

Name of entity:	Vocus Communications Limited
ABN:	96 084 115 499
Reporting period:	For the year ended 30 June 2016
Previous period:	For the year ended 30 June 2015

			\$'000
Revenues from ordinary activities	up	454.6% to	830,825
Underlying EBITDA *	up	318.1% to	215,607
Profit from ordinary activities after tax attributable to the owners of Vocus Communications Limited	up	222.9% to	64,091
Profit for the year attributable to the owners of Vocus Communications Limited	up	222.9% to	64,091
Underlying NPAT **	up	460.5% to	101,726
			2016 Cents
			2015 Cents
Basic earnings per share			18.86
Diluted earnings per share			18.82
Underlying diluted earnings per share ***			29.87
			17.38

Statutory basic and diluted earnings per share includes the impact of \$40,660,000 (2015: \$10,400,000) of acquisition and integration costs relating to the acquisition of Amcom Telecommunications Limited and M2 Group Limited in the current year and the integration of the acquisitions of Bentley Data Centre, FX Networks and Enterprise Data Corporation in the previous year.

	Amount per security Cents	Franked amount per security Cents
Special dividend for the year ended 30 June 2015 paid on 8 July 2015	5.1	5.1
Final dividend for the year ended 30 June 2015 paid on 24 September 2015	2.0	2.0
Interim dividend for the year ended 30 June 2016 paid on 6 April 2016	7.6	7.6
Special dividend for the year ended 30 June 2016 paid on 6 April 2016	1.9	1.9

On 23 August 2016, the directors declared a final dividend for the year ended 30 June 2016 of 8.0 cents per ordinary share. The final dividend is to be paid on 4 October 2016 to shareholders registered on 20 September 2016. The dividend will be fully franked and is eligible for the Vocus Dividend Reinvestment Plan.

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

Further details of the results for the year can be found in the 'Review of operations' section of the Directors' report in the attached Annual Report.

* Underlying earnings before interest expense, tax, depreciation and amortisation (Underlying EBITDA)

	2016 \$'000	Consolidated 2015 \$'000
Net profit after tax	64,091	19,850
Add back: Income tax expense	27,914	8,435
Add back: Net finance costs	24,464	5,278
Add back: Depreciation and amortisation	78,487	18,684
Statutory EBITDA	194,956	52,247
Gains associated with early repayment of borrowings	-	(5,477)
Gains on total return swaps (a)	(19,520)	(7,486)
Acquisition and integration costs (b)	40,660	10,400
Gains/losses associated with foreign exchange	(1,445)	629
Other gains and losses	956	1,257
Underlying EBITDA	215,607	51,570

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for non-specific non-cash and significant items.

** Underlying net profit after tax (Underlying NPAT)

	2016 \$'000	Consolidated 2015 \$'000
Net profit after tax	64,091	19,850
Gains associated with early repayment of borrowings	-	(5,477)
Gains on total return swaps (a)	(19,520)	(7,486)
Acquisition and integration costs (b)	40,660	10,400
Gains/losses associated with foreign exchange	(1,445)	629
Other gains and losses	956	1,257
Amortisation of acquired intangibles arising from purchase price allocation (c)	33,113	594
	117,855	19,767
Tax on above	(16,129)	(1,618)
Underlying NPAT	101,726	18,149

*** Underlying diluted earnings per share is calculated with reference to Underlying NPAT, which excludes the after tax effect of the items noted above. The weighted average number of shares on issue for 2016 and 2015 have also been adjusted for the effect of the 1-for-8.9 rights issue undertaken in July 2016, in line with accounting standards.

(a) - Gains on total return swaps

The gains on total return swaps for the year ended 30 June 2016 comprises of mark-to-market movements in relation to Vocus' 16% relevant interest in Macquarie Telecom Group Limited, net of dividends received, brokerage and interest costs relating to these total return swap arrangements. The Macquarie Telecom swap is presently scheduled to settle on 30 December 2016.

The gains on total return swaps for the previous year comprised realised gains in relation to Vocus' 10% interest in Amcom settled in May 2015 and unrealised gains in relation to its relevant interest in Macquarie Telecom for that period.

(b) - Acquisition and integration costs

Acquisition and integration costs in the year ended 30 June 2016 primarily comprise legal, professional services and other costs in relation to the acquisition and integration of Amcom and M2 which completed on 8 July 2015 and 22 February 2016, respectively.

Acquisition and integration costs for the previous year primarily relate to transaction costs in respect of the Bentley, FX Networks and EDC acquisitions and integration costs incurred during the period.

(c) - Amortisation of acquired intangibles arising from purchase price allocation

This refers to amortisation expense incurred in relation to intangible assets recognised on acquisition. These include customer intangibles and software assets. The intangible assets at 30 June 2016 totalled \$446,924,000 (2015: \$18,877,000) and have effective lives between 4 and 15 years. The increase is due to the acquisitions of Amcom and M2.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(110.31)	69.80

The change in net tangible assets per ordinary security has arisen as part of Vocus' acquisition of Amcom Telecommunications Limited and its merger with M2 Group Limited during the year ended 30 June 2016.

4. Control gained over entities

Name of entities (or group of entities)	Amcom Telecommunications Limited and M2 Group Limited
Date control gained	8 July 2015 and 22 February 2016

	\$'000
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)	-

As both Amcom Telecommunications Limited and M2 Group Limited now form part of Vocus' integrated common service infrastructure, it is not practical to report their contributions separately.

5. Loss of control over entities

Name of entities (or group of entities) Amcom L7 Solutions Pty Ltd

Date control lost 16 December 2015

\$'000

Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material) -

Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous period (where material) -

On 16 December 2015, Vocus Communications Limited sold Amcom L7 Solutions Pty Ltd ('L7') to Cirrus Network Holdings Pty Ltd for cash consideration of \$500,000. L7 represented the IT integration and managed services arm of the former Amcom Telecommunications Limited business.

6. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

The Vocus Dividend Reinvestment Plan (DRP) allows shareholders to receive their dividends in the form of Vocus shares and will be settled via the issue of new ordinary shares in the Company.

The issue price will be the volume weighted average price, in aggregate, over the five trading days commencing on and including the next trading day after the dividend record date, being 21 September 2016 to 27 September 2016, less a discount of 1.5%.

The last date(s) for receipt of election notices for the dividend or distribution plans: 21 September 2016

7. Audit qualification or review

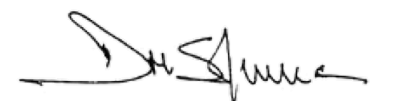
The financial statements have been audited and an unqualified opinion has been issued.

8. Attachments

The Annual Report of Vocus Communications Limited for the year ended 30 June 2016 is attached.

9. Signed

Signed



Date: 23 August 2016

David Spence
Director
Sydney

Vocus Communications Limited

ABN 96 084 115 499

Annual Report - 30 June 2016

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For personal use

Directors

David Spence - Chairman
Craig Farrow - Deputy Chairman
Vaughan Bowen - Executive Director
James Spenceley - Executive Director
Jon Brett
Tony Grist
Rhoda Phillippo
Michael Simmons

Company secretary

Ashe-Lee Jegathesan

Registered office

Level 12
60 Miller Street
North Sydney NSW 2060
Telephone: (02) 8999 8999

Share register

Computershare Investor Services Pty Limited
Level 4
60 Carrington Street
Sydney NSW 2000
Telephone: 1300 787 272

Auditor

Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000

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

Vocus' Corporate Governance Statement and ASX Appendix 4G detailing compliance with the third edition of the ASX Corporate Governance Principles and Recommendations is available on the website www.vocus.com.au/corporate-governance/

Dear Shareholders

A year ago we set out to become the third force in corporate telecommunications. Having achieved this, we saw an opportunity to create a fully-fledged telecommunications business and become a major competitive force in this sector in both Australia and New Zealand.

We have built a diversified trans-Tasman communications business providing services to business, consumers and government.

Recap of the Year

In the past 12 months, we have gone from being a new entrant in the ASX 200 to securing a strong position in the ASX 100, with a market cap of approximately \$5 billion. Capitalising on the vision of the management team and planned strategic direction for the business, we completed the acquisition of Amcom against strong competitor tactics, merged with M2, and announced our intention to acquire Nextgen Networks along with the ASC and the North West Cable projects.

2016 has been a year of significant growth and transformation with revenue up 455% and underlying EBITDA up 318%. We are pleased to declare a final dividend of 8 cents, making a total of 17.5 cents in dividends per share for the year.

Our ability to achieve outcomes in pressed timeframes has helped us to deliver strong shareholder growth. By working with a diverse group of talented people, we were able to come together and accomplish incredible results. Vocus is Fast, Focused and Forward-thinking.

Year ahead

Looking ahead, we will continue with our system and business integration plans, as well as working hard to achieve our cost and revenue synergy targets. I'm pleased to report we are on track on most of these plans, despite all the diversions created during the acquisitions during the year.

Our multiple brand strategy in the Consumer segment is a great differentiator as well as our disciplined investment in long term infrastructure. We strongly believe in the leveraging opportunity from our extensive trans-Tasman infrastructure network and the significant growth opportunity from improving our network utilisation. Our trans-Tasman network reach following the acquisition of Nextgen will be better than any other telecommunications company in this part of the world.

We have come so far in such a short time and look to next year with great excitement and anticipation.

Growth

Maintaining our strong growth is important, as our industry is growing and changing rapidly. As the demand for bandwidth increases almost daily, it is important we continue to be flexible and agile to best respond to the changing nature of that demand.

Reliability, security and flexibility are more important than ever before.

Our aim is to lead our industry in these key areas. To do that requires constant investment and smart people. Only a strong growth business at the forefront of technology can deliver those outcomes.

We remain committed to growth that is:

- profitable
- sustainable
- risk managed, and
- within our capabilities

As we have said every year before; we believe in removing complexity and delivering simple solutions for our customers. We will use our analytical capabilities to understand and deliver on their needs for the future. I strongly believe the adoption of new technology is an important part of keeping our people in sync with the fast moving world. We embrace innovation, and we will continue to foster this thinking with our people.

Future

We are well positioned for a seventh year of profitable and sustainable growth.

I would like to thank James Spenceley for his remarkable leadership, our executive management team, led by our new CEO Geoff Horth, as well as all our incredible staff who have worked tirelessly and made the FY16 year such a success.

Our vision and goals are clear and we remain committed to being the Most Loved Telco. A core part of our strategy to achieve that goal is to always keep our customers front of mind – they are an integral part of our company and our future.

We will continue to strive for the delivery of strong returns to our shareholders. We have a dividend policy that is reflective of profitability, cash generation and investment opportunities and maintains our conservative gearing position.

To my past and new Board (post M2 merger), a big thanks. Our Board Committees are strong and have delivered the overall governance and risk management that our dynamic company requires.

To keep across our news please access www.vocus.com.au/investors.

Thank you again for your investment and interest in Vocus Communications. We have another exciting year ahead.



David Spence
Chairman

The directors present their report, together with the financial statements, on Vocus (referred to hereafter as the 'Consolidated Entity' or '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 2016.

Directors

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

David Spence	Non-Executive Chairman
Craig Farrow	Non-Executive Deputy Chairman (appointed 22 February 2016)
Vaughan Bowen	Executive Director (appointed 22 February 2016)
James Spenceley	Executive Director
Jon Brett	Non-Executive Director
Tony Grist	Non-Executive Director (appointed 8 July 2015)
Rhoda Phillippo	Non-Executive Director (appointed 22 February 2016)
Michael Simmons	Non-Executive Director (appointed 22 February 2016)
Steve Baxter	Former Non-Executive Director (resigned 22 February 2016)
Paul Brandling	Former Non-Executive Director (appointed 8 July 2015, resigned 22 February 2016)
Anthony Davies	Former Non-Executive Director (appointed 8 July 2015, resigned 22 February 2016)
Nick McNaughton	Former Non-Executive Director (resigned 8 July 2015)
John Murphy	Former Non-Executive Director (resigned 22 February 2016)

Principal activities

Vocus Communications Limited ("Vocus", ASX: VOC) is a vertically integrated telecommunications provider, providing telecommunications and other services to customers across Australia and New Zealand.

In July 2015, Vocus acquired Amcom Telecommunications Limited ('Amcom') which combined Amcom's fibre network on the west coast of Australia with Vocus' east coast networks, creating a true national alternative to the incumbent telcos.

In February 2016, Vocus merged with M2 Group Ltd ('M2'), to create the fourth largest telco in Australia and the third largest in New Zealand, with revenues of approximately \$1.8 billion. The merger takes Vocus into supply of broadband, fixed voice, mobile, data centre, cloud and energy services to consumer and business segments through the well-recognised Commander, Dodo and iPrimus brands in Australia and Slingshot, CallPlus and Orcon in New Zealand.

Dividends

Dividends paid/payable during the financial year were as follows:

	2016	Consolidated
	\$'000	2015
		\$'000
Final dividend for the year ended 30 June 2015 of 2.00 cents per ordinary share (2015: 1.00 cent per ordinary share) paid on 24 September 2015	4,606	946
Interim dividend for the year ended 30 June 2016 of 7.60 cents per ordinary share (2015: 1.20 cents per ordinary share) paid on 6 April 2016	40,443	1,266
Special dividend for the year ended 30 June 2016 of 1.90 cents per ordinary share (2015: 5.10 cents) paid on 6 April 2016 (2015: 8 July 2016)	10,110	5,381
	55,159	7,593

On 23 August 2016, the Directors declared a final fully franked dividend of 8.0 cents per share on ordinary shares in respect of its financial year ended 30 June 2016. This dividend is to be paid on 4 October 2016, for shareholders registered on 20 September 2016. The dividend is eligible for the Vocus Dividend Reinvestment Plan.

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

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

In relation to the final dividend for the year ended 30 June 2016, the issue price will be the volume weighted average price for the period 21 September 2016 to 27 September 2016, less the discount of 1.5%. The last date for receipt of election notices for participation in the DRP in relation to this dividend is 21 September 2016.

1,203,192 shares were issued in respect of the DRP in the financial year ended 30 June 2016.

Review of operations

Vocus was founded in 2007, launched in 2008 and listed on the Australian Securities Exchange in 2010. Since launch, Vocus has transformed from a primarily wholesale internet and voice business to a full service provider of telecommunication services to consumers, corporates and government. Given its fixed infrastructure across Australia and New Zealand, Vocus is well positioned to leverage expected continued growth in demand for data bandwidth in its markets, and leveraging this infrastructure to service consumers over government owned broadband fibre networks. The acquisition of Amcom and the merger with M2 created a step-change in earnings, driven by the enhanced scale and operations of Vocus as a result of these transactions.

Total revenue for the financial year ended 30 June 2016 was \$830,825,000 (2015: \$149,799,000). The profit for Vocus after providing for income tax and non-controlling interest amounted to \$64,091,000 (2015: \$19,850,000).

The increase in revenue of \$681,026,000 was attributable principally to the following:

- Acquisition of Amcom on 8 July 2015;
- Merger with M2 on 22 February 2016; and
- Growth in demand for Internet, Fibre / Ethernet and Voice services to corporate customers.

Corporate growth was underpinned by 4,037 on-net buildings and 2,624 metro fibre kilometres in addition to our undersea fibre network and intercity New Zealand network. Voice services also grew strongly on the back of continued performance in wholesale call termination services and unified communications.

Consumer revenue growth was derived from Vocus' merger with M2. Future revenue growth is expected to be underpinned by growth in broadband services and supported by the NBN churn event where consumers are required to move to the NBN as the copper network is decommissioned.

Total services in operation at 30 June 2016 were 1,621,000, across mobile, energy, fixed wire and broadband services.

Reducing consumer churn will be a focus for the business as it steps up its investment in brand, systems, customer care and retention, consistent with its primary goal to be the Most Loved Telco.

Basic earnings per share for Vocus for the financial year ended 30 June 2016 was 18.86 cents (2015: 19.08 cents).

Underlying earnings before interest, tax, depreciation and amortisation ('Underlying EBITDA') for the year ended 30 June 2016 was \$215,607,000 (2015: \$51,570,000). A reconciliation to statutory net profit after tax is shown below:

	Consolidated	
	2016	2015
	\$'000	\$'000
Net profit after tax	64,091	19,850
Add back: Income tax expense	27,914	8,435
Add back: Net finance costs	24,464	5,278
Add back: Depreciation and amortisation	78,487	18,684
Statutory EBITDA	194,956	52,247
Gains associated with early repayment of borrowings	-	(5,477)
Gains on total return swaps (a)	(19,520)	(7,486)
Acquisition and integration costs (b)	40,660	10,400
Gains/losses associated with foreign exchange	(1,445)	629
Other gains and losses	956	1,257
Underlying EBITDA	<u>215,607</u>	<u>51,570</u>

Underlying net profit after tax ('Underlying NPAT') for the year ended 30 June 2016 was \$101,726,000 (2015: \$18,149,000). A reconciliation to statutory net profit after tax is shown below:

	Consolidated	
	2016	2015
	\$'000	\$'000
Net profit after tax	64,091	19,850
Gains associated with early repayment of borrowings	-	(5,477)
Gains on total return swaps (a)	(19,520)	(7,486)
Acquisition and integration costs (b)	40,660	10,400
Gains/losses associated with foreign exchange	(1,445)	629
Amortisation of acquired intangibles arising from purchase price allocation (c)	33,113	594
Other gains and losses	956	1,257
Tax on above	<u>117,855</u>	<u>19,767</u>
Underlying NPAT	<u>(16,129)</u>	<u>(1,618)</u>
	<u>101,726</u>	<u>18,149</u>

Underlying EPS for the year ended 30 June 2016 was 29.87 cents per share (2015: 17.38 cents per share), which is calculated with reference to Underlying NPAT. The weighted average number of shares on issue for 2016 and 2015 also been adjusted for the effect of the 1-for-8.9 rights issue undertaken in July 2016, in line with accounting standards.

(a) - Gains on total return swaps

The gains on total return swaps for the year ended 30 June 2016 comprises of mark-to-market movements in relation to Vocus' 16% relevant interest in Macquarie Telecom Group Limited, net of dividends received, brokerage and interest costs relating to these total return swap arrangements. The Macquarie Telecom swap is presently scheduled to settle on 30 December 2016.

The gains on total return swaps for the previous year comprised realised gains in relation to Vocus' 10% interest in Amcom settled in May 2015 and unrealised gains in relation to its relevant interest in Macquarie Telecom for that period.

(b) - Acquisition and integration costs

Acquisition and integration costs in the year ended 30 June 2016 primarily comprise legal, professional services and other costs in relation to the acquisition and integration of Amcom and M2 which completed on 8 July 2015 and 22 February 2016, respectively.

Acquisition and integration costs for the previous year primarily relate to transaction costs in respect of the Bentley, FX Networks and EDC acquisitions and integration costs incurred during the period.

(c) - Amortisation of acquired intangibles arising from purchase price allocation

This refers to amortisation expense incurred in relation to intangible assets recognised on acquisition. These include customer intangibles and software assets. The intangible assets at 30 June 2016 totalled \$446,924,000 (2015: \$18,877,000) and have effective lives between 4 and 15 years. The increase is due to the acquisitions of Amcom and M2.

Expenses – consolidated

The following table summarises the key expenses:

	2016 \$'000	2015 \$'000	Change \$'000	Change %
Network and service delivery	440,427	64,538	375,889	582%
Employee benefits expense	120,772	25,919	94,853	366%
Depreciation and amortisation expense	78,487	18,684	59,803	320%
Administration and other expenses	54,783	7,502	47,281	630%
Finance costs	24,464	6,073	18,391	303%
Total	718,933	122,716	596,217	486%

All of the key expenses above have increased as a result of the acquisition of Amcom and merger with M2.

Network and service delivery

Network and service delivery costs increased for cost of sales related to the consumer business acquired through the M2 merger. These costs relate primarily to delivery of fixed wire, broadband and mobile services. Costs also increased from scale acquired with the acquisition of Amcom and its corporate business of delivering fibre, data centre and voice services.

Employee benefits expense

Employee benefits expense increases were mainly attributable to personnel and outsourcing expenses of Amcom and M2. M2 in particular drove increases in staffing requirements for sales, operations and support for its large scale consumer business.

Depreciation and amortisation expense

Additions to plant and equipment related to fibre and data centre assets through the acquisition of Amcom and overall customer demand are the principal drivers to increased depreciation in FY16. Amortisation expense increases relative to FY15 relate principally to intangibles arising from the acquisition of M2 along with undersea cable capacity purchases.

Administration and other expenses

Marketing, occupancy and other company expenses from Vocus' merger with M2 and its acquisition of Amcom primarily drove administration expenses higher relative to FY15, reflecting the scale of the current consumer and corporate business of Vocus.

Finance costs

Increase in finance costs reflects the funding of the existing respective debt of Amcom and M2.

Statement of financial position

	2016 \$'000	2015 \$'000	Change \$'000	Change %
Current assets	333,684	41,930	291,754	696%
Non-current assets	4,360,335	341,414	4,018,921	1177%
Total assets	4,694,019	383,344	4,310,675	1124%
Current liabilities	400,564	40,878	359,686	880%
Non-current liabilities	1,119,170	146,227	972,943	665%
Total liabilities	1,519,734	187,105	1,332,629	712%
Net assets	3,174,285	196,239	2,978,046	1518%
Equity	3,174,285	196,239	2,978,046	1518%

As with movement in key expenses, the statement of financial position changed mainly as a result of the acquisition of Amcom Telecommunications Limited and M2 Group Ltd.

Current assets

Current assets have increased from the scale of business acquired from Amcom and M2, as well as Vocus' strong operating cashflow and receivables generated by sales of the overall business.

Non-current assets

Increase in plant and equipment and other intangible assets are primarily due to network investment and undersea cable capacity purchases as referred to in the depreciation and amortisation section above.

Current liabilities

Current liabilities increased mainly to additional trade and other payables and deferred revenue brought on from acquisitions.

Non-current liabilities

Non-current liabilities increased mainly due to borrowings and deferred tax liabilities brought on from acquisitions.

Capital Management

During the year Vocus produced net cash inflows from operating activities of \$135,626,000 (2015: \$42,610,000). A significant amount of this has been reinvested in the network through customer connections and upgrades to the network to support growth. There was also \$21,078,000 net cash inflow (2015: \$13,597,000) from financing activities net of dividend payments of \$50,860,000 (2015: \$2,212,000).

At the reporting date 30 June 2016, consolidated cash holdings stood at \$128,629,000 (2015: \$15,170,000), total drawn debt and lease liabilities was \$886,111,000 (2015: \$119,723,000) and net debt (being total debt less cash holdings) was \$757,482,000 (2015: \$104,553,000).

The gearing ratio for Vocus for the year ended 30 June 2016 was 19% (2015: 35%), as measured by net debt divided by net debt plus equity.

Net debt and gearing reflect Vocus' trading activity as well as the acquisition of M2 Group Ltd and Amcom Telecommunications Limited. These changes are described below in significant changes in the state of affairs.

The Group's bank facility at 30 June 2016 consists of a \$1,234,200,000 senior finance facility (2015: \$131,235,000), comprising a combination of 3 year and 5 year facilities which replaced the existing syndicated facilities of M2 and Vocus. Interest on the facility is recognised at the aggregate of the reference 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

On 8 July 2015, Vocus acquired 100% of the share capital of Amcom Telecommunications Limited for the total consideration of \$686,662,000. The acquisition combined two geographically diverse, complementary businesses to create a major trans-Tasman telecommunications provider.

On 22 February 2016, Vocus acquired 100% of the share capital of M2 Group Limited ('M2') for a total consideration of \$2,259,628,000. The merger of Vocus and M2 brings together two complementary business and creates a vertically integrated, infrastructure backed full service telecommunications provider with proven capabilities and scale to service individuals, corporate and government entities across Australia and New Zealand.

Following the merger of M2, Vocus entered into new syndicated banking facilities with a consortium of Australian and international banks on 27 May 2016. The facilities comprise a combination of 3 year and 5 year facilities, with total facility limits of A\$1,070,000,000 and NZ\$160,000,000 (totaling A\$1,234,000,000 as at 30 June 2016), and replaced the existing syndicated facilities of M2 and Vocus.

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

Matters subsequent to the end of the financial year

Proposed acquisition of Nextgen Networks and capital raising

As announced on 29 June 2016, Vocus entered into a binding agreement to purchase Nextgen Networks as well as two development projects, NWCS and ASC ('Nextgen'), for total upfront consideration of approximately A\$807,000,000 and deferred consideration of up to A\$54,000,000. The proposed acquisition is subject to standard consents, including regulatory consent from the Australian Competition and Consumer Commission ('ACCC') and the Infocom Development Authority of Singapore ('IDA'). The acquisition links Vocus' metro fibre access network to Nextgen's intercity backhaul network. The ACCC has set a provisional date to announce a final decision or release of a Statement of Issues in respect of Nextgen on or around 22 September 2016.

The Nextgen acquisition is funded from an equity raising of \$652,000,000 completed in July 2016, with the balance funded from existing committed debt facilities.

The equity raising was completed over three stages, and comprised a pro-rata accelerated institutional entitlement offer, a pro-rata retail entitlement offer with rights trading and an institutional placement.

On completion of the entitlement offer, a total of 59,969,757 fully paid ordinary shares were issued at \$7.55 per share, with 30,529,752 new shares issued on 11 July 2016 pursuant to the institutional entitlement offer and 29,440,005 new shares issued on 28 July 2016 under the retail entitlement offer.

Under the institutional placement, 23,752,969 ordinary shares at \$8.42 were issued on 11 July 2016.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Vocus' operations, the results of those operations, or the Vocus' state of affairs in future financial years.

Likely developments and expected results of operations

Demand for data and data services and trends to outsource information technology requirement as well as the replacement of the existing copper access networks operated by Telstra and other carriers in favour of the wholesale-only access National Broadband Network being built by the Australian Federal Government is expected to underpin Vocus' delivery of communication and data centre services in financial year 2017. Consistent with its corporate goal of being the Most Loved Telco, Vocus intends to invest in systems, automation and improving customer experience.

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:	SAI Global Limited, Hills Limited and PayPal Australia Pty Limited (unlisted)
Former directorships (last 3 years):	None
Special responsibilities:	Member of Nomination and Corporate Activity Committees
Interests in shares:	481,818 ordinary shares (indirectly)
Name:	Craig Farrow
Title:	Non-Executive Deputy Chairman (appointed on 22 February 2016)
Qualifications:	B. Ec., Dip. FS, CPMgr, SA Fin, FCAANZ, FAICD
Experience and expertise:	Craig is Chairman/Partner of Brentnalls SA, Chartered Accountants and former National Chairman of the Brentnalls National Affiliation of Accounting Firms. In 2012, Craig held the position of President of the Institute of Chartered Accountants in Australia and in 2013, Craig was Executive Chair of the CAANZ amalgamation project for ICAA and NZICA. Currently, Craig acts as a director and Board adviser to several private consulting and trading enterprises across the agribusiness, software and manufacturing sectors. Formerly Chairman of the Institute of Chartered Accountant's Public Practice Advisory Committee, Craig is also highly awarded, including being a Fellow of the Governor's Leadership Foundation and receiving the Institute of Chartered Accountants 1999 National President's Award for services to the Institute and the profession.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of Remuneration Committee and Member of Nomination & Corporate Activity Committees
Interests in shares:	670,125 ordinary shares (indirectly)
Name:	Vaughan Bowen
Title:	Executive Director
Qualifications:	B.Comm (UNSW)
Experience and expertise:	Vaughan co-founded M2 in late 1999, was appointed Managing Director upon incorporation, and steered M2 from a start-up technology enterprise to a large scale, fast-growing and profitable national telecommunications company. Vaughan transitioned from the Managing Director / Chief Executive Officer role into the role of Executive Director in October 2011, following a 12 year period leading M2. In his role as Executive Director at Vocus following its merger with M2, Vaughan's focus is on identifying and executing strategic acquisition opportunities, which, prior to the merger, included a number of transformational acquisitions, including Primus Telecom, Dodo and New Zealand based Call Plus Group. Vaughan is a member of the Australian Institute of Company Directors, was named as a finalist in the Entrepreneur of the Year Southern Region in 2004 and 2009 and in 2012 was awarded ACOMMS Communications Ambassador for outstanding contributions to the telecommunications industry. Vaughan is also Chairman of the Telco Together Foundation, a charitable foundation unifying the telecommunications industry in support of disadvantaged communities, which he created and seeded in 2011.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of Corporate Activity Committee
Interests in shares:	8,593,933 ordinary shares

Name:	James Spenceley
Title:	Executive Director
Experience and expertise:	James Spenceley is the founder of Vocus. As the company's leading straightshooter, James has steered Vocus through exponential growth in a business environment that itself has gone through seismic change. James is a well-respected and awarded entrepreneur having twice won the Australian Entrepreneur of the Year Award (Young and Listed categories). James is the archetypal maverick. Never afraid to challenge the industry, he's won the trust and respect of the business and financial community with his open, transparent and refreshingly straightforward approach to business dealings. A genuine industry innovator because he believes in the critical importance of the network and its role in transforming business. He's a popular speaker at industry events around the Asia Pacific region and is a passionate advocate for 'doing everything better.' James is an elected member of the APNIC Executive Council the body responsible for oversight of Internet address resources in Asia Pacific. He is an active investor in Startup businesses and is passionate about assisting the next generation of Australian entrepreneurs to reach their potential.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of Corporate Activity Committee
Interests in shares:	4,200,000 ordinary shares (indirectly)
Name:	Jon Brett
Title:	Non-Executive Director
Qualifications:	B.Acc, B.Com, MCom, CA (SA)
Experience and expertise:	Jon has extensive experience in the areas of management, operations, finance and corporate advisory. Jon's experience includes several years as managing director of a number of publicly listed companies and was also formerly the non-executive deputy president of the National Roads and Motoring Association. Jon is currently on the board of several unlisted companies and was a director of Investec Wentworth Private Equity Limited. In the mid 1990's, Jon was the CEO of Techway Limited which pioneered internet banking in Australia.
Other current directorships:	The PAS Group Limited
Former directorships (last 3 years):	Godfreys Group Limited
Special responsibilities:	Chair of Audit Committee and Member of Risk Committee
Interests in shares:	426,000 ordinary shares (indirectly)
Name:	Tony Grist
Title:	Non-Executive Director (appointed on 16 July 2015)
Qualifications:	B. Comm, FINSIA, FAICD
Experience and expertise:	After managing the corporate underwriting division of an Australian Stockbroking firm, Tony formed what became Albion Capital Partners, a private investment group based in Perth in 1991. He formed what became Amcom Telecommunications Ltd in 1999 to acquire and finance the then start up telco, Amcom Pty Ltd. Tony led the acquisition of a major stake in iiNet Limited by Amcom in 2006 and joined the board of iiNet the same year. iiNet became the second largest broadband provider by customer number after a major period of expansion, and in 2011 Amcom divested its stake in iiNet via a distribution of the stake to Amcom shareholders. Tony left the board of iiNet in September 2011.
Other current directorships:	None
Former directorships (last 3 years):	Ore Corp Ltd (formerly Silverstone Resources Limited)
Special responsibilities:	Chair of Corporate Activity Committee and Member of Audit and Remuneration Committees
Interests in shares:	3,370,000 ordinary shares including 2,538,600 indirectly

Name: Rhoda Phillippo
Title: Non-Executive Director (appointed 22 February 2016)
Qualifications: M. Sc, MInstD
Experience and expertise: Rhoda is a globally experienced executive with more than 30 years' experience in the telecommunications and IT sectors, including senior management positions in commercial, engineering and operations with British Telecom PLC; as CEO of Optimisation New Zealand, a software development business; and as General Manager of Telecom/Gen-i's (now "Spark") Enterprise trans-Tasman business. Rhoda's experience in the energy industry includes a role as Transition Director with Shell in New Zealand (now Z Energy) for H.R.L. Morrison & Co and recently as Managing Director of Infratil Energy Australia, leading the successful sale of the business in September 2014. Rhoda was previously COO of HRL Morrison & Co. She is currently Executive Chair of Vix Technology, Chair of Snapper Services Ltd and a non-Executive director on the Board of Vix Investments. She is also an Alternate Director for the Future Fund's investment in Perth Airport.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Chair of Risk Committee and Chair of Wholesale Energy Risk Management Subcommittee
Interests in shares: None

Name: Michael Simmons
Title: Non-Executive Director (appointed 22 February 2016)
Qualifications: B. Comm, FCPA, ACIS
Experience and expertise: Michael brings to the Board considerable experience in the telecommunications sector, having been a member of the M2 Group Limited Board and having previously held the position of Chief Executive Officer of ASX-listed SP Telemedia Limited ("SPT Group", now known as TPG Telecom Limited) since its listing in 2001. Prior to listing, the SPT Group was a wholly owned Subsidiary of the Washington H. Soul Pattinson Limited controlled NBN Television Group. He served in executive roles for nearly 26 years within the SPT/NBN Group of Companies, including as Chief Financial Officer and Chief Executive Officer. In 2009 Michael left TPG Telecom to become the Managing Director of TERRiA, a telecommunications consortium of infrastructure-based telecommunications carriers, formed to bid for the contract to build, own and operate the National Broadband Network. Michael has and continues to be a Shareholder, Director and / or Adviser to a number of companies operating predominantly in the telecommunications, technology and media industry sectors.

Other current directorships: Non Executive Director of Aggregato Global Limited, a Vocus related company.
Former directorships (last 3 years): None
Special responsibilities: Member of Risk and Audit Committees
Interests in shares: 21,670 shares

'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

Ashe-lee Jegathesan, GAICD, is General Counsel and Company Secretary. She has held this position since 22 February 2016, having held the equivalent position with M2 Group Limited prior to its merger with Vocus. Ashe-lee is responsible for the legal, regulatory and risk management functions across Vocus. Ashe-lee comes to Vocus with more than 20 years' experience as a lawyer, including in similar senior executive roles with global companies, such as Melbourne IT Limited (also listed on the ASX) and the Planet One Group, and with major commercial law firms in Australia.

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 2016, and the number of meetings attended by each Director were:

	Full Board		Audit		Risk	
	Attended	Held	Attended	Held	Attended	Held
D Spence	18	18	-	-	-	-
C Farrow	7	7	-	-	-	-
V Bowen	7	7	-	-	-	-
J Spenceley	18	18	-	-	-	-
J Brett	18	18	2	2	3	3
T Grist	18	18	1	1	1	2
R Phillippo	7	7	-	-	3	3
M Simmons	7	7	1	1	3	3
S Baxter	10	11	-	-	3	3
P Brandling	9	11	-	-	-	-
A Davies	11	11	1	1	3	3
J Murphy	11	11	1	1	1	1
	Nomination		Remuneration		Corporate Activity	
	Attended	Held	Attended	Held	Attended	Held
D Spence	2	2	-	-	3	3
C Farrow	2	2	3	3	2	3
V Bowen	-	-	-	-	3	3
J Spenceley	-	-	-	-	3	3
J Brett	-	-	1	2	-	-
T Grist	-	-	3	3	3	3
R Phillippo	-	-	3	3	-	-
P Brandling	-	-	2	2	-	-
J Murphy	-	-	2	2	-	-

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

Risk Management

The Board and the Board Risk Committee have endorsed a Risk Management Policy and Framework, which applies to all parts of the Vocus business.

The Chief Risk Officer is the responsible officer for oversight of the risk management framework and process. Following is a summary of the key risks faced by the business in the short to medium term.

Security

Vocus continues to invest significantly in maintaining and improving the security of its digital assets. A team of IT security experts is employed to oversee the network. Security measures implemented include perimeter firewalls, intrusion prevention/detection systems, vulnerability scanning of core systems and application of critical patching, as well as automated logging of core customer systems.

Privacy

As part of signing up new customers, Vocus collects and retains personal identifying information. Recently enacted legislation in relation to Data Retention has also increased the volume of data being retained. In addition to the measures taken to ensure the security of the systems, Vocus ensures that appropriate obligations for confidentiality and data protection are included in contractual arrangements with our suppliers, and comprehensive training is provided to all team members in relation to complying with our legal obligations in this area. Vocus maintains appropriate levels of insurance to provide coverage in the event of a privacy breach, and has prepared an incident response plan which can be activated quickly in the event of a breach occurring.

Business continuity

Business Continuity Plans have been prepared and put in place to define Vocus' response to an interruption event such as disruption to its offices, contact centres or data centres. Business interruption insurance is also in place.

Financial risks

Vocus' financial risk exposures include interest rate risk arising on borrowings and foreign currency risk arising on non AUD-denominated revenue streams and suppliers. These risks are hedged where appropriate and in line with the Group Hedging Policy endorsed by the Board. Further information in respect of these risks is outlined in the Financial Instruments note to the accounts.

Energy

As a retailer of electricity, Vocus purchases electricity via the Australian Energy Market Operator (AEMO) at the prevailing price. This is a competitive market and prices fluctuate with demand. The Wholesale Energy Risk Management policy sets out our risk mitigation strategy. Vocus uses hedging instruments such as Over The Counter derivatives and futures to mitigate price volatility. Vocus also has a gas storage agreement to provide certainty over the price of gas. The Company's hedging strategy is set by the Board of Directors with a 12 month horizon, it is reviewed regularly and monitored by a dedicated Wholesale Energy Risk Management sub-committee of the Board Risk Committee.

Remuneration report - Letter to shareholders

Dear Shareholder

I am pleased to present the Vocus remuneration report for 2016, outlining the remuneration in place and outcomes for Key Management Personnel in FY16. In a year of transformational merger and acquisition activity and resulting integration, we have sought to report thoroughly and transparently and will aim to improve upon our disclosure going forward.

The Remuneration Committee ("Committee") is responsible for ensuring that the remuneration framework within the company is appropriately designed to enhance corporate and individual performance whilst supporting company strategy and performance. The Remuneration Committee's role is to ensure the level of remuneration achieves an appropriate balance between attracting, retaining and rewarding senior managers and directors, Vocus' interests and shareholder expectations.

Our Executive remuneration philosophy involves using a combination of 3 elements; base salary, short-term incentives and long-term incentives. As is demonstrated in this report, these incentives are directly linked to the performance of the company to ensure that any reward is tied to shareholder returns. As part of bringing together the former M2 and Vocus Boards and Executive Teams, we engaged the services of Aon Hewitt Pty Ltd and Egan Associates Pty Ltd to conduct a comprehensive benchmarking exercise against other ASX 100 companies and our peers, and to provide their recommendations on an appropriate remuneration framework going forward.

Our intention is to create and maintain an appropriate remuneration structure to assist Vocus in creating delivering returns to shareholders.

I trust that the company's remuneration strategy will receive your support and we welcome your feedback.



Craig Farrow
Chair of the 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	Chairman
• Craig Farrow	Deputy Chairman (appointed 22 February 2016)
• Jon Brett	Non-executive Director
• Tony Grist	Non-executive Director (appointed 16 July 2015)
• Michael Simmons	Non-executive Director (appointed 22 February 2016)
• Rhoda Phillippo	Non-executive Director (appointed 22 February 2016)
• Vaughan Bowen	Executive Director (appointed 22 February 2016)
• James Spenceley	Executive Director (ceased acting as Chief Executive Officer 22 February 2016)
• Steve Baxter	Former Non-Executive Director (resigned on 22 February 2016)
• John Murphy	Former Non-Executive Director (resigned on 22 February 2016)
• Paul Brandling	Former Non-Executive Director (appointed on 8 July 2015 and resigned on 22 February 2016)
• Anthony Davies	Former Non-Executive Director (appointed on 8 July 2015 and resigned on 22 February 2016)
• Nick McNaughton	Former Non-Executive Director (resigned on 8 July 2015)

And the following persons:

• Geoffrey Horth	Chief Executive Officer (appointed 22 February 2016)
• Mark Callander	CEO NZ (appointed 22 February 2016)
• Scott Carter	Chief Operating Officer (Mass Markets) (appointed 22 February 2016)
• Rick Correll	Chief Financial Officer
• Chris Deere	Chief Technology Officer (ceased acting as Deputy CEO 22 February 2016)
• Matt Hollis	Director, Corporate & Wholesale (appointed 22 February 2016)
• Mark Simpson	Company Secretary (ceased acting as Company Secretary 22 February 2016)

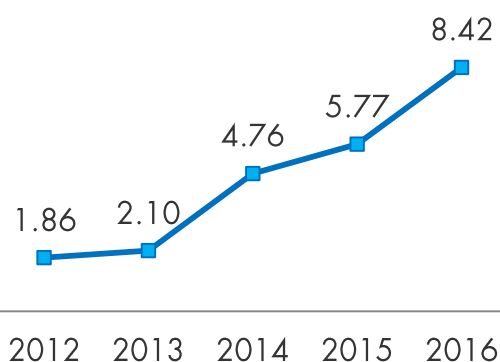
Remuneration framework

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 share price history is shown below.

Share Price History

▲ 46%

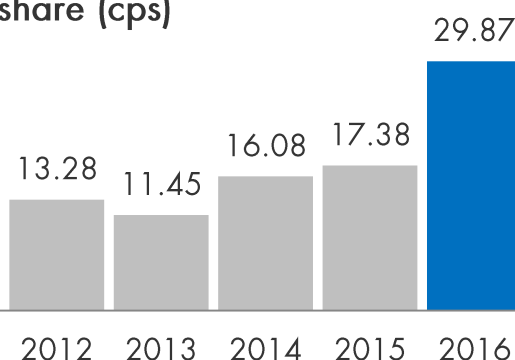
increase over
2015



Underlying diluted earnings per share (cps)

▲ **72%**

increase over
2015



The earnings of Vocus for the five years to 30 June 2016 are summarised below:

	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000
Sales revenue	45,285	66,910	92,302	149,799	830,825
EBITDA	15,722	17,020	32,067	52,247	194,956
EBIT	10,514	8,155	20,355	33,563	116,469
Profit after income tax	7,775	5,098	12,925	19,850	64,091

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2012	2013	2014	2015	2016
Share price at financial year end (\$)	1.86	2.10	4.76	5.77	8.42
Total dividends declared* (cents per share)	-	1.00	1.80	7.30	17.50
Diluted earnings per share** (cents per share)	12.76	6.85	15.86	19.08	18.82
Underlying diluted earnings per share** (cents per share)	13.28	11.45	16.08	17.38	29.87

* includes special dividends

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

Remuneration governance

Remuneration Committee

Since the implementation of Vocus' merger with M2 Group Limited on 22 February 2016, the Remuneration Committee consists of three independent non-executive Directors:

- Craig Farrow (Chairman, appointed 22 February 2016)
- Tony Grist (appointed as director 16 July 2015)
- Rhoda Phillippo (appointed as director 22 February 2016)

Prior to that date, the Remuneration Committee consisted of the following independent non-executive Directors:

- Paul Brandling (Chairman, resigned as director 22 February 2016)
- John Murphy (resigned as director 22 February 2016)
- Jon Brett

Use of remuneration advisors

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

During FY16, following the merger of Vocus and M2, the Committee engaged the services of Aon Hewitt to benchmark its board and executive remuneration framework and strategy against Vocus' peers, being those listed on the ASX as well as within the same industry group, and also sought the strategic advice of Egan Associates Pty Ltd ("Egan") in respect of general trends in remuneration and reward models in so far as mix of pay, forms of incentive, and reporting.

The fees paid to Aon Hewitt and Egan amounted to \$95,733 in FY16.

Voting and comments made at Vocus' 2015 Annual General Meeting ('AGM')

At the last AGM 98.77% of the shareholders who voted, in person or by proxy, voted to adopt the remuneration report for the year ended 30 June 2015. Vocus did not receive any specific feedback at the AGM regarding its remuneration practices.

Director Remuneration

Non-executive Directors

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

Non-executive director fees consist of base fees and fees for membership on board committees, all of which are inclusive of all superannuation and other contributions. The Chairman and Deputy Chairman of Vocus receive an overall fee that is inclusive of board committee fees and superannuation contributions. In addition, non-executive Directors receive reimbursement of expenses incurred while carrying out their Director duties.

The current aggregate pool available for payment of non-executive Directors' fees is \$1,100,000 which was approved by shareholders at the 2015 AGM. Actual fees paid to non-executive Directors in FY16 totalled \$997,989.

Following the external benchmarking exercise, initial increases were made to the Chairman, Deputy Chairman and non-executive director fees to partially address the gap identified by that exercise. A further increase to non-executive Directors' fees is proposed for FY17 (subject to the shareholder approval for an increase in the total available remuneration pool being obtained).

The two step increases seek to bring the level of fees payable to non-executive Directors to an appropriate benchmark and to enable Vocus to continue to seek, attract and retain qualified and talented Directors to support Vocus' continued strategic growth into the future.

To preserve independence and impartiality, non-executive Directors do not receive incentive or performance based remuneration, nor are they entitled to retirement or termination benefits.

Non-Executive Director Fees

The annualised fees for FY16 (on a full year basis for the enlarged Vocus Group), as compared with FY15, are outlined below. It must be noted that the non-executive Directors did not receive the full FY16 amounts, as this revision did not occur until February 2016. Actual amounts received by non-executive Directors are provided later in this report.

	FY16	FY15
Chairman	\$290,000	\$247,500
Deputy Chairman (new role in FY16)	\$185,000	-
Non-executive director	\$125,000	\$82,500
Committee Chair	\$30,000	\$20,000
Committee Member	\$10,000	\$10,000

Executive Directors

In June 2016, the remuneration for Executive Directors was reviewed, with changes to be effective from 1 July 2016. Details of the key terms of the remuneration arrangements for the Executive Directors were lodged with the ASX on 27 June 2016 in accordance with the ASX Listing Rules. The base salary for the Executive Directors is \$330,000.

Separately to their role as Directors of the Company, Executive Directors have a number of additional key mandates, and accordingly the structure of their remuneration is reflective of these mandates. The Executive Directors receive a mix of fixed and variable remuneration.

Executive Director Remuneration Framework

Fixed remuneration

Set using benchmark data of comparable roles against peer group data points.

Consideration is given to the director's experience and skills.

Reflects the additional involvement with Vocus over and above their individual duties as a director, particularly in relation to the identification, verification and negotiation of strategic growth opportunities for Vocus on an on-going basis.

Actual payments made to the Executive Directors during FY16 are set out in the Remuneration Tables.

James Spenceley – former Chief Executive Officer

Following the implementation of Vocus' merger with M2, James Spenceley ceased to perform the role of CEO of Vocus. As a consequence, James received a termination payment, the framework for which was approved by Vocus shareholders at its 2015 AGM.

Details of the then proposed termination payment entitlement were also disclosed in the Scheme Booklet issued by M2 in December 2015 for the Scheme of Arrangement through which the merger was implemented.

The actual termination payment received by James Spenceley on his termination are as follows:

- Lump sum termination payment of \$855,000 (which is inclusive of all statutory entitlements, such as annual and long service leave accrued to termination date);
- Pro-rata payment of short-term incentives to the date of termination of \$227,260; and
- Accelerated vesting of all unvested Loan Funded Share Plan Shares (560,599 shares issued on 18 December 2014 and 293,554 shares issued on 26 November 2015) for which a share-based payment expense of \$1,030,504 has been recognised in FY16.

Vaughan Bowen – Executive Director

Vaughan Bowen remains entitled to the two remaining tranches of STI granted of \$300,000 each as part of his remuneration as Executive Director of M2, relating to the CallPlus acquisition, subject to the performance measures for those tranches being satisfied.

The maximum amount is based upon the following criteria:

- The size of the acquisition
- Cost savings associated with acquisition funding and transaction costs
- Potential cost savings achieved post acquisition
- Potential improvement in shareholder earnings
- Potential shareholder value accretion

Payment of the incentive is only made if earnings improvement objectives (in respect of the acquired business) are achieved.

Current Incentive

As part of the Executive Directors' remuneration, a grant of 100,000 performance rights each under the above Plan be made to each Executive Director in recognition of their ongoing engagement and contribution, including such reasonable assistance requested in relation to implementation and integration of the Company's various acquisitions. These performance rights will be subject to the terms and conditions of the Vocus Performance Rights Plan Rules and the Invitation Letter setting out the terms of the Grant at the time.

The performance rights will vest in 3 tranches, upon the expiry of each of the following Vesting Periods:

- Tranche 1 (33,333 performance rights) to vest on the expiry of 1 July 2017
- Tranche 2 (33,333 performance rights) to vest on the expiry of 1 July 2018
- Tranche 3 (33,334 performance rights) to vest on the expiry of 1 July 2019

This grant is subject to shareholder approval, which will be sought at the next Vocus AGM.

Executive Remuneration

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 Remuneration Committee continuously monitors the remuneration structure to ensure it remains effective in retaining and focussing the team that has to date been very successful in building shareholder value.

The recently conducted benchmarking exercise across the Executive team focused on roles, Vocus peers and comparators, within both the ASX and the industry. This provided insight and tangible data on relevant remuneration levels and mixes of total remuneration across fixed, STI and LTI. The consultants also assisted the Remuneration Committee to develop a strategy and framework for Executive remuneration going forward, designed to attract, retain and reward highly talented and qualified executives to lead the Vocus business.

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
- attracting and retaining high calibre personnel.

The Committee intends to undertake a similar review every two years to ensure that Vocus' remuneration strategy and framework remains current and appropriate for an organisation of its size, scale and capacity.

Executive Remuneration Framework

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.

Fixed remuneration

Set using benchmark data of comparable roles against peer group data points.

Incentive (STI/LTI)

Designed to reward achievement of Vocus' financial, operational and strategic business objectives and align Executive performance with overall shareholder returns on both annual and longer term timeframes.

Consideration is given to the executive's qualification, experience and skills.

Short-term Incentive (STI)

Aligned to shareholder value creation and overall business strategy with focus is on financial and non-financial hurdles.

Long term incentive (LTI)

Aligned to the achievement of increased shareholder wealth over the longer term

The Remuneration Committee, in conjunction with the CEO, reviews Executive remuneration annually on the basis of the current market practice, performance against agreed measures and other relevant factors.

The STI program is designed to align the targets of the business with the targets of the Executives responsible for achieving those targets. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. Each year KPIs aligned to business objectives 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 overall Vocus business strategy, adjusted to reflect individual roles. For the period to which STI applies, payments are made after assessment of performance by the Board following its approval of the annual accounts.

LTI's are exclusively equity-based. There are number a different plans currently in place, as a result of the combination of Vocus with Amcom and M2 in FY16. Details of these plans are set out in the relevant section below, and have previously been disclosed to the market by the various organisations and in M2's Scheme Booklet. The LTI framework for FY17 and beyond is outlined later on in this report.

Chief Executive Officer

The Board has put in place a remuneration framework and package that aligns the CEO's performance with the company's strategic objectives. The CEO's remuneration is structured broadly on the principle that 50% of his remuneration is fixed and 50% is variable (with the maximum amounts spread equally between STI and LTI's).

Although Geoff Horth commenced his role as CEO of Vocus on 22 February 2016, following the merger with M2, he did not receive any increase to the level fixed remuneration previously paid to him as CEO of M2 pending the external review and benchmarking exercise which was undertaken by the Remuneration Committee. Following that review, a new contract was entered into with Geoff Horth, the terms of which were outlined in an announcement to the ASX and market on 27 June 2016, and which was to be effective from 1 July 2016.

The fixed remuneration component of the CEO's remuneration of \$1,100,000 was determined by the Board with reference to market data. The Remuneration Committee considered the following factors in arriving at this outcome:

- Ensuring that remuneration is competitive with the company's relative peer group;
- The increased responsibilities of the CEO following the merger of Vocus and M2; and
- Reflective of the increased size and scale of the new business.

The CEO's STI of \$600,000 is subject to key performance indicators determined by the Remuneration Committee and the Board at the commencement of the year. The KPIs relate directly to Vocus' financial and non-financial performance. The KPI's and STI amount is reviewed annually by the Remuneration Committee. Details of the STI payment made to Geoff Horth in respect of FY16 is outlined in the relevant section.

The CEO's LTI of \$600,000 is equity based and consists performance rights to be issued to the CEO under the Vocus Communications Limited Performance Rights Plan, details of which appear further in this report. As at 30 June 2016, Geoff Horth holds 135,418 options and 224,806 performance rights, issued as at 22 February 2016 to replace those provided by M2.

Other key management personnel remuneration

Variable remuneration for Executive KMP (other than the CEO) is structured on similar principles to those adopted for the CEO. Although the mix of fixed and variable remuneration varies between the Executives, and is determined based on the extent to which they are in a position to directly influence Company performance, Vocus' remuneration philosophy is to allocate a material part of executive remuneration to be derived from an "at risk" element in the form of STI and LTI. Given that Vocus' Executive KMP fixed remuneration is below the benchmarked median in most instances, when compared to ASX peers, Vocus Group pays STI in cash to better approximate market levels of cash payment in the remuneration mix.

The review by the Remuneration Committee resulted in the FY17 fixed remuneration for the Executive KMP being increased. The total fixed remuneration pool for Executive KMP (other than the CEO) is \$2,400,000. These adjustments were necessary to improve fixed remuneration relative to the market median, in the context of the increased responsibilities for each Executive following the merger of the two companies, and to reduce the risk of voluntary executive turnover due to pay considerations.

It is worth noting that the fixed remuneration still remains below the median in all instances, based on the data provided by the recent benchmarking exercise. The Remuneration Committee aims to address any gaps over a two year period to bring the remuneration framework in line with a competitive benchmark, reflective of alignment with shareholder interests and delivery of merger benefits.

Service agreements

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

<u>Key term</u>	<u>Executive Directors</u>	<u>CEO</u>	<u>Other KMP</u>
Duration of agreement:	No fixed term	No fixed term	No fixed term
Period of notice required to terminate agreement (by the relevant KMP):	Three months	Six months or three months in case of fundamental change	Three months
Period of notice required to terminate agreement (by Company):	Three months	Twelve months	Three months
Potential Termination benefits (where required, to be approved by the Shareholders at the 2016 AGM):		In addition to notice, if termination occurs as a result of fundamental change, termination payment equal to 9 months' Fixed Remuneration. No additional payments if Company terminates employment otherwise with notice	In addition to notice, maximum termination payment ranging from 3 months to 6 months' Fixed Remuneration, with additional notice periods / payments applicable for some KMP in certain change of control scenarios
	Accelerated vesting of incentives on a pro-rated basis, at the Board's discretion at the time	Accelerated vesting of LTI on a pro-rated basis, at the Board's discretion at the time	Accelerated vesting of LTI on a pro-rated basis, at the Board's discretion at the time
	Statutory leave entitlements	Statutory leave entitlements	Statutory leave entitlements
Remuneration:	As disclosed in the relevant section		

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	
	Cash salary and fees \$	Bonus / Commission \$	Non-monetary \$	Super-annuation \$	Employee leave \$	Equity-settled * \$
2016						
<i>Non-Executive Directors:</i>						
D Spence	213,739	-	-	18,330	-	-
C Farrow ¹	65,920	-	-	-	-	-
T Grist	104,782	-	-	9,954	-	-
J Brett ²	147,662	-	-	14,028	-	-
R Phillippo ¹	58,793	-	-	-	-	-
M Simmons ¹	51,667	-	-	-	-	-
S Baxter ³	84,067	-	-	-	-	-
J Murphy ³	71,121	-	-	-	-	-
P Brandling ³	74,206	-	-	7,050	-	-
A Davies ³	62,790	-	-	5,965	-	-
N McNaughton ⁴	7,917	-	-	-	-	-
	942,664	-	-	55,327	-	-
<i>Executive Directors:</i>						
J Spenceley ⁵	658,192	250,000	-	19,308	855,000	1,030,504
V Bowen ¹	82,265	-	-	10,000	17,167	-
<i>Other Key Management Personnel:</i>						
G Horth ¹	284,103	118,667	37,740	10,000	34,426	166,279
M Callander ¹	91,886	28,656	27,939	6,126	-	10,719
R Correll	420,800	195,888	38,377	34,200	10,493	58,865
S Carter ¹	170,936	62,000	29,360	10,000	14,355	74,258
C Deere	249,692	88,000	-	19,308	30,935	37,216
M Hollis ⁶	170,264	596,795	26,314	18,832	23,554	36,318
M Simpson ⁷	208,029	112,500	-	19,763	4,760	31,314
	3,278,831	1,452,505	159,730	202,864	990,690	1,445,473

* Includes share-based payments accounting expense for options, performance rights and loan funded shares.

1. Denotes remuneration from 22 February 2016 to 30 June 2016

2. Includes remuneration for representation of Vocus on the board of its New Zealand construction joint venture Connect 8 Limited until resignation on 16 April 2016

3. Denotes remuneration up to cessation as director of Vocus (22 February 2016)

4. Denotes remuneration up to cessation as director of Vocus (8 July 2015)

5. Includes amounts paid in relation to termination as CEO of Vocus of \$855,000, which is inclusive of all statutory entitlements, such as annual and long service leave accrued to termination date and share-based payment expense on early vesting of Loan Funded Shares of \$1,030,054

6. Includes commissions earned of \$401,795

7. Denotes remuneration up to cessation as Company Secretary (22 February 2016)

		Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Employee leave	Equity-settled *	Total
2015	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
D Spence	136,986	-	-	13,014	-	-	150,000
J Brett **	92,846	-	-	8,820	-	-	101,666
J Murphy	73,373	-	-	1,627	-	-	75,000
S Baxter ***	56,250	-	-	-	-	-	56,250
N McNaughton	95,000	-	-	-	-	-	95,000
<i>Executive Directors:</i>							
J Spenceley	481,217	250,000	-	18,783	27,810	96,341	874,151
<i>Other Key Management Personnel:</i>							
R Correll	366,061	150,000	-	35,000	5,986	66,985	624,032
M Simpson	287,000	120,000	-	30,000	5,012	54,687	496,699
C Deere	211,217	50,000	-	18,783	38,690	35,589	354,279
	1,799,950	570,000	-	126,027	77,498	253,602	2,827,077

- * Includes share-based payments accounting expense for both options and loan funded shares.
 ** Includes fees and super for representation of Vocus on the board of its New Zealand construction joint venture Connect 8 Limited.
 *** Remuneration disclosed is from date of appointment as a director (2 October 2014).

The proportion of remuneration where linked to performance is detailed below.

Name	Fixed remuneration		At risk - STI		At risk - LTI *	
	2016	2015	2016	2015	2016	2015
<i>Executive Directors:</i>						
V Bowen	100%	-	-	-	-	-
J Spenceley	54%	57%	9%	29%	37%	14%
<i>Other Key Management Personnel:</i>						
G Horth	56%	-	18%	-	26%	-
M Callander	76%	-	17%	-	7%	-
R Correll	66%	64%	26%	24%	8%	12%
S Carter	62%	-	17%	-	21%	-
C Deere	71%	65%	21%	14%	8%	21%
M Hollis	27%	-	68%	-	5%	-
M Simpson	62%	64%	30%	24%	8%	12%

* The LTI above refers to share-based payments.

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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2016	2015	2016	2015
<i>Executive Directors:</i>				
V Bowen	-	-	-	-
J Spenceley	100%	100%	-	-
<i>Other Key Management Personnel:</i>				
G Horth	89%	-	11%	-
M Callander	90%	-	10%	-
R Correll	94%	100%	6%	-
S Carter	93%	-	7%	-
C Deere	88%	100%	12%	-
M Hollis	100%	-	-	-
M Simpson	100%	100%	-	-

These STI payments were paid or are payable based on the successful achievement of earnings based targets including budgeted revenue, earnings before interest and depreciation and amortisation, net profit after tax, market expectations, growth initiatives, and other qualitative or project driven outcomes.

FY16 was a year in which Vocus underwent significant transformational changes, in particular its combination with Amcom in July 2015 and then with M2 in February 2016. Of the Executive KMP who held office as at 30 June 2016, Rick Correll and Chris Deere both held KMP office at 30 June 2015. The remaining Executive KMP took office at varying stages during the financial year, predominately from 22 February 2016, when the merger with M2 was implemented.

The STI payments made to the CEO and Executive KMP therefore reflect a number of different criteria and factors which were considered by the Remuneration Committee, and reflect the contribution made by each of the Executive KMP to both Vocus' business performance in FY16, as well as the contribution each of them made to the transformation undertaken by Vocus in FY16. This is consistent with Vocus' remuneration framework in relation to STIs being aligned to the achievement of Vocus' strategic objectives and increasing shareholder returns.

All Executive KMP (including the CEO) substantially achieved satisfaction of qualitative and project measures whilst also applying substantial effort towards the transformational union of Vocus and M2, without being in receipt of any further retention or transition bonuses. The final STI award took into account a reasonable balance of all of the above and a significant value delivered to shareholders through 2016 activities.

The CEO's KPI's were originally based on the same principles as those adopted in M2's 2015 annual report. Since the merger, Geoff's appointment as CEO of the merged group resulted in additional responsibilities relating to achievement of Vocus financial objectives as well as additional qualitative components around the merger. Despite this, it was agreed that given the proportion of the financial year in which the merged company operated, the original KPI measures would apply.

	KPI	% of STI	% Achieved
Geoff Horth	Financial Results Inclusive of development of the Annual Operating Plan, the 5 year strategy, and achievement of Executive team KPI's (paid on the basis of average achievement across the executive team)	50	45
	Customer Satisfaction	10	8
	Business Improvement	20	16
	Leadership, Values & Behaviours	20	20
	TOTAL	100	89%

The STI measures for FY17 will be established for the CEO and Executive team in the first 3 months of the financial year. The measures will reflect both quantitative and qualitative measures representing Vocus' strategic business objectives. Significant importance will be placed on the delivery of financial results to ensure shareholder return. Qualitative measures will include Merger implementation, Customer Satisfaction, Business Improvement, and Leadership, Values and Behaviours.

The CEO's KPIs are cascaded throughout the company, and captured within an online goal setting and performance management system.

The total STI and LTI pools for Executive KMP is \$1,125,000 and \$1,030,000, respectively.

Equity-based compensation

Vocus has a number of equity-based compensation plans currently in operation (both legacy and forward looking). This has resulted primarily from the combination of Vocus, Amcom and M2 over the past financial year. Going forward, it is intended that no new options or shares will be issued under the Employee Share Option Plan ("ESOP") or the Loan Funded Share Plan ("LFSP").

The Remuneration Committee sought advice from Egan Associates in relation to the long term incentive plans and equity based compensation plans adopted by comparable peers of Vocus, and has determined that the Vocus Communications Limited Performance Rights Plan ("Performance Rights Plan") will form the basis of the equity based long term incentive plan for Vocus in the future. The Board intends to seek the approval of the shareholders to the terms of this Long Term Incentive Plan at the 2016 AGM, and the exemption of shares issued in satisfaction of performance rights from the 15% cap on the issue of new shares.

Employee Share Option Plan ("ESOP")

An employee share option plan was established by Vocus and approved by its shareholders at a general meeting in 2010, whereby Vocus may, at the discretion of the Vocus Board, grant options in respect of Vocus Shares to its employees.

Each Vocus Option converts into one Vocus Share on exercise. No amounts are paid or payable by the recipient of the Vocus Option in respect of the option grant, although an exercise price is set at the date the options are granted. Vocus Options carry neither rights to dividends nor voting rights. Vocus Options may be exercised at any time from the date of vesting to the date of their expiry.

Pursuant to the Scheme of Arrangement undertaken by M2, each outstanding M2 option converted to Vocus Options, in accordance with a pre-determined formula. Only the CEO held M2 options which were converted to Vocus Options, with 135,418 of these options yet to vest as at the date of this report.

The table below summarises the Vocus Options currently outstanding:

Issue date	Expiry date	Exercise price*	Number of options	% vested
1 August 2011	31 July 2018	\$2.39	46,668	100%
11 May 2012	10 May 2019	\$1.89	7,500	100%
22 February 2016**	22 February 2023	\$5.09	135,418	-
			189,586	

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

** Issued to Geoff Horth in replacement of his M2 options and due to vest on 1 January 2017 subject to performance conditions

The table below summarises the Vocus Options that were exercised during FY16:

Grant date	Exercise price	Number of shares issued
1 October 2010	\$0.50	135,000
13 May 2011	\$2.00	6,666
11 May 2012	\$2.00	61,334
		203,000

Loan Funded Share Plan ("LFSP")

Vocus Shares were issued to Vocus Blue Pty Limited, a wholly-owned Subsidiary of Vocus, as part of Vocus' Loan Funded Share Plan remuneration scheme to attract and retain key employees. Vocus Blue Pty Limited's sole purpose is to hold shares as trustee for its beneficiaries (its Participants).

The Participants are granted a loan by Vocus to purchase the beneficial interest in Vocus Shares. The loans are limited recourse to the Participants and any dividends received on 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 the Vocus Shares and are required to repay the loan in order to do so.

The shares held by Vocus Blue Pty Limited are included in the number of Vocus Shares on issue. As at the date of this Report, Vocus Blue Pty Limited held 5,089,252 Vocus Shares in trust under the Loan Funded Share Plan remuneration scheme of behalf of its Participants. Of this total number, 2,581,687 Vocus Shares were shares issued to current and previous Vocus KMP as at 30 June 2016 including 554,177 loan funded shares issued to KMP during the financial year ended 30 June 2016.

A summary of LFSP Shares held by KMP is listed in the table below. Fair value per share and issue price per share has also been included for additions during the current year.

LFSP Shares	Balance at the start of the year	Additions	Disposals/ other	Balance at the end of the year	Issue price per share	Fair value per share
J Spenceley	1,262,353	293,554	-	1,555,907	7.08	1.14
R Correll	569,918	69,967	-	639,885	6.49	1.16
M Simpson*	455,439	55,428	(510,867)	-	6.49	1.16
C Deere	224,000	95,228	-	319,228	6.49	1.16
M Hollis**	-	66,667	-	66,667	5.53	1.30

* *Classed as disposal on ceasing to be KMP.*

** *Additions represent existing shareholding at date of appointment as a director or key management person. Matt Hollis was issued 40,000 shares under the LFSP in the current year.*

A summary of loans outstanding in relation to LFSP Shares held by KMP is listed in the table below.

LFSP Loans	Balance at the start of the year	Additions	Repayments	Balance at the end of the year
J Spenceley	4,391,365	2,078,362	(191,612)	6,278,115
R Correll	2,093,582	454,086	(84,094)	2,463,574
M Simpson*	1,711,587	359,728	(2,071,315)	-
C Deere	1,131,200	618,030	(37,740)	1,711,490
M Hollis**	-	343,415	(8,395)	335,020

* *Classed as disposal on ceasing to be KMP.*

** *Additions represent existing shareholding at date of appointment as a director or key management person. Matt Hollis was issued 40,000 shares under the LFSP in the current year.*

No further shares are to be issued under the LFSP to any participants.

Performance rights

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

The total number of performance rights which were issued, vested and converted to shares in FY16 are:

Date	Number of Performance Rights	Notes
1 July 2015		- Balance as at 1 July 2015
		Issue of performance rights as replacement for Amcom Telecommunications Ltd performance rights
8 July 2015	364,511	
8 July 2015	(74,978)	Vesting of performance rights and issue of shares
10 December 2015	(4,614)	Vesting of performance rights and issue of shares
12 January 2016	(124,005)	Vesting of performance rights and issue of shares
15 January 2016	(18,456)	Vesting of performance rights and issue of shares
		Issue of performance rights as replacement for M2 Group Limited performance rights
22 February 2016	784,651	
30 June 2016	927,109	Balance as at 30 June 2016

Prior to the vesting of the performance rights referred to above, the performance conditions applicable to those performance rights were tested. The performance rights issued to replace the Amcom performance rights were subject to time thresholds, namely 6 and 12 month periods, and to the performance rights holder's continued employment with Vocus up to and including the vesting date. The performance rights which vested in December 2015 and January 2016 satisfied the relevant performance conditions, and accordingly were converted to shares in the name of the rights holder.

Performance Rights on issue as at 30 June 2016 are as follows:

Vesting Date	Number of Performance Rights	Performance Measures
1 July 2016	213,973	Replacement M2 performance rights - earnings per share (EPS) performance measure deemed satisfied at time of issue. Relative total shareholder return (TSR) measured and satisfied.
8 July 2016	142,458	Replacement Amcom performance rights – continued employment at vesting date
1 July 2017	382,249	Replacement M2 performance rights - earnings per share (EPS) performance measure deemed satisfied at time of issue. Relative total shareholder return (TSR) to be measured.
1 July 2018	188,429	Replacement M2 performance rights - earnings per share (EPS) performance measure deemed satisfied at time of issue. Relative total shareholder return (TSR) to be measured.
	927,109	

The performance rights due to vest in July 2016 have since vested and been converted to shares. In addition, the vesting date of some performance rights due to vest on 1 July 2017, were accelerated and converted to shares as part of the executive termination entitlements for executives (non-KMP) whose employment was terminated as a result of the merger.

A summary of performance rights held by KMP is listed in the table below.

Performance rights	Balance at the start of the year	Additions	Disposals/ other	Balance at the end of the year
G Horth	-	224,806	-	224,806
S Carter	-	104,425	-	104,425
M Callander	-	15,074	-	15,074

The key features of the Vocus Performance Rights Plan for FY17 and onwards are set out below:

Form of grant	Performance rights to be settled in Vocus shares Participants are not required to pay for the performance rights
Grant timing	September
Frequency of grant	Annual
Number of performance rights granted	Measured on a fair value basis, based on the value weighted average price (VWAP) value of the shares for the calendar month of June immediately preceding the grant of the performance rights
Vesting date	Upon expiry of the Performance Period
Performance period	3 year period, from 1 July in the year of grant to 30 June at the end of the period
Performance measures	A mix of EPS, TSR, ROI and WACC measures
Terminating Executives	If a good leaver, vesting will be on pro-rata basis at the discretion of the Board
Change of control	Vesting on pro-rata basis at discretion of the Board.

No non-executive Directors participate in any of the short-term or long term incentive plan arrangements maintained by Vocus.

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 Vocus held during the financial year by each Director and other members of key management personnel of Vocus at 30 June 2016, 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
<i>Ordinary shares</i>					
D Spence	471,218	-	-	-	471,218
C Farrow *	-	-	658,125	-	658,125
V Bowen *	-	-	8,193,933	-	8,193,933
J Spenceley **	4,200,000	293,554	-	(293,554)	4,200,000
J Brett	400,000	-	-	-	400,000
T Grist *	-	-	3,200,000	-	3,200,000
R Phillippo	-	-	-	-	-
M Simmons *	-	-	19,481	-	19,481
G Horth *	-	-	678,098	-	678,098
R Correll **	569,918	69,967	-	(91,889)	547,996
M Callander *	-	-	853	-	853
S Carter *	-	-	292,500	(142,500)	150,000
C Deere **	2,396,348	95,228	-	(57,579)	2,433,997
M Hollis *	-	40,000	160,092	-	200,092
	8,037,484	498,749	13,203,082	(585,522)	21,153,793

* Additions represent existing shareholding at date of appointment as a director or key management person

** Ordinary shares as remuneration granted through the Vocus LFSP

This concludes the remuneration report, which has been audited.

Loans to Directors and executives

Loans to Directors and executives for the year ended 30 June 2016 are in relation to the Company's Loan Funded Share Plan. A schedule detailing the loan amounts and movements during the year is included in the Remuneration Report.

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 August 2011	31 July 2018	\$2.39	46,668
11 May 2012	10 May 2019	\$1.89	5,000
22 February 2016	22 February 2023	\$5.09	135,418
			<u>187,086</u>

On 28 July 2016, Vocus announced a reduction in the exercise prices of its unlisted options in accordance with the formula set out in the rules of the Vocus Options and Performance Share Plan, consistent with ASX Listing Rule 6.22.2. The changes to the exercise prices of Vocus' unlisted options follows the completion of Vocus' fully underwritten 1 for 8.90 rights issue concluded in July 2016.

The reduced option prices are reflected in the table above which were previously \$2.50, \$2.00 and \$5.20, respectively.

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

Shares issued on the exercise of options

The following ordinary shares of Vocus Communications Limited were issued during the year ended 30 June 2016 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	135,000
13 May 2011	\$2.00	6,666
11 May 2012	\$2.00	63,834
		<u>205,500</u>

Shares under performance rights

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

Grant date	Expiry date	Exercise price	Number under rights
22 February 2016	1 July 2017	\$0.00	319,344
22 February 2016	1 July 2018	\$0.00	173,355
			<u>492,699</u>

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of performance rights

The following ordinary shares of Vocus Communications Limited were issued during the year ended 30 June 2016 and up to the date of this report on the vesting of performance rights granted:

Date performance rights granted	Exercise price	Number of shares issued
8 July 2016	\$0.00	364,511
22 February 2016	\$0.00	302,820
		<u>667,331</u>

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 45 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, and that the services as disclosed in note 45 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 partners of Deloitte Touche Tohmatsu

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

Rounding of amounts

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

Auditor's independence declaration

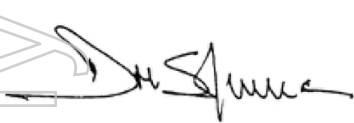
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

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



David Spence
Director

23 August 2016
Sydney

For personal use

The Board of Directors
Vocus Communications Limited
Level 12, 60 Miller Street
North Sydney NSW 2060

23 August 2016

Dear Board Members

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

As lead audit partners for the audit of the financial statements of Vocus Communications Limited for the financial year ended 30 June 2016, we declare that to the best of our 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



Don Pasquariello
Partner
Deloitte Touche Tohmatsu



Alfie Nehama
Partner
Deloitte Touche Tohmatsu

			Consolidated
	Note	2016 \$'000	2015 \$'000
Revenue			
	4	830,825	149,799
Share of profits of joint ventures accounted for using the equity method	24	925	525
Other gains and losses	5	(20,651)	677
Expenses			
Network and service delivery		(440,427)	(64,538)
Employee benefits expense	6	(120,772)	(25,919)
Depreciation and amortisation expense	6	(78,487)	(18,684)
Administration and other expenses		(54,783)	(7,502)
Finance costs	6	(24,464)	(6,073)
Profit before income tax expense		92,166	28,285
Income tax expense	27	(27,914)	(8,435)
Profit after income tax expense for the year		64,252	19,850
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Loss on the revaluation of available-for-sale financial assets, net of tax		(233)	-
Foreign currency translation		3,209	(217)
Net movement on hedging transactions, net of tax		6,623	508
Other comprehensive income for the year, net of tax		9,599	291
Total comprehensive income for the year		<u>73,851</u>	<u>20,141</u>
Profit for the year is attributable to:			
Non-controlling interest		161	-
Owners of Vocus Communications Limited	37	64,091	19,850
		<u>64,252</u>	<u>19,850</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		161	-
Owners of Vocus Communications Limited		73,690	20,141
		<u>73,851</u>	<u>20,141</u>
		Cents	Cents
Basic earnings per share	7	18.86	19.08
Diluted earnings per share	7	18.82	19.01

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

	Note	Consolidated 2016 \$'000	2015 \$'000
Assets			
Current assets			
Cash and cash equivalents	30	128,629	15,170
Trade and other receivables	16	144,379	22,682
Inventories	17	12,924	-
Available-for-sale financial assets		1,998	-
Derivative financial instruments	11	9,978	1,027
Other	34	35,776	3,051
Total current assets		333,684	41,930
Non-current assets			
Plant and equipment	25	522,413	204,619
Intangibles	26	3,757,068	125,394
Deferred tax	28	57,403	5,443
Investment in joint venture		4,934	3,708
Other	19	18,517	2,250
Total non-current assets		4,360,335	341,414
Total assets		4,694,019	383,344
Liabilities			
Current liabilities			
Trade and other payables	18	288,966	24,177
Borrowings	32	13,729	1,764
Derivative financial instruments	12	3,972	-
Income tax		2,036	3,533
Provisions	22	25,020	10,127
Other	20	66,841	1,277
Total current liabilities		400,564	40,878
Non-current liabilities			
Borrowings	33	872,382	117,959
Derivative financial instruments	13	5,390	-
Deferred tax	29	216,320	21,299
Provisions	23	11,310	2,441
Other	21	13,768	4,528
Total non-current liabilities		1,119,170	146,227
Total liabilities		1,519,734	187,105
Net assets		3,174,285	196,239
Equity			
Contributed equity	35	3,100,738	144,244
Reserves	36	16,306	3,847
Retained profits	37	57,080	48,148
Equity attributable to the owners of Vocus Communications Limited		3,174,124	196,239
Non-controlling interest		161	-
Total equity		3,174,285	196,239

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

Consolidated	Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2014	98,594	2,639	35,891	-	137,124
Profit after income tax expense for the year	-	-	19,850	-	19,850
Other comprehensive income for the year, net of tax	-	291	-	-	291
Total comprehensive income for the year	-	291	19,850	-	20,141
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 35)	45,650	-	-	-	45,650
Share-based payments (note 38)	-	917	-	-	917
Dividends paid (note 8)	-	-	(7,593)	-	(7,593)
Balance at 30 June 2015	144,244	3,847	48,148	-	196,239
Consolidated	Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2015	144,244	3,847	48,148	-	196,239
Profit after income tax expense for the year	-	-	64,091	161	64,252
Other comprehensive income for the year, net of tax	-	9,599	-	-	9,599
Total comprehensive income for the year	-	9,599	64,091	161	73,851
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 35)	2,955,273	-	-	-	2,955,273
Share-based payments (note 38)	-	2,077	-	-	2,077
Arising upon business combinations (note 40)	-	2,004	-	-	2,004
Transfers	1,221	(1,221)	-	-	-
Dividends paid (note 8)	-	-	(55,159)	-	(55,159)
Balance at 30 June 2016	3,100,738	16,306	57,080	161	3,174,285

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

	Note	Consolidated 2016 \$'000	2015 \$'000
Cash flows from operating activities			
Receipts from customers		862,745	156,373
Payments to suppliers and employees		(695,456)	(109,714)
		167,289	46,659
Dividends received		8	-
Interest received		879	789
Other finance costs paid		(1,487)	(319)
Income taxes paid		(31,063)	(4,519)
Net cash from operating activities	31	135,626	42,610
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired, acquisition and integration costs		35,038	(53,948)
Payments for property, plant and equipment		(66,899)	(31,852)
Proceeds from disposal of assets		265	3,048
Payments for intangible assets		(31,169)	(2,842)
Proceeds from total return swaps		19,520	-
Net cash used in investing activities		(43,245)	(85,594)
Cash flows from financing activities			
Proceeds from borrowings		695,948	63,110
Repayment of borrowings on business acquisitions		(595,000)	(32,559)
Interest and other finance costs paid on borrowings		(21,465)	(5,192)
Repayment of finance leases and IRU liabilities		(7,340)	(9,528)
Interest paid on leases		(1,512)	(876)
Proceeds from issue of shares, net of transaction costs		1,307	854
Dividends paid		(50,860)	(2,212)
Net cash from financing activities		21,078	13,597
Net increase/(decrease) in cash and cash equivalents		113,459	(29,387)
Cash and cash equivalents at the beginning of the financial year		15,170	44,557
Cash and cash equivalents at the end of the financial year	30	128,629	15,170

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

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Note 1. Basis of preparation

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

Historical cost convention

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

Net current asset deficiency

As at 30 June 2016, Vocus' current liabilities exceeded its current assets by \$66,880,000. Vocus is satisfied that it will be able to meet all its obligations as they fall due given its strong profitability and operating cash flows, existing cash reserves and available finance facilities.

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 (as a consolidated entity) only. Supplementary information about the parent entity is disclosed in note 39.

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.

Estimation of useful lives of assets

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

Goodwill and other indefinite life intangible assets

The recoverable amount of the Australia and New Zealand CGU's have been determined based on a fair value less costs of disposal calculation. In assessing fair value less costs of disposal, Vocus estimates post tax future cash flows including expected synergistic benefits from recent mergers, further capital expenditure and a long term growth rate assumption, and discounts these cash flows using a post tax rate. These assumptions require managements' judgement and are based on market expectations.

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

Assessments of impairment of non-financial assets other than goodwill and other indefinite life intangible assets are made 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.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Derivative financial instruments

Forward foreign exchange contracts, designated as cash flow hedges, are measured at fair value. Reliance is placed on future cash flows and judgement is made on a regular basis, through prospective and retrospective testing, including at the reporting date, that the hedges are still highly effective.

Business combinations

As discussed in note 40, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Unbilled revenue

Unbilled revenue for gas and electricity is estimated at the end of the reporting period. Customers are billed on a periodic and regular basis. Management estimates customer consumption between the last invoice date and the end of the reporting period. This is based on preliminary usage obtained from external regulators at an estimated bill rate. Various assumptions and financial models are used to determine the estimated unbilled rate.

Note 3. Operating segments

Reporting segments

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management.

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

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

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

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

- Australia
- New Zealand

The reportable segments also represent the group's cash-generating units for impairment testing purposes.

In the prior year, Vocus operated and disclosed as a single operating segment. The prior year reporting segment information has been restated below in line with current year segments.

In addition to reportable segments, a summary of sales revenue by product has been provided below.

Note 3. Operating segments (continued)

Sales revenue by product set

	2016 \$'000	Consolidated 2015 \$'000
Fibre and Ethernet	172,876	64,539
Internet	88,885	43,853
Data Centre	53,599	26,621
Voice	149,807	12,251
Consumer Telecommunications	287,355	-
Consumer Energy	59,481	-
Other	17,935	1,740
Total sales revenue	829,938	149,004

Major customers

During the year ended 30 June 2016 there were no customers of Vocus which contributed 10% or more of external revenue (2015: nil).

Segment revenues and results

	Australia \$'000	New Zealand \$'000	Intersegment adjustments \$'000	Total \$'000
Consolidated - 2016				
Revenue				
Sales to external customers	696,236	144,609	(10,907)	829,938
Interest revenue	1,707	40	(868)	879
Other revenue	7	1	-	8
Total revenue	697,950	144,650	(11,775)	830,825
EBITDA	170,641	25,183	(868)	194,956
Depreciation and amortisation	(68,103)	(10,384)	-	(78,487)
Finance costs	(16,815)	(8,517)	868	(24,464)
Non-controlling interest	161	-	-	161
Profit before income tax expense	85,884	6,282	-	92,166
Income tax expense				(27,914)
Profit after income tax expense				64,252
Assets				
Segment assets	3,785,830	908,189	-	4,694,019
Total assets				4,694,019
Liabilities				
Segment liabilities	1,272,797	246,937	-	1,519,734
Total liabilities				1,519,734

Note 3. Operating segments (continued)

Consolidated - 2015	Australia \$'000	New Zealand \$'000	Intersegment adjustments \$'000	Total \$'000
Revenue				
Sales to external customers	101,725	50,508	(3,229)	149,004
Interest revenue	3,857	85	(3,147)	795
Total revenue	105,582	50,593	(6,376)	149,799
EBITDA	50,045	9,379	(6,382)	53,042
Depreciation and amortisation	(12,549)	(6,135)	-	(18,684)
Finance costs	(2,201)	(7,019)	3,147	(6,073)
Profit/(loss) before income tax expense	35,295	(3,775)	(3,235)	28,285
Income tax expense				(8,435)
Profit after income tax expense				19,850
Assets				
Segment assets	229,251	154,093	-	383,344
Total assets				383,344
Liabilities				
Segment liabilities	72,530	114,575	-	187,105
Total liabilities				187,105
<i>Revenue by geographical area</i>				
			Consolidated 2016 \$'000	2015 \$'000
Australia			669,257	81,937
New Zealand			148,890	58,721
Rest of World			11,791	8,346
			829,938	149,004

Revenues from Rest of World customers are predominantly earned by the Australia operating segment.

Accounting policy for operating segments

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

Note 4. Revenue

	2016 \$'000	Consolidated 2015 \$'000
<i>Sales revenue</i>		
Rendering of services	829,938	149,004
<i>Other revenue</i>		
Dividends	8	-
Interest	879	795
	887	795
Revenue	830,825	149,799

Accounting policy for 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

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

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

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

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

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

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

Commission income

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

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.

Note 5. Other gains and losses

	Consolidated
	2016
	2015
	\$'000
	\$'000
Gain on early repayment of borrowings *	-
Gain on total return swaps **	19,520
Acquisition and integration costs ***	(40,660)
Gains/(losses) associated with foreign exchange	1,445
Other gains/(losses)	(956)
	<u>(20,651)</u>
Other gains and losses	<u>677</u>

* The gain on early repayment of borrowings arose following the Company's payment of its outstanding IRU liabilities in the 2015 financial year.

** The gains on total return swaps for the year ended 30 June 2016 comprises of mark-to-market movements in relation to Vocus' 16% relevant interest in Macquarie Telecom Group Limited, net of dividends received, brokerage and interest costs relating to these total return swap arrangements. The Macquarie Telecom swap is presently scheduled to settle on 30 December 2016.

The gains on total return swaps for the previous year comprised realised gains in relation to Vocus' 10% interest in Amcom settled in May 2015 and unrealised gains in relation to its relevant interest in Macquarie Telecom for that period.

*** Acquisition and integration costs in the year ended 30 June 2016 primarily comprise legal, professional services and other costs in relation to the acquisition and integration of Amcom and M2 which completed on 8 July 2015 and 22 February 2016, respectively.

Acquisition and integration costs for the previous year primarily relate to transaction costs in respect of the Bentley, FX Networks and EDC acquisitions and integration costs incurred during the period.

Note 6. Expenses

	Consolidated	
	2016	2015
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation and amortisation</i>		
Depreciation (note 25)	36,864	12,338
Amortisation (note 26)	41,623	6,346
Total depreciation and amortisation	78,487	18,684
<i>Finance costs</i>		
Interest and finance charges paid/payable	24,464	6,073
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	12,152	4,747
<i>Employee benefits expense</i>		
Salaries and wages expense	67,942	16,137
Employee on-costs expense	14,601	2,440
Employee leave expense	4,330	1,547
Outsourcing expense	16,978	-
Share-based payment expense	2,077	917
Other employee benefits expense	14,844	4,878
Total employee benefits expense	120,772	25,919

Note 7. Earnings per share

	Consolidated	
	2016	2015
	\$'000	\$'000
Profit after income tax	64,252	19,850
Non-controlling interest	(161)	-
Profit after income tax attributable to the owners of Vocus Communications Limited	64,091	19,850
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	339,875,432	104,009,415
Adjustments for calculation of diluted earnings per share:		
Options	194,094	388,179
Performance rights	493,780	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	340,563,306	104,397,594
	Cents	Cents
Basic earnings per share	18.86	19.08
Diluted earnings per share	18.82	19.01

The weighted average number of ordinary shares for 2015 and 2016 has been restated for the effect of the 1 for 8.9 rights issue completed in July 2016, in accordance with AASB 133 'Earnings per share'.

Note 7. Earnings per share (continued)

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Vocus 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 dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 8. Equity - dividends

Dividends

Dividends paid/payable during the financial year were as follows:

	2016 \$'000	Consolidated 2015 \$'000
Final dividend for the year ended 30 June 2015 of 2.00 cents per ordinary share (2015: 1.00 cent per ordinary share) paid on 24 September 2015	4,606	946
Interim dividend for the year ended 30 June 2016 of 7.60 cents per ordinary share (2015: 1.20 cents per ordinary share) paid on 6 April 2016	40,443	1,266
Special dividend for the year ended 30 June 2016 of 1.90 cents per ordinary share (2015: 5.10 cents) paid on 6 April 2016 (2015: 8 July 2016)	10,110	5,381
	<u>55,159</u>	<u>7,593</u>

On 23 August 2016, the Directors declared a final fully franked dividend of 8.0 cents per share on ordinary shares in respect of its financial year ended 30 June 2016. This dividend is to be paid on 4 October 2016, for shareholders registered on 20 September 2016. The dividend is eligible for the Vocus Dividend Reinvestment Plan.

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

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

In relation to the final dividend for the year ended 30 June 2016, the issue price will be the volume weighted average price for the period 21 September 2016 to 27 September 2016, less the discount of 1.5%. The last date for receipt of election notices for participation in the DRP in relation to this dividend is 21 September 2016.

1,203,192 shares were issued in respect of the DRP in the financial year ended 30 June 2016.

Note 8. Equity - dividends (continued)

Franking credits

	2016 \$'000	Consolidated 2015 \$'000
Franking credits available at the reporting date based on a tax rate of 30%	38,927	10,369
Franking credits that will arise from the payment of the amount of the June income tax payment made in July at the reporting date based on a tax rate of 30%	4,405	3,973
Franking credits available for subsequent financial years based on a tax rate of 30%	43,332	14,342
Franking debits that will arise from the payment of dividends declared subsequent to the reporting date based on a tax rate of 30%	(21,172)	(2,306)
Net franking credits available based on a tax rate of 30%	<u>22,160</u>	<u>12,036</u>

	2016 \$'000	Consolidated 2015 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>22,160</u>	<u>12,036</u>

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

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

Accounting policy for dividends

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

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the financial year but not distributed at the reporting date.

Note 9. Financial instruments

Financial risk management objectives

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

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

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

Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments, with the exception of the total return swap in relation to Vocus' 16% relevant interest in Macquarie Telecom Group Limited which is held as a strategic investment.

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

As part of the acquisition of M2 Group Limited, Vocus now has an electricity and gas retailing business for which it needs to manage commodity risk. The Wholesale Energy Risk Management Committee, which is a sub-committee of the Risk Committee provides direct oversight over the risks relating to this business and appropriate hedging strategies are undertaken to mitigate these risks.

Note 9. Financial instruments (continued)

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

Market risk

Foreign currency risk

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

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

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

	Sell Australian dollars		Average exchange rates	
	2016	2015	2016	2015
	\$'000	\$'000		
Buy US dollars				
Maturity:				
0 - 12 months	20,042	20,566	0.7579	0.7712
12 - 24 months	-	16,689	-	0.7604
Buy Philippine Pesos				
Maturity:				
0 - 12 months	58,423	-	34.1473	-
12 - 24 months	9,167	-	34.9091	-

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

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

	2016	Assets	2016	Liabilities
	\$'000	2015	\$'000	2015
		\$'000		\$'000
Consolidated				
US dollars	3,275	2,038	4,962	1,699
New Zealand dollars	5,687	6,447	38	-
Philippine Pesos	-	-	4,959	-
	<u>8,962</u>	<u>8,485</u>	<u>9,959</u>	<u>1,699</u>

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

As at 30 June 2016, future movements in USD/AUD currency of 5%(2015: 5%) will have an approximate \$80,000 (2015:20,000) increase or decrease to profit or loss and \$1,076,000 increase and \$974,000 decrease (2015: \$1,933,000 increase and \$1,749,000 decrease) in equity in the financial year ending 30 June 2016.

As at 30 June 2016, future movements in NZD/AUD currency of 5%(2015: 5%) will have an approximate \$30,000 (2015:\$272,000) increase or decrease to profit or loss.

Note 9. Financial instruments (continued)

As at 30 June 2016, future movements in PHP/AUD currency of 5%(2015: 5%) will have an approximate \$236,000 (2015:nil) increase or decrease to profit or loss and \$3,486,000 increase and \$3,154,000 decrease(2015: nil) in equity in the financial year ending 30 June 2016.

Commodity risk

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

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

Details of electricity hedges entered at 30 June 2016 can be found in Note 11.

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

Interest rate risk

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

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

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

		2016		2015
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Bank overdraft and bank loans	3.88%	828,555	5.79%	106,235
Interest rate swaps (notional principal amount)	2.70%	(379,222)	-	-
Net exposure to cash flow interest rate risk		<u>449,333</u>		<u>106,235</u>

As at 30 June 2016, future movements in interest rate of 50 basis points (2015: 50 basis points) will have an approximate \$2,232,000 (2015:\$531,000) increase or decrease to profit or loss and \$1,896,000 (2015: nil) increase or decrease in equity in the financial year ending 30 June 2016.

Credit risk

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

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

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

Note 9. Financial instruments (continued)

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

Liquidity risk

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

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

Financing arrangements

Unused borrowing facilities at the reporting date:

	2016	Consolidated
	\$'000	2015
	\$'000	\$'000
Bank loans	358,462	-
Bank guarantee / letter of credit facility	20,707	-
Multi-option facility	-	21,668
	<u>379,169</u>	<u>21,668</u>

The bank guarantee / letter of credit facility was used to issue bank guarantees for property leases and other performance contracts and replaces the multi-option facility present in the prior year (refer note 33 for details of the total facility).

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.

	1 year or less	Between 1	Between 2	Over 5 years	Remaining
	\$'000	and 2 years	and 5 years	\$'000	contractual
	\$'000	\$'000	\$'000	\$'000	maturities
	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated - 2016					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables and accruals	218,064	-	-	-	218,064
Other payables	62,518	-	-	-	62,518
Deposits held	326	-	-	-	326
<i>Interest-bearing - variable</i>					
Bank loans	-	-	828,555	-	828,555
<i>Interest-bearing - fixed rate</i>					
Lease liability	9,032	7,584	9,139	13,117	38,872
IRU liability	7,542	7,841	20,513	-	35,896
Total non-derivatives	<u>297,482</u>	<u>15,425</u>	<u>858,207</u>	<u>13,117</u>	<u>1,184,231</u>
Derivatives					
Interest rate swaps net settled	2,207	2,591	2,767	-	7,565
Forward foreign exchange contracts net settled	1,326	32	-	-	1,358
Total return swap net settled	439	-	-	-	439
Total derivatives	<u>3,972</u>	<u>2,623</u>	<u>2,767</u>	<u>-</u>	<u>9,362</u>

Note 9. Financial instruments (continued)

	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
Consolidated - 2015					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables and accruals	20,898	-	-	-	20,898
Other payables	3,279	-	-	-	3,279
Deposits held	120	-	-	-	120
<i>Interest-bearing - variable</i>					
Bank loans	5,843	5,843	112,078	-	123,764
<i>Interest-bearing - fixed rate</i>					
Lease liability	2,666	2,525	3,913	12,559	21,663
Total non-derivatives	32,806	8,368	115,991	12,559	169,724

Note 10. Fair value measurement

Fair value hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 2015				
Assets				
Forward foreign exchange contracts	-	523	-	523
Total return swaps	-	504	-	504
Total assets	-	1,027	-	1,027

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.

Note 10. Fair value measurement (continued)

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.

Total return swaps

Vocus holds a 16% relevant interest in Macquarie Telecommunications Group Limited by way of a total return swap with the Commonwealth Bank of Australia. Under the total return swap, Vocus is exposed to mark-to-market movements on the value of Macquarie Telecom shares, for which it receives or pays cash to CBA depending on the movement in each period. The swap is currently scheduled to settle on 30 December 2016, but can be extended by mutual consent.

Valuation techniques for fair value measurements

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

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

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

Accounting policy for fair value measurement

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

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

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

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

Note 11. Current assets - derivative financial instruments

	2016 \$'000	Consolidated 2015 \$'000
Forward foreign exchange contracts - cash flow hedges	495	523
Electricity derivatives – cash flow hedges	9,483	-
Total return swaps	-	504
	<u>9,978</u>	<u>1,027</u>

Refer to note 10 for further information on fair value measurement.

Forward foreign exchange contracts

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

The forward exchange contracts mature within the next financial year and have been designated based on forecasted foreign currency denominated purchases. Gains or losses recognised in the cash flow hedge reserve in equity on forward foreign exchange contracts as of 30 June 2016 will be released to the income statement when the underlying anticipated transactions affect the income statement or included in the carrying value of asset or liabilities acquired.

Interest rate swaps

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

The contracts require settlement of net interest receivable or payable each 90 days. The next settlement is on 21 September 2016.

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

Electricity derivatives

Vocus manages this exposure of floating purchase price of electricity through purchase of electricity futures contracts from the Australian Energy Market Operator (AEMO). The hedged anticipated electricity purchase and sale transactions are expected to occur for each half hour period throughout the next quarter from the reporting date consistent with the forecast demand from customers over this period. Gains or losses recognised in the cash flow hedge reserve in equity on the forward foreign exchange contracts as of 30 June 2016 will be released to the income statement when the underlying anticipated purchase or sale transactions are recognised in the income statement.

Accounting policy for derivative financial instruments

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

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

Note 11. Current assets - derivative financial instruments (continued)

Cash flow hedges

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

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

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

Note 12. Current liabilities - derivative financial instruments

	2016 \$'000	Consolidated 2015 \$'000
Forward foreign exchange contracts - cash flow hedges	1,326	-
Interest rate swap contracts - cash flow hedges	2,207	-
Total return swaps	439	-
	<u>3,972</u>	<u>-</u>

Refer to note 9 for further information on financial instruments.

Refer to note 10 for further information on fair value measurement.

Total return swaps

The current liability in respect of total return swaps comprise marked-to-market gains in relation to the 16% relevant interest in Macquarie Telecom Group Limited. The Macquarie Telecom swap is currently scheduled to settle on 30 December 2016, but can be extended by mutual consent.

Note 13. Non-current liabilities - derivative financial instruments

	2016 \$'000	Consolidated 2015 \$'000
Forward foreign exchange contracts - cash flow hedges	32	-
Interest rate swap contracts - cash flow hedges	5,358	-
	<u>5,390</u>	<u>-</u>

Refer to note 9 for further information on financial instruments.

Refer to note 10 for further information on fair value measurement.

Note 14. Contingent liabilities

	2016 \$'000	Consolidated 2015 \$'000
Guarantees	29,293	3,059

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

Note 15. Commitments

	2016 \$'000	Consolidated 2015 \$'000
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Lease commitments - operating

The operating leases relate primarily to offices and data centre locations.

Committed at the reporting date but not recognised as liabilities, payable:

Within one year	31,581	5,784
One to five years	87,403	20,153
More than five years	59,401	42,777
	<u>178,385</u>	<u>68,714</u>

Lease commitments - finance

Committed at the reporting date and recognised as liabilities, payable:

Within one year	9,031	2,666
One to five years	16,724	6,438
More than five years	13,117	12,559

Total commitment	38,872	21,663
Less: Future finance charges	(9,754)	(8,175)

Net commitment recognised as liabilities	<u>29,118</u>	<u>13,488</u>
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Representing:

Lease liability - current (note 32)	7,737	1,764
Lease liability - non-current (note 33)	21,381	11,724
	<u>29,118</u>	<u>13,488</u>

Backhaul IRU commitments - finance

Backhaul IRU commitments represent an indefeasible right to use (IRU) purchased to access NBN Points of Interconnect. The liability is accounted for as a finance lease and is payable in annual instalments over a six year period, whilst the asset is recorded as an intangible and amortised over its effective life.

Committed at the reporting date and recognised as liabilities, payable:

Within one year	7,541	-
One to five years	28,355	-

Total commitment	35,896	-
Less: Future finance charges	(4,641)	-

Net commitment recognised as liabilities	<u>31,255</u>	<u>-</u>
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Note 15. Commitments (continued)

	2016 \$'000	Consolidated 2015 \$'000
Representing:		
Backhaul IRU liability - current (note 32)	5,992	-
Backhaul IRU liability - non-current (note 33)	25,263	-
	<u>31,255</u>	<u>-</u>
<i>Network equipment (related to finance lease commitments)</i>		
Finance lease commitments includes contracted amounts for various network plant and equipment at the following values under finance leases expiring within one to five years. Under the terms of the leases, there is an option to acquire the leased assets for predetermined residual values on the expiry of the leases.		
Network equipment - at cost	37,651	13,766
Less: Accumulated depreciation	(13,175)	(4,364)
Written down value	<u>24,476</u>	<u>9,402</u>
<i>Fibre network (related to finance lease commitments)</i>		
Finance lease commitments includes contracted amounts for various network plant and equipment at the following values under finance leases expiring within one to five years. Under the terms of the leases, there is an option to acquire the leased assets for predetermined residual values on the expiry of the leases.		
Fibre network - at cost	7,285	6,810
Less: Accumulated depreciation	(1,601)	(1,353)
Written down value	<u>5,684</u>	<u>5,457</u>
<i>Purchase commitments - IRU capacity</i>		
The purchase commitments relate to the purchase programme for additional undersea cable capacity, announced on 19 February 2015. Capacity is allocated and paid in annual instalments over a six year period.		
Committed at the reporting date but not recognised as assets or liabilities, payable:		
Within one year	16,679	20,582
One to five years	39,388	49,287
More than five years	-	6,839
	<u>56,067</u>	<u>76,708</u>

Note 16. Current assets - trade and other receivables

	2016 \$'000	Consolidated 2015 \$'000
Trade receivables	100,532	21,154
Less: Provision for impairment of receivables	(4,234)	(573)
	<u>96,298</u>	<u>20,581</u>
Other receivables	5,302	1,861
Accrued revenue	42,779	240
	<u>144,379</u>	<u>22,682</u>

Note 16. Current assets - trade and other receivables (continued)

Impairment of receivables

An expense of \$7,474,000 (2015: \$322,000) has been recognised in profit or loss in respect of impairment of receivables for the year ended 30 June 2016. The increase is a reflection of the nature of the acquired M2 Consumer business.

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

	2016 \$'000	Consolidated 2015 \$'000
1 to 3 months overdue	186	212
Over 3 months overdue	4,048	361
	<u>4,234</u>	<u>573</u>

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

	2016 \$'000	Consolidated 2015 \$'000
Opening balance	573	652
Additional provisions recognised	7,474	359
Receivables written off during the year as uncollectable	(3,813)	(438)
Closing balance	<u>4,234</u>	<u>573</u>

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$24,019,000 as at 30 June 2016 (\$1,350,000 as at 30 June 2015).

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

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

	2016 \$'000	Consolidated 2015 \$'000
1 to 3 months overdue	20,308	640
Greater than 3 months overdue	3,711	710
	<u>24,019</u>	<u>1,350</u>

Accounting policy for trade and other receivables

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

Note 16. Current assets - trade and other receivables (continued)

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

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

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

Note 17. Current assets - inventories

	Consolidated 2016 \$'000	2015 \$'000
Stock on hand - at net realisable value	12,924	-

Accounting policy for inventories

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 18. Current liabilities - trade and other payables

	Consolidated 2016 \$'000	2015 \$'000
Trade payables	116,907	15,207
Revenue received in advance	39,738	-
Accruals	101,157	5,691
Goods and services tax payable	8,384	1,021
Other payables	22,780	2,258
	<u>288,966</u>	<u>24,177</u>

Refer to note 9 for further information on financial instruments.

Increase in trade and other payables in the current year predominantly due to acquisition of Amcom and merger with M2.

Accounting policy for trade and other payables

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

Note 19. Non-current assets - other

	2016 \$'000	Consolidated 2015 \$'000
Accrued revenue	732	822
Prepayments	2,763	162
Subscriber acquisition costs	14,475	834
Other deposits	547	432
	<u>18,517</u>	<u>2,250</u>

Accounting policy for subscriber acquisition costs

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

Note 20. Current liabilities - other

	2016 \$'000	Consolidated 2015 \$'000
Lease incentive and rent straight lining	569	30
Deposits held	326	120
Deferred revenue	62,202	1,035
Other current liabilities	3,744	92
	<u>66,841</u>	<u>1,277</u>

Note 21. Non-current liabilities - other

	2016 \$'000	Consolidated 2015 \$'000
Lease incentive and rent straight lining	5,789	782
Deferred revenue	6,935	3,746
Other non-current liabilities	1,044	-
	<u>13,768</u>	<u>4,528</u>

Note 22. Current liabilities - provisions

	2016	Consolidated
	\$'000	2015
		\$'000
Employee benefits	16,665	973
Deferred consideration	2,000	3,300
Special dividends	-	5,381
Onerous contracts	5,495	-
Make good	860	-
Other	-	473
	<u>25,020</u>	<u>10,127</u>

Deferred consideration

Deferred consideration represents the obligation to pay consideration at a later time following the acquisition of a business or assets.

Special dividends

Dividends represents dividends declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the financial year but not distributed at the reporting date.

Onerous contracts

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

Make good

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

Other

Other represents the present value of the estimated costs that will be incurred until the end of specified redundant lease terms.

Movements in provisions

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

	Deferred	Special	Onerous	Make	Other
	consideration	dividends	contracts	good	
	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated - 2016					
Carrying amount at the start of the year	3,300	5,381	-	-	473
Additions through business combinations (note 40)	2,000	-	5,495	839	-
Amounts transferred from non-current	-	-	-	21	-
Amounts paid	(2,838)	(5,381)	-	-	(473)
Unused amounts reversed to other gains	(462)	-	-	-	-
Carrying amount at the end of the year	<u>2,000</u>	<u>-</u>	<u>5,495</u>	<u>860</u>	<u>-</u>

Accounting policy for provisions

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

Note 22. Current liabilities - provisions (continued)

Accounting policy for employee benefits

Short-term employee benefits

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

Commissions incurred in securing long term customer contracts are amortised over the weighted-average duration of closed contracts during each period.

Note 23. Non-current liabilities - provisions

	2016 \$'000	Consolidated 2015 \$'000
Employee benefits	2,039	468
Onerous contracts	2,435	-
Warranties	-	208
Make good	6,836	1,765
	<u>11,310</u>	<u>2,441</u>

Onerous contracts

Refer to Note 22.

Make good

Refer to Note 22.

Movements in provisions

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

	Onerous contracts \$'000	Warranties \$'000	Make good \$'000
Consolidated - 2016			
Carrying amount at the start of the year	-	208	1,765
Additions through business combinations (note 40)	2,435	-	5,046
Payments	-	(208)	-
Adjustment for FX	-	-	25
Carrying amount at the end of the year	<u>2,435</u>	<u>-</u>	<u>6,836</u>

Accounting policy for 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 corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 24. Interests in joint ventures

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to Vocus are set out below:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
Connect 8 Limited	New Zealand	50.00	50.00

Accounting policy for joint ventures

A joint venture is a form of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in Vocus' share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

Note 24. Interests in joint ventures (continued)

Summarised financial information

	Connect 8 Limited	
	2016	2015
	\$'000	\$'000
<i>Summarised statement of financial position</i>		
Cash and cash equivalents	822	2,084
Other current assets	3,361	1,255
Non-current assets	7,527	5,802
Total assets	11,710	9,141
Trade and other payables	1,832	2,114
Non-current liabilities	191	179
Total liabilities	2,023	2,293
Net assets	9,687	6,848
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	16,796	8,948
Expenses	(14,225)	(7,481)
Profit before income tax	2,571	1,467
Income tax expense	(721)	(417)
Profit after income tax	1,850	1,050
Other comprehensive income	-	-
Total comprehensive income	1,850	1,050
<i>Reconciliation of the Vocus carrying amount</i>		
Opening balance	3,728	-
Share of profit after income tax from discontinued operations	925	525
Capital invested in the year	-	3,203
Foreign exchange movements	281	-
Closing carrying amount	4,934	3,728

Note 25. Non-current assets - plant and equipment

	Consolidated	
	2016	2015
	\$'000	\$'000
Fibre assets - at cost	354,124	132,935
Less: Accumulated depreciation	(19,464)	(5,759)
	<u>334,660</u>	<u>127,176</u>
Data centre assets - at cost	62,477	50,530
Less: Accumulated depreciation	(13,754)	(8,250)
	<u>48,723</u>	<u>42,280</u>
Network equipment - at cost	69,702	36,790
Less: Accumulated depreciation	(8,113)	(5,507)
	<u>61,589</u>	<u>31,283</u>
Other plant and equipment - at cost	104,268	6,101
Less: Accumulated depreciation	(26,827)	(2,221)
	<u>77,441</u>	<u>3,880</u>
	<u><u>522,413</u></u>	<u><u>204,619</u></u>

Reconciliations

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

	Fibre assets \$'000	Data centre assets \$'000	Network equipment \$'000	Other plant and equipment \$'000	Total \$'000
Consolidated					
Balance at 1 July 2014	34,393	19,863	6,515	2,613	63,384
Reclassifications	18,954	4,318	8,574	2,391	34,237
Additions through business combinations (note 40)	78,028	22,590	20,324	1,793	122,735
Disposals	(96)	(623)	(49)	(983)	(1,751)
Exchange differences	(1,232)	43	(334)	(125)	(1,648)
Transfers in/(out)	59	(696)	153	484	-
Depreciation expense	(2,930)	(3,215)	(3,900)	(2,293)	(12,338)
Balance at 30 June 2015	127,176	42,280	31,283	3,880	204,619
Additions	41,654	3,862	11,810	19,990	77,316
Additions through business combinations (note 40)	162,958	7,792	31,800	64,570	267,120
Reclassifications	(493)	(7)	3,294	(483)	2,311
Disposals	(39)	-	-	(638)	(677)
Exchange differences	5,724	301	1,542	1,021	8,588
Transfers in/(out)	11,108	-	(8,635)	(2,473)	-
Depreciation expense	(13,428)	(5,505)	(9,505)	(8,426)	(36,864)
Balance at 30 June 2016	<u><u>334,660</u></u>	<u><u>48,723</u></u>	<u><u>61,589</u></u>	<u><u>77,441</u></u>	<u><u>522,413</u></u>

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

Accounting policy for property, plant and equipment

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

Note 25. Non-current assets - plant and equipment (continued)

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

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

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

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

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

Note 26. Non-current assets - intangibles

	2016 \$'000	Consolidated 2015 \$'000
Goodwill - at cost	2,960,303	43,242
Brands - at cost	190,500	-
IRU capacity - at cost	153,392	79,037
Less: Accumulated amortisation	(26,716)	(20,714)
	126,676	58,323
Customer intangibles - at cost	376,531	20,846
Less: Accumulated amortisation	(26,365)	(1,969)
	350,166	18,877
Software - at cost	139,793	5,151
Less: Accumulated amortisation	(12,499)	(1,387)
	127,294	3,764
Other intangibles - at cost	2,494	1,440
Less: Accumulated amortisation	(365)	(252)
	2,129	1,188
	<u>3,757,068</u>	<u>125,394</u>

Note 26. Non-current assets - intangibles (continued)

Reconciliations

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

Consolidated	Goodwill \$'000	IRU capacity \$'000	Customer intangibles \$'000	Software \$'000	Brand & other intangibles \$'000	Total \$'000
Balance at 1 July 2014	17,014	62,478	1,313	2,696	1,358	84,859
Additions	-	212	-	1,951	77	2,240
Additions through business combinations (note 40)	31,603	-	18,113	-	-	49,716
Disposals	(5,452)	-	-	(96)	(151)	(5,699)
Exchange differences	77	-	52	2	3	134
Transfers in/(out)	-	-	(8)	(1)	499	490
Amortisation expense	-	(4,367)	(593)	(788)	(598)	(6,346)
Balance at 30 June 2015	43,242	58,323	18,877	3,764	1,188	125,394
Additions	-	19,372	-	9,478	2,319	31,169
Additions through business combinations (note 40)	2,916,946	55,175	355,643	124,696	192,327	3,644,787
Disposals*	(3,108)	-	-	-	(785)	(3,893)
Exchange differences	3,223	(192)	42	468	2	3,543
Reclassifications	-	-	-	-	(2,309)	(2,309)
Amortisation expense	-	(6,002)	(24,396)	(11,112)	(113)	(41,623)
Balance at 30 June 2016	<u>2,960,303</u>	<u>126,676</u>	<u>350,166</u>	<u>127,294</u>	<u>192,629</u>	<u>3,757,068</u>

** Disposal of goodwill*

Disposal of goodwill in the current year amounting to \$1,159,000 arose on the sale of L7 Solutions Pty Ltd, which was acquired as part of the Amcom group on July 8 2015, to Cirrus Network Holdings on 15 December 2015. L7 represented the IT integration arm of the former Amcom business.

Disposal of goodwill in the current year amounting to \$1,949,000 arose as a result of the sale by the Aggregato business (of which Vocus has a 61.2% interest) of its US assets. This business was acquired as part of the merger with M2 Group Ltd on 22 February 2016.

Consolidated
2016
\$'000

2015
\$'000

Allocation of Goodwill

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

- Australia
- New Zealand

In the previous period, Vocus operated as a single CGU. Goodwill for 2015 has been restated for the change in cash-generating units in 2016.

The carrying amount of goodwill was allocated to cash-generating units as follows:

Australia	2,309,484	14,826
New Zealand	650,819	28,416
	<u>2,960,303</u>	<u>43,242</u>

Note 26. Non-current assets - intangibles (continued)

Impairment testing

In accordance with Vocus' accounting policy, impairment testing has been undertaken at 30 June 2016 for all groups of cash generating units ('CGUs') with indefinite life intangible assets or where there is an indication of impairment. The testing has been conducted using a fair value less costs of disposal model which is higher than the value in use.

The recoverable amount of the Australia and New Zealand CGUs have been determined based on a fair value less costs of disposal calculation based on future cash flows. The recoverable amount was verified against external indicators such as EBITDA multiples of comparable market transactions. This is further supported by the fact that the market capitalisation of the Group as at year end exceeds net assets by \$1,317,644,000.

The key assumptions used in the calculation are:

- Forecasts for capital expenditure based on past experience required to maintain current fixed asset levels as well as expand the network to support future growth
- Post tax discount rates for Australia and New Zealand of 8.9% and 9.0%, respectively
- Five year cash flow forecasts as approved by Senior Management including expected synergistic benefits from recent mergers
- Long term growth rate of 3%
- 5% cost to sell

The Directors believe that any reasonably possible change in the key assumptions by which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the group of CGUs.

Accounting policy for intangible assets

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

Goodwill

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

Brands

Brands have indefinite useful lives. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. Assets with indefinite useful lives are reviewed each reporting period to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Intellectual property

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

Indefeasible Right to Use ('IRU')

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

Note 26. Non-current assets - intangibles (continued)

Software

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

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

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

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

Customer intangibles

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

Other intangibles

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

Note 27. Income tax expense

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	23,392	7,766
Deferred tax - origination and reversal of temporary differences	3,994	680
Adjustment recognised for prior periods	528	(11)
Aggregate income tax expense	<u>27,914</u>	<u>8,435</u>
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (note 28)	(5,782)	(403)
Increase in deferred tax liabilities (note 29)	9,776	1,083
Deferred tax - origination and reversal of temporary differences	<u>3,994</u>	<u>680</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	<u>92,166</u>	<u>28,285</u>
Tax at the statutory tax rate of 30%	27,650	8,486
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Amortisation of intangibles	-	179
Entertainment expenses	156	48
Share-based payments	623	275
Non-assessable income (previously treated as assessable)	124	-
Donations and other adjustments	(86)	3
Transaction costs	803	600
Tax allowances and incentives	(1,985)	(556)
Non-taxable other gains	(97)	(1,548)
Sundry items	326	106
	<u>27,514</u>	<u>7,593</u>
Adjustment recognised for prior periods	528	(11)
Difference in overseas tax rates	(128)	78
Movement in timing differences	-	775
Income tax expense	<u>27,914</u>	<u>8,435</u>
	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets (note 28)	69	(132)
Deferred tax liabilities (note 29)	8	(95)
	<u>77</u>	<u>(227)</u>

Accounting policy for tax

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

Note 27. Income tax expense (continued)

Deferred tax

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

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

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

Tax consolidation legislation

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

Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidated Accounting

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

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

Nature of the tax funding agreement

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

Note 28. Non-current assets - deferred tax

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Tax losses	37	37
Receivables	13,392	284
Property, plant and equipment	502	973
Accruals and provisions	25,156	1,772
Unrealised foreign exchange loss	424	665
Expenses deductible over five years	11,037	30
Unearned income	1,208	-
Other	5,647	1,682
Deferred tax asset	<u>57,403</u>	<u>5,443</u>
<i>Movements:</i>		
Opening balance	5,443	3,114
Credited to profit or loss (note 27)	5,782	403
Credited/(charged) to equity (note 27)	(69)	132
Additions through business combinations (note 40)	46,247	1,794
Closing balance	<u>57,403</u>	<u>5,443</u>

Note 29. Non-current liabilities - deferred tax

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Property, plant and equipment	27,589	12,913
Intangibles	171,084	5,669
Customer acquisition costs	10,109	-
Unrealised foreign exchange gain	158	157
Total return swaps	6,660	925
Other	720	1,635
Deferred tax liability	<u>216,320</u>	<u>21,299</u>
<i>Movements:</i>		
Opening balance	21,299	3,092
Charged to profit or loss (note 27)	9,776	1,083
Charged/(credited) to equity (note 27)	8	(95)
Additions through business combinations (note 40)	185,237	17,219
Closing balance	<u>216,320</u>	<u>21,299</u>

Note 30. Current assets - cash and cash equivalents

	2016 \$'000	Consolidated 2015 \$'000
Cash at bank	62,915	10,195
Cash on deposit	65,714	4,975
	<u>128,629</u>	<u>15,170</u>

Accounting policy for cash and cash equivalents

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

Note 31. Reconciliation of profit after income tax to net cash from operating activities

	2016 \$'000	Consolidated 2015 \$'000
Profit after income tax expense for the year	64,252	19,850
Adjustments for:		
Depreciation and amortisation	78,487	18,684
Net loss on disposal of non-current assets	-	1,199
Share of profit - joint ventures	(925)	(525)
Share-based payments	2,077	917
Foreign exchange differences	(25)	-
Finance costs disclosed under financing activities	22,977	6,410
Non cash gain on early repayment of borrowings	-	(5,477)
Gain on total return swaps	(19,520)	(3,085)
Acquisition and integration costs	40,660	10,400
Non-cash other gains and losses	-	(155)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(9,569)	(9,113)
Decrease in inventories	6,713	-
Increase in deferred tax assets	(5,713)	(535)
Increase in accrued revenue	(142)	(239)
Increase in derivative assets	(2,328)	(189)
Increase in prepayments	(7,760)	(342)
Decrease/(increase) in other operating assets	(32,783)	3,224
Decrease in trade and other payables	(2,645)	(2,643)
Increase/(decrease) in derivative liabilities	9,362	(473)
Increase/(decrease) in provision for income tax	(7,178)	1,449
Increase in deferred tax liabilities	9,742	988
Increase/(decrease) in employee benefits	17,263	(659)
Increase/(decrease) in other provisions	(27,374)	4,741
Increase/(decrease) in other operating liabilities	55	(1,817)
Net cash from operating activities	<u>135,626</u>	<u>42,610</u>

Note 31. Reconciliation of profit after income tax to net cash from operating activities (continued)

Non-cash investing and financing activities

The following non-cash investing and financing activities occurred during the period:

- Plant and equipment acquired through finance leases:	\$10,147,000
- Dividends paid through issue of shares under DRP:	\$9,679,000
- Issue of shares under the Loan Funded Share Plan:	\$9,916,000
- Acquisition of Amcom Telecommunications Limited:	\$686,662,000
- Merger with M2 Group Limited:	\$2,259,628,000

Note 32. Current liabilities - borrowings

	2016 \$'000	Consolidated 2015 \$'000
Backhaul IRU liability	5,992	-
Lease liability	7,737	1,764
	<u>13,729</u>	<u>1,764</u>

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

Refer to note 9 for further information on financial instruments.

Note 33. Non-current liabilities - borrowings

	2016 \$'000	Consolidated 2015 \$'000
Bank loans	825,738	106,235
Backhaul IRU liability	25,263	-
Lease liability	21,381	11,724
	<u>872,382</u>	<u>117,959</u>

Refer to note 9 for further information on financial instruments.

Refer to note 15 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:

	2016 \$'000	Consolidated 2015 \$'000
Bank loans	825,738	106,235
Lease liability	29,118	13,488
	<u>854,856</u>	<u>119,723</u>

Assets pledged as security

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

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

Note 33. Non-current liabilities - borrowings (continued)

Financing arrangements

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

	2016 \$'000	Consolidated 2015 \$'000
Total facilities		
Bank loans	1,184,200	106,235
Bank guarantee / letter of credit facility	50,000	-
Multi-option facility	-	25,000
	<u>1,234,200</u>	<u>131,235</u>
Used at the reporting date		
Bank loans	825,738	106,235
Bank guarantee / letter of credit facility	29,293	-
Multi-option facility	-	3,332
	<u>855,031</u>	<u>109,567</u>
Unused at the reporting date		
Bank loans	358,462	-
Bank guarantee / letter of credit facility	20,707	-
Multi-option facility	-	21,668
	<u>379,169</u>	<u>21,668</u>

The Group's bank facility at 30 June 2016 consists of a \$1,234,200,000 senior finance facility (2015: \$131,235,000), comprising 3 year (A\$560,000,000) and 5 year (A\$510,000,000, NZ\$160,000,000) facilities, including available facilities for bank guarantees / letters of credit and is non-amortising. This facility replaced the existing syndicated facilities of M2 and Vocus. Interest on the facility is recognised at the aggregate of the reference bank bill rate plus a margin.

The previous multi-option facility was replaced with the bank guarantee / letter of credit facility

Accounting policy for borrowings

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

Note 34. Current assets - other

	2016 \$'000	Consolidated 2015 \$'000
Prepayments	16,554	1,919
Subscriber acquisition costs	19,222	1,132
	<u>35,776</u>	<u>3,051</u>

Accounting policy for subscriber acquisition costs

Refer to Note 19.

Note 35. Equity - contributed equity

	2016 Shares	2015 Shares	2016 \$'000	Consolidated 2015 \$'000
Ordinary shares - fully paid	533,356,665	105,511,947	3,124,000	159,093
Less: Treasury shares*	(5,089,252)	(4,008,308)	(23,262)	(14,849)
	<u>528,267,413</u>	<u>101,503,639</u>	<u>3,100,738</u>	<u>144,244</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2014	92,934,834		102,317
Issue of shares on conversion of options	4 July 2014	2,500	\$2.00	5
Issue of shares for loan funded share plan	21 July 2014	1,672,500	\$5.05	8,446
Issue of shares on conversion of options	28 August 2014	12,332	\$2.00	25
Issue of shares for consideration of FX Networks	19 September 2014	10,164,930	\$4.40	44,726
Issue of shares for consideration of FX Networks	7 October 2014	15,922	\$4.40	70
Issue of shares on conversion of options	29 October 2014	16,666	\$2.60	43
Issue of shares on conversion of options	29 October 2014	5,000	\$2.00	10
Issue of shares for loan funded share plan	23 December 2014	560,599	\$5.71	3,201
Issue of shares on conversion of options	29 January 2015	56,666	\$2.00	113
Cancellation of shares under loan funded share plan	17 April 2015	(13,334)	\$2.17	(29)
Issue of shares on conversion of options	27 May 2015	83,332	\$2.00	167
Less: Share issue costs, net of deferred tax		-	\$0.00	(1)
Balance	30 June 2015	105,511,947		159,093
Issue of shares on conversion of options	7 July 2015	26,667	\$0.00	-
Issue of shares for consideration of Amcom Telecommunications Limited	8 July 2015	124,482,876	\$5.50	684,657
Issue of shares on conversion of performance rights	8 July 2015	74,978	\$5.50	412
Issue of shares for loan funded share plan	20 August 2015	195,000	\$5.95	1,160
Issue of shares on conversion of options	1 September 2015	12,500	\$2.00	25
Issue of shares for loan funded share plan	14 September 2015	891,000	\$5.53	4,927
Issue of shares on conversion of options	2 October 2015	12,999	\$2.00	26
Issue of shares on conversion of options	2 October 2015	35,000	\$0.50	18
Issue of shares for loan funded share plan	2 October 2015	220,623	\$6.49	1,432
Issue of shares for loan funded share plan	9 November 2015	50,000	\$6.38	319
Issue of shares for loan funded share plan	2 December 2015	293,554	\$7.08	2,078
Issue of shares on conversion of options	2 December 2015	1,667	\$2.00	3
Issue of shares on conversion of performance rights	15 December 2015	4,614	\$5.50	25
Issue of shares on conversion of performance rights	12 January 2016	124,005	\$5.50	682
Issue of shares on conversion of performance rights	15 January 2016	18,456	\$5.50	102
Issue of shares for consideration of M2 Group Limited	23 February 2016	300,083,420	\$7.53	2,259,628
Issue of shares on conversion of options	26 February 2016	100,000	\$0.50	50
Issue of shares on conversion of options	5 April 2016	14,167	\$2.00	28
Issue of shares pursuant to the Dividend Reinvestment Plan	11 April 2016	1,203,192	\$7.96	9,577
Less: Share issue costs, net of deferred tax		-	\$0.00	(242)
Balance	30 June 2016	<u>533,356,665</u>		<u>3,124,000</u>

Note 35. Equity - contributed equity (continued)

Movements in treasury shares*

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2014	2,047,978		3,723
Issue of shares for loan funded share plan	21 July 2014	1,672,500	\$5.05	8,446
Issue of shares for loan funded share plan	23 December 2014	560,599	\$5.71	3,201
Transfer of shares to participants		(259,435)	\$0.00	(492)
Cancellation of shares		(13,334)	\$0.00	(29)
Balance	30 June 2015	4,008,308		14,849
Issue of shares for loan funded share plan	20 August 2015	195,000	\$5.95	1,160
Issue of shares for loan funded share plan	14 September 2015	891,000	\$5.53	4,927
Issue of shares for loan funded share plan	2 October 2015	220,623	\$6.49	1,432
Issue of shares for loan funded share plan	9 November 2015	50,000	\$6.38	319
Issue of shares for loan funded share plan	2 December 2015	293,554	\$7.08	2,078
Shares transferred to beneficiaries **		(569,233)	\$0.00	(1,503)
Balance	30 June 2016	<u>5,089,252</u>		<u>23,262</u>

* Shares held by Vocus Blue Pty Limited

During the financial year ended 30 June 2016, 1,650,177 (2015: 2,233,099) shares were issued to Vocus Blue Pty Limited, a wholly-owned subsidiary of Vocus Communications Limited as part of its Loan Funded Share Plan remuneration scheme to attract and retain key employees. Vocus Blue Pty Limited's sole purpose is to hold shares as trustee for its beneficiaries (its 'participants'). The participants are granted a loan by Vocus to purchase the beneficial interest in shares. The loans are limited recourse to the participants and any dividends received in respect of the plan shares are used to reduce the loan balance net of tax payable. Participants are required to meet service requirements and performance conditions before being entitled to acquire full title to these shares and are required to repay the loan in order to do so.

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

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

Ordinary shares

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

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

Capital risk management

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

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

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

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

The capital risk management policy remains unchanged from the 30 June 2015 Annual Report.

Note 35. Equity - contributed equity (continued)

Capital is monitored 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:

	2016 \$'000	Consolidated 2015 \$'000
Current liabilities - borrowings (note 32)	13,729	1,764
Non-current liabilities - borrowings (note 33)	872,382	117,959
Total borrowings	886,111	119,723
Current assets - cash and cash equivalents (note 30)	(128,629)	(15,170)
Net debt	757,482	104,553
Total equity	3,174,285	196,239
Total capital	3,931,767	300,792
Gearing ratio	19%	35%

Accounting policy for issued capital

Ordinary shares are classified as equity.

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

Note 36. Equity - reserves

	2016 \$'000	Consolidated 2015 \$'000
Investment revaluation reserve	(233)	-
Foreign currency reserve	3,969	760
Share-based payments reserve	5,581	2,721
Hedge reserve	6,989	366
	16,306	3,847

Investment revaluation reserve

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

Foreign currency reserve

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

Share-based payments reserve

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

Hedging reserve - cash flow hedges

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

Note 36. Equity - reserves (continued)

Movements in reserves

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

Consolidated	Investment revaluation \$'000	Foreign currency \$'000	Share-based payments \$'000	Hedge \$'000	Total \$'000
Balance at 1 July 2014	-	977	1,804	(142)	2,639
Foreign currency translation	-	(217)	-	-	(217)
Recognition of share-based payments	-	-	917	-	917
Net movement on hedging transactions	-	-	-	508	508
Balance at 30 June 2015	-	760	2,721	366	3,847
Revaluation - net of tax	(233)	-	-	-	(233)
Foreign currency translation	-	3,209	-	-	3,209
Recognition of share-based payments	-	-	2,077	-	2,077
Net movement on hedging transactions	-	-	-	6,623	6,623
Arising upon business combinations (Note 40)	-	-	2,004	-	2,004
Transfers to contributed equity	-	-	(1,221)	-	(1,221)
Balance at 30 June 2016	(233)	3,969	5,581	6,989	16,306

Note 37. Equity - retained profits

	Consolidated 2016 \$'000	2015 \$'000
Retained profits at the beginning of the financial year	48,148	35,891
Profit after income tax expense for the year	64,091	19,850
Dividends paid and payable (note 8)	(55,159)	(7,593)
Retained profits at the end of the financial year	57,080	48,148

Note 38. Share-based payments

Employee Share Option Plan

An employee share option plan was established and approved by shareholders at a general meeting, whereby Vocus, at the discretion of the Board, granted 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:

2016

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

Note 38. Share-based payments (continued)

Weighted average exercise price	\$1.30	\$5.20	\$1.00	\$0.00	\$4.41
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135,418 options at a strike price of \$5.20 were granted during the period in consideration for M2 options acquired as a result of the merger between Vocus and M2.

2015							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/10/2010	30/09/2017	\$0.50	135,000	-	-	-	135,000
13/05/2011	12/05/2018	\$2.00	19,998	-	(13,332)	-	6,666
01/08/2011	31/07/2018	\$2.50	46,668	-	-	-	46,668
15/08/2011	14/08/2018	\$2.00	50,000	-	(50,000)	-	-
11/05/2012	10/05/2019	\$2.00	165,332	-	(96,498)	-	68,834
25/02/2014	24/02/2021	\$2.60	50,000	-	(16,666)	(33,334)	-
			466,998	-	(176,496)	(33,334)	257,168
Weighted average exercise price			\$1.68	\$0.00	\$2.06	\$2.60	\$1.30

The fair value of the 189,586 (2015: 257,168) shares under option at 30 June 2016 was \$108,401 (2015: \$77,358).

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

Grant date	Expiry date	2016 Number	2015 Number
01/10/2010	30/09/2017	-	135,000
13/05/2011	12/05/2018	-	6,666
01/08/2011	31/07/2018	46,668	46,668
11/05/2012	10/05/2019	7,500	68,834
		<u>54,168</u>	<u>257,168</u>

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

- 7 July 2015, 26,667 options were exercised at a share price of \$5.52.
- 1 September 2015, 12,500 options were exercised at a share price of \$5.61.
- 2 October 2015, 47,999 options were exercised at a share price of \$6.07.
- 2 December 2015, 1,667 options were exercised at a share price of \$7.31.
- 26 February 2016, 100,000 options were exercised at a share price of \$7.27.
- 5 April 2016, 14,167 options were exercised at a share price of \$8.29.

Subsequent to the year end, on 28 July 2016, Vocus announced a reduction in the exercise prices of its unlisted options in accordance with the formula set out in the rules of the Vocus Options and Performance Share Plan, consistent with ASX Listing Rule 6.22.2. The changes to the exercise prices of Vocus' unlisted options follows the completion of Vocus' fully underwritten 1 for 8.90 rights issue concluded in July 2016.

The reduced option prices are not reflected in the table above.

Performance Rights Plan

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

Note 38. Share-based payments (continued)

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

2016

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
08/07/2015	08/07/2016	\$0.00	-	364,511	(222,053)	-	142,458
22/02/2016	01/07/2016	\$0.00	-	213,973	-	-	213,973
22/02/2016	01/07/2017	\$0.00	-	382,249	-	-	382,249
22/02/2016	01/07/2018	\$0.00	-	188,429	-	-	188,429
			-	1,149,162	(222,053)	-	927,109

The fair value of performance rights issued during the period was as follows:

- Issued on 8 July 2015: \$5.50 per share
- Issued on 22 February 2016: \$6.00 per share

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 0.82 years (2015: no performance rights outstanding).

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 Vocus shares. The loans are limited recourse to the participants and any dividends received in respect of the plan shares are used to reduce the loan balance net of tax payable. Participants are required to meet service requirements and performance conditions before being entitled to acquire full title to these shares and are required to repay the loan in order to do so. The shares will progressively become unrestricted over a period determined by each employee's loan agreement, subject to continuous employment with Vocus.

During the financial year ended 30 June 2016, 1,650,177 (2015: 2,233,099) shares were issued to Vocus Blue Pty Limited. At 30 June 2016, Vocus Blue Pty Limited held 5,089,252 (2015: 4,008,308) shares in trust under the Loan Funded Share Plan remuneration scheme.

The shares were issued as follows:

- 20 August 2015: 195,000 shares at an issue price of \$5.95 and fair value of \$1.38
- 14 September 2015: 891,000 shares at an issue price of \$5.53 and fair value of \$1.30
- 2 October 2015: 220,623 shares at an issue price of \$6.49 and fair value of \$1.16
- 9 November 2015: 50,000 shares at an issue price of \$6.38 and fair value of \$1.50
- 25 November 2015: 293,554 shares at an issue price of \$7.08 and fair value of \$1.14

Accounting policy for share-based payments

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

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

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

Note 38. Share-based payments (continued)

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

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

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

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

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

Note 39. Parent entity information

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

Statement of profit or loss and other comprehensive income

	2016 \$'000	Parent 2015 \$'000
Profit after income tax	63,823	17,080
Total comprehensive income	63,823	17,080

Statement of financial position

	2016 \$'000	Parent 2015 \$'000
Total current assets	6,710	4,659
Total assets	3,130,441	210,064
Total current liabilities	643	14,373
Total liabilities	1,269	53,623
Equity		
Contributed equity	3,104,820	148,318
Share-based payments reserve	10,170	2,604
Options reserve	103	103
Retained profits	14,079	5,416
Total equity	3,129,172	156,441

Note 39. 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 42) under which it guarantees the debts of its subsidiaries as at 30 June 2016 and 30 June 2015.

Capital commitments - Property, plant and equipment

The Parent Entity had no capital commitments for property, plant and equipment at as 30 June 2016 and 30 June 2015.

Significant accounting policies

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

Note 40. Business combinations

2016

Amcom Telecommunications Limited

On 8 July 2015, Vocus Communications Limited, through its subsidiary Vocus Group Pty Ltd, acquired 100% of the shares in Amcom Telecommunications Limited ('Amcom') for a total consideration transferred of \$686,662,000, arising from the issue of 124,482,876 shares and 364,511 performance rights in the company. The issue of Vocus shares was at a share price of \$5.50.

The acquisition combines two geographically diverse, complementary businesses to create a major trans-Tasman telecommunications provider.

Goodwill of \$542,752,000 represents the residual value of the purchase price of the company over the fair value of identified tangible and intangible assets.

Due to significant integration changes across Vocus' common service infrastructure, it is not practical to provide a meaningful profit for the period since acquisition.

On 16 December 2015, Vocus Communications Limited sold Amcom L7 Solutions Pty Ltd ('L7') to Cirrus Network Holdings Pty Ltd, for consideration of \$500,000. L7 represented the IT integration and managed services arm of the former Amcom business.

M2 Group Limited

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

The merger of Vocus and M2 brings together two highly complementary business and creates a vertically integrated, infrastructure backed full service telecommunications provider with proven capabilities and scale to service individuals, corporate and government entities across Australia and New Zealand.

M2's revenue for the period to 30 June 2016 (before intercompany eliminations) was \$489,886,000. Due to significant integration changes across Vocus' common service infrastructure, it is not practical to provide a meaningful profit for the period since acquisition.

Goodwill of \$2,374,194,000 represents the residual value of the purchase price of the company over the fair value of identified tangible and intangible assets, and has been determined on a provisional basis due to the size and complexity of the transaction. Finalisation of purchase price accounting estimates will be completed in the 2017 financial year.

Note 40. Business combinations (continued)

On the acquisition of Amcom and the merger with M2, both conducted through a schemes of arrangement, management performed a detailed analysis of the accounting standard requirements in accordance with AASB 3 Business Combinations and AASB 10 Consolidated Financial Statements.

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

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Note 40. Business combinations (continued)

Details of the acquisitions are as follows:

	2016		
	Amcom Telecomm- unications Fair value \$'000	M2 Group Fair value \$'000	Total Fair value \$'000
Cash and cash equivalents	5,087	73,911	78,998
Trade and other receivables	14,000	100,461	114,461
Inventories and other current assets	10,965	8,621	19,586
Prepayments	-	8,642	8,642
Other plant and equipment	178,017	89,103	267,120
Customer intangibles	66,143	289,500	355,643
Software	6,845	117,851	124,696
Brands	-	189,500	189,500
IRU Capacity	-	55,175	55,175
Other intangible assets	1,035	1,792	2,827
Deferred tax asset	10,766	35,481	46,247
Other financial assets	-	1,900	1,900
Trade and payables	(14,668)	(259,209)	(273,877)
Provision for income tax	-	(5,681)	(5,681)
Deferred tax liability	(34,815)	(150,422)	(185,237)
Provisions and other liabilities	(23,083)	(22,264)	(45,347)
Deferred revenue	(13,497)	(51,252)	(64,749)
Bank loans	(51,000)	(555,000)	(606,000)
Hire purchase	(11,885)	-	(11,885)
IRU and lease liability	-	(31,923)	(31,923)
Derivative financial instruments	-	(5,635)	(5,635)
Other liabilities	-	(5,117)	(5,117)
Net assets/(liabilities) acquired	143,910	(114,566)	29,344
Goodwill	542,752	2,374,194	2,916,946
Acquisition-date fair value of the total consideration transferred	<u>686,662</u>	<u>2,259,628</u>	<u>2,946,290</u>
Representing:			
Vocus Communications Limited shares, options and performance rights issued to vendors	<u>686,662</u>	<u>2,259,628</u>	<u>2,946,290</u>
Acquisition costs expensed to profit or loss	<u>12,686</u>	<u>13,109</u>	<u>25,795</u>
Cash used to acquire business, net of cash acquired:			
Acquisition-date fair value of the total consideration transferred	686,662	2,259,628	2,946,290
Less: cash and cash equivalents	(5,087)	(73,911)	(78,998)
Less: Vocus Communications Limited shares, options and performance rights issued to vendor	(686,662)	(2,259,628)	(2,946,290)
Net cash received	<u>(5,087)</u>	<u>(73,911)</u>	<u>(78,998)</u>

2015

Bentley Data Centre from ASG Group Limited

On 13 August 2014, Vocus acquired the assets related to the Bentley Data Centre from ASG Group Limited for \$11,710,000. The values identified in relation to the acquisition are final as at the reporting date 30 June 2016.

Note 40. Business combinations (continued)

FX Networks Limited (now known as Vocus (New Zealand) Limited)

In September 2014, Vocus acquired FX Networks Limited for an enterprise value of \$109,300,000 inclusive of consideration transferred of \$56,907,000 and debt assumed of \$52,393,000. It provides Vocus with premium fibre services in New Zealand. Goodwill of \$32,845,000 represents the residual value of the purchase price over the fair value of identifiable tangible and intangible assets shown below. The values identified in relation to the acquisition are final as at the reporting date 30 June 2016.

Enterprise Data Corporation from Enterprise Data Corporation Pty Ltd

On 1 April 2015, Vocus acquired certain assets of Enterprise Data Corporation from Enterprise Data Corporation Pty Ltd for \$23,500,000. The values identified in relation to the acquisition are final as at the reporting date 30 June 2016.

Note 40. Business combinations (continued)

Details of the acquisitions are as follows:

				2015
	Bentley Data Centre Fair value \$'000	FX Networks Fair value \$'000	Enterprise Data Corporation Fair value \$'000	Total Fair value \$'000
Trade receivables	-	3,032	-	3,032
Other receivables	-	766	-	766
Prepayments	-	1,204	-	1,204
Other current assets	-	583	-	583
Fibre assets	-	78,028	-	78,028
Network equipment	-	20,324	-	20,324
Data centre assets	11,121	-	11,469	22,590
Other plant and equipment	-	1,793	-	1,793
Make good	250	226	500	976
Customer intangibles	770	-	17,343	18,113
Deferred tax asset	-	1,794	-	1,794
Trade payables	-	(6,454)	-	(6,454)
Other payables	-	(5,972)	-	(5,972)
Provision for income tax	-	(307)	-	(307)
Deferred tax liability	(178)	(11,838)	(5,203)	(17,219)
Employee benefits	(3)	(1,152)	(109)	(1,264)
Warranty provision	-	(208)	-	(208)
Other financial liabilities	-	(56,289)	-	(56,289)
Other provisions	(250)	(1,468)	(500)	(2,218)
Net assets acquired	11,710	24,062	23,500	59,272
Goodwill	-	32,845	-	32,845
Acquisition-date fair value of the total consideration transferred	<u>11,710</u>	<u>56,907</u>	<u>23,500</u>	<u>92,117</u>
Representing:				
Cash paid or payable to vendor	10,710	12,111	21,200	44,021
Vocus Communications Limited shares issued to vendors	-	44,796	-	44,796
Contingent consideration	1,000	-	2,300	3,300
	<u>11,710</u>	<u>56,907</u>	<u>23,500</u>	<u>92,117</u>
Acquisition costs expensed to profit or loss	<u>771</u>	<u>4,791</u>	<u>801</u>	<u>6,363</u>
Cash used to acquire business, net of cash acquired:				
Acquisition-date fair value of the total consideration transferred	11,710	56,907	23,500	92,117
Less: shares issued by Company as part of consideration	-	(44,796)	-	(44,796)
Less: contingent consideration	(1,000)	-	(2,300)	(3,300)
Net cash used	<u>10,710</u>	<u>12,111</u>	<u>21,200</u>	<u>44,021</u>

Note 40. Business combinations (continued)

Accounting policy for business combinations

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

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

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

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

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

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

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

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

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

Note 41. 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 43:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
Vocus Group Pty Limited	Australia	100.00%	100.00%
Vocus Holdings Pty Limited	Australia	100.00%	100.00%
Vocus Pty Limited	Australia	100.00%	100.00%
Vocus Connect Pty Limited	Australia	100.00%	100.00%
Vocus Data Centres Pty Limited	Australia	100.00%	100.00%
Vocus Fibre Pty Limited	Australia	100.00%	100.00%
Perth International Exchange Pty Limited atf the Perth IX Trust (trading as Perth IX)	Australia	100.00%	100.00%
Vocus Blue Pty Limited	Australia	100.00%	100.00%

Note 41. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
Ipera Communications Pty Limited	Australia	100.00%	100.00%
Amcom Telecommunications Pty Limited	Australia	100.00%	-
Amcom Pty Limited	Australia	100.00%	-
aCure Technology Pty Limited	Australia	100.00%	-
Global Networks AMC Data Centre Pty Limited	Australia	100.00%	-
Amcom East Pty Limited	Australia	100.00%	-
Amnet Broadband Pty Limited	Australia	100.00%	-
Amcom Data Centres Pty Limited	Australia	100.00%	-
Amcom IP Tel Pty Limited	Australia	100.00%	-
M2 Group Limited	Australia	100.00%	-
M2 Loyalty Programs Pty Limited	Australia	100.00%	-
M2 Group Franchising Pty Limited	Australia	100.00%	-
M2 Commander Pty Limited	Australia	100.00%	-
2Talk Pty Limited	Australia	100.00%	-
M2 Telecommunications Pty Limited	Australia	100.00%	-
M2 Clear Pty Limited	Australia	100.00%	-
Southern Cross Telco Pty Limited	Australia	100.00%	-
People Telecom Pty Limited	Australia	100.00%	-
People Telecommunications Pty Limited	Australia	100.00%	-
M2 Wholesale Pty Limited	Australia	100.00%	-
Wholesale Communications Group Pty Limited	Australia	100.00%	-
M2 Wholesale Services Pty Limited	Australia	100.00%	-
Primus Telecom Holdings Pty Limited	Australia	100.00%	-
First Path Pty Limited	Australia	100.00%	-
Primus Network (Australia) Pty Limited	Australia	100.00%	-
Primus Telecom Pty Limited	Australia	100.00%	-
Hotkey Internet Services Pty Limited	Australia	100.00%	-
Primus Telecommunications Pty Limited	Australia	100.00%	-
Primus Telecommunications (Australia) Pty Limited	Australia	100.00%	-
Dodo Australia Holdings Pty Limited	Australia	100.00%	-
No Worries Online Pty Limited	Australia	100.00%	-
Dodo Group Services Pty Limited	Australia	100.00%	-
Pendo Industries Pty Limited	Australia	100.00%	-
Dodo Services Pty Limited	Australia	100.00%	-
Dodo Insurance Pty Limited	Australia	100.00%	-
Secureway Pty Limited	Australia	100.00%	-
M2 Energy Pty Limited	Australia	100.00%	-
Eftel Pty Limited	Australia	100.00%	-
Eftel Wholesale Pty Limited	Australia	100.00%	-
Club Telco Pty Limited	Australia	100.00%	-
Eftel Corporate Pty Limited	Australia	100.00%	-
Visage Telecom Pty Limited	Australia	100.00%	-
Engin Pty Limited	Australia	100.00%	-
Eftel Retail Pty Limited	Australia	100.00%	-
Aggregato Global Limited	Australia	61.20%	-
Vocus (New Zealand) Holdings Limited	New Zealand	100.00%	100.00%
Vocus (New Zealand) Limited *	New Zealand	100.00%	100.00%
Vocus Data Centres (New Zealand) Limited **	New Zealand	100.00%	100.00%
Data Lock Limited	New Zealand	100.00%	100.00%
M2 Group NZ Limited	New Zealand	100.00%	-
CallPlus Holdings Limited	New Zealand	100.00%	-
2Talk Limited	New Zealand	100.00%	-
CallPlus Australia Holdings Limited	New Zealand	100.00%	-
CallPlus Limited	New Zealand	100.00%	-

Note 41. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
Blue Reach Limited	New Zealand	100.00%	-
Slingshot Communications Limited	New Zealand	100.00%	-
CallPlus Services Limited	New Zealand	100.00%	-
CallPlus Trustee Limited	New Zealand	100.00%	-
Orcon Limited	New Zealand	100.00%	-
CallPlus Assets Limited	New Zealand	100.00%	-
Flip Services Limited	New Zealand	100.00%	-
CallPlus Services Australia Limited	New Zealand	100.00%	-
M2 NZ Limited	New Zealand	100.00%	-

* Formerly FX Networks Limited (name changed on 28 April 2015).

** Formerly Vocus (New Zealand) Limited (name changed on 17 April 2015).

Note 42. Deed of cross guarantee

The wholly-owned entities listed in Note 41 are party to a deed of cross guarantee under which each company guarantees the debts of the others.

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 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 consolidated 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 43. Other significant accounting policies

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

Principles of consolidation

The consolidated financial statements of Vocus comprise of the financial statements of Vocus Communications Limited and its subsidiaries where it is determined that there is a capacity to control. Vocus controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred. They are de-consolidated from the date that control ceases.

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

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

Note 43. Other significant accounting policies (continued)

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

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

Foreign currency translation

The financial statements are presented in Australian dollars, which is Vocus 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 rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

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

Current and non-current classification

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

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

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

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

Investments and other financial assets

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

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

Loans and receivables

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

Note 43. Other significant accounting policies (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is 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.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

Leases

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

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

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

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

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

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.

Note 43. Other significant accounting policies (continued)

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

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

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

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

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

Rounding of amounts

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by Vocus for the annual reporting period ended 30 June 2016. Vocus' assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to Vocus, are set out below.

AASB 9 Financial Instruments

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

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard may impact the way revenue is recognised by Vocus on application from 1 July 2018. The impact of its adoption is yet to be assessed.

AASB 16 Leases

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

Note 43. Other significant accounting policies (continued)

AASB 2015 - 2 Disclosures Program

This standard applies to annual reporting periods beginning on or after 1 January 2016. This disclosure initiative makes amendments to AASB 101 to provide clarification regarding its requirements. It specifically addresses concerns about existing presentation and disclosure requirements and ensures entities are able to use judgment when applying a Standard in determining what information is required to be disclosed in their financial statements. Vocus will adopt this standard from 1 July 2016 but the impact of its adoption is yet to be assessed by Vocus.

Note 44. Key management personnel disclosures

Compensation

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

	2016 \$	Consolidated 2015 \$
Short-term employee benefits	4,891,064	2,369,950
Post-employment benefits	202,863	126,027
Long-term benefits	990,690	77,498
Share-based payments	1,445,473	253,602
	<u>7,530,090</u>	<u>2,827,077</u>

Note 45. 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:

	2016 \$	Consolidated 2015 \$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	550,000	230,280
<i>Other services - Deloitte Touche Tohmatsu</i>		
Tax compliance services	224,902	45,008
Other non-audit services	768,897	234,917
	993,799	279,925
	<u>1,543,799</u>	<u>510,205</u>
<i>Audit services - network firms of Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	124,567	91,021
<i>Other services - network firms of Deloitte Touche Tohmatsu</i>		
Tax compliance services	-	22,412
Other non-audit services	57,873	3,843
	57,873	26,255
	<u>182,440</u>	<u>117,276</u>

Note 46. Related party transactions

Parent entity

Vocus Communications Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 41.

Joint ventures

Interests in joint ventures are set out in note 24.

Key management personnel

Disclosures relating to key management personnel are set out in note 44 and the remuneration report included in the Directors' report.

Transactions with related parties

The Company purchased corporate entertainment packages totalling \$5,259 (2015: \$11,400) from Illawarra Hawks Pty Ltd, a company related to James Spenceley. The packages were on commercial terms and approved by the Board.

Loans to Directors and executives for the year ended 30 June 2016 are in relation to the Company's Loan Funded Share Plan. A schedule detailing the loan amounts and movements during the year is included in the Remuneration Report.

Note 47. Events after the reporting period

Proposed acquisition of Nextgen Networks and capital raising

As announced on 29 June 2016, Vocus entered into a binding agreement to purchase Nextgen Networks as well as two development projects, NWCS and ASC ('Nextgen'), for total upfront consideration of approximately A\$807,000,000 and deferred consideration of up to A\$54,000,000. The proposed acquisition is subject to standard consents, including regulatory consent from the Australian Competition and Consumer Commission ('ACCC') and the Infocom Development Authority of Singapore ('IDA'). The acquisition links Vocus' metro fibre access network to Nextgen's intercity backhaul network. The ACCC has set a provisional date to announce a final decision or release of a Statement of Issues in respect of Nextgen on or around 22 September 2016.

The Nextgen acquisition is funded from an equity raising of \$652,000,000 completed in July 2016, with the balance funded from existing committed debt facilities.

The equity raising was completed over three stages, and comprised a pro-rata accelerated institutional entitlement offer, a pro-rata retail entitlement offer with rights trading and an institutional placement.

On completion of the entitlement offer, a total of 59,969,757 fully paid ordinary shares were issued at \$7.55 per share, with 30,529,752 new shares issued on 11 July 2016 pursuant to the institutional entitlement offer and 29,440,005 new shares issued on 28 July 2016 under the retail entitlement offer.

Under the institutional placement, 23,752,969 ordinary shares at \$8.42 were issued on 11 July 2016.

Apart from the dividend declared as disclosed in note 8, no other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Vocus' operations, the results of those operations, or the Vocus' state of affairs in future financial years.

Note 48. General information

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

Note 48. General information (continued)

Level 12
60 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 23 August 2016. The Directors have the power to amend and reissue the financial statements.

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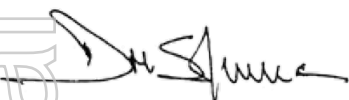
In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 43 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Vocus' financial position as at 30 June 2016 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 42 to the financial statements.

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

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

On behalf of the Directors



David Spence
Director

23 August 2016
Sydney

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

Report on the Financial Report

We have audited the accompanying financial report of Vocus Communications Limited, which comprises the statement of financial position as at 30 June 2016, 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 36 to 99.

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.

Auditor's Independence Declaration

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

Opinion

In our opinion:

- (a) the financial report of Vocus Communications Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 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 17 to 31 under the heading 'Remuneration Report' in the directors' report for the year ended 30 June 2016. 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

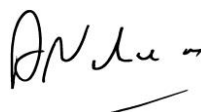
In our opinion the Remuneration Report of Vocus Communications Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Don Pasquariello
Partner
Chartered Accountants
Sydney, 23 August 2016



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Partner
Chartered Accountants
Sydney, 23 August 2016

The shareholder information set out below was applicable as at 12 August 2016.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Units
1 to 1,000	10,415	4,617,624
1,001 to 5,000	13,329	33,030,459
5,001 to 10,000	3,884	27,275,230
10,001 to 100,000	3,009	67,032,281
100,001 and over	234	485,569,075
	30,871	617,524,669
Holding less than a marketable parcel	674	10,038

Equity security holders

Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	115,127,308	18.64
J P MORGAN NOMINEES AUSTRALIA LIMITED	88,297,191	14.30
NATIONAL NOMINEES LIMITED	50,080,193	8.11
CITICORP NOMINEES PTY LIMITED	39,172,155	6.34
BNP PARIBAS NOMS PTY LTD (DRP)	24,312,714	3.94
CITICORP NOMINEES PTY LIMITED (COLONIAL FIRST STATE INV A/C)	11,586,216	1.88
AMP LIFE LIMITED	10,662,250	1.73
BNP PARIBAS NOMINEES PTY LTD (AGENCY LENDING DRP A/C)	7,075,204	1.15
MR VAUGHAN BOWEN (V G BOWEN FAMILY A/C)	6,315,919	1.02
TEFIG PTY LTD (AJ ABERCROMBIE S/FUND A/C)	6,308,058	1.02
RETRELLA PTY LTD	6,280,000	1.02
VALUE ADDED NETWORK PTY LIMITED	6,072,258	0.98
BELL POTTER NOMINEES LTD (BB NOMINEES A/C)	4,828,753	0.78
VOCUS BLUE PTY LTD (THE VOCUS SHARE PLAN A/C)	4,749,033	0.77
THE ABERCROMBIE GROUP PTY LTD (THE PHILADELPHIA A/C)	4,657,165	0.75
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	3,893,259	0.63
THIRTY FOURTH ZULU PTY LTD (HAMILTON SUPERANNUATION NO 3 A)	3,620,199	0.59
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (PI POOLED A/C)	3,177,022	0.51
TALSTON PTY LTD (THE TALSTON A/C)	3,000,000	0.49
OAKTONE NOMINEES PTY LTD (THE GRIST INVESTMENT A/C)	2,824,721	0.46
	402,039,618	65.11

Unquoted equity securities

At 12 August 2016, 507,773 unlisted performance rights and 189,586 options have been issued to employees and remain unexercised.

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Ordinary shares % of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	115,127,308	18.64
J P MORGAN NOMINEES AUSTRALIA LIMITED	88,297,191	14.30
NATIONAL NOMINEES LIMITED	50,080,193	8.11
CITICORP NOMINEES PTY LIMITED	39,172,155	6.34

Voting rights

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

Ordinary shares

By virtue of the Company's Constitution, outlined in Clause 34, voting rights for ordinary shares are:

- a) on a show of hands, each member has one vote;
- b) (subject to section 250L(4)) on a poll, each member has:
 - i) for each fully paid share held by the member, one vote; and
 - ii) for each partly-paid share held by the member, a fraction of a vote equivalent to the proportion which the amount paid (not credited nor paid in advance of a call) is of the total amounts paid and payable (excluding amounts credited) for the share.

There are no other classes of equity securities to which voting rights attach.

Securities subject to voluntary escrow

At 30 June 2016, Vocus had 319,734 shares (purchased by team members) held in escrow, per the terms of the M2 Group Ltd Employee Share Plan (Salary Sacrifice) and part consideration issued to shareholders on the acquisition of CallPlus Group.