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Operator: Thank you for standing by, and welcome to the Vocus Group full year results briefing. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Geoff Horth, CEO. Please go ahead.

Geoff Horth: Yes, good morning. Thank you, everyone, for joining the call. I have with me this morning Mark Wratten, our CFO, and Kelly Hibbins, our Head of Investor Relations. I will be taking you through the operational highlights of FY17. Then I'll hand to Mark to talk to the financial overview, before coming back and talking about business outlook.

I think summaries of the financials for FY17 do reflect and busy, good year, but the business has not performed to our expectations, including the shareholders' expectations. I'd like to apologise on behalf of the Board and the executive team for that. We've over taken significant steps to consolidate the assets we acquired to ensure that we have the required capability at a Board and executive level to execute on the opportunity.

This is evidenced by the senior management appointments, including Mark Wratten, Michael Simmons to run enterprise and wholesale, and Simon Smith, who recently started as our CTO on 3 July, and Justin Haddrick, who completes the line-up as our Head of Transformation.

The Board renewal efforts have also progressed with the appointment of Bob Mansfield earlier this year and the recent appointments of David Wiadrowski to the Board and to the Chair of the audit committee, and Christine Holman.

Following these appointments we've moved quickly to reposition the business for the growth opportunity and also to transform the operating model, to improve efficiency and customer experience with establishment of our transformation office. We've also made strong progress on some key infrastructure investments over the year with our Northwest Cable System project going live in the first quarter of FY18 to core cornerstone customers being connected in this time.

The ASC project has been extended to connect Christmas Island on the back of significant demand from Government agencies, and is on track to be ready for service in the first quarter of FY19. In light of these opportunities to invest shareholder funds in core infrastructure projects, the Board has decided not to declare a FY17 final dividend.

To the divisional overviews. The enterprise and wholesale business combines the best of the capability of Vocus M2 and Nextgen. The infrastructure and the combined product elements that have come out of each of those founder businesses creates a platform to rival the majors.

Our focus has been on bringing this together, creating a single product stack, a unified way of selling across the country in a high quality, post-sales customer experience. The sales team experience has commenced with several new senior appointments in the fourth quarter. These appointments are focussed on our key growth market opportunities of both Federal and State Government, particularly in New South Wales and Victoria, in the wholesale market, in areas where we're currently under-represented, such as domestic and international carriers, and on the east coast corporate markets where we significantly are under-indexing relative to our share in the west.

Pleasingly, the business has maintained strong sales growth momentum through FY17, with Q4 being another record quarter. As you'd be aware, the other significant area of focus has been on service delivery, where we have had some challenges through the first half of FY17. On the [unclear] new leadership team we've seen some material improvements in this area, with over 80% improvement in on-time delivery in June, as compared to December 2016.

We still have a lot of work to do here. The transformation program has contractor cash as one of its four areas of focus and priority. Using a combination of automation and process re-engineering we've not just improved customer experience, but also reduced cost and, pleasingly, recognised revenue earlier.

To the consumer business. The Dodo and iPrimus brands make up the consumer division. This division is faced with intensely competitive market conditions and earnings pressure from the additional marketing and operational cost being due to NBN migrations. In spite of these headwinds, the business has pleasingly been able to grow NBN market share over FY17 from 6.4% to 7.3%. We've also seen continued momentum in our energy portfolio and customer numbers growing by circa 10% in the year.

Materially lower churn we see in NBN is evidence that our customers are enjoying the service. Our focus on cross-selling energy, mobile and Fetch will further improve customer lifetime value and our share of customer wallet.

This business is 12 months into a significant transformation of the operating model. This transformation is designed to improve agent and customer experience, to open up new

digital channels to market, to automate more of our customers' journey and to provide us with platforms of engagement.

This project's in good order. The first phase was delivered in July 2017, on time and on budget, with a roll-out of salesforce service cloud to iPrimus. We have several additional phases to deliver in FY18, but are already seeing the operational and financial benefits of this project.

To New Zealand. The New Zealand result shows strong growth in earnings and good operational momentum, in spite of intensely competitive market conditions, as we're seeing in Australia. The Slingshot and Orcon brands have good momentum in UFB. We grew our share to 13% share of the total UFB market in FY17 and, in fact, took 18% of all orders in the fourth quarter of FY17.

Drawing on the success of the Australian consumer strategy we entered the energy market by acquiring Switch utilities and delivering a Slingshot branded offer on the Vocus billing stack within four months. That launch has been a great success, with approximately 6000 customers signed up since launching in the fourth quarter of FY17. The benefits of the New Zealand rapid transformation program are evident with the integration complete and synergy program now delivered.

I'll now hand over to our CFO, Mark Wratten, who'll talk to the financial highlights.

Mark Wratten: Thank you Geoff. If I get everyone starting on slide 9 of our presentation titled financial highlights. Geoff has spoken earlier about the growth in reported revenues, underlying EBITDA and underlying NPAT. These results, against the prior corresponding period had been driven primarily by the inclusion of the M2 business, which was acquired in February 2016, for an incremental eight months, as well as the benefit of including eight months of the Nextgen business, which was acquired in October of last year.

Underlying EBITDA at $366.4 million came in towards the bottom end of the guidance that we provided in May, whilst underlying NPAT of $152.3 million was below the guidance of $160 million to $165 million, primarily due to higher than forecast net finance costs, a higher net effective tax rate and EBITDA coming in at the lower end of our internal expectations.

In addition to this presentation we've also provided today our statutory 4E and full year financial statements, as well as an operational and financial review document. They contain a lot more detailed information covering the Group and our three operating divisions.

Moving to slide 10, earnings reconciliation. In line with previous periods and reports we have presented our key financials on an underlying basis and remain consistent in regards to the significant items that we adjust for. This reconciliation walks us through from those underlying results to the statutory reported results that are included in our 4E and the financial statements.

Those items include the costs associated with the acquisition and integration of businesses of $25.7 million, which includes professional fees associated with the Nextgen acquisition and our equity raising, combined with integration and redundancy costs associated with the restructure of the business.

Other items we adjust for is the amortisation incurred in the period relating to the acquired customer contract intangibles and acquired software intangibles. These items total $87 million. The appendix to the presentation includes a forecast of these non-cash costs over the future period. In FY18 the expense will also be $87 million. At an NPAT level the reconciliation also includes the goodwill impairment of $1.5 billion that we announced late last week. I'll talk to this in more detail on a later slide.

As we move into FY18 the intention is not to recognise any further below the line integration costs. All OpEx costs associated with our transformation program will be recognised in underlying EBIT. We have incurred costs associated with the recently concluded process involving KKR and Affinity, and I estimate those costs associated with this process will be in the region of $1 million.

Moving to slide 11, underlying EBITDA bridge. This is a very high level bridge of EBITDA from '16 to '17. It highlights the positive contribution of both the M2 and Nextgen acquisitions, both of which, as mentioned earlier, represent eight months incremental EBITDA above the prior reporting period. Whilst we call out the incremental NBN CVC charges in FY17 there would be an offset in reduction in other third party access charges within the price mixed cost item.

Moving to slide 12. I will take some time on this slide. This bridge is very similar to the one that I presented on our 14 June investor day. The interrogation of the underlying data has been critical to giving me the clarity over our working capital and cash flow performance in FY17.

As I mentioned on the investor day, I engaged Pricewaterhouse to assist me in understanding the key factors impacting Vocus's cash conversion, given the poor result in the first half of FY17. The FY17 full year cash conversion of 52% was also poor, as we

expected. It's driven by the same key factors that I spoke in detail about at the investor day. The main items are the cash impact of the subscriber acquisition costs of $41 million, the Bounty unwind of $15 million, acquisition and integration costs of $23 million and underlying net working capital movements of $91 million, which relates primarily to the reduction in trade payables and provision balances.

The work that Pricewaterhouse and my finance team undertook gives me great confidence, moving forward into FY18, that Vocus will be able to materially improve its cash conversion performance. My expectation is that we should be targeting a cash conversion rate of between 85% and 90% in FY18, with incremental improvements in the years beyond that.

If we look at the items I just spoke about that negatively impacted the short term cash conversion in FY17, most will not repeat in FY18. In regards to the subscriber acquisition costs, we should have achieved normalised levels by the beginning of Q1 of this year, so that impact will be minor in FY18, circa $3 million.

The Bounty unwind has split itself out, so that item will be nil. Acquisition and integration costs will be stable. It will only be the $1 million I spoke of earlier. Importantly, towards the end of FY17 - June '17 - we stabilised our net working capital position, so my expectation is that we'll not see material movements in this item in FY18.

However, what we will see impacting cash conversion in FY18 will be the deferred revenue unwind, estimated to be $23 million, as well as the cash costs associated with onerous contract provisions of $9 million to $10 million. Again, in the appendix we have included updated schedules for these two items over a number of future years.

Moving to slide 13, cash flow to net debt bridge. We finished FY17 with a net debt of just over $1 billion, which is at the lower end of the range I guided to at the investor day. Apart from the items I spoke of on the previous slide, the key cash flow items included, obviously, cash, interest and taxes, capital expenditures, dividends, as well as the net business acquisition costs, mainly for Nextgen, offset, obviously, by the capital raising in July '16.

Moving to slide 14, subscriber acquisition costs. Again, this is a slide I share with you at the investor day, and it hasn’t really changed since then. It does highlight that the EBITDA benefit to FY17 from the resetting or normalisation of deferred subscriber acquisition cost was $41 million. Whilst we are close to reaching normalised levels of deferred SAC, we expect only a small benefit of $3 million will be derived in FY18. This means that the

earnings headwind, as we move into FY18 from this side is in the region of $38 million. Geoff will talk to that later in the presentation, when he provides guidance for FY18.

Moving to slide 15, capital expenditure. We closed FY17 with CapEx, exclusive of ASC project, close to $190 million, which was at the top end of our most recent guidance range. The key components of this CapEx spend was growth CapEx in the enterprise and wholesale division, primarily related to network expansion, as well as other network and technology related CapEx, customer CPE and further IRU investments.

Whilst the business is implementing more robust control processes and reporting around CapEx investments, we are guiding to continue to high levels of CapEx in FY18 of between $190 million and $210 million. Included in these estimated CapEx are, again, material amounts for network, IRU and technology CapEx. We're also forecasting to spend circa $29 million on priority transformation projects.

Moving to slide 16, update on the Singapore cable project. Vocus is committed to the on time completion of the ASC project. As Geoff mentioned, we have recently signed a contract variation to incorporate the construction of a spur to Christmas Island, following significant interest from a range of Government agencies.

The net cash profile associated with the remaining capital expenditure as now expected to include US$30 - sorry, $38 million in FY18, with a further US$122 million in the early part of FY18.

We continue our engagement with a number of prospective cornerstone and long term customers, and demand from them for this route capacity remains strong. The FY18 capital expenditures for this project - circa $50 million - will predominantly be funded from a combination of customer pre-commitment and the temporary suspension of dividends that Geoff also mentioned.

Moving to slide 17. Key movements in our balance sheet from June of '16 relate primarily to the acquisition of Nextgen in October of '16, although last Thursday, as I mentioned, we announced a non-cash impairment of goodwill of $1.5 billion following a detailed review of the key assumptions that underpin the carrying value. In reviewing the carrying value of goodwill the Company considered several factors, including the discount rate, terminal growth rates and terminal growth rates use.

The review was undertaken utilising a detailed five year business plan for each of the three operating divisions and group services. These plans have been developed over the last few

months considering the current competitive market environment and, in particular, the consumer broadband sector in Australia and New Zealand.

Since the last assessment of evaluation completed for the December accounts that primarily changes our assumptions, were an increase in the discount rate used, the Australian discount rate was increased from 8.5% to 9.9%. The New Zealand discount rate was increased from 9% to 10.2%. The ASX Announcement, of our financial statements - particularly [note 15] - all contain significant detail into the carrying value review process and changes in key assumptions, so I direct you to those materials for further information.

Moving to slide 18, net debt position. As shown on our earlier slide, we ended FY17 with a net debt balance of just over $1 billion. We remain well within our facility covenants with our leverage ratio of 2.6 times, interest cover at 9.1 and gearing, even post-impairment, of just under 31%. Our forecasted leverage position for June '18 is around 2.65 times. The Company will continue to assess opportunities to sell non-core Australian assets to reduce leverage and to fund strategic initiatives.

Moving to slide 19. Underlying diluted EPS declined to $0.247 per share, driven in part by the increased number of shares on issue following the capital raise, as well as underlying NPAT not increasing at the same rate as revenue and underlying EBITDA growth. As mentioned earlier, the Vocus Board has made the decision not to declare a final dividend for the FY17 year considering that competing demands and opportunities for capital investment across the business, particularly for the ASC project. The Board also does not anticipate paying a FY18 interim dividend.

I'd now like to hand back to Geoff, who will take you through the business outlook for FY18 and provide earnings guidance.

Geoff Horth: Thanks very much Mark. Turning to slide 21, business outlook. You could say that the strategy and priorities for the enterprise and wholesale division has not changed materially since we presented to shareholders at the June strategy day. [Unclear] we have significant growth opportunities in this division based on the platform we created. Those growth opportunities give us the capability to move into segments where we traditionally - or parts of the market where we've been traditionally under-represented.

However it takes time to build sales capacity and capability in those new markets. The benefits of driving additional revenues in the [block] platform where the majority of our costs of [VIX] justifies that investment. You should expect to see us investing and growing

our sales team, particularly in the east coast of Australia. It will be a focus to continue to drive earnings growth and revenue growth in this sector in the coming years.

Our Federal and State Government teams have also had significant investments. We've recently appointed a number of new people into that teams with proven credentials and capability in the Government market. The wholesale team is growing additional resources into our carrier - both domestic and international carrier teams.

Transformation program is under way in the enterprise and wholesale division, and the key program management role has been appointed. Benefits to our business will be significant, in particular with respect to the cost and time to provision services.

Our national account management program which has been introduced will also ensure that we are leveraged in the expanded product portfolio and improving customer lifetime value. Our focus on leveraging the product set to sell to customers who are largely, today, single product customers will deliver value to the business and ensure that our customer experience is enhanced.

To consumer. Once again the strategy for consumer is largely unchanged as our June strategy day. It is absolutely focussed on taking market share in NBN, and we've been consistently, over FY18 (sic), taking more than 10% share of orders where our current share of market is circa 7.4%.

We are scheduled to relaunch iPrimus in the second quarter of FY18. This will help us to continue that trajectory of growth by expanding our addressable market. The higher ARPU iPrimus [soft] will also help us to mitigate margin compression.

Our energy portfolio has been an important contributor to earnings for the Group and we now see it as playing an increasingly important role for this division with an increased focus on bundling to grow share of customer wallet. The high proportion of Dodo customers who are single products customers presents a significant opportunity for us with circa 250,000 broadband only households with opportunity to cross-sell energy into those customers.

It does see Dodo moving from a connect and save mindset to a bundle and save mindset. That helps us to grow the margin pool and share a wallet with customers and helps us also to mitigate margin compression, both through the cost associated with migration to NBN and the ongoing lower margin expectations.

As I mentioned earlier, this division has a significant transformation program under way. In the coming years you should expect to see the business transform from an operating model where the vast majority of transactions involve people to a digital led environment. The benefits to customer experience and to improved cost to serve for this division will be material.

Moving to New Zealand. The New Zealand team have done an outstanding job with integration done, synergies program delivered. All our focus in New Zealand can now turn to growing share in our core markets. The reinvigoration of the Orcon brand is complete. The operating model changes are due to be finalised at the end of the first half, but are well progressed. This will help us to address a broader cross-section of the consumer market in New Zealand and help us to satisfy our ambition of connecting one in four Kiwi homes. Early success with the energy strategy will be extended to now offer those services nationally and to launch an Orcon branded energy offering, scheduled for this week.

The consolidation of our business activities under the Vocus Communication brand is under way. Structural changes have been made to enable that. This will allow us to leverage the increased awareness, scale and relevance of the brand in New Zealand. We've seen some great wins coming through in our wholesale business, and we also see significant potential growth opportunities in the New Zealand Government market.

To guidance. Business is guiding to top line growth in revenue, largely organically driven, but supported by an extra four month contribution from Nextgen. Revenue to be in the range of $1.9 billion to $2 billion. This is underpinned by organic growth in all of the operating divisions.

Underlying EBITDA guidance has the benefit of four months' contributions from Nextgen, but is also impacted by the deferred subscriber acquisition cost headwind that Mark mentioned of circa $38 million in FY18. [Unclear] a range of $370 million to $390 million complies also with the revenue growth. The organic revenue growth is delivering additional earnings to the business. We see significant opportunities to improve the cost line over time and work us under way to quantify this opportunity.

As Mark mentioned, the business is guiding to CapEx of $190 million to $210 million. Circa $30 million of that CapEx is dedicated to our transformation program. You should expect to see specific transformation CapEx for the next two to three years, but beyond that time we would not expect that that - a level of CapEx will - that make - that type of CapEx will be inherent in our business.

We don’t expect to see any material change in our debt or leverage body in the financial year. In assuming - or guiding to net debt by 30 June 2018 we have made no assumptions of a contribution from ASC pre-sales.

Moving to the divisional summary. You'll see that - as I mentioned before, we are expecting strong growth in all of our operating division, with the Australian enterprise and wholesale and consumer divisions guiding to mid to single digit revenue growth, and New Zealand guiding to high single digit growth, supported by the growth in the new energy portfolio. The EBITDA of impact with the first subscriber acquisition cost headwinds is particularly evident in the Australian consumer business with a 15% to 20% decline in underlying EBITDA.

To strategic priorities on 26. If FY17 was a year of transition, we see FY18 as the year of growth and transformation. We've assembled the assets, we've strengthened the team, we defined the go to market strategy, now we're really focussed on going to market and winning share.

The transformation program has identified the key strategic projects. We are focussed on making sure these projects get appropriate priority, resources and capital. We're now also well progressed on the strategic review of the operating model. We've commenced benchmarking and sizing of the cost-out opportunity. This is a significant multimillion dollar opportunity, and we've undertaken to finalise our work and define the program by the AGM on 24 October. At that time shareholders should expect to see a view of the total value of cost-out opportunity, the cost to achieve a cost-out and the time to achieve.

As you will see, the Board has identified a number of Australian assets of material value that may be considered non-core. The Board will undertake a strategic review and consider options for divestment of these non-core assets to strengthen the Company's balance sheet and to position to fund the core activities of the Group. That strategic review will be concluded in the coming months. We'll provide an update on any planned divestments at or before the AGM on 24 October.

You will also note that our Chairman, David Spence, is not planning to stand for re-election at the AGM and confirm that the search process has been commenced for a new Chairman.

In summary, the strategic manner of the combination of these businesses has not changed. The opportunity to grow and deliver significant returns to shareholders is intact. The Board and executive team are aligned on the strategy and completely focussed on

growing market share while transforming our operating environment to drive costs down in the business and improve customer experience.

I'd like to thank you for your support over FY17 and taking the time to join the call this morning. I will now hand back to the operator for Q&A.

Operator: Thank you. If you wish to ask a question please press the star key then one on your telephone and wait for your name to be announced. If you wish to cancel your request please press star and then two. If you are on a speaker phone please pick up the handset to ask your question. Your first question comes from Eric Choi from UBS Investment Bank. Please go ahead.

Eric Choi: (UBS Investment Bank, Analyst) Hey guys. Thanks for the questions. I just have three, if I could please? The first one's just on the guidance. To me it looks a little bit conservative based on the parameters that you've given us, just because even if I apply the bottom end of your percentage increase ranges I still can only get to a mid-380 EBITDA range based on the guidance that you've given us. How exactly do we get to that $370 bottom end of your range?

Then the - perhaps I'm doing my maths wrong. The second question's just on free-cash flow conversion, so thank, Mark, for taking us through it, but just noting that back at the strategy day, obviously, we were looking for negative working capital movements of negative 144, and it's been a little bit worse than that. Just wondering what has been worse than what you originally anticipated and whether this changes any of your thinking on whether those other net working capital movements can go to zero in FY18.

Then the third question, just around the debt, obviously, you've talked about asset sales and you're guiding to no interim first half '18 dividend. Just wondering if we can touch on to other potential avenues. Obviously, ASC - it sounds like they're pretty committed now, but how about lender relief? Is there any option where you get the potential to bank members to lift those covenants? Thanks.

Geoff Horth: I'll answer the first question and I'll leave Mark to talk to the second and third. Obviously, we have guided to an EBITDA range of $370 million to $390 million. The business has another $22 million contribution - expected contribution from the Nextgen acquisition. It also has a $38 million deferred subscriber acquisition cost headwind, and strong confidence in the business's growth opportunities in FY18, and we have high conviction about that EBITDA range is probably all I will say. I think that - we believe that that is a significantly achievable number.

Mark, do you want to…

Mark Wratten: With cash flow and network and capital, Eric, I'm very comfortable with where we ended the year. Obviously, during the course of the year we had a lot of items impacting cash flow, which I've spoken about both at the investor day and today.

In terms of just regular working capital, however, which it was, obviously, a big unwind during the course of FY17, but I've seen in the last five months that our working capital balances at month end have stabilised and are sitting within a very tight range, which is great when that was obviously - as part of the detailed work that my team did with Pricewaterhouse. I'm pretty comfortable that we're not going to see large swings of other working capital items as we move into FY18.

The other side of that is also that we're starting to see an improvement in cash collections. We've beefed up the team in that regard. We've got a new person looking after the consumer business, a dedicated person in New Zealand now, and the benefits of those appointments are starting to flow through.

I think your third question was more around - was debt and covenants and maybe discussions with banks. Was that - the volume wasn’t very good here.

Eric Choi: (UBS Investment Bank, Analyst) Yes, any possibility of lender relief from the covenants is probably the key one.

Mark Wratten: We don’t need to. I've got a call with the banks later on this morning, but I certainly won't be asking for that. We've - I think our covenants certainly will tick upwards as we get to the half year. That’s my - that’s the detailed forecast that I've undertaken. Then come back down in the second half. So you know, we have that short term surge element which gives us the 3.5 but we won't need that in my assessment. So you know, I'll be talking to the banks about other things other than a covenant - covenant adjustments.

Eric Choi: (UBS Investment Bank, Analyst) Thanks guys.

Operator: Thank you. Your next question comes from Kane Hannan from Goldman Sachs. Please go ahead.

Kane Hannen: (Goldman Sachs, Analyst) Good morning Geoff. Good morning Mark. Just two from please. Just again on the strategic review. Could you just talk through the assets that you're potentially looking at divesting and potentially in terms of the preferences, in order. Then in terms of the balance sheet sitting at 2.65 [times] next year,

can you remind us of what the comfort bands would be for the business through this strategic review and how much of that you'd be looking to reach through the asset sales? Then just next question around the consumer business, just the reduction and the end margins over the year. They're a fair way below the copper margins now so can you just talk to us about the outlook of those margins and what the driver of the compression was please?

Geoff Horth: Yeah, thanks Kane, I'll talk to the first question and Mark can talk to the second. I'm not going to call out the assets except to say we clarified that it is specific to our Australian business and they are assets that are potentially identified as being non-core to our business activity. So clearly the business - the board now needs to go and do the work to define those assets and test the market in terms of the potential divestments. As I said, we'll give you an update on that process. Any potential - any assets that have been marked by divestment and expectations around timing of that program at the AGM.

Mark Wratten: Thanks Geoff. In terms of the balance sheet and comfort bands, personally I'm comfortable at the level we're at now. Obviously, as I mentioned earlier, I see us picking up in the first half and then coming back down in the second half. Those asset sales, certainly we do want to obviously look at those as a way of supporting and strengthening our balance sheet. We wouldn't want leverage over time as we move into FY19 for example, I would want to see us to start to de-lever. Obviously, asset sales are one aspect. Obviously growing our business is critical and that will be an important focus, as Geoff mentioned, getting costs out et cetera as well. And importantly, CapEx. I mean it's somewhat disappointing from my perspective that our CapEx for next year is - or this FY18 likely be higher than last year.

You know, I think we still have a lot of opportunities to bring that number down and I know the business is very much focused on that which is good. So I think it will be a combination of growth within the business, asset divestments, and managing CapEx better that will help us get to a point where we'll start to see deleveraging in FY19.

Geoff Horth: Yeah, so to talk to the consumer margin question, as you've rightly pointed out, the [unclear] in NBN has declined to $20.26. It's $5 shy of where we are in terms of copper margins today and copper [unclear]. That's clearly a consequence of gross [EVC] cost, an issue that we're managing very closely. Do expect to some further compression of - or further increases in wholesale costs over the course of FY18. We have some prospects of mitigating those increases in changing the mix of sales, with iPrimus relaunch

will drive more of our share into that higher ARPU product. So a mix of total sales will actually help us to recover some of that increased cost.

Clearly our focus on the transformation program will help us to significantly drive down a cost to serve in that segment and mitigate some of the margin headwinds that we're seeing through the transition to NBN.

Kane Hannen: (Goldman Sachs, Analyst) Thanks very much.

Operator: Thank you. Your next question comes from Eric Pan from JPMorgan. Please go ahead.

Eric Pan: (JPMorgan, Analyst) Good morning guys. Questions on a couple of topics. One on the ASC project. You know, I assume the reason why the bulk of the CapEx pushed to fiscal 19 is due to the near term capital constraints and just recontracted their agreement. How did that impact the project timeline and what's been the holdup with customers and how do you get over the hump? Then secondly, on the enterprise side, can you give us some colour around the reason for reclassifying the segments again to reinclude commander in enterprise? What's been the impact on that business with a more aggressive Telstra?

Geoff Horth: Yeah, the - as you said, you rightly pointed out the ASC projects phasing of capital commitments has changed to the vast majority of the payments been due at ready for service. It's actually not impacted the delivery timeframe. In fact, we are now expecting it to be delivered earlier in the first part of the first quarter of FY19. So the project remains on track and on budget. The restructure of the capital program was in some part due to the fact that the business was engaged in a process with private equity. As you'd be aware, the reality is that the uncertainty caused through that period of time did make it more challenging to secure the cornerstone customers. There is absolutely a very strong level of interest and a long pipeline for that project though. We'll have strong conviction about continuing with that project as evidenced by the fact that the capital payment program has been restructured.

We believe now that with that project confirmed, with the spur to Christmas Island locked in, we will be in a very strong position to go and secure those cornerstone customers and a significant pipeline of customers who will be seeking connectivity at the ready for service date. The second part of your question…

Mark Wratten: Enterprise and wholesale reclassification, including commander.

Geoff Horth: Yeah, I think that we - as you would know, we had two segments in Australia previously mass market and enterprise and wholesale. It became quite obvious that were significant opportunities to improve our prospects in the business market in Australia generally by combining our endeavours under a single division. We have fundamentally a number of areas of duplication, where we're doing the same things in different operating divisions in this business. You know, two of everything if you will. Two IP resolver teams, two provisioning and technical support teams. So there's significant operation efficiency in putting those two divisions together. But there's also absolutely merit in leveraging the expanded platform we have at enterprise and wholesale and the infrastructure assets that we have in that to drive our share of market in the small business.

So taking that brand and that brand relevance and the quality of the platform and rolling it out to our small business partners and dealers, and going to [unclear] share of S&V was the primary reason that we made that change.

Eric Pan: (JPMorgan, Analyst) Got it. Thank you.

Operator: Thank you. Your next question comes from Roger Samuel from CLSA. Please go ahead.

Roger Samuel: (CLSA, Analyst) Morning guys. Thanks for taking my questions. I've got two. Firstly, just on the FY18 guidance and just wondering if there's any one-off revenue earnings that you are expecting? For example, in first half of 17, you guys recognised a one-off wholesale contracts. Secondly, just on Smart Business Telecom, can you tell us more about Smart Business Telecom? Because without the EBITDA earnings contribution from Smart Business Telecom, you would have missed the FY17 guidance. I'm just wondering why you could recognise the business for seven months when you acquired the business in February this year? Thank you.

Mark Wratten: Hi Roger, I'll take question one and give Geoff question two. So the FY18 guidance does include a one off. On page 25 of the investor presentation, the second dot point below the table, you'll see that enterprise and wholesale, we're including a $13 million of EBITDA contribution from various bespoke we're calling them - contracts. That EBITDA contribution is mostly in the bank. Mostly relating to those contracts that we signed last year and that we received the cash for. So yes, $13 million is within the - included in FY18 guidance.

Geoff Horth: As to Smart Business Telecom, it was a small customer of our wholesale division that was acquired by the business in - effective from 1 December this year. It

made a - sorry, 1 December 2016. It made a several million dollar contribution to earnings, I don't have the number at hand. But that transaction was completed prior to the guidance being issued, so it was absolutely embedded in the guidance that we provided to the market. So it hasn't been a net addition to the guidance.

Roger Samuel: (CLSA, Analyst) All right, thank you.

Operator: Thank you. Your next question comes from Samir Chaudhary from Bank of America. Please go ahead.

Samir Chaudhary: (Bank of America, Analyst) Morning Geoff, morning Mark. I have two questions. The first one is on the enterprise and wholesale division. Very solid guidance there with the mid-single digit growth in revenue and the high single digit growth in EBITDA. Could you give us a sense around whether this is coming from the corporate market or the wholesale market, and maybe a little bit of sense around whether it's price or new customer wins that you expect in 18? The second part of my question was around the consumer business, whether guidance will EBITDA decline of 15% to 20%. Do you think the NBN now have stabilised at that 20, 25 level? Do you think NBN [unclear] is a little bit more pressure from here? Just trying to get a sense around that. Thanks.

Geoff Horth: Yeah, I'll talk to the second question first. I think that the 15% to 20% decline in EBITDA in consumer is a combination obviously of some margin pressure. But largely driven by the deferred subscribe requisition cost headwind. Do we expect there to be further margin pressure in NBN? Do we expect that? I think that we'll expect some growth in our CBC costs in FY18. There are some assumptions in our budget that underpins the guidance. Hence our focus on trying to grow the ARPU by changing the mix of sales to stronger preference towards our Primus, and our focus on changing the operating model to take significant costs out of that business. As for enterprise and wholesale, it's actually a combination of the corporate and the wholesale businesses both performing.

Wholesale actually consistently grew revenues month by month over the course of FY17. Corporate did not. But as we entered the back half of the year, we started to see an uptick in monthly billing. But that's partly because we've started the provision, the good sales momentum we had. The effort of Mick and his team, particularly in the operational area to bring the provisioning backlog into order. It culminated us having a record EBITDA month in June and that momentum continuing into the first month of the new financial year. So it is across the business but particularly evident in the second half in the

corporate area where we started to get on top of the provisioning issues and realised some of the revenue that was sitting in the backlog.

Samir Chaudhary: (Bank of America, Analyst) Great. Thanks Geoff.

Operator: Thank you. Your next question comes from Raymond Tong from Evans and Partners. Please go ahead.

Raymond Tong: (Evans and Partners, Analyst) Morning Geoff and Mark. Just a couple of questions. Just firstly, can you maybe give an update on the progress of the financial system changes and the implementation of the CRP and ERP systems. Whether you're a little bit more confident on your systems in the view of the business going forward from here.

Mark Wratten: Thanks for the question. Yeah look, we've made great progress. For July month end - sorry, at 30 June, we fully migrated into the Pronto environment for our group services part of the business as well as New Zealand. Both of those were operating in [unclear] until that time. So we closed our July month end in Pronto for both of those. We've also used the CRP system for the very first time. So we consolidated all of our results and all of our management board reports for July using the new CRP tool. So we're making great progress. We've still got a long way to go. Obviously getting over teething problems et cetera. But you know, the quality and timeliness of the financials is obviously of high priority to myself and the finance team. We've got a - I can't wait for the end of this week so I can roll my sleeves up and get into all the things that we need to do to continue those projects.

Raymond Tong: (Evans and Partners, Analyst) Thanks Mark. Just the second question on the impairment of the goodwill. So you mentioned that you've got revenue growth assumptions over the next four or five years of around about 7% to 8% across Australia and New Zealand and there's a reduction in the EBITDA estimates. Can you give a sense of the key drivers of the lower expectations of the EBITDA level and can you give a sense of what kind of EBITDA growth you're assuming now?

Mark Wratten: Yeah. Well, I mean it's hard. I wasn't obviously around when the modelling was done I guess that supported the previous evaluations. But we obviously undertook a very detailed process for this five year model. Obviously the first year became our budget, so that's a lot of detail. The next two years were a fair amount of detail and then the final two extrapolations. Obviously, a number of factors changed during the course of the six months in terms of the markets we operate in. I think there's

certainly a level of conservatism that we're now seeing in regard to EBITDA growth. So I think we've got a nice balanced view over those five years. The higher growth rates I guess have now been offset by the high discount rates that we've used as well.

So you know, it's a tricky exercise. It takes - we're back and forth between ourselves and with our auditors over many, many weeks before we landed on that number. But you know, I guess anybody can pick apart a component of it. But on the whole, I think we came up with the right number.

Raymond Tong: (Evans and Partners, Analyst) Great. Thanks very much.

Geoff Horth: I'll just add to that that part of the modelling of the risk growth in revenue and margins, there was no assumptions around improving operating efficiently in that five year plan for the sake of conservatism. I don't believe that's the case at all and we are doing the work now to size that prize and as we said, we'll have more detail on that, in fact, a clear plan for that cost, our opportunity, when we come to the AGM in a couple of months' time.

Raymond Tong: (Evans and Partners, Analyst) Thank you.

Operator: Thank you. Your next question comes from Brian Han from Morningstar. Please go ahead.

Brian Han: (Morningstar, Analyst) Good morning gentlemen. Can you please remind me the main components of the $175 million in group service costs? Where are the initial benefits of the transformation program coming through in the FY18 guidance? Or is it all in offsetting the [SEC] headwind?

Mark Wratten: Yeah, the group services, the main components of that are our network costs. So all of our - well, Australian network costs. I should reiterate that New Zealand business is actually quite standalone in terms of its results but the Australian network costs and technology costs are embedded within that $175 million. So they're the largest components by far. In terms of - sorry, what was the second part of the question? The transformation benefits. Yeah, we've factored in - there's only I guess with momentum and again, me being a little conservative, in terms of the benefits that have been imbedded in FY18 guidance, it's quite a small amount. I want to see them come through before we sort of become a bit more confident about those. The teams are obviously working hard, as Geoff mentioned.

We've only recently been putting that transformation team in place. Business cases are being finalised et cetera. So you know, we've built more into our expectations for the outer years but certainly very small amounts for this current financial year.

Brian Han: (Morningstar, Analyst) Okay, and a follow up question. Any reason why Mr Spence is not seeking re-election given the company is in the midst of such an important period?

Geoff Horth: I think you're going to have to address that question to Mr Spence at the AGM. I imagine that's probably the best way to do it. Yeah, I'm not going to comment on that on the call.

Brian Han: (Morningstar, Analyst) Thank you.

Operator: Thank you. Your next question comes from David Spotswood from Shaw and Partners Limited. Please go ahead.

David Spotswood: (Shaw and Partners Limited, Analyst) Thank you. So three questions. So thanks for the slide on the EBITDA bridge there and where you've got the minus 18 for the CBC charge. So presumably that number is going to increase significantly over the next couple of years with the roll out of the NBN? So it would be interesting if you could give any numbers on what you think that $18 million is going to go to. The ASC, is there something actually stopping you from - if you wanted to walk away from that project? If you decided to walk away from that project, is there large cancellation fees that you would incur if you decided to walk away from that? Yeah, you've killed the slide on the synergies.

So presumably, on the previously slides that you had, there would have been that $32 million in synergies coming through from M2 and Nextgen. Is that still the same sort of number? Thanks.

Geoff Horth: Yeah, so I'll talk to the CBC. We obviously expect the CBC to grow maturely over the coming years. We have you know, just over 200,000 of our current copper portfolio that we'd expect to migrate to NBN in FY18. So that will, just on volume basis, will drive CBC prices of a component of our input costs up materially. Do we expect it to grow as percentages or per subscriber? We do, but not at the rate that it grew in FY17 and that's partly because we believe - well, obviously the discount key structure will have some benefits as we step up capacity. But the ability to manage the amount of CBC in provisioning becomes stronger the larger the portfolio. So when you're managing on a per

[pully] basis, the greater capacity or number of services you have each of those pullies, it allows to manage that capacity more efficiently.

So it will not grow at the rate that it grew at 17. There is nothing stopping us from stpeeing from AFC except an absolute conviction that it's an appropriate investment in the long-term interest of our shareholders. We have a strong conviction about the long-term benefits of that program, not just in terms of capturing demand for - the pent up demand for capacity on that route and that we see as attractive internal rates of return for our shareholders. But also, it moves us closer to ownership economics on our international transit. That's not just for that route, but also the capacity of - the opportunity to swap capacity on that route into other international destinations which are embedded in the conversations we're having with our cornerstone customers. We see the - it actually transiting both ways as well. We definitely have some strong interests of customers and partners out of Indonesia and Asia, looking for connectivity into Australia and then into the US.

So we have a very high conviction about that project and believe it's strategically important to the company and the long-term interest of shareholders. That's the reason we're not cancelling it. So synergy, Mark do you want to talk to that…

Mark Wratten: Yeah, I will. We've really killed synergy slide because the further out you go from acquisitions, the harder it is to pin down a particular synergy against a particular acquisition. So you know, we obviously have merged. Amcom doesn't exist as a separate business anymore and neither does Nextgen to a large extent, and as well as all of the others that we've done over the years. Obviously, the big focus for us from this point forward is really the cost opportunity that Geoff has spoken about. So we'll be going very hard at those and making sure that we are transparent with the market. Certainly as we come to the AGM, we hope to have some good sets of numbers and programs in place for that.

The transformation program which is obviously more around business process efficiencies and likewise, driving not just costs out of the business, but driving more revenue opportunities as well. So you know, we'll be talking to those going forward rather than synergies from past acquisitions.

David Spotswood: (Shaw and Partners Limited, Analyst) Thank you.

Operator: Thank you. Your next question comes from Ian Martin from New Street Research. Please go ahead.

Ian Martin: (New Street Research, Analyst) Yes, good morning. Look, you've already had a few questions on consumer margin and CBC and so on. I might take a look from a different direction which is that NBNs corporate plan, they've got a new one coming out next week I think, but they're looking for average revenues in the mid-50 range and probably need to go up from there. So I just wonder, what's the long prospect for this business when you've got an average revenue at $64? You say Fetch subscribers are increasing and that improves the margin per customer. I just wonder what happens to the CBC component as you add more and more of that video component is I guess the general question? Another question, Geoff.

You mentioned at the investor day, the possibility of doing a better deal on mobile resale, maybe a virtual network operator and a possible capacity deal. I wonder if that opportunity is still there?

Geoff Horth: Yeah, thanks Ian. Yeah, obviously the category broadly is feeling the pressure of increase in price in NBN. That's not unique to focus. In fact, it's probably much more - it's a much more significant issue for some of our competitors who are going to be coming off much higher or much lower cost base into NBN. I think the NBN current ARPU is in the vacinity $43. The last time I saw the corporate plan, it sees it moving to $52.

I definitely see that as being a combination of the input price going up on average but also the plan mix changing. So understanding how that plays out in the next three to four years is something that we're all grappling with frankly. I think that to have better visibility of the way that NBN grows their ARPUs over time, you know, how much of that is the contribution of high value business services which they tell is part of the contribution of the growing ARPU?

How much of it is driven by CBC? How much of it is driven by plan mix? Because obviously driving more customers into higher value plans is one way to drive your ARPUs up. We have very constructive conversations with NBN and with the government around this. I think that the way to achieve that outcome is actually to make the higher end plans more compelling to resell. So I think there's a good dialogue. There's a position paper from NBN talking about potential solutions to drive plan mix.

So it's not going to be - we don't see that that ARPU uplift is just a direct hit to our cost of sales. It will also, arguably as they make the 100 megabyte or 50 megabyte services

more compelling, it arguably helps us to drive more share or a greater share of our total services under those higher ARPU plans.

So clearly our focus on iPrimus will also help us change that mix. But it's not all about the current cost base moving from $43 to $52. As far as we see it, it is partly driven by plan mix and by business services. In terms of Fetch, as you see we've doubled our Fetch subscribers over the last 12 months. Fetch doesn't make any difference to the household consumption of [SBOD]. It actually just helps them to consume it in a consistent way. It's actually embedded in our offering so it's actually very valuable to us. Our churn in Fetch is much lower than our customers who don't take Fetch. So they're going to consume that and you're going to have deliver it anyhow, you may as well make it embedded in your proposition and improve the quality of their - or the attachment to their broadband service.

You had a question on the energy business? Mobiles. Yeah, so sorry, we have flagged and we think the longer term outlook for mobiles for us is actually to change the supply paradigm but it's definitely a two to three year mindset. That is not something that we expect that we'll be doing in the short term. We've got a strong mobile, we're starting to see some growth in our mobile portfolio again. Definitely the - sorry, the mobile voice. We've got a strong partnership with Optus and we're making some good inroads there.

Ian Martin: (New Street Research, Analyst) Thanks Geoff.

Geoff Horth: Thanks Ian.

Operator: Thank you. We are showing no further questions at this time.

Geoff Horth: Okay, well I'll wrap it up there and thank you very much for taking the time to attend the briefing this morning. We look forward to catching up with a number of you through - in the coming days. Thanks again.

End of Transcript