VOCUS COMMUNICATIONS ANNUAL REPORT 2012

VOCUS communications

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VOCUS communications

Internet
Data Centre
Fibre
Voice

ANNUAL REPORT **2012**

Vocus Communications provides Data Centre, Dark Fibre and International Internet connectivity across Australia, NZ, Singapore and the US

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Vocus now provides the lowest latency, fastest data delivery from all parts of Sydney's CBD to the north, and specifically to the to ASX data centre at Gore Hill. In an unprecedented move Vocus laid two pipes on the harbour floor; the first from Dawes Point to Blues Point and the second from Dawes Point to Milsons Point.

The Vocus Journey

2007

In September 2007 James Spenceley sold his family home to fund a wholesale telecoms start-up. Pulling together a small team, Vocus was initially dedicated to delivering wholesale IP transit, data and fixed line voice services to the ISP and telecommunications markets.

The company delivered a great product at a great price, but those first years were a struggle.

Convincing big customers that they could trust this small, feisty start-up was a huge challenge – but persistence and self-belief paid off. The word spread. The reputation started to grow. Customers started to take an interest.

2009

By 2009 Vocus hadn't lost a customer. Contracts were growing and Vocus was taking a driving seat in the industry. When Vodafone New Zealand signed up the votes were in and Vocus was officially flying. The company fast became one of the largest wholesale providers of internet access, providing services to over 100 of the 600+ retail ISPs and telecommunications providers in Australia and New Zealand.

2010

2010 was a huge year for Vocus. After winning the prestigious Deloitte Rising Star award for being Australia's fastest-growing technology company in 2009, with 3,237% revenue growth in two years the company continued its trajectory by scooping the Deloitte 2010 Technology Fast 50 after posting revenue growth of a staggering 11,306% over three years.

The ASX listing in 2010 cemented the company's position as an industry leader and boosted the business to even greater heights. With the expert guidance of an experienced Board and the invaluable counsel of David Spence in the Chairman's role, this was the start of a new adventure for Vocus.

2011

The acquisitions of E3 Networks in 2010, Perth IX data centre in May 2011 and the fibre network from Digital River, also in May 2011, laid the foundations for the diversification strategy that is playing out at Vocus in 2012. As the Cloud revolution hits, Vocus is perfectly positioned to provide the infrastructure and co-location facilities to host it.

2012

The FY2012 Annual Report outlines the critical points of the company's growth over the last financial year, demonstrating Vocus' ongoing commitment to delivering technically superior services to the telecommunications industry and beyond.

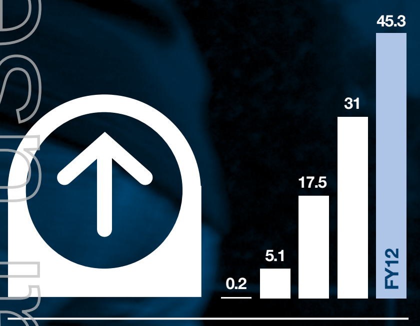
EXPANDED FIBRE NETWORK IN FY12 BY

298%

PERFORMANCE HIGHLIGHTS

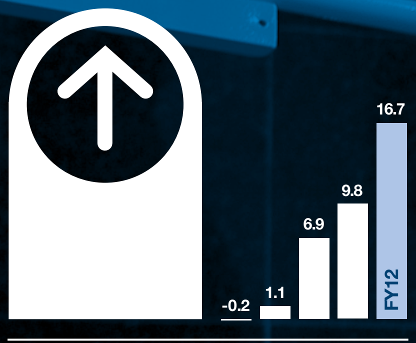
46% growth in FY12

REVENUE
($ million)



70% growth in FY12

UNDERLYING EBITDA[1]
($ million)

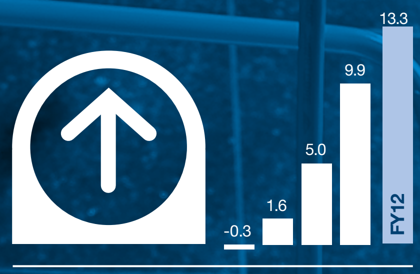


52% growth in FY12

UNDERLYING NPAT[1]
($ million)

34% growth in FY12

UNDERLYING EPS[2,3]
(cps)



Source: Audited accounts

Notes: 1) Underlying EBITDA and NPAT exclude FX gains and losses
2) Underlying EPS is fully diluted EPS calculated on underlying NPAT
3) FY08 & FY09 are approximated using listing share base at FY10

STRONG GROWTH	Driven by sales of diversified product set as a result of strategic acquisitions made since listing
FIBRE NETWORK EXPANSION	Expanded fibre network by 298% in FY2012 (finished or under construction)
CUSTOMER SERVICE AWARD	Won ACOMMS customer service award
DIRECT/CORPORATE SALES GROWTH	Direct/Corporate sales accounting for 18% of FY12 sales, from standing start
NEW ZEALAND ACQUISITION	Acquired Maxnet Ltd., an Auckland based premium data centre, telecommunications and cloud services provider on 19 June 2012
INTERNET TRAFFIC GROWTH CONTINUES	Internet traffic volume sold increased 80% year-on-year

The insatiable demand for high bandwidth plus the increasing trend towards Cloud services and SaaS models will continue to drive the need for data centre capacity and the associated connected fibre routes.

GROWTH HIGHLIGHTS

22% GROWTH IN FY12	**45%** OF FY12 REVENUE	**Internet** • 22% revenue growth in FY12 • 80% traffic growth • 126% YoY customer growth
9.5% GROWTH IN FY12	**22%** OF FY12 REVENUE	**Voice** • 9.5% revenue growth in FY12 • Voice GM employed August 2012
199% GROWTH IN FY12	**21%** OF FY12 REVENUE	**Data Centres** • 199% revenue growth in FY12 • Vocus now operates 7 Facilities across 5 cities • Sydney expansion SYD03a completed in June 2012 • Maxnet expands footprint to Auckland and Christchurch
201% GROWTH IN FY12	**12%** OF FY12 REVENUE	**Fibre and Ethernet** • 201% revenue growth in FY12 • Network expanded 298% to 235km[1] • 43 data centres connected; 166 on-net buildings • Still <5% utilisation of fibre capacity

Notes: 1) Total underway and under construction August 2012; 176km completed and active at June 2012

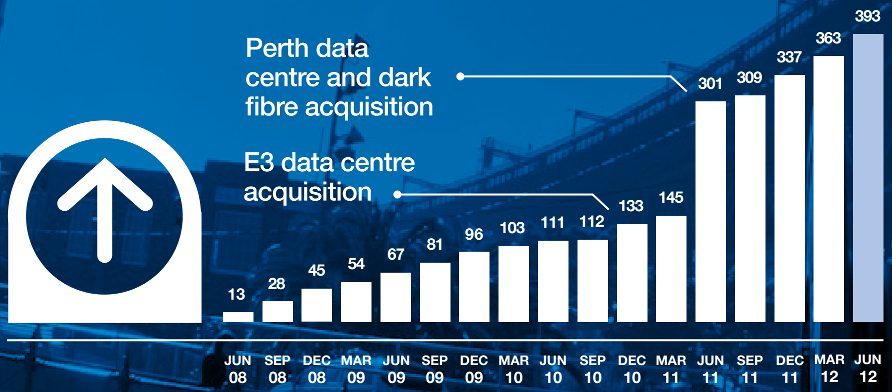
Source: Audited accounts

31%

organic growth in FY12

UNDERLYING EPS[2,3]

(cps) ($ million)



- Strong continued organic customer growth in FY12 – 31% year on year
- Good growth from Asian International carrier customers on Singapore route
- Low churn rate
- Contracted and committed revenue
- Numbers presented exclude Maxnet customers

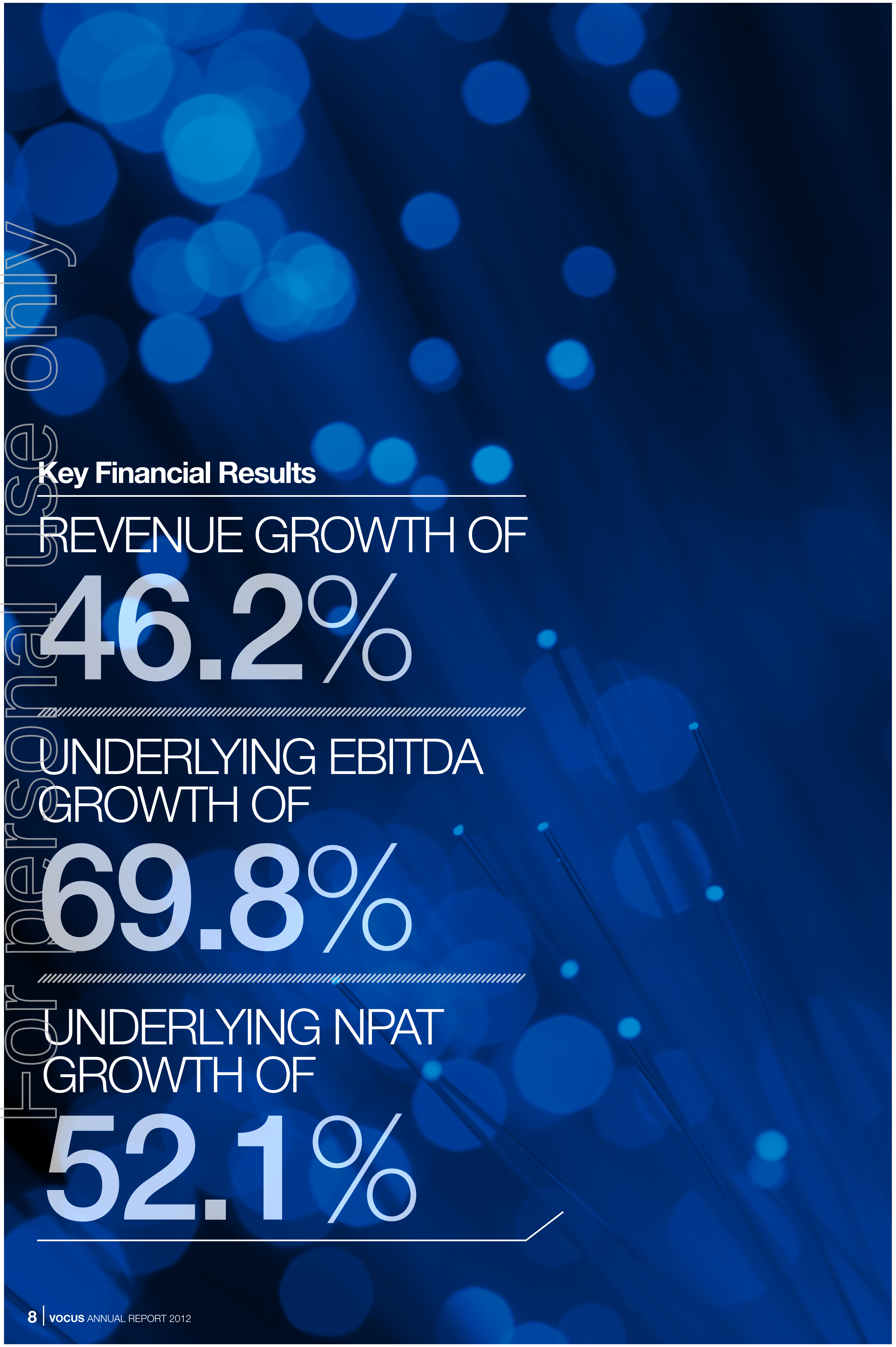
Source: Billing Data

Notes: Customer numbers at 2012 Q4 Jun 12 excludes New Zealand customers from the Maxnet acquisition completed 19 June 2012

FIBRE AND ETHERNET REVENUE GROWTH IN FY12

201%

The continued growth in all core business areas demonstrates the success of Vocus' diversification strategy. Vocus is now in the unique position of being able to bundle international transit, data centre and fibre solutions to both providers and corporate customers seeking a seamless shift of data from the office to the data centre and then to the cloud.



Key Financial Results

REVENUE GROWTH OF
46.2%

UNDERLYING EBITDA GROWTH OF
69.8%

UNDERLYING NPAT GROWTH OF
52.1%

It is my great pleasure to bring you our 2012 Annual Report.

CHAIRMAN'S LETTER

We are very proud that this Report demonstrates continued growth in all our core business areas. The diversification into fibre and data centres is paying off and the company continues to deliver on its own central strategy: to move fast and build a substantial, carefully risk-managed independent communications business.

Today, Vocus provides four essential core services; Internet transit, voice services, data centre and fibre cables on core routes in capital cities. Fibre and Ethernet products are now 12 per cent of the company's product mix, while data centre services contribute nearly 21 per cent. The growth in these services has been extraordinary, reflecting the astuteness of the Board's vision to grow the company beyond a pure Internet bandwidth play into the telecommunications provider of choice for the cloud revolution. Internet transit and voice products make up over 45 per cent and 22 per cent respectively.

Vocus has delivered strong growth and profitability in FY12. Our underlying net profit after tax of $8.4 million (up from $5.5 million the previous year) underscores our commitment to increasing returns whilst growing as fast as we can in the telecommunications market. Underlying diluted earnings per share have increased to 13.28 cents per share from 9.91 cents per share.

Revenue from our new data centres and fibre businesses have made a substantial contribution towards this year's growth, and we expect that to continue with an even greater weighting towards data centres and fibre into FY2013.

Key achievements

FY2012 has been another big year for Vocus. For the third year in a row we made Deloitte's Fastest Growing Technology Company list and the BRW Fast Starters table.

I am also particularly pleased that we were nominated and won the ACOMMS Customer Service Award in July 2012.

Bedding down and growing the fibre business, securing the high profile acquisition of Maxnet and growing the New Zealand brand and customer base have kept things buzzing at Vocus.

Add to that the unprecedented Sydney Harbour fibre project and the energy and focus of the Vocus team is clear.

Vocus also successfully raised a further $21.7 million from new and existing shareholders and I want to thank all of you that participated in our raising and for your understanding regarding our need to move quickly when the right opportunities arise.

Outlook

The insatiable demand for high bandwidth remains although we are seeing some reductions in Internet transit pricing. We believe that the "cloud" revolution and the trends to outsourcing, including for example SaaS (Software as a Service), will continue and will drive demand for data centre capacity and the associated connected fibre routes.

In the year ahead we plan to continue to focus on fibre opportunities as well as keep a look out for complementary acquisition opportunities.

Thank you

On behalf of the Board I want to thank James, the executive leadership team and all staff for the huge effort during this past year. I also want to welcome all the Maxnet staff to the Vocus team. Integration of product, services and cultures is never easy but we are delighted by how the staff are jointly managing the integration and re branding of the company to Vocus.

We have a lot of confidence in the team and I'm sure they will continue to bring focus and energy to the program we have planned for 2013 which includes further development of our internal systems and customer interface processes.

I would also like to express my thanks to all of our loyal customers. Our goal is to continue to provide the best possible service, and we look forward to continuing to work closely with you over the coming year and beyond.

On behalf of the Board, let me close by again thanking our employees, our shareholders, my fellow Directors and other stakeholders for their continued support.

David Spence
Chairman

This is our second full year as a listed company, and I am extremely proud of the team here at Vocus.

CHIEF EXECUTIVE OFFICER'S REPORT

Over the last 12 months we have worked hard and it has paid off: we've hit our diversification goals, continued to work closely with our customers and delivered some of the most technically proficient and intelligent solutions in the business.

Our launch into fibre infrastructure with the acquisition of Digital River last year has been a vital part of our growth in FY12 and will be even more important in FY13. It is a key part of the future direction of our business. Our fibre asset is something that will provide long-term cash flows and opportunities to sell services into corporate businesses for years to come.

Laying the fibre cables across Sydney Harbour was a wonderful moment for the team and myself. After 6 months of careful negotiation we could finally see the project come to fruition, proving that following the crowd isn't the only way to go. Vocus is now the only company that can offer the lowest latency, fastest data delivery from all parts of Sydney's CBD to the north and specifically ASX data centre at Gore Hill. For a small, challenger brand that's a genuinely impressive achievement.

On a personal level, I would like to thank the team for their continued support and unwavering commitment to delivering a level of service that's unequalled in our industry. Receiving the Industry ACOMMS Commitment to Customer Service Award was a very humbling experience for me.

It reminded me that no matter how far we have expanded the business we have stayed true to our original ethos of delivering Industry leading customer services and making Vocus a company that people want to deal with.

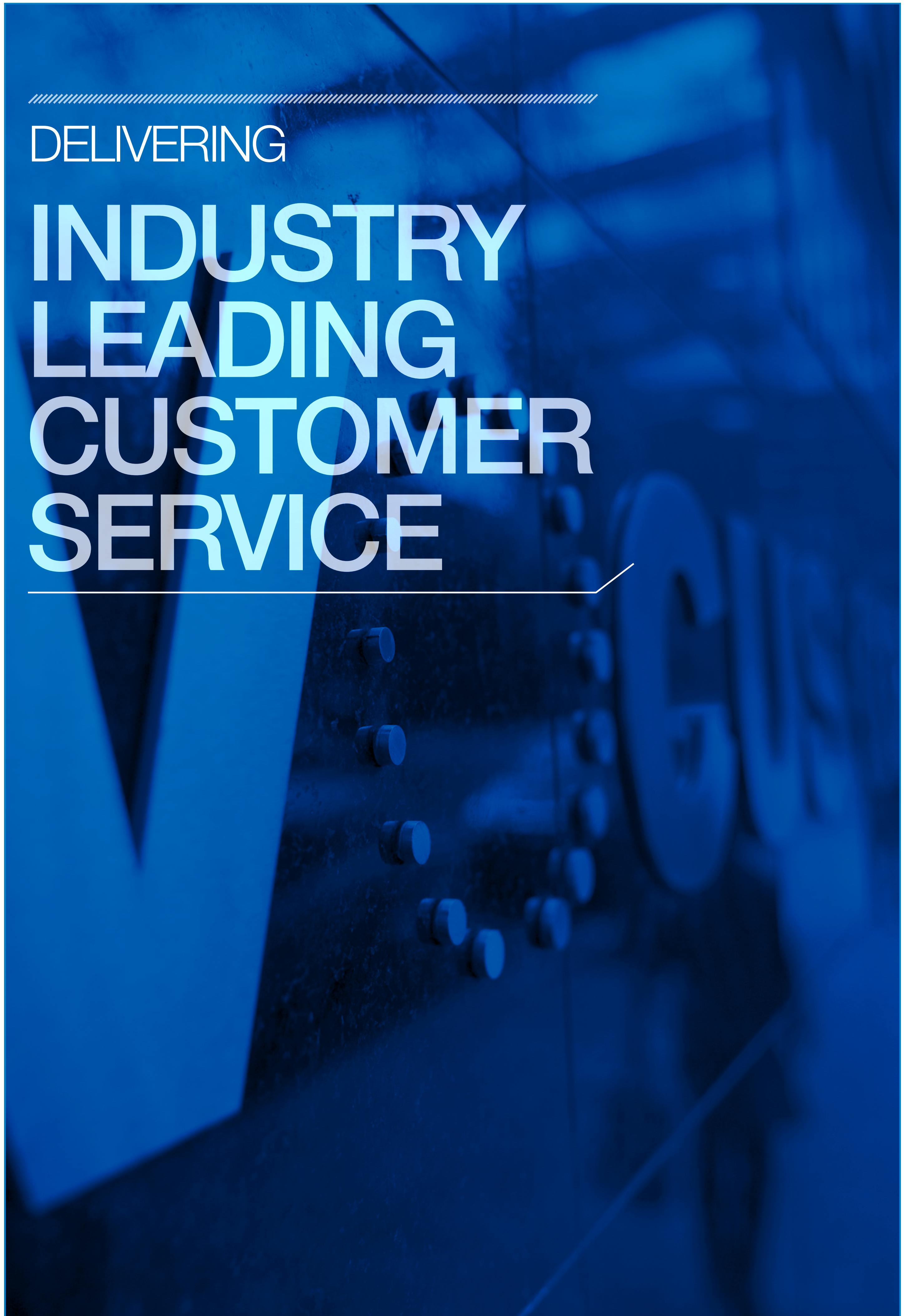
FY13 is going to be another busy year. As well as consolidating the acquisition of Maxnet and growing our operations in New Zealand we will be seeking opportunities for complementary acquisitions in our current market and in new geographies. At an operational level, we have begun a program to invest in our direct sales team, with a number of new staff having commenced already and a number of positions still open. We expect to see the results from the expansions coming in towards the end of 2HFY13 as the new staff come up to speed and build successful sales pipelines and channels.

There's no doubt that the Cloud revolution is upon us and with the growing demand for cloud services we are well positioned to deliver high quality co-location services across Australia and New Zealand. We are in the unique position of being able to bundle international transit, data centre and fibre solutions to both providers and corporate customers seeking a seamless shift of data from the office to the data centre and then to the cloud. This will continue to be a clear area of focus for Vocus as we move into the new financial year.

At Vocus, we are all genuinely excited about the future. As the company continues to grow we have an ongoing dedication to nurturing our sales teams to ensure we maximise all opportunities in our reach. We will also continue with our searing focus on customer service – ensuring our current customers continue to be very happy with the services we provide. Technically, we will remain at the forefront of solutions and infrastructure. We are committed to recruiting and retaining the most talented engineers in the industry.

FY13 is already looking strong. By maintaining our clear focus on strategic business growth and identifying opportunities to further enhance our business proposition we are poised for another successful and exciting year.

James Spenceley
Chief Executive Officer



FY13 is already looking strong. The year ahead will see a continued focus on fibre opportunities and potential complimentary acquisitions. By maintaining a clear focus on strategic business growth and identifying opportunities to further enhance the business proposition, Vocus is poised for another successful and exciting year.

DIRECTORS' REPORT

Directors' Report

30 JUNE 2012

The directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity') consisting of Vocus Communications Limited (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled for the year ended 30 June 2012.

Directors

The following persons were directors of Vocus Communications Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

David Spence – Chairman
James Spenceley – Chief Executive Officer
Mark de Kock
Jon Brett
John Murphy
Nicholas McNaughton
Stephen Baxter

Principal activities

The Company owns and operates a global telecommunications network connecting Australia and New Zealand to the global Internet backbone in the USA and utilises its domestic network to provide telecommunications services to telecommunications markets. Vocus' additional telecommunications services also include data centre storage and dark fibre solutions.

Dividends

There were no dividends paid or declared during the current or previous financial year by the Parent Entity.

Review of operations

The profit for the Consolidated Entity after providing for income tax amounted to $7,775,082 (30 June 2011: $8,115,305).

Excluding the after-tax effect of other gains and losses associated with foreign currency exchange, underlying profit for the Consolidated Entity after providing for income tax amounted to $8,441,124 (2011: $5,548,598).

Total revenue for the Consolidated Entity for the financial year ended 30 June 2012 was $45,285,072 (2011: $30,979,303).

Earnings before interest, tax, depreciation and amortisation ('EBITDA') and excluding other gains and losses associated with foreign currency exchange for the Consolidated Entity for the financial year ended 30 June 2012 was $16,673,221 (2011: $9,817,768). This is calculated as follows:

	2012	2011
	$	$
Profit for the year	7,775,082	8,115,305
Add back: Income tax expense	2,032,521	2,108,106
Add back: Finance costs	706,835	299,331
Add back: Depreciation and amortisation	5,207,294	2,961,750
EBITDA	15,721,732	13,484,492
Other (gains) and losses associated with foreign currency exchange	951,489	(3,666,724)
Underlying EBITDA	16,673,221	9,817,768

At the reporting date 30 June 2012, the consolidated cash holdings stood at $2,387,244 (2011: $7,633,415). During the year, Vocus invested in and deployed dark fibre and ethernet services to meet strong customer demand for fibre and ethernet services and also acquired Maxnet Limited, a data centre and cloud provider.

Basic earnings per share for the Consolidated Entity for the financial year ended 30 June 2012 was 12.76 cents (2011: 14.97 cents). Underlying basic earnings per share excluding other gains and losses associated with foreign exchange for the financial year ended 30 June 2012 was 13.86 cents (2011: 10.23 cents).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

Directors' Report continued

Matters subsequent to the end of the financial year

The Company raised approximately $21.7 million before expenses to fund the Company's growth strategy and provide working capital through the issue of 13,331,717 new Vocus Communications Limited shares.

No other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the Consolidated Entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Consolidated Entity.

Environmental regulation

The Consolidated Entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	David Spence
Title:	Non-Executive Chairman
Qualifications:	B.Com, CA (SA)
Experience and expertise:	David has been involved in over 20 internet businesses, as Chairman, Chief Executive Officer ('CEO'), director, shareholder or advisor. Until February 2010, David held the role of CEO at Unwired Ltd. From 1995 until 2000, David held various positions with OzEmail, including Managing Director and CEO. He grew the business to become Australia's second largest ISP. David is a past Chairman of the Board of the Internet Industry Association.
Other current directorships:	AWA Limited, Hills Holdings Limited and PayPal Australia Pty Limited (non-listed)
Former directorships (in the last 3 years):	Unwired Limited
Special responsibilities:	None
Interests in shares:	395,349 ordinary shares
Interests in options:	66,666 options over ordinary shares

Name:	James Spenceley
Title:	Chief Executive Officer
Experience and expertise:	James is the founder and Chief Executive Officer of Vocus. He has been involved with the Internet and telecommunications industry for more than 13 years. During this time James was the network architect and infrastructure manager of the $300 million COMindico network (acquired by Soul Pattinson Telecom, now TPG Telecom), which was widely regarded as the single largest and first converged voice and data network in Australia. Additionally, James was a member of the team responsible for buying and connecting COMindico to the USA via the Southern Cross Cable at COMindico and created the Consolidated Entity's wholesale IP transit product.
Other current directorships:	None
Former directorships (in the last 3 years):	None
Special responsibilities:	None
Interests in shares:	7,950,000 ordinary shares
Interests in options:	333,333 options over ordinary shares

Name:	Mark de Kock
Title:	Executive Director, Strategy
Qualifications:	B.Sc (Hons.), AGSM (execMBA)
Experience and expertise:	Mark is responsible for determining and managing the growth strategy of Vocus. He has over 21 years' experience in information and communication technology. Mark has managed the automation of several stock exchanges in Asia, managed the original technical design, launch and operation of the Qantas website and held senior roles with SingTel Optus, Vodafone AU, HP (Tandem/Compaq) and Accenture.
Other current directorships:	None
Former directorships (in the last 3 years):	None
Special responsibilities:	None
Interests in shares:	472,959 ordinary shares
Interests in options:	333,333 options over ordinary shares

Name:	Jon Brett
Title:	Non-Executive Director
Qualifications:	B.Acc, B.Com, MCom, CA (SA)
Experience and expertise:	Jon has extensive experience in the areas of management, operations, finance and corporate advisory. Jon's experience includes several years as managing director of a number of publicly listed companies and was also formerly the non-executive deputy president of the National Roads and Motoring Association. Jon is currently on the board of several unlisted companies and is a director of Investec Wentworth Private Equity Limited.
Other current directorships:	None
Former directorships (in the last 3 years):	None
Special responsibilities:	Chairman of Audit and Risk Committee
Interests in shares:	2,764,695 ordinary shares
Interests in options:	None

Name:	John Murphy
Title:	Non-Executive Director
Qualifications:	B.Com, M.Com, FASCPA
Experience and expertise:	John has extensive experience in the areas of corporate recovery, corporate finance and mergers and acquisitions. John is the former Managing Director of Investec Wentworth Private Equity Limited ('IWPE'), a private equity investment company and a director of Investec Bank (Australia) Limited. Prior to establishing the IWPE Funds, John spent 26 years with an international accounting firm where he held national and regional responsibilities.
Other current directorships:	Ariadne Australia Limited, Gale Pacific Limited and Clearview Wealth Limited
Former directorships (in the last 3 years):	Speciality Fashion Group Limited
Special responsibilities:	Member of Nomination and Remuneration Committee
Interests in shares:	451,386 ordinary shares
Interests in options:	None

Name:	Nicholas McNaughton
Title:	Non-Executive Director
Qualifications:	B.A. (Hons), MBA, GAICD
Experience and expertise:	Nicholas has an MBA from the International Graduate School of Business from the University of South Australia, is a member of the Australian Institute of Company Directors, Deputy Chairman of Capital Angels and a founding member of Sydney Angels. In 2007, with backing from Japan, Nicholas established Blue Cove Ventures, a venture capital company committed to supporting gifted entrepreneurs in building prosperous technology companies. During his career he has been an integral member of the start-up teams of globally successful software companies including Allaire (listed on NASDAQ in 1998 and sold to Macromedia in 2001); Soulmates Technology (sold to NASDAQ: IACI in 2002) and Wily Technology (sold to NYSE: Computer Associates in 2006).
Other current directorships:	None
Former directorships (in the last 3 years):	None
Special responsibilities:	Chairman of Nomination and Remuneration Committee, and Member of Audit and Risk Committee
Interests in shares:	627,598 ordinary shares
Interests in options:	None

Name:	Stephen Baxter
Title:	Non-Executive Director
Experience and expertise:	Stephen has an extensive background in starting Internet based companies in Australia and working overseas on large-scale data networks. Most recently Stephen has created an incubator called River City Labs aimed at building an ecosystem for start-ups to service emerging ventures. Stephen started SE Net in 1994, an ISP in Adelaide that quickly grew to become a substantial player in the industry not only in South Australia but also nationally. SE Net was a dial up ISP that eventually serviced over 35,000 customers using dialup, ISDN, fibre, Ethernet, wireless, telehousing, web hosting and DSL. He sold SE Net to Ozemail/UUNET in two tranches by early 2000. In 2001 Stephen cofounded PIPE Networks, a provider of telehousing and peering services that also deployed dark fibre to customers throughout Australia. In September 2008 Stephen started working at Google Inc, in Mountain View, California as a Technical Program Manager in the Network Deployment department, working on high speed telecommunications solutions.
Other current directorships:	None
Former directorships (in the last 3 years):	Pipe Networks Limited
Special responsibilities:	Member of Nomination and Remuneration Committee, and Audit and Risk Committee.
Interests in shares:	252,013 ordinary shares
Interests in options:	None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Company secretary

Mark Simpson is the Company Secretary and General Counsel. Mark has 16 years' experience in corporate and commercial law working for top tier firms in Australia and the UK and was previously a corporate partner in Sparke Helmore Lawyers' Commercial Group.

Meetings of directors

The number of meetings of the company's Board of Directors and of each board committee held during the year ended 30 June 2012, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Committee		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
D Spence	11	13	–	–	–	–
J Spenceley	13	13	–	–	–	–
M de Kock	11	13	–	–	–	–
J Brett	13	13	1	2	–	–
J Murphy	13	13	–	–	1	1
N McNaughton	12	13	2	2	1	1
S Baxter	12	13	2	2	–	1

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report outlines the director and executive remuneration arrangements for the Consolidated Entity and the Company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation

A Principles used to determine the nature and amount of remuneration

The objective of the Consolidated Entity's and Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with the market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Consolidated Entity and Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Consolidated Entity and Company.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

Non-executive directors remuneration
ASX listing rules requires that the aggregate non-executive directors' remuneration shall be determined periodically by a general meeting. At the Annual General Meeting of the Company held on 26 October 2010, shareholders voted in favour of a $250,000 pool of annual directors' remuneration be made available to non-executive directors.

Directors' Report continued

Executive remuneration

The Consolidated Entity and Company aims to reward executives with a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee, based on individual and business unit performance, the overall performance of the Consolidated Entity and comparable market remunerations.

Consolidated entity performance and link to remuneration

The directors' remuneration levels are not directly dependent upon the Consolidated Entity or Company's performance or any other performance conditions. Certain executive remuneration, namely share-based payments, are linked to the Company's share performance based on certain hurdles, amongst other performance conditions including service. However, practically, whether shareholders vote for or against an increase in the aggregate director remuneration will depend upon, amongst other things, how the Consolidated Entity and Company have performed.

The Nomination and Remuneration Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Use of remuneration consultants

During the financial year ended 30 June 2012 the Consolidated Entity has not engaged remuneration consultants.

Voting and comments made at the company's 2011 Annual General Meeting ('AGM')

At the last AGM 97% of the shareholders who voted, in person or by proxy, voted to adopt the remuneration report for the year ended 30 June 2011. The Consolidated Entity did not receive any specific feedback at the AGM regarding its remuneration practices.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and other key management personnel are set out in the following tables. Key management personnel are defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the Consolidated Entity.

The key management personnel of the Consolidated Entity consisted of the directors of Vocus Communications Limited and the following executives:

- Richard Correll – Chief Financial Officer
- Mark Simpson – General Counsel and Company Secretary

2012	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
D Spence	110,092	–	–	9,908	–	9,833	129,833
J Brett *	35,000	–	–	–	–	–	35,000
J Murphy *	28,142	–	–	1,858	–	–	30,000
N McNaughton	35,000	–	–	–	–	–	35,000
S Baxter	30,000	–	–	–	–	–	30,000
Executive Directors:							
J Spenceley	267,625	–	–	15,775	–	49,518	332,918
M de Kock	196,153	–	–	17,683	–	49,518	263,354
Other Key Management Personnel:							
R Correll	200,000	–	–	18,000	–	36,792	254,792
M Simpson	200,000	–	–	18,000	–	21,961	239,961
	1,102,012	–	–	81,224	–	167,622	1,350,858

* Directors fees for J Brett and J Murphy (until 30 September 2011) were paid or payable to Investec Wentworth Private Equity Limited.

2011	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
D Spence	94,960	–	–	20,840	–	12,853	128,653
J Brett *	35,000	–	–	–	–	–	35,000
J Murphy *	30,000	–	–	–	–	–	30,000
N McNaughton	39,800	–	–	–	–	–	39,800
S Baxter	17,500	–	–	–	–	–	17,500
Executive Directors:							
J Spenceley	272,007	–	–	15,173	–	32,133	319,313
M de Kock	199,787	–	–	15,199	–	32,133	247,119
Other Key Management Personnel:							
R Correll	192,980	–	–	17,370	–	14,140	224,490
M Simpson	142,133	–	–	25,000	–	6,060	173,193
	1,024,167	–	–	93,582	–	97,319	1,215,068

* Paid or payable to Investec Wentworth Private Equity Limited.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	2012	2011	2012	2011	2012	2011
Non-Executive Directors:						
D Spence	92%	90%	– %	– %	8%	10%
J Brett	100%	100%	– %	– %	– %	– %
J Murphy	100%	100%	– %	– %	– %	– %
N McNaughton	100%	100%	– %	– %	– %	– %
S Baxter	100%	100%	– %	– %	– %	– %
N McNaughton	100%	100%	– %	– %	– %	– %
Executive Directors:						
J Spenceley	85%	90%	– %	– %	15%	10%
M de Kock	81%	87%	– %	– %	19%	13%
Other Key Management Personnel:						
R Correll	86%	94%	– %	– %	14%	6%
M Simpson	91%	97%	– %	– %	9%	3%

The LTI disclosed above refers to share-based payments.

C Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	James Spenceley
Title:	Chief Executive Officer
Agreement commenced:	1 July 2010
Term of agreement:	Ongoing
Details:	Base salary of $268,200 plus superannuation, to be reviewed annually. 6 month termination notice by either party. Eligible to participate in Share Option Plan.

Name:	Mark de Kock
Title:	Executive Director, Strategy
Agreement commenced:	1 July 2010
Term of agreement:	Ongoing
Details:	Base salary of $220,000 plus superannuation, to be reviewed annually. 3 month termination notice by either party. Eligible to participate in Share Option Plan.

Directors' Report continued

Name:	Richard Correll
Title:	Chief Financial Officer
Agreement commenced:	1 July 2010
Term of agreement:	Ongoing
Details:	Base salary of $240,000 plus superannuation, to be reviewed annually. 3 month termination notice by either party. Eligible to participate in Share Option Plan.

Name:	Mark Simpson
Title:	General Counsel and Company Secretary
Agreement commenced:	1 July 2010
Term of agreement:	Ongoing
Details:	Base salary of $220,000 plus superannuation, to be reviewed annually. 1 month termination notice by either party. Eligible to participate in Share Option Plan.

D Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012.

Options

The terms and conditions of each grant of options affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
30 June 2010	30 June 2011	30 July 2011	$0.50	$0.070
30 June 2010	30 June 2012	30 July 2012	$0.50	$0.140
30 June 2010	30 June 2013	30 July 2013	$0.50	$0.160
1 October 2010	30 September 2011	30 September 2017	$0.50	$0.070
1 October 2010	30 June 2012	30 September 2017	$0.50	$0.140
1 October 2010	30 June 2013	30 September 2017	$0.50	$0.160
2 November 2010	30 July 2011	30 July 2011	$0.50	$0.070
2 November 2010	30 June 2012	30 July 2012	$0.50	$0.140
2 November 2010	30 June 2013	30 July 2013	$0.50	$0.160
1 August 2011	1 September 2012	31 July 2018	$2.50	$0.190

Options granted carry no dividend or voting rights.

An employee share option plan was established by the Consolidated Entity and approved by shareholders at a general meeting, whereby the Consolidated Entity, may at the discretion of the Board, grant options over ordinary shares in the Company to employees.

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

Details of options over ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012 are set out below:

	Number of options granted during the year		Number of options vested during the year	
Name	2012	2011	2012	2011
D Spence	–	200,000	66,667	66,667
J Spenceley	166,666	–	166,666	166,667
M de Kock	166,666	–	166,666	166,667
R Correll	150,000	350,000	116,666	–
M Simpson	100,000	150,000	50,000	–

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel during the year ended 30 June 2012 are set out below:

	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Remuneration consisting of options for the year
Name	$	$	$	%
D Spence	–	9,333	–	8
J Spenceley	31,667	23,333	–	15
M de Kock	31,667	23,333	–	19
R Correll	28,500	8,167	–	14
M Simpson	19,000	3,500	–	9

Value of options granted during the year represents the value at the grant date.

Value of options exercised during the year represents the value at the exercise date.

Value of options lapsed during the year represents the value lapsed at the date of lapse.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Vocus Communications Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
30 June 2010	30 July 2013	$0.50	333,333
1 October 2010	30 September 2017	$0.50	941,668
2 November 2010	30 July 2013	$0.50	66,666
13 May 2011	13 May 2018	$2.00	160,000
1 August 2011	31 July 2018	$2.50	923,332
15 August 2011	31 July 2018	$2.00	150,000
11 May 2012	10 May 2019	$2.00	392,500
			2,967,499

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options

The following ordinary shares of Vocus Communications Limited were issued during the year ended 30 June 2012 on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
30 June 2010	$0.50	333,333
1 October 2010	$0.50	258,332
2 November 2010	$0.50	66,667
		658,332

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors, the Company secretary and all executive officers of the Company and any related body corporate, against a liability incurred as such a director, Company secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and insurance of auditor

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

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 35 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 35 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved 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 Professional 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.

Officers of the company who are former audit partners of Deloitte Touche Tohmatsu

There are no officers of the Company who are former audit partners of Deloitte Touche Tohmatsu.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

James Spenceley
Director

28 August 2012
Sydney

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Vocus Communications Limited
Vocus House
Level 1, 189 Miller Street
North Sydney NSW 2060

28 August 2012

Dear Board Members

Re: Vocus Communications Limited

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

As lead audit partner for the audit of the financial statements of Vocus Communications Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Joshua Tanchel
Partner
Deloitte Touche Tohmatsu

Corporate Governance Statement

30 JUNE 2012

The Board of Directors ('the Board') of Vocus Communications Limited is responsible for the corporate governance of the Company and Consolidated Entity. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the ASX Corporate Governance Council's Revised Principles and Recommendations.

Principles and Recommendations	Compliance	Comply
Principle 1 – Lay solid foundations for management and oversight		
1.1 Establish the functions reserved to the Board and those delegated to manage and disclose those functions.	The Board is responsible for the overall corporate governance of the Company. The Board has adopted a Board charter that formalises its roles and responsibilities and defines the matters that are reserved for the Board and specific matters that are delegated to management. The Board has adopted a Delegations Authority that sets limits of authority for senior executives. On appointment of a director, the Company issues a letter of appointment setting out the terms and conditions of appointment to the Board.	Complies
1.2 Disclose the process for evaluating the performance of senior executives.	A summary of the processes for performance evaluation of key executives, directors and the Board is available on the Company's website. The chief executive officer ('CEO') reviews the performance of the senior executives. The Board reviews the CEO's performance. These reviews occur annually.	Complies.
1.3 Provide the information indicated in *Guide to reporting on Principle 1*.	A Board charter has been disclosed on the Company's website and is summarised in this Corporate Governance Statement.	Complies.
	A performance evaluation process is included in the Board Charter, which has been disclosed on the Company's website and is summarised in this Corporate Governance Statement.	Complies.
	The Board conducted a performance evaluation for the CEO in the financial year in accordance with the process above.	Complies.
Principle 2 – Structure the Board to add value		
2.1 A majority of the Board should be independent directors.	The majority of the Board's directors are not independent as they are either substantial shareholders, or executive directors, or directors of substantial shareholders of the Company. David Spence is an independent Non-Executive Director. Nicholas McNaughton is an independent Non-Executive Director. Stephen Baxter is an independent Non-Executive Director. Jon Brett is a Non-Executive Director but not independent due to being associated with a substantial shareholder. John Murphy is a Non-Executive Director but not independent due to being associated with a substantial shareholder. James Spenceley is an Executive Director. Mark de Kock is an Executive Director.	Does not comply however the skills and experience of both the independent and non-independent directors allow the Board to act in the best interests of shareholders. Having considered the size and operations of the Company and the expertise and experience of each director, the Board considers the composition of the Board is appropriate to the needs of the Company.
2.2 The chair should be an independent director.	David Spence is the Chairman and is an independent Non-Executive Director.	Complies.

Corporate Governance Statement continued

Principles and Recommendations	Compliance	Comply
2.3 The roles of chair and chief executive officer should not be exercised by the same individual.	David Spence is the Chairman and James Spenceley the Chief Executive Officer.	Complies.
2.4 The Board should establish a nomination committee.	The Company has established a Nomination and Remuneration Committee. The Board has undertaken a review of the mix of skills and experience on the Board in light of the Company's principal activities and direction, and has considered diversity in succession planning. The Board considers the current mix of skills and experience of members of the Board and its senior management is sufficient to meet the requirements of the Company. The Board supports the nomination and re-election of the directors at the Company's forthcoming Annual General Meeting.	Complies.
2.5 Disclose the process for evaluating the performance of the Board, its committees and individual directors.	The Company conducts the process for evaluating the performance of the Board, its committees and individual directors as outlined in the Board Charter which is available on the Company's website.	Complies.
2.6 Provide the information indicated in the *Guide to reporting on Principle 2*.	This information has been disclosed (where applicable) in the Directors' report attached to this Corporate Governance Statement. David Spence, Nicholas McNaughton and Stephen Baxter are independent directors of the Company. A director is considered independent when he substantially satisfies the test for independence as set out in the ASX Corporate Governance Recommendations. Members of the Board are able to take independent professional advice at the expense of the Company. As at 31 July 2012, each director has been in office for the following periods: Jon Brett 13 years 11 months * John Murphy 9 years 5 months * David Spence 2 years 1 month James Spenceley 2 years 1 month Mark de Kock 2 years 1 month Nicholas McNaughton 2 years 1 month Stephen Baxter 1 year 9 months * Previous directors of First Opportunity Fund prior to being acquired by Vocus under the Group Reorganisation The Company has established a Nominations and Remuneration Committee. In accordance with the information suggested in *Guide to Reporting on Principle 2*, the Company has disclosed full details of its directors in the Director's report attached to this Corporate Governance Statement. Other disclosure material on the Structure of the Board has been made available on the Company's website.	Complies.

Principles and Recommendations	Compliance	Comply
Principle 3 – Promote ethical and responsible decision making		
3.1 Establish a code of conduct and disclose the code or a summary of the code.	The Board has adopted a code of conduct. The code establishes a clear set of values that emphasise a culture encompassing strong corporate governance, sound business practices and good ethical conduct. The code is available on the Company's website.	Complies.
3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	The Board has undertaken a review of the mix of skills and experience on the Board in light of the Company's principal activities and direction. The Board adopted a Diversity Policy on 19 April 2012 that considers the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for Board and senior management positions in the Company, education programs to develop skills and experience in preparation for Board and senior management positions, processes to include review and appointment of directors, and identify key measurable diversity performance objectives for the Board, CEO and senior management. The Diversity Policy is available on the Company's website.	Complies
3.3 Provide the information indicated in *Guide to reporting on Principle 3*.	As a measurement of gender diversity, the proportion of women employees in the Consolidated Entity as at 30 June 2012 are as follows: Women on the board – nil% Women in senior executive positions – nil% Women in the organisation – 19% Responsibility for diversity has been included in the Board Charter and the Remuneration Charter.	Complies
Principle 4 – Safeguard integrity in financial reporting		
4.1 The Board should establish an audit committee.	The Board has established an Audit and Risk Committee which operates under an audit and risk committee charter to focus on issues relevant to the integrity of the Company's financial reporting.	Complies
4.2 The audit committee should be structured so that it consists of only non-executive directors, a majority of independent directors, is chaired by an independent chair who is not chair of the Board and have at least 3 members.	Members of the Audit and Risk Committee are Jon Brett (Chair), Nicholas McNaughton and Stephen Baxter. Jon Brett is a Non-Executive Director and is not chair of the Board. The committee consists of three non-executive directors. The Audit and Risk Committee did not comply with Recommendation 4.2 in that the committee: • was not chaired by an independent chair.	Does not comply due to the composition of the Board. However, the Board considers the directors to be the most appropriate members to constitute the Audit and Risk Committee given their technical, finance and accounting expertise and broad knowledge of the industry in which the Company operates.
4.3 The audit committee should have a formal charter.	The Board has adopted an Audit and Risk Charter. This charter is available on the Company's website.	Complies.

Corporate Governance Statement continued

Principles and Recommendations	Compliance	Comply
4.4 Provide the information indicated in *Guide to reporting on Principle 4*.	In accordance with the information suggested in *Guide to Reporting on Principle 4*, this has been disclosed in the directors' report attached to this Corporate Governance Statement and is summarised in this Corporate Governance Statement. The members of the Audit and Risk Committee are appointed by the Board and recommendations from the committee are presented to the Board for further discussion and resolution. The Audit and Risk Committee held two meetings during the period to the date of the directors' report and meets at least twice per annum. The Audit and Risk Charter, and information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners (which is determined by the audit committee), is available on the Company's website.	Complies.

Principle 5 – Make timely and balanced disclosure

Principles and Recommendations	Compliance	Comply
5.1 Establish written policies designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	The Company has adopted a continuous disclosure policy, to ensure that it complies with the continuous disclosure regime under the ASX Listing Rules and the Corporations Act 2001. This policy is available on the Company's website.	Complies.
5.2 Provide the information indicated in the *Guide to reporting on Principle 5*.	The Company's continuous disclosure policy is available on the Company's website.	Complies

Principle 6 – Respect the rights of shareholders

Principles and Recommendations	Compliance	Comply
6.1 Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.	The Company has adopted a communications policy. The Company uses its website, annual report, market announcements and media disclosures to communicate with its shareholders, as well as encourages participation at general meetings. This policy is available on the Company's website.	Complies.
6.2 Provide the information indicated in the *Guide to reporting on Principle 6*.	The Company's communications policy is available on the Company's website.	Complies.

Principle 7 – Recognise and manage risk

Principles and Recommendations	Compliance	Comply
7.1 Establish policies for the oversight and management of material business risks and disclose a summary of these policies.	The Company has adopted a risk management statement within the Audit and Risk Committee Charter. The Audit and Risk Committee is responsible for managing risk; however, ultimate responsibility for risk oversight and risk management rests with the Board. The Audit and Risk Charter is available on the Company's website and is summarised in this Corporate Governance Statement.	Complies.
7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	The Company has identified key risks within the business. In the ordinary course of business, management monitor and manage these risks. Key operational and financial risks are presented to and reviewed by the Board at each Board meeting.	Complies.
7.3 The Board should disclose whether it has received assurance from the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	The Board has received a statement from the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	Complies.
7.4 Provide the information indicated in *Guide to reporting on Principle 7*.	The Board has adopted an Audit and Risk Charter which includes a statement of the Company's risk policies. This charter is available on the Company's website and is summarised in this Corporate Governance Statement.	Complies.

Principle 8 – Remunerate fairly and responsibly

Principles and Recommendations	Compliance	Comply
8.1 The Board should establish a remuneration committee.	The Board has established a Nomination and Remuneration Committee and has adopted a Remuneration Charter. Members of the Nomination and Remuneration Committee are Nicholas McNaughton (Chair), John Murphy and Stephen Baxter. The committee consists of three non-executive directors. The Nomination and Remuneration Committee: • consists of a majority of independent directors; • is chaired by an independent director; and • has three members.	Complies.
8.2 Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The Company complies with the guidelines for executive remuneration packages and non-executive director remuneration. No senior executive is involved directly in deciding their own remuneration.	Complies.
8.3 Provide the information indicated in the *Guide to reporting on Principle 8*.	The Board has adopted a Nomination and Remuneration Committee charter. The Company does not have any schemes for retirement benefits other than superannuation for non-executive directors.	Complies.

Vocus Communications Limited's corporate governance practices were in place for the financial year ended 30 June 2012 and to the date of signing the directors' report.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by Vocus Communications Limited, refer to the Company's website.

Board functions

The role of the Board is as follows:

- Representing and serving the interests of shareholders by overseeing and appraising the strategies, policies and performance of the Company. This includes over viewing the financial and human resources the Company has in place to meet its objectives and the review of management performance;
- Protecting and optimising company performance and building sustainable value for shareholders in accordance with any duties and obligations imposed on the Board by law and the Company's constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- Responsible for the overall Corporate Governance of Vocus Communications Limited and its controlled entities, including monitoring the strategic direction of the Company and those entities, formulating goals for management and monitoring the achievement of those goals;
- Setting, reviewing and ensuring compliance with the Company's values (including the establishment and observance of high ethical standards);
- Ensuring shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

Responsibilities/functions of the Board include:

- selecting, appointing and evaluating from time to time the performance of, determining the remuneration of, and planning for the successor of, the chief executive officer ('CEO');
- reviewing procedures in place for appointment of senior management and monitoring of its performance, and for succession planning. This includes ratifying the appointment and the removal of the chief financial officer and the company secretary;
- input into and final approval of management development of corporate strategy, including setting performance objectives and approving operating budgets;
- reviewing and guiding systems of risk management and internal control and ethical and legal compliance. This includes reviewing procedures in place to identify the main risks associated with the company's businesses and the implementation of appropriate systems to manage these risks;
- monitoring corporate performance and implementation of strategy and policy;
- approving major capital expenditure, acquisitions and divestitures, and monitoring capital management;
- monitoring and reviewing management processes in place aimed at ensuring the integrity of financial and other reporting;
- monitoring and reviewing policies and processes in place relating to occupational health and safety, compliance with laws, and the maintenance of high ethical standards and;
- performing such other functions as are prescribed by law or are assigned to the Board.

In carrying out its responsibilities and functions, the Board may delegate any of its powers to a Board committee, a director, employee or other person subject to ultimate responsibility of the directors under the Corporations Act 2001.

Matters which are specifically reserved for the Board or its committees include the following:

- appointment of a Chair;
- appointment and removal of the CEO;
- appointment of directors to fill a vacancy or as additional directors;
- establishment of Board committees, their membership and delegated authorities;
- approval of dividends;
- development and review of corporate governance principles and policies;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management;
- calling of meetings of shareholders and;
- any other specific matters nominated by the Board from time to time.

Structure of the Board

The Company's constitution governs the regulation of meetings and proceedings of the Board. The Board determines its size and composition, subject to the terms of the constitution. The Board does not believe that it should establish a limit on tenure other than stipulated in the Company constitution.

While tenure limits can help to ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight in the Company and its operation and, therefore, an increasing contribution to the Board as a whole. It is intended that the Board should comprise a majority of independent non-executive directors and comprise directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. It is also intended that the chair should be an independent non-executive director. The Board regularly reviews the independence of each director in light of the interests disclosed to the Board.

The Board only considers directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgment. The Board has adopted a definition of independence based on that set out in Principle 2 of the ASX Corporate Governance Revised Principles and Recommendations. The Board will review the independence of each director in light of interests disclosed to the Board from time to time.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Vocus Communications Limited are considered to be independent:

Name	Position
David Spence	Non-Executive Director, Chairman
Nicholas McNaughton	Non-Executive Director
Stephen Baxter	Non-Executive Director

There are procedures in place, agreed by the Board, to enable directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The appointment date of each director in office at the date of this report is as follows:

Name	Position	Appointment Date
David Spence	Non-Executive Director, Chairman	Appointed 16 June 2010
James Spenceley	Executive Director, Chief Executive Officer	Appointed 30 June 2010
Mark de Kock	Executive Director, Strategy	Appointed 30 June 2010
Jon Brett	Non-Executive Director	Appointed 29 August 1998*
John Murphy	Non-Executive Director	Appointed 7 March 2003*
Nicholas McNaughton	Non-Executive Director	Appointed 30 June 2010
Stephen Baxter	Non-Executive Director	Appointed 17 November 2010

* Previous directors of First Opportunity Fund prior to being acquired by Vocus under the Group Reorganisation.

Further details on each director can be found in the Directors' report attached to this Corporate Governance Statement.

Securities trading policy

Under the Company's Guidelines for Dealing in Securities Policy, directors, officers and employees of the Company should not trade in the Company's securities when he or she is in possession of price sensitive information that is not generally available to the market.

All staff are restricted from dealing in the Company's securities in the thirty day period immediately preceding the release of price sensitive information to the ASX, being the 30 days prior to the release of full and half year accounts, and the Annual General Meeting ('AGM').

In addition, directors, officers and employees can only deal in the Company's securities after having first obtained clearance from the Company in accordance with the policy, and must notify the company secretary when a trade has occurred.

As required by the ASX Listing Rules, the company notifies the ASX of any transaction conducted by directors in the securities of the Company within five days of the transaction taking place.

The Securities Trading Policy has been issued to ASX and can be found on the Company's website.

Audit and Risk Committee

The Board has established an Audit and Risk Committee which operates under a Charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit and Risk Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of the Audit Committee during the year were:

- Jon Brett (Non-Executive Director) (Chair)
- Nicholas McNaughton (Non-Executive Director)
- Stephen Baxter (Non-Executive Director)

Whilst operating as a separate Committee, the Audit and Risk Committee provide the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

For details on the number of meetings of the Audit and Risk Committee held during the year and the attendees at those meetings, refer to the Directors' report.

Risk

The responsibility of overseeing risk falls within the charter of the Audit and Risk Committee. The Company identifies areas of risk within the Company and management and the Board continuously undertake a risk assessment of the Company's operations, procedures and processes. The risk assessment is aimed at identifying the following:

- a culture of risk control and the minimisation of risk throughout the Company, which is being done through natural or instinctive process by employees of the Company;
- a culture of risk control that can easily identify risks as they arise and amend practices;
- the installation of practices and procedures in all areas of the business that are designed to minimise an event or incident that could have a financial or other effect on the business and its day to day management; and
- adoption of these practices and procedures to minimise many of the standard commercial risks, i.e. taking out the appropriate insurance polices, or ensuring compliance reporting is up to date.

Corporate Governance Statement continued

Diversity policy

The Company is committed to providing an inclusive workplace and recognises the value individuals with diverse skills, values, backgrounds and experiences will bring to the Company. At the core of the Company's Diversity Policy is a commitment to equality and respect. Diversity is recognising and valuing the unique contribution people can make because of their individual background and different skills, experiences and perspectives. People differ not just on the basis of race and gender, but also other dimensions such as lifestyle, education, physical ability, age and family responsibility.

CEO and CFO certification

The chief executive officer and chief financial officer have given a written declaration to the Board required by section 295A of the Corporations Act 2001 that in their view:

- the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board;
- the Company's risk management and internal compliance and control system is operating effectively in all material respects;
- the Company's financial statements and notes thereto comply with the accounting standards; and
- the Company's financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date.

Performance

The performance of the Board and key executives is reviewed regularly using both measurable and qualitative indicators.

Directors provide written feedback in relation to the performance of the Board and its Committees against a set of agreed criteria.

- Each Committee of the Board will also be required to provide feedback in terms of a review of its own performance.
- Feedback will be collected by the chair of the Board, or an external facilitator, and discussed by the Board, with consideration being given as to whether any steps should be taken to improve performance of the Board or its Committees.
- The chief executive officer will also provide feedback from senior management in connection with any issues that may be relevant in the context of Board performance review.
- Where appropriate to facilitate the review process, assistance may be obtained from third party advisers.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board, in assuming the responsibilities of assessing remuneration to employees, links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of high quality management to the Company; and
- performance incentives that allow executives to share in the success of Vocus Communications Limited.

For a more comprehensive explanation of the Company's remuneration framework and the remuneration received by directors and key executives in the current period, please refer to the remuneration report, which is contained within the Directors' report.

There is no scheme to provide retirement benefits to executive or non-executive directors.

The Nomination and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and executive team.

Financial Report

30 JUNE 2012

Contents

General information

The financial report covers Vocus Communications Limited as a Consolidated Entity consisting of Vocus Communications Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Vocus Communications Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

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

Vocus House
Level 1
189 Miller Street
North Sydney NSW 2060

A description of the nature of the Consolidated Entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 28 August 2012. The directors have the power to amend and reissue the financial report.

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 2012 $	2011 $
Revenue	5	45,285,072	30,979,303
Other gains and losses	6	(451,489)	3,666,724
Expenses			
Network and service delivery		(17,817,883)	(13,612,607)
Employee benefits expense	7	(7,752,933)	(4,117,260)
Depreciation and amortisation expense	7	(5,207,294)	(2,961,750)
Administration and other expenses		(3,541,035)	(3,431,668)
Finance costs	7	(706,835)	(299,331)
Profit before income tax expense		9,807,603	10,223,411
Income tax expense	8	(2,032,521)	(2,108,106)
Profit after income tax expense for the year attributable to the owners of Vocus Communications Limited	31	7,775,082	8,115,305
Other comprehensive income			
Foreign currency translation		9,892	–
Net movement on hedging transactions, net of tax		(219,861)	(297,276)
Other comprehensive income for the year, net of tax		(209,969)	(297,276)
Total comprehensive income for the year attributable to the owners of Vocus Communications Limited		7,565,113	7,818,029

		Cents	Cents
Basic earnings per share	46	12.76	14.97
Diluted earnings per share	46	12.23	14.49

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

AS AT 30 JUNE 2012

	Note	Consolidated 2012 $	2011 $
Assets			
Current assets			
Cash and cash equivalents	9	2,387,244	7,633,415
Trade and other receivables	10	7,731,737	6,050,414
Other financial assets	11	472,201	483,500
Other	12	686,048	245,515
Total current assets		11,277,230	14,412,844
Non-current assets			
Property, plant and equipment	13	29,051,004	13,979,906
Intangibles	14	50,864,476	39,985,094
Deferred tax	15	1,280,767	1,083,234
Other	16	155,552	144,252
Total non-current assets		81,351,799	55,192,486
Total assets		92,629,029	69,605,330
Liabilities			
Current liabilities			
Trade and other payables	17	8,667,569	5,262,164
Borrowings	18	10,485,970	6,048,812
Derivative financial instruments	19	408,597	274,538
Income tax	20	1,453,295	2,709,733
Provisions	21	1,396,630	661,399
Other	22	120,950	372,814
Total current liabilities		22,533,011	15,329,460
Non-current liabilities			
Borrowings	23	25,038,021	16,635,113
Derivative financial instruments	24	450,177	951,976
Deferred tax	25	1,877,165	1,629,253
Provisions	26	675,030	1,282,500
Other	27	54,406	25,451
Total non-current liabilities		28,094,799	20,524,293
Total liabilities		50,627,810	35,853,753
Net assets		42,001,219	33,751,577
Equity			
Contributed equity	28	22,588,928	22,197,753
Contributed capital	29	–	62,008
Reserves	30	103,261	(42,132)
Retained profits	31	19,309,030	11,533,948
Total equity		42,001,219	33,751,577

Refer to note 3 for detailed information on restatement of comparatives.

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 2012

	Contributed equity $	Contributed capital $	Reserves $	Retained profits $	Total equity $
Consolidated					
Balance at 1 July 2010	6,266,357	62,008	116,968	3,418,643	9,863,976
Profit after income tax expense for the year	–	–	–	8,115,305	8,115,305
Other comprehensive income for the year, net of tax	–	–	(297,276)	–	(297,276)
Total comprehensive income for the year	–	–	(297,276)	8,115,305	7,818,029
Transactions with owners in their capacity as owners:		–			
Contributions of equity, net of transaction costs	15,931,396	–	–	–	15,931,396
Share-based payments	–	–	138,176	–	138,176
Balance at 30 June 2011	22,197,753	62,008	(42,132)	11,533,948	33,751,577
	Contributed equity $	**Contributed capital $**	**Reserves $**	**Retained profits $**	**Total equity $**
Consolidated					
Balance at 1 July 2011	22,197,753	62,008	(42,132)	11,533,948	33,751,577
Profit after income tax expense for the year	–	–	–	7,775,082	7,775,082
Other comprehensive income for the year, net of tax	–	–	(209,969)	–	(209,969)
Total comprehensive income for the year	–	–	(209,969)	7,775,082	7,565,113
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	329,167	–	–	–	329,167
Share-based payments	–	–	355,362	–	355,362
Transfers	62,008	(62,008)	–	–	–
Balance at 30 June 2012	22,588,928	–	103,261	19,309,030	42,001,219

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 2012

	Note	Consolidated 2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		47,546,155	30,895,787
Payments to suppliers and employees		(31,331,421)	(19,893,689)
		16,214,734	11,002,098
Interest received		206,853	274,040
Other revenue		552,578	548,757
Interest and other finance costs paid		(706,835)	(299,331)
Income taxes paid		(3,846,676)	(115,522)
Net cash from operating activities	44	12,420,654	11,410,042
Cash flows from investing activities			
Payments for purchase of businesses, net of cash acquired		(5,340,308)	(16,163,812)
Payments for property, plant and equipment		(11,799,769)	(2,450,430)
Payments for lease security deposits		–	(411,854)
Proceeds from sale of property, plant and equipment		49,420	–
Proceeds from sale of intangibles		2,265	–
Net cash used in investing activities		(17,088,392)	(19,026,096)
Cash flows from financing activities			
Proceeds from issue of shares	28	329,167	16,347,638
Capital raising costs		–	(594,631)
Proceeds from borrowings		7,400,000	–
Repayment of borrowings		(8,073,368)	(5,927,930)
Repayment of leases		(234,232)	(680,861)
Repayment of loan to shareholders		–	(6,523,504)
Net cash from/(used in) financing activities		(578,433)	2,620,712
Net decrease in cash and cash equivalents		(5,246,171)	(4,995,342)
Cash and cash equivalents at the beginning of the financial year		7,633,415	12,628,757
Cash and cash equivalents at the end of the financial year	9	2,387,244	7,633,415

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

Notes to the financial statements
30 JUNE 2012

Note 1. Significant accounting policies

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

New, revised or amending Accounting Standards and Interpretations adopted

The Consolidated Entity 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.

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

Any significant impact on the accounting policies of the Consolidated Entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Consolidated Entity.

The following Accounting Standards and Interpretations are most relevant to the Consolidated Entity:

AASB 2009-12 Amendments to Australian Accounting Standards
The Consolidated Entity has applied AASB 2009-12 from 1 July 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which had no major impact on the requirements of the amended pronouncements. The main amendment was to AASB 8 'Operating Segments' and required an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.

AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project
The Consolidated Entity has applied AASB 2010-4 amendments from 1 July 2011. The amendments made numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provided clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments; clarified that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Instruments'; and provided guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'.

AASB 2010-5 Amendments to Australian Accounting Standards
The Consolidated Entity has applied AASB 2010-5 amendments from 1 July 2011. The amendments made numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board.

AASB 124 Related Party Disclosures (December 2009)
The Consolidated Entity has applied AASB 124 (revised) from 1 July 2011. The revised standard simplified the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. A subsidiary and an associate with the same investor are related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets
The Consolidated Entity has applied AASB 2010-6 amendments from 1 July 2011. These amendments add and amended disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. Additional disclosures are now required when (i) an asset is transferred but is not derecognised; and (ii) when assets are derecognised but the Consolidated Entity has a continuing exposure to the asset after the sale.

AASB 1054 Australian Additional Disclosures
The Consolidated Entity has applied AASB 1054 from 1 July 2011. The standard sets out the Australian-specific disclosures as a result of Phase I of the Trans-Tasman Convergence Project, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards.

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project
The Consolidated Entity has applied AASB 2011-1 amendments from 1 July 2011. These amendments made changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to International Financial Reporting Standards ('IFRSs') and harmonisation between Australian and New Zealand Standards. The amendments removed certain guidance and definitions from Australian Accounting Standards for conformity of drafting with IFRSs but without any intention to change requirements.

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-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.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Consolidated Entity only. Supplementary information about the Parent Entity is disclosed in note 39.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Vocus Communications Limited ('Company' or 'Parent Entity') as at 30 June 2012 and the results of all subsidiaries for the year then ended. Vocus Communications Limited and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

Subsidiaries are all those entities over which the Consolidated Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated Entity 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 the Consolidated Entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. 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 book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Consolidated Entity 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. The Consolidated Entity 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.

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 is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial report is presented in Australian dollars, which is Vocus Communications 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 approximates the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in 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.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Consolidated Entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services
Rendering of services revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Revenue from the provision of telecommunication services is recognised once the service has been rendered.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably estimated, revenue is only recognised to the extent of the recoverable costs incurred to date.

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

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

Notes to the Financial Statements continued

Note 1. Significant accounting policies continued

Income tax

The income tax expense or benefit 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 assets and liabilities attributable to temporary differences and unused tax losses and the adjustment recognised for prior periods, where applicable.

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, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income 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
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in 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 current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Cash and cash equivalents

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

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

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 the Consolidated Entity's exposure to variability in cash flows that is attributable to particular risk associated with a recognised asset or liability or a firm commitment which could affect income or expenses. 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, amounts recognised in equity are transferred to profit or loss.

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

Investments and other financial assets

Investments and other financial assets are 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, the Consolidated Entity establishes fair value by using valuation techniques. These include the use of recent arms 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 the Consolidated Entity has transferred substantially all the risks and rewards of ownership.

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

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

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been had the impairment not been recognised and is reversed to profit or loss.

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:

Plant and equipment	3-8 years
Network equipment	5-30 years

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

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

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

Leases

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

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

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

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

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

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. 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 intangibles 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
Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. 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.

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. Significant costs associated with IRU's are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life to November 2025.

Software
Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Customer contracts
Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of between 1 to 9 years.

Other intangibles
Other intangibles are amortised on a straight-line basis over the period of their expected benefit.

Notes to the Financial Statements continued

Note 1. Significant accounting policies continued

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Consolidated Entity 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.

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.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Working capital management

At 30 June 2012, the consolidated statement of financial position reflected an excess of current liabilities over current assets of $11,255,781 (2011: $916,616). The working capital deficit is primarily caused by the classification of $8,415,874 (2011: $5,290,536) of IRU commitments within current liabilities (refer note 18) whilst the intangible asset is capitalised within non-current assets (refer note 14) and the addition of the current portion bank borrowings associated with the Consolidated Entity's acquisition of Maxnet in June 2012. The IRU commitments relate to a contractual obligation to make monthly payments for the right to access submarine fibre optic cable capacity.

The directors are satisfied that the Consolidated Entity is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on short-term and long-term borrowings
- interest on finance leases

Provisions

Provisions are recognised when the Consolidated Entity has a present (legal or constructive) obligation as a result of a past event, it is probable the Consolidated Entity 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.

Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability 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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled and cash-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. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Binomial 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 the Consolidated Entity 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.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying the Binomial option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

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

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

If the non-vesting condition is within the control of the Consolidated Entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Consolidated Entity 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.

Contributed equity

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.

Dividends

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

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

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

On the acquisition of a business, the Consolidated Entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Consolidated Entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Consolidated Entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

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

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

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

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Vocus Communications 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 the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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.

Notes to the Financial Statements continued

Note 1. Significant accounting policies continued

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.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the annual reporting period ended 30 June 2012. The Consolidated Entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Consolidated Entity, are set out below.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The Consolidated Entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the Consolidated Entity.

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets
These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. The Consolidated Entity is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

AASB 10 Consolidated Financial Statements
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The Consolidated Entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the Consolidated Entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

AASB 11 Joint Arrangements
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 July 2013 will not have a material impact on the Consolidated Entity.

AASB 12 Disclosure of Interests in Other Entities
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation – Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the Consolidated Entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the Consolidated Entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

AASB 127 Separate Financial Statements (Revised) AASB 128 Investments in Associates and Joint Ventures (Reissued)
These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the Consolidated Entity.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments eliminate the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The amendments also change the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months and will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 July 2013 is expected to reduce the reported annual leave liability and increase disclosures of the Consolidated Entity.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement
These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the Consolidated Entity.

AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the Consolidated Entity.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities
The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 July 2013 will increase the disclosures by the Consolidated Entity.

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities
The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of "currently has a legally enforceable right of set-off"; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the Consolidated Entity.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle
The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of comprehensive information requirements when an entity provides a third balance sheet in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; AASB 132 'Financial Instruments: Presentation' Clarification of the tax effect of distributions to holders of an equity instrument is recognised in the income statement; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities. The adoption of the amendments from 1 July 2013 will not have a material impact on the Consolidated Entity.

Note 2. 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 within the next financial year are discussed below.

Share-based payment transactions

The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

Estimation of useful lives of assets

The Consolidated Entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. 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.

Goodwill and other indefinite life intangible assets

The Consolidated Entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Consolidated Entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The Consolidated Entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Consolidated Entity recognises liabilities for anticipated tax audit issues based on the Consolidated Entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Consolidated Entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Long service leave provision

As discussed in note 1, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Consolidated Entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 3. Restatement of comparatives

Finalisation of prior year business combination

The values identified in relation to the data centre acquisition of E3 Networks in the prior year (refer Note 40) have now been finalised and therefore the 30 June 2011 comparatives have been adjusted in accordance with AASB 3 'Business Combinations'. The effect of the change is to reflect receivables of $527,047 from successful warranty claims which has resulted in a reduction of the purchase price and net reduction in goodwill. In addition, Vocus has established a warranty provision of $295,850. There was no effect on profit or loss.

The values identified in relation to the acquisition of Perth International Exchange Pty Ltd and 100% of the units in the Perth IX Trust (trading as Perth IX) in the prior year (refer Note 40) have now been finalised and therefore the 30 June 2011 comparatives have been adjusted in accordance with AASB 3 'Business Combinations'. The effect of the change is to reflect the deferred tax adjustment on the business combination which resulted in the fair value of deferred tax liabilities increasing by $204,744 and therefore an increase in goodwill of the same amount. There was no effect on profit or loss.

Statement of comprehensive income

As there were no adjustments made that affected profit or loss at 30 June 2011, the Consolidated Entity has not shown the 30 June 2011 statement of comprehensive income.

Statement of financial position at the beginning of the earliest comparative period

When there is a restatement of comparatives, it is mandatory to provide a third statement of financial position at the beginning of the earliest comparative period, being 1 July 2010. However, as there were no adjustments made as at 1 July 2010, the Consolidated Entity has elected not to show the 1 July 2010 statement of financial position.

Statement of financial position at the end of the earliest comparative period

	Consolidated		
Extract	2011 $ Reported	$ Adjustment	2011 $ Restated
Assets			
Current assets			
Trade and other receivables	5,523,367	527,047	6,050,414
Total current assets	13,885,797	527,047	14,412,844
Non-current assets			
Intangibles	40,011,547	(26,453)	39,985,094
Total non-current assets	55,218,939	(26,453)	55,192,486
Total assets	69,104,736	500,594	69,605,330
Liabilities			
Current liabilities			
Provisions	365,549	295,850	661,399
Total current liabilities	15,033,610	295,850	15,329,460
Non-current liabilities			
Deferred tax	1,424,509	204,744	1,629,253
Total non-current liabilities	20,319,549	204,744	20,524,293
Total liabilities	35,353,159	500,594	35,853,753
Net assets	33,751,577	–	33,751,577
Equity			
Total equity	33,751,577	–	33,751,577

Notes to the Financial Statements continued

Note 4. Operating segments

Vocus Communications Limited is operating under one segment, however, the breakdown of revenue has been disclosed geographically and by product set.

Major customers

During the year ended 30 June 2012 approximately 16.6% (2011: 15.38%) of the Consolidated Entity's external revenue was derived from sales to one customer (2011: one customer).

Revenue by product set

	Consolidated 2012 $	Consolidated 2011 $
Internet	20,488,553	16,795,443
Data Centre	9,356,080	3,129,959
Voice	9,841,919	8,990,589
Fibre and ethernet	5,391,667	1,789,272
	45,078,219	30,705,263

Revenue by geographical area

	Consolidated 2012 $	Consolidated 2011 $
Australia	31,147,487	21,009,460
New Zealand	12,567,294	8,255,355
United States	1,363,438	1,440,448
	45,078,219	30,705,263

Note 5. Revenue

	Consolidated 2012 $	Consolidated 2011 $
Sales revenue		
Rendering of services	45,078,219	30,705,263
Other revenue		
Interest	206,853	274,040
Revenue	45,285,072	30,979,303

Note 6. Other gains and losses

	Consolidated 2012 $	Consolidated 2011 $
Net foreign currency gains/(losses)	(951,489)	3,666,724
Other gains	500,000	–
Other gains and losses	(451,489)	3,666,724

Note 7. Expenses

	Consolidated 2012 $	Consolidated 2011 $
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	263,020	73,705
Network equipment	1,646,836	831,982
Total depreciation	1,909,856	905,687
Amortisation		
IRU capacity	2,780,072	1,991,153
Software	2,484	–
Customer contracts	514,882	64,910
Total amortisation	3,297,438	2,056,063
Total depreciation and amortisation	5,207,294	2,961,750
Finance costs		
Interest and finance charges paid/payable	706,835	299,331
Rental expense relating to operating leases		
Minimum lease payments	1,085,847	707,542
Employee benefits expense		
Defined contribution superannuation expense	430,192	232,202
Share-based payment expense	355,362	138,176
Other employee benefits expense	6,967,379	3,746,882
Total employee benefits expense	7,752,933	4,117,260

Note 8. Income tax expense

	Consolidated 2012 $	Consolidated 2011 $
Income tax expense		
Current tax	2,083,479	1,712,302
Deferred tax – origination and reversal of temporary differences	50,379	454,844
Adjustment recognised for prior periods	(101,337)	(59,040)
Aggregate income tax expense	2,032,521	2,108,106
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (note 15)	(197,533)	(452,999)
Increase in deferred tax liabilities (note 25)	247,912	907,843
Deferred tax – origination and reversal of temporary differences	50,379	454,844
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	9,807,603	10,223,411
Tax at the statutory tax rate of 30%	2,942,281	3,067,023
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Amortisation of intangibles	233,773	–
Entertainment expenses	34,859	17,363
Share-based payments	106,609	41,453
Rights to Future Income (on Customer Contracts)	(631,440)	(905,064)
Reduction in acquisition purchase price	(150,000)	–
Donations	681	–
	2,536,763	2,220,775
Adjustment recognised for prior periods	(101,337)	(59,040)
Tax losses deducted	(65,824)	(53,629)
Movement in timing differences	(337,081)	–
Income tax expense	2,032,521	2,108,106
Amounts charged/(credited) directly to equity		
Deferred tax assets (note 15)	–	(145,352)

Deferred tax assets not recognised

Deferred tax assets not recognised during the financial year amount to $nil (2011: $1,199,736).

Note 9. Current assets – cash and cash equivalents

	Consolidated 2012 $	Consolidated 2011 $
Cash at bank	1,343,737	1,472,622
Cash on deposit	1,043,507	6,160,793
	2,387,244	7,633,415

Note 10. Current assets – trade and other receivables

	Consolidated 2012 $	Consolidated 2011 $
Trade receivables	7,755,457	5,479,986
Less: Provision for impairment of receivables	(582,274)	(399,736)
	7,173,183	5,080,250
Other receivables	145,168	527,047
Accrued revenue	413,386	443,117
	7,731,737	6,050,414

Impairment of receivables

The Consolidated Entity has recognised a loss of $335,892 (2011: $360,443) in profit or loss in respect of impairment of receivables for the year ended 30 June 2012.

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

	Consolidated 2012 $	Consolidated 2011 $
1 to 3 months overdue	349,066	60,969
3 to 6 months overdue	233,208	338,767
	582,274	399,736

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

	Consolidated 2012 $	Consolidated 2011 $
Opening balance	399,736	53,000
Additional provisions recognised	4,564	345,200
Additions through business combinations (note 40)	177,974	1,536
Closing balance	582,274	399,736

Notes to the Financial Statements continued

Note 10. Current assets – trade and other receivables continued

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $444,209 as at 30 June 2012 ($45,029 as at 30 June 2011).

The Consolidated Entity did not consider a credit risk on the aggregate balances after reviewing credit terms of customers based on recent collection practices.

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

	Consolidated 2012 $	Consolidated 2011 $
1 to 3 months overdue	264,799	45,029
Over 3 months overdue	179,410	–
	444,209	45,029

Note 11. Current assets – other financial assets

	Consolidated 2012 $	Consolidated 2011 $
Term deposits	472,201	483,500

The term deposits accrue interest ranging from 3.3% to 5.5% (2011: 2.5% to 8.3%) per annum.

Note 12. Current assets – other

	Consolidated 2012 $	Consolidated 2011 $
Prepayments	686,048	245,515

Note 13. Non-current assets – property, plant and equipment

	Consolidated 2012 $	Consolidated 2011 $
Plant and equipment – at cost	3,103,324	1,018,406
Less: Accumulated depreciation	(436,358)	(184,409)
	2,666,966	833,997
Network equipment – at cost	29,054,482	14,169,517
Less: Accumulated depreciation	(2,670,444)	(1,023,608)
	26,384,038	13,145,909
	29,051,004	13,979,906

Reconciliations

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

	Plant and equipment $	Network equipment $	Total $
Consolidated			
Balance at 1 July 2010	628,956	1,460,761	2,089,717
Additions	173,271	3,465,609	3,638,880
Additions through business combinations (note 40)	105,475	9,051,521	9,156,996
Depreciation expense	(73,705)	(831,982)	(905,687)
Balance at 30 June 2011	833,997	13,145,909	13,979,906
Additions	–	11,799,769	11,799,769
Additions through business combinations (note 40)	2,145,409	3,085,196	5,230,605
Disposals	(49,420)	–	(49,420)
Depreciation expense	(263,020)	(1,646,836)	(1,909,856)
Balance at 30 June 2012	2,666,966	26,384,038	29,051,004

Property, plant and equipment secured under finance leases

Refer to note 37 for further information on property, plant and equipment secured under finance leases.

Note 14. Non-current assets – intangibles

	Consolidated 2012 $	Consolidated 2011 $
Goodwill – at cost	10,507,153	8,227,651
	10,507,153	8,227,651
IRU capacity – at cost	45,570,402	34,832,241
Less: Accumulated amortisation	(6,472,440)	(3,692,368)
	39,097,962	31,139,873
Software – at cost	472,466	–
Less: Accumulated amortisation	(2,484)	–
	469,982	–
Customer contracts – at cost	1,207,204	682,480
Less: Accumulated amortisation	(579,792)	(64,910)
	627,412	617,570
Other intangibles – at cost	161,967	–
	161,967	–
	50,864,476	39,985,094

Notes to the Financial Statements continued

Note 14. 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:

	Goodwill $	IRU capacity $	Software $	Customer contracts $	Other intangibles $	Total $
Consolidated						
Balance at 1 July 2010	870,958	18,982,443	–	–	–	19,853,401
Additions	–	14,148,583	–	–	–	14,148,583
Additions through business combinations (note 40)	7,356,693	–	–	682,480	–	8,039,173
Amortisation expense	–	(1,991,153)	–	(64,910)	–	(2,056,063)
Balance at 30 June 2011	8,227,651	31,139,873	–	617,570	–	39,985,094
Additions	–	10,738,161	364,697	–	156,637	11,259,495
Additions through business combinations (note 40)	2,279,502	–	110,034	524,724	5,330	2,919,590
Disposals	–	–	(2,265)	–	–	(2,265)
Amortisation expense	–	(2,780,072)	(2,484)	(514,882)	–	(3,297,438)
Balance at 30 June 2012	10,507,153	39,097,962	469,982	627,412	161,967	50,864,476

IRU Capacity

Vocus Connect Pty Limited entered into a Capacity Use Agreement, whereby capacity is supplied to the Consolidated Entity over a defined usage period in return for a non-refundable amount being paid over a defined payment term. The indefeasible right to use the asset has been recorded as an intangible asset. The intangible asset is being amortised over the usage period on a straight line basis to November 2025.

Impairment testing

Based on tests performed as described below and for the financial year ended 30 June 2012, no impairment of intangibles is present.

Vocus utilises a common infrastructure to manage, procure, sell, provision and operate its delivery of telecommunication products including internet, voice, data centre and cloud and fibre and ethernet based products. On this basis it examines intangibles on a consolidated basis.

An impairment loss, if any, is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is determined on a Fair Value Less Cost to Sell ('FVLCS') methodology, whereby impairment is assessed on the implied enterprise value/earnings before interest, taxes, depreciation and amortisation ('EV/EBTIDA') multiple of the Consolidated Entity. Any impairment is recognized as an expense in profit or loss in the reporting period in which the write-down occurs. In applying its FVLCS approach, the Consolidated Entity will allow for a 5% cost of disposal as an underlying assumption when deriving its enterprise value.

Vocus' testing has indicated that its implied multiple on this basis is comparable or below other valuations in the marketplace for similar companies, therefore it has not identified any indications that the intangibles is impaired.

Note 15. Non-current assets – deferred tax

	Consolidated 2012 $	Consolidated 2011 $
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	37,719	–
Impairment of receivables	170,019	119,460
Property, plant and equipment	153,824	16,958
Employee benefits	–	117,004
Accrued expenses	275,605	332,646
Unrealised foreign exchange loss	6,912	100,789
Blackhole expenditure	299,920	251,025
Rights to future income	336,768	–
	1,280,767	937,882
Amounts recognised in equity:		
Transaction costs on share issue	–	145,352
		145,352
Deferred tax asset	1,280,767	1,083,234
Movements:		
Opening balance	1,083,234	484,883
Credited to profit or loss (note 8)	197,533	452,999
Credited to equity	–	145,352
Closing balance	1,280,767	1,083,234

Note 16. Non-current assets – other

	Consolidated 2012 $	Consolidated 2011 $
Deposits	155,552	144,252

Note 17. Current liabilities – trade and other payables

	Consolidated 2012 $	Consolidated 2011 $
Trade payables	6,664,603	4,120,936
Accruals	1,029,936	647,714
Goods and services tax payable	81,701	109,219
Other payables	891,329	384,295
	8,667,569	5,262,164

Refer to note 33 for further information on financial instruments.

Notes to the Financial Statements continued

Note 18. Current liabilities – borrowings

	Consolidated 2012 $	Consolidated 2011 $
Bank loans	1,204,772	–
IRU liability	8,415,874	5,290,536
Lease liability	865,324	758,276
	10,485,970	6,048,812

Refer to note 23 for further information on assets pledged as security and financing arrangements and note 33 for further information on financial instruments.

Note 19. Current liabilities – derivative financial instruments

	Consolidated 2012 $	Consolidated 2011 $
Forward foreign exchange contracts – cash flow hedges	408,597	274,538

Refer to note 33 for further information on financial instruments.

Note 20. Current liabilities – income tax

	Consolidated 2012 $	Consolidated 2011 $
Provision for income tax	1,453,295	2,709,733

Note 21. Current liabilities – provisions

	Consolidated 2012 $	Consolidated 2011 $
Employee benefits	388,100	174,549
Deferred consideration	1,008,530	–
Warranties	–	295,850
Make good	–	191,000
	1,396,630	661,399

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Deferred consideration $	Warranties $	Make good $
Consolidated – 2012			
Carrying amount at the start of the year	–	295,850	191,000
Additional provisions recognised	283,530		–
Amounts transferred from non-current	725,000	–	–
Amounts used	–	(295,850)	(191,000)
Carrying amount at the end of the year	1,008,530	–	–

Note 22. Current liabilities – other

	Consolidated 2012 $	Consolidated 2011 $
Deposits held	120,950	135,814
Revenue received in advance	–	237,000
	120,950	372,814

Note 23. Non-current liabilities – borrowings

	Consolidated 2012 $	Consolidated 2011 $
Bank loans	6,063,899	–
IRU liability	18,040,912	15,978,451
Lease liability	933,210	656,662
	25,038,021	16,635,113

Refer to note 33 for further information on financial instruments.

Refer to note 37 for further details on IRU commitments relating to the IRU liability.

Notes to the Financial Statements continued

Note 23. Non-current liabilities – borrowings continued

Total secured liabilities

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

	Consolidated 2012 $	2011 $
Bank loans	7,268,671	–
Lease liability	1,798,534	1,414,938
	9,067,205	1,414,938

Assets pledged as security

The bank loans are secured by first mortgages over the Consolidated Entity's assets and undertakings.

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

Financing arrangements

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

	Consolidated 2012 $	2011 $
Total facilities		
Bank loans	9,797,223	7,100,000
Used at the reporting date		
Bank loans	7,268,671	–
Unused at the reporting date		
Bank loans	2,528,552	7,100,000

Note 24. Non-current liabilities – derivative financial instruments

	Consolidated 2012 $	2011 $
Forward foreign exchange contracts – cash flow hedges	450,177	951,976

Refer to note 33 for further information on financial instruments.

Note 25. Non-current liabilities – deferred tax

	Consolidated 2012 $	2011 $
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	676,479	6,377
Development costs	107,221	–
Unbilled revenue	124,016	88,904
Unrealised foreign exchange gain	607,288	1,329,228
Intangibles	362,161	204,744
Deferred tax liability	1,877,165	1,629,253
Movements:		
Opening balance	1,629,253	721,410
Charged to profit or loss (note 8)	247,912	907,843
Closing balance	1,877,165	1,629,253

Note 26. Non-current liabilities – provisions

	Consolidated 2012 $	2011 $
Deferred consideration	–	725,000
Make good	675,030	557,500
	675,030	1,282,500

Deferred consideration

The provision represents the obligation to pay contingent consideration following the acquisition of a business or assets. It is measured at the present value of the estimated liability.

Make good

The provision represents the present value of the estimated costs to make good the premises leased by the Consolidated Entity at the end of the respective lease terms.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Deferred consideration $	Make good $
Consolidated – 2012		
Carrying amount at the start of the year	725,000	557,500
Additional provisions recognised	–	117,530
Amounts transferred to current	(725,000)	–
Carrying amount at the end of the year	–	675,030

Note 27. Non-current liabilities – other

	Consolidated 2012 $	Consolidated 2011 $
Lease incentive and rent straight lining	54,406	25,451

Note 28. Equity – contributed equity

	Consolidated 2012 Shares	Consolidated 2011 Shares	Consolidated 2012 $	Consolidated 2011 $
Ordinary shares – fully paid	61,027,675	60,369,344	22,588,928	22,197,753

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$
Balance	1 July 2010	51,069,053		6,266,357
Issue of shares on exercise of options	November 2010	400,001	$0.50	200,000
Issue of shares	November 2010	200,000	$0.50	100,000
Issue of shares	November 2010	1,176,471	$0.85	1,000,000
Issue of shares	March 2011	6,573,887	$2.00	13,147,774
Issue of shares	April 2011	949,932	$2.00	1,899,864
Less: transaction costs arising on shares issued, net of tax				(416,242)
Balance	30 June 2011	60,369,344		22,197,753
Issue of shares on exercise of ESOP	July 2011	399,999	$0.50	200,000
Issue of shares on exercise of ESOP	October 2011	174,999	$0.50	87,500
Issue of shares on exercise of ESOP	December 2011	38,333	$0.50	19,167
Issue of shares on exercise of ESOP	February 2012	20,000	$0.50	10,000
Issue of shares on exercise of ESOP	March 2012	25,000	$0.50	12,500
Transfer of contributed capital to contributed equity				62,008
Balance	30 June 2012	61,027,675		22,588,928

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.

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

Capital risk management

The Consolidated Entity's 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.

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

The Consolidated Entity 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 Consolidated Entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 30 June 2011 Annual Report.

Note 29. Equity – contributed capital

	Consolidated 2012 $	Consolidated 2011 $
Contributed capital	–	62,008

Contributed equity represents the difference between the fair value and face value of non-interest bearing loans provided to the Consolidated Entity in 2009 by related parties. This has been transferred to contributed capital in the financial year ended 30 June 2012.

Note 30. Equity – reserves

	Consolidated 2012 $	Consolidated 2011 $
Foreign currency reserve	9,892	–
Share-based payments reserve	610,506	255,144
Hedge reserve	(517,137)	(297,276)
	103,261	(42,132)

	Foreign currency $	Share-based payments $	Hedge reserve $	Total $
Consolidated				
Balance at 1 July 2010	–	116,968	–	116,968
Recognition of share-based payments	–	138,176	–	138,176
Net movement on hedging transactions	–	–	(297,276)	(297,276)
Balance at 30 June 2011	–	255,144	(297,276)	(42,132)
Foreign currency translation	9,892	–	–	9,892
Recognition of share-based payments	–	355,362	–	355,362
Net movement on hedging transactions	–	–	(219,861)	(219,861)
Balance at 30 June 2012	9,892	610,506	(517,137)	103,261

Foreign currency reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

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.

Note 31. Equity – retained profits

	Consolidated	
	2012 $	2011 $
Retained profits at the beginning of the financial year	11,533,948	3,418,643
Profit after income tax expense for the year	7,775,082	8,115,305
Retained profits at the end of the financial year	19,309,030	11,533,948

Note 32. Equity – dividends

Dividends

There were no dividends paid or declared during the current or previous financial year by the Parent Entity.

Franking credits

	Consolidated	
	2012 $	2011 $
Franking credits available for subsequent financial years based on a tax rate of 30%	4,078,812	2,789,114

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

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

Note 33. Financial instruments

Financial risk management objectives

The Consolidated Entity's activities expose it to a variety of financial risks: market risk including foreign currency risk, price risk and interest rate risk, credit risk and liquidity risk.

The Company has a Risk Management and Audit Committee that has general oversight of risk management processes at the Company inclusive of those financial risks identified here. The Consolidated Entity has a formal risk management policy and risks identified are monitored by executive management on a regular basis to minimise the potential adverse effects these risks may have on the financial performance of the Consolidated Entity.

The Consolidated Entity's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Consolidated Entity where material. The Consolidated Entity may use derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures or cash flow hedges where appropriate. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Consolidated Entity uses different methods to measure different types of risk to which it 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 Consolidated Entity's financial assets and liabilities comprise cash and cash equivalents, receivables, payables, IRU contractual payment obligations, bank loans and finance leases.

Market risk

Foreign currency risk

The Consolidated Entity undertakes certain transactions denominated in foreign currency and are exposed to foreign currency risk through foreign exchange rate fluctuations.

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

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

	Sell Australian dollars		Average exchange rates	
	2012 $	2011 $	2012	2011
Buy US dollars				
Maturity:				
0 – 6 months	3,636,667	2,404,419	0.9468	0.9657
6 – 12 months	2,523,360	2,444,820	0.9202	0.9498
12 – 24 months	2,425,684	5,053,248	0.8410	0.9203
Over 24 months	1,212,842	3,638,526	0.8410	0.8410

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

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

	Assets		Liabilities	
	2012 $	2011 $	2012 $	2011 $
Consolidated				
US dollars	195,639	34,445	26,630,919	22,593,989
New Zealand dollars	1,598,479	1,792,589	2,540,706	25,271
	1,794,118	1,827,034	29,171,625	22,619,260

The Consolidated Entity has managed its exposure to the currency risk associated with the United States Dollar and New Zealand Dollar by active monitoring of the currency risk from period to period due to the volatile nature of that currency. It is prepared to enter into foreign exchange contracts and cash flow hedge accounting to protect cashflows over a defined period under its foreign exchange risk management policy.

As at 30 June 2012, future movements in the USD/AUD currency of $0.01 cents (2011: $0.01 cents) will have an approximate $163,000 (2011: $64,000) increase or decrease to profit and loss and $163,000 (2011: $64,000) increase or decrease in cash flow.

As at 30 June 2012, future movements in the NZD/AUD currency of $0.01 cents (2011: $0.01 cents) will have an approximate $120,000 (2011: $80,000) increase or decrease to profit and loss and $120,000 (2011: $80,000) increase or decrease in cash flow.

Price risk

Competitive pricing of products and services the group will sell may fall negatively impacting future revenue, margin and profitability. The Consolidated Entity mitigates this risk by entering into long term customer agreements between 12 and 96 months at fixed prices.

Interest rate risk

The Consolidated Entity's main interest rate risk arises from term deposits, cash on deposit, bank loans and long-term borrowings. Term deposits, cash on deposit and borrowings issued at variable rates expose the Consolidated Entity to interest rate risk. Term deposits, cash on deposit and borrowings issued at fixed rates expose the Consolidated Entity to fair value interest rate risk.

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.

Credit risk

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

The Consolidated Entity attempts to deal with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Consolidated Entity uses such methods as obtaining agency credit information, confirming references and setting appropriate credit limits and where appropriate obtains guarantees and obtains security deposits 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.

Notes to the Financial Statements continued

Note 33. Financial instruments continued

Liquidity risk

Vigilant liquidity risk management requires the Consolidated Entity to maintain 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.

The Consolidated Entity manages liquidity risk 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.

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated 2012 $	Consolidated 2011 $
Bank loans	2,528,552	7,100,000

Remaining contractual maturities

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

	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Consolidated – 2012					
Non-derivatives					
Non-interest bearing					
Trade payables	6,664,603	–	–	–	6,664,603
Other payables	973,030	–	–	–	973,030
Deposits held	120,950	–	–	–	120,950
Interest-bearing – variable rate					
Bank loans	1,704,553	1,618,826	5,129,621	–	8,453,000
Interest-bearing – fixed					
Lease liability	901,230	988,536	–	–	1,889,766
IRU liability	8,826,607	8,038,631	10,811,845	–	27,677,083
Total non-derivatives	19,190,973	10,645,993	15,941,466	–	45,778,432
Derivatives					
Forward foreign exchange contracts net settled	408,597	315,894	134,283	–	858,774
Total derivatives	408,597	315,894	134,283	–	858,774

	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Consolidated – 2011					
Non-derivatives					
Non-interest bearing					
Trade payables	4,120,936	–	–	–	4,120,936
Other payables	493,514	–	–	–	493,514
Deposits held	135,814	–	–	–	135,814
Interest-bearing – fixed					
Lease liability	880,718	738,441	–	–	1,619,159
IRU liability	5,540,898	5,540,898	11,185,336	–	22,267,132
Total non-derivatives	11,171,880	6,279,339	11,185,336	–	28,636,555
Derivatives					
Forward foreign exchange contracts net settled	274,538	403,196	548,777	–	1,226,511
Total derivatives	274,538	403,196	548,777	–	1,226,511

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade 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 instruments.

Note 34. Key management personnel disclosures

Directors

The following persons were directors of Vocus Communications Limited during the financial year:

David Spence	Non-Executive Chairman
James Spenceley	Chief Executive Officer
Mark de Kock	Executive Director, Strategy
Jon Brett	Non-Executive Director
John Murphy	Non-Executive Director
Nicholas McNaughton	Non-Executive Director
Stephen Baxter	Non-Executive Director

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Consolidated Entity, directly or indirectly, during the financial year:

Richard Correll	Chief Financial Officer
Mark Simpson	Company Secretary and General Counsel

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Consolidated Entity is set out below:

	Consolidated 2012 $	Consolidated 2011 $
Short-term employee benefits	1,102,012	1,024,167
Post-employment benefits	81,224	93,582
Share-based payments	167,622	97,319
	1,350,858	1,215,068

Notes to the Financial Statements continued

Note 34. Key management personnel disclosures continued

Shareholding

The number of shares in the Parent Entity held during the financial year by each director and other members of key management personnel of the Consolidated Entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
2012					
Ordinary shares					
David Spence	268,682	–	126,667	–	395,349
James Spenceley	7,925,000	–	166,666	(141,666)	7,950,000
Mark de Kock	269,293	–	203,666	–	472,959
Jon Brett	2,794,695	–	–	(30,000)	2,764,695
John Murphy	451,386	–	–	–	451,386
Nicholas McNaughton	627,598	–	–	–	627,598
Stephen Baxter	252,013	–	–	–	252,013
Richard Correll	37,889	–	116,666	(33,000)	121,555
Mark Simpson	22,015	–	50,000	–	72,015
	12,648,571	–	663,665	(204,666)	13,107,570

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
2011					
Ordinary shares					
David Spence	–	–	268,682	–	268,682
James Spenceley	8,698,290	–	166,667	(939,957)	7,925,000
Mark de Kock	400,636	–	166,667	(298,010)	269,293
Jon Brett	2,794,695	–	–	–	2,794,695
John Murphy	449,371	–	2,015	–	451,386
Nicholas McNaughton	727,598	–	–	(100,000)	627,598
Stephen Baxter	–	–	252,013	–	252,013
Richard Correll	37,889	–	–	–	37,889
Mark Simpson	–	–	42,015	(20,000)	22,015
Paul McConnell *	10,683,873	–	–	(10,683,873)	–
Paul Brooks *	1,863,888	–	–	(1,863,888)	–
	25,656,240	–	898,059	(13,905,728)	12,648,571

* No longer key management personnel, not necessarily disposal of shareholding.

Option holding

The number of options over ordinary shares in the Parent Entity held during the financial year by each director and other members of key management personnel of the Consolidated Entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2012					
Options over ordinary shares					
David Spence	133,333	–	(66,667)	–	66,666
Mark de Kock	333,333	166,666	(166,666)	–	333,333
James Spenceley	333,333	166,666	(166,666)	–	333,333
Richard Correll	350,000	150,000	(116,666)	–	383,334
Mark Simpson	150,000	100,000	(50,000)	–	200,000
	1,299,999	583,332	(566,665)	–	1,316,666

	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
2012			
Options over ordinary shares			
David Spence	66,667	–	66,667
Mark de Kock	166,666	–	166,666
James Spenceley	166,666	–	166,666
Richard Correll	116,666	–	116,666
Mark Simpson	50,000	–	50,000
	566,665	–	566,665

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2011					
Options over ordinary shares					
David Spence	–	200,000	(66,667)	–	133,333
Mark de Kock	500,000	–	(166,667)	–	333,333
James Spenceley	500,000	–	(166,667)	–	333,333
Richard Correll	–	350,000	–	–	350,000
Mark Simpson	–	150,000	–	–	150,000
	1,000,000	700,000	(400,001)	–	1,299,999

	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
2011			
Options over ordinary shares			
David Spence	66,667	–	66,667
Mark de Kock	166,667	–	166,667
James Spenceley	166,667	–	166,667
	400,001	–	400,001

Related party transactions

Related party transactions are set out in note 38.

Note 35. Remuneration of auditors

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

	Consolidated 2012 $	2011 $
Audit services – Deloitte Touche Tohmatsu		
Audit or review of the financial statements	128,995	135,683
Other services – Deloitte Touche Tohmatsu		
Tax compliance services	12,800	37,450
Other non-audit services	250,311	266,168
	263,111	303,618
	392,106	439,301

Note 36. Contingent liabilities

The Consolidated Entity has contingent liabilities for performance contracts as follows:

	Consolidated 2012 $	2011 $
Bank guarantees	50,000	50,000

Note 37. Commitments

	Consolidated 2012 $	2011 $
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,041,553	1,031,869
One to five years	5,459,336	4,377,883
More than five years	1,439,907	5,475,661
	8,940,796	10,885,413
Lease commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	901,230	880,718
One to five years	988,536	738,441
Total commitment	1,889,766	1,619,159
Less: Future finance charges	(91,232)	(204,221)
Net commitment recognised as liabilities	1,798,534	1,414,938
Representing:		
Lease liability – current (note 18)	865,324	758,276
Lease liability – non-current (note 23)	933,210	656,662
	1,798,534	1,414,938

	Consolidated 2012 $	2011 $
IRU commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	8,826,607	5,540,897
One to five years	18,850,476	16,726,274
Total commitment	27,677,083	22,267,171
Less: Future finance charges	(1,220,297)	(998,184)
Net commitment recognised as liabilities	26,456,786	21,268,987
Representing:		
IRU liability – current (note 18)	8,415,874	5,290,536
IRU liability – non-current (note 23)	18,040,912	15,978,451
	26,456,786	21,268,987
Network equipment (related to finance lease commitments)		
Finance lease commitments includes contracted amounts for various network plant and equipment at the following values under finance leases expiring within one to five years. Under the terms of the leases, the Consolidated Entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.		
Network equipment – at cost	3,287,954	2,433,635
Less: Accumulated depreciation	(759,522)	(491,289)
Written down value	2,528,432	1,942,346
IRU capacity (related to IRU commitments)		
IRU commitments includes contracted amounts for the IRU intangible assets at the following values:		
IRU capacity – at cost	45,570,402	34,832,241
Less: Accumulated amortisation	(6,472,440)	(3,692,368)
Written down value	39,097,962	31,139,873

Note 38. Related party transactions

Parent entity

Vocus Communications Limited is the Parent Entity.

Subsidiaries

Interests in subsidiaries are set out in note 41.

Key management personnel

Disclosures relating to key management personnel are set out in note 34 and the remuneration report in the directors' report.

Transactions with related parties

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

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Notes to the Financial Statements continued

Note 39. Parent entity information

Set out below is the supplementary information about the Parent Entity.

Statement of comprehensive income

	Parent 2012 $	Parent 2011 $
Loss after income tax	(219,163)	(371,324)
Total comprehensive income	(219,163)	(371,324)

Statement of financial position

	Parent 2012 $	Parent 2011 $
Total current assets	1,274,789	4,976,021
Total assets	35,485,084	29,191,920
Total current liabilities	3,393,597	3,629,697
Total liabilities	9,457,496	3,629,697
Equity		
Contributed equity	26,662,852	26,333,686
Share-based payments reserve	493,538	138,176
Options reserve	103,359	103,359
Accumulated losses	(1,232,161)	(1,012,998)
Total equity	26,027,588	25,562,223

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 42) under which it guarantees the debts of its subsidiaries as at 30 June 2012 and 30 June 2011.

Contingent liabilities

The Parent Entity had no contingent liabilities as at 30 June 2012 and 30 June 2011.

Capital commitments – Property, plant and equipment

The Parent Entity had no capital commitments for property, plant and equipment as at 30 June 2012 and 30 June 2011.

Significant accounting policies

The accounting policies of the Parent Entity are consistent with those of the Consolidated Entity, as disclosed in note 1.

Note 40. Business combinations

Maxnet Limited and its subsidiary

On 19 June 2012, Vocus New Zealand Limited, a subsidiary of Vocus Group Limited, acquired the New Zealand based data centre operator and cloud provider Maxnet Limited and its subsidiary Data Lock Limited for a total consideration transferred of $6,137,220. It provides the Consolidated Entity with one of New Zealand's leading data centres but also one of the most established providers of Cloud services, marking Vocus' next step into the high growth Cloud market. The goodwill of $2,279,502 represents the residual value of the purchase price over the fair value of identifiable tangible and intangible assets shown below, and is the premium paid for synergies expected to be achieved. The acquired business did not contribute material revenue or profit for the Consolidated Entity's financial year. Due to significant integration changes in the Consolidated Entity's common service infrastructure, it is not practical to provide a meaningful revenue and profit for the entire financial year. The values identified in relation to the acquisition are provisional as at the reporting date 30 June 2012.

Details of the acquisition are as follows:

	Acquiree's carrying amount $	Fair value $
Cash equivalents	10,992	10,992
Trade receivables	1,722,047	1,722,047
Less: provision for doubtful debts	(177,974)	(177,974)
Other receivables	179,048	179,048
Prepayments	184,525	184,525
Plant and equipment	2,449,737	2,145,409
Network equipment	1,741,220	3,085,196
Customer contracts	–	524,724
Software	87,605	110,034
Other intangible assets	403,206	5,330
Trade payables	(864,686)	(864,686)
Other payables	(267,084)	(267,084)
Provision for income tax	(39,165)	(39,165)
Deferred tax liability	(140,337)	(598,619)
Employee benefits	(213,851)	(213,851)
Accrued expenses	(525,176)	(561,940)
Revenue received in advance	(184,055)	(184,055)
Lease liability	(617,828)	(617,828)
Other liabilities	(584,385)	(584,385)
Net assets acquired	3,163,839	3,857,718
Goodwill		2,279,502
Acquisition-date fair value of the total consideration transferred		6,137,220
Representing:		
Cash paid or payable to vendor		5,351,300
Contingent consideration		785,920
		6,137,220
Acquisition costs expensed to profit or loss		131,214

Note 40. Business combinations continued

	Consolidated 2012 $	Consolidated 2011 $
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	6,137,220	–
Less: cash equivalents	(10,992)	–
Less: contingent consideration	(785,920)	–
Net cash used	5,340,308	–

E3 Networks (prior period)

On 12 November 2010, Vocus Communications Limited acquired the Sydney and Melbourne data centre businesses from E3 Networks for a total consideration transferred of $5,917,000. It provides Vocus with a platform to further expand into data centres and attract new customers for its wholesale internet business, its new peering product and other business opportunities. The goodwill of $1,472,470 (previously stated at $1,703,667) represents the residual value of the purchase price over the fair value of identifiable tangible and intangible assets shown below. The values identified in relation to the acquisition of E3 Networks data centre businesses are final as at 30 June 2012.

Details of the acquisition are as follows:

	Acquiree's carrying amount $	Fair value $
Cash equivalents	22,000	22,000
Other receivables	–	527,047
Network equipment	4,152,741	4,152,741
Customer contracts	–	338,592
Lease make good provision	–	(300,000)
Warranty provision	–	(295,850)
Net assets acquired	4,174,741	4,444,530
Goodwill		1,472,470
Acquisition-date fair value of the total consideration transferred		5,917,000
Representing:		
Cash paid or payable to vendor		5,917,000
Acquisition costs expensed to profit or loss		483,255

	Consolidated 2012 $	Consolidated 2011 $
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	–	5,917,000
Less: cash equivalents	–	(22,000)
Net cash used	–	5,895,000

On finalisation of the business combination accounting, other receivables increased by $527,047, warranty provision increased by $295,850 and goodwill decreased by $231,197. (Refer to note 3 for details of the restatement).

Perth International Exchange Pty Ltd and 100% of the units in the Perth IX Trust (trading as Perth IX) (prior period)

On 2 May 2011, Vocus Communications Limited acquired 100% of the ordinary shares of Perth International Exchange Pty Ltd and 100% of the units in the Perth IX Trust (trading as Perth IX) for the total consideration transferred of $7,200,000. The Trust contains the business and operations of the Perth IX data centre, and has allowed Vocus to continue to build on its national network and presence as a wholesale telecommunications provider. The goodwill of $5,251,478 (previously stated at $5,046,734) represents the residual value of the purchase price over the fair value of identifiable tangible and intangible assets shown below. The acquired business contributed revenues of $710,759 to the Consolidated Entity for the period from 2 May 2011 to 30 June 2011. Due to significant integration changes in the Consolidated Entity's common service infrastructure, it is not practical to provide a meaningful revenue and profit for the entire previous financial year. The values identified in relation to the acquisition are final as at the reporting date 30 June 2012.

Details of the acquisition are as follows:

	Acquiree's carrying amount $	Fair value $
Cash equivalents	156,188	156,188
Trade receivables	487,874	487,874
Prepayments	20,601	20,601
Plant and equipment	38,219	38,219
Network equipment	1,648,781	1,648,781
Customer contracts	–	343,888
Other payables	(292,285)	(292,285)
Deferred tax liability	–	(204,744)
Lease make good provision	–	(250,000)
Net assets acquired	2,059,378	1,948,522
Goodwill		5,251,478
Acquisition-date fair value of the total consideration transferred		7,200,000
Representing:		
Cash paid or payable to vendor inclusive of working capital adjustments		6,475,000
Deferred consideration		725,000
		7,200,000
Acquisition costs expensed to profit or loss		15,789

	Consolidated 2012 $	Consolidated 2011 $
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	–	7,200,000
Less: cash equivalents	–	(156,188)
Less: deferred consideration	–	(725,000)
Net cash used	–	6,318,812

Notes to the Financial Statements continued

Note 40. Business combinations continued

On finalisation of the business combination accounting, deferred tax liabilities increased by $204,744 and goodwill increased by $204,744. (Refer to note 3 for details of the restatement).

Digital River Networks Pty Ltd (prior period)

On 6 May 2011, Vocus Communications acquired the fibre network assets from Digital River Networks Pty Ltd. This acquisition sets the groundwork for Vocus to provide high speed connectivity to its customers, compliments its international internet and growing data centre network and leverage the growing demand for data services. The goodwill of $632,745 represents the residual value of the purchase price over the fair value of identifiable tangible and intangible assets shown below. The acquired business contributed revenues of $315,035 to the Consolidated Entity for the period from 6 May 2011 to 30 June 2011. Due to significant integration changes in the Consolidated Entity's common service infrastructure, it is not practical to provide a meaningful revenue and profit for the entire previous financial year. The values identified in relation to the acquisition are final as at the reporting date 30 June 2012.

Details of the acquisition are as follows:

	Acquiree's carrying amount $	Fair value $
Plant and equipment	67,256	67,256
Network equipment	3,249,999	3,249,999
Net assets acquired	3,317,255	3,317,255
Goodwill		632,745
Acquisition-date fair value of the total consideration transferred		3,950,000
Representing:		
Cash paid or payable to vendor		3,950,000
Acquisition costs expensed to profit or loss		203,630

	Consolidated	
	2012 $	2011 $
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	–	3,950,000
Net cash used	–	3,950,000

Note 41. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

		Equity holding	
Name of entity	Country of incorporation	2012 %	2011 %
Vocus Group 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 Ltd and 100% of the units in the Perth IX Trust (trading as Perth IX)	Australia	100.00	100.00
Vocus New Zealand Limited*	New Zealand	100.00	–
Maxnet Limited**	New Zealand	100.00	–
Data Lock Limited**	New Zealand	100.00	–

* Company was incorporated during the year and is a subsidiary of Vocus Group Limited

** Subsidiary of Vocus New Zealand Limited

Note 42. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Vocus Communications Limited
Vocus Group Pty Limited
Vocus Pty Limited
Vocus Connect Pty Limited
Vocus Data Centres Pty Limited
Vocus Fibre Pty Limited
Perth International Exchange Pty Ltd and 100% of the units in the Perth IX Trust (trading as Perth IX)
Vocus New Zealand Limited
Maxnet Limited
Data Lock Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies 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 Communications Limited, they also represent the 'Extended Closed Group'.

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

Note 43. Events after the reporting period

The Company raised approximately $21.7 million before expenses to fund the Company's growth strategy and provide working capital through the placement and issue of 13,331,717 new Vocus Communications Limited shares.

No other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Note 44. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2012 $	2011 $
Profit after income tax expense for the year	7,775,082	8,115,305
Adjustments for:		
Depreciation and amortisation	5,207,294	2,961,750
Share-based payments	355,362	138,176
Non-cash other revenue	1,002,603	(3,117,967)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	12,066	(1,977,573)
Increase in deferred tax assets	(197,533)	(598,351)
Decrease in accrued revenue	29,731	260,555
Increase in prepayments	(256,008)	(109,880)
Increase in trade and other payables	1,891,413	1,489,951
Increase/(decrease) in derivative liabilities	(577,709)	929,238
Increase/(decrease) in provision for income tax	(795,603)	1,887,836
Increase/(decrease) in deferred tax liabilities	(350,707)	703,099
Increase/(decrease) in employee benefits	(300)	78,689
Increase/(decrease) in other provisions	(85,790)	916,000
Decrease in other operating liabilities	(1,589,247)	(266,786)
Net cash from operating activities	12,420,654	11,410,042

Note 45. Non-cash investing and financing activities

	Consolidated	
	2012 $	2011 $
Acquisition of intangible assets by means of IRU Capacity loan	10,738,161	14,148,583

Note 46. Earnings per share

	Consolidated	
	2012 $	2011 $
Profit after income tax attributable to the owners of Vocus Communications Limited	7,775,082	8,115,305
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	60,910,052	54,217,274
Adjustments for calculation of diluted earnings per share:		
Options	2,662,887	1,795,205
Weighted average number of ordinary shares used in calculating diluted earnings per share	63,572,939	56,012,479
	Cents	Cents
Basic earnings per share	12.76	14.97
Diluted earnings per share	12.23	14.49

Note 47. Share-based payments

An employee share option plan was established by the Consolidated Entity and approved by shareholders at an general meeting, whereby the Consolidated Entity, may at the discretion of the Board, grant options over ordinary shares in the Parent Entity to employees.

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

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

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2012							
30/06/10	30/07/12	$0.50	333,333	–	(333,333)	–	–
30/06/10	30/07/13	$0.50	333,333	–	–	–	333,333
01/10/10	30/09/17	$0.50	1,200,000	–	(258,332)	–	941,668
02/11/10	30/09/12	$0.50	66,667	–	(66,667)	–	–
02/11/10	30/09/13	$0.50	66,666	–	–	–	66,666
13/05/11	13/05/18	$2.00	215,000	–	–	(55,000)	160,000
01/08/11	31/07/18	$2.50	–	923,332	–	–	923,332
15/08/11	14/08/18	$2.00	–	150,000	–	–	150,000
11/05/12	10/05/19	$2.00	–	392,500	–	–	392,500
			2,214,999	1,465,832	(658,332)	(55,000)	2,967,499
Weighted average exercise price							$1.49

Notes to the Financial Statements continued

Note 47. Share-based payments continued

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2011							
30/06/10	30/07/11	$0.50	333,334	–	(333,334)	–	–
30/06/10	30/07/12	$0.50	333,333	–	–	–	333,333
30/06/10	30/07/13	$0.50	333,333	–	–	–	333,333
01/10/10	30/09/17	$0.50	–	1,250,000	–	(50,000)	1,200,000
02/11/10	30/09/11	$0.50	–	66,667	(66,667)	–	–
02/11/10	30/09/12	$0.50	–	66,667	–	–	66,667
02/11/10	30/09/13	$0.50	–	66,666	–	–	66,666
13/05/11	13/05/18	$2.00	–	215,000	–	–	215,000
			1,000,000	1,665,000	(400,001)	(50,000)	2,214,999
Weighted average exercise price							$0.65

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2012 Number	2011 Number
01/10/10	30/09/17	141,662	–
Total exercisable		141,662	–

The fair value of the 2.967,499 (2011: 2,214,999) shares under option at 30 June 2012 was $856,550 (2011: $386,966).

The share prices of the options exercised during the financial year, at the date of exercise, were as follows:

- 21 July 2011, 399,999 options were exercised at a share price of $2.31.
- 25 October 2011, 174,999 options were exercised at a share price of $1.70.
- 1 December 2011, 38,333 options were exercised at a share price of $1.50.
- 27 February 2012, 20,000 options were exercised at a share price of $1.87.
- 21 March 2012, 25,000 options were exercised at a share price of $1.86.

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/08/11	31/07/18	$2.22	$2.50	50.00%	0.00%	2.87%	$0.190
01/08/11	14/08/18	$2.22	$2.50	50.00%	0.00%	2.87%	$0.517
15/08/11	14/08/18	$2.00	$2.00	50.00%	0.00%	2.87%	$0.553
11/05/12	10/05/19	$1.80	$2.00	50.00%	0.00%	2.87%	$0.453

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes thereto 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 thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 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 42 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) of the Corporations Act 2001.

On behalf of the directors

James Spenceley
Director

28 August 2012
Sydney

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report
to the members of Vocus Communications Limited

Report on the Financial Report

We have audited the accompanying financial report of Vocus Communications Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 33 to 79.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Vocus Communications Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Vocus Communications Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included under the heading 'Remuneration Report' in the directors' report for the year ended 30 June 2012. 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.

Opinion

In our opinion the Remuneration Report of Vocus Communications Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Joshua Tanchel
Partner
Chartered Accountants
Sydney, 28 August 2012

Shareholder Information

30 JUNE 2012

The shareholder information set out below was applicable as at 21 August 2012.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	514
1,001 to 5,000	1,403
5,001 to 10,000	631
10,001 to 100,000	599
100,001 and over	58
	3,205
Holding less than a marketable parcel	139

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
Spenceley Management Pty Ltd <Spenceley Family A/C>	6,835,464	9.19
IWPE Nominees Pty Limited <IWPE Fund 3 A/C>	6,666,667	8.97
Tameion Pty Ltd <Tameion Super Fund A/C>	5,163,881	6.94
RBC Investor Services Australia Nominees Pty Limited <Pipooled A/C>	3,885,848	5.23
Tameion Pty Ltd <McConnell II Family A/C>	2,315,545	3.11
First Capital Partners Pty Limited	2,000,000	2.69
Investec Bank (Australia) Limited	2,000,000	2.69
BNP Paribas Noms Pty Ltd <Master Cust DRP>	1,964,401	2.64
National Nominees Limited	1,869,839	2.51
IWPE Nominees Pty Limited <IWPE Fund 3A A/C>	1,333,333	1.79
Layer 10 Pty Ltd <Wiltongate A/C>	1,322,916	1.78
J P Morgan Nominees Australia Limited	1,301,884	1.75
Mr Daniel Lachlan Whitford	990,000	1.33
Alsumary Pty Ltd <The Alsumary Super Fund A/C>	764,696	1.03
Dalesam Pty Ltd <Jon Brett Super Fund A/C>	764,695	1.03
Bentale Pty Ltd <Allambi Road Family A/C>	718,000	0.97
Tuwele Pty Limited <Rosella Superannuation A/C>	675,313	0.91
Roman Empire Pty Ltd	627,598	0.84
Mr McDonald Whitford Richards	627,500	0.84
W Donnelly Services Pty Ltd <The Donnelly Super Fund A/C>	580,241	0.78
	42,407,821	57.02

Unquoted equity securities

There are no unquoted equity securities.

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Investec Wentworth Private Equity Limited (Investec Bank)	10,000,000	13.45
Tameion Pty Ltd (P McConnell)	7,479,426	10.06
Spenceley Management Pty Ltd (J Spenceley)	7,367,576	9.91
RBC Investor Services Australia Nominees Pty Limited <Pipooled A/C>	3,885,848	5.23

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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.

There are no other classes of equity securities.

Corporate Directory

30 JUNE 2012

Directors	David Spence – Chairman James Spenceley – Chief Executive Officer Mark de Kock Jonathan ('Jon') Brett John Murphy Nicholas McNaughton Stephen Baxter
Company secretary	Mark Simpson
Notice of annual general meeting	The annual general meeting of Vocus Communications Limited: will be held at: Computershare Investor Services Pty Limited, Level 4, 60 Carrington Street, Sydney NSW 2000 time: 11:00 AM date: Tuesday 23 October 2012
Registered office	Vocus House Level 1 189 Miller Street North Sydney NSW 2060 Telephone: (02) 8999 8999
Principal place of business	Vocus House Level 1 189 Miller Street North Sydney NSW 2060 Telephone: (02) 8999 8999
Share register	Computershare Investor Services Pty Limited Level 4, 60 Carrington Street Sydney NSW 2000 Telephone: 1300 787 272
Auditor	Deloitte Touche Tohmatsu Grosvenor Place 225 George Street Sydney NSW 2000
Solicitors	Thomsons Lawyers Level 25, 1 O'Connell Street Sydney NSW 2000
Bankers	Commonwealth Bank of Australia Suite 2 Level 19 111 Pacific Highway North Sydney NSW 2060
Stock exchange listing	Vocus Communications Limited shares are listed on the Australian Securities Exchange (ASX code: VOC)
Website address	www.vocus.com.au

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