business segment, there are two brands, the predominant brand is Commander™ which offers a range of communications solutions to Australian businesses, including broadband data, stand-alone voice, mobile services and electricity in selected states. Engin is the second brand and offers broadband telephone company which uses VOIP technology to provide services to small business customers.

2.2.1 Earnings Summary

$m	30 June 2020	30 June 2019	$ Change	% Change
Revenue	748.0	826.1	(78.1)	(9)
Consumer	589.8	609.6	(19.8)	(3)
Broadband	342.8	351.9	(9.1)	(3)
Stand-alone Voice	12.7	25.4	(12.7)	(50)
Mobile	49.9	50.7	(0.8)	(2)
Energy	184.4	181.6	2.8	2
Business	116.0	159.4	(43.4)	(27)
Broadband	17.8	19.8	(2.0)	(10)
Stand-alone Voice	82.8	119.8	(37.0)	(31)
Mobile	3.5	4.6	(1.0)	(22)
Energy	11.9	15.1	(3.2)	(21)
Other	42.2	57.1	(14.9)	(26)
Direct costs	(503.5)	(532.1)	(28.6)	(5)
Cost of Goods Sold	(487.6)	(513.9)	(26.3)	(5)
Infrastructure & Operations costs allocation [1]	(15.9)	(18.2)	(2.3)	(13)
Gross Margin	244.6	294.0	(49.5)	(17)
Overheads	(164.5)	(191.1)	(26.6)	(14)
Selling, General and Administration costs	(126.2)	(152.3)	(26.1)	(17)
Infrastructure & Operations costs allocation [1]	(23.6)	(23.6)	–	0
Corporate costs allocation [1]	(14.7)	(15.2)	(0.5)	(3)
Underlying EBITDA	80.1	102.9	(22.8)	(22)
EBITDA margin (%)	10.7%	12.5%		

1. Allocation methodology set out in section 2.4.

SIO's ('000)	30 June 2020	30 June 2019	Change	% Change
Stand-alone Voice	151	215	(64)	(30)
Copper Broadband	47	137	(90)	(66)
NBN Broadband	419	365	54	15
Mobile	201	180	21	12
Energy	138	132	6	5

Metrics	30 June 2020	30 June 2019
Copper ARPU $	54.3	56.3
Copper AMPU $	22.5	25.0
NBN ARPU $	66.6	64.0
NBN AMPU $	23.6	21.3
Net churn – Copper (%)	(5.0)	(3.8)
Net churn – NBN (%)	(1.5)	(1.8)

Overall, Retail revenue declined 9% compared to prior period. This is an improvement when compared to the previous financial year, which declined 15%, driven by the improving performance of the Consumer dodo™ brand.

Consumer segment revenue decline reduced to 3% (2HFY20: 0%) largely driven by growth in 'current' products i.e., NBN Broadband, Mobile and Energy. Customer and revenue growth in NBN Broadband and Energy was offset by decline in Stand-alone Voice and increase in churn of 1.2% in Copper Broadband reflecting NBN roll-out progression into more areas. Mobile services (SIOs) increased by 12%, mainly driven by dodo™, compared to the prior period, however this was offset by declining ARPU due to changes in mix following the launch of new lower priced SIM only entry level product offerings.

Business segment saw a decline of 27% as a result of steady decline of Traditional voice (PSTN phone lines) due to reduced services in operations (SIOs). This was driven by NBN roll-out, line consolidation and mobile substitution, which was partially offset increases in IP Voice services.

Strong cost control measures have partially mitigated revenue declines. Direct costs decreased by 5% against prior comparative period, from lower NBN wholesale prices, tight control on bandwidth purchases, and lower legacy voice associate costs. There has also been a 14% decrease in overhead costs mainly related to lower headcount, marketing and call centre efficiencies.

Underlying EBITDA margin declined by 22% due to margin erosion, predominantly in small business from legacy products and migration to NBN partially offset by tight cost management.

2.3 New Zealand

The New Zealand Division is structured into two primary business units including:

- Consumer and Small to Medium sized Business ("SMB"); and
- Enterprise, Government and Wholesale ("EGW").

Consumer and SMB is focused on a broadband led strategy with the bundling of energy and mobile services under the Slingshot and Orcon brands. In EGW the business is focused on network data and voice services across these core segments under the Vocus brand. On 20 May, the acquisition of Stuff Fibre (included in Consumer & SMB below) was completed of which the six-week period of ownership are included in the results.

2.3.1 Earnings Summary

NZD $m	30 June 2020	30 June 2019	$ Change	% Change
Revenue	398.8	379.8	19.0	5
Enterprise, Government & Wholesale	134.9	131.1	3.8	3
Consumer & SMB	263.9	248.7	15.2	6
Direct costs	(255.9)	(237.7)	18.2	8
Gross Margin	142.9	142.1	0.8	1
Overheads				
Selling, General and Administration costs	(77.4)	(79.2)	(1.8)	(2)
Underlying EBITDA	65.4	62.9	2.5	4
EBITDA Margin %	16.4%	16.5%		

SIO's ('000)	30 June 2020	30 June 2019	Change	% Change
Broadband Consumer SIOs	226	203	23	11
Copper broadband	73	92	(19)	(21)
UFB	153	111	42	38
SMB Broadband SIOs	20	20	0	0
Energy SIOs	33	27	6	22
Mobile SIOs	41	29	12	41

Key Statistics	30 June 2020	30 June 2019
Broadband ARPU (NZ$)	71.91	71.61
Broadband AMPU (NZ$)	26.07	28.02
Net churn rate copper broadband (%)	2.2	2.3
Net churn rate UFB (%)	1.7	1.5
Market Share UFB (%)	15	14

New Zealand revenue increased by $19.0m on the prior comparative period. The increase of 5% was driven by broadband and energy customer growth. There was strong growth within the Wholesale business on the back of a new partner launch in market along with increased bandwidth demands. This was partially off-set by a decline in the Enterprise segment with customer losses through the partner network.

There has been a focus on process automation and the digital customer experience across the Consumer and SMB which has driven significant productivity improvements. This combined with focusing on gaining share in higher value fibre segments has driven an improvement in both ARPUs and customer lifetime value.

Throughout the year the Wholesale business has invested significantly in software platforms for the consumption of the Vocus network and the automation of the customer onboarding process for new partners launching in the market. This will be critical to provide a platform for growth and retention of customers moving forward.

While the Enterprise business was impacted by customers losses through partner channels, the focus has been on building direct sales capability and a more segmented approach to the management of existing customers. In addition, the partner programme has been expanded to better expose the Vocus network to a wider range of players and to exploit the emerging opportunity from cloud adoption.

Direct costs increased by 8% over prior comparative period. The increase was largely driven by third party network costs to support the increased revenue across the business units. This was offset by a $1.8m decrease in overhead and employment costs driven by the digitization and automation across the business.

Despite the competitive nature of the New Zealand market, underlying EBITDA increased by $2.5m, representing a 4% increase on prior comparative period. This was result was driven by a combination of the 5% organic revenue growth achieved and the reduction of underlying direct costs. Stuff Fibre contributed $1.8m revenue in the period.

2.4 Infrastructure, Operations and Corporate

2.4.1 Underlying EBITDA analysis pre-allocation to Vocus Network Services and Retail

Infrastructure, Operations and Corporate costs comprises the Australian Network & Technology function that manages the Group's Australian infrastructure and IT assets, as well as the Australian head office Corporate activities such as finance, legal, facilities, secretariat and human resources.

$m	30 June 2020	30 June 2019	$ Change	% Change
Underlying EBITDA	(203.7)	(220.9)	(17.2)	(8)
Infrastructure and operations	(151.1)	(165.4)	(14.3)	(9)
Corporate	(52.6)	(55.5)	(2.9)	(5)

Infrastructure, Operations and Corporate costs decreased compared to the prior period with the main driver being successful renegotiations of contracts with suppliers, rationalization of facility costs and a reduction in employment costs.

Please refer below for Infrastructure and Operations and Corporate cost allocations to Vocus Network Services and Retail. These costs are not allocated to the New Zealand as it operates independently of the Australia operations.

30 June 2020 allocations:

$m	FY20	Retail	Vocus Network Services	FY20 (post allocations)
Underlying EBITDA	(203.7)	(54.2)	(144.9)	(4.6)
Infrastructure and operations				
Direct costs	(61.0)	(15.9)	(45.1)	–
Overheads	(90.1)	(23.6)	(66.5)	–
Corporate				
Direct costs	–	–	–	–
Overheads	(52.6)	(14.7)	(33.3)	(4.6)

30 June 2019 allocations:

$m	FY19	Retail	Vocus Network Services	FY19 (post allocations)
Underlying EBITDA	(220.9)	(57.0)	(159.3)	(4.6)
Infrastructure and operations				
Direct costs	(71.8)	(18.2)	(53.6)	–
Overheads	(93.6)	(23.6)	(70.0)	–
Corporate				
Direct costs	–	–	–	–
Overheads	(55.5)	(15.2)	(35.7)	(4.6)

Infrastructure, Operations and Corporate costs have been allocated across Vocus Network Services and Retail. There is no allocation to New Zealand as this division has standalone finance, legal, facilities, human resources and technology functions. The unallocated costs of $4.6m are made up of board and CEO office costs.

The allocation of Infrastructure and Operations across Vocus Network Services and Retail has been determined by identifying directly attributable Retail costs and allocating a portion of residual indirect shared costs to the Retail division. Direct costs include the Retail specific operating support system (OSS) including maintenance and security and third party network costs. Indirect costs are made up of external vendors and internal labour related to shared infrastructure and capabilities.

The allocation of Corporate costs across Vocus Network Services and Retail has been determined by specifically identifying costs associated with the Retail division ($14.7m), with the remainder allocated to Vocus Network Services ($33.3m). Retail costs comprise directly attributable office costs and warehouse costs, with legal, finance, and human resources support costs determined using an allocation methodology. Legal and finance costs have been allocated with reference to divisional revenue, with human resources support costs allocated based on headcount.

2.5 AASB 16 Leases impact on Results

Statement of Profit and Loss

	Excluding AASB 16 *Leases*	AASB 16 *Leases* impact	Including AASB 16 *Leases*
Revenue	1,778.2	–	1,778.2
Other gains and losses	(13.0)	–	(13.0)
Expenses			
Network and service delivery	(1,003.2)	7.2	(996.0)
Employee benefits expense	(227.8)	–	(227.8)
Depreciation and amortisation expense	(250.4)	(17.8)	(268.2)
Administration and other expenses	(194.6)	14.5	(180.1)
Impairment expense	(202.1)	–	(202.1)
Net finance costs	(45.9)	(10.4)	(56.3)
Loss before income tax	(158.8)	(6.5)	(165.3)
Income tax expense	(14.9)	1.9	(13.0)
Loss after income tax	(173.7)	(4.6)	(178.2)

Balance sheet

	Excluding AASB 16 *Leases*	AASB 16 *Leases* impact	Including AASB 16 *Leases*
Current assets	282.3	–	282.3
Non-current assets	3,608.3	201.8	3,810.1
Total assets	3,890.6	201.8	4,092.4
Current liabilities	422.5	13.0	435.5
Non-current liabilities	1,302.3	193.4	1,495.7
Total liabilities	1,724.8	206.4	1,931.2
Net assets	2,165.9	(4.6)	2,161.3
Total equity	2,165.9	(4.6)	2,161.3

Statement of cash flows

	Excluding AASB 16 *Leases*	AASB 16 *Leases* impact	Including AASB 16 *Leases*
Cash flows from operating activities			
Receipts from customers	1,934.7	–	1,934.7
Payments to suppliers	(1,599.9)	22.1	(1,577.9)
Interest received	0.5	–	0.5
Other finance costs paid	(53.9)	(10.4)	(64.3)
Income taxes paid	(15.1)	–	(15.1)
Net cash from operating activities	**266.2**	**11.7**	**277.9**
Net cash used in investing activities	**(200.5)**	**–**	**(200.5)**
Cash flows from financing activities			
Net repayments from borrowings	(70.3)	–	(70.3)
Repayment of finance leases and IRU liabilities	(9.9)	(11.7)	(21.6)
Upfront borrowing costs	(13.0)	–	(13.0)
Net cash used in financing activities	**(93.3)**	**(11.7)**	**(105.0)**
Net increase/(decrease) in cash	**(27.6)**	**–**	**(27.6)**

3. Group outlook

3.1 Group Strategy

Vocus has a clear strategy to deliver long term sustainable growth. The opportunity in each of the three independent operating businesses requires a different strategy.

Vocus Network Services

Operating under the Vocus brand, Vocus Network Services is building Australia's specialist fibre and network solutions provider.

Our key assets, connecting Australia with Asia and the USA, are our fibre and core transport network:

- 15,020km of inter-capital network in Australia;
- Over 9,500km of metropolitan and regional fibre in all major centres;
- 4,200 km of inter-capital network in New Zealand;
- More than 5,500 on-net buildings;
- Connectivity to 17 major sports stadiums;
- 4,600km Australia Singapore Cable providing a gateway to Asia;
- Connectivity to the USA via investment in IRUs; and
- North West Cable System connecting offshore oil and gas facilities.

Vocus has significant market share opportunity leveraging the quality and extent of our fibre network assets throughout Australia. Digitisation, automation, artificial intelligence, machine learning and 5G are all increasing demand for data connectivity and high bandwidth consumption. Furthermore, hyperscale cloud companies are consuming significant capacity across Australia and into Asia along with large Enterprises increasingly adopting private and public cloud. As these trends continue, there is increasing demand for diversity of supply across multiple providers of network services to meet future growth projections.

Within the core Enterprise, Government and Wholesale segments, a highly targeted approach has been adopted to focus on key verticals whose needs align to our core assets and capability. Understanding that these verticals require different products and go to market strategies to be successful, we are focused on strengthening our sales capability and further differentiating from our competitors by delivering enhanced customer experiences and engagement. This will involve the rationalisation of products and services along with investment in our people to drive our growth ambitions.

To capture the wider market opportunity, the reinvigoration of indirect sales channel partners will allow Vocus direct sales teams to focus on higher value customers in key market segments. In addition, there will be an increased focus on strategic partnerships with major technology players to extend our reach and branding, particularly in products such as public cloud, SD-WAN, and voice and collaboration.

With the Australia Singapore Cable becoming operational during the last year, Vocus will harness this asset for international and domestic growth. This will be achieved through the creation of an international sales team along with an increased presence in Singapore and the USA.

Retail

Retail focuses on the price sensitive and value seeking segments of the consumer market and the small to medium business segment. It provides telecommunications products and services including broadband, voice and mobile services, as well as energy products. Within the Consumer segment, the go to market brands are dodo™ and iPrimus™ with some small legacy brands from prior acquisitions also maintained. Commander™ is the go-to market brand for the small and medium business segment. The Retail business is currently skewed to legacy voice and data products, such as PSTN, ISDN and ADSL. This legacy revenue is declining due to migration to VOIP and mobile solutions, and particularly to the NBN which also attracts lower margins.

To address this structural decline, Retail is executing a multi-brand strategy to drive profitable growth through revenue diversification and taking market share in mobile and energy. In addition, the operating model is changing to be digitally driven sales and service, driving down cost to acquire and cost to serve, to build a scalable, low-cost business.

Within the broadband market, one-time costs to acquire and connect customers to the NBN are high and chasing market share is expensive. Accordingly, the focus is to successfully migrate existing ADSL copper broadband customers to the NBN, and leveraging broadband as the entry point into the home, to bundle energy products. This has the benefit of lengthening customer tenure whilst growing margin and is a strategy that will be pursued.

Relative to existing share of the fixed telco market, Retail has very low market share in mobile. Although all brands have high levels of awareness relative to other challenger brands, the Commander™ brand is uniquely placed as an SMB-only brand to grow mobile penetration. The Optus MVNO arrangement provides a path to 5G and fixed wireless broadband which also broadens the mobile product offering.

New Zealand

The multi-brand strategy continues to be a key focus to capture disproportionate share in the New Zealand fibre market. The scale and resiliency of the Vocus network has been a continued area of investment to support these growth ambitions and this is reflected in the exceptional network experience for all customers. As the uptake of fibre continues to remove the last mile bottle necks, the value of the network ownership continues to increase.

While the Consumer and Business segments remain highly competitive, the high brand awareness of Slingshot and Orcon combined with the bundling of both energy and mobile services provides unique differentiation. The digital and process automation program continues to improve the customer experience while delivering a low-cost operating model for improved competitiveness.

The focus in the Enterprise and Wholesale segments has been to leverage the network and to more effectively target high bandwidth users that value network performance. As the adoption of cloud services continues to improve this is creating more opportunities as enhanced network performance and real time management. The major OTT players have recently announced significant investments in New Zealand which will further drive demand for network services and fibre infrastructure in the years ahead.

Vocus remains on the Government TaaS panel and as a direct supplier while also supporting key partners with their network requirements in this segment.

While continuing to demonstrate leadership in fixed network services and capability, mobile services will become an increasing area of focus in the next couple of years. This will include both traditional mobile based services along with fixed wireless services under a new arrangement with our mobile partner.

3.2 FY2021 Guidance

For FY21, expectations are in line with previously released guidance:

- Underlying EBITDA – $382m to $397m; and
- Capex – $160m to $180m.

3.3 Business Risks

The Company’s risk management approach is set out in detail in the Corporate Governance Statement which is available on the Company’s website https://www.vocus.com.au/legal/corporate-governance.

Auditor’s Independence Declaration

pwc

Auditor’s Independence Declaration

As lead auditor for the audit of Vocus Group Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Vocus Group Limited and the entities it controlled during the period.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
19 August 2020

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Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

		Consolidated	
	Note	**2020 $'000**	**2019 $'000**
Revenue	5	1,778,180	1,892,296
Other gains and losses		(12,964)	(4,553)
Expenses			
Network and service delivery		(996,000)	(1,103,834)
Employee benefits expense	6	(227,828)	(228,150)
Depreciation and amortisation expense	6	(268,143)	(243,357)
Administration and other expenses		(180,076)	(206,652)
Impairment	15	(202,078)	–
Net finance costs	6	(56,285)	(53,052)
Profit/(loss) before income tax expense		(165,194)	52,698
Income tax expense	7	(12,972)	(18,689)
Profit/(loss) after income tax expense for the year attributable to the owners of Vocus Group Limited	27	(178,166)	34,009
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(7,305)	14,628
Net movement on hedging transactions, net of tax		(29,541)	4,676
Net movement on revaluation of equity instrument financial assets		–	342
Other comprehensive income for the year, net of tax		(36,846)	19,646
Total comprehensive income for the year attributable to the owners of Vocus Group Limited		(215,012)	53,655
		Cents	**Cents**
Basic earnings per share	10	(28.74)	5.47
Diluted earnings per share	10	(28.74)	5.40

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 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Assets			
Current assets			
Cash and cash equivalents	23	59,604	87,199
Trade and other receivables	12	153,290	152,620
Prepayments		30,954	27,694
Contract costs asset		20,335	20,386
Derivative financial instruments	30	5,547	22,659
Other		12,536	11,134
Total current assets		282,266	321,692
Non-current assets			
Plant and equipment	13	1,759,625	1,768,274
Intangibles	15	1,780,068	2,044,163
Right-of-use assets	14	151,119	–
Contract costs asset		9,630	8,160
Deferred tax	8	90,781	44,836
Other		18,571	19,008
Derivative financial instruments		355	446
Total non-current assets		3,810,149	3,884,887
Total assets		4,092,415	4,206,579
Liabilities			
Current liabilities			
Trade and other payables	16	251,803	252,484
Provisions	21	28,201	27,338
Deferred revenue		50,297	60,010
Income tax		8,819	3,154
Borrowings	17	52,242	57,103
Derivative financial instruments	31	21,217	4,975
Lease liabilities	19	15,385	–
Other		7,504	4,445
Total current liabilities		435,468	409,509
Non-current liabilities			
Provisions	22	21,949	27,453
Deferred revenue		156,875	170,908
Borrowings	18	962,403	1,058,803
Deferred tax	9	173,355	149,174
Derivative financial instruments	32	17,889	11,203
Other		6,510	11,516
Lease liabilities	20	156,667	–
Total non-current liabilities		1,495,648	1,429,057
Total liabilities		1,931,116	1,838,566
Net assets		2,161,299	2,368,013
Equity			
Contributed equity	25	3,776,212	3,775,752
Reserves	26	8,524	37,532
Accumulated losses	27	(1,623,437)	(1,445,271)
Total equity		2,161,299	2,368,013

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 2020

Consolidated	**Contributed equity $'000**	**Reserves $'000**	**Accumulated losses $'000**	**Total equity $'000**
Balance at 1 July 2018	3,775,454	11,658	(1,479,280)	2,307,832
Profit after income tax expense for the year	–	–	34,009	34,009
Other comprehensive income for the year, net of tax	–	19,646	–	19,646
Total comprehensive income for the year	–	19,646	34,009	53,655
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 25)	72	–	–	72
Share-based payments (note 33)	–	6,454	–	6,454
Transfers	226	(226)	–	–
Balance at 30 June 2019	3,775,752	37,532	(1,445,271)	2,368,013

Consolidated	**Contributed equity $'000**	**Reserves $'000**	**Accumulated losses $'000**	**Total equity $'000**
Balance at 1 July 2019	3,775,752	37,532	(1,445,271)	2,368,013
Loss after income tax expense for the year	–	–	(178,166)	(178,166)
Other comprehensive income for the year, net of tax	–	(36,846)	–	(36,846)
Total comprehensive income for the year	–	(36,846)	(178,166)	(215,012)
Transactions with owners in their capacity as owners:				
Share-based payments (note 33)	–	7,838	–	7,838
Transfers	460	–	–	460
Balance at 30 June 2020	3,776,212	8,524	(1,623,437)	2,161,299

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 2020

	Note	Consolidated 2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		1,934,691	2,139,478
Payments to suppliers and employees		(1,577,874)	(1,780,353)
		356,817	359,125
Interest received		500	761
Other finance costs paid		(64,335)	(39,949)
Income taxes paid		(15,095)	(23,170)
Net cash from operating activities	24	277,887	296,767
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired, acquisition and integration costs		(7,653)	(12,751)
Payments for property, plant and equipment		(137,780)	(133,088)
Payments for intangible assets		(55,073)	(36,243)
Payments for projects under construction		–	(139,357)
Proceeds from sale of assets		–	1,342
Net cash used in investing activities		(200,506)	(320,097)
Cash flows from financing activities			
Repayment of former debt facility		(1,111,046)	–
Drawdown of current debt facility		1,064,013	–
Proceeds/(Repayments) from borrowings		(23,334)	64,235
Repayment of finance leases and IRU liabilities		(21,615)	(11,620)
Payment of upfront borrowing costs		(12,994)	–
Net cash from/(used in) financing activities		(104,976)	52,615
Net increase/(decrease) in cash and cash equivalents		(27,595)	29,285
Cash and cash equivalents at the beginning of the financial year		87,199	57,914
Cash and cash equivalents at the end of the financial year	23	**59,604**	**87,199**

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

Notes to the Financial Statements

Note 1. Reporting Entity

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

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

Level 10
452 Flinders Street
Melbourne Victoria 3000

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 19 August 2020. 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 2020, Vocus Group's current liabilities exceeded its current assets by $153,202,000. 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 41.

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 is recognised in accordance with the policy set out in Note 5.

Impairment

The recoverable amounts of Vocus cash-generating units (CGU'S) 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.

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.

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:

- Vocus Network Services;
- Retail;
- New Zealand; and
- Infrastructure, Operations and Corporate.

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

Consistent with information presented for internal management reporting purposes, segment performance is measured by EBITDA contribution.

Major customers

During the year ended 30 June 2020 there were no customers of Vocus which contributed 10% or more of external revenue (2019: nil).

Note 4. Operating segments (continued)

Segment revenues and results

Consolidated – 2020	Vocus Network Services $'000	Retail $'000	New Zealand $'000	Infrastructure, Operations & Corporate $'000	Total $'000
Revenue					
Sales to external customers	651,884	748,030	378,266	–	1,778,180
Total revenue	651,884	748,030	378,266	–	1,778,180
EBITDA (pre AASB 16)	367,811	134,287	62,050	(224,489)	339,659
Depreciation and amortisation					(268,143)
Impairment					(202,078)
Net finance costs					(56,285)
AASB 16 *Leases* transition					21,653
Loss before income tax expense					(165,194)
Income tax expense					(12,972)
Loss after income tax expense					(178,166)

Consolidated – 2019	Vocus Network Services $'000	Retail $'000	New Zealand $'000	Infrastructure, Operations & Corporate $'000	Total $'000
Revenue					
Sales to external customers	709,990	826,080	356,226	–	1,892,296
Total revenue	709,990	826,080	356,226	–	1,892,296
EBITDA	362,064	159,895	59,061	(231,913)	349,107
Depreciation and amortisation					(243,357)
Net finance costs					(53,052)
Profit before income tax expense					52,698
Income tax expense					(18,689)
Profit after income tax expense					34,009

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	
	2020 $'000	**2019 $'000**
Revenue from operations	1,778,180	1,892,296

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

Consolidated – 2020	**Vocus Network Services $'000**	**Retail $'000**	**New Zealand $'000**	**Total $'000**
Major product lines				
Voice	93,024	92,535	53,044	238,603
NBN/UFB/Broadband	73,623	370,477	189,368	633,468
Data Networks	434,444	–	42,054	476,498
Mobile	124	53,561	10,630	64,315
Data Centres	38,117	1,807	5,292	45,216
Energy	–	196,271	71,879	268,150
Other	12,552	33,379	5,999	51,930
	651,884	748,030	378,266	1,778,180
Geographical regions				
Australia	651,884	748,030	–	1,399,914
New Zealand	–	–	378,266	378,266
	651,884	748,030	378,266	1,778,180

Note 5. Revenue (continued)

Consolidated – 2019	Vocus Network Services $'000	Retail $'000	New Zealand $'000	Total $'000
Major product lines				
Voice	89,626	143,092	53,311	286,029
NBN/UFB/Broadband	52,031	387,472	173,780	613,283
Data Networks	516,377	–	44,645	561,022
Mobile	258	55,543	9,999	65,800
Data Centres	40,983	2,207	5,667	48,857
Energy	–	196,715	61,101	257,816
Other	10,715	41,051	7,723	59,489
	709,990	826,080	356,226	1,892,296
Geographical regions				
Australia	709,990	826,080	–	1,536,070
New Zealand	–	–	356,226	356,226
	709,990	826,080	356,226	1,892,296

Deferred revenue

Set out below are summaries of the deferred revenue movements for the year:

	Consolidated	
	2020 $'000	2019 $'000
Current deferred revenue:		
Opening balance	60,010	52,240
Additions	354,406	237,894
Transfer from non-current	18,296	14,334
Unwind	(382,415)	(244,458)
	50,297	60,010

	Consolidated	
	2020 $'000	2019 $'000
Non-current deferred revenue:		
Opening balance	170,908	159,926
Additions	4,263	25,316
Transfers to current	(18,296)	(14,334)
	156,875	170,908

Accounting policy for revenue recognition

Revenue is recognized at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring products or services to a customer. The Group recognizes revenue when it transfers control over a product or service to a customer. Where services have been billed in advance and the performance obligations to transfer the services to the customer have not been satisfied, the consideration received will be recognized as a liability until such time when or as those performance obligations are met and revenue is recognized.

The Group's customer contracts may include multiple performance obligations (bundled products) over a long period. In these cases, the Group allocated the transaction price to each performance obligation based on the relative stand-alone selling prices of each distinct service. Stand-alone selling prices are determined based on prices charged to customers for individual products and services taking into consideration the size and length of contracts and Group's overall go to market strategy.

The Group applies the practical expedient in that it does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group has identified the following main revenue categories by segment:

Voice, Broadband, Data Networks, Mobile and Other (Segment: Vocus Network Services, Retail and New Zealand)

Revenue is recognised by providing Fibre, Ethernet and Internet services over a contracted period. Consideration is recorded and deferred when it is received which is typically at the time of entering the contract and revenue is recognised over the time the customer receives and consumes the benefits of the service provided. The measurement of progress in satisfying this performance obligation is based on the passage of time. The amount of revenue recognised is based on the amount of the transaction price allocated to this performance obligation.

Data Centre (Segment: Vocus Network Services and New Zealand)

Revenue is recognised by providing Data Centre services over a contracted period. Revenue is recognised over the time the customer receives and consumes the benefits of the service provided. The measurement of progress in satisfying this performance obligation is based on the passage of time. The amount of revenue recognised is based on the amount of the transaction price allocated to this performance obligation.

Energy (Segment: Retail and New Zealand)

Revenue is recognised by providing Energy (electricity and gas) services over a contracted period. Revenue is recognised once the electricity and/or gas is delivered to the customer and they consume the benefits. The electricity and/or gas delivered is measured through regular review of usage meters. The amount of revenue recognised is based on the amount of the transaction price allocated to this performance obligation.

Note 6. Expenses

	Consolidated	
	2020 $'000	2019 $'000
Profit/(loss) before income tax includes the following specific expenses:		
Depreciation and amortisation		
Depreciation (note 13 and note 14)	152,357	127,092
Amortisation (note 15)	115,786	116,265
Total depreciation and amortisation	268,143	243,357
Net finance costs		
Interest income	(3,734)	(3,471)
Interest expense	60,019	56,523
Net finance costs	56,285	53,052
Rental expense relating to operating leases	–	20,275
Employee benefits expense		
Salaries and wages expense	162,722	159,419
Employee on-costs expense	28,073	27,393
Employee leave expense	(1,980)	2,371
Share-based payment expense	7,838	6,454
Other employee benefits expense	31,175	32,513
Total employee benefits expense	227,828	228,150

Note 7. Income tax expense

	Consolidated 2020 $'000	Consolidated 2019 $'000
Income tax expense		
Current tax	22,244	22,504
Deferred tax – origination and reversal of temporary differences	(9,496)	(4,007)
Adjustment recognised for prior periods	224	192
Aggregate income tax expense	**12,972**	**18,689**
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 8)	(45,673)	6,577
Increase/(decrease) in deferred tax liabilities (note 9)	36,177	(10,584)
Deferred tax – origination and reversal of temporary differences	(9,496)	(4,007)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit/(loss) before income tax expense	(165,194)	52,698
Tax at the statutory tax rate of 30%	(49,558)	15,809
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	365	384
Impairment of goodwill	60,024	–
Share-based payments	2,336	1,937
Transaction costs	77	79
Sundry items	109	839
	13,353	19,048
Adjustment recognised for prior periods	224	192
Difference in overseas tax rates	(605)	(551)
Income tax expense	**12,972**	**18,689**

	Consolidated 2020 $'000	Consolidated 2019 $'000
Amounts charged/(credited) directly to other comprehensive income:		
Deferred tax assets (note 8)	(272)	(2,984)
Deferred tax liabilities (note 9)	(11,996)	(12,092)
	(12,268)	(15,076)

Note 7. Income tax expense (continued)

Accounting policy for tax

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

Deferred tax

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

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

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

Tax consolidation legislation

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

Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidated Accounting

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

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

Nature of the tax funding agreement

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

Note 8. Non-current assets – deferred tax

	Consolidated 2020 $'000	Consolidated 2019 $'000
Deferred tax asset comprises temporary differences attributable to:		
Carry forward losses	409	72
Receivables	8,355	8,903
Property, plant and equipment	859	830
Lease liabilities	50,821	–
Accruals and provisions	16,023	23,911
Derivatives	10,767	–
Expenses deductible over five years	1,412	4,246
Unearned income	2,135	6,874
Deferred tax asset	**90,781**	**44,836**
Movements:		
Opening balance	44,836	48,429
Credited/(charged) to profit or loss (note 7)	45,673	(6,577)
Credited to equity (note 7)	272	2,984
Closing balance	**90,781**	**44,836**

Note 9. Non-current liabilities – deferred tax

	Consolidated 2020 $'000	Consolidated 2019 $'000
Deferred tax liability comprises temporary differences attributable to:		
Property, plant and equipment	33,130	30,264
Right-of-use assets	44,698	–
Intangibles	85,711	104,901
Contract costs asset	8,848	8,459
Derivatives	968	2,336
Other	–	3,214
Deferred tax liability	**173,355**	**149,174**
Movements:		
Opening balance	149,174	171,850
Charged/(credited) to profit or loss (note 7)	36,177	(10,584)
Credited to equity (note 7)	(11,996)	(12,092)
Closing balance	**173,355**	**149,174**

Note 10. Earnings per share

	Consolidated	
	2020 $'000	2019 $'000
Profit/(loss) after income tax attributable to the owners of Vocus Group Limited	(178,166)	34,009

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	619,824,955	622,240,121
Adjustments for calculation of diluted earnings per share:		
Options	–	7,142,022
Performance rights	–	664,077
Weighted average number of ordinary shares used in calculating diluted earnings per share	619,824,955	630,046,220

	Cents	Cents
Basic earnings per share	(28.74)	5.47
Diluted earnings per share	(28.74)	5.40

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.

Note 11. Equity – dividends

Dividends

No dividends were recommended, declared or paid during FY20. As disclosed to the ASX on 4 June 2020, Vocus closed a new and increased syndicated debt facility with its lenders. The Syndicated Facility Agreement stipulates that dividends will not be paid until Net Leverage Ratio is below 2.25x for two consecutive testing dates.

Franking credits

	Consolidated	
	2020 $'000	2019 $'000
Franking credits available at the reporting date based on a tax rate of 30%	81,191	70,115
Franking credits that will arise from the payment of the amount of the June income tax payment made in July at the reporting date based on a tax rate of 30%	2,500	2,114
Net franking credits available based on a tax rate of 30%	83,691	72,229

	Consolidated	
	2020 $'000	**2019 $'000**
Franking credits available for subsequent financial years based on a tax rate of 30%	83,691	72,229

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; and
- 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 12. Current assets – trade and other receivables

	Consolidated	
	2020 $'000	**2019 $'000**
Trade receivables	129,566	142,318
Accrued revenue	39,282	39,659
Less: Allowance for expected credit losses	(28,040)	(30,019)
	140,808	151,958
Other receivables	12,482	662
	153,290	152,620

Impairment of receivables

An expense of $17,627,330 (2019: $21,152,628) has been recognised in profit or loss in respect of impairment of receivables for the year ended 30 June 2020.

Vocus applies the AASB 9 simplified approach to measure expected credit loss ("ECL") which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the ECL, trade receivables and accrued revenue have been grouped based on shared credit risk characteristics and the days past due. This is further split into Vocus Networks – Services, Retail and New Zealand. The accrued revenue relates to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts.

Note 12. Current assets – trade and other receivables (continued)

Trade Receivables	Carrying amount 2020 $'000	Carrying amount 2019 $'000	Allowance for ECL 2020 $'000	Allowance for ECL 2019 $'000
Current	68,322	81,652	4,584	4,586
More than 30 days past due	21,188	17,718	2,954	2,968
More than 60 days past due	12,107	9,337	3,178	2,569
More than 90 days past due	27,949	33,611	12,598	15,040
	129,566	142,318	23,314	25,163

Accrued Revenue	Carrying amount 2020 $'000	Carrying amount 2019 $'000	Allowance for ECL 2020 $'000	Allowance for ECL 2019 $'000
Current	33,836	32,271	2,471	1,525
More than 30 days	3,765	5,651	1,132	2,201
More than 60 days	1,681	1,737	1,123	1,130
	39,282	39,659	4,726	4,856

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

	Consolidated	
	2020 $'000	2019 $'000
Opening balance	30,019	24,879
Additional provisions recognised	17,627	21,153
Change on initial application of AASB 9	–	15,943
Receivables written off during the year as uncollectable	(19,606)	(31,956)
Closing balance	28,040	30,019

Accounting policy for trade and other receivables

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

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement when determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss ("ECL"). The Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, current market conditions as well as forward looking estimates at the end of each reporting period.

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

Note 13. Non-current assets – plant and equipment

	Consolidated	
	2020 $'000	**2019 $'000**
Fibre assets – at cost	1,677,670	1,626,892
Less: Accumulated depreciation	(276,856)	(221,824)
	1,400,814	1,405,068
Data centre assets – at cost	67,797	67,779
Less: Accumulated depreciation	(34,149)	(29,707)
	33,648	38,072
Network equipment – at cost	425,992	379,881
Less: Accumulated depreciation	(216,321)	(157,799)
	209,671	222,082
Other plant and equipment – at cost	75,664	64,654
Less: Accumulated depreciation	(41,312)	(30,383)
	34,352	34,271
Capital work in progress	81,140	68,781
	1,759,625	**1,768,274**

Reconciliations

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

Consolidated	Fibre assets $'000	Data centre assets $'000	Network equipment $'000	Other plant and equipment $'000	Capital WIP $'000	Total $'000
Balance at 1 July 2018	1,259,251	42,449	139,659	47,802	183,563	1,672,724
Additions	77	101	5,994	1,680	202,903	210,755
Transfers	270,336	1,477	52,143	3,551	(327,507)	–
Reclassifications	(75,404)	162	82,326	(4,449)	1,294	3,929
Exchange differences	4,821	140	1,044	(455)	8,528	14,078
Write off of assets	(2,521)	(1,386)	(2,159)	(54)	–	(6,120)
Depreciation expense	(51,492)	(4,871)	(56,925)	(13,804)	–	(127,092)
Balance at 30 June 2019	1,405,068	38,072	222,082	34,271	68,781	1,768,274
Additions	–	–	–	–	138,208	138,208
Additions through business combinations	–	–	1,088	–	–	1,088
Transfers	62,223	534	48,882	11,787	(123,426)	–
Reclassification to Right of Use Asset	(5,221)	–	(1,409)	–	–	(6,630)
Reclassifications	(44)	–	–	–	(2,966)	(3,010)
Exchange differences	(2,147)	(70)	(635)	(314)	543	(2,623)
Write off of assets	(1,080)	(260)	(88)	(35)	–	(1,463)
Depreciation expense	(57,985)	(4,628)	(60,249)	(11,357)	–	(134,219)
Balance at 30 June 2020	**1,400,814**	**33,648**	**209,671**	**34,352**	**81,140**	**1,759,625**

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

Note 13. Non-current assets – plant and equipment (continued)

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	2–8 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 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.

Note 14. Non-current assets – right-of-use assets

	Consolidated	
	2020 $'000	**2019 $'000**
Right of Use Asset	171,395	–
Less: Accumulated depreciation	(20,276)	–
	151,119	–

Reconciliations

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

Consolidated	**Property $'000**	**Others $'000**	**Total $'000**
Balance as at 1 July 2019	148,375	14,738	163,113
Additions	1,299	–	1,299
Disposals	(638)	–	(638)
Adjustments	7,102	(867)	6,235
Exchange differences	(584)	(168)	(752)
Depreciation expense	(17,016)	(1,122)	(18,138)
Balance at 30 June 2020	**138,538**	**12,581**	**151,119**

In the previous year, Vocus recognised lease assets and lease liabilities in relation to leases that were classified as "finance lease' under AASB 117 *Leases*. The assets were presented in property, plant and equipment and the liabilities as part of the group's borrowings. For adjustments recognised on adoption of AASB 16 on 1 July 2019, please refer to note 39.

Note 15. Non-current assets – intangibles

	Consolidated 2020 $'000	Consolidated 2019 $'000
Goodwill – at cost	1,267,522	1,466,265
IRU capacity – at cost	199,102	188,089
Less: Accumulated amortisation	(81,757)	(67,195)
	117,345	120,894
Customer intangibles – at cost	381,047	381,061
Less: Accumulated amortisation	(273,843)	(211,890)
	107,204	169,171
Software – at cost	241,397	211,977
Less: Accumulated amortisation	(162,055)	(122,235)
	79,342	89,742
Brands – at cost	178,500	180,500
Other intangibles – at cost	2,527	2,048
Less: Accumulated amortisation	(610)	(325)
	1,917	1,723
Capital work in progress	28,238	15,868
	1,780,068	2,044,163

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

Reconciliations

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

Consolidated	Goodwill $'000	Capacity $'000	IRU Customer intangibles $'000	Software $'000	Brands & other intangibles $'000	Capital WIP $'000	Total $'000
Balance at 1 July 2018	1,453,584	129,389	231,139	112,034	182,305	–	2,108,451
Additions	–	5,229	–	4,459	20	37,429	47,137
Transfers	–	22	–	17,970	103	(18,095)	–
Reclassifications	–	(36)	–	621	–	(4,514)	(3,929)
Exchange differences	12,681	104	–	(4,652)	–	1,048	9,181
Write off of assets	–	–	–	(412)	–	–	(412)
Amortisation expense	–	(13,814)	(61,968)	(40,278)	(205)	–	(116,265)
Balance at 30 June 2019	1,466,265	120,894	169,171	89,742	182,223	15,868	2,044,163
Additions	–	–	–	–	–	49,352	49,352
Additions through business combinations	7,760	–	–	237	–	480	8,477
Transfers	–	12,948	–	28,734	480	(42,162)	–
Reclassifications	–	(1,688)	–	–	–	4,698	3,010
Exchange differences	(6,425)	(152)	–	(472)	11	2	(7,036)
Impairment	(200,078)	–	–	–	(2,000)	–	(202,078)
Write off of assets	–	–	–	(34)	–	–	(34)
Amortisation expense	–	(14,657)	(61,967)	(38,865)	(297)	–	(115,786)
Balance at 30 June 2020	1,267,522	117,345	107,204	79,342	180,417	28,238	1,780,068

	Consolidated 2020 $'000	Consolidated 2019 $'000
Allocation of goodwill and brands (post-impairment)		
Goodwill and Brands have been allocated for impairment testing purposes to the following cash-generating units:		
○ Retail		
○ Vocus Network Services		
○ New Zealand		
The carrying amount of goodwill allocated to each cash-generating unit was:		
Retail	147,228	347,306
Vocus Network Services	780,779	780,779
New Zealand	339,515	338,180
The carrying amount of brands allocated to each cash-generating unit was:		
Retail	151,000	153,000
New Zealand	27,500	27,500

Impairment testing

In accordance with the Group's accounting policy, impairment testing has been undertaken at 30 June 2020 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 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 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 Retail, Vocus Network Services and New Zealand CGUs are set out below.

	Retail %	Vocus Network Services %	New Zealand %
Discount rate (post tax)	11.0%	8.5%	9.0%
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 discount rates used reflect the assessed risks associated with the 5 year average growth rate assumptions in the 5 year forecasts as well as the impacts of AASB 16 *Leases* accounting standard.

Based on the above statement, the discount rates have changed from prior year:

- An increase in the discount rate used for Retail from 9.5% to 11.0%;
- A decrease in the discount rate used for Vocus Network Services from 10.0% to 8.5%; and
- A decrease in the discount rate used for New Zealand from 10.2% to 9.0%.

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 the calculations are:

- Board approved five year cashflow forecasts; and
- Board approved five year forecasts for capital expenditure.

The five year cashflow and capital expenditure forecasts use Management estimates to determine revenue, expenses, EBITDA, capital expenditure and cashflows for each CGU. It should be noted that the revenue profile is above industry average which aligns with Vocus's overall strategy. In determining the forecasts Management developed a view on the future increases in customer numbers, market share and the mix of the Group's 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.

Each of the above factors is subject to significant judgement about future economic conditions and the ongoing structure of the telecommunications industry. Management have applied their best estimates to each of the variables and cannot warrant their outcome.

The result of those impairment tests was that there was no impairment identified for the Vocus Network Services and New Zealand CGUs at 30 June 2020 (2019: nil), however an impairment charge was recognised for the Retail CGU in the consolidated income statement within operating profit in respect of goodwill $200,078,000 and brands of $2,000,000 (2019: nil).

Total impairment charge to the statement of profit and loss for the year ending 30 June 2020 was $202,078,000.

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

Sensitivity analysis

The estimated recoverable amount for the Retail, Vocus Network – Services and New Zealand CGU exceeded its carrying amount. Management has identified that a reasonable possible change in three key assumptions could cause the carrying amount to exceed the recoverable amount.

Due to the interrelated nature of the assumptions, movements in any one variable can have an indirect impact on others and individual variables rarely change in isolation. Additionally, Management can be expected to respond to some movements, to mitigate downsides and take advantage of upsides, as circumstances allow. Consequently, it is impracticable to estimate the indirect impact that a change in one assumption has on other variables and hence, on the likelihood, or extent, of impairments, or reversals of impairments, under different sets of assumptions in subsequent reporting periods.

The following table shows the amount by which these three assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	Retail %	Vocus Network Services %	New Zealand %
Change required for carrying amount to equal recoverable amount			
Discount rate (post tax)	–	0.6	0.3
Decrease in terminal value growth rate	–	(0.7)	(0.3)
Decrease in CAGR% – EBITDA	–	(1.2)	(0.3)

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.

Note 16. Current liabilities – trade and other payables

	Consolidated	
	2020 $'000	**2019 $'000**
Trade payables	64,717	94,206
Revenue received in advance	14,731	11,274
Accruals	141,117	123,860
Goods and services tax payable	17,117	4,617
Other payables	14,121	18,527
	251,803	252,484

Refer to note 29 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	
	2020 $'000	**2019 $'000**
Bank loans	50,000	50,000
Upfront borrowing costs	(3,859)	(2,390)
Backhaul IRU liability	6,101	5,811
Lease liability	–	3,682
	52,242	57,103

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

Refer to note 39 for lease liability balance post implementation of AASB 16 *Leases*.

Note 18. Non-current liabilities – borrowings

	Consolidated 2020 $'000	Consolidated 2019 $'000
Bank loans	971,513	1,044,223
Upfront borrowing costs	(9,110)	(3,334)
Backhaul IRU liabilities	–	6,101
Lease liabilities	–	11,813
	962,403	1,058,803

Refer to note 39 for lease liability balance post implementation of AASB 16 *Leases*.

Total secured liabilities

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

	Consolidated 2020 $'000	Consolidated 2019 $'000
Bank loans	1,021,513	1,094,223
Lease liabilities	11,387	15,495
	1,032,900	1,109,718

Assets pledged as security

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

Net debt

The table below lists the carrying value of our net debt components as per our debt covenant testing which does not apply AASB 16 *Leases*:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Bank loans	1,021,513	1,094,223
Backhaul IRU liabilities	6,101	11,912
Lease liabilities	11,387	15,495
Less: Cash	(59,604)	(87,199)
Less: Upfront borrowing costs	(12,969)	(5,724)
	966,428	1,028,707

Financing arrangements

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

	Consolidated	
	2020 $'000	**2019 $'000**
Total facilities		
Bank loans	1,243,768	1,313,486
Bank guarantee/letter of credit facility	125,000	95,000
	1,368,768	1,408,486
Used at the reporting date		
Bank loans	1,021,513	1,094,223
Bank guarantee/letter of credit facility	70,182	71,411
	1,091,695	1,165,634
Unused at the reporting date		
Bank loans	222,255	219,263
Bank guarantee/letter of credit facility	54,818	23,589
	277,073	242,852

The Group's bank facilities at 30 June 2020 consists of a $1,368,768,000 senior finance facility (2019: $1,408,486,000), comprising AU$187,000,000 amortising CAPEX facility, AU$125,000,000 bank guarantee/letters of credit facility, AU$930,000,000 and NZ$135,000,000 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.

Under the terms of the bank facilities, the group is required to comply with the following financial covenants:

- the net leverage ratio must be not more than 3.25x;
- the interest cover ratio must be higher than 5.0x; and
- the gearing ratio must be not more than 60%.

The group has complied with these covenants as at 30 June 2020. The Group measures its financial covenants excluding the impact of AASB 16 *Leases* accounting standard.

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 – lease liabilities

	Consolidated	
	2020 $'000	**2019 $'000**
Lease liabilities	15,385	–

Note 20. Non-current liabilities – lease liabilities

	Consolidated	
	2020 $'000	2019 $'000
Lease Liabilities	156,667	–
The balance sheet shows the following amounts relating to Lease Liabilities:		
AASB 16 Opening balance 1 July 2019	181,629	–
Additions	1,299	–
Disposals	(638)	–
Adjustments	6,338	–
Exchange differences	(863)	–
Interest expense	11,316	–
Repayments	(27,029)	–
Reclassed to current lease liabilities	(15,385)	–
Closing balance	156,667	–

Note 21. Current liabilities – provisions

	Consolidated	
	2020 $'000	2019 $'000
Employee benefits	19,560	21,851
Deferred consideration	160	261
Onerous contracts	4,313	4,394
Make good	690	832
Restructuring	3,478	–
	28,201	27,338

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 – 2020	Employee benefits $'000	Deferred considera-tion $'000	Onerous contracts $'000	Make good $'000	Restructuring $'000
Carrying amount at the start of the year	21,851	261	4,394	832	–
Additional provisions recognised	18,404	–	–	126	3,478
Amounts transferred from non-current	759	–	4,399	29	–
Amounts paid	(21,454)	(101)	(4,480)	(297)	–
Carrying amount at the end of the year	19,560	160	4,313	690	3,478

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 where the Group does not have the unconditional right to defer payment for beyond 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

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

Note 22. Non-current liabilities – provisions

	Consolidated	
	2020 $'000	2019 $'000
Employee benefits	2,624	2,596
Deferred consideration	–	124
Onerous contracts	13,747	18,145
Make good	5,578	6,588
	21,949	27,453

Note 22. Non-current liabilities – provisions (continued)

Movements in provisions

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

Consolidated – 2020	Employee benefits $'000	Deferred considera-tion $'000	Onerous contracts $'000	Make good $'000
Carrying amount at the start of the year	2,596	124	18,145	6,588
Additional provisions recognised	787	–	–	111
Amounts transferred to current	(759)	–	(4,398)	(29)
Amounts used	–	(124)	–	(564)
Payments	–	–	–	(528)
Carrying amount at the end of the year	2,624	–	13,747	5,578

Note 23. Current assets – cash and cash equivalents

	Consolidated	
	2020 $'000	2019 $'000
Cash at bank	59,604	87,199

Accounting policy for cash and cash equivalents

Cash and cash equivalents include 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 24. Reconciliation of profit/(loss) after income tax to net cash from operating activities

	Consolidated	
	2020 $'000	2019 $'000
Profit/(loss) after income tax expense for the year	(178,166)	34,009
Adjustments for:		
Depreciation and amortisation	268,143	243,357
Impairment of goodwill	202,078	–
Share-based payments	7,838	6,454
Change in operating assets and liabilities:		
Decrease in trade and other receivables	2,439	1,165
Movement in derivatives	10,590	(2,175)
Movement in other assets	(2,586)	(14,524)
Decrease in other operating assets	13,905	34,068
Increase/(decrease) in trade and other payables	(28,112)	7,332
Decrease in other provisions	(2,143)	(4,251)
Movement in tax balances	(16,099)	(8,668)
Net cash from operating activities	277,887	296,767

Note 25. Equity – contributed equity

	Consolidated			
	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary shares – fully paid	620,571,174	622,263,818	3,778,039	3,786,691
Less: Treasury shares*	(330,001)	(2,022,645)	(1,827)	(10,939)
	620,241,173	620,241,173	3,776,212	3,775,752

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2018	622,184,466		3,786,465
Issue of shares on conversion of performance rights	18 October 2018	79,352	$2.85	226
Balance	30 June 2019	622,263,818		3,786,691
Employee share scheme buyback	7 October 2019	(1,692,644)	$0.00	(8,652)
Balance	30 June 2020	620,571,174		3,778,039

Movements in treasury shares*

Details	Date	Shares	Issue price	$'000
Balance	1 July 2018	(2,055,645)		(11,011)
Transfer of shares to participants**		33,000	$0.00	72
Balance	30 June 2019	(2,022,645)		(10,939)
Employee share scheme buyback		1,692,644	$0.00	8,652
Forfeiture of loan funded share plan		–	$0.00	460
Balance	30 June 2020	(330,001)		(1,827)

* Shares held by Vocus Blue Pty Limited.

During the financial year ended 30 June 2020 nil shares (2019: 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.

Note 25. Equity – contributed equity (continued)

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 2019 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.

Note 26. Equity – reserves

	Consolidated	
	2020 $'000	2019 $'000
Investment revaluation reserve	(558)	(558)
Foreign currency translation reserve	5,390	12,695
Share-based payments reserve	26,497	18,659
Hedge reserve	(22,805)	6,736
	8,524	37,532

Investment revaluation reserve

The reserve is used to recognise increments and decrements in the fair value of financial assets at fair value through other comprehensive income.

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 2018	(900)	(1,933)	12,431	2,060	11,658
Foreign currency translation	–	14,628	–	–	14,628
Recognition of share-based payments	–	–	6,454	–	6,454
Net movement on hedging transactions	–	–	–	4,676	4,676
Net movements on investments	342	–	–	–	342
Transfers to contributed equity	–	–	(226)	–	(226)
Balance at 30 June 2019	(558)	12,695	18,659	6,736	37,532
Foreign currency translation	–	(7,305)	–	–	(7,305)
Recognition of share-based payments	–	–	7,838	–	7,838
Net movement on hedging transactions	–	–	–	(29,541)	(29,541)
Balance at 30 June 2020	(558)	5,390	26,497	(22,805)	8,524

Note 27. Equity – accumulated losses

	Consolidated	
	2020 $'000	2019 $'000
Retained profits at the beginning of the financial year pre-impairments	86,847	98,750
Accumulated impairment losses at the beginning of the financial year	(1,532,118)	(1,532,118)
Change on initial application of AASB 15 and AASB 9 – net of tax	–	(45,912)
Accumulated losses at the beginning of the financial year – restated	(1,445,271)	(1,479,280)
Profit after income tax expense for the year pre-impairment	23,912	34,009
Impairment	(202,078)	–
Accumulated losses at the end of the financial year	(1,623,437)	(1,445,271)

Note 28. 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.

Note 28. Fair value measurement (continued)

Consolidated – 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Energy derivatives	–	3,797	–	3,797
Forward foreign exchange contracts	–	2,010	–	2,010
Interest rate swaps	–	95	–	95
Total assets	–	5,902	–	5,902
Liabilities				
Forward foreign exchange contracts	–	(3,473)	–	(3,473)
Interest rate swaps	–	(12,593)	–	(12,593)
Energy derivatives	–	(21,351)	(1,689)	(23,040)
Deferred consideration	–	–	(160)	(160)
Total liabilities	–	(37,417)	(1,849)	(39,266)

Consolidated – 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Energy derivatives	–	15,892	–	15,892
Forward foreign exchange contracts	–	7,214	–	7,214
Total assets	–	23,106	–	23,106
Liabilities				
Forward foreign exchange contracts	–	(92)	–	(92)
Interest rate swaps	–	(12,151)	–	(12,151)
Energy derivatives	–	(1,400)	(2,535)	(3,935)
Deferred consideration	–	–	(385)	(385)
Total liabilities	–	(13,643)	(2,920)	(16,563)

There were no transfers between levels during the financial year.

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

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

Vocus Australia has entered into a long term energy swap in FY18 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.

During the year Vocus New Zealand 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 by a pricing methodology that considers observable market prices and modelled prices, based on third party price forecasts, for periods that are not observable. The valuation of this instrument is sensitive to changes in the market, with a $1/MWh movement (on average over the duration of the contract) resulting in a $200k change in 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; and
- 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 29. 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, and not for 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 businesses 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 the Group 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.

Note 29. Financial instruments (continued)

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	
	2020 $'000	2019 $'000	2020	2019
Buy US dollars				
Maturity:				
0 – 12 months	34,035	77,368	0.6759	0.7369
12 – 24 months	4,911	745	0.6109	0.7200
Buy Philippine Pesos				
Maturity:				
0 – 12 months	28,324	31,731	35.3058	39.3900
12 – 24 months	8,357	4,969	35.8979	40.3200
Buy Euro				
Maturity:				
12 – 24 months	64	877	0.6076	0.6076

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

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

	Sell Australian dollars		Average strike exchange rates	
	2020 $'000	2019 $'000	2020	2019
Buy Philippine Pesos				
Maturity:				
0 – 12 months	5,844	–	34.2192	–

These figures represent the Australian dollars to be sold under foreign exchange option contracts to purchase Philippine Pesos if the option is exercised.

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

	Assets		Liabilities	
Consolidated	2020 $'000	2019 $'000	2020 $'000	2019 $'000
US dollars	6,882	18,457	4,779	11,194
New Zealand dollars	359	532	43	44
Philippine Pesos	–	–	2,631	1,644
	7,241	18,989	7,453	12,882

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 2020, future movements in AUD/USD currency of 5% (2019: 5%) will have an approximate $105,000 (2019: $364,000) increase or decrease to profit or loss and $1,842,000 increase or decrease (2019: $4,151,000) in equity in the financial year ending 30 June 2020.

As at 30 June 2020, future movements in AUD/NZD currency of 5% (2019: 5%) will have an approximate $16,000 (2019: $24,000) increase or decrease to profit or loss.

As at 30 June 2020, future movements in AUD/PHP currency of 5% (2019: 5%) will have an approximate $132,000 (2019: $82,000) increase or decrease to profit or loss and $2,184,000 increase or decrease (2019: $1,924,000) in equity in the financial year ending 30 June 2020.

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 and gas supply, Vocus hedges the purchase price using future commodity contracts. The forecast is deemed to be a highly probable transaction.

As at 30 June 2020, future movements in electricity price in Australia of 1% (2019: 1%) will have nil effect to profit or loss, because Vocus has not released anything into profit or loss in 2020 (2019: nil effect) and $1,286,000 increase or decrease in equity (2019: $1,572,000).

As at 30 June 2020, future movements in gas price of 1% (2019: nil) will have nil effect to profit or loss, because Vocus has not released anything into profit or loss in 2020 (2019: nil effect) and $63,000 increase or decrease in equity (2019: nil).

As at 30 June 2020, future movements in electricity price in New Zealand of 1% (2019: 1%) will have nil effect to profit or loss, because Vocus has not released anything into profit or loss in 2020 (2019: nil effect) and $395,000 increase or decrease in equity (2019: $412,000).

Interest rate risk

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

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

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

	2020		2019	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank overdraft and bank loans	3.32%	1,035,925	4.38%	1,121,273
Interest rate swaps (notional principal amount)	2.35%	(398,059)	2.28%	(341,000)
Interest rate option (notional principal amount)	–	–	3.10%	(50,000)
Net exposure to cash flow interest rate risk		637,866		730,273

Note 29. Financial instruments (continued)

As at 30 June 2020, future movements in interest rate of 50 basis points (2019: 50 basis points) will have an approximate $3,189,000 (2019: $3,651,000) increase or decrease to profit or loss and $3,378,000 (2019: $3,869,000) increase or decrease in equity in the financial year ending 30 June 2020.

Credit risk

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

The Vocus Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Vocus Group based on recent sales experience, historical collection rates and forward-looking information that is available.

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

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

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 (except for bank loans) and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated – 2020	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	220,565	–	–	–	220,565
Other payables	31,238	–	–	–	31,238
Interest-bearing – variable					
Bank loans	50,000	50,000	921,513	–	1,021,513
Lease liabilities	2,429	465	2,321	6,172	11,387
IRU liabilities	6,101	–	–	–	6,101
Total non-derivatives	310,333	50,465	923,834	6,172	1,290,804
Derivatives					
Interest rate swaps net settled	8,553	3,952	(6)	–	12,499
Forward foreign exchange contracts net settled	(1,191)	(272)	–	–	(1,463)
Energy contracts net settled	(5,926)	(7,134)	(6,284)	104	(19,240)
Total derivatives	1,436	(3,454)	(6,290)	104	(8,204)

Consolidated – 2019	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	229,340	–	–	–	229,340
Other payables	23,144	–	–	–	23,144
Interest-bearing – variable					
Bank loans	50,000	100,000	944,223	–	1,094,223
Lease liabilities	4,573	3,097	3,157	11,662	22,489
IRU liabilities	6,406	6,406	–	–	12,812
Total non-derivatives	313,463	109,503	947,380	11,662	1,382,008
Derivatives					
Interest rate swaps net settled	4,468	5,657	2,065	–	12,190
Forward foreign exchange contracts net settled	(6,767)	(446)	92	–	(7,121)
Energy contracts net settled	15,844	5,183	(9,784)	714	11,957
Total derivatives	13,545	10,394	(7,627)	714	17,026

Note 30. Current assets – derivative financial instruments

	Consolidated	
	2020 $'000	2019 $'000
Forward foreign exchange contracts – cash flow hedges	1,750	6,767
Energy derivatives – cash flow hedges	3,797	15,892
	5,547	22,659

Refer to note 28 for further information on fair value measurement.

Forward foreign exchange contracts

Vocus has entered a forward exchange hedge relationship 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 and option 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 2020 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.

Note 30. Current assets – derivative financial instruments (continued)

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 0.35% and 2.754% per annum, and receives interest at a variable rate.

Under interest rate cap agreements, the Group pays a maximum rate of 1.00% (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 its exposure to the floating 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 2020 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.

Brent Oil derivatives

Vocus has entered into a Gas Supply Agreement (GSA) which has exposure to Brent Oil Prices. This exposure is created as a result of the GSA price being linked to a percentage of the Brent Oil Price on any settlement date. Vocus manages this exposure through the purchase of Brent Oil derivatives. The hedge is designated against the forecast withdrawals and injections of the GSA in line with customer usage forecasts. Brent Oil derivatives assigned to an effective hedge relationship have movements in fair value deferred to a cash flow hedge reserve until the transactions to which those instruments are matched occur.

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, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Note 31. Current liabilities – derivative financial instruments

	Consolidated	
	2020 $'000	2019 $'000
Forward foreign exchange contracts – cash flow hedges	2,940	92
Interest rate swap contracts – cash flow hedges	8,553	4,883
Energy derivatives – cash flow hedges	9,724	–
	21,217	4,975

Refer to note 29 for further information on financial instruments.

Refer to note 28 for further information on fair value measurement.

Note 32. Non-current liabilities – derivative financial instruments

	Consolidated	
	2020 $'000	2019 $'000
Forward foreign exchange contracts – cash flow hedges	533	–
Interest rate swap contracts – cash flow hedges	4,040	7,268
Energy derivatives – cash flow hedges	13,316	3,935
	17,889	11,203

Refer to note 29 for further information on financial instruments.

Refer to note 28 for further information on fair value measurement.

Note 33. Share-based payments

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.

In the current financial year, grants of options ("Options") were made to a small number of eligible senior managers within the business, including KMP. Non-Executive Directors do not participate in the long-term incentive plan. A summary of the key elements of the grants made under this plan is set out below:

Performance hurdle:

The number of Options that may become capable of vesting (subject to continued employment with the Company until the vesting dates) for each tranche is dependent on the Company's absolute TSR performance for the performance period.

Options were granted in three (3) separate tranches:

Tranche 1 – 50% of Options with 3 year performance period and 3 year vesting period;

Tranche 2 – 25% of Options with 3 year performance period and 4 year vesting period; and

Tranche 3 – 25% of Options with 3 year performance period and 5 year vesting period.

Absolute TSR measures the return to shareholders in respect of Shares over the performance period. The absolute TSR achieved by the Company in the performance period will be compared to the target set by the Board to determine the percentage of Options that may vest. The starting Share price will be $2.38, being the one calendar month VWAP of a Share for the month of July 2018.

For the purposes of measuring TSR, dividends will be assumed to be reinvested on the ex-div date, and franking credits ignored.

The Board retains discretion to adjust the TSR target and/or how TSR performance is calculated to ensure that participants are neither advantaged nor disadvantaged by matters that materially affect TSR outcomes and are considered by the Board to be outside management's influence and/or control. Absolute total shareholder return (TSR) performance measure, with 50% vesting at 50% TSR, with a sliding scale to 100% vesting at 100% TSR.

Performance period:

1 July 2018 to the date that is one calendar month following the announcement of the Company's FY21 full-year results. The vesting period for Tranche 1 will be the performance period, whilst for Tranches 2 and 3, this will end on the date the Company announces its full-year results for the next 2 financial years.

Vesting dates:

The date on which the Board determines the relevant tranche of Options vest (based on the extent to which the performance hurdle is met at the end of the performance period and subject to continued employment), to occur within a reasonable period after the end of the relevant vesting period.

Exercise period:

The exercise period will commence on the day following the relevant vesting date for each tranche and will end on 31 August 2025.

Note 33. Share-based payments (continued)

Exercise of Options and allocation of shares:

Upon vesting and subject to the Company's Share Trading Policy, and payment of the exercise price, vested Options may be exercised during the exercise period. Upon exercise of vested Options, participants will be allocated the relevant number of Shares corresponding to the number of vested Options exercised (as soon as practicable following exercise). Upon allocation of the Shares, the participants will be entitled to receive dividends and voting rights along with other Company shareholders.

However, under the Plan Rules, the Board may also determine to either:

- settle exercised vested Options in cash (equal in value to the Shares underlying the Options being exercised, less the corresponding exercise price, and is inclusive of any statutory superannuation contributions); or
- deliver the net number shares on the exercise of vested Options where the net number of Shares is equal to the excess between the market value of the Shares underlying the Options being exercised less the corresponding exercise price.

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

Price payable for securities:

No amount will be payable by the participants in respect of the grant of Options. Upon exercise of vested Options, the participants will be required to pay the exercise price in order to be allocated Shares in the Company (unless net-settlement of the Options apply).

Each Option is a right to acquire one fully-paid ordinary share in the Company (Share), upon satisfaction of the applicable vesting conditions (including performance hurdles and continued employment with the Company) and payment of the exercise price. The specific vesting conditions are outlined below. The exercise price payable varies between the individuals, and is based on the one calendar month volume weighted average price (VWAP) of a Share for the month of July 2018 or in the month prior to the individual's employment, if they were not employed in July 2018.

Options do not carry a right to vote or to receive dividends, or in general, a right to participate in other corporate actions such as bonus issues.

							2020
Grant date	Vesting date*	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
02/02/2016	22/02/2023	$5.09	135,418	–	–	–	135,418
14/12/2018	30/09/2021	$2.38	11,425,000	–	–	(2,482,500)	8,942,500
14/12/2018	01/08/2022	$2.38	5,712,500	–	–	(1,241,250)	4,471,250
14/12/2018	01/08/2023	$2.38	5,712,500	–	–	(1,241,250)	4,471,250
14/12/2018	30/09/2021	$3.06	208,333	–	–	–	208,333
14/12/2018	01/08/2022	$3.06	104,167	–	–	–	104,167
14/12/2018	01/08/2023	$3.06	104,167	–	–	–	104,167
17/07/2019	30/09/2021	$2.38	–	1,350,000	–	–	1,350,000
17/07/2019	01/08/2022	$2.38	–	675,000	–	–	675,000
17/07/2019	01/08/2023	$2.38	–	675,000	–	–	675,000
17/07/2019	30/09/2021	$2.85	–	100,000	–	–	100,000
17/07/2019	01/08/2022	$2.85	–	50,000	–	–	50,000
17/07/2019	01/08/2023	$2.85	–	50,000	–	–	50,000
17/07/2019	30/09/2021	$3.12	–	200,000	–	–	200,000
17/07/2019	01/08/2022	$3.12	–	100,000	–	–	100,000
17/07/2019	01/08/2023	$3.12	–	100,000	–	–	100,000
17/07/2019	30/09/2021	$3.15	–	250,000	–	–	250,000
17/07/2019	01/08/2022	$3.15	–	125,000	–	–	125,000
17/07/2019	01/08/2023	$3.15	–	125,000	–	–	125,000
17/07/2019	30/09/2021	$3.21	–	200,000	–	–	200,000

							2020
Grant date	Vesting date*	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
17/07/2019	01/08/2022	$3.21	–	100,000	–	–	100,000
17/07/2019	01/08/2023	$3.21	–	100,000	–	–	100,000
17/07/2019	30/09/2021	$2.78	–	1,200,000	–	–	1,200,000
17/07/2019	01/08/2022	$2.78	–	600,000	–	–	600,000
17/07/2019	01/08/2023	$2.78	–	600,000	–	–	600,000
17/07/2019	30/09/2021	$3.66	–	100,000	–	–	100,000
17/07/2019	01/08/2022	$3.66	–	50,000	–	–	50,000
17/07/2019	01/08/2023	$3.66	–	50,000	–	–	50,000
17/07/2019	30/09/2021	$2.41	–	100,000	–	(34,000)	66,000
17/07/2019	01/08/2022	$2.41	–	50,000	–	(17,000)	33,000
17/07/2019	01/08/2023	$2.41	–	50,000	–	(17,000)	33,000
17/07/2019	30/09/2021	$3.31	–	100,000	–	–	100,000
17/07/2019	01/08/2022	$3.31	–	50,000	–	–	50,000
17/07/2019	01/08/2023	$3.31	–	50,000	–	–	50,000
02/03/2020	30/09/2021	$3.14	–	250,000	–	–	250,000
02/03/2020	01/08/2022	$3.14	–	125,000	–	–	125,000
02/03/2020	01/08/2023	$3.14	–	125,000	–	–	125,000
02/03/2020	30/09/2021	$3.18	–	700,000	–	–	700,000
02/03/2020	01/08/2022	$3.18	–	350,000	–	–	350,000
02/03/2020	01/08/2023	$3.18	–	350,000	–	–	350,000
			23,402,085	9,100,000	–	(5,033,000)	27,469,085
Weighted average exercise price			$2.41	$2.82	$0.00	$2.38	$2.55

* Options granted on the 22 February 2016 (135,418 options), vested on the 1 January 2017 with an expiry date of 22/02/2023.

Note 33. Share-based payments (continued)

2019

Grant date	Vesting date*	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
22/02/2016	22/02/2023	$5.09	135,418	–	–	–	135,418
14/12/2018	30/09/2021	$2.38	–	11,625,000	–	(200,000)	11,425,000
14/12/2018	01/08/2022	$2.38	–	5,812,500	–	(100,000)	5,712,500
14/12/2018	01/08/2023	$2.38	–	5,812,500	–	(100,000)	5,712,500
14/12/2018	30/09/2021	$3.06	–	250,000	–	(41,667)	208,333
14/12/2018	01/08/2022	$3.06	–	125,000	–	(20,833)	104,167
14/12/2018	01/08/2023	$3.06	–	125,000	–	(20,833)	104,167
			135,418	23,750,000	–	(483,333)	23,402,085
Weighted average exercise price			$5.09	$2.39	$0.00	$2.50	$2.41

The fair value of the 27,469,085 (2019: 23,402,085) shares under option at 30 June 2019 was $24,973,667 (2019: $23,398,083).

Performance Rights Plan:

The Vocus Long Term Performance Rights Plan was introduced in FY2017, each of Amcom, Vocus and M2 had equity-based LTI plans in place prior to the merger between Vocus and M2 Group which was completed in February 2016.

Grants were made under the Vocus Long Term Performance Rights Plan in FY17 and FY18 respectively, details of which are set out below. No further grants will be made under this plan. A summary of the key elements of the grants made under this plan is set out below:

Performance hurdle:

Vesting Conditions are achieving a predetermined level of compound annual growth in Vocus' reported earnings per share ("EPS") and achievement of transformation and synergy 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.

Performance period:

3-year period.

Vesting dates:

Upon expiry of the Vesting Period and completion of the testing of the Vesting Conditions.

Exercise period:

The exercise period will commence 2 years from Vesting Date. Performance Rights may be exercised at any time between the Vesting Date and the Expiry Date.

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.

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

2020

Grant date	Vesting date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/04/2017	01/07/2019	155,948	–	–	(155,948)	–
01/05/2018	01/07/2020	508,129	–	–	(229,674)	278,455
		664,077	–	–	(385,622)	278,455

2019

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	01/07/2018	143,207	–	(60,298)	(82,909)	–
01/04/2017	01/07/2018	435,000	–	–	(435,000)	–
01/04/2017	01/07/2019	350,421	–	(19,054)	(175,419)	155,948
01/05/2018	01/07/2020	569,104	–	–	(60,975)	508,129
		1,497,732	–	(79,352)	(754,303)	664,077

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 2020 no shares were issued to Vocus Blue Pty Limited (2019: nil). At 30 June 2020, Vocus Blue Pty Limited held 330,001 (2019: 2,022,645) 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.

Note 33. Share-based payments (continued)

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 34. Key management personnel disclosures

Compensation

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

	Consolidated	
	2020 $	2019 $
Short-term employee benefits	6,582,888	5,800,113
Post-employment benefits	223,568	234,390
Long-term benefits	(105,159)	221,732
Share-based payments	5,350,256	4,108,315
	12,051,553	10,364,550

Note 35. 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 39.

		Ownership interest	
Name	Principal place of business/Country of incorporation	2020 %	2019 %
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%

		Ownership interest	
Name	**Principal place of business/Country of incorporation**	**2020 %**	**2019 %**
Amcom IP Tel Pty Limited	Australia	100.00%	100.00%
M2 Group Pty Limited	Australia	100.00%	100.00%
M2 Loyalty Programs Pty Limited*	Australia	100.00%	100.00%
M2 Group Franchising Pty Limited	Australia	100.00%	100.00%
M2 Commander Pty Limited	Australia	100.00%	100.00%
2Talk Pty Limited*	Australia	100.00%	100.00%
M2 Telecommunications Pty Limited	Australia	100.00%	100.00%
M2 Clear Pty Limited	Australia	100.00%	100.00%
Southern Cross Telco Pty Limited	Australia	100.00%	100.00%
People Telecom Pty Limited*	Australia	100.00%	100.00%
People Telecommunications Pty Limited*	Australia	100.00%	100.00%
M2 Wholesale Pty Limited	Australia	100.00%	100.00%
Wholesale Communications Group Pty Limited*	Australia	100.00%	100.00%
M2 Wholesale Services Pty Limited	Australia	100.00%	100.00%
Primus Telecom Holdings Pty Limited	Australia	100.00%	100.00%
First Path Pty Limited	Australia	100.00%	100.00%
Primus Network (Australia) Pty Limited	Australia	100.00%	100.00%
Primus Telecom Pty Limited	Australia	100.00%	100.00%
Hotkey Internet Services Pty Limited*	Australia	100.00%	100.00%
Primus Telecommunications Pty Limited	Australia	100.00%	100.00%
Primus Telecommunications (Australia) Pty Limited*	Australia	100.00%	100.00%
Dodo Australia Holdings Pty Limited	Australia	100.00%	100.00%
No Worries Online Pty Limited*	Australia	100.00%	100.00%
Dodo Group Services Pty Limited*	Australia	100.00%	100.00%
Pendo Industries Pty Limited*	Australia	100.00%	100.00%
Dodo Services Pty Limited	Australia	100.00%	100.00%
Dodo Insurance Pty Limited*	Australia	100.00%	100.00%
Secureway Pty Limited*	Australia	100.00%	100.00%
M2 Energy Pty Limited*	Australia	100.00%	100.00%
Eftel Pty Limited	Australia	100.00%	100.00%
Eftel Wholesale Pty Limited*	Australia	100.00%	100.00%
Club Telco Pty Limited*	Australia	100.00%	100.00%
Eftel Corporate Pty Limited*	Australia	100.00%	100.00%
Visage Telecom Pty Limited*	Australia	100.00%	100.00%
Engin Pty Limited	Australia	100.00%	100.00%
Eftel Retail Pty Limited*	Australia	100.00%	100.00%
Vocus (New Zealand) Holdings Limited	New Zealand	100.00%	100.00%
Vocus (New Zealand) Limited	New Zealand	100.00%	100.00%
Vocus Group NZ 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%

Note 35. Interests in subsidiaries (continued)

Name	Principal place of business/Country of incorporation	Ownership interest 2020 %	Ownership interest 2019 %
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%
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%
ASC International Group Pty Limited	Australia	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%	100.00%
Australia-Singapore Cable HoldCo Pty Limited*	Australia	100.00%	100.00%
NZ Fibre Communications Limited	New Zealand	100.00%	–

Note 36. Deed of cross guarantee

The wholly-owned entities listed in note 35 (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.

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

Statement of profit or loss and other comprehensive income	**2020 $'000**	**2019 $'000**
Revenue	1,578,428	1,641,795
Other gains and losses	(10,464)	(4,551)
Network and service delivery	(826,936)	(943,570)
Employee benefits expense	(229,093)	(227,908)
Depreciation and amortisation expense	(267,888)	(242,523)
Administration and other expenses	(183,545)	(182,436)
Impairment	(202,078)	–
Net finance costs	(58,009)	(53,110)
Loss before income tax (expense)/benefit	(199,585)	(12,303)
Income tax (expense)/benefit	(878)	4,183
Loss after income tax (expense)/benefit	(200,463)	(8,120)
Other comprehensive income		
Foreign currency translation	(8,010)	14,628
Net movement on hedging transactions, net of tax	(5,281)	3,694
Net movement on revaluation of equity instrument financial assets	–	342
Other comprehensive income for the year, net of tax	(13,291)	18,664
Total comprehensive income for the year	(213,754)	10,544

Note 36. Deed of cross guarantee (continued)

Statement of financial position	**2020 $'000**	**2019 $'000**
Current assets		
Cash and cash equivalents	55,331	84,177
Trade and other receivables	114,287	144,305
Prepayments	33,826	25,076
Contract costs asset	20,335	20,386
Derivative financial instruments	5,225	6,767
Other	8,758	8,857
	237,762	289,568
Non-current assets		
Plant and equipment	1,740,424	1,758,325
Intangibles	1,735,476	2,016,502
Right-of-use assets	177,562	–
Accrued revenue	164,126	180,656
Contract costs asset	9,630	8,160
Deferred tax	79,411	42,425
Other	31,896	19,011
	3,938,526	4,025,079
Total assets	4,176,287	4,314,647
Current liabilities		
Trade and other payables	213,489	211,159
Provisions	28,201	27,339
Deferred revenue	49,997	56,926
Lease liabilities	21,301	–
Income tax	9,975	(1,505)
Borrowings	212,309	280,617
Derivative financial instruments	11,493	4,975
Other	–	2,915
	546,764	582,426
Non-current liabilities		
Provisions	21,949	27,454
Deferred revenue	154,350	145,867
Borrowings	980,471	1,062,137
Deferred tax	174,303	150,806
Lease liabilities	167,324	–
Derivative financial instruments	4,591	7,268
Other	13,810	11,485
	1,516,797	1,405,017
Total liabilities	2,063,561	1,987,443
Net assets	2,112,726	2,327,204
Equity		
Contributed equity	3,776,212	3,775,752
Reserves	14,983	29,458
Accumulated losses	(1,678,469)	(1,478,006)
Total equity	2,112,726	2,327,204

Note 37. Commitments

	Consolidated	
	2020 $'000	**2019 $'000**
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	6,406	6,406
One to five years	–	6,406
Total commitment	6,406	12,812
Less: Future finance charges	(305)	(900)
Net commitment recognised as liabilities	**6,101**	**11,912**
Representing:		
Backhaul IRU liability – current (note 17)	6,101	5,811
Backhaul IRU liability – non-current (note 18)	–	6,101
	6,101	**11,912**
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	21,048	28,312
One to five years	60,909	66,304
More than five years	17,167	32,215
	99,124	**126,831**
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	4,850	5,975
One to five years	–	4,850
	4,850	**10,825**

Note 38. Contingent liabilities

	Consolidated	
	2020 $'000	**2019 $'000**
Bank guarantees for operating leases	70,182	71,411

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 39. 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.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Vocus Group.

The following Accounting Standards and Interpretations are most relevant to the Vocus Group:

AASB 16 *Leases* introduces a single, on-balance sheet lease accounting model for all leases where the Group is the lessee. The Group has adopted AASB 16 *Leases* using the modified retrospective transition approach effective 1 July 2019 with no restatement of comparative information.

The Group has elected to recognise the right of use assets at an amount equal to the lease liability. The weighted average incremental borrowing rate applied to the Group's lease liabilities recognised on the balance sheet at 1 July 2019 is 6.16%.

The implementation of AASB 16 *Leases* affected the following items in the balance sheet on 1 July 2019 (amounts in $'m):

Property, plant and equipment decreased by	$6.6m
Right of use assets increased by	$163.1m
Deferred tax assets increased by	$2.9m
Borrowings decreased by	$15.5m
Lease liabilities increased by	$181.6m
Trade and other payables decreased by	$1.3m
Other liabilities decreased by	$8.3m

In applying AASB 16 *Leases* for the first time, the Group has used the following practical expedients permitted by the standard:

- in some cases, the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- not to bring leases with 12 months or fewer remaining to run as at 1 July 2019 (including reasonably certain options to extend) on balance sheet.

Costs for these items will continue to be expensed directly to the income statement;

- not to apply AASB 16 *Leases* to low value assets i.e. < $10,000 based on the fair value of the asset as new; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

AASB 16 Leases – Accounting policy applied from 1 July 2019

A lessee will recognise a right-of-use (ROU) asset, which represents its right to use the underlying asset, and a lease liability, which represents its obligation to make future lease payments. The Group does not apply AASB 16 *Leases* to arrangements which fall within the scope of AASB 138 *Intangible Asset*.

The Group recognises all lease liabilities and corresponding right of use assets, with the exception of short term (12 months or fewer) and low value leases on the balance sheet. Lease liabilities are recorded at the present value of: fixed payments; variable lease payments that depend on an index/rate and extension options expected to be exercised. The Group recognises depreciation of right of use assets and interest on lease liabilities in the income statement over the lease term. Repayments of lease liabilities are separated into principal portion (presented within financing activities) and interest portion (presented in operating activities) in the cash flow statement. Rights of use assets are included in the review for impairment of property, plant and equipment and intangible assets with finite lives, if there is an indication that the carrying amount of the cash generating unit may not be recoverable.

A lessor where the lessee has substantially all the risks and rewards incidental to ownership of the leased assets are classified as finance leases. Where finance leases are granted to third parties, the present value of the minimum lease payments plus an estimate of the value of any unguaranteed residual value is recognised as a receivable. Lease receipts are discounted using the interest rate implicit in the lease. Lease income is recognised over the term of the lease.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

The Group leases various offices, data centres, and network equipment. Rental contracts are typically made for fixed periods of 1 to 30 years and may have extension options. Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Measurement of lease liabilities:	**(amounts in $'m)**
Operating lease commitments disclosed as at 30 June 2019	$169.2
Discounted using the lessee's incremental borrowing rate at the date of initial calculation	$143.3
Add : finance lease liabilities recognised as at 30 June 2019	$15.5
(Less): short term leases not recognised as a liability	$(0.3)
(Less) : Leases that do not qualify under AASB 16	$(38.1)
(Less) : low-value leases not recognised as a liability	$(0.6)
Add : Contracts reassessed as lease contracts	$7.7
Add : adjustments as a result of changes in the index or rate affecting variable payments	$8.6
Add : adjustments as a result of different treatment of extensions and termination options	$45.5
Lease liability recognised as at 1 July 2019:	$181.6
Consisting of:	
Current lease liabilities	$15.7
Non-current lease liabilities	$165.9

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.

Note 39. Other significant accounting policies (continued)

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.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through 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 obliger; 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.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Contract costs asset

Costs directly attributable to obtaining subscribers are capitalised pursuant to AASB 15 *Revenue* from contracts with customers. Costs are capitalised when directly attributable to acquiring a new customer. The costs include the provision of commissions paid to internal sales personnel. Costs are amortised over the average expected term of the customer contract, generally being between 12 and 36 months.

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. There were no significant impacts other than those disclosed for AASB 16.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Vocus Group for the annual reporting period ended 30 June 2020. The Vocus Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 40. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor, and their network firms:

	Consolidated	
	2020 $	**2019 $**
Audit services – PwC		
Audit or review of the financial statements	786,862	772,000
Other services – PwC (including network firms of PwC)		
Taxation services	15,600	27,400
Other non-audit services	25,947	259,855
	41,547	287,255
	828,409	1,059,255

Note 41. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2020 $'000	**2019 $'000**
Loss after income tax	(205,935)	(2,604)
Total comprehensive income	(205,935)	(2,604)

Note 41. Parent entity information (continued)

Statement of financial position

	Parent	
	2020 $'000	2019 $'000
Total current assets	4	2,187
Total assets	2,087,423	2,286,749
Total current liabilities	68	1,683
Total liabilities	213	2,289
Equity		
Contributed equity	3,776,212	3,775,752
Share-based payments reserve	30,328	22,103
Other reserves	104	104
Accumulated losses	(1,719,434)	(1,513,499)
Total equity	**2,087,210**	**2,284,460**

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 36) under which it guarantees the debts of its subsidiaries as at 30 June 2020 and 30 June 2019.

Net current asset deficiency

As at 30 June 2020, the Parent Entity's current liabilities exceeded its current assets by $64,000. 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.

Capital commitments – Property, plant and equipment

The Parent Entity had no capital commitments for property, plant and equipment at as 30 June 2020 and 30 June 2019.

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 42. Related party transactions

Parent entity

Vocus Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 35.

Key management personnel

Disclosures relating to key management personnel are set out in note 34 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 43. Events after the reporting period

No matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Vocus Group's operations, the results of those operations, or the Vocus Group'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 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of Vocus's financial position as at 30 June 2020 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- 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 36 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
Director

19 August 2020
Sydney

Independent Auditor's Report

Independent auditor's report

To the members of Vocus Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Vocus Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the statement of financial position as at 30 June 2020
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 (including Independence Standards)* (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.

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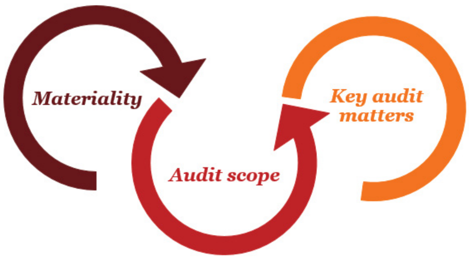
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of $9 million, which represents approximately 2.5% of the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) and before impairment.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group EBITDA because, in our view, it is the benchmark against which the performance of the Group is most commonly measured and we adjusted for impairment as it is an infrequently occurring item.
- We utilised a 2.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group comprises businesses operating predominately in Australia and New Zealand with the most financially significant operations being Vocus Network Services, Retail and New Zealand.
- Our team from the Australian PwC firm ("Group audit team") undertook predominantly all audit procedures to provide us with sufficient and appropriate audit evidence to express an opinion on the Group's financial report as a whole.

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. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	***How our audit addressed the key audit matter***
Estimated recoverable amount of goodwill and indefinite life intangibles *(Refer to note 15) $1,446,002,000* The Group recognises assets for goodwill and indefinite life intangibles in respect of its brand names. Under Australian Accounting Standards, the Group is required to test the goodwill and indefinite lived intangible assets annually for impairment, irrespective of whether there are indications of impairment. This assessment is inherently complex and judgemental, and requires judgement by the Group in forecasting the operational cash flows and capital expenditure of the cash generating units of the Group, and determining discount rates and growth rates used in the discounted cash flow models used to assess impairment (the models). The current year assessment performed by the Group: - identified an impairment of $202.1 million against the goodwill and brands recognised in the Retail cash generating unit (CGU); and - did not identify the need for an impairment in any of the other CGUs. The recoverable amount of goodwill and other indefinite life intangible assets was a key audit matter given the: • financial significance of the intangible assets to the statement of financial position; • the magnitude of the impairment recognised by the Group; and • judgement applied by the Group in completing and concluding on the impairment assessment.	We focused our efforts on developing an understanding and testing the overall calculation and methodology of the Group's impairment assessment, including identification of the cash generating units (CGUs) of the Group for the purposes of impairment testing, and the attribution of net assets, revenues and costs to those components. In obtaining sufficient, appropriate audit evidence, our procedures included, amongst others: • assessing the reasonableness of cash flow forecasts included in the models with reference to historical earnings and Board approved forecasts • testing the mathematical calculations within the models including assessing the adoption of *AASB 16 Leases* • assessing reasonableness of the terminal value growth rates by comparing to external information sources • assessing the reasonableness of the discount rates by comparing them to market data and comparable companies, with the assistance of our valuation specialists • considering the allocation and presentation of the impairment charge recognised • performing sensitivity analysis over the key assumptions used in the models • evaluating the related financial statement disclosures for consistency with Australian Accounting Standards requirements.

Key audit matter	*How our audit addressed the key audit matter*

Revenue from operations
(Refer to note 5) $1,778,180,000
 	
The recognition of revenue from operations was a key audit matter given the:
• financial significance of revenue from operations to the statement of profit or loss and other comprehensive income; and
• complexity of contractual arrangements and diversity of products and services.
	In obtaining sufficient, appropriate audit evidence, our procedures included, amongst others:
	• consideration and assessment of the Group's accounting policy in line with the requirements of *AASB 15 Revenue from Contracts with Customers*
	• testing, for a sample of customer contracts, whether revenue had been recorded at the correct amount and in the correct financial period, in accordance with the Group's revenue recognition policy. This included assessing whether:
	  ○ evidence of an underlying arrangement with the customer existed
	  ○ appropriate performance obligations and consideration had been identified
	  ○ amounts allocated to the performance obligations were made with reference to their standalone selling prices, where relevant; and
	  ○ the timing of revenue recognition had been appropriately considered and recognised at the appropriate time
	• evaluating the related financial statement disclosures for consistency with Australian Accounting Standards requirements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Director's report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

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 have 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf.

This description forms part of our auditor's report.

pwc

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 19 to 33 of the Directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Vocus Group Limited for the year ended 30 June 2020 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
19 August 2020

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 30 August 2020.

(a) Distribution of equity holders of securities

(i) Ordinary share capital

620,571,174 fully paid ordinary shares are held by 21,908 shareholders.

Range	Total holders	Units	% Units
1 – 1,000	9,151	3,865,831	0.62
1,001 – 5,000	8,473	21,780,781	3.51
5,001 – 10,000	2,438	17,868,499	2.88
10,001 – 100,000	1,734	39,856,361	6.42
100,001 Over	112	537,199,702	86.57
Rounding			0.00
Total	**21,908**	**620,571,174**	**100.00**

Unmarketable Parcels	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $3.3600 per unit	149	1,561	92,731

(b) Substantial holders

Substantial holders at 30 August 2020 were:	
Janchor Partners Limited	17.9%*
Greencape Capital Pty Ltd	7.82%
Yarra Funds Management Ltd	5.58%
The Vanguard Group	5.38%
Goldman Sachs Group	5.09%
Dimensional Fund Advisors LP	5.04%

* 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	% Units
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	143,081,601	23.06
2	CITICORP NOMINEES PTY LIMITED	117,109,393	18.87
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	97,990,851	15.79
4	NATIONAL NOMINEES LIMITED	43,162,038	6.96
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	28,589,659	4.61
6	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	17,601,653	2.84
7	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	13,258,235	2.14
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	13,039,557	2.10
9	BNP PARIBAS NOMS PTY LTD <DRP>	10,365,004	1.67
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	8,691,456	1.40
11	ARGO INVESTMENTS LIMITED	5,652,447	0.91
12	TEFIG PTY LTD <AJ ABERCROMBIE S/FUND A/C>	5,342,835	0.86
13	THE ABERCROMBIE GROUP PTY LTD <THE PHILADELPHIA A/C>	3,657,165	0.59
14	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	2,249,917	0.36
15	UBS NOMINEES PTY LTD	1,364,774	0.22
16	MR EDMOND WING KIN CHEUNG + MRS ELIZA SIU LING CHEUNG <EDMOND & ELIZA S/F A/C>	1,362,725	0.22
17	NEWPORT TIMBER & TRADING PTY LTD	1,356,838	0.22
18	DENNIS N BASHEER SUPERANNUATION PTY LTD <DENNIS N BASHEER S/F A/C>	1,095,539	0.18
19	MRS SARAH MARY BASHEER	812,185	0.13
20	LAYER 10 PTY LTD <WILTONGATE A/C>	800,000	0.13
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)		516,583,872	83.24
Total Remaining Holders Balance		103,987,302	16.76

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 2020, Vocus had 189,791 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 ($1,000).

On-Market Buy-Back

There is no on-market share buy-back in operation.

Corporate Directory

Vocus Group Limited

ACN 084 115 499
ABN 96 084 115 499

Registered Office

Level 10, 452 Flinders Street
Melbourne VIC 3000

Telephone: 03 9923 3000
Facsimile: 03 9674 6599

Investor Relations

Investor Relations queries can be directed to:

Investor Relations
Level 10, 452 Flinders Street
Melbourne VIC 3000

Telephone: 03 9923 3000

Email: investor.relations@vocus.com.au
Website: www.vocus.com.au

Stock Exchange

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

Share Registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

Ph: 1300 850 505 (for callers within Australia) and
+61 3 9415 4000 (for callers outside Australia)

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

Directors

Bob Mansfield	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
Mark Callander	Executive Director & Chief Executive – New Zealand
Kevin Russell	Group Managing Director & CEO

Company Secretary
Simon Lewin

Group CFO
Nitesh Naidoo

Auditor

Pricewaterhouse Coopers
1 International Towers Sydney
Watermans Quay, Barangaroo
Sydney NSW 2001