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Operator: Thank you for standing by and welcome to the Vocus Group interim 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 your speaker today Mr Geoff Horth, Group CEO. Please go ahead.

Geoff Horth: Thank you and good morning everyone. Thank you for taking the time to join the call this morning. I'm joined in the room by Mark Wratten, Vocus CFO.

I'll start by taking you through the highlights of the results for the first half. Mark will then talk you through the financial performance section and I'll come back and close out taking about the outlook.

Turning to the Group highlights page, the Group recorded a strong result with revenue up 4% and EBITDA up 8%, driven in part or largely by strong growth in the enterprise and wholesale division, particularly in the data networks revenue line. We've also continued to take market share in NBN and UFB. You'll see on the page we're actually disclosing our total NBN share for the first time. That's reflective of the fact we're starting to see some growth in the enterprise and wholesale, particularly in the wholesale aggregation space which is a pleasing result, moving market share to 8.8%. We're on the way up to our ambition of greater than 10% market share of NBN.

Actually, still on track for a Q1 FY19 ready for service day. I'll talk to that in a little bit more detail through the presentation. Likewise, the divestment of our New Zealand operations is progressing in accordance with the Board proposed timeline.

We called out, you will notice, that we expect the second half earnings to be softer. Hence, we have revised our guidance. I'll speak to that further later in the presentation.

Turning to enterprise and wholesale, you'll see that there's been a strong earnings performance in enterprise and wholesale with EBITDA up 11.2% compared to the PCP. That's off revenue growth of 2.5% and you'll see that's on the back of a very strong performance, about 15% organic growth in data networks revenue. That included a contribution of $9.9 million from bespoke contracts but then excluding those one-off bespoke contracts, circa 10% growth in data networks revenue. Given the earnings leverage we get in that revenue line that's a very pleasing result.

That's been offset largely through voice revenue declines and that is predominantly in the small business division. We've signalled that we expect as customers migrate to the NBN there will be declines in that fixed voice portfolio.

As I said the earnings leverage and the good cost discipline has driven that 11% increase in EBITDA and we're actually seeing some excellent trends in our sales activity. For the first time the enterprise east coast sales team is outperforming the west coast team, as you'd expect. We had some early successes with our government strategies. A pleasing result for the enterprise and wholesale division.

Turning to consumer, the consumer division's grown revenue despite obviously some challenging conditions. NBN is actually demonstrating higher ARPUs than copper so we're actually seeing some revenue expansion through that migration but clearly, there are margin headwinds associated with that NBN migration.

The second half outlook for EBITDA is weaker than the first half. That is because we did expect that there would be an increase in the CBC costs in that business. We have also experienced two matters or two items that have had a short-term impact on earnings in the second half, which as I said I'll speak to around the guidance slide. Largely they are one-off matters though relating to energy hedging and the way that we defer subscriber acquisition costs. As I said I'll talk to that on the guidance slide.

NBN growth on the prior period on the PCP is quite strong but it flattened in the first half of FY18. There was no growth in market share in NBN from 30 June 2017 to the end of December. That's because we took a decision to cease promoting HFC. As you'd be aware, the NBN withdrew HFC households from the rollout plan, holding about 800,000 properties that were meant to be provisioned in the rollout over the next 12 months. We experienced some pretty significant issues as the rest of the market was with the service experience with customers in HFC so at the start of the second quarter we, identifying those issues, just decided to stop promoting HFC. It did flatten our market share across the half but it's not indicative of our ambition to grow that share once the network is better equipped to serve customers.

As I said, the energy margins in the second half have been impacted by slower growth which has actually created an over-hedged position. The business is actually exposed to the tune of about $3 million of wholesale energy input costs that are not reflective of the size of the portfolio. As it is the business took a conservative position to hedging our

energy exposure and sales growth slowed and that meant that we were over-hedged and that is a one-time impact to earnings in the second half.

Turning to New Zealand, as you'll see there's actually strong revenue growth particularly in the enterprise area. Once again like the enterprise business in Australia that's a platform from which you can get good earnings leverage. It's pleasing to see that that part of the business is recording good revenue growth.

We're also gaining share in broadband but it's a very competitive market, so we are feeling the impacts of the price pressure there, seeing that market normalise to some extent quite recently, but it was definitely a period of time where we've had to be competitive in the market and we've seen some ARPU compression in both broadband and UFB which is having an impact on the revenue growth trajectory in consumer. It is also facing the headwinds as the Australian consumer business is of declining voice revenues.

Mark and the team have done a good job of managing the cost base and we are delivering earnings growth there and we expect that business to be able to continue to deliver earnings growth.

Pleasingly there are some new growth horizons for that business. We've launched our energy offer particularly in the consumer business over the last six to nine months and we're seeing some excellent early successes there and quite strong attachment rates of energy through our broadband subscribers. We recently announced that we've been admitted to the New Zealand Government federal government panel for the first time. That business has some interesting opportunities to grow in the government market in New Zealand as well.

Turning to the ASC, as I've mentioned before the Australia Singapore cable project is actually well progressed. We have cable manufacturing completed and boats loaded ready to lay the cable. The project is on track for Q1 FY19 ready for service in accordance with the original schedule. We've had excellent engagement with customers, recently attended the Pacific Telecommunications Conference and had a strong round of meetings and significant engagement with a long list of customers. The pipeline looks very strong. We've actually executed four deals today and we have a number of other deals in advanced stages of negotiation.

Also seeing excellent interest in the Christmas Island spur from a number of different government agencies. We believe that'll be a very attractive component of that project. We've recently announced that we're undertaking a program of work to upgrade the

terrestrial network to cater for the capacity that we expect to be utilised in the early stages of the project becoming ready for service. That obviously is essential given that we are terminating the service. The cable lands in Perth and we need to carry that traffic across to the east coast. Does give customers who are connecting to ASC some advantages in that they can drop off in multiple cities and fundamentally automatically connect into our national network. As I said, good progress with that project and pleasing levels of customer interest.

That's a summary of the first half results and priorities. I'll now hand over to Mark Wratten who will take you through the financial overview.

Mark Wratten: Thank you, Geoff.

Starting on slide 10 of our presentation, these are our statutory reported numbers for H1 FY18 as compared to H1 FY17. We've also shown for the first time our results in constant currency.

I'll talk in more detail to many of the key lines in the following pages and walk through numerous bridges covering revenues and underlying EBITDA, underlying NPAT and cash conversion.

In addition to this presentation we've also today published our statutory 4D and our half year financial statements as well as our detailed operational and financial review document which contains more detailed information covering the Group and the three operating divisions.

Moving to slide 11, in line with previous period ends we've presented our key financials on an underlying basis and remain consistent in regard to the significant items that we adjust for. A reconciliation can be found in the appendix to this presentation. This is a busy slide and I apologise for that, however due to the acquisitions, divestments, corporate restructuring, internal cost allocation changes post H1 FY17 reporting, certain pro forma and other adjustments are required to allow for a closer like-for-like comparison to H1 FY18 reported divisional and consolidated results.

In our FY17 full year OFR in the appendix we include some pro forma results for H1 of FY17, which predominantly adjusted for our results for the NextGen acquisition and the move of the Commander business into enterprise and wholesale as well as the reallocation of CBC costs from Group services to the divisions. Those numbers are reflected in the first column on the left of that table.

Subsequent to those reconciliations we've determined that other pro forma and normalisation adjustments are needed to adjust H1 FY17 divisional and Group results to reflect further items such as the pro forma impact of SBT and switch acquisition and a few smaller business divestments, to reallocate other internal costs which we moved around and to normalise, more importantly, for the impact of deferred subscriber acquisition costs across both periods. There were a few other adjustments as well.

The final column on the right is the H1 FY17 adjusted pro forma numbers which we believe are the right starting point against which to measure our first half FY18 performance. It is these numbers that Geoff referred to in his opening few slides for the Group in the divisional results. As I said, further details of these reconciliations can be found in our OFR document.

Moving to slide 12, the revenue bridge, this is the high-level bridge from reported H1 FY17 revenues to reported H1 FY18 revenues. As mentioned on the last slide, the main pro forma items are the inclusion of four months of NextGen revenues. The other acquisition and divestment adjustments and a one-off compensation payment which we received in the first half of the prior period. These adjustments bring our H1 FY17 revenues to $936 million.

In H1 2018 we saw revenue growth in all three divisions which Geoff talked to earlier. Again, I'd point you to the very detailed reconciliations by division in the OFR.

Moving to slide 13, the underlying EBITDA bridge. Similar to the revenue bridge I walked you through just then, the EBITDA bridge follows the same nature of adjustments. The largest adjustment apart of course from NextGen, relates to the difference between the amount of deferred subscriber acquisition costs that we expensed in H1 last year versus what we expensed in H1 of this year. That adjustment $21 million and predominantly impacts the consumer division. Further detail covering deferred acquisition cost is again in the appendix to this presentation as well as in the OFR.

These pro forma and other adjustments see H1 FY17 at around $176 million of underlying EBITDA. In H1 FY18 we saw strong growth in EBITDA in the enterprise and wholesale division as Geoff pointed out whilst consumer was flat and New Zealand recorded small growth.

Group services costs were $7 million higher period-on-period predominantly due to $4 million of transformation office costs.

Moving on to slide 14, underlying EBITDA to NPAT. For these numbers I'm back to talking to unadjusted and reported results. Whilst underlying EBITDA is 9.9% up above the prior period, underlying NPAT is actually down by 25%. As you can see on the table on this slide, the key reason is that large increase in depreciation and amortisation expense period-on-period and I'll talk more to that on the following page.

The other key variance was the net financing costs which were up $8.1 million on the prior period due to the higher net debt we carried for the entire first half of this year versus the debt levels in first half of last year, which only had circa two months' worth of high debt levels due to the timing of the NextGen financial close, which was October 2016.

Whilst Geoff will talk to overall guidance at the back end of this presentation I'll just the gun in regard to underlying NPAT and confirm that we are reducing full year guidance to between $125 million to $135 million from the $140 million to $150 million we'd previously guided to. This reduction is driven by the lowering of our EBITDA guidance and a higher than previously forecast D&A expense.

Additionally, in the earlier guidance we had erred by using a range at the very top end of our EBITDA guidance rather than the midpoint.

Moving to slide 15, depreciation and amortisation. This table highlights the underlying and below the line depreciation and amortisation over the last three reporting halves. As you can see, the underlying D&A expense for H1 FY18 at $69 million is about $25 million above the prior period. NextGen accounts for around $15 million of this increase, the increment of four months, whilst the rest is driven by the flow through of depreciation and amortisation from a capital expenditure program over the last few years.

We're currently implementing a new fixed asset register as part of our single standardised ERP project which will completed by June of this year and that will give us significantly better tools to manage our assets and forecast our future D&A expense.

In terms of guidance on D&A, for the full year we're increasing that to between $140 million to $143 million. Previously we had a wider range of $130 million to $140 million.

Moving to slide 16, EBITDA to cash flow bridge. Our cash conversion improved to 68% for this half. That's compared to an adjusted 52% in the first half of last year. The reported number's 64% but we did receive $23 million of upfront customer payments in December 2016 so backing that out the right comparison is the 52%.

The major impacts on cash conversion were the known items that I've spoken about many times now including the deferred revenue unwind of $18 million, onerous provision unwind of $6 million and the final normalisation of our deferred SAC balances of $5 million. All three of these items should materially reduce in the second half of FY18 so their negative impact will be reduced.

What was disappointing in H1 was the further negative working capital movement of $32 million. This did include an IRU lease payment of $8 million which is very much capital expenditure in nature. We did have a similar amount in the first half of last year as well in regard to that IRU lease payment.

Of the remaining $24 million decline in working capital, $19 million related to a reduction in trade and other payables and the balance an increase in receivables. We continue to work on many initiatives to improve our net working capital position and hopefully can show improvement by June of this year.

I do expect cash conversion to be above 80% for the full year and that will require a second half cash conversion rate approaching 90%.

Moving to slide 17, cash flow to net debt. The net debt increased by $22 million during the first half of FY18 and was in line with our internal forecast. Many of the items I talk to on the last slide are also repeated in this bridge, so I won't repeat them.

The other major item is our cash CapEx spend and I'll talk to that shortly.

Slide 18, asset disposals. The New Zealand business divestment is progressing well and to our planned timetable. We have appointed financial advisors, completed vendor due diligence and received indicative bids. Last week we invited a short list of parties into phase two of the process and have opened the data room. We're still targeting completion by the end of June 2018 subject of course to regulatory approvals if they're required.

In regard to our data centre business we have not launched a formal sale process as the New Zealand sale has taken priority. Those assets remain under review.

Moving to slide 19, capital expenditure. Excluding the ASC project our cash CapEx spend in H1 FY18 was around $80 million. This was predominantly spent on growth CapEx in the enterprise and wholesale part of the business on data network fibre builds and the consumer businesses both in Australia and New Zealand with their modems and other CPE.

We also had around $6 million or $7 million of transformation CapEx.

We're beginning to see improvement as a result of our new CapEx disciplines and controls although we still have a lot more work to do. The new ERP system and fixed asset register, which I spoke about earlier, will also help us in that respect.

We do expect full year cash CapEx excluding ASC to be between $180 million to $190 million. Previously that was $190 million to $210 million so a reduction there, which is positive.

In regard to the ASC project, we spent US$24 million of cash CapEx in H1 again in line with our expectation and are expecting a further US$19 million in H2 of FY18.

Moving to slide 20, net debt and covenants. As I mentioned in an earlier slide our net debt increased to about $1.05 billion at the end of December. Our net leverage ratio increased to 2.87 times. It and our other covenants remain within our facility limits.

We are forecasting our June net debt position to be the same as what we guided to you earlier, between $1.03 billion and $1.06 billion and our net leverage ratio will be between 2.75 times and 2.9 times. That's slightly higher as a result of some EBITDA softening of guidance.

The above year end debt and net leverage guidance does not take into account the potential New Zealand sale proceeds which would be used to reduce Group net debt and to fund the large ASC CapEx commitment in Q1 of FY19.

As mentioned in the earlier slide, we expect financial close for any transactions to occur before the end of the financial year.

I'd like to now hand back to Geoff who will take you through the business strategy and outlook for FY18 and provide our earnings update. Thanks.

Geoff Horth: Thanks, Mark.

Looking to slide 22, the Vocus strategy. It's fully centred around simplifying our business and driving growth in attractive market segments. We have a strong focus on simplifying our products and making them very modular, simple and seamless and low cost to deliver. Our interfaces and platforms need to be digital and the customer experience needs to be outstanding. Given the combination of assets and systems and processes we deal with today that's a significant body of work but it's one that we're very focused on.

The opportunity for this business to grow from very modest market share positions in our core target markets coupled with the obvious opportunities to improve earnings efficiency of the business by removing complexity and duplication and also pursuing or optimising

external spend does present opportunities to deliver outstanding returns for shareholders in the long-term.

Talking briefly to the new divisional structure which we announced in January of this year, we made these organisational changes appointing - splitting the enterprise and wholesale division and appointing a new leader of our consumer division. It's clearly part of our strategy and it's aligned with the transformation program we're undertaking. It acknowledges that we need to have an organisation design that's aligned to our most attractive market segments and we need to have the skills in place in those key leadership roles to execute on the plan.

The decision to separate the enterprise and wholesale division provides us with the capacity and focus we need to chase multiple growth opportunities across the carrier, OTT and large main service provider and retail service provider space in the wholesale market. Also, to ensure we're appropriately resourced to achieve our ambition of being the number two provider in the enterprise and government markets.

The consumer strategy sees a significant shift in the go to market approach moving from a traditional human based sales model into a very strong digital first approach. The appointment of Sandra De Castro to head up our consumer division ensures we have the skills and experience to transform this business to a digital leader and to drive new growth opportunities in this market through these new digital channels we're creating in the process.

The next slide is just trying to give you a sense as to the order and phasing of this transformation. There's a lot of work to do and we have to be very disciplined about doing it in an orchestrated and sequenced way.

The operating model changes, we just talked about the fact that we made some changes to level one organisation design and we've now concluded the work to finalise the line-up of each of those divisions with key appointments made in each of the operating divisions and the functional areas. It's about ensuring that not just at the executive level but at that next level and throughout the organisation we have the right skills in place to execute the plan given that in many parts of our business new skills are required.

Rebalance and release cash is really about we need to focus on procurement processes to ensure we're optimising external spend and operating cash. It's about ensuring that we have good supplier and debtor disciplines in place to make sure that the business is

mitigating any working capital issues, which has clearly been something that's impacted on cash flow in the business historically.

The focus around the operating divisions in Australia is that we have commenced a process to accelerate our consumer growth. We have kicked off a marketing excellence program and we've recruited resources and brought in external providers to help us redesign our digital environments. We need to move from a digital laggard to a leader. We're making great progress on that front with our iPrimus platform and we are now very focused on improving the quality of our customer sign-up and self-serve options in the Dodo brand.

If you're going to create demand through your marketing activities in a digital world then you need to make sure you provide high quality digital interfaces for those customers to buy and continue to use your products.

The enterprise focus, there's also a very significant body of work going on to redefine the product requirements in each of our segments but particular in enterprise and wholesale. We have a number of founder organisations and different ways of working and different platforms that we've traditionally sold in cloud and in voice and in data networks. We need to bring those together, have a single module product stack, build a high quality and highly automated provisioning process to support those products. We have a lot of work going on with our product teams and we also have a service excellence program we kicked off in the enterprise group to improve that customer experience, the provisioning timeframes and obviously the revenue recognition.

We are also kicking off a salesforce excellence program in the enterprise group. As we start to line up the products and we have the simple modular approach to go to market then we need to make sure that we have the right resources in the right locations, that we're very focused on the areas that we're targeting and that we have a clear focus on the medium enterprise market in the enterprise space. We have a growing or an emerging capability in the government market and we're seeing some early success there so just making sure that as we take those products to market we have the right sales methodologies in place and the right resources in the right locations and they're well informed about the market and the opportunities as they walk into the customer's door.

On the slightly longer term or medium-term horizon we see great growth opportunities in the small business market that absolutely requires us to transform that business to a digital leader as well and it's not there today. We are focusing on the enterprise market where there's great earnings leverage and we will continue to work in the way we work in

the small business market. We'll leverage the work that's been done in the consumer organisation to create these leading digital platforms and replicate them in the small business organisations. That is a very attractive market segment, but you need to be able to serve customers in a very digital and highly automated way.

Obviously, the outcome of all of that activity is that we have an ambition to grow earnings in this business on a run rate basis by circa $90 million by the end of FY20. This is the outline of the earnings ambition that we provided to investors at the investor day in October of last year. It involves us taking a $120 million uplift across external spend and internal simplification and through our growth ambition in those core target markets. $120 million will be offset to some extent by what we currently estimate is about a $30 million headwind in migratable balance of our copper services to NBN.

A brief description of how we come up with that calculation, fundamentally the business assumes that there will be circa $6 lower AMPU per subscriber in NBN than there is in copper. There is obviously some potential variability in that. There's opportunities to mitigate some of that by selling a higher speed plan. That's the NBN Focus on 50 campaign that definitely we see creating some opportunities for us to recoup some of that AMPU loss by selling customers higher ARPU plans.

Obviously optimising external spend and removing complexity for the business, focused effort on gaining share in the most attractive market share segments is clearly what we're focused on and we're confident about that ambition to drive that $90 million growth in underlying earnings.

Turning to the guidance slide, as mentioned earlier in my presentation and through Mark's presentation we revised guidance on the back of a very strong result in the first half. We were aware that we were not expecting the second half to match the first half performance and we wanted to make sure that the market was fully informed, so we have revised the EBITDA guidance down to between $365 million and $380 million from $370 million to $390 million on the same revenue base.

Maybe to talk to some of the issues affecting that, whilst we had a very good result in enterprise and wholesale in the first half it did get a contribution from some one-off bespoke contracts. We don't expect that level of contribution to be matched in the second half. While there is organic revenue growth with those one-off contracts or earnings not contributing at the same level in the second half we broadly expect the enterprise group to be flat first on second half.

The New Zealand business will get some modest growth in earnings on the back of the revenue growth we're seeing coming through and as a consequence of the cost programs that Mark has in place across the ditch.

Obviously, the key area of concern regarding the second half results relates to the consumer business. The consumer business obviously was going to be facing headwinds. We had forecast that we would have a lower level of earnings in the second half on the back of a step-up in the CBC costs. The CBC costs are actually a little bit more than we originally - would have been more than we originally predicted because we've had quite a strong migration program in the first half. We've accelerated those NBN migrations.

The Focus on Sydney and Focus on 50 campaigns with the uplift in CBC to come with that has actually probably offset those headwinds for the second half. As I said, we expect CBC to be largely in line with our expectations. There will be more CBC cost in the second half because we migrated a large number of customers across to NBN in the first half. It would have driven some increased cost relative to our expectations, but we've had the benefit of the Focus on 50 campaign which is offsetting those.

Two key issues in the earnings for the second half in consumer actually relate firstly to a change in go to market strategy. We made the decision as part of our new strategy to exit some higher cost and lower quality channels. They were channels that typically had a high proportion of the cost of acquisition deferred in the P&L because of the nature of the sale. As we exit those higher cost lower quality channels and move customers increasingly to our digital channels we are expensing those costs of acquisition. We'll have a lower rate of deferred cost in the second half than was originally anticipated. The good news is that we are driving more of our customers into higher quality platforms and that leads to lower early life churn and better bad and doubtful debt risk. It is a factor in the second half and it's unfortunate. It's reflective of good business decisions but is having an impact on earnings.

As I said earlier, we've also got a lower level of energy subscribers than we originally anticipated. The forecast had us growing the energy portfolio this year. It's not occurred for a variety of reasons. The implications of that are that we've obviously locked in a hedge position based on expected volumes and we are fundamentally over-hedged. Given that we use a 12-month rolling hedging outlook that is not necessarily a - it doesn't create a long-term headwind for the business. It just means that in the next six months we are facing a circa $3 million reduction in our earnings or margins from that energy portfolio and that's flowing directly to the earnings line.

As Mark mentioned before, pleasingly on the cash line we've got a reduction in our financing cost and the early stages of the work we're doing to improve governance around CapEx and our focus on procurement practices to make sure we get the best possible outcomes means that we're actually delivering a CapEx or a cash CapEx number that's circa $20 million below where we originally forecast it so that is good news.

Turning to the summary page, the first half earnings were in line with our expectations and [I thought] a strong result. Obviously, the full year earnings, the guidance has been adjusted in a prudent and appropriate way. We wanted to make sure the market was fully informed. The Board took the decision that the rest of the market can double the first half and add some value in without - if it wasn't aware of the one-off contributions in the enterprise group in the first half and the headwinds that face the consumer business. We thought it was prudent to revise the guidance range.

I think the key features of the result are obviously strong revenue growth in the core data networks business revenue lines in both Australia and New Zealand, continuing growing share in NBN and UFB. Australian UFB's now 13% market share. Australian NBN's now close to 9%. Very pleasing results. ASC's on track for the Q1 FY19 ready for service. As Mark pointed out we're seeing some improvements in operating cash flow. We've still got some way to go there but we're comfortable that we'll be able to materially improve that over the course of this year as we forecast.

We really are executing a clear go to market strategy with opportunities to improve earnings through optimising external spend and simplifying our business. We clearly have ambitions to grow the revenue line and create some operating - some earnings leverage and some scale benefit for the business. The longer-term outlook for this business is definitely one where we see great opportunities to create great value for our shareholders.

I'll now hand back to the moderator and open the call up for Q&A. Thank you.

Operator: Thank you. If you wish to ask a question, please press star then one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star then two. If you are on a speaker phone, please pick up the handset to ask your question. We will now pause briefly to allow questions to enter the queue.

Your first question comes from Eric Pan from JPMorgan. Please go ahead.

Eric Pan: (JPMorgan, Analyst) Good morning, guys. Congratulations on a strong set of results. Can you just give us some colour on why we should expect a weaker second half and in what areas specifically? Is there a seasonality in the business?

Then on the NBN AMPU that's now $2 lower than previously reported, why has the previous period been restated and how does the recent NBN price change impact you?

Lastly, can you give us a sense of the magnitude and the type of the four executed contracts on the ASC and the kind of customers that you're signing up? Thank you.

Geoff Horth: I might take the first and the last question and I'll turn to Mark for discussions around the restating of the ARPUs and AMPUs in the consumer division.

I think as we described the weakness in the second half, the key factors, we expect the enterprise division to be largely flat in the second half and that's because we called out there's about $9.9 million worth of revenue in the first half that was one-off bespoke contracts. We expect to do some of that business in the second half. We don't expect it to be anywhere near that level. The nature of that business is it is lumpy. There is organic revenue growth coming through in that business, but that level of one-offs is not going to recur in the second half. Therefore, we expect that to be largely flat.

The consumer business clearly has some CBC headwinds, but it's also impacted by those two one-off issues and they are the $4 million from the energy over-hedged position, a $3 million and a $4 million issue. It's really related to costs that we would have otherwise - based on our old sales model we would have been deferring them because they're largely sales costs, sales made in the retail network or through our sales teams in the Philippines off affiliate leads where a vast majority of those costs were deferred through the P&L. The reality is that as you as start to move those to a digital led strategy then the vast majority of acquisition costs are marketing costs and those costs are expensed, not deferred.

In terms of the four executed contracts, I'm not going to disclose the capacity or value but can say that they are a combination of domestic and international carriers and some smaller and large OTTs. We've got a significant pipeline of other opportunities including large deals with international OTTs and quite a diverse range of smaller operators looking to procure capacity. We have strong interest from a number of government agencies around the Christmas Island spur and we have kicked off recently a launch in Indonesia with our partner there, XL Axiata, and we definitely see some opportunities to sell capacity out of Indonesia into Australia and also out of Indonesia into Singapore. I think on balance we're very comfortable with where that project is, how that project's tracking.

Mark, do you just want to talk to the clarification of...

Mark Wratten: Yes, I will. Thanks, Eric. Actually, in the appendix, page 33 and page 35 of the investor presentation we talk to the Australian consumer KPIs. I guess the revision of

the calculation has come about a concern that I had in regard to how we've reported in previous periods and whether we'd been consistent, consistent to what we concluded in the calculation and consistent in regard to the calculation methodology. For example, did we use a rolling six-month average or a period end number? That review indicated that we hadn't been consistent and hence, if you look on page 35 you can see on the original disclosed AMPUs for NBN from 22 to 33.3 to 20.6, a bit up and down. Whereas on the revised KPIs - and we've gone back over the last three periods plus this one to calculate it all on the same basis, which is set out on page 33 in terms of including the same types of revenue and excluding the same types of revenue and same with costs.

We have a high degree of confidence obviously. It's a bit of a mea culpa in terms of our previous reporting but going forward these are going to be the standard calculation methodologies that will apply. Obviously, there's no industry standard in regard to that that I've been able to find. If you looked at the revised AMPUs for NBN, Eric, they've actually - pretty much at 18.94 for the half is an improvement on the June half and the fluctuation is not as large as what we've seen in the previous numbers.

Eric Pan: (JPMorgan, Analyst) How does the recent NBN price changes impact you?

Mark Wratten: Sorry, yes. Geoff, did you want to talk to that? I think it's quite a minor impact.

Geoff Horth: Yes, I think recent NBN prices change is probably just creating an opportunity for us to take customers from an entry level plan to a higher speed product. What we're seeing with the Focus on 50 campaign fundamentally moving ARPUs, moving customers from a 12 Mbps to a 50 Mbps product is only a $10 uplift in ARPU. We're finding that customers definitely have an appetite to buy the higher speed product for an extra $10 a month in a Dodo example anyhow.

I think when you've got a $3 uplift in ABC and an increased CBC associated with that customer it is giving us some opportunities to improve ARPUs in NBN. It is a higher margin product as well, so it might help us to mitigate some of the circa $5 AMPU headwinds between copper and NBN. The Dodo business was traditionally selling about 20% of its services on higher than 12 Mbps plans so 80% of our sales were on 12 Mbps. We're now seeing, in terms of sales volumes, up to 40% to 50% of all new sales taking a 50 Mbps product so it's a positive thing. It's a higher ARPU and higher AMPU product.

Eric Pan: (JPMorgan, Analyst) Great, thank you.

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

Kane Hannan: (Goldman Sachs, Analyst) Good morning, Geoff. Good morning, Mark. Just three for me please. Just on the lower CapEx guidance for the full year, could you just comment about which CapEx buckets that has really come from and the drivers of that reduction?

Then just on the potential New Zealand divestment, if that process was to drag on past June would you foresee any issues with your financial covenants arising?

Then finally on the corporate business, given the recent contract win from your competitor could you just give us a sense of your current earnings contribution in the Adelaide market and then how that's been performing?

Mark Wratten: I'll take the first two and give Geoff the last.

CapEx, the reduction in our guidance is predominantly in the area of fibre builds which is something that we've been focusing on for quite some time now and Mick Simmons and the team in enterprise and wholesale have been quite ruthless in regard to the evaluation of a build versus buy connectivity for our customers. Actually, a large part of the first half CapEx in that space was really the flow through of decisions that had been made previously. There's a market slowdown in new CapEx in that space and we expect that to flow through into the second half.

In regard to the New Zealand divestment, as I said we fully expect that the sale will complete before 30 June. If not completed, we will have a fully binding sale agreement and we will obviously be able to talk to the banks at that point - this is well before the full year too - in regard to maybe looking for covenant relief for an extended period as we get through to financial close. The only reason that financial close could be delayed would be regulatory approvals in New Zealand. We'll have to obviously evaluate that at the time that the final bids are due and that will all be very clear. We've got plenty of time before the year end to make all of those calls. I'm working very closely with the bank group on all of those various scenarios.

Geoff Horth: Just to look to the Adelaide market, I think it's obviously a very small market, have a modest team and small revenue base there and a decent proportion of the South Australian business today is actually government. It's originated both in Adelaide through the South Australian Government but also out of Federal. We're not seeing any significant changes in the competitive market in Adelaide. I think that the enterprise group has

performed well. As I said, for the first time the east coast team's outperforming the west. I think there's not anything of particular note in Adelaide that I could raise.

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

Operator: Thank you. Your next question comes from Eric Choi from UBS Investment Bank. Please go ahead.

Eric Choi: (UBS Investment Bank, Analyst) Hi guys. I just have three questions as well if I could. First one's just one free cash flow. Just wondering if you can give us more confidence in your ability to lift that conversion rate above 90% in the second half. Maybe if you could let us know which divisions exactly that free cash flow conversion is weak and the remedies you're employing there. That'd be helpful.

Second question. You've called out voice revenues down $10 million in consumer and I think down $13 million in E&W. Just wondering if you can tell us how big the underlying pools that those declines are attached to.

Then the third question just again on the debt. I guess with your net debt to EBITDA touching up against that covenant already and the potential outcome where second half EBITDA could be sequentially down on first half and then coupled with that we've got CapEx stepping up next year, absent the New Zealand sale is there anything else you can help us with in terms of shoring up our confidence that you'll be able to meet that debt covenant? It'd be helpful if you could help us out with some ASC near term earnings contributions which'll obviously attach against that increase in CapEx. That'd be helpful. Thanks.

Mark Wratten: Hi, Eric. I'll take one and three, but I'll cover them together.

Cash flow, you can see on slide 16 the cash flow bridge. What gives me a lot more confidence obviously in the second half is that the deferred revenue unwind in the second half should only be about $5 million rather than the $18 million we saw in the first half. Likewise, the onerous provision unwind should be around only $3 million so half of what it was in the first half. The SAC impact should be zero rather than the $5 million. Just removing those items and if we kept net working capital at the same level as it was for December 2017 we should absolutely get to second half conversion into the high 80% and therefore a full year around the 80%. I have a fair amount of confidence there.

In terms of divisions, we're working hard across all divisions. I think being a telco with multiple customers it's a huge focus on receivables. Some of the things that Geoff spoke

about around our higher quality customers and a digital sign up. Direct debit payments rather than reminding them to pay is also going to start kicking in as well.

The bigger area, as I spoke about, was really our payables and that was the same case for the first half last year and the second half. I've got to definitely do a deeper dive into the payables and what's causing that. There's no instruction to pay our suppliers more quickly than we should but certainly I'll be focusing on that with the team in the second half.

Again, in regard to net debt you're right. We're going to be pretty tight at the end of the year if the New Zealand sale hasn't completed. As I said, we fully expect that a definitive agreement will be signed well before then which we could talk to the banks about in terms of some extensions of either covenants or a bridge. There are other options available obviously to us. The Board is acutely aware of this, so it will be monitoring it very closely.

In regard to ASC, some of the funds - there's a contract which we do expect some funds to flow through before ready for service and a decent amount. I can't talk to that in detail. Obviously, the team are working, as Geoff said, on a number of other significant leads. As we get closer for ready for service - none of our cash flows certainly for second half of FY18 include any ASC receipts so they will be a bonus when they come through. We expect that in the first half of FY19 we should start to see some good receipts come through there.

Geoff Horth: Thanks. Just to the voice revenue, I think we're probably going to have to come back and clarify that for you. The $13 million headwind in enterprise is largely driven by the small business area. I think that broadly speaking the enterprise voice has actually held pretty steady. In fact, we definitely see some opportunities there. We have very low levels of penetration with voice in UC into the enterprise segment. We definitely see some opportunities in the [unclear] market and wholesale to grow voice as well but that will be largely the small business. As you would know, as customers migrate off legacy voice and we disconnect the legacy access there's a significant reduction in revenues associated with that. We'll have to come back and clarify what that pool is today.

Likewise, in consumer we'll have to come back and clarify that for you, but it is actually a combination of voice associated - the voice usage in an NBN world is lower than it is in a copper world but frankly the actual voice revenues per subscriber in copper is very low. It's a couple of dollars or in that vicinity. It's not a significant headwind for the core consumer business but there are some acquired asset bases or the discontinued brands

that we spoke about that actually have some dependence on voice revenues which are probably the primary contributor to that. We'll just ask the team to pull out and do some analysis on how much of that's actually voice in the core brands versus the run-off of voice on the discontinued brands and how big that pool of voice revenues is so that we can give you a sense as to how long it's going to take to run off.

Eric Choi: (UBS Investment Bank, Analyst) Okay, that's helpful. Thanks, Mark. Thanks, Geoff.

Operator: Thank you. Your next question comes from Fraser Mcleish from Credit Suisse. Please go ahead.

Fraser Mcleish: (Credit Suisse, Analyst) Thanks. Geoff, I just wondered if you could talk slightly longer term on your thoughts on the consumer business. You're probably increasingly going to start seeing your competitors use the wireless networks to bypass the NBN and that's obviously something that's not available for you. Do you see that as a big issue longer term, that potential competitive disadvantage there?

Just also on the energy business, are you still thinking about that as a core business for you? Thanks.

Geoff Horth: Good questions, Fraser. I think the consumer outlook generally is that we've obviously got some challenges in terms of the margin outlook as we migrate from copper to NBN. Potential opportunities to mitigate some of that with the focus on higher speed plans. We've got to fundamentally change the cost base of that business and we're making good progress on that. We move from a traditional telco human interface to a highly digital one.

I think the risk around not having a wireless offering in terms of whether it significantly reduces the addressable market, I think the people talking about it could be now 30% of households might be wireless rather than the original of assumption of 15%. If you've got 8% market share or 8% or 9% market share today and the market might shrink by 30% in total we still are talking about having the opportunity to significantly grow into that other 70% of households that will buy a terrestrial service.

I think it's important the NBN gets it right though. The reality is that terrestrial's going to be a very strong competitor wireless in New Zealand because it's very high speed. When you're delivering gigabit services and 100 Mbps plus services in New Zealand it does create a very compelling proposition for customers. While we're delivering services that are not ultrafast across networks that are not fit for purpose then we are arguably going to just -

it's going to expose that technology to the risk of disruption by wireless. I think it's important that the strategy gets the quality of service to households right to ensure that terrestrial broadband remains relevant in Australia.

The energy business is actually core for us. We have said before that I think the business is actually one that creates a competitive point of difference for us. I think we've got some plans to leverage that point of difference in the coming months. Once again though, we just need to make it a business that has much higher digital engagement. I see that some of the leaders in that category now are doing sub five-minute sign-ups for energy and we need to get to that point. We're not there yet.

Clearly, having recruited someone with great pedigree in this area who's done digital transformation before we think we can get there quite quickly. We're already on that journey today. I think it's an important part of the portfolio. It's a good way to mitigate some churn risk and create a point of difference. It's a hold.

Fraser Mcleish: (Credit Suisse, Analyst) Thanks a lot.

Operator: Thank you. Your next question comes from Nick Harris from Morgans. Please go ahead.

Nick Harris: (Morgans, Analyst) Thanks, gents. Good morning. I'm just interested if you might be able to give us a little bit more detail on costs around the transformation and integration program just in terms of OpEx and CapEx maybe in this year. Just broadly going forward, do you think they'll step up a fair bit or hold reasonably steady as you move towards that $90 million FY20 cost out program you're looking to?

Geoff Horth: Mark, do you want to talk to that?

Mark Wratten: I highlighted in the first half that part of the bridge on the Group services costs was around $4 million for our internal transformation office so you'll probably expect that to flow through into the second half and to FY19.

In CapEx, again I spoke to I think it was circa $6 million of spend on transformation projects. We guided to a much larger number I think back in August, but we do have a larger amount of CapEx in the second half associated with that but probably less then as we move into FY19. Obviously, we've engaged a consulting firm. I think you mentioned them earlier.

Geoff Horth: Yes.

Mark Wratten: That is some cost obviously that we've absorbed in the first half in relation to their support but going forward obviously the basis of engaging with them is really on a success fee. That should be earnings accretive rather than an actual cost to us.

Nick Harris: (Morgans, Analyst) Thank you and just another question from me. I was just looking at your operating cash flow. It looks like - well if you look at the 1H17 result operating cash flow was about $95 million but in 1H18 it's been restated down to about $82 million. Can you please just give me a little bit of colour on what's happening there?

Geoff Horth: In the statutory account?

Nick Harris: (Morgans, Analyst) Yes, in the actual P&L from your first half 2017 results. I think you had $95 million operating cash flow and then in first half 2018 you've restated one half 2017. There's just a reasonable gap I was just trying to understand.

Geoff Horth: It probably relates to that $23 million of upfront customer payments that we received in December 2016 and adjusting it down to that. I'll actually have to take that one offline to clarify that.

Nick Harris: (Morgans, Analyst) Thank you.

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

Roger Samuel: (CLSA, Analyst) Morning guys. I've got two questions. First one just on enterprise and wholesale division. Obviously, the margin went up in this result but I'm just wondering if we should expect the margin to trend lower going forward given the growth in NBN and also the reduction in fibre build as well so you have a larger proportion of sales that are off net.

The second question is on New Zealand. I'm just wondering what's the clean EBITDA number because I think you reported $29 million in the presentation but if I look at the OFR it's $25 million. Maybe just some costs that are recognised in the group overheads. Thank you.

Geoff Horth: Mark can talk to the New Zealand EBITDA, but I'll talk to the margin improvement, whether it's sustainable. I believe that it is. We'll have a mix shift in that business over time. Obviously, the wholesale NBN margins will have some impact on that. I think however the growing data networks revenue off a predominantly fixed cost base means that we should be able to grow earnings in that market even if we are using some third-party access. The third-party access market is actually very competitive, NBN having

recently launched their internet products. I think that's actually a pretty important part of our access story complementing our own on net locations and our national infrastructure.

I think on balance there can be potentially mix shifts in some growth in the voice revenues and the NBN aggregation that could [erode it] to some extent but I think that will be offset by improvements in the data networks revenue on the back of operating leverage you get off that fixed cost asset.

Mark Wratten: Yes, I see where you're getting those numbers. One issue is that in the earlier tables at the front of the OFR the New Zealand results are stated in Australian dollars but when you get to the New Zealand divisional section it's in New Zealand dollars. That should not account for that variance between the $29 million and the $25 million so I'm going to have to take that offline with my team.

Roger Samuel: (CLSA, Analyst) Sure. Just wondering if there's any cost that you recognise in the Group overheads for New Zealand.

Mark Wratten: No, New Zealand, they're quite a clean standalone business. There are some internal charges but that wouldn't account for that variance.

Roger Samuel: (CLSA, Analyst) Okay, thank you.

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

Raymond Tong: (Evans and Partners, Analyst) Good morning, Geoff and Mark. Just a couple of questions from me. Just wondering whether you can help us understand the over-hedging issue a little bit more. Was this largely due to the weaker than expected sub growth? You mentioned it's a 12-month rolling hedging book. Will this be an issue moving into the first half of 2019? I suppose what's your expectations for sub growth going forward and what can you do to drive a bit more bundling as you've talked about in the past? Thanks.

Geoff Horth: Thanks for the question, Raymond. We believe that it's reasonably isolated to the second half of FY18 when you're using a rolling 12-month forecast you're actually topping up in the outer quarters, so you've got to be hedged to a 100% load within a range under the policy for the coming quarters and then the subsequent quarters you take a slightly lower profile. Then you top it up as you get closer to. That obviously is there to help mitigate against the risk that we underperform in terms of sales. That's what happened in the first half.

We would have been topping up Q1 and Q2 FY19 across the first half into the second quarter of Q2 2018. Obviously by the time we were there we were seeing that slowdown in subs growth and we were reflecting that by not topping up in those outer periods. There's a little bit of a tail into the first quarter of 2019 potentially but we are very focused on bridging that over-hedged position by getting back and returning to subs growth.

I think one of the issues is that because we saw some increase in wholesale costs we also repriced in major markets early, in advance of the normal energy market reprice that happens on 1 January. We actually put our prices up in October. We knew that there'd be some churn associated with that and it'd affect our ability to acquire customers but in anticipation of the rest of the market moving on 1 January we thought we'd be in a pretty good position then to be back in the market at that point and we would actually take a little bit of margin back through that process.

Unfortunately, probably for the first time in the history of the national energy market the market did not reprice on 1 January. That's driven in part by Alinta's decision to go very aggressively to try and grow some retail share to fill their boots for their wholesale generation in Victoria. You'd be aware that they bought a big generator in Victoria and they've obviously gone very aggressively in market with a headline of 43% discount to go grow some retail share in that market. That meant that the rest of the market did not respond with a price increase and we've been caught out a little bit.

We are taking action to address that. The team are actually scheduled to release new pricing in the next week, so we do think that our portfolio can be returned to growth and obviously that's a very big focus for our team. You shouldn't expect to see further declines in that portfolio as we come into the back half of FY18.

Raymond Tong: (Evans and Partners, Analyst) Thanks, Geoff. Just a question on the corporate business. I think you saw some underlying growth there. What are the main products in the market that you're seeing growth in at the moment and what's your expectations for the contribution of the bespoke projects in the second half?

Geoff Horth: We're not disclosing - we obviously have a forecast for that and we do expect there to be some, but we do expect them to be at a lower level than the first half. The reality is that predicting what might land and when it might be billable is somewhere I probably don't want to get into at this stage. I suppose the key feature is that we do expect that the non-recurrence or those contracts not recurring at the same level in the second half creates a great situation where the earnings associated with those will largely -

will not recur. We're predicting that we can hold the business flat on an earnings basis in the second half. It does imply that we've got some organic growth coming through in that business.

I think in terms of how that business is performing and where the growth is coming, it's absolutely coming in the enterprise market. We see some good traction there. We're seeing some opportunities in the government market as well. We won a significant number of contracts in the government market. We haven't provisioned any of that revenue yet, so we definitely have some confidence that that growth horizon is real. I think obviously most of that business is centred around connectivity particularly when you're in the government market and you're bidding specifically on that stack. It's just going to continue to drive growth in that data networks line.

Raymond Tong: (Evans and Partners, Analyst) Thanks, Geoff.

Operator: Thank you. Your next question comes from David Spotswood from Airlie Funds Management. Please go ahead.

David Spotswood: (Airlie Funds Management, Analyst) Thanks. Just looking into 2018 and 2019 and if you sell the New Zealand business, it looks like the EBITDA is $58 million. Is that a fair assumption to say take off $58 million for 2018 and 2019 or is there sunk or stranded costs which will stay with Vocus if you sell that business? Thanks.

Mark Wratten: Hi, David. It's Mark. No, that's right. The New Zealand business, as I mentioned earlier, is quite self-contained. Once the business is divested those earnings will go with it.

David Spotswood: (Airlie Funds Management, Analyst) Alright and maybe another question. Are you saying it's a six - maybe this is for Geoff - it's a $6 per sub difference in ARPU between copper and NBN. That's currently if NBN hits its target then that number's going to double to $12 per sub?

Geoff Horth: The current AMPU delta between the coper and NBN is about $5 actually based on last reporting but we did the original calculations assuming a circa $6 difference between the AMPUs. I think that we're having some - it's $5.50 at the moment. We're seeing some improvements in the plan mix which we definitely think is going to help mitigate some of that risk. You're right, the reality is that the NBN obviously has ambitions to grow its ARPUs and that is going to either take margin out of the category, it'll take earnings out of the category or it's going to drive retail prices up as a reality.

That potentially can be achieved by getting a higher quality network and being able to drive more and more people to 100 Mbps and higher speeds. That's obviously dependent upon the quality of the network because as you'd be aware, the ability of the network to actually support that theoretical maximum speed is not where it needs to be. We are clearly very keen to see what the consultation suggests. The reality is that they'll try to move to a 50 Mbps price point with a largely fixed cost base which we're generally supportive of, but I think we need to see - we're going to be promoting higher speed that the network can deliver those speeds.

That's probably the best opportunity NBN has to improve ARPU and it's the best opportunity we have to improve ARPU with them but the challenge at the moment is that we'd be reluctant to promote 100 Mbps because the vast majority or a significant number of customers can't get that speed to date.

David Spotswood: (Airlie Funds Management, Analyst) Okay, thanks.

Operator: Thank you. There are no further questions at this time. I'll now hand back for closing remarks.

Geoff Horth: Thank you very much. Once again, thanks for your time and for joining the call this morning. The first half was a pleasing result. We're clearly disappointed by some short-term headwinds in the consumer business. We do believe they're short-term and that when you identify the opportunities or the growth coming through in core data networks revenue line, that's obviously a very pleasing result because it's clearly where we get most of our earnings leverage. We are continuing to take share in NBN and UFB and we expect at some point in the time that the margin environment will normalise in those markets. It's important that we stand up in the market and take share through this process and that will create some short-term headwinds or medium-term earnings headwinds.

We remain confident the business can generate significant earnings growth off a very, very comprehensive platform and in most of our target markets we have modest market share and we have very strong ambition to grow on that.

Thank you once again. I look forward to catching up with you in the coming days through the investor road show. Thanks again.

End of Transcript