

Vocus (New Zealand) Holdings Limited

NZBN 9429030670518

Annual Report - 30 June 2020

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Vocus (New Zealand) Holdings Limited
Directors' report
30 June 2020



The Directors are pleased to present the annual report of Vocus (New Zealand) Holdings Limited incorporating the financial statements and auditor's report thereon, for the year ended 30 June 2020.

The shareholders of the Group have exercised their right under section 211 (3) of the Companies Act 1993 and unanimously agreed that this annual report need not comply with any of paragraphs (a), and (e) to (j) of section 211 (1) of the Act.

The annual report and financial statements presented on pages 3 to 33 are signed for and on behalf of the Board of Directors, and are authorised for issue on the date below.

On behalf of the Directors

A handwritten signature in black ink, appearing to read "Mark Callander", written over a horizontal line.

Mark Callander
Director

A handwritten signature in black ink, appearing to read "Nitesh Naidoo", written over a horizontal line.

Nitesh Naidoo
Director

27 November 2020
Auckland

Vocus (New Zealand) Holdings Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020



	Note	Consolidated	
		2020	2019
		\$	\$
Revenue	4	402,404,171	382,266,567
Other gains and losses	5	(1,039,531)	(1,860,659)
Interest revenue calculated using the effective interest method		121,316	284,899
Expenses			
Network and service delivery		(265,452,911)	(235,096,968)
Employee benefits expense	6	(47,820,156)	(47,796,734)
Depreciation and amortisation expense		(27,920,341)	(25,323,680)
Administration and other expenses		(27,526,151)	(28,905,547)
Finance costs	6	(11,274,486)	(11,631,565)
Profit before income tax expense		21,491,911	31,936,313
Income tax expense	7	(6,173,664)	(10,258,111)
Profit after income tax expense for the year attributable to the Owners of Vocus (New Zealand) Holdings Limited		15,318,247	21,678,202
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net movement on hedging transactions, net of tax		2,815,567	(298,048)
Other comprehensive income/(loss) for the year, net of tax		2,815,567	(298,048)
Total comprehensive income for the year attributable to the Owners of Vocus (New Zealand) Holdings Limited		18,133,814	21,380,154

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

Vocus (New Zealand) Holdings Limited
Statement of financial position
As at 30 June 2020



	Note	Consolidated	
		2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents	8	22,655,998	19,651,303
Trade and other receivables	9	27,766,775	31,264,040
Inventories		843,759	958,245
Contract costs asset		3,849,390	2,556,013
Derivative financial instruments	10	5,916,672	9,094,177
Prepayments		2,347,085	3,333,362
Total current assets		<u>63,379,679</u>	<u>66,857,140</u>
Non-current assets			
Property, plant and equipment	11	131,979,478	135,546,058
Right-of-use assets	12	34,103,902	-
Intangibles	13	305,065,495	294,878,588
Contract costs asset		3,698,723	2,906,956
Deferred tax	14	15,034,197	3,484,289
Total non-current assets		<u>489,881,795</u>	<u>436,815,891</u>
Total assets		<u>553,261,474</u>	<u>503,673,031</u>
Liabilities			
Current liabilities			
Trade and other payables	15	51,531,152	53,681,533
Borrowings	16	10,266,440	110,796,495
Income tax	17	4,520,500	5,541,023
Provisions	18	2,583,599	3,190,784
Lease liabilities	19	2,046,201	-
Other liabilities	20	13,374,602	12,125,770
Total current liabilities		<u>84,322,494</u>	<u>185,335,605</u>
Non-current liabilities			
Borrowings	21	92,500,000	119,912,986
Deferred tax	22	28,389,356	16,056,773
Provisions		400,000	400,000
Lease liabilities	23	38,932,162	-
Other liabilities		309,528	449,469
Total non-current liabilities		<u>160,531,046</u>	<u>136,819,228</u>
Total liabilities		<u>244,853,540</u>	<u>322,154,833</u>
Net assets		<u>308,407,934</u>	<u>181,518,198</u>
Equity			
Issued capital	24	57,300,001	57,300,001
Reserves	25	197,573,538	86,002,049
Retained profits	26	53,534,395	38,216,148
Total equity		<u>308,407,934</u>	<u>181,518,198</u>

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

Vocus (New Zealand) Holdings Limited
Statement of changes in equity
For the year ended 30 June 2020



Consolidated	Issued capital \$	Retained profits \$	Reserve \$	Total equity \$
Balance at 1 July 2018	57,300,001	16,537,946	86,300,097	160,138,044
Profit after income tax expense for the year	-	21,678,202	-	21,678,202
Other comprehensive loss for the year, net of tax	-	-	(298,048)	(298,048)
Total comprehensive income/(loss) for the year	-	21,678,202	(298,048)	21,380,154
Balance at 30 June 2019	<u>57,300,001</u>	<u>38,216,148</u>	<u>86,002,049</u>	<u>181,518,198</u>
Consolidated	Issued capital \$	Retained profits \$	Reserve \$	Total equity \$
Balance at 1 July 2019	57,300,001	38,216,148	86,002,049	181,518,198
Profit after income tax expense for the year	-	15,318,247	-	15,318,247
Other comprehensive income for the year, net of tax	-	-	2,815,567	2,815,567
Total comprehensive income for the year	-	15,318,247	2,815,567	18,133,814
<i>Transactions with Owners in their capacity as Owners:</i>				
Share-based payments	-	-	810,000	810,000
Other reserves	-	-	107,945,922	107,945,922
Balance at 30 June 2020	<u>57,300,001</u>	<u>53,534,395</u>	<u>197,573,538</u>	<u>308,407,934</u>

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

Vocus (New Zealand) Holdings Limited
Statement of cash flows
For the year ended 30 June 2020



	Note	Consolidated	
		2020	2019
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		466,262,062	440,887,999
Payments to suppliers and employees (inclusive of GST)		<u>(393,142,695)</u>	<u>(375,132,889)</u>
Interest received		73,119,367	65,755,110
Interest and other finance costs paid		64,485	160,203
Income taxes paid		<u>(8,073,691)</u>	<u>(5,174,854)</u>
		<u>(4,322,026)</u>	<u>(6,891,220)</u>
Net cash from operating activities		<u>60,788,135</u>	<u>53,849,239</u>
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired and acquisition costs	31	(7,965,059)	(1,500,000)
Payments for property, plant and equipment		<u>(18,974,811)</u>	<u>(25,527,761)</u>
Payments for intangible assets		<u>(8,310,978)</u>	<u>(5,774,108)</u>
Net cash used in investing activities		<u>(35,250,848)</u>	<u>(32,801,869)</u>
Cash flows from financing activities			
Proceeds from/(repayment of) borrowings		(17,500,000)	(10,500,000)
Proceeds from/(repayment of) leases		<u>(5,032,592)</u>	<u>(581,244)</u>
Net cash used in financing activities		<u>(22,532,592)</u>	<u>(11,081,244)</u>
Net increase in cash and cash equivalents		3,004,695	9,966,126
Cash and cash equivalents at the beginning of the financial year		<u>19,651,303</u>	<u>9,685,177</u>
Cash and cash equivalents at the end of the financial year	8	<u><u>22,655,998</u></u>	<u><u>19,651,303</u></u>

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

Note 1. General information

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

Vocus (New Zealand) Holdings Limited is a company limited by shares.

Vocus (New Zealand) Holdings Limited is a vertically integrated telecommunications provider, operating in the New Zealand markets. Vocus (New Zealand) Holdings Limited owns an extensive national infrastructure network of metro and back haul fibre connecting all capital cities and most regional centres across New Zealand.

Vocus (New Zealand) Holdings Limited primarily provides telecommunications and energy services to customers across its mass market, corporate & wholesale and government channels.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 27 November 2020. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended accounting standards and interpretations adopted

The Group has adopted all of the new, revised or amending accounting standards and interpretations issued by the External Reporting Board ('XRB') that are mandatory for the current reporting period. The adoption of these Accounting standards and interpretations did not have any significant impact on the financial performance or position of the Group, other than those disclosed for NZ IFRS 16.

Any new, revised or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted by the Group for the annual reporting period ended 30 June 2020. The Group has not yet assessed the impact of these new amended Accounting standards and interpretations.

Note 2. Significant accounting policies (continued)

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

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

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

The implementation of NZ IFRS 16 *Leases* affected the following items in the balance sheet on 1 July 2019 :

Property, plant and equipment decreased by \$5,458,088
Right of use assets increased by \$35,397,844
Deferred tax assets increased by \$425,539
Borrowings decreased by \$ 10,235,248
Lease liabilities increased by \$41,603,466
Trade and other payables decreased by \$ 1,428,462

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

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

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

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

NZ IFRS 16 Leases – Accounting policy applied from 1 July 2019

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

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

Measurement of lease liabilities:

Operating lease commitments disclosed as at 30 June 2019:	\$ 62,678,457
Discounted using the lessee's incremental borrowing rate at the date of initial calculation	\$58,070,250
Add : finance lease liabilities recognised as at 30 June 2019	\$10,235,248
(Less): short term leases not recognised as a liability	\$(78,424)
(Less) : Leases that do not qualify under NZ IFRS 16	\$(38,900,378)
(Less) : low-value leases not recognised as a liability	\$(578,406)
(Less) : adjustments as a result of changes in the index or rate affecting variable payments	\$(106,266)
Add : adjustments as a result of different treatment of extensions and termination options	\$12,961,442
<i>Lease liability recognised as at 1 July 2019:</i>	<i>\$41,603,466</i>
Consisting of:	
Current lease liabilities	\$1,770,407
Non-current lease liabilities	\$39,833,059

Working capital management

At 30 June 2020, the consolidated statement of financial position reflected an excess of current liabilities over current assets of \$20,942,815 (2019: \$118,478,465). The working capital deficit is caused by the classification of \$10,266,440 (2019: \$110,796,495) of payables to related parties as current liabilities for which the ultimate parent controls the timing of settlement, and a further \$12,636,463 (2019: \$11,622,455) of deferred revenue balances which are not cash settled. The working capital deficit decrease is primarily caused by the loan forgiveness by related parties of \$107,945,922. As a result, the directors are satisfied that the Group is able to meet its liabilities as and when they fall due through the generation of operational cash flows in the ordinary course of business.

Basis of preparation

Statutory base

Vocus (New Zealand) Holdings Limited is a Company registered under the New Zealand Companies Act 1993. The consolidated financial statements have been prepared in accordance with the Financial Reporting Act 2013 and the Companies Act 1993.

Statement of compliance

The consolidated financial statements of Vocus (New Zealand) Holdings Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (GAAP). Vocus (New Zealand) Holdings Limited is a for-profit entity for the purposes of complying with GAAP. The consolidated financial statement comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime ("NZ IFRS RDR"), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS RDR.

Note 2. Significant accounting policies (continued)

The Group is eligible and has elected to report in accordance with Tier 2 For-profit Accounting Requirements (NZ IFRS RDR) on the basis that the group has no public accountability and is not a large for-profit public sector entity. In applying NZ IFRS RDR, the Group has applied a number of disclosure concessions.

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Vocus (New Zealand) Holdings Limited ('Company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Vocus (New Zealand) Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

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

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

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group 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 New Zealand dollars, which is Vocus (New Zealand) Holdings Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into New Zealand 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.

Note 2. Significant accounting policies (continued)

Revenue recognition

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

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

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

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

Fibre/Ethernet/Internet, Voice, Mobile and Other

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

Data Centre

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

Energy

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

Indefeasible right to use (IRU)

The Company has entered into certain indefeasible right to use (IRU) agreements. An IRU is a right to use a specified amount of capacity for a specific time period that cannot be revoked or voided. Such agreements are accounted for either as lease or service transactions.

Those IRU agreements that provide the lessee with the exclusive right to use one or more specified fibre(s) are accounted for as lease transactions. Other IRU's are accounted for as service agreements.

IRU agreements that transfer substantially all the risks and rewards of ownership to the lessee are classified as a finance lease.

Revenue from finance leases is recognised in the period that the IRU's are transferred and the fibre is available for use. The carrying value of the sold fibre(s) is accordingly recognised as costs of goods sold.

Revenue from service contracts are recognised over the term of the agreement. Amounts received in excess of revenue recognised are recorded as income in advance in the balance sheet.

Operation and maintenance revenues are recognised upon performance of services.

Note 2. Significant accounting policies (continued)

Interest

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

Other revenue

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

Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Current and non-current classification

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

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

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

Cash and cash equivalents

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

Trade and other receivables

Trade and other receivables are recognised in accordance with the policy set out in note 9.

Note 2. Significant accounting policies (continued)

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.

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.

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. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Impairment of financial assets at amortised cost

The Group 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.

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

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

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 2. Significant accounting policies (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 assets	10-50 years
Network equipment	2-8 years
Data centre	5-5 years
Plant and equipment	3-5 years

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

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

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

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

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 and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 to 8 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.

Other intangibles

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

Note 2. Significant accounting policies (continued)

Impairment of non-financial assets

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

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

Trade and other payables

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

Borrowings

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

Finance costs

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

Provisions

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

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries and other employee benefits expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Share-based payments

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

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial 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 the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

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

Fair value measurement

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

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best 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.

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 2. 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.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Estimation of useful lives of assets

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

Goodwill and other indefinite life intangible assets

The Consolidated Entity assesses annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have shown any indication of impairment, in accordance with the accounting policy stated in note 2. Where an impairment test is required, the recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

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

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

Income tax

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

Recovery of deferred tax assets

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

Note 3. Critical accounting judgements, estimates and assumptions (continued)

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 4. Revenue

	Consolidated	
	2020	2019
	\$	\$
NBN/UFB/Broadband	199,615,419	185,247,690
Data Networks	43,912,381	47,430,220
Data Centres	5,535,284	5,744,916
Voice	55,852,109	60,323,300
Mobile	11,204,740	10,616,052
Energy	75,490,563	64,690,800
Other	10,793,675	8,213,589
Revenue	<u>402,404,171</u>	<u>382,266,567</u>

Note 5. Other gains and losses

	Consolidated	
	2020	2019
	\$	\$
Net foreign currency gains / (losses)	183,997	(56,271)
Other gains / (losses)	(1,223,528)	(1,804,388)
Other gains and losses	<u>(1,039,531)</u>	<u>(1,860,659)</u>

Note 6. Expenses

	Consolidated	
	2020	2019
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Network and service delivery</i>		
Fair value (gains) losses recognised in profit or loss	6,136,271	(8,475,588)
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	11,274,486	11,631,565
<i>Employee benefits expense</i>		
Defined contribution plan expense	1,263,934	1,262,886
Employee benefits expense	46,556,222	46,533,848
Total employee benefits expense	<u>47,820,156</u>	<u>47,796,734</u>

Note 7. Income tax expense

	Consolidated	
	2020	2019
	\$	\$
<i>Income tax expense</i>		
Current tax	4,783,939	6,564,453
Deferred tax - origination and reversal of temporary differences	1,504,323	3,385,654
Adjustment recognised for prior periods	(114,598)	308,004
Aggregate income tax expense	6,173,664	10,258,111
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 14)	(11,549,908)	1,184,448
Increase in deferred tax liabilities (note 22)	13,054,231	2,201,206
Deferred tax - origination and reversal of temporary differences	1,504,323	3,385,654
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	21,491,911	31,936,313
Tax at the statutory tax rate of 28%	6,017,735	8,942,168
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	43,573	107,533
Share-based payments	226,800	-
Sundry items	154	900,406
Adjustment recognised for prior periods	(114,598)	308,004
Income tax expense	6,173,664	10,258,111

	Consolidated	
	2020	2019
	\$	\$
<i>Amounts credited directly to equity</i>		
Deferred tax liabilities (note 22)	(721,648)	(3,026,128)

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2020	2019
	\$	\$
Cash at bank	22,655,998	19,651,303

A \$10,000 security deposit, \$225,000 bank payment guarantee and a \$125,000 standby letter of credit in favour of Chorus Limited is in place. There is also a \$279,623 standby letter of credit provided by the ASB Bank. There is a \$34,571 bank guarantee provided by the BNZ to Strand Plaza Takapuna Limited for office property rented. There is a \$5,850,000 CBA, a \$2,000,000 NAB and a \$4,000,000 ANZ bank guarantee in place, on behalf of Switch Utilities Limited, to the Energy Clearing House. This is to facilitate the purchase of energy for the Group from the Regulator. There is a \$40,800 bank guarantee provided by the BNZ to Aurora Energy, \$50,000 provided by the ANZ to Unison Networks and Switch Utilities Limited also placed cash security deposits of \$817,728 with electricity distributors as bonds, to meet Prudential Requirements.

Note 9. Current assets - trade and other receivables

	Consolidated	
	2020	2019
	\$	\$
Trade receivables	26,607,867	30,042,180
Accrued revenue	5,678,158	6,228,819
Less: Allowance for expected credit losses	<u>(3,035,028)</u>	<u>(5,356,707)</u>
	<u>29,250,997</u>	<u>30,914,292</u>
Other receivables	77,067	35,272
Goods and services tax refundable/(payable)	<u>(1,561,289)</u>	<u>314,476</u>
	<u><u>27,766,775</u></u>	<u><u>31,264,040</u></u>

Impairment of receivables

An expense of \$4,772,021 (2019: \$5,226,812) in profit or loss in respect of impairment of receivables for the financial year ended 30 June 2020.

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

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

	Consolidated	
	2020	2019
	\$	\$
Opening balance	5,356,707	5,812,439
Additional provisions recognised	4,772,021	5,226,812
Receivables written off during the year as uncollectable	<u>(7,093,700)</u>	<u>(5,682,544)</u>
Closing balance	<u><u>3,035,028</u></u>	<u><u>5,356,707</u></u>

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less any loss allowances. Trade receivables are generally due for settlement within 30 days.

Impairment of financial assets

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

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

Note 10. Current assets - derivative financial instruments

	Consolidated	
	2020	2019
	\$	\$
Electricity derivatives - cash flow hedges	5,916,672	9,094,177

Refer to note 27 for further information on fair value measurement.

Note 11. Non-current assets - property, plant and equipment

	Consolidated	
	2020	2019
	\$	\$
Fibre assets - at cost	109,831,391	114,812,222
Less: Accumulated depreciation	(20,596,420)	(19,036,338)
	<u>89,234,971</u>	<u>95,775,884</u>
Network equipment - at cost	85,112,567	68,208,695
Less: Accumulated depreciation	(53,419,726)	(39,716,583)
	<u>31,692,841</u>	<u>28,492,112</u>
Data centre - at cost	9,441,572	8,918,548
Less: Accumulated depreciation	(6,149,811)	(5,658,040)
	<u>3,291,761</u>	<u>3,260,508</u>
Plant and equipment - at cost	21,448,565	20,060,447
Less: Accumulated depreciation	(17,216,814)	(12,857,617)
	<u>4,231,751</u>	<u>7,202,830</u>
WIP - at cost	<u>3,528,154</u>	<u>814,724</u>
	<u><u>131,979,478</u></u>	<u><u>135,546,058</u></u>

Reconciliations

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

Consolidated	Fibre assets \$	Network equipment \$	Data centre \$	Plant and equipment \$	Capital WIP \$	Total \$
Balance at 1 July 2019	95,775,884	28,492,112	3,260,508	7,202,830	814,724	135,546,058
Additions	-	-	-	-	20,763,458	20,763,458
Additions through business combinations (note 31)	-	1,147,418	-	5,878	-	1,153,296
Reclassification to Right of Use Asset	(5,458,088)	-	-	-	-	(5,458,088)
Transfers in/(out)	1,131,151	15,081,116	523,024	1,314,737	(18,050,028)	-
Depreciation expense	(2,213,976)	(13,027,805)	(491,771)	(4,291,694)	-	(20,025,246)
Balance at 30 June 2020	<u>89,234,971</u>	<u>31,692,841</u>	<u>3,291,761</u>	<u>4,231,751</u>	<u>3,528,154</u>	<u>131,979,478</u>

Note 12. Non-current assets - right-of-use assets

	Consolidated	
	2020	2019
	\$	\$
Right of Use Asset	37,366,213	-
Less: Accumulated depreciation	(3,262,311)	-
	<u>34,103,902</u>	<u>-</u>

Reconciliations

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

Consolidated	Property	Other	Total
	\$	\$	\$
Balance at 1 July 2019	28,738,258	6,659,586	35,397,844
Adjustments	1,314,474	-	1,314,474
Depreciation expense	(2,314,150)	(294,266)	(2,608,416)
Balance at 30 June 2020	<u>27,738,582</u>	<u>6,365,320</u>	<u>34,103,902</u>

In the previous year, Vocus recognised lease assets and lease liabilities in relation to leases that were classified as "finance lease" under NZ IFRS 117 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the group's borrowings. For adjustments recognised on adoption of NZ IFRS 16 on 1 July 2019, please refer to note 2.

Note 13. Non-current assets - intangibles

	Consolidated	
	2020	2019
	\$	\$
Goodwill - at cost	275,154,627	266,973,418
IRU capacity - at cost	5,576,950	5,576,950
Less: Accumulated amortisation	(671,901)	(225,745)
	<u>4,905,049</u>	<u>5,351,205</u>
Customer intangibles - at cost	667,656	667,656
Less: Accumulated amortisation	(667,656)	(667,656)
	<u>-</u>	<u>-</u>
Software - at cost	37,442,203	29,772,466
Less: Accumulated amortisation	(13,873,375)	(7,764,298)
	<u>23,568,828</u>	<u>22,008,168</u>
Other intangibles - at cost	29,019	29,019
Less: Accumulated amortisation	(13,352)	(8,905)
	<u>15,667</u>	<u>20,114</u>
Capital work in progress	1,421,324	525,683
	<u>305,065,495</u>	<u>294,878,588</u>

Note 13. Non-current assets - intangibles (continued)

Reconciliations

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

Consolidated	Goodwill \$	IRU capacity \$	Software \$	Other intangibles \$	Capital WIP \$	Total \$
Balance at 1 July 2019	266,973,418	5,351,205	22,008,168	20,114	525,683	294,878,588
Additions	-	-	-	-	6,536,132	6,536,132
Additions through business combinations (note 31)	8,181,209	-	756,245	-	-	8,937,454
Transfers in/(out)	-	-	5,640,491	-	(5,640,491)	-
Amortisation expense	-	(446,156)	(4,836,076)	(4,447)	-	(5,286,679)
Balance at 30 June 2020	<u>275,154,627</u>	<u>4,905,049</u>	<u>23,568,828</u>	<u>15,667</u>	<u>1,421,324</u>	<u>305,065,495</u>

Note 14. Non-current assets - deferred tax

Consolidated
2020 **2019**
\$ **\$**

Deferred tax asset comprises temporary differences attributable to:

Amounts recognised in profit or loss:

Carry forward tax losses	163,366	-
Allowance for expected credit losses	849,808	1,499,878
Property, plant and equipment	917,995	-
Leases	11,473,942	829,126
Accrued expenses	<u>1,629,086</u>	<u>1,155,285</u>

Deferred tax asset	<u>15,034,197</u>	<u>3,484,289</u>
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Movements:

Opening balance	3,484,289	4,668,737
Credited/(charged) to profit or loss (note 7)	<u>11,549,908</u>	<u>(1,184,448)</u>

Closing balance	<u>15,034,197</u>	<u>3,484,289</u>
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Note 15. Current liabilities - trade and other payables

Consolidated
2020 **2019**
\$ **\$**

Trade payables	21,414,141	18,277,722
Accruals	28,864,026	33,278,645
Other payables	<u>1,252,985</u>	<u>2,125,166</u>
	<u>51,531,152</u>	<u>53,681,533</u>

Note 16. Current liabilities - borrowings

	Consolidated	
	2020	2019
	\$	\$
Payable to related parties	10,266,440	110,643,577
Lease liability	-	152,918
	<u>10,266,440</u>	<u>110,796,495</u>

Refer to note 21 for further information on assets pledged as security and financing arrangements.

Refer to note 19 and note 23 for further information on lease liability.

Refer to note 30 for further information on payable to related parties.

Note 17. Current liabilities - income tax

	Consolidated	
	2020	2019
	\$	\$
Provision for income tax	4,520,500	5,541,023
	<u>4,520,500</u>	<u>5,541,023</u>

Note 18. Current liabilities - provisions

	Consolidated	
	2020	2019
	\$	\$
Employee benefits	2,547,359	3,190,784
Restructuring	36,240	-
	<u>2,583,599</u>	<u>3,190,784</u>

Movements in provisions

Movements in provisions during the current financial year are set out below:

Consolidated - 2020	Employee benefits \$	Restructuring \$
Carrying amount at the start of the year	3,190,784	-
Additional provisions recognised	5,344,287	36,240
Amounts paid	(5,987,712)	-
Carrying amount at the end of the year	<u>2,547,359</u>	<u>36,240</u>

Note 19. Current liabilities - Lease liabilities

	Consolidated	
	2020	2019
	\$	\$
Lease liabilities	2,046,201	-
	<u>2,046,201</u>	<u>-</u>

Note 20. Current liabilities - other liabilities

	Consolidated	
	2020	2019
	\$	\$
Revenue received in advance	12,636,463	11,622,455
Other current liabilities	738,139	503,315
	<u>13,374,602</u>	<u>12,125,770</u>

Note 21. Non-current liabilities - borrowings

	Consolidated	
	2020	2019
	\$	\$
Bank loans	92,500,000	110,000,000
Capitalised borrowing costs	-	(169,344)
Lease liability	-	10,082,330
	<u>92,500,000</u>	<u>119,912,986</u>

Refer to note 19 and note 23 for further information on lease liability.

Total secured liabilities

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

	Consolidated	
	2020	2019
	\$	\$
Bank loans	92,500,000	110,000,000
Capitalised borrowing costs	-	(169,344)
Lease liability	-	10,235,248
	<u>92,500,000</u>	<u>120,065,904</u>

Note 21. Non-current liabilities - borrowings (continued)

Assets pledged as security

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

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

Financing arrangements

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

	Consolidated	
	2020	2019
	\$	\$
Total facilities		
Bank loans	135,000,000	150,000,000
Used at the reporting date		
Bank loans	92,500,000	110,000,000
Unused at the reporting date		
Bank loans	42,500,000	40,000,000

The Group's bank facilities at 30 June 2020 consists of a NZ\$135,000,000 (2019: NZ\$150,000,000) facilities that are non-amortising and can be used for general corporate purposes. Interest on the facility is recognised at the aggregate of the reference bank bill rate plus a margin.

Note 22. Non-current liabilities - deferred tax

	Consolidated	
	2020	2019
	\$	\$
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Property, plant and equipment	14,720,239	12,153,977
Right-of-use assets	9,549,092	-
Derivatives	1,651,517	2,373,165
Customer acquisition costs	2,113,472	1,529,631
Other	355,036	-
Deferred tax liability	<u>28,389,356</u>	<u>16,056,773</u>
<i>Movements:</i>		
Opening balance	16,056,773	16,881,695
Charged to profit or loss (note 7)	13,054,231	2,201,206
Credited to equity (note 7)	(721,648)	(3,026,128)
Closing balance	<u>28,389,356</u>	<u>16,056,773</u>

Note 23. Non-current liabilities - Lease liabilities

	Consolidated	
	2020	2019
	\$	\$
Lease liabilities	38,932,162	-

The balance sheet shows the following amounts relating to Lease Liabilities:

NZ IFRS 16 Opening balance 1 July 2019	41,603,466	-
Adjustments	1,422,873	-
Interest expense	2,984,616	-
Repayments	(5,032,592)	-
Reclassified to current lease liabilities	(2,046,201)	-
Closing balance	38,932,162	-

Note 24. Equity - issued capital

	Consolidated			
	2020	2019	2020	2019
	Shares	Shares	\$	\$
Ordinary shares - fully paid	57,300,001	57,300,001	57,300,001	57,300,001

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	57,300,001		57,300,001
Issue of shares	30 June 2019	-	\$0.00	-
Balance	30 June 2019	57,300,001		57,300,001
Issue of shares	30 June 2020	-	\$0.00	-
Balance	30 June 2020	57,300,001		57,300,001

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

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

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

Note 25. Equity - Reserves

	Consolidated	
	2020	2019
	\$	\$
Share-based payments reserve	810,000	-
Other reserves	107,945,922	-
Hedge reserve	2,478,785	(336,782)
Common control reserve	86,338,831	86,338,831
	<u>197,573,538</u>	<u>86,002,049</u>

Hedging reserve

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.

Common control reserve

The Group's accounting policy is to use book value accounting for common control transactions. The book value used is the book value of the transfer or of the investment. Book value accounting is applied on the basis that the entities are part of a larger economic group, and that the figures from the larger group are the relevant ones. In applying book value accounting, no entries are recorded in the profit or loss; instead, the result of the transaction is recognised in equity as arising from a transaction with shareholders.

The book value is accounting on the basis that the investment has simply moved from one group company to another. In applying the book value accounting, an adjustment is required in equity to reflect any difference between the consideration received and the aggregated capital of the transferee. This adjustment has therefore been reflected in the common control reserve capital account.

Other reserve

The reserve represents intercompany borrowings forgiven by the Group's immediate parent entity and other related entities during the year ended 30 June 2020.

Note 26. Equity - retained profits

	Consolidated	
	2020	2019
	\$	\$
Retained profits at the beginning of the financial year	38,216,148	24,195,865
Adjustment for change in accounting policy	-	(7,657,919)
Retained profits at the beginning of the financial year - restated	38,216,148	16,537,946
Profit after income tax expense for the year	15,318,247	21,678,202
Retained profits at the end of the financial year	<u>53,534,395</u>	<u>38,216,148</u>

Note 27. Fair value measurement

Fair value hierarchy

The following tables detail the Company's 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 \$	Level 2 \$	Level 3 \$	Total \$
Consolidated - 2020				
<i>Assets</i>				
Energy derivatives	-	5,916,672	-	5,916,672
Total assets	-	5,916,672	-	5,916,672
<i>Liabilities</i>				
Interest rate swaps	-	(979,469)	-	(979,469)
Energy derivatives	-	(18,398)	-	(18,398)
Total liabilities	-	(997,867)	-	(997,867)
Consolidated - 2019				
<i>Assets</i>				
Energy derivatives	-	9,094,177	-	9,094,177
Total assets	-	9,094,177	-	9,094,177
<i>Liabilities</i>				
Interest rate swap	-	(897,888)	-	(897,888)
Total liabilities	-	(897,888)	-	(897,888)

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.

Valuation techniques for fair value measurements

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

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

- The use of forward electricity price curve derived from various inputs such as electricity futures market is used in calculating electricity derivatives.
- The interest rate yield curve and applying the net present value to future cash flows are techniques used in valuing interest rate swaps.

Note 28. Key management personnel disclosures

Compensation

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

Note 28. Key management personnel disclosures (continued)

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	1,332,976	1,110,082
Post-employment benefits	18,687	46,664
Long-term benefits	(103,629)	114,217
Share-based payments	807,233	530,601
	2,055,267	1,801,564

In addition, certain key management personnel were paid by Vocus Pty Limited, a subsidiary of the ultimate parent.

Note 29. Commitments

There is no capital commitments as at 30 June 2020.

Note 30. Related party transactions

Subsidiaries

Interests in subsidiaries are set out in note 32.

Joint operations

Interests in joint operations are set out in note 33.

Key management personnel

Disclosures relating to key management personnel are set out in note 28.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2020	2019
	\$	\$
Payment for other expenses:		
Interest paid to Vocus Group Holdings Pty Limited, the immediate parent entity	441,161	654,224
Interest paid to M2 Group Pty Limited	3,303,348	4,219,849

During the year Vocus Group NZ Limited provided Vocus Pty Limited data centre and associated infrastructure services to the value of \$966,072 (2019: \$950,696).

Vocus Pty Limited provided Vocus Group NZ Limited bandwidth, IP transit, data centre and associated infrastructure services to the value of \$579,169 (2019: \$609,149) It also provided to Vocus (New Zealand) Limited bandwidth, IP transit and associated infrastructure services to the value of \$1,961,689 (2019: \$1,889,345) and insurance services valued at \$255,668 (2019: \$299,799) and staffing resources to the value of \$39,224 (2019: \$0).

Vocus Pty Limited also provided bandwidth, IP transit and associated infrastructure services to Callplus Services Limited to the value of \$506,966 (2019: \$696,519) and telecommunications services to 2Talk Limited, \$163,442 (2019: \$125,340).

Callplus Services Limited provided Vocus Pty Limited telecommunications services to the value of \$478,056 (2019: \$492,600), to Primus Telecommunication Pty Limited, \$875,431 (2019: \$611,632) and to M2 Commander Pty Ltd, \$42,814 (2019: \$42,426).

Primus Telecommunications Pty Limited provided telecommunications services to 2Talk Limited to the value of \$407,741 (2019: \$430,225) and to Callplus Services Limited, \$120,353 (2019: \$37,984).

Note 30. Related party transactions (continued)

Vocus (New Zealand) Limited provided Vocus Pty Limited ethernet and associated infrastructure services to the value of \$1,241,289 (2019: \$829,913) and staffing resources to the value of \$1,142,809 (2019: \$1,151,229).

M2 Group NZ Limited paid M2 Group Pty Limited a management fee for financial and administration services of \$600,000 (2019: \$600,000).

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the reporting date. The balances form part of the loan amounts.

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	2020	2019
	\$	\$
Current receivables:		
Loan to M2 Commander Pty Ltd, a commonly controlled entity	355,940	358,833
Loan to Dodo Services Pty Ltd, a commonly controlled entity	28,071	28,071
Loan to No Worries Online Pty Ltd, a commonly controlled entity	74,302	74,302
Loan to Southern Cross Telco Pty Ltd, a commonly controlled entity	25,716	25,716
Loan to ASC International Group Pty Ltd, a commonly controlled entity	68,532	68,532
Loan to M2 Group Pty Limited, a commonly controlled entity	1,943,875	-
Loan to M2 Telecommunication Pty Limited, a commonly controlled entity	189	-
Loan to Primus Telecommunications Pty Limited, a commonly controlled entity	761,148	-
Current borrowings:		
Loan from Vocus Group Holdings Pty Ltd, the immediate parent entity	151,439	2,356,332
Loan from Vocus Pty Ltd, a commonly controlled entity	13,147,326	18,662,782
Loan from Vocus Data Centres Pty Limited, a commonly controlled entity	5,607	5,607
Loan from Ipera Communications Pty Limited, a commonly controlled entity	7,407	7,407
Loan from Amcom Telecommunications Limited, a commonly controlled entity	110,059	110,059
Loan from M2 Group Pty Limited, a commonly controlled entity	-	78,023,496
Loan from Eftel Pty Limited, a commonly controlled entity	8,256	8,256
Loan from M2 Telecommunication Pty Limited, a commonly controlled entity	-	5,353,628
Loan from M2 Wholesale Services Pty Limited, a commonly controlled entity	200,250	41,931
Loan from Pendo Industries Pty Limited, a commonly controlled entity	5,496	832,311
Loan from Primus Telecommunications Pty Limited, a commonly controlled entity	-	5,107,014
Loan from Vocus Communications Limited, the ultimate parent entity	134,754	134,754

Terms and conditions

The loans are interest bearing at 4.07% (2019: 5.20%) and repayable on demand.

Note 31. Business combinations

NZ Fibre Communications Limited

On 20 May 2020, Vocus (New Zealand) Holdings Limited acquired NZ Fibre Communications Limited, an ISP in New Zealand for an upfront consideration of \$7,965,059. The acquisition adds fibre consumer customers to the existing base of customers and gives Vocus the ability to bundle its voice and energy products to an increased base.

Goodwill of \$8,181,209 represents the residual value of the purchase price of the company over the fair value of identified tangible and intangible assets (amounting to (\$216,150)). The accounting for the business combination was provisional at 30 June 2020. On 7 September, a final working capital adjustment was agreed and an additional and final payment of \$274,724 was made which adjusts the goodwill to \$8,455,931.

Details of the acquisition are as follows:

	Provisional Fair value \$
Cash and cash equivalents	117,181
Other receivables	83,479
Deferred tax asset	395,113
Plant and equipment and intangibles	1,909,541
Trade payables	(873,658)
Employee benefits	(121,099)
Provision	(1,036,318)
Deferred revenue	(644,237)
Other payables	(46,152)
Net liabilities acquired	(216,150)
Goodwill	<u>8,181,209</u>
Acquisition-date fair value of the total consideration transferred	<u>7,965,059</u>

Note 32. 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 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Vocus (New Zealand) Limited	New Zealand	100.00%	100.00%
Vocus Group NZ Limited	New Zealand	100.00%	100.00%
Data Lock Limited	New Zealand	100.00%	100.00%
M2 Group NZ Limited	New Zealand	100.00%	100.00%
CallPlus Holdings Limited	New Zealand	100.00%	100.00%
2Talk Limited	New Zealand	100.00%	100.00%
CallPlus Australia Holdings Limited	New Zealand	100.00%	100.00%
CallPlus Limited	New Zealand	100.00%	100.00%
Blue Reach Limited	New Zealand	100.00%	100.00%
Slingshot Communications Limited	New Zealand	100.00%	100.00%
CallPlus Services Limited	New Zealand	100.00%	100.00%
CallPlus Trustee Limited	New Zealand	100.00%	100.00%
Orcon Limited	New Zealand	100.00%	100.00%
CallPlus Assets Limited	New Zealand	100.00%	100.00%
Flip Services Limited	New Zealand	100.00%	100.00%
CallPlus Services Australia Limited	New Zealand	100.00%	100.00%
M2 NZ Limited	New Zealand	100.00%	100.00%
Switch Utilities Limited	New Zealand	100.00%	100.00%

Note 32. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Switch Utilities Southern Limited	New Zealand	100.00%	100.00%
Switch Utilities Wellington Limited	New Zealand	100.00%	100.00%
NZ Fibre Communications Limited	New Zealand	100.00%	-

Note 33. Interests in joint arrangement

The Company has entered into an agreement with the Research and Education Advanced Network of New Zealand (REANNZ). REANNZ is a government owned not-for-profit entity providing network services to its members. This has enabled the company to purchase and implement the Infinera optical network platform. Whilst the company owns the Infinera network, it has entered into a joint operating agreement with REANNZ for the sharing of the use and management of the network. The contract term is five years and is extendable annually for up to a further three years. REANNZ has the rights to use up to 25% of the capacity of the shared Infinera Network. Each party must give the other options to participate in any further expansion of the shared network but neither is obliged to participate. In return for its rights of participation and use of the asset, REANNZ made an upfront payment for services and is billed a monthly fee to cover ongoing operating costs of running the network.

Note 34. Events after the reporting period

Vocus Group Ltd announced on 19 November 2020 that it has appointed financial advisers to execute an Initial Public Offering (IPO) of Vocus (New Zealand) Holdings Limited. This is expected to complete before the end of Financial Year 2021, subject to prevailing market conditions.



Independent auditor's report

To the shareholder of Vocus (New Zealand) Holdings Limited

We have audited the financial statements, which comprise:

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

Our opinion

In our opinion, the accompanying financial statements of Vocus (New Zealand) Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out the audit for the Group in respect of compliance with the reporting requirements set out in Section 83 of the Telecommunications Act 2001. The provision of these other services has not impaired our independence as auditor of the Group.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers, ABN 52 780 433 757

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Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS RDR, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Mark Dow.

For and on behalf of:

Chartered Accountants
27 November 2020

Sydney

I, Mark Dow, am currently a member of Chartered Accountants Australia & New Zealand and my membership number is 278672.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Vocus (New Zealand) Holdings Limited for the year ended 30 June 2020. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 27 November 2020 and an unqualified opinion was issued.

Mark Dow