VOCUS communications

High performance, high availability, and highly scalable communication solutions

ANNUAL REPORT 2014

Vocus Communications Limited
ACN 084 115 499

OUR FOCUS

At Vocus Communications our core focus is on providing high performance, high availability and highly scalable communications solutions for our customers.

170 Gbps across 18,000km and growing.

Contents

WHO WE ARE

Vocus Communications is a leading provider of integrated telecommunications focusing on Internet, Fibre, Ethernet and Data Centre services.

We specialise in building high performance data networks throughout Australia and New Zealand, and into Asia and America.

These networks also connect over 82 data centres, providing the ideal infrastructure to meet the growing demand for outsourced data centre and cloud computing services.

Customers choose us to connect them to the data they require because they value high performance – in our products and from our people.

Vocus, the smart network, for smart business.

HIGH PERFORMANCE

We design, build and operate our own global network. This year, we reached more than 1,000 buildings connected directly to the Vocus network in Australia. An additional 30,000 buildings are within reach.

Via the acquisition of FX Networks, we will also have 4,200km of fibre in New Zealand.

Further afield, our international network includes investments in the Southern Cross Cable between Australia, New Zealand and the US, and the Sea-Me-We3 cable connecting Perth with Singapore. Both of these provide significant capacity across two of the most important data routes in the world.

This steady growth of the Vocus network means we are now one of the most connected networks in Australasia.

It also means this highly scalable, high performing network secures Vocus' continued growth well into the future.

504km

Vocus' Australian metro Fibre network has more than doubled in the last 12 months to 504 kilometres.

1

897m²

Sydney, Doody St, utilisation 88%.
Well situated, highly secured, energy efficient facility. Extra capacity planned in the next 12 months.

Vocus now covers the entire CBD of Sydney with its fibre network.

Fastest fibre connection crossing Sydney Harbour to the ASX data centre, providing a clear competitive advantage for financial traders.

2

3

$18.6m

19% data centres revenue growth.

AUSTRALIA

SYDNEY

NEWCASTLE
CANBERRA
MELBOURNE
BRISBANE
ADELAIDE
PERTH

NEW ZEALAND
AUCKLAND
CHRISTCHURCH

FIJI

US
HAWAII
LOS ANGELES
SAN JOSE

HONG KONG

SINGAPORE

HIGH AVAILABILITY

We built more data centres to further leverage our infrastructure. Our flagship data centre opened in the heart of Melbourne's CBD, and another was opened in the fast growing business district north of Auckland.

3,670m²

12 owned data centre facilities across 8 sites, totalling 3,670m².

FY15

Additional data centres have been targeted to be brought on-net.

1

AUSTRALIA
SYDNEY
NEWCASTLE
CANBERRA
MELBOURNE
BRISBANE
ADELAIDE
PERTH

NEW ZEALAND
AUCKLAND
CHRISTCHURCH

FIJI

US
HAWAII
LOS ANGELES
SAN JOSE

HONG KONG

SINGAPORE

CBD data centre

Vocus CBD data centre is connected via diverse fibre paths to many other Melbourne data centres.

3

Sustainable. Efficient. Scalable.

All hallmarks of our flagship facility set in the heart of Melbourne's CBD.

2

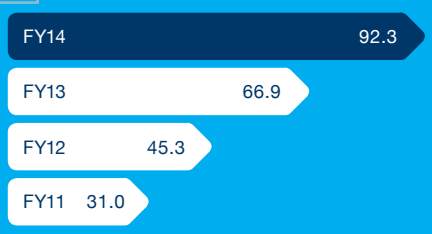
Uptime

The Vocus fibre network has been designed with diverse fibre paths to all major data centres, delivering the highest possible uptime.

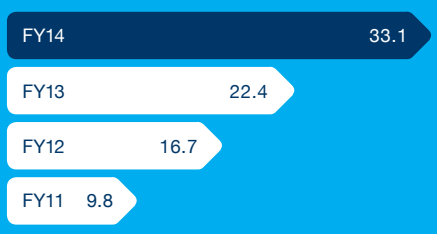
KEY FINANCIAL RESULTS

- Strong contributions from both Internet and Fibre/Ethernet products
- New data centre facilities in Auckland and Melbourne
- Accelerating returns from infrastructure investments
- Operating leverage continues to strengthen

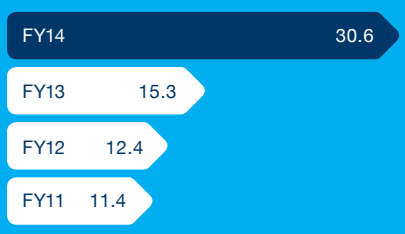
38% ↑
Revenue ($m)



48% ↑
Underlying EBITDA growth ($m)



100% ↑
Operating cash flow ($m)



THE WAY FORWARD

Clear **growth strategy** aligned to ever increasing data demand coupled with cloud computing and IT outsourcing trends

Emphasis on **automation and workflow** to reduce service delivery costs

Focus on sales and building the brand in the corporate market

Strategic acquisitions where complementary to current business and **increasing operational leverage** and asset utilisation

Bentley (Perth) DC
FX Networks – complete acquisitions and integrate into network

OPERATING LEVERAGE GENERATES RETURNS AND CASH FLOW

80%

Emerging returns to shareholders as the company matures with an 80% increase in dividends over FY13.

747%

Strong base to fund ongoing operations and future expansion with free cash flow growing 747% over FY13.

50%

44% and 50% compounded annual growth in revenue and Underlying EBITDA since FY10.

CHAIRMAN'S LETTER

This was a year of accelerating momentum for our company, one in which we enjoyed record growth across all our core business areas.

Dear Shareholders,
We are pleased to present to you our 2014 Annual report.

This was a year of accelerating momentum for our company, one in which we enjoyed record growth across all of our core business areas.

From the start, our intention has been clear: to build a substantial, carefully risk-managed, independent telecommunications business as fast as we can.

Our growth strategy is aligned to ever increasing demand for data coupled with cloud computing and IT outsourcing trends.

Thanks to the support of our shareholders, we have been able to augment that growth with a number of strategic acquisitions.

The company has grown significantly since listing in July 2010, to a valuation of more than $400 million at 30 June 2014.

During this period we have:

- Successfully transformed from a provider of wholesale internet to an integrated telecommunications company;
- Delivered strong growth across our core integrated services – internet, fibre and data centres;
- Accelerated the growth from Ipera Communications, acquired in the previous year through prudent deployment of capital; and
- Strengthened the team and skills from our acquisitions, with Chris Deere (Ipera founder) appointed as Vocus Director of Strategy. Chris now works closely with James Spenceley, our CEO, to ensure a continued strong focus on disciplined business models as Vocus expands.

Today, Vocus provides four essential core services for the internet-enabling industry: international IP transit (internet); Ethernet; data centre hosting capability; and Dark Fibre in major metropolitan areas.

Our Ethernet, Dark Fibre and Data Centre hosting capabilities now comprise 51 per cent of revenues, moving the company from a pure Internet provider to fast becoming the telecommunications infrastructure provider of choice for the cloud revolution.

Key achievements

In March, Vocus successfully raised $47.8 million from new and existing shareholders.

As the financial year came to a close, we made our largest bid in Vocus' history with the proposed acquisition of FX Networks – a high quality fibre optic network spanning New Zealand. With this fibre asset in place, Vocus will emerge as the third largest network operator in New Zealand.

More recently, we also successfully secured the acquisition of the Bentley Data Centre, expanding our presence in Perth.

I want to thank all those who supported our capital raising, particularly for understanding our need to move quickly when the right opportunities emerged.

Our growth in market capitalisation delivered other good news: we entered the ASX 300, less than a year since first entering the ASX 500.

Growing customers

We have two key focuses within the business. One is providing customers with superior service. In doing this, not only do we minimise customer churn, but we can also increase sales by introducing them to our wider product portfolio.

Secondly, we focus on winning new customers. We have experienced incredibly strong customer growth since listing the Company, and we believe there is plenty more to come.

Empowering staff

Remarkably, this past year's growth has been achieved through a focus on efficiency and process improvement, lowering the requirement to increase headcount.

It is pleasing to see staff adapt and embrace our acquired businesses, particularly as integration of product, services and cultures is never easy.

We continue to invest in developing staff, empowering them to aim high and challenge the status quo. As a result, we are seeing noticeable gains in overall performance and productivity, which ultimately has a positive effect on customer service.

Bright outlook

We believe the cloud revolution and the trend to SaaS (Software as a Service) will continue, driving demand for data centre capacity and the associated Dark Fibre and Internet capacity.

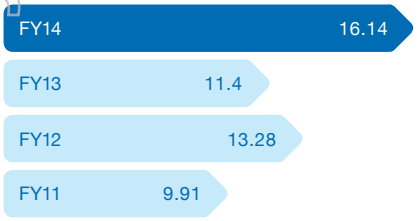
The insatiable demand for high bandwidth continues, although we continue to see price reductions in international IP transit pricing. This is offset by increased volumes as people are simply doing more via the Internet.

In the year ahead we will continue our push on Dark Fibre growth while seeking out complementary acquisition opportunities.

We have immense confidence in the Vocus team. Without doubt, they will continue to bring clarity and energy to the program planned for 2015.

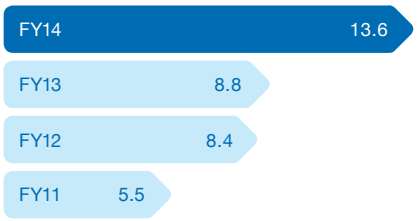
Key financial results

It has been another stellar year for Vocus, as the figures show:



16.14c

Diluted underlying EPS increased 41 per cent to 16.14 cents per share



$13.6m

Underlying NPAT growth at 53 per cent to $13.6m

This coming year is perhaps our most exciting yet. With the proposed integration of one of New Zealand's largest fibre network providers, FX networks, and major improvements to our internal systems and customer interface processes, Vocus has carved a bold path for success.

On behalf of the Board, let me close by thanking James Spenceley, the executive leadership team, and all Vocus' employees for their huge effort during this past year. And of course, thank you to our shareholders, my fellow Directors and all our stakeholders for their continued support.

David Spence
Chairman

DEFINING VOCUS' VALUES

When Vocus Communications' founder James Spenceley began the business in 2007, his goal was to create a different kind of telco – one where customer service was so good, customers would simply want to deal with Vocus.

James Spenceley and his small initial team did this by trying harder, caring more and putting themselves in the customer's shoes.

Their reputation for going the extra mile when it came to delivering and supporting products quickly set Vocus apart.

Suddenly, here was a telco that was quick to respond, challenged the status quo and genuinely cared about the customer's outcome.

This single-focused approach worked. Word spread. Sales increased. And now, seven years on, Vocus is one of the fastest growing telcos throughout Australia and New Zealand.

Vocus has achieved incredible growth. Naturally, the pace and scale of this growth has unveiled challenges. One of these has been how to retain the true spirit of the company upon which it was founded on.

To help achieve its number one goal – to be Australia's most loved Telco – Vocus' Executive Team set about a process earlier this year to define the company's culture and values; to capture what made the company special from the start; and to articulate all this in a way that has real meaning for its expanding, trans-Tasman team.

They concluded the culture and values remain exactly the same as they did on day one. What has changed however is there is now a much larger team to subscribe to these values.

Maintaining the unique Vocus culture and communicating the values now requires more clarity and commitment.

Acknowledging this, James Spenceley along with the Vocus Board, recently spent time at each Vocus office, personally explaining the relevance and importance of each value.

Here, we are proud to share these with you:

1. CLEVER COMPANY
No Muppets! Smart people, with a great attitude, empowered to do their jobs

2. DON'T SCREW THE CUSTOMER
We put ourselves in the customer's shoes, we try harder and care more

3. BACK YOURSELF AND EACH OTHER
Grow and learn together, challenge the status quo

4. MAKE A DIFFERENCE
Act decisively, be part of the solution, aim high and do more with less

5. COMMUNICATE
Make time for open, clear and constructive communication

6. CELEBRATE OUR SUCCESS
We are proud of what we do and have fun doing it

Q&A WITH JAMES SPENCELEY, CEO

A year of immense achievement resulting in more data centres, greater customer service standards, expanding networks and huge demand for our services.

What have been the highlights of the past 12 months?

Generally speaking, it has been very rewarding to see our strategy succeed. This strategy focuses on the ever increasing demand for data coupled with cloud computing and IT outsourcing trends. Our products are matched to this customer movement.

More specifically, we launched two new strategically-located data centres. This included the purpose-built flagship data centre in Melbourne's Collins Street, and another in the fast growing business district of Albany, Auckland. Performance and demand for colocation services at both facilities have been pleasing.

After 12 months of development, we introduced our customer web portal. This allows customers to check availability of our network in real-time, source a quote, and directly order a fibre service online. In short, it makes life a lot easier for our wholesale customers.

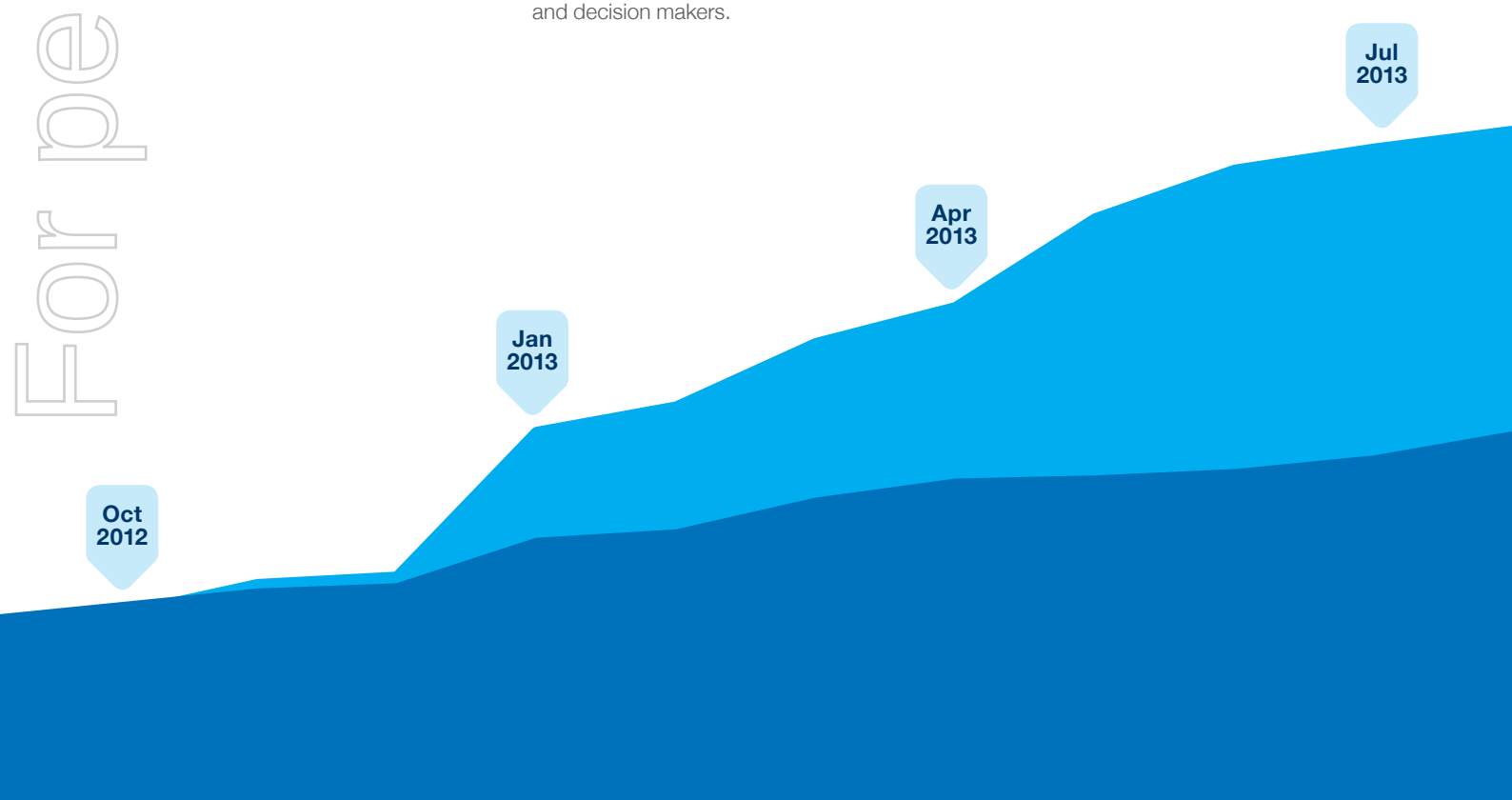
Another customer service initiative is the implementation of our new internal work flow system, Service Now. This live, central platform connects sales, provisioning, engineering and support teams to allow for detailed workflow and tasks to be automated between groups.

In a similar move to bolster efficiency, we are implementing Sage ERP x3, a web based financial application allowing the company to uniformly navigate across its businesses, locations and currencies whilst introducing productivity improvement through the use of electronic document management, automated workflow and web based mobile interface for its users and decision makers.

Another project of note was the relocation of our Network Operations Support Centre from New Zealand to Australia. In doing so, we have been able to increase response times and overall customer satisfaction.

Interaction between the broader Vocus teams has noticeably improved while customers are receiving higher levels of support and direct access to technical skills.

Personally, one of the biggest highlights of the year has been formalising the Vocus values, see page 9. As the founder of Vocus, I feel it is important to capture the spirit of what made this business successful from the start. This is what makes us different.



It is my ambition to encourage all members of our expanding team to stay true to these values. And therefore meet our goal of being 'the most loved telco'.

Vocus raised $47 million in March. Why?

This capital raising exercise was to improve our balance sheet while taking advantage of future growth opportunities.

Since completion, we have acted swiftly. We have secured a number of strategic acquisitions, namely FX Networks, part ownership of the Sea-Me-We 3 cable, and more recently, another data centre in Western Australia.

Where are the growth areas for the business?

Without exception, all our core services are in high demand. Word is spreading as more customers discover how good our products are.

As we continue to expand our own fibre network, on-net sales are increasing and as such, our margins are improving.

We have a unique position in the telco space of operating and owning major infrastructure in the three fastest growing areas of telecommunications: Fibre connectivity, Internet and data centre services.

The power of these combined genuinely delivers a distinct competitive advantage.

How has the network expanded?

We promised in the 2013 Annual Report that our plan was to continue to build out remaining key metro areas where customer demand dictated. We are delivering on that promise. Today, Vocus offers Internet services to more customers than ever before.

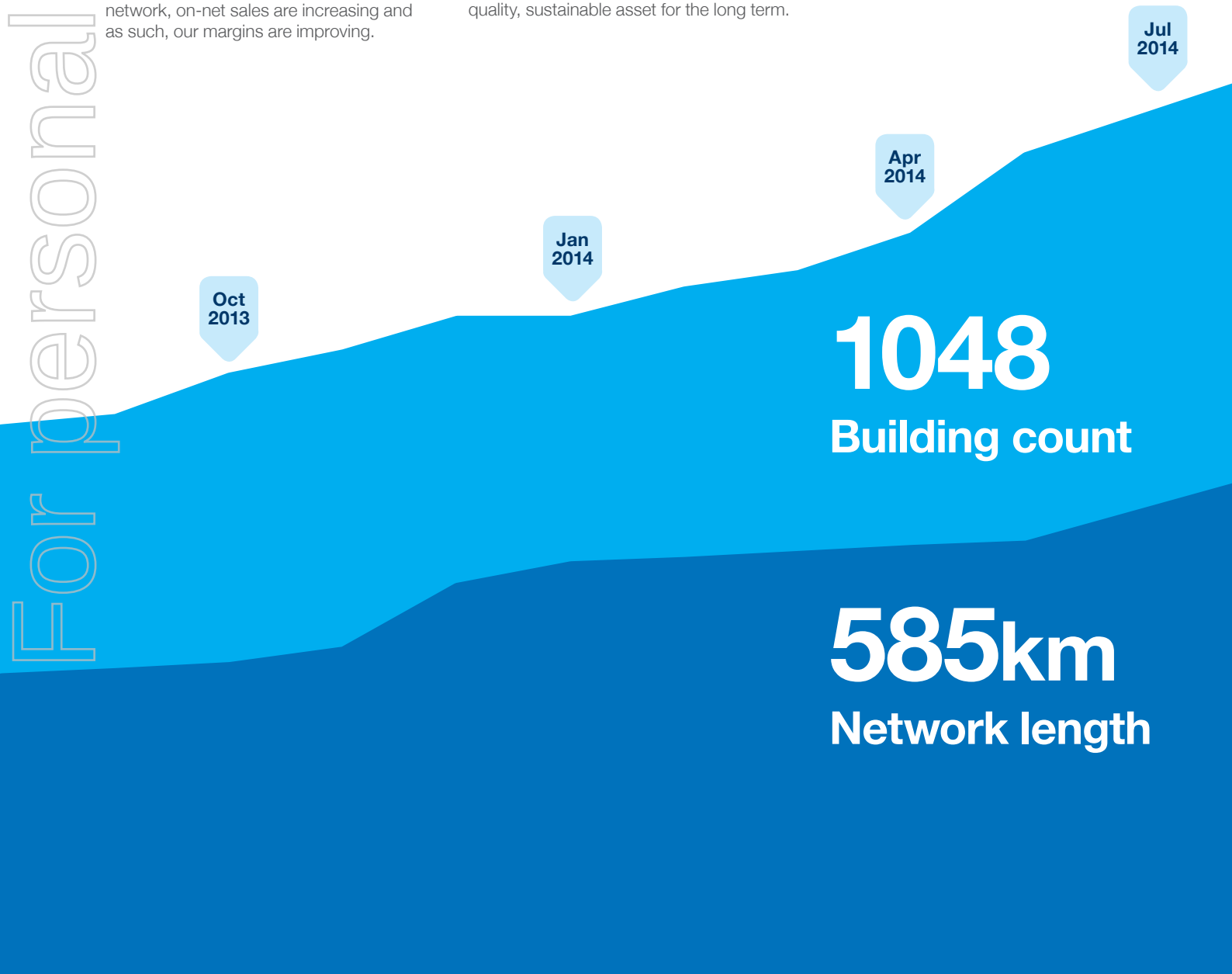
In June, we achieved the milestone of connecting more than 1,000 buildings throughout Australia's largest metro areas to the Vocus network, while an additional 30,000 buildings are within reach. We remain committed to investing in this high quality, sustainable asset for the long term.

Equally important, we secured additional capacity on the Sea-Me-We 3 cable. This is a key piece of infrastructure connecting Australia to the fast growing region of Asia.

And there's no sign of stopping. In FY15 we are launching our first branding, communications and marketing programme to increase brand awareness and drive sales.

Watch this space.

James Spenceley
Chief Executive Officer



DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'Vocus') 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 2014.

Directors' Report

30 JUNE 2014

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'Vocus') 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 2014.

Directors

The following persons were Directors of Vocus 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

Jon Brett

John Murphy

Nick McNaughton

Principal activities

Vocus is an ASX listed leading telecommunications provider of Data Centres, Dark Fibre and International Internet connectivity across Australia, New Zealand, Hong Kong, Singapore and the USA. Vocus provides high performance, high availability, and highly scalable communications solutions, which allow enterprises and service providers to quickly and easily deploy services for their own use and for their own customer base.

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2014 $'000	2013 $'000
Interim dividend for the year ended 30 June 2014 of 0.8 cents (2013: 0.4 cents) per ordinary share paid on 25 March 2014 (2013: 26 March 2013).	647	312
Final dividend for the year ended 30 June 2013 of 0.6 cents per ordinary share paid on 24 September 2013.	482	–
	1,129	312

On 26 August 2014, the directors declared a final dividend for the year ended 30 June 2014 of 1.0 cent per ordinary share. The final dividend is to be paid on 23 September 2014 to shareholders registered on 9 September 2014. The dividend will be fully franked.

Review of operations

Vocus was founded in 2007, launched in 2008 and listed on the Australian Securities Exchange in 2010. James Spenceley was the founder of the business and is the Chief Executive Officer.

The Board and senior management use a combination of financial and operational key metrics to measure and monitor performance which link to broader company objectives. Dynamically, these include, but are not limited to, metrics tied to earnings, capital, foreign exchange, share price growth, market expectations, customers, staff, capacity, utilisation, yield and capital expenditure.

Total revenue for the financial year ended 30 June 2014 was $92,302,000 (2013: $66,910,000). The profit for Vocus after providing for income tax amounted to $12,925,000 (30 June 2013: $5,098,000).

The increase was attributable principally to the following:

- Strong demand for Vocus' products, supported by expanded Data Centre facilities;
- Growth in delivery of Internet and Fibre/Ethernet services to direct and wholesale customers;
- Full year contribution from Ipera Communications Pty Limited against six months for the prior period; and
- Increasing operational leverage and asset utilisation.

Basic earnings per share for Vocus for the financial year ended 30 June 2014 was 15.86 cents (2013: 6.85 cents).

Directors' Report continued

30 JUNE 2014

Underlying earnings before interest, tax, depreciation and amortisation ('Underlying EBITDA') and excluding other gains and losses associated with foreign currency exchange, prepayment discounts and acquisition transaction costs for Vocus for the financial year ended 30 June 2014 was $33,073,000 (2013: $22,425,000). The underlying EBITDA calculation for 2013 has been presented on a basis consistent with 2014. This is calculated as follows:

	Consolidated	
	2014 $'000	2013 $'000
Profit for the year	12,925	5,098
Add back: Income tax expense	5,609	2,022
Add back: Net finance costs	1,821	1,035
Add back: Depreciation and amortisation	11,712	8,864
	32,067	17,019
Other (gains) and losses associated with foreign currency exchange	237	5,199
Other (gains) and losses associated with IRU prepayment	(634)	–
Acquisition costs	1,403	207
Underlying EBITDA	33,073	22,425

During the year Vocus produced net cash inflows from operating activities of $30,580,000 (2013: $15,271,000). A significant amount of this has been reinvested in the network through customer connections, upgrades to the network core to support growth and the new Data Centre facilities in Auckland and Melbourne. There was also $31,544,000 net cash inflow (2013: $15,317,000 – inflow) from financing activities, primarily driven by the capital raise described below and other proceeds from the issue of shares, net of costs, of $51,849,000 (2013: $22,289,000), net debt repayments of $19,176,000 (2013: $6,660,000) and dividend payments of $1,129,000 (2013: $312,000).

On 19 August 2013, Vocus finalised the deferred consideration payable on its acquisition of Ipera Communications Pty Limited. The consideration of $6,493,000 was settled by the issuance on 28 August 2013 of 1,863,565 ordinary shares in Vocus Communications Limited amounting to $3,993,000 and a cash payment of $2,500,000. 834,390 included in the 1,863,565 ordinary shares above were subject to escrow for 12 months.

In December 2013, Vocus modified its arrangements with Southern Cross Cables Limited ('SCCL') relating to the USD denominated Indefeasible Right to Use ('IRU') liability with SCCL. The arrangement included a repayment of 50% of the liability, funded through a new banking facility. The benefits of the arrangements include reducing the USD exposure of the IRU liability by half. Subsequent to year end, the remaining 50% was repaid in full.

The Company raised approximately $48,700,000 before expenses to increase balance sheet flexibility and position the company to take advantage of future growth opportunities through the placement and issue of 11,869,208 new Company shares in March 2014. Equity issues have been disclosed in note 27.

At the reporting date 30 June 2014, the consolidated cash holdings stood at $44,557,000 (2013: $14,169,000). The gearing ratio for Vocus for the year ended 30 June 2014 was 4% (2013: 44%), as measured by net debt divided by net debt plus equity. Vocus' bank facility at 30 June 2014 consists of a $45,934,000 senior finance facility. Interest on the facility is recognised at the aggregate of the bank bill rate plus a margin. During the current and prior year, there were no defaults or breaches in relation to the utilised bank facility.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

On 2 July 2014, Vocus announced it had entered into agreements with the shareholders of FX Networks Limited ('FX') to acquire 100% of the issued capital of the New Zealand fibre provider. On 21 August 2014, shareholders of Vocus Communications Limited voted in favour of the proposed acquisition of FX at an extraordinary general meeting.

FX owns a unique and high quality fibre optic network consisting of 4,132 kms of modern ducted fibre optic cable covering the North and South Islands of New Zealand. FX has 365 customers including 43 of the Top 100 companies in New Zealand.

The combination of Vocus and FX strengthens both businesses, and Vocus will emerge as the third largest network operator in NZ and the clear leader in trans Tasman telecommunications and data centres.

On 11 July 2014, Vocus agreed terms and renewed its contract with its largest IP Transit customer, Vodafone New Zealand. The contract is renewed for a period of 24 months at a fixed price in line with the market.

On 22 July 2014, Vocus repaid its existing USD denominated IRU liability.

On 13 August 2014, the Company expanded its data centre presence in Western Australia by entering into an agreement to buy the Bentley Data Centre from ASG Group Limited. The purchase price for the data centre is $11,700,000.

Apart from the dividend declared and the events as discussed above, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect Vocus' operations, the results of those operations, or Vocus' state of affairs in future financial years.

Likely developments and expected results of operations

Continued demand for data and data services and trends to outsource information technology requirements should underpin Vocus' delivery of communication and data centre services in financial year 2015.

Environmental regulation

Vocus 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, PayPal Australia Pty Limited (unlisted) and SAI Global Limited (from November 2013)
Former directorships (last 3 years):	None
Special responsibilities:	Member of Nomination and Remuneration Committee
Interests in shares:	471,218 ordinary shares
Interests in options:	None

Name:	James Spenceley
Title:	Chief Executive Officer
Experience and expertise:	James is the founder and Chief Executive Officer of Vocus Communications Limited. 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 Company's wholesale IP transit product.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	4,200,000 ordinary shares
Interests in options:	None

Directors' Report continued

30 JUNE 2014

Name:	Jon Brett
Title:	Non-Executive Director
Qualifications:	B.Acc, B.Com, M.Com, 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. Jon is currently on the board of several unlisted companies.
Other current directorships:	The PAS Group Limited (appointed on 22 May 2014)
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of Audit and Risk Committee and member of the Nomination and Remuneration Committee
Interests in shares:	400,000 ordinary shares
Interests in options:	None

Name:	John Murphy
Title:	Non-Executive Director
Qualifications:	B.Com, M.Com, FASCPA, CA
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 non-executive director of Investec Bank (Australia) Limited ('IBAL') where he was a member of the Audit, Risk and Investment Committees. 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, Redflex Holdings Limited, Kresta Holdings Limited and Gale Pacific Limited
Former directorships (last 3 years):	Clearview Wealth Limited (resigned 22 October 2012)
Special responsibilities:	Member of Nomination and Remuneration Committee and member of the Audit and Risk Committee
Interests in shares:	675,313 ordinary shares
Interests in options:	None

Name:	Nick McNaughton
Title:	Non-Executive Director
Qualifications:	B.A. (Hons), MBA, GAICD
Experience and expertise:	Nick is the former Chairman of Capital Angels and a founding member of Sydney Angels. In 2007, with backing from Japan, Nick established Blue Cove Ventures, a venture capital company committed to supporting gifted entrepreneurs in building prosperous technology companies. In January 2014 he became the CEO at ANU Connect Ventures Pty Limited. 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 (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

'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 been with Vocus since it listed in 2010 and is responsible for the legal and regulatory functions, as well as human resources management. Before joining Vocus, Mark worked as a corporate lawyer, with 18 years experience to director/partner level with major law firms in the UK and Australia. Specialising in mergers and acquisitions, Mark has broad experience in all aspects of corporate advisory and compliance work.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2014, 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	17	18	–	–	2	2
J Spenceley	18	18	–	–	–	–
J Brett	18	18	2	2	–	–
J Murphy	17	18	–	–	2	2
N McNaughton	18	18	2	2	2	2

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

Directors' Report continued

30 JUNE 2014

Letter to shareholders from the Chairman of the Nomination and Remuneration Committee

Dear Shareholder,

The 2014 financial year has been another successful year for Vocus. We experienced continued revenue growth across most product categories and continued work to extract synergies from recent acquisitions.

These results are directly related to the calibre and capability of our team. Our founding CEO and leadership team have been pivotal to this success. As Vocus has grown, this year becoming an ASX 300 company for the first time, the Board has continued to work to improve the remuneration framework for our key staff to ensure that we comply with our legal obligations and shareholder expectations. Based on feedback received at and following our AGM last year, we have adopted a new remuneration framework, designed to:

1. meet and improve on our governance and disclosure obligations;
2. deliver compensation plans with an appropriate mix of base, short term incentives (STI) and long term incentives (LTI) for our key executives;
3. offer compensation plans which allows us to retain the industry's best talent;
4. tie the remuneration framework to delivering our business strategy;
5. ensure our compensation packages are within acceptable levels of those of our peers;
6. ensure our Director compensation allows us to attract and retain the best talent for our board, benchmarked against our industry peers;
7. ensure we create long term shareholder value; and
8. promote engagement with shareholders and shareholder representatives to seek their feedback on our remuneration practices and reporting.

Our on-going success is dependent on the focus and efforts of Vocus employees. We have set challenging but realistic performance hurdles that are aligned with both our short-term and long-term objectives as well as providing real incentives for the achievement of our high growth strategy.

We welcome the feedback we received on our historic remuneration practices and have worked hard to improve on our compensation framework and reporting. Our intention is to deliver a framework that is substantive, clear and aligns the interests of our senior executive team with the long-term interests of our shareholders.

The STI component of remuneration includes both financial and non-financial measures focused on the delivery of our critical business objectives.

The LTI plan includes a share price growth target of at least 7.5% per annum measured over the three-year performance period 1 July 2014 to 30 June 2017. This performance hurdle directly rewards executives for an increase in shareholder wealth, aligns with our high growth strategy and maintains the focus on long term share price growth.

We hope you find this year's report useful and we encourage you to provide feedback on the development of our remuneration practices and reporting. Thank you for your continued support.

Yours sincerely,

Nick McNaughton
Chairman, Nomination & Remuneration Committee

Remuneration report (audited)

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

The key management personnel of Vocus consisted of the following Directors of Vocus Communications Limited:

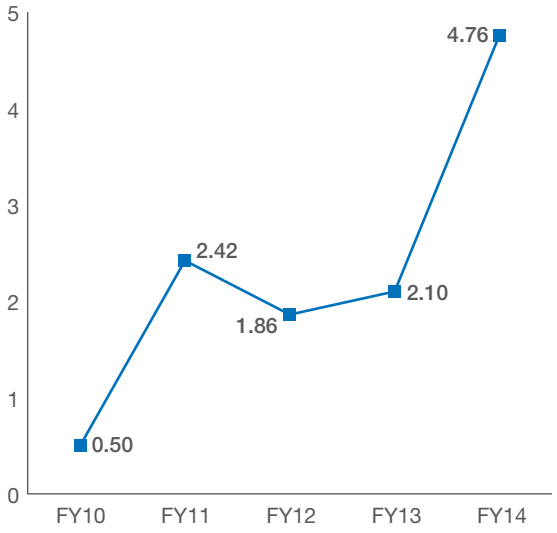
- David Spence – Non-Executive Chairman
- James Spenceley – Chief Executive Officer
- Jon Brett – Non-Executive Director
- Nick McNaughton – Non-Executive Director
- John Murphy – Non-Executive Director

And the following persons:

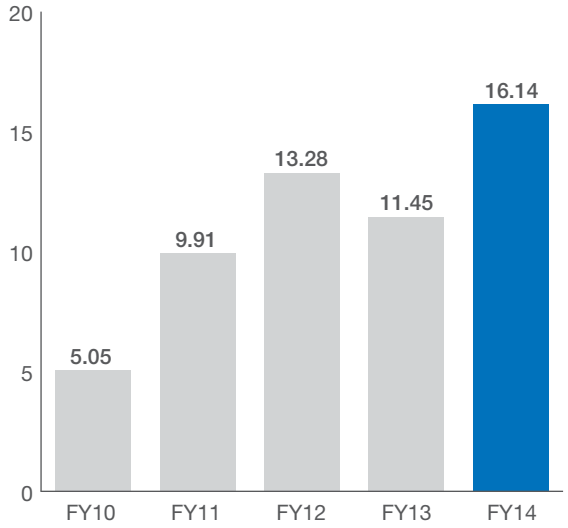
- Richard Correll – Chief Financial Officer
- Christopher Deere – Infrastructure and Strategy (from 1 July 2014)
- Mark Simpson – General Counsel and Company Secretary

Vocus' remuneration framework ties the remuneration received by executives to increased shareholder wealth over the longer term. A summary of key Vocus' performance metrics and 4-year share price history is shown below.

SHARE PRICE HISTORY



DILUTED UNDERLYING EARNINGS PER SHARE (CPS)



The earnings of Vocus for the five years to 30 June 2014 are summarised below:

	2014 $'000	2013 $'000	2012 $'000	2011 $'000	2010 $'000
Sales revenue	92,302	66,910	45,285	30,979	17,481
EBITDA	32,067	17,019	15,722	13,485	8,148
EBIT	20,355	8,155	10,514	10,523	6,073
Profit after income tax	12,925	5,098	7,775	8,115	3,813

The factors that affect shareholder return are summarised below:

	2014	2013	2012	2011	2010
Share price at financial year end ($)	4.76	2.10	1.86	2.42	0.50
Total dividends declared (cents per share)	1.80	1.00	–	–	–
Basic earnings per share (cents per share)	15.86	6.85	12.76	14.97	15.67

Directors' Report continued

30 JUNE 2014

Consolidated entity performance and link to remuneration

Remuneration for certain individuals is directly linked to performance of Vocus. Bonus and incentive payments for key executives are dependent on financial and non-financial hurdles and on share price targets being met or exceeded.

The Nomination and Remuneration Committee is of the opinion that the continued improved results above can be attributed in part to the adoption of past and future performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years adjusted for the introduction for the period commencing 1 July 2014 of long term incentives measured annually over a three year period along with an additional one year holding period.

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

- Remuneration governance
- Executive remuneration strategy
- Non-executive directors' remuneration
- Remuneration tables
- Share-based compensation
- Service agreements
- Additional disclosures relating to key management personnel

Remuneration governance

Role of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for ensuring Vocus has remuneration strategies and frameworks that fairly and responsibly reward executives with regard to performance, the law and corporate governance.

Further detail on the Nomination and Remuneration Committee's responsibilities is set out in the Corporate Governance section of www.vocus.com.au.

The Nomination and Remuneration Committee continuously strives to ensure Vocus' remuneration strategy and outcomes are directly connected to the business strategy and performance supporting increased shareholder wealth over the long term.

The Committee is made up of four independent non-executive Directors:

- Nicholas McNaughton (Chairman)
- John Murphy
- David Spence
- Jon Brett (appointed on 4 July 2014)

Executive remuneration strategy

The Board has established a remuneration strategy that supports and drives the achievement of Vocus' business strategy. The Board believes the remuneration framework aligns the key management personnel with shareholder interests. The Board is currently focused on investing in growth and achieving synergies. There is a transitional period from historic plans to the new plan that came into effect on 1 July 2014. The remuneration framework in the table below sets out the principles with effect from 1 July 2014 and further described in this report. Remuneration for the year ended 30 June 2014 was largely based on base salary plus incentives (including equity plans that vested over 3 years) based on individual and financial performance against company targets. The new plan commencing on 1 July 2014 adds long term incentives (vesting in 3-5 years) more directly aligned to increased shareholder return.

Remuneration framework

Fixed remuneration	Short term incentive (STI)	Long term incentive (LTI)
Set using benchmark data of senior executive roles against peer group data points Consideration is given to the employee's experience and skills	Aligned to achievement of Vocus' business objectives over a 12-month term Focus is on financial and non-financial hurdles based on individual specific goals consisting of: • 65% financial objectives (e.g. budgets) • 20% internal targets (e.g. projects, rollout, delivery) • 15% personal targets	Aligned to the achievement of increased shareholder wealth over the longer term: • Shareholder return over a three year period measured by per annum share price increase • Individual performance

In all cases, remuneration has been set and aligned to shareholders' interests including:

- profit as a core component of plan design;
- sustainable growth in shareholder wealth; and
- retaining high calibre personnel.

Vocus aims to reward key management personnel with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The STI program is designed to align the targets of the business with the targets of key management personnel responsible for achieving those targets. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPIs') being achieved. Each year KPIs aligned to long term business targets are selected, using both financial and non-financial measures of performance. These KPIs are the drivers of shareholder value creation. All KPIs are based on the long-term business strategy but are adjusted to reflect individual roles. For the period to which STI apply, payments are made after assessment of performance by the Board following its approval of the annual accounts.

LTIs are exclusively share-based. Shares are awarded to executives and vest over a period of three years beginning three years after the grant date, assuming certain share price increases have occurred.

Chief Executive Officer

The Board has put in place a compensation package that aligns the CEO's performance with the company's strategic objectives. The full package is expected to be about $1,000,000 apportioned 50% fixed remuneration inclusive of superannuation, 25% STI and 25% LTI.

Base salary is reviewed by the Board and with reference to market data. Fixed remuneration reflects a 25% increase over the prior year. The Nomination and Remuneration Committee considered the following factors in arriving at this outcome:

- Vocus has historically been conservative with its base salaries for key management personnel;
- Vocus is now an ASX 300 company and needs to be competitive to keep its key staff;
- Vocus has performed well and grown significantly over the last 4 years; and
- This base salary is comparable with similar sized companies in its relative peer group.

The STI portion of $250,000 is subject to key performance indicators determined by the Board at the commencement of the year. The KPIs relate directly to Vocus' business strategy. The STI is reviewed annually by the Board.

The LTI portion is also $250,000 of share value per year based on market value at grant date (funded through the company's Loan Funded Share Plan – LFSP). Consistent with previous years' practice, the shares will vest in thirds, subject to the company's share price increasing by at least 7.5% in each year after the grant date. In response to shareholder requests, the Nomination and Remuneration Committee has extended the vesting dates for each tranche so that they vest on the third, fourth and fifth anniversaries of the grant date, assuming share price targets have been met.

The Remuneration and Nomination Committee assesses the CEO's performance against the KPIs set at the beginning of the year and recommends the STI payment outcome to the Board for approval subsequent to the conclusion of the financial year.

Other key management personnel remuneration

The Board has put in place a compensation package for other key management personnel based on the annual remuneration recommended by the CEO that allocates 25% of the targeted annual remuneration package to short term incentives and 15% to long-term incentives. For these personnel, the annual targeted STI pool is $382,100 and the LTI pool is $229,300 of share value per year based on market value at grant date (funded through the Company's LFSP) from 1 July 2014.

Non-executive directors remuneration

The Board sets non-executive director remuneration at a level that enables the retention of directors of the highest calibre, while incurring a cost that is acceptable to shareholders. The Board on recommendation from the Nomination and Remuneration Committee within a maximum fee pool determines the remuneration of the non-executive directors.

Non-executive directors receive a base fee and statutory superannuation contributions. Non-executive directors do not receive any performance based pay.

A shareholder-approved pool caps the maximum amount of fees that can be paid to non-executive directors. At the 2013 Annual General Meeting, shareholders approved the current fee pool of $500,000 per annum.

Prior to 2014, board and committee fees had not been increased since the company listed in 2010. In determining the appropriate level of fees, the Board compared fee levels to similar sized companies to Vocus in its peer group. As a result of this review, the Board approved an increase to Vocus Board and Committee fees with effect on 1 July 2014, to reflect the increased responsibilities and workload of the directors since 2010. The following table outlines the main Board and Committee fees as at 1 July 2014.

	2015 $	2014 $
Chairman	150,000	120,000
Director	75,000	50,000
Chair of Sub-Committee	20,000	5,000

Directors' Report continued

30 JUNE 2014

Remuneration tables

Amounts of remuneration

Details of the remuneration of the directors and other key management personnel are set out in the following tables. The amounts shown are equal to the amount expensed in the company's financial statements.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2014	**Cash salary and fees $**	**Bonus $**	**Non-monetary $**	**Super-annuation $**	**Long service leave $**	**Equity-settled** $**	**Total $**
Non-Executive Directors:							
D Spence	109,840	–	–	10,160	–	1,217	121,217
J Brett*	54,224	–	–	776	–	–	55,000
J Murphy	45,767	–	–	4,233	–	–	50,000
N McNaughton	55,000	–	–	–	–	–	55,000
Executive Directors:							
J Spenceley	380,988	200,000	–	17,775	24,370	173,090	796,223
Other Key Management Personnel:							
R Correll	293,842	157,500	–	25,000	3,988	62,432	542,762
M Simpson	240,000	100,000	–	22,200	3,407	45,297	410,904
	1,179,661	457,500	–	80,144	31,765	282,036	2,031,106

* Director fees for J Brett were paid or payable to Investec Wentworth Private Equity Limited until May 2014 at which point fees were directly paid to J Brett.
** Includes share-based payments accounting expense for both options and loan funded shares.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2013	**Cash salary and fees $**	**Bonus $**	**Non-monetary $**	**Super-annuation $**	**Long service leave $**	**Equity-settled** $**	**Total $**
Non-Executive Directors:							
D Spence	105,505	–	–	9,495	–	5,148	120,148
J Brett*	38,333	–	–	–	–	–	38,333
J Murphy	30,856	–	–	2,477	–	–	33,333
N McNaughton	43,333	–	–	–	–	–	43,333
S Baxter***	20,000	–	–	–	–	–	20,000
Executive Directors:							
J Spenceley	266,930	70,000	–	16,470	–	58,776	412,176
M de Kock ***	189,207	–	–	16,829	–	11,681	217,717
Other Key Management Personnel:							
R Correll	240,000	60,000	–	21,600	–	25,012	346,612
M Simpson	220,000	50,000	–	19,800	–	16,359	306,159
	1,154,164	180,000	–	86,671	–	116,976	1,537,811

* Directors fees for J Brett were paid or payable to Investec Wentworth Private Equity Limited.
** Includes share-based payments accounting expense for both options and loan funded shares.
*** Remuneration disclosed is for the period to resignation date.

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

Name	Fixed remuneration 2014 %	Fixed remuneration 2013 %	At risk – STI 2014 %	At risk – STI 2013 %	At risk – LTI* 2014 %	At risk – LTI* 2013 %
Non-Executive Directors:						
D Spence	99	96	–	–	1	4
J Brett	100	100	–	–	–	–
J Murphy	100	100	–	–	–	–
N McNaughton	100	100	–	–	–	–
S Baxter	–	100	–	–	–	–
Executive Directors:						
J Spenceley	50	69	25	17	25	14
M de Kock	–	95	–	–	–	5
Other Key Management Personnel:						
R Correll	59	76	29	17	12	7
M Simpson	64	78	24	17	12	5

* The LTI above refers to share-based payments.

The proportion of the cash bonus paid and forfeited is as follows:

Name	Cash bonus paid/payable 2014 %	Cash bonus paid/payable 2013 %	Cash bonus forfeited 2014 %	Cash bonus forfeited 2013 %
Executive Directors:				
J Spenceley	100	100	–	–
Other Key Management Personnel:				
R Correll	100	100	–	–
M Simpson	100	100	–	–

The above STI payments were paid or payable based the successful achievement of earnings based targets including budgeted revenue, earnings before interest and depreciation and amortisation, net profit after tax, and market expectations and other growth initiatives.

Share-based compensation

Issue of shares

No shares were issued to, or exercised by, directors and other key management personnel as part of compensation during the year ended 30 June 2014.

Shares were issued to Vocus Blue Pty Limited, a wholly owned subsidiary of Vocus Communications Limited as part of Vocus' Loan Funded Share Plan ('LFSP') remuneration scheme to attract and retain key employees. Vocus Blue Pty Limited's sole purpose is to hold shares as trustee for the employee beneficiaries ('participants' in the LFSP). The participants are granted a loan by Vocus to purchase the beneficial interest in shares. The loans are limited recourse to the participants and any dividends received in respect of the plan shares are used to reduce the loan balance net of tax payable. Participants are required to meet service requirements and performance conditions before being entitled to acquire full title to these shares and are required to repay the loan in order to do so. Following the first year, the shares issued during the year ended 30 June 2013 will progressively become unrestricted over a three year period, subject to continuous employment with Vocus. The Loan Funded Share Plan is expected to replace the use of options over time as a key component of share-based compensation.

At 30 June 2014, Vocus Blue Pty Limited held 1,111,111 (2013: 1,111,111) shares in trust under the Loan Funded Share Plan remuneration scheme in relation to key management personnel issued on 15 November 2012. For the year ended 30 June 2014 a share-based payment expense of $486,000 (2013: $162,000), of which $274,000 (2013: $77,000) pertained to key management personnel, has been recognised in relation to the Loan Funded Share Plan remuneration scheme.

Directors' Report continued

30 JUNE 2014

Options

The terms and conditions of each grant of options over ordinary shares 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 2013	30 July 2013	$0.50	$0.160
1 October 2010	30 June 2013	30 September 2017	$0.50	$0.160
2 November 2010	2 November 2013	1 November 2017	$0.50	$0.160

An employee share option plan was established by Vocus and approved by shareholders at the Annual General Meeting in 2010, whereby Vocus, 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.

The number of options over ordinary shares granted to and vested by Directors and other key management personnel as part of compensation during the year ended 30 June 2014 are set out below:

Name	Number of options granted during the year 2014	Number of options granted during the year 2013	Number of options vested during the year 2014	Number of options vested during the year 2013
D Spence	–	–	–	66,667
J Spenceley	–	–	–	166,667
M de Kock	–	–	–	166,667
R Correll	–	–	116,667	116,667
M Simpson	–	–	50,000	50,000

Values of options over ordinary shares granted, exercised and lapsed for Directors and other key management personnel as part of compensation during the year ended 30 June 2014 are set out below:

Name	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 %
R Correll	–	18,667	–	3
M Simpson	–	8,000	–	2

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 grant date.

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

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	Agreement commence	Agreement expire	Notice of termination by company	Employee notice
James Spenceley	1 July 2010	Ongoing	6 months	6 months
Richard Correll	1 July 2010	Ongoing	3 months	3 months
Mark Simpson	1 July 2010	Ongoing	1 month	1 month
Christopher Deere	18 January 2013	Ongoing	1 month	1 month

Additional disclosures relating to key management personnel

In accordance with Class Order 14/632 issued by the Australian Securities and Investments Commission relating to 'Key management personnel equity instrument disclosures', the following disclosure relates only to equity instruments in the Company or its subsidiaries.

Shareholding

The number of shares in the Company held during the financial year by each Director and other members of key management personnel of Vocus, 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
Ordinary shares					
David Spence	471,218	–	–	–	471,218
James Spenceley	6,000,000	–	–	(1,800,000)	4,200,000
Jon Brett	1,364,695	–	–	(964,695)	400,000
John Murphy	675,313	–	–	–	675,313
Nicholas McNaughton	627,598	–	–	–	627,598
Richard Correll	410,140	–	116,667	(172,000)	354,807
Mark Simpson	297,454	–	50,000	(22,015)	325,439
	9,846,418	–	166,667	(2,958,710)	7,054,375

Option holding

The number of options over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of Vocus, 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
Options over ordinary shares					
Richard Correll	116,667	–	(116,667)	–	–
Mark Simpson	50,000	–	(50,000)	–	–
	166,667	–	(166,667)	–	–

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
1 October 2010	30 September 2017	$0.50	135,000
13 May 2011	13 May 2018	$2.00	19,998
1 August 2011	31 July 2018	$2.50	46,668
15 August 2011	31 July 2018	$2.00	50,000
11 May 2012	10 May 2019	$2.00	162,832
25 February 2014	25 February 2021	$2.60	50,000
			464,498

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.

Directors' Report continued

30 JUNE 2014

Shares issued on the exercise of options

The following ordinary shares of Vocus Communications Limited were issued during the year ended 30 June 2014 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
1 October 2010	$0.50	428,336
11 May 2012	$2.00	199,668
		628,004

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 34 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 34 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* 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.

Rounding of amounts

Vocus is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 2014
Sydney

Auditor's Independence Declaration

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

28 August 2014

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 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Joshua Tanchel
Partner
Deloitte Touche Tohmatsu

Financial Report

30 JUNE 2014

Contents

General information

The financial statements cover Vocus Communications Limited as a consolidated entity consisting of Vocus Communications Limited and its subsidiaries. The financial statements are presented in Australian dollars, which is Vocus Communications Limited's functional and presentation currency.

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 28 August 2014. The Directors have the power to amend and reissue the financial statements.

Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated 2014 $'000	2013 $'000
Revenue	4	92,302	66,910
Other gains and losses	5	495	(4,434)
Expenses			
Network and service delivery		(36,831)	(26,463)
Employee benefits expense	6	(16,560)	(13,438)
Depreciation and amortisation expense	6	(11,712)	(8,864)
Administration and other expenses		(6,790)	(5,146)
Finance costs	6	(2,370)	(1,445)
Profit before income tax expense		18,534	7,120
Income tax expense	7	(5,609)	(2,022)
Profit after income tax expense for the year attributable to the owners of Vocus Communications Limited	29	12,925	5,098
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		612	355
Net movement on hedging transactions, net of tax		330	45
Other comprehensive income for the year, net of tax		942	400
Total comprehensive income for the year attributable to the owners of Vocus Communications Limited		13,867	5,498
		Cents	**Cents**
Basic earnings per share	45	15.86	6.85
Diluted earnings per share	45	15.30	6.57

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

Statement of Financial Position

AS AT 30 JUNE 2014

	Note	Consolidated 2014 $'000	2013 $'000
Assets			
Current assets			
Cash and cash equivalents	8	44,557	14,169
Trade and other receivables	9	9,771	9,497
Derivative financial instruments	10	–	328
Other	11	1,740	930
Total current assets		56,068	24,924
Non-current assets			
Property, plant and equipment	12	63,384	50,777
Intangibles	13	84,859	87,677
Deferred tax	14	3,114	2,763
Other	15	4,397	1,562
Total non-current assets		155,754	142,779
Total assets		211,822	167,703
Liabilities			
Current liabilities			
Trade and other payables	16	14,316	12,897
Borrowings	17	7,907	13,847
Derivative financial instruments	18	143	–
Income tax	19	1,777	1,296
Provisions	20	664	7,743
Other	21	1,524	432
Total current liabilities		26,331	36,215
Non-current liabilities			
Borrowings	22	41,931	56,986
Derivative financial instruments	23	–	77
Deferred tax	24	3,092	2,148
Provisions	25	969	816
Other	26	2,375	392
Total non-current liabilities		48,367	60,419
Total liabilities		74,698	96,634
Net assets		137,124	71,069
Equity			
Contributed equity	27	98,594	46,069
Reserves	28	2,639	905
Retained profits	29	35,891	24,095
Total equity		137,124	71,069

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 2014

Consolidated	Note	Contributed equity $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2012		22,589	103	19,309	42,001
Profit after income tax expense for the year		–	–	5,098	5,098
Other comprehensive income for the year, net of tax		–	400	–	400
Total comprehensive income for the year		–	400	5,098	5,498
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	27	23,480	–	–	23,480
Share based payments	6	–	402	–	402
Dividends paid	30	–	–	(312)	(312)
Balance at 30 June 2013		46,069	905	24,095	71,069

Consolidated	Note	Contributed equity $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2013		46,069	905	24,095	71,069
Profit after income tax expense for the year		–	–	12,925	12,925
Other comprehensive income for the year, net of tax		–	942	–	942
Total comprehensive income for the year		–	942	12,925	13,867
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	27	52,525	–	–	52,525
Share-based payments	6	–	792	–	792
Dividends paid	30	–	–	(1,129)	(1,129)
Balance at 30 June 2014		98,594	2,639	35,891	137,124

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 2014

	Note	Consolidated 2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers		99,209	71,854
Payments to suppliers and employees		(65,062)	(53,244)
		34,147	18,610
Interest received		561	398
Other revenue		–	381
Other finance costs paid		(141)	(152)
Income taxes paid		(3,987)	(3,966)
Net cash from operating activities	43	30,580	15,271
Cash flows from investing activities			
Payments for purchase of businesses		(7,566)	(2,902)
Payments for property, plant and equipment		(18,310)	(16,690)
Payments for intangible assets		(3,084)	–
Payments for purchase of submarine cable		(2,776)	–
Proceeds from sale of business and assets		–	786
Net cash used in investing activities		(31,736)	(18,806)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		51,849	22,289
Proceeds from/(repayment of) borrowings		(18,217)	(5,677)
Interest and other finance costs paid on borrowings		(1,414)	(1,145)
Proceeds from/(repayment of) leases		615	310
Interest paid on leases		(160)	(148)
Dividends paid	30	(1,129)	(312)
Net cash from financing activities		31,544	15,317
Net increase in cash and cash equivalents		30,388	11,782
Cash and cash equivalents at the beginning of the financial year		14,169	2,387
Cash and cash equivalents at the end of the financial year	8	44,557	14,169

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

Notes to the Financial Statements

30 JUNE 2014

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

Vocus Communications Limited ('Vocus') has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

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

AASB 10 Consolidated Financial Statements

Vocus has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns 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 that give it the current ability to direct the activities that significantly affect the investee's returns. Vocus not only has 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.

AASB 11 Joint Arrangements

Vocus has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements 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 are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

AASB 12 Disclosure of Interests in Other Entities

Vocus has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

Vocus has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

Vocus has applied AASB 119 and its consequential amendments from 1 July 2013. The standard eliminates 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 standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

Vocus has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

Vocus has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors' report.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

Vocus has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

Notes to the Financial Statements continued

30 JUNE 2014

Note 1. Significant accounting policies continued

AASB 2012–5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle

Vocus has applied AASB 2012–5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position 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; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

AASB 2012–9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039

Vocus has applied AASB 2012–9 amendments from 1 July 2013. The amendments remove reference in AASB 1048 following the withdrawal of Interpretation 1039 'Substantive Enactment of Major Tax Bills in Australia'.

AASB 2012–10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments

Vocus has applied AASB 2012–10 amendments from 1 July 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

Basis of preparation

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

Historical cost convention

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

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 Vocus' 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 Vocus only. Supplementary information about the parent entity is disclosed in note 38.

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 2014 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 'Vocus'.

Subsidiaries are all those entities over which Vocus has control. Vocus controls an entity when Vocus is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Vocus. They are de-consolidated from the date that control ceases.

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

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

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

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 statements are 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 approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

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

Revenue recognition

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

Rendering of services

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

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.

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, 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 interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset 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 entities which intend to settle simultaneously.

Current and non-current classification

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

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

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

Deferred tax assets and liabilities are always classified as non-current.

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 Vocus will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 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.

Notes to the Financial Statements continued

30 JUNE 2014

Note 1. Significant accounting policies continued

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 Vocus' 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 profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

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

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

Investments and other financial assets

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

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

Loans and receivables

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

Impairment of financial assets

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

The amount of the impairment allowance for 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 recognised had the impairment not been made 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:

Network equipment	5–8 years
Data centre	5–15 years
Fibre	10–30 years
Plant and equipment	3–15 years

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

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to Vocus. 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 Vocus will obtain ownership at the end of the lease term.

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

Intangible assets

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

Goodwill

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

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. IRU's are amortised on a straight-line basis over the period of their expected benefit.

Software

Costs associated with software are amortised on a straight-line basis over the period of their expected benefit, being its finite life of between 3 to 5 years.

Customer contracts and relationships

Customer contracts and relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their expected finite life of between 1 to 14 years.

Other intangibles

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

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 of disposal 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 Vocus 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.

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

Notes to the Financial Statements continued

30 JUNE 2014

Note 1. Significant accounting policies continued

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled. Commission costs incurred in securing long term customer contracts are amortised over the weighted length duration of closed contracts during each period.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on 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 Vocus receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

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

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes 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 Vocus or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of Vocus or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

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

Fair value measurement

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

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

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

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

Issued capital

Ordinary shares are classified as equity.

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

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

Where the business combination is achieved in stages, Vocus 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.

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

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

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

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by Vocus for the annual reporting period ended 30 June 2014. Vocus' assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to Vocus, are set out below.

AASB 9 Financial Instruments and its consequential amendments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phases I and III of the IASB's project to replace IAS 39 (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. 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. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. Vocus will adopt this standard and the amendments from 1 July 2018 but the impact of its adoption is yet to be assessed by Vocus.

Notes to the Financial Statements continued

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Note 1. Significant accounting policies continued

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 Vocus.

AASB 2013–3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by Vocus.

AASB 2013–4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations. The adoption of these amendments from 1 July 2014 will not have a material impact on Vocus.

AASB 2014–1 Amendments to Australian Accounting Standards

These amendments are in several parts. Part A makes various amendments to Australian Accounting Standards arising from the issuance of IASB's 'Annual Improvements to IFRSs 2010-2012 Cycle' and 'Annual Improvements to IFRSs 2011-2013 Cycle'. Part B makes amendments to AASB 119 'Employee in relation to the requirements for contributions from employees or third parties that are linked to service which arise from the issuance of IASB's 'Defined Benefit Plans – Employee Contributions (Amendments to IAS 19)'. Part C makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031 'Materiality'. Part D makes consequential amendments arising from the issuance of AASB 14 'Regulatory Deferral Accounts'. Part E makes consequential amendments to numerous other Standards as a consequence of the introduction of hedge accounting requirements into AASB 9 'Financial Instruments' in December 2013. Amendments Part A to D are applicable to annual reporting periods beginning on or after 1 July 2014 or as specified in each Part. Amendments Part E are applicable to annual reporting periods beginning on or after 1 January 2015 or as specified in Part E.

Annual Improvements to IFRSs 2010–2012 Cycle

These amendments affect several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments will not have a material impact on Vocus.

Annual Improvements to IFRSs 2011–2013 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments will not have a material impact on Vocus.

IFRS 15 Revenue from Contracts with Customers

This standard is expected to be applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity

would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. Vocus will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by Vocus.

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 (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

Vocus 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

Vocus 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

Vocus 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 a Fair Value Less Cost to Sell ('FVLCS') methodology, whereby impairment is assessed on the implied enterprise value/earnings before interest expense, taxes, depreciation and amortisation ('EV/EBITDA') multiple of Vocus. 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. In applying its FVLCS approach, Vocus will allow for a 5% cost of disposal as an underlying assumption when deriving its enterprise value.

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

Vocus assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to Vocus 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 of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

Vocus 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. Vocus recognises liabilities for anticipated tax audit issues based on Vocus' 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 Vocus considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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 Vocus 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.

Notes to the Financial Statements continued

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Note 3. 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 2014 approximately 11.2% (2013: 12.2%) of Vocus' external revenue was derived from sales to one customer (2013: one customer).

Revenue by product set

	Consolidated	
	2014 $'000	2013 $'000
Internet	37,550	27,075
Fibre and Ethernet	28,238	15,089
Data Centre	18,609	15,602
Voice	7,356	8,734
	91,753	66,500

Revenue by geographical area

	Consolidated	
	2014 $'000	2013 $'000
Australia	61,081	42,527
New Zealand	29,087	23,371
United States	1,585	602
	91,753	66,500

Note 4. Revenue

	Consolidated	
	2014 $'000	2013 $'000
Sales revenue		
Rendering of services	91,753	66,500
Other revenue		
Interest	549	410
Revenue	92,302	66,910

Note 5. Other gains and losses

	Consolidated	
	2014 $'000	2013 $'000
Net foreign currency losses	(237)	(5,199)
Net gain on disposal of business	–	384
Net gain on Southern Cross refinance transaction	634	–
Other gains	98	381
Other gains and (losses)	495	(4,434)

Note 6. Expenses

	Consolidated	
	2014 $'000	2013 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Network equipment	1,639	3,549
Data centre	2,269	–
Fibre	1,039	–
Other plant and equipment	568	209
Total depreciation	5,515	3,758
Amortisation		
IRU capacity	5,365	4,509
Software	396	105
Customer contracts	306	436
Other intangibles	130	56
Total amortisation	6,197	5,106
Total depreciation and amortisation	11,712	8,864
Finance costs		
Interest and finance charges paid/payable	2,370	1,445
Rental expense relating to operating leases		
Minimum lease payments	2,226	2,243
Employee benefits expense		
Defined contribution superannuation expense	809	557
Share-based payment expense	792	402
Other employee benefits expense	14,959	12,479
Total employee benefits expense	16,560	13,438

Notes to the Financial Statements continued

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Note 7. Income tax expense

	Consolidated	
	2014 $'000	2013 $'000
Income tax expense		
Current tax	4,611	3,878
Deferred tax – origination and reversal of temporary differences	907	(1,649)
Adjustment recognised for prior periods	91	(207)
Aggregate income tax expense	5,609	2,022
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (note 14)	(37)	(1,482)
Increase/(decrease) in deferred tax liabilities (note 24)	944	(167)
Deferred tax – origination and reversal of temporary differences	907	(1,649)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	18,534	7,120
Tax at the statutory tax rate of 30%	5,560	2,136
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	52	54
Share-based payments	238	121
Donations	13	–
Tax allowances and incentives	(280)	–
Non-taxable other gains	(219)	–
Sundry items	187	(38)
	5,551	2,273
Adjustment recognised for prior periods	91	(207)
Difference in overseas tax rates	(33)	(44)
Income tax expense	5,609	2,022

	Consolidated	
	2014 $'000	2013 $'000
Amounts credited directly to equity		
Deferred tax assets (note 14)	(314)	–

Note 8. Current assets – cash and cash equivalents

	Consolidated	
	2014 $'000	2013 $'000
Cash at bank	6,629	2,492
Cash on deposit	37,928	11,677
	44,557	14,169

Note 9. Current assets – trade and other receivables

	Consolidated	
	2014 $'000	2013 $'000
Trade receivables	10,110	9,154
Less: Provision for impairment of receivables	(652)	(464)
	9,458	8,690
Other receivables	50	731
Accrued revenue	263	64
Interest receivable	–	12
	9,771	9,497

Impairment of receivables

Vocus has recognised a loss of $342,000 (2013: $476,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2014.

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

	Consolidated	
	2014 $'000	2013 $'000
1 to 3 months overdue	258	226
3 to 6 months overdue	394	238
	652	464

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

	Consolidated	
	2014 $'000	2013 $'000
Opening balance	464	582
Additional provisions recognised	334	506
Additions through business combinations	–	2
Receivables written off during the year as uncollectable	(146)	(626)
Closing balance	652	464

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $792,000 as at 30 June 2014 ($218,000 as at 30 June 2013).

Vocus 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	
	2014 $'000	2013 $'000
1 to 3 months overdue	132	218
3 to 6 months overdue	660	–
	792	218

Notes to the Financial Statements continued

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Note 10. Current assets – derivative financial instruments

	Consolidated	
	2014 $'000	2013 $'000
Forward foreign exchange contracts – cash flow hedges	–	328

Refer to note 32 for further information on fair value measurement.

Note 11. Current assets – other

	Consolidated	
	2014 $'000	2013 $'000
Prepayments	1,740	930

Note 12. Non-current assets – property, plant and equipment

	Consolidated	
	2014 $'000	2013 $'000
Network equipment – at cost	8,947	56,107
Less: Accumulated depreciation	(2,432)	(6,465)
	6,515	49,642
Data centre – at cost	23,099	–
Less: Accumulated depreciation	(3,236)	–
	19,863	–
Fibre – at cost	37,224	–
Less: Accumulated depreciation	(2,831)	–
	34,393	–
Other plant and equipment – at cost	6,982	1,677
Less: Accumulated depreciation	(4,369)	(542)
	2,613	1,135
	63,384	50,777

Reconciliations

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

Consolidated	Network equipment $'000	Data centre assets $'000	Fibre assets $'000	Other plant and equipment $'000	Total $'000
Balance at 1 July 2012	26,384	–	–	2,667	29,051
Additions	18,983	–	–	283	19,266
Additions through business combinations (note 39)	5,941	–	–	88	6,029
Disposals	(284)	–	–	(12)	(296)
Exchange differences	455	–	–	15	470
Transfers in/(out)	1,712	–	–	(1,697)	15
Depreciation expense	(3,549)	–	–	(209)	(3,758)
Balance at 30 June 2013	49,642	–	–	1,135	50,777
Reclassifications	(45,161)	19,125	25,141	895	–
Additions	3,607	2,553	10,291	1,170	17,621
Exchange differences	66	454	–	52	572
Transfers in/(out)	–	–	–	(71)	(71)
Depreciation expense	(1,639)	(2,269)	(1,039)	(568)	(5,515)
Balance at 30 June 2014	6,515	19,863	34,393	2,613	63,384

Property, plant and equipment secured under finance leases

Network equipment was reclassified during the period to different asset classes including those more directly associated with Data Centres and Fibre.

Property, plant and equipment secured under finance leases

Refer to note 36 for further information on property, plant and equipment secured under finance leases.

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

Note 13. Non-current assets – intangibles

	Consolidated	
	2014 $'000	2013 $'000
Goodwill – at cost	17,014	16,455
IRU capacity – at cost	78,825	78,825
Less: Accumulated amortisation	(16,347)	(10,982)
	62,478	67,843
Software – at cost	3,404	1,452
Less: Accumulated amortisation	(708)	(111)
	2,696	1,341
Customer contracts – at cost	2,704	2,704
Less: Accumulated amortisation	(1,391)	(1,033)
	1,313	1,671
Other intangibles – at cost	1,515	423
Less: Accumulated amortisation	(157)	(56)
	1,358	367
	84,859	87,677

Reconciliations

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

Consolidated	Goodwill $'000	IRU capacity $'000	Software $'000	Customer contracts $'000	Other intangibles $'000	Total $'000
Balance at 1 July 2012	10,508	39,098	470	626	162	50,864
Additions	–	33,254	967	–	312	34,533
Additions through business combinations (note 39)	6,038	–	–	1,460	–	7,498
Disposals	(91)	–	–	–	–	(91)
Exchange differences	–	–	9	24	(10)	23
Transfers in/(out)	–	–	–	(3)	(41)	(44)
Amortisation expense	–	(4,509)	(105)	(436)	(56)	(5,106)
Balance at 30 June 2013	16,455	67,843	1,341	1,671	367	87,677
Additions	–	–	1,704	–	101	1,805
Additions through business combinations (note 39)	559	–	–	–	915	1,474
Exchange differences	–	–	33	(52)	48	29
Transfers in/(out)	–	–	14	–	57	71
Amortisation expense	–	(5,365)	(396)	(306)	(130)	(6,197)
Balance at 30 June 2014	17,014	62,478	2,696	1,313	1,358	84,859

Notes to the Financial Statements continued

30 JUNE 2014

Note 13. Non-current assets – intangibles continued

IRU Capacity

Vocus entered into a Capacity Use Agreement, whereby capacity is supplied to Vocus 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

Goodwill impairment testing

Vocus utilises a common infrastructure to manage, procure, sell, provision and operate its delivery of telecommunication products including internet, voice, data centre and fibre and ethernet based products. On this basis it examines goodwill 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 expense, taxes, depreciation and amortisation ('EV/EBITDA') multiple of Vocus. Any impairment is recognised as an expense in profit or loss in the reporting period in which the write-down occurs. In applying its FVLCS approach, Vocus allows for a 5% cost of disposal as an underlying assumption when deriving its enterprise value.

Testing has indicated that its implied multiple on this basis is comparable or below other valuations in the marketplace for similar companies, therefore no impairment issue on goodwill has been identified.

Note 14. Non-current assets – deferred tax

	Consolidated	
	2014 $'000	2013 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	37	37
Impairment of receivables	189	137
Accrued expenses	908	881
Unrealised foreign exchange loss	546	1,105
Blackhole expenditure	1,268	369
Other	166	234
Deferred tax asset	3,114	2,763
Movements:		
Opening balance	2,763	1,281
Credited to profit or loss (note 7)	37	1,482
Credited to equity (note 7)	314	–
Closing balance	3,114	2,763

Note 15. Non-current assets – other

	Consolidated	
	2014 $'000	2013 $'000
Accrued revenue	583	492
Prepayments	761	773
Deposit on long term asset	2,776	–
Other deposits	277	297
	4,397	1,562

Note 16. Current liabilities – trade and other payables

	Consolidated	
	2014 $'000	2013 $'000
Trade payables	10,626	6,027
Accruals	3,175	4,846
Goods and services tax payable	443	390
Other payables	72	1,634
	14,316	12,897

Refer to note 31 for further information on financial instruments.

Note 17. Current liabilities – borrowings

	Consolidated	
	2014 $'000	2013 $'000
Bank loans	1,500	2,540
IRU liability	5,069	10,310
Lease liability	1,338	997
	7,907	13,847

Refer to note 22 for further information on assets pledged as security and financing arrangements.

Refer to note 31 for further information on financial instruments.

The IRU vendor finance liability is denominated in US dollars, and to the extent not hedged, gives rise to non-cash unrealised foreign exchange gains and losses until settled. The net foreign exchange loss for the year ended 30 June 2014 was $237,000 (2013: $5,199,000). Refer to note 31 for details for foreign currency risk.

Note 18. Current liabilities – derivative financial instruments

	Consolidated	
	2014 $'000	2013 $'000
Forward foreign exchange contracts – cash flow hedges	143	–

Refer to note 31 for further information on financial instruments.

Refer to note 32 for further information on fair value measurement.

Note 19. Current liabilities – income tax

	Consolidated	
	2014 $'000	2013 $'000
Provision for income tax	1,777	1,296

Notes to the Financial Statements continued

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Note 20. Current liabilities – provisions

	Consolidated	
	2014 $'000	2013 $'000
Employee benefits	664	577
Deferred consideration	–	7,166
	664	7,743

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.

Movements in provisions

Movement in deferred consideration during the current financial year is set out below:

Consolidated – 2014	$'000
Carrying amount at the start of the year	7,166
Amounts paid	(7,166)
Carrying amount at the end of the year	–

Note 21. Current liabilities – other

	Consolidated	
	2014 $'000	2013 $'000
Lease incentive and rent straight lining	108	–
Deposits held	123	119
Deferred revenue	1,266	313
Other current liabilities	27	–
	1,524	432

Note 22. Non-current liabilities – borrowings

	Consolidated	
	2014 $'000	2013 $'000
Bank loans	23,500	10,260
IRU liability	17,024	45,614
Lease liability	1,407	1,112
	41,931	56,986

Refer to note 31 for further information on financial instruments.

Refer to note 36 for further details on IRU commitments relating to the IRU liability.

Total secured liabilities

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

	Consolidated	
	2014 $'000	2013 $'000
Bank loans	25,000	12,800
Lease liability	2,745	2,109
	27,745	14,909

Assets pledged as security

The bank loans are secured by first mortgages over Vocus' assets and undertakings.

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

Financing arrangements

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

	Consolidated	
	2014 $'000	2013 $'000
Total facilities		
Bank loans	42,934	19,800
Multi-option facility	3,000	2,000
	45,934	21,800
Used at the reporting date		
Bank loans	25,000	12,800
Multi-option facility	1,192	833
	26,192	13,633
Unused at the reporting date		
Bank loans	17,934	7,000
Multi-option facility	1,808	1,167
	19,742	8,167

The bank loans and multi-option facility mature in May 2016. The bank loans are amortising while the multi-option facility is a revolving line of credit.

Note 23. Non-current liabilities – derivative financial instruments

	Consolidated	
	2014 $'000	2013 $'000
Forward foreign exchange contracts – cash flow hedges	–	77

Refer to note 31 for further information on financial instruments.
Refer to note 32 for further information on fair value measurement.

Note 24. Non-current liabilities – deferred tax

	Consolidated	
	2014 $'000	2013 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	1,711	927
Intangibles	613	494
Development costs	–	138
Unbilled revenue	254	167
Unrealised foreign exchange gain	215	141
Other provisions	254	–
Other	45	281
Deferred tax liability	3,092	2,148
Movements:		
Opening balance	2,148	1,877
Credited/(charged) to profit or loss (note 7)	944	(167)
Recognised in goodwill	–	438
Closing balance	3,092	2,148

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Note 25. Non-current liabilities – provisions

	Consolidated	
	2014 $'000	2013 $'000
Employee benefits	172	32
Make good	797	784
	969	816

Make good

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

Movements in provisions

Movement in make good provision during the current financial year is set out below:

Consolidated – 2014	$'000
Carrying amount at the start of the year	784
Additional provisions recognised	13
Carrying amount at the end of the year	797

Note 26. Non-current liabilities – other

	Consolidated	
	2014 $'000	2013 $'000
Lease incentive and rent straight lining	434	386
Deferred revenue	1,941	–
Other non-current liabilities	–	6
	2,375	392

Note 27. Equity – contributed equity

	Consolidated			
	2014 Shares	2013 Shares	2014 $'000	2013 $'000
Ordinary shares – fully paid	92,934,834	78,546,557	102,317	50,197
Less: Treasury shares	(2,047,978)	(2,323,137)	(3,723)	(4,128)
	90,886,856	76,223,420	98,594	46,069

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2012	61,027,675		22,589
Issue of shares on placement	12 July 2012	9,154,151	$1.63	14,921
Issue of shares on share purchase plan	7 August 2012	4,177,566	$1.63	6,809
Issue of shares on conversion of options	25 September 2012	416,666	$0.50	208
Issue of shares on conversion of options	31 October 2012	116,667	$0.50	58
Issue of shares for loan funded share plan	15 November 2012	2,335,283	$1.71	3,993
Issue of shares on purchase of Ipera Communications Pty Ltd	22 January 2013	734,818	$1.66	1,220
Issue of shares on conversion of options	27 February 2013	21,666	$0.50	11
Issue of shares on conversion of options	27 March 2013	33,333	$0.50	17
Issue of shares on conversion of options	24 April 2013	75,000	$0.50	38
Issue of shares on conversion of options	28 May 2013	108,333	$0.50	54
Issue of shares for loan funded share plan	29 May 2013	338,732	$2.17	735
Issue of shares on conversion of options	27 June 2013	6,667	$0.50	3
Less: Share issue transaction costs, net of deferred tax				(459)
Balance	30 June 2013	78,546,557		50,197
Issue of shares for consideration of Ipera Communications Pty Ltd	22 August 2013	1,863,565	$2.14	3,993
Issue of shares on conversion of options	5 November 2013	220,668	$0.50	110
Issue of shares on conversion of options	27 November 2013	76,668	$0.50	38
Issue of shares on conversion of options	27 November 2013	71,667	$2.00	143
Issue of shares on conversion of options	4 February 2014	45,000	$0.50	23
Issue of shares on conversion of options	4 February 2014	2,500	$2.00	5
Issue of shares on conversion of options	26 February 2014	44,333	$0.50	22
Private placement	19 March 2014	11,869,208	$4.10	48,664
Issue of shares on conversion of options	31 March 2014	22,667	$2.00	45
Issue of shares on conversion of options	31 March 2014	41,667	$0.50	21
Issue of shares for loan funded share plan	15 April 2014	30,000	$4.27	128
Issue of shares on conversion of options	29 May 2014	100,334	$2.00	201
Less: Share issue transaction costs, net of deferred tax				(1,273)
Balance	30 June 2014	92,934,834		102,317

Movements in treasury shares

Details	Date	Shares	Issue price	$'000
Balance	1 July 2012	–		–
Issue of shares for loan funded share plan*	15 November 2012	2,335,283	$1.71	3,993
Issue of shares for loan funded share plan	29 May 2013	338,732	$2.17	735
Transfer of shares to participants		(350,878)	$1.71	(600)
Balance	30 June 2013	2,323,137		4,128
Issue of shares for loan funded share plan	15 May 2014	30,000	$4.27	128
Transfer of shares to participants		(305,159)	$1.75	(533)
Balance	30 June 2014	2,047,978		3,723

* Shares held by Vocus Blue Pty Limited.

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Note 27. Equity – contributed equity continued

During the financial year ended 30 June 2014, 30,000 (2013: 2,674,015) shares were issued to Vocus Blue Pty Limited, a wholly–owned subsidiary of Vocus Communications Limited as part of Vocus' Loan Funded Share Plan remuneration scheme to attract and retain key employees. Vocus Blue Pty Limited's sole purpose is to hold shares as trustee for its beneficiaries (its 'participants'). The participants are granted a loan by Vocus to purchase the beneficial interest in shares. The loans are limited recourse to the participants and any dividends received in respect of the plan shares are used to reduce the loan balance net of tax payable. Participants are required to meet service requirements and performance conditions before being entitled to acquire full title to these shares and are required to repay the loan in order to do so. Following the first year, the shares will progressively become unrestricted over a three year period, subject to continuous employment.

The shares held by Vocus Blue Pty Limited have been deducted from equity as the scheme is treated as an in substance option and accounted for as a share-based payment.

Ordinary shares

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

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

Capital risk management

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

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

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

The capital risk management policy remains unchanged from the 30 June 2013 Annual Report.

Vocus monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'trade and other payables' and 'borrowings' as shown in the statement of financial position) less 'cash and cash equivalents' as shown in the statement of financial position. Total capital is calculated as 'total equity' as shown in the statement of financial position (including non-controlling interest) plus net debt.

The gearing ratio at the reporting date was as follows:

	Consolidated	
	2014 $'000	2013 $'000
Current liabilities – borrowings (note 17)	7,907	13,847
Non-current liabilities – borrowings (note 22)	41,931	56,986
Total borrowings	49,838	70,833
Current assets – cash and cash equivalents (note 8)	(44,557)	(14,169)
Net debt	5,281	56,664
Total equity	137,124	71,069
Total capital	142,405	127,733
Gearing ratio	4%	44%

Note 28. Equity – reserves

	Consolidated	
	2014 $'000	2013 $'000
Foreign currency reserve	977	365
Share-based payments reserve	1,804	1,012
Hedge reserve	(142)	(472)
	2,639	905

Foreign currency reserve

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

Share-based payments reserve

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

Hedging reserve – cash flow hedges

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

Movements in reserves

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

Consolidated	Foreign currency $'000	Share-based payments $'000	Hedge reserve $'000	Total $'000
Balance at 1 July 2012	10	610	(517)	103
Foreign currency translation	355	–	–	355
Recognition of share-based payments	–	402	–	402
Net movement on hedging transactions	–	–	45	45
Balance at 30 June 2013	365	1,012	(472)	905
Foreign currency translation	612	–	–	612
Recognition of share-based payments	–	792	–	792
Net movement on hedging transactions	–	–	330	330
Balance at 30 June 2014	977	1,804	(142)	2,639

Note 29. Equity – retained profits

	Consolidated	
	2014 $'000	2013 $'000
Retained profits at the beginning of the financial year	24,095	19,309
Profit after income tax expense for the year	12,925	5,098
Dividends paid (note 30)	(1,129)	(312)
Retained profits at the end of the financial year	35,891	24,095

Note 30. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2014 $'000	2013 $'000
Interim dividend for the year ended 30 June 2014 of 0.8 cents (2013: 0.4 cents) per ordinary share paid on 25 March 2014 (2013: 26 March 2013).	647	312
Final dividend for the year ended 30 June 2013 of 0.6 cents per ordinary share paid on 24 September 2013.	482	–
	1,129	312

On 26 August 2014, the directors declared a final dividend for the year ended 30 June 2014 of 1.00 cent per ordinary share. The final dividend is to be paid on 23 September 2014 to shareholders registered on 9 September 2014. The dividend will be fully franked.

Franking credits

	Consolidated	
	2014 $'000	2013 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	11,094	7,804

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

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Note 31. Financial instruments

Financial risk management objectives

Vocus' 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.

Vocus has an Audit and Risk Committee that has general oversight of risk management processes inclusive of those financial risks identified here. Vocus 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 Vocus' financial performance.

Vocus' overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance where material. Vocus 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. Vocus 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.

Vocus' 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

Vocus undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

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

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

	Sell Australian dollars		Average exchange rates	
	2014 $'000	2013 $'000	2014	2013
Buy US dollars				
Maturity:				
0 – 6 months	2,943	4,314	0.8908	0.9708
6 – 12 months	–	2,764	–	0.9423
12 – 24 months	–	1,213	–	0.8410

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

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

	Assets		Liabilities	
Consolidated	2014 $'000	2013 $'000	2014 $'000	2013 $'000
US dollars	2,797	199	23,745	56,240
New Zealand dollars	6,398	3,869	3,057	2,443
	9,195	4,068	26,802	58,683

Vocus 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 2014, future movements in the USD/AUD currency of $0.01 (2013: $0.01) will have an approximate $146,000 (2013: $313,000) increase or decrease to profit or loss and $81,000 (2013: $112,000) increase or decrease in cash flow in the financial year ending 30 June 2014.

As at 30 June 2014, future movements in the NZD/AUD currency of $0.01 (2013: $0.01) will have an approximate $136,000 (2013: $135,000) increase or decrease to profit or loss and $173,000 (2013: $173,000) increase or decrease in cash flow in the financial year ending 30 June 2014.

Price risk

Competitive pricing of products and services the group will sell may fall negatively impacting future revenue, margin and profitability. Vocus mitigates this risk by entering into long term customer agreements typically between 12 and 48 months at fixed prices.

Interest rate risk

Vocus' 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 Vocus to interest rate risk. Term deposits, cash on deposit and borrowings issued at variable rates expose Vocus 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 Vocus.

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

Vocus 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.

Liquidity risk

Vigilant liquidity risk management requires Vocus 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.

Vocus 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	
	2014 $'000	2013 $'000
Bank loans	17,934	7,000
Multi-option facility	1,808	1,167
	19,742	8,167

Remaining contractual maturities

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

Consolidated – 2014	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	10,626	–	–	–	10,626
Other payables	515	–	–	–	515
Deposits held	123	–	–	–	123
Interest-bearing – variable					
Bank loans	3,009	4,141	21,386	–	28,536
Interest-bearing – fixed rate					
Lease liability	1,479	1,126	394	–	2,999
IRU liability	5,430	5,461	12,312	–	23,203
Total non-derivatives	21,182	10,728	34,092	–	66,002
Derivatives					
Forward foreign exchange contracts net settled	143	–	–	–	143
Total derivatives	143	–	–	–	143

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Note 31. Financial instruments continued

Consolidated – 2013	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	6,027	–	–	–	6,027
Other payables	2,024	–	–	–	2,024
Deposits held	119	–	–	–	119
Interest-bearing – variable					
Bank loans	3,311	2,873	8,523	–	14,707
Interest-bearing – fixed rate					
Lease liability	1,129	757	442	–	2,328
IRU liability	11,152	11,207	34,677	2,009	59,045
Total non-derivatives	23,762	14,837	43,642	2,009	84,250
Derivatives					
Forward foreign exchange contracts net settled	199	77	–	–	276
Total derivatives	199	77	–	–	276

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above, except for the SX repayment which occurred subsequent to year end. Refer to note 42.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 32. Fair value measurement

Fair value hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability

Consolidated – 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Forward foreign exchange contracts	–	143	–	143
Total liabilities	–	143	–	143

Consolidated – 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Forward foreign exchange contracts	–	328	–	328
Total assets	–	328	–	328
Liabilities				
Forward foreign exchange contracts	–	77	–	77
Total liabilities	–	77	–	77

There were no transfers between levels during the financial year.

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

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

Valuation techniques for fair value measurements categorised within level 2 and level 3
Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Note 33. Key management personnel disclosures

Compensation

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

	Consolidated	
	2014 $	2013 $
Short-term employee benefits	1,637,161	1,334,164
Post-employment benefits	80,144	86,671
Long-term benefits	31,765	–
Share-based payments	282,036	116,976
	2,031,106	1,537,811

Note 34. Remuneration of auditors

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

	Consolidated	
	2014 $	2013 $
Audit services – Deloitte Touche Tohmatsu		
Audit or review of the financial statements	190,286	159,184
Other services – Deloitte Touche Tohmatsu		
Tax compliance services	33,925	21,152
Other non-audit services	266,395	167,371
	300,320	188,523
	490,606	347,707
Audit services – network firms of Deloitte Touche Tohmatsu		
Audit or review of the financial statements	14,070	18,579
Other services – network firms of Deloitte Touche Tohmatsu		
Tax compliance services	3,699	11,398
Other non-audit services	137,167	–
	140,866	11,398
	154,936	29,977

Note 35. Contingent liabilities

Vocus has contingent liabilities as follows:

	Consolidated	
	2014 $'000	2013 $'000
Guarantees*	1,192	833

* The multi-option facility was used to issue bank guarantees and replace cash cover held by Vocus for property associated with its data centres and other performance contracts (refer note 22 for details of the total facility).

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Note 36. Commitments

	Consolidated	
	2014 $'000	2013 $'000
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,975	2,645
One to five years	8,474	7,985
More than five years	8,949	6,428
	20,398	17,058

	Consolidated	
	2014 $'000	2013 $'000
Lease commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	1,479	1,129
One to five years	1,520	1,199
Total commitment	2,999	2,328
Less: Future finance charges	(254)	(219)
Net commitment recognised as liabilities	2,745	2,109
Representing:		
Lease liability – current (note 17)	1,338	997
Lease liability – non-current (note 22)	1,407	1,112
	2,745	2,109
IRU commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	5,430	11,152
One to five years	17,774	45,884
More than five years	–	2,009
Total commitment	23,204	59,045
Less: Future finance charges	(1,111)	(3,121)
Net commitment recognised as liabilities	22,093	55,924
Representing:		
IRU liability – current (note 17)	5,069	10,310
IRU liability – non-current (note 22)	17,024	45,614
	22,093	55,924
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, Vocus has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.		
Network equipment – at cost	6,442	4,094
Less: Accumulated depreciation	(2,668)	(1,266)
Written down value	3,774	2,828
IRU capacity (related to IRU commitments)		
IRU commitments includes contracted amounts for the IRU intangible assets at the following values:		
IRU capacity – at cost	78,825	78,825
Less: Accumulated amortisation	(16,347)	(10,982)
Written down value	62,478	67,843

Note 37. Related party transactions

Parent entity

Vocus Communications Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 40.

Key management personnel

Disclosures relating to key management personnel are set out in note 33 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.

Note 38. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2014 $'000	2013 $'000
Loss after income tax	(1,042)	(356)
Total comprehensive income	(1,042)	(356)

Statement of financial position

	Parent	
	2014 $'000	2013 $'000
Total current assets	421	11,082
Total assets	127,290	63,875
Total current liabilities	3,403	4,368
Total liabilities	26,903	14,634
Equity		
Contributed equity	102,668	50,143
Share-based payments reserve	1,687	895
Options reserve	103	103
Accumulated losses	(4,071)	(1,900)
Total equity	100,387	49,241

Notes to the Financial Statements continued

30 JUNE 2014

Note 38. Parent entity information continued

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 40) under which it guarantees the debts of its subsidiaries as at 30 June 2014 and 30 June 2013.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2014 and 30 June 2013.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2014 and 30 June 2013.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of Vocus, as disclosed in note 1.

Note 39. Business combinations

On 7 May 2014 Vocus Communications Limited acquired the businesses of iBOSS International Pty Limited and One Telecom Pty Limited for total consideration transferred of $1,473,489. The acquisition provides Vocus with a number of valuable wholesale DSL customers in Australia. The goodwill of $558,967 represents the residual value of the purchase price over the fair value of identifiable intangible assets shown below. The acquired business contributed revenues of $475,035. Due to significant integration changes in Vocus' 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 2014.

Details of the acquisition are as follows:

	Fair value $'000
Other intangible assets	915
Net assets acquired	915
Goodwill	559
Acquisition-date fair value of the total consideration transferred	1,474
Representing:	
Cash and other consideration paid or payable to vendor	1,474
Acquisition costs expensed to profit or loss	15

	Consolidated	
	2014 $'000	2013 $'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	1,474	–
Less: other consideration provided	(1,074)	–
Net cash used	400	–

Ipera Communications Pty Limited (prior period acquisition)

On 18 January 2013 Vocus Communications Limited acquired Ipera Communications Pty Limited for a total expected consideration transferred of $10,777,737. It provides Vocus with premium fibre, data centre and cloud services in Newcastle, New South Wales. The goodwill of $6,038,390 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 $4,194,658. Due to significant integration changes in Vocus' 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 final as at the reporting date 30 June 2014.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	163
Trade receivables	1,367
Other receivables	7
Prepayments	71
Make good assets	100
Plant and equipment	88
Network equipment	5,941
Other intangible assets	1,460
Deferred tax asset	77
Trade payables	(399)
Other payables	(550)
Provision for income tax	(318)
Deferred tax liability	(439)
Employee benefits	(169)
Financial liabilities	(2,559)
Make good liability	(100)
Net assets acquired	4,740
Goodwill	6,038
Acquisition-date fair value of the total consideration transferred	10,778
Representing:	
Cash paid or payable to vendor	3,065
Vocus Communications Limited shares issued to vendor	1,220
Deferred consideration	6,493
	10,778
Acquisition costs expensed to profit or loss	207

	Consolidated	
	2014 $'000	2013 $'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	–	10,778
Less: cash and cash equivalents	–	(163)
Less: deferred consideration	6,493	(6,493)
Less: shares issued by Company as part of consideration	(3,993)	(1,220)
Net cash used	2,500	2,902

Notes to the Financial Statements continued

30 JUNE 2014

Note 40. Interests in subsidiaries

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

Name	Principal place of business/ Country of incorporation	Ownership interest 2014 %	Ownership interest 2013 %
Vocus Group Pty Ltd	Australia	100.00	100.00
Vocus Holdings Pty Limited*	Australia	100.00	–
Vocus Pty Ltd	Australia	100.00	100.00
Vocus Connect Pty Ltd	Australia	100.00	100.00
Vocus Data Centres Pty Ltd	Australia	100.00	100.00
Vocus Fibre Pty Ltd	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 Blue Pty Ltd	Australia	100.00	100.00
Ipera Communications Pty Limited	Australia	100.00	100.00
Vocus (New Zealand) Holdings Limited	New Zealand	100.00	100.00
Vocus (New Zealand) Limited	New Zealand	100.00	100.00
Data Lock Limited	New Zealand	100.00	100.00

* Entity was incorporated on 5 May 2014 and is a wholly owned subsidiary of Vocus Group Pty Limited.

Note 41. 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 Ltd
Vocus Holdings Pty Limited
Vocus Pty Ltd
Vocus Connect Pty Ltd
Vocus Data Centres Pty Ltd
Vocus Fibre Pty Ltd
Perth International Exchange Pty Ltd and 100% of the units in the Perth IX Trust (trading as Perth IX)
Ipera Communications Pty Limited
Vocus (New Zealand) Holdings Limited
Vocus (New Zealand) 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 profit or loss and other comprehensive income and statement of financial position are substantially the same as Vocus and therefore have not been separately disclosed.

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

Note 42. Events after the reporting period

On 2 July 2014, Vocus announced it had entered into agreements with the shareholders of FX Networks Limited ('FX') to acquire 100% of the issued capital of the New Zealand fibre provider. On 21 August 2014, shareholders of Vocus Communications Limited voted in favour of the proposed acquisition of FX at an extraordinary general meeting.

FX owns a unique and high quality fibre optic network consisting of 4,132 kms of modern ducted fibre optic cable covering the North and South Islands of New Zealand. FX has 365 customers including 43 of the Top 100 companies in New Zealand.

The combination of Vocus and FX strengthens both businesses, and Vocus will emerge as the third largest network operator in NZ and the clear leader in trans-Tasman telecommunications and data centres.

On 11 July 2014, Vocus agreed terms and renewed its contract with its largest IP Transit customer Vodafone New Zealand. The contract is renewed for a period of 24 months at a fixed price in line with the market. Under the contract Vocus will supply international Internet capacity to Vodafone New Zealand.

On 22 July 2014, Vocus repaid its existing USD denominated IRU liability. The repayment lowers debt levels as envisioned in the capital raising in March 2014.

On 13 August 2014, the Company expanded its data centre presence in Western Australia by entering into an agreement to buy the Bentley Data Centre from ASG Group Limited. The purchase price for the data centre is $11,700,000.

Apart from the dividend declared as disclosed in note 30, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect Vocus' operations, the results of those operations, or Vocus' state of affairs in future financial years.

Note 43. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2014 $'000	2013 $'000
Profit after income tax expense for the year	12,925	5,098
Adjustments for:		
Depreciation and amortisation	11,712	8,864
Share-based payments	792	402
Non-cash other	(643)	5,926
Change in operating assets and liabilities:		
Increase in trade and other receivables	(75)	(741)
Increase in deferred tax assets	(351)	(1,405)
Increase in accrued revenue	(290)	(142)
Decrease in derivative assets	328	–
Increase in prepayments	(798)	(514)
Decrease in other operating assets	20	–
Increase/(decrease) in trade and other payables	3,090	(574)
Increase/(decrease) in derivative liabilities	396	(1,065)
Increase/(decrease) in provision for income tax	481	(476)
Increase/(decrease) in deferred tax liabilities	1,492	(63)
Increase in employee benefits	227	52
Decrease in other provisions	(1,692)	(241)
Increase in other operating liabilities	2,966	150
Net cash from operating activities	30,580	15,271

Notes to the Financial Statements continued

30 JUNE 2014

Note 44. Non-cash investing and financing activities

	Consolidated	
	2014 $'000	2013 $'000
Acquisition of intangible assets by means of IRU Capacity loan	–	33,254

Note 45. Earnings per share

	Consolidated	
	2014 $'000	2013 $'000
Profit after income tax attributable to the owners of Vocus Communications Limited	12,925	5,098
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	81,501,000	74,456,787
Adjustments for calculation of diluted earnings per share:		
Loan Funded Share Plan	2,174,177	1,458,751
Options	792,366	1,686,615
Weighted average number of ordinary shares used in calculating diluted earnings per share	84,467,543	77,602,153
	Cents	Cents
Basic earnings per share	15.86	6.85
Diluted earnings per share	15.30	6.57

Note 46. Share-based payments

Loan Funded Share Plan

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

During the financial year, 30,000 (2013: 2,674,015) shares were issued to Vocus Blue Pty Limited. At 30 June 2014, Vocus Blue Pty Limited held 2,047,978 (2013: 2,323,137) shares in trust under the Loan Funded Share Plan remuneration scheme.

Employee Share Option Plan

An employee share option plan was established by Vocus and approved by shareholders at an general meeting, whereby Vocus, 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
2014							
01/10/2010	30/09/2017	$0.50	563,336	–	(428,336)	–	135,000
13/05/2011	12/05/2018	$2.00	53,332	–	–	(33,334)	19,998
01/08/2011	31/07/2018	$2.50	93,334	–	–	(46,666)	46,668
15/08/2011	14/08/2018	$2.00	50,000	–	–	–	50,000
11/05/2012	10/05/2019	$2.00	362,500	–	–	(197,168)	165,332
25/02/2014	24/02/2021	$2.60	–	50,000	–	–	50,000
			1,122,502	50,000	(428,336)	(277,168)	466,998
Weighted average exercise price							$1.75
2013							
30/06/2010	30/07/2013	$0.50	333,334	–	(333,334)	–	–
01/10/2010	30/09/2017	$0.50	941,668	–	(378,332)	–	563,336
02/11/2010	30/09/2013	$0.50	66,666	–	(66,666)	–	–
13/05/2011	12/05/2018	$2.00	160,000	–	–	(106,668)	53,332
01/08/2011	31/07/2018	$2.50	923,332	–	–	(829,998)	93,334
15/08/2011	14/08/2018	$2.00	150,000	–	–	(100,000)	50,000
11/05/2012	10/05/2019	$2.00	392,500	–	–	(30,000)	362,500
			2,967,500	–	(778,332)	(1,066,666)	1,122,502
Weighted average exercise price							$1.29

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

Grant date	Expiry date	2014 Number	2013 Number
01/10/2010	30/09/2017	135,000	163,331
13/05/2011	12/05/2018	19,998	–
11/05/2012	10/05/2019	148,666	–
		303,664	163,331

The fair value of the 466,998 (2013: 1,122,502) shares under option at 30 June 2014 was $164,722 (2013: $425,000).

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

- 5 November 2013, 220,668 options were exercised at a share price of $2.85.
- 27 November 2013, 148,335 options were exercised at a share price of $3.43.
- 4 February 2014, 47,500 options were exercised at a share price of $3.18.
- 26 February 2014, 44,333 options were exercised at a share price of $3.47.
- 31 March 2014, 64,334 options were exercised at a share price of $4.61.
- 29 May 2014, 100,334 options were exercised at a share price of $4.40.

Directors' Declaration

30 JUNE 2014

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 Vocus' financial position as at 30 June 2014 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 41 to the financial statements.

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

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors

James Spenceley
Director

28 August 2014
Sydney

Independent Auditor's Report

TO THE MEMBERS OF VOCUS COMMUNICATIONS LIMITED

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
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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 Communication Limited, which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other 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 28 to 68.

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 gives a true and fair view and 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.

Independent Auditor's Report continued

TO THE MEMBERS OF VOCUS COMMUNICATIONS LIMITED

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 Communication 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 2014 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 in pages 19 to 25 under the heading 'Remuneration Report' in the directors' report for the year ended 30 June 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Joshua Tanchel
Partner
Chartered Accountants
Sydney, 28 August 2014

Shareholder Information

30 JUNE 2014

The shareholder information set out below was applicable as at 6 August 2014.

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	1,556
1,001 to 5,000	2,552
5,001 to 10,000	770
10,001 to 100,000	510
100,001 and over	49
	5,437
Holding less than a marketable parcel	178

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
NATIONAL NOMINEES LIMITED	13,475,536	13.90
CITICORP NOMINEES PTY LIMITED	9,902,814	10.22
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,202,438	9.49
J P MORGAN NOMINEES AUSTRALIA LIMITED	6,411,012	6.61
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (PI POOLED A/C)	5,855,159	6.04
VOCUS BLUE PTY LTD (THE VOCUS SHARE PLAN A/C)	3,677,146	3.79
BNP PARIBAS NOMS PTY LTD (DRP>)	2,940,678	3.03
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (BKCUST A/C)	2,544,877	2.63
MR CHRISTOPHER HAYDN DEERE	2,454,160	2.53
LAYER 10 PTY LTD (WILTONGATE A/C)	1,322,916	1.36
MIRRABOOKA INVESTMENTS LIMITED	1,150,000	1.19
TUWELE PTY LIMITED (ROSELLA SUPERANNUATION A/C)	675,313	0.70
TAMEION PTY LTD (TAMEION SUPER FUND A/C)	672,000	0.69
ROMAN EMPIRE PTY LTD	627,598	0.65
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (PISELECT)	601,314	0.62
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	465,854	0.48
TAMEION PTY LTD (THE MCCONNELL II FAMILY A/C)	450,334	0.46
MR MCDONALD WHITFORD RICHARDS	446,667	0.46
W DONNELLY SERVICES PTY LTD (THE DONNELLY SUPER FUND A/C)	435,000	0.45
YORKTRON PTY LTD (SPENCE FAMILY A/C)	411,218	0.42
	63,722,034	65.72

Unquoted equity securities

There are no unquoted equity securities.

Shareholder Information continued

30 JUNE 2014

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
NATIONAL NOMINEES LIMITED	13,475,536	13.90
CITICORP NOMINEES PTY LIMITED	9,902,814	10.22
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,202,438	9.49
J P MORGAN NOMINEES AUSTRALIA LIMITED	6,411,012	6.61
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (PI POOLED A/C)	5,855,159	6.04

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

Directors
David Spence – Chairman
James Spenceley – Chief Executive Officer
Jon Brett
John Murphy
Nicholas ('Nick') McNaughton

Company secretary
Mark Simpson

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

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
Thomson Geer
Level 25
1 O'Connell Street
Sydney NSW 2000

Bankers
Commonwealth Bank of Australia
Level 8
201 Sussex Street
Sydney NSW 2000

Stock exchange listing
Vocus Communications Limited shares are listed on the Australian Securities Exchange (ASX code: VOC)

Website
www.vocus.com.au

Corporate Governance Statement
www.vocus.com.au/corporate-governance/