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VOC.AX - Vocus Group Ltd Investor Day

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PRESENTATION

Kelly Hibbins

Good morning, everybody. If I could get everybody to take their seats, so we can get [settled properly.] While people are taking their seats, I'll take this opportunity to say good morning to people on the webcast as well. If I could remind everybody to turn their phones and other electronic equipment off as well. And again, can I also remind everybody that during the Q&A sessions, there'll be a few roving mics around. And given that we have people on the webcast, if everybody could wait for the microphone and then announce themselves and where they're from, and then obviously ask their question and any follow-ups into the mic, that would be great.

And now, I will hand over to our CEO, Geoff Horth.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Thank you, Kelly, and I'd like to thank everyone for taking the time to attend today. We've got some valuable content to share with you. I think it's a great opportunity for us to showcase the executive talent we have in this business. So it's very much about you going to see and hear from various members of the executive, what we're doing in the business and what we're focused on and how that's aligned to driving improved returns for shareholders.

I really want to just kick off by quickly touching on the agenda. As you have seen from the pack, which I'm sure you've had a chance to digest, there is a bit of introduction from me, and then we'll hear an update from our CFO, Mark Wratten, who's 4 months into the role now. We'll talk a little bit, obviously, about the very important element of what we're doing in the technology teams and the establishment of our transformation office. Rhoda Phillippo, our Nonexecutive Director, who's been providing invaluable support to the business in the establishment of our transformation office and the reorganization of our technology teams, the setting of our core business priorities will take the weight on that presentation. John Allertron, our Commercial Director, will talk to you about where we're at with the Australia Singapore Cable and the rationale for that project.

And then you'll hear from each of the Divisional Chief Executives: Mark Wratten -- sorry, Mark Callander. Hello, Mark. Mick Simmons and Scott Carter will talk to you a little bit about what we're doing in market, what our go-to-market strategy is within each of their respective divisions. Hopefully, I -- a good 2-way conversation. We have presentations and plenty of time for Q&A. So we'd like to reserve Q&A for the end of each of the presentations if we can, please. And as Kelly said, if you can just put your hand up, grab a microphone given this is webcast, just introduce yourself and ask your question, that would be very helpful. Thank you.

But really just to talk about where we're going with this business. I think it's important to reflect on where we've come from. As -- it's almost 2 years ago to the day that Vocus completed the Amcom acquisition, brought together this very successful metro interest business on the East Coast with a very established, maybe more mature business on the West Coast. Amcom had actually built a metro fiber network but expanded its product set into IP WAN and cloud and hosted voice and a number of other areas. But really, because of its maturity, had actually evolved to a greater extent than Vocus had in its East Coast business, which is very focused on our fiber and Ethernet and Internet.

We can talk a little bit about as we bring those things together, we acknowledge the foundation businesses and the capability that they have. We actually have an opportunity to significantly expand our access in the markets we can talk to, the customers that we can target. So obviously building additional revenues out of additional products and a more diversified portfolio.

That created a business that had very high-quality assets in metropolitan regions coming together with M2 in February 2016, brought together a business that had good credentials in the enterprise and wholesale market with a very strong business in the mass market brands like Dodo and iPrimus and Commander. But also brought together our business in New Zealand, the CallPlus group business that goes to market under the Orcon and our Slingshot brands. And brought together with a really high-quality, long-haul access networks, on both Australia and New Zealand, we actually moved to being a diversified and fully integrated telco.

The missing piece of the puzzle was the long-haul assets. We had a significant amount fiber in the ground in Australia, but we didn't own our [islands of fiber.] We didn't own the connectivity between the city. So the Nextgen acquisition really completed the picture for us. It gave us the capacity to connect those cities together to start the move into distributed IP WAN and bought a big regional access network with it as well, a regional long-haul network, which helps us to get to the NBN points of interconnect. It fundamentally gives us that foundation network and asset that helps us to drive this business and to improve the operating leverage and the earnings efficiency of the business.

So if your business is about connectivity, if you're about delivering high-quality, reliable, scalable connectivity to your customers, and you need to own the underlying infrastructure that delivers that fiber network, is the core of this business. So fiber network to rival almost any of our major competitors both in Australia and New Zealand, and it's foundation of this business. That fiber network connects the 5,500 buildings in Australia, 70 data centers, 23 of our owned. And we complement that with really high-quality brands. Let's talk to specific market segments so we are a business that has a house of brands rather than being a branded house, it means we can be very true to particular segments. We can actually talk very clearly to particular customers within our target market.

This slide really just reemphasizes that. We have this underlying infrastructure of asset, the fiber business. We want to be -- the basic ambition of this business is to be the most loved telco, to create long-lasting relationships with our customers. What we're doing now is really bringing together the best-of-breed of our product portfolio.

So when we look at the individual component business or the foundation businesses, they all had different strengths. The reality is that Amcom is very strong in IP WAN. Nextgen had very strong credentials in the government market, selling long-haul access. And the Vocus business was very strong in the metropolitan fiber networks business. M2 bought a really high-quality IP voice platform, probably not that often spoken about. We have an outstanding platform of Class 5 switch next-generation IP voice platforms using technologies like Genband and BroadSoft. If we bring all those things together, we can create a single product set that talk to every customer in Australia and New Zealand.

When we paired that up with our house of brands, we bring together all those things around the foundation of this business the fundamental to the team. We believe that creating a great place to work is what will set us apart from our competitors. Now driving people to be empowered and motivated to go that extra mile or to do that discretionary effort we think is actually what's going to set us apart.

We're obviously working really hard and we've embarked on a journey in Australia, and we'll progress in New Zealand around transforming our technology environment. We have to create a single product stack. We need to be able to deliver those products in a seamless, highly automated way to make sure that we develop and maintain a cost to serve, and serving our customers on their terms and actually increasingly reducing our cost to service the business.

The last piece of that puzzle is actually to acknowledge that this business has extraordinary amounts of information available to it. And Scott, in his presentation, will talk to you about what we're doing in the analytics and insights area. I think we have the Head of Analytics in the room -- or inside, the Head of Analytics in the room today -- there he is, out in the corner, Hamish Mogan. We've been building this capably because we believe it's fundamental to our future. We think data is a very important currency to us and we have a lot of it, and using that information to be able to predict customer behavior as it pertains to the purchase product and pertains on the churn. Mitigating those sorts of issues is critical to our future success.

The culmination of all these businesses is fundamentally a very, very high-quality business that has extraordinarily dependable revenues and earnings. It's 98% of all the revenues of this business are recurring monthly revenues. It's a very high-quality revenues and earnings. And we have significant diversification of those earnings. Some of the component businesses had different exposures to different product elements. The reality is -- or different segments. If we bring them together, we have quite a significant diversification of revenues. About half of our in Australia come from the business segment and half of them come from the consumer market.

New Zealand is about the same, it's about 17% of our total revenue but almost split evenly between business and consumer. Very diverse portfolio of revenues, with strong exposure to fiber and Ethernet and broadband and Internet, some voice and, obviously, the energy business is about 12% of our total revenues to date. Importantly, those revenues are actually not just high quality, but there is a significant exposure to legacy. We don't bear the burden of a high proportion of our revenues being legacy revenues that are under pressure. We don't have a significant back book of high-priced services that are consistently being [completed awhile] are eroded -- where margins are being eroded consistently like most of our competitors do.

I think a very high-quality group of revenues. And importantly, whilst it's a $1.8 billion revenue through its factional market share, not only are we in a category that has great macro theme of -- that people are demanding more and more connectivity over time, from small -- from households increasingly delivering content over the top, large enterprise moving or have moved to off-premise computing, connectivity is an absolutely essential utility for every household and business in this country and in New Zealand today, and owning that network to deliver that connectivity is critical for us.

In spite of the fact that we're a large business now, we have next to no or very low market share. Sub-5% market share in Australia and New Zealand. We put together that asset we've created, which is comparable with any of our much larger competitors, with the capability we have both from a team and product perspective may deliver a significant market with good growth characteristics and a business that has fractional market share. So an enormous growth opportunity, and that's why we did all his. It clearly created some complexity. We're working hard to deal with that complexity, but the assets and the revenues and the products and the people we've assembled are very well positioned to go and take share in our core target markets.

So what's the strategy? What's the history? That's what we've created. The strategy is really simple. In a complex business, it's a very simple strategy. It's not just about executing on them, the strategy is all underpinned by our core connectivity network. So delivering really high-quality, robust, scalable connectivity to our customers from the small -- from residential all the way through the large enterprise and government customer is core to what we do. It's the platform for all of the other services we can sell to our customers, and then building really high-quality product elements that we can lay over that connectivity that are complementary to that connectivity is what they're focused on now.

As I said, pulling together the capably that came from Amcom and IP WAN and the M2 voice credentials, IP voice credentials, and the cloud offerings that Amcom had, pulling all those things together, they're absolutely fundamentally applications that are delivered over that connectivity. So if you can deliver that connectivity in a really high-quality way to your customers, and it's an obvious extension of that to go back and cross-sell that product -- those product elements. We can talk a little bit about our product penetration in the enterprise market, the limited -- in different regions under different businesses, we had different credentials. And that means that we are significantly underpenetrated in a number of products on the East Coast, really, to where we've -- what Amcom managed to achieve on the West Coast of Australia.

I talked about the house of brands, I think this is a really important competitive differentiator. We don't bear the burden like some of our larger competitors of trying to be all things to all people. If you've got a single brand that you got the market with, yes, you can get a little bit more share of voice. You can spend a little bit more on that brand. But the risk is, is it doesn't mean a lot of things -- it doesn't mean a lot to any of your customers. Can you really build a strong brand [ideally] that talks to a specific customer segment when you're trying to stretch that brand across all customer segments? We don't believe so.

And we are doing some work to rationalize our brands. We want to make sure that we're very clear in the brands that we to market. And once again, the guys will talk about that as they go through their segment strategies. But that house of brands opportunity means that we can identify the parts of the market where we've got an opportunity to play in Australia or in the consumer market. It might be New Zealand. It might be 650,000 households of the 1.5 million households in New Zealand that we see is our core target market. But we can speak to that target market very, very clearly. We can set ourselves apart from the masses, if you will.

Core to our most loved telco ambition is clearly a couple of elements. We have a significant amount of complexity in our business today, and we're working really, really hard to remove that complexity because you want to give customers the highest quality experience you can, and you want to do it at the lowest possible cost. Inherent in that is the need to automate everything. Our business is going through and, frankly, telcos all around the world are going through significant change, transitioning the skill sets by having the technology engineering teams moving from a traditional phone-based support model into a customer-driven support model, giving customers the opportunity to control their own experience. But making sure that everything we do, we do in the lowest cost with the highest level of automation.

Every time you add a person to a process, you add cost and opportunity forever. So getting that right, making sure we consolidate our product. And while we've got complexity, we got a lot less legacy than most of our competitors. So consolidating our systems and products down to a single stack, making that stack highly automated and giving our customers extraordinary experiences and giving the opportunity for them to control their own experience, whether it be on an app or online environment. All those things coming from the customer experience and drive cost out of your business. It's a very significant area of focus for us. And a journey that's going to take 5 to 10 years. But we think about what this business will look like in 10 years' time, particularly in the context, I think it's fundamentally different to the way the support model looks today, and Scott will talk to that to some extent in the presentation today.

This leveraging data is a really important priority for us. I think we look back [18] months ago. So we have this information about our customers, we don't know anything about them. I think the expression of collect all this information from a customer when they sign up to a service, and the first time that they ring you, it's like you've got amnesia. So actually taking that information and making your customer experience much more intuitive, learning about your customers, their experience, their interest and what do they watch on paid TV? What that say about them as a consumer? What their household likely will look like? How many devices they've got connected? How might that environment actually be better served by other products we can offer them? Let's start talking one-to-one to our customers. Let's be really intuitive in our marketing with our customers.

Likewise, just understand more about what they're likely to do, not just likely to buy. And you'll see in Scott's presentation today that we're actually trying to showcase some of our early-stage work around propensity to churn modeling. Obviously, managing churn in our broadband portfolio has been one of our greatest challenges, and actually as we start to get a better understanding and start to model what the key drivers of churn or the signals of churn might be. And actually then taking that information and creating action plans to go and target those customers to try and mitigate that churn will be critical to our long-term value creation opportunity.

At the base of all this is a great place to work. And we talked about that a lot, and I'll talk about it a bit through this presentation. I think at the end of the day, you'll hear from the chief executives of the relevant divisions about what they're doing in market and how they -- where they play and how they win. I want to talk about what we do with our team, why we think the team sets us apart and the journey we're on and how we're progressing with that same engagement journey.

So how do we drive shareholder value? It's pretty simple. It's actually about growing the margin pool, it's about being really disciplined on cost and being really disciplined around capital, how we allocate our capital, where do we spend our CapEx, what returns do we expect to get from that CapEx, acknowledging the capital is scarce and being very careful about the way it's allocated. Those things are going to be fundamental for us to drive shareholder value. So it's about taking share in our core target markets. To grow that margin pool by acknowledging that the network and the products we have today have much -- have appealed to a much broader set of enterprise customers, moving into the large enterprise and in the Government markets, and moving into -- in the wholesale markets, starting to talk to the international carrier and domestic carriers we've never really dealt with before because we didn't have the assets to be attracted to them.

So moving to those markets, really pushing ahead. We're trying to gain -- gaining share on the NBN and UFB. But basically growing our earnings tools, particularly about that core connectivity layer and proposition. And obviously, increasing share of wallet. You'll see, with Scott's and Mark's presentations, the things we're doing to drive more services into our customers. You'll see, with Mick's presentation, that we have this broader portfolio of products we can sell. We're implementing account management regimes.

Now it seems extraordinary to say that there was very limited maturity in account management in our business, but that's just evidence of the fact that business grew very quickly. I mean, in the early stage of the business like -- what our focus was 3 years ago, you're absolutely focused on acquisition. It's get the next customer, get the next customer, throw the (inaudible) and move on. Because you really only have 1 or 2 products to sell them. And you've actually got this pretty significant account -- portfolio of products, you need to go and actually start managing those customers. You've got to be really, really focused on what their needs are, and driving additional products into those customers is going to be fundamental to us growing the margin pool and helping us to reduce churn.

Speaking of reduced churn, of reducing cost. This transformation agenda we're embarking in Australia is absolutely critical to it, and you'll hear in a lot of detail from Rhoda about what we're doing there. You'll also see from Mark that a business that's been doing transformation and had an agile approach for the best -- in New Zealand for the best part of 5 or 6 years, have made extraordinary progress on the integration. They're 12 months post the integration, post the merger. The Vocus and M2 merger largely done on the integration work and getting to the fun stuff now. So we know that there's a good case study for what we need to do here, because we've been doing it in New Zealand. We haven't had the right processes and systems and people to execute that in Australia, and we're very, very focused on that now.

As I said, automate everything. Give the customer control, improve the customer experience, and that reduces your cost serve. It's absolutely fundamental. You'll hear from Mark a lot about what we're doing on understanding the drivers of cash in this business, what we're doing around controls on capital and cash allocation, what we're doing to drive ownership and accountability for financials back into the business units with the reorganization of the finance business. We're very, very focused on this grow the margin to manage our cost very effectively, and very strong focus on cash and capital management.

There's been a lot of talk, obviously, we've got -- it goes without saying that we've not achieved everything that we wanted to achieve since the merger of this business and we absolutely take accountability for that. I think it's probably just important to acknowledge as well that there has been some significant progress made. I think, most importantly, we -- I mean, obviously the completion of the Nextgen acquisition, it set us on a path of really needing to refresh some of our executive talent. We've appointed Mark Wratten to the position of CFO. We've appointed Mick Simmons to run our Enterprise & Wholesale division. We are very delighted to announce that we have a new CTO starting with us on the 3rd of July. Right here in the corner, he's with us already, but he hasn't officially started yet, Simon Smith. And we're very real advanced on our Head of Transformation role. I encourage you to come and have a chat with Simon on the break, I'm sure he'd be happy to talk to you about his experiences and what his plans are for this business.

The transformation agenda has actually commenced. We're not waiting for these new roles, the Head of Transformation or the CTO role, to get started. We concluded our consultation on our technology redesign effort yesterday, so that new technology structures in place. A transformation steering committee is established. We've actually defined our top 10 -- maybe 12 priorities, maybe 13 at the moment. But yes, we're actually moving to a model where we're very focused on picking the vital few projects. We've been spending the last 12 months doing the useful many.

There has been great progress made in finance as well. Mark will talk to you about, to some extent, what he's found and what he's doing about what he's found. So actually untangling some of the complexity in our financial systems to push accountability back down into the operating divisions and moving finance out of a centralized finance organization to align it with the business unit owners. Good progress on the -- a better understanding of the financials. You'll just see in his presentation, strong content around the drivers of cash flow this year, what business could assume or expect next year, what are the longer-term price profiles of deferred acquisition costs and deferred revenue and all those things that made it a little bit harder for you as investors and analysts to understand the business. We're very focused on making sure that disclosures have a very high quality. And I think you'll see today that we're well progressed on that journey.

On the question of board renewal, which has obviously been something that shareholders have been talking about, the board recognize. We have bought Bob Mansfield onto the board. He's been an excellent addition to the board. We're well advanced on director recruitment. We've had to -- that has to -- that has been just suspended for the moment while the board goes through the process and the IBC takes advice on the KKR bid. We'd expect under -- in the ordinary course of business that we'll be well-positioned to appoint additional directors in the not-too-distant future.

And importantly, I think you'll see through these presentations today that we have very well advanced plans for our operating divisions. We have a 3- to 5-year forecast that's in the final stages. We definitely got a better handle on what the -- I think better understanding of the historical financials has definitely helped us to start to build, through the Mark -- well, what Mark's done, to help us start to build our future forecasting models and get a clear understanding of what the business performance looks like in the future and the things that we can do to help improve that performance.

So quickly, I think that one of the fundamental things we've cited, we believe, in this business is that good -- a great philosophy is, first, who, then what. And because we didn't get this right from the outset, we had people with very good intent but probably not the skills or the experience to execute these roles, and I'm very pleased that we're making great progress on the executive team. We have the 3 Divisional Directors or Chief Executives Marc Callander, Scott Carter, Michael Simmons as I mentioned. Supported by strong functional leaders: Ashe-lee Jegathesan, our General Counsel; Mark Wratten, our CFO; John Allerton, our Commercial Director; and Denise Hanlon, our Head of HR, all are in today. So feel free to please come and ask any questions you'd like to ask.

As I said, we're very close to finalizing the Head of Transformation appointment, we're down to a couple of candidates and probably days away from having confirmed that. So we're just waiting for someone to return from leave to finish the process. So the first thing you've got to solve is the who. You're going to have the best business plan and the best strategy in the world. If you don't have the right people to execute it, you are -- you're not going to be successful. And we're pleased that we're making great progress in assembly an outstanding team to deliver what this business needs to deliver.

Obviously, the combination of all these businesses has -- the greatest risk of putting these businesses together in such a short period of time is the risk of a cultural collision and there's been much discussion about that. There's been a lot -- extraordinary amount of effort within the business, talking to the teams about how do we actually bring these businesses together in a thoughtful way, being respectful to the heritage of all the businesses that have come together to create the new Vocus. At the end of the day, values are the foundation of that. We spent a lot of time talking to the teams. We feel like this is -- we feel very strongly that you can't put your values on the wall, unless you're prepared to lift them. It's not what you say, it's how you behave. And that's the foundation of what we're trying to create in terms of this business and the way -- and the employment proposition. As I said, they have elements of every business in there that actually resonate without seen. They resonate with the market. You know, we have these things up on LinkedIn and the extraordinary number of shares, and we shared it all around the world because they're different and we definitely want to have a point of difference. For me, I think the key -- from my perspective and different values resonate with everyone, the one that stands out for me -- this is a standout for me is "Have A Crack," and that's acknowledging that we are a bigger business, and we need to put process and have good governance and disciplines in place, but we also want to encourage people to make mistakes, to try things. If we become constrained by bureaucracy and policy, then we're going to lose the essence of this business. So that's a really important one for us. We encourage mistakes. We reward mistakes because people are trying things. The other one is, "Don't Be A D!@khead" and it means a lot. I think at the end of the day, we're creating an organization where people need to be able to come to work and feel like they can work in an environment where their contribution and the person is respected. We don't tolerate bad behavior from any one. I think the ultimate measure of that is whether you're prepared to deal with bad behavior in high-performing people. And I think if you actually work in an environment where you're shown respect and much more productive environment, then you're much more inclined to stay and to deliver that extra discretionary effort.

Our team philosophy is quite a multi-faceted one. It's from inception. That's where out Talent process, our recruitment process is focused very heavily on, not just getting papabile people, we're getting people who are aligned with our values that will work in a less conventional organization, and not everyone does. We do a lot of work on communications, so we use a variety of medium. We work really, really hard to make sure that we stay in front of people with the good news and the bad, just as importantly when the news is not good that you're in front and have those conversations. We do it face-to-face through town halls, we do it via video, through webcast, through e-mail, through every medium that we can get access to. The Performance and Motivation approach is slightly different as well. We don't have the traditional performance appraisal process. We actually look to encourage or find what people are good at, rather than identifying and highlighting their weaknesses. So we really are trying to make sure people we put people in roles that play to their strengths, then we acknowledge those strengths. I think lastly and most importantly, Leadership is the core tenant of this business. You know the vast majority of people leave organization because they don't like their boss. And that's for us, that talent pool of leadership in our executive, in our senior leadership team, all the way down through the business, we invest heavily in that. We try to overcommunicate with that team. We set very clear expectations of their behaviors because they, at the end of the day, set the tone for the way the business performs.

How are we going on this front? I think that it's quite extraordinary that through all of this change and all of this restructuring we've been doing and all the media attention those businesses had that I think this is great stuff. We had actually marginally and consistently improved team engagement. We measure team engagement weekly. We have a so-called office bot that sends out survey. We have a really good participation in that. We look at different areas of interest. We have strong feedback through that. So there's an enormous feedback process. We get feedback from people. And I think that's -- you probably ignore the little screen we launched in the start as we first started this out, so some of the steps a little bit, but you can see there's actually been gradual improvements in team engagement over the course of the last 18 months. It's pretty extraordinary, given the change that we've been through. So it's good, it's not great. That's absolutely where we have thought of, but it's great. We do an annual survey as where's the Great Place to Work, so we got first couple of results yesterday, and we have some slight improvements in team engagement. So those 2 key measures that we use, the office bot surveys and the Great Place to Work survey show that we are making progress in engagement, in very challenging times.

Lastly, I want to talk about turnover in this business. The question about whether we've lost core IP. I think the reality is that business has evolved, and we're actually trying to foster intellectual property in this business. But we need to acknowledge that the intellectual property comes from all of the foundation businesses. And so we had some great capability in the West, in the Amcom business that frankly wasn't being leveraged, and we're actually bringing that back to the fore. You know the provisioning issues we have had in the enterprise and wholesale business are now in the hands of guys who've actually managed complex and multiproduct provisioning process. It's guys like Walsh, who now runs our Enterprise and Wholesale provisioning processes out at Perth. We're trying to make sure that we actually leverage the talent of all the business, and we've had some turnover. But from a benchmark perspective, it's actually pretty much in line with benchmark. In voluntary turnover, as you would expect, it's hard on the benchmark because we have been going through this change. So there have been a number of people that have left the business involuntarily. But voluntary turnover, we're pretty happy with. So if we think about those team issues from our perspective, turnover and engagement, we're actually pretty pleased with how we're tracking on those.

So in summary, we have created an enormous and outstanding platform here. This business has assets and platforms and products to rival any of the majors. It has fractional market share, so an enormous growth opportunity. We've actually got to get the who right, and that -- we've made great progress in putting that team in place. We're very well placed in terms of capability. You would have seen the improvements in disclosure through Mark coming on -- into the business. And I'm sure he's given you great comfort about his understanding -- his growing understanding of the business. And so really the strategy is just about -- the strategy is absolutely allowing to how we create shareholder value, it's grow the margin pool, be very disciplined about how we manage our costs, continue to drive additional products into our customers to grow the margin pool and actually be very disciplined around capital management to make sure we improve cash returns. So that's my summary.

I would now like to hand it over to questions. And if I could just remind you that if you have questions, you could just put your hand up and grab the microphone. Thank you.

QUESTIONS AND ANSWERS

Andrew Levy - *Macquarie Research - Analyst*

Andrew Levy from Macquarie. 2 questions for me. One is, just I haven't flipped through all the slides, but it's much on wireless. So I'd just be interested on your view on where wireless strategy is just down the ages?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Fixed wireless?

Andrew Levy - *Macquarie Research - Analyst*

Well, wireless, mobile, whatever it is. How you leverage the network? Or how you see it on a longer-term vision your business? Does it need a wireless strategy? What have you considered in terms of wireless? And the other one is just a quick update. When do you think the board will be making a decision on whether to progress the KKR submission?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Okay. I'll do with the second one first. I think the -- that is in the hands of the independent board committee. So I'm not really in a position to talk to timing of that, but we have -- the valuation work is progressing with the advisors and they're well advised with Credit Suisse and Goldman Sachs in the case. So we expect that process -- it's going to take a long time but, I think I'll leave that one to the chair for answering in terms of the actual time frame. Wireless is a really good question. I think 2 elements to that. Fixed wireless, we don't is important. I think if you look at -- actually, it'd be interesting in Mark's presentation, our core target market is really down to hungry households. And if you think about what's happening in New Zealand, that fixed wireless access is really being targeted, so the 50 GB customers that are out -- Hong Kong customers are consuming, what, 350 GB a month. We don't think that it actually plays to our core target markets, so we're not too concerned about fixed wireless. Mobile is another question altogether. We have had pretty modest growth in mobile. It's a pretty modest performance in mobiles for a couple of years now and a bit of a product of [R and B] in our relationship at that time. We are just starting to see mobiles return to growth in Australia, and we do think that there's a point in time when you actually note the move from being a retailer to having some ownership economics. It doesn't mean that you're going to another mobile network by any standard, but I think that the market we're moving in to, particularly with the 4th mobile operator coming, that would give us the opportunity to have a different conversation with the MNOs. The opportunity to go on side of the move. We want to move away from this consumption-based model. Arguably, we have some assets that we can bring to the table. You know there's long-term relationships we can enter into. We have backhaul networks that might be complementary to those -- to the MNOs, and we'll be thinking about trying to move to more of a fat MVNO model and to move away from this consumption-based data approach. Now at the end of the day, a business is set today to not having to pay more and more or why do you supply us? When your customers consume more and more data, that's what the platform we built in order to move to that -- install our platform in mobile.

How about at the back?

Brian Han - *Morningstar Inc., Research Division - Senior Equity Analyst*

It's Brian Han from MorningStar. Just a couple of questions. A couple of times you mentioned the differential between Amcom on the West Coast and Vocus on the East Coast, and how Amcom could be something that East Coast can aspire to. Just what is the market share difference between the 2 entities? And how much of that is reflective of the competitive dynamics between the 2 states?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes, there's definitely an element of competition involved in it. Amcom is a much more established business in a less competitive marketplace, so no doubt about that. They -- it is in some respects a bit of a 2 provider market, Telstra and Amcom have been the predominant operators in that Perth market, particularly. I'll still mark -- I'll still mix some of that here, but if you look at the relative share we have in the East Coast and West Coast, if the East Coast business was actually to achieve 50% of the market penetration that Amcom achieved over its time in market in Perth and South Australia, there's a revenue pull of an additional $150 million of revenue. So put it -- it's actually a very material -- we have a fractional market share on the East, even relative to where Amcom managed to get to in the West. So that just says the sophistication of that business, the maturity of the product offerings that they've taken it from just being a connectivity business into a business communications organization, and we think there's huge opportunity just by, in some respects, replicating that model and rolling it out in the East Coast.

Brian Han - *Morningstar Inc., Research Division - Senior Equity Analyst*

All right. And also, you mentioned about the employee engagement during the recent weeks. But during the recent weeks, have you had any feedback from customers with all the publicity that you're getting?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes, that's a good question. We've spent a fair bit of time in front of the customers. I think with Mick coming into the Enterprise and Wholesale while you would have spent 40% of your time in front of customers, the predominant feedback from customers is not -- is more related to the provisioning issues we've had, particularly in Wholesale. That -- we've made great progress on that, and we're getting back towards the SLA and some of our core products. But when you go and talk to the customers, they're not really talking about the news, they're not talking about the financial media or any speculation or concerns about the business, to say. They're really more concerned about the service delivery. So we haven't seen it creating any significant issues. We definitely put our hands up for our wholesale sales guys and to our corporate sales guys, to say. If you think it's an issue in any sales process you're involved in, we'll list out and we'll have those conversations with customers. But the conversation is very much about delivering, rather than sustainability of the business.

Dion Hershan

It's Dion Hershan from Yarra Capital. You said in your comments that you acknowledge capital is scarce. Can you provide some examples on how your thinking on that has changed and some examples of what you might be doing differently in the future versus the past?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

I think obviously the -- probably key thing is, the transformational steering committee is obviously responsible now for that process of allocating capital. So we had a significant number of decision-makers with a large portfolio of projects underway. We've had a great deal of discipline around where we're allocating capital, what returns we expect together with a lot of it was just -- this is -- we need to do this pile of work. So I think one of the key issues that we -- one of the key areas we can improve capital efficiency is by running that through a targeted approach. To say these, the 12 projects are going to make a difference and there are 200-odd projects that we've stopped because we saw that at the end of the day, these are things that are useful, but they're not vital. At the end of the day, when we do these larger projects, that resolves those issues anyhow. So this is probably one of the key areas. I think Mark's work in terms of just understanding, giving us better visibility of capital and where we're spending our money and what sort of returns we're getting. So there's a couple of areas, and most notably the transformation steering committee fundamentally has absolute responsibility for looking at the business cases of all the major projects we're undertaking and making sure we're getting appropriate returns on our capital.

Kane Hannan - *Goldman Sachs Group Inc., Research Division - Research Analyst*

It's Kane Hannan from Goldman Sachs. Just on the -- you talked about the opportunity and the low market share, you know, the 3.5% in Australia and 6.7% in New Zealand. But then talk about the smaller addressable market, the 650 households in New Zealand. Can you just make some comments around what you see is your share in your addressable markets? And then which of these markets you're most excited about, in terms of taking share?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes. I think we're -- it's obviously a segment-based approach when you look at the New Zealand market. It doesn't mean that our market is limited to that 650, but that's where we see we can really resonate. So we have 200,000-odd broadband subscribers in our portfolio today. So in that market, arguably 30% penetration into our target market, about 14% share of the total broadband market in New Zealand. The business in New Zealand, likewise, has very limited penetration, had no direct sales approach into the government market, and we've got opportunities with new government tenders coming up in New Zealand that neither M2 or Vocus could arguably participate in. Vocus had never participated in that market directly. It had been through system integrators and the Call Plus Group or the M2 business didn't have the asset portfolio required to go and compete in that government market. In Australia, we're 7.3% of the total broadband market, think that about 60% of the total market is available to a challenger brand. We have a price-seeker and a value-seeker brand, which Scott will talk about. So maybe in that market, we're closer to 13%, 14% share of the addressable market, as we say it. And likewise in the enterprise space, we're single-digit market share across all the businesses in this country. And there's a couple of key areas. Obviously, selling a more comprehensive product portfolio into that mid-corporate market on the East Coast that we've not been doing traditionally, but also taking that business up in the government, both state and federal. We could talk about the value of opportunities that are coming up in the government tenders over the next 2 or 3 years, moving it into the wholesale carrier market as I said as well. We have 370-odd customers in our wholesale market. There's not a -- in the top 20, there's not a single carrier. We don't have the international though -- it is 1x by the way. We don't have the domestic or international carriers in our portfolio at all. But we've got an asset to serve the AT&Ts and the BTs and guys like that, who have significant operations here and they used to party networks. We just need to go and prosecute those opportunities. Likewise, the aggregation opportunity, NBN connect to go and talk to the new entrants in the NBN market and let them leverage our infrastructure to connect to customers. So I think there's pockets and pretty significant pockets of value in all of our core target markets. Last question?

Kelly Hibbins

We have couple of questions here on the website. A followup one on KKR is from Cadence. Why is there an IBC to evaluate the KKR proposal? It's not a bid. Does this mean Vocus' management are involved and conflicted?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

No, not at all. The IBC is, as the name suggests, an independent board committee comprised of all of the nonexecutive directors, so that -- there's good governance to create an IBC to assess the proposal, and that IBC is being advised by the -- our investment bankers, Goldman Sachs and Credit Suisse. It is a very appropriate process in these circumstances.

Kelly Hibbins

And question from Ian Martin. How much capital would Vocus commit to achieve an ownership model in mobile? Is there an opportunity to buy a chunk of capacity over several bids like a mobile IIU? How would you weigh the risk of -- this risk of return?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes, that's -- I'll call that an element of capital that we had to allocate to that opportunity. I'm just ignoring that it's definitely the type of concept that we would contemplate and, as you say, an IIU approach to be able to go and do a deal with an MNO, and interestingly, in a much more competitive marketplace. The reality is that there is strong interest in establishing new MVNO relationships from all the mobile network operators now. We have quite a high-quality portfolio. We have a good portfolio of customers to bring to the table, and we've got some assets to bring to the table, but I don't want to call out what capital we want to allocate, but it is absolutely about -- be about saying we're making long-term commitments for getting fixed amounts of capacity and to drive our business more towards ownership economics and mobility. Might be the last question in terms of time frame, is it? Are we?

Eric Pan - *JP Morgan Chase & Co, Research Division - Analyst*

Eric Pan from JPMorgan. So now that you have 30,000 kilometers of fiber throughout Australia and New Zealand, do you feel that you have enough fiber, particularly in metro areas to going forward, especially when 5G is about to come and the requirement for very dense metro fiber network. Do you have enough fiber in those metro areas? Or do you need additional capital to deploy?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

No, I think it was 5.5 (inaudible) on that building. You're absolutely getting to the point where the vast majority of our high-value locations are on the network. We've been more disciplined about the way we allocate growth CapEx to fiber build now because when you're starting as a business and you're building a fiber network based on customer demand, it makes sense to continue building. But we look at every build scenario now and determine whether we should build or buy that access and sometimes we might say, we will buy it because it's not a strategic site and there's not a multi-tenant building. So we are more open to the idea of bringing together our net proposition with some third-party access, even nbn and Telstra fiber, things like that. So yes, it's not going to require a great deal of capital intensity. In fact, there's some significant opportunities to improve the capacity in that network for very limited cost. It's largely about fibre network. So even when we're delivering an ethernet service or a lip service, it's delivered on our dedicated fiber pay. So it actually hasn't used electronics that dupe on in the network, and there's significant opportunities to drive a lot more capacity through that network just by employing or deploying technologies that allow you to deliver multiple services over a single fiber pair. So the core isn't got a need a lot of investment, frankly that's high-quality core and there's lots of opportunities to improve the capacity in that core just by things like dupe on. So it's going to be a business that's prepared to invest in its core network, but it's probably a little bit more disciplined about the way it does it because we're actually quite a mature network now.

Jonathan Moog

It's Jonathan from Pengana. Could you provide any color on the debacle that is the manner in which the CVC charge is being levied in Australia? I mean, it is not -- doesn't appear to be a sustainable model and being a consumption-based as opposed to a flat-based phenomenon. As consumption and data consumption and speeds improve, I mean, this baby is going to blow at some point. How do you think the government -- the government has taken massive write-down? Or what do you think the possible outcomes could be?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

It's confusing for me. Jonathan, I've realized you're Pengana now, you've been on a hold. The -- I think there is a lot of -- obviously, a lot of public commentary around CVC. I think that it is an area where we engage pretty closed with nbn and we're sort of setting our expectations. I think there's probably a difference in our interpretation about what the growth platform is going to look like, what the demand profile is going to look like versus where they're seeing it. I think we are in a marketplace where people are just consistently consuming more and more bandwidth. I think somebody is going to got to give. And the reality is that there's a point in time where all the customer experiences are going to be compromised or the cost to -- the cost of broadband is going to be compromised, so a lot of prices are going to go up, all those experiences is going to go down. And when you are boarding an ultra-pass broadband network, that's sort of counterintuitive. So I think that as we have those discussions and we have those views, but we prefer to prosecute those in private, but you're probably going to sense as to where I -- what I feel needs to happen. And what I feel needs to happen is that the model needs to move much more towards the New Zealand model, where fixed-price of access, even if there is a variable component to the access chart, it should be trivial because the vast majority of the cost to building that network is a fixed cost. The cost of scaling it for additional capacity is quite trivial, in terms of the overall capital required. So I don't understand why such a high proportion of the cost base is variable. I think there's -- somebody is going to give.

We might call time. Thank you very much for your question. I'm going to hand it over to Mark Wratten, our CFO, and thank you.

PRESENTATION

Mark Wratten - *Vocus Group Limited - CFO*

Thanks, Geoff. Good morning, everybody. I've got quite a few slides to go through this morning. You probably all skip the head, which is not a bit very naughty of you, but I will take time on a few of the sites, in particular the working capital and cash conversion slides. I know that's been a hot topic from a number of people that I've met with since I joined the company. I guess at the beginning, if I talk to the overall theme of my presentation. It's about creating greater transparency for our shareholders and so the investors or the analysts, who cover our stock and people in general in regards to the financial performance of the business, so hopefully that comes through. Since I started, I've been asked a lot of questions as we did our H1 roadshow and more recently at Macquarie conference. So again, hopefully my presentation answers a number of those questions. If not, certainly at the Q&A, we can deal with that and also post today through -- any questions through to Kelly.

I guess, the finance function overall at Vocus that I found was one that obviously been very strained by a number of acquisitions over a very short period of time. If I look back at each of the individual companies and the financial -- the quality of financial informations they've provided pre the acquisitions, they're actually quite strong. The M2 board papers were very detailed, likewise Amcom. But as a result of the combination, that's been lost unfortunately, so we're now in the process of having to put that back together. You'll see I'll touch base on that in the first part of my slides around the financial transformation. So -- and we're obviously working in multiple ERP environments. And again our plans are to change that pretty quickly. And hopefully at the end of my presentation that you'll come away with the fact that we do know what the issues are within the finance function, and we have clear plans to address those and drive to a more efficient and effective finance function as quickly as possible.

Sorry. Showed everybody that slide on.

So I talked about all of these. I won't dwell on them now. In terms of my key goals, really, they are aligned to shareholder -- in driving shareholder value through each of these, driving accountability and ownership. And Geoff spoke about that during the course of his presentation. It's making sure that Mick, Scott and Mark in particular are held very accountable for the performance of their business, but also that they're being given the tools and the finance function to allow them to manage their business more effectively, and I'll talk about that in the next slide. Obviously, stronger governance -- is this working okay? Yes. Stronger governance, I think there's been a lot of opportunities that I've seen to improve the controls and processes and disciplines within the business and obviously from I mean in my background working with some big multi-national companies like Brambles, in particular, there's a lot of those processes that I've been able to bring into Vocus and that we're in the process of implementing.

And obviously improving the balance sheet. That's a big topic for myself and I know for you guys as well. So this is a -- and Geoff again touched on capital expenditure discipline that definitely he needs for greater controls over our CapEx, greater reporting. And I've had incredibly good support from the executive committee in regards to that. And we're in the process of implementing a lot of changes in that area. And working capital and cash conversion, as I said, I'll touch -- I've got a few slides on that.

In terms of the finance transformation, the key thing for me to start with was the structure of the finance team. When I first came on board, it was a bit of a hybrid of dedicated finance teams with certain parts of the business and then a bit of a centralized sort of function. How it worked in the past is that I prefer to have each of the operating divisions as standalone in terms of having a standalone finance function. So that was sort of within a week or so of making myself being there, I had a plan in place to put the structure to the executive team such that Scott, Mick and Mark will all have a CFO, a GM of finance, and they will have a dedicated finance team that will support them and only them, right. But they will be working under an umbrella of governance that I create, so they'll have to work to the levels of standards in terms of oversight governance policies, et cetera, timetables. So we're in the process of implementing that. We actually have a GM of finance in place for Scott already and for Mick from within the business. Mark has got a new GM of finance starting on the 3rd of July, so we're looking forward to -- to [Hertz] commencing which is great. And I've got a head of group finance. Unfortunately he's leaving middle of July, leaves a lot of corporate knowledge with that gentleman. But I have a replacement who starts end of June, a guy that I used to work with at [Recore] who was the CFO of the ANZ business, so a guy that I've worked with for many years and he's raring to go. And then obviously supported by functional specialists, Kelly and tax and treasury, et cetera.

But the key thing here on this slide is that for Mick, Scott and Mark in particular, they're going to be fully accountable for all of these areas. When I first came on board, they weren't necessarily so. They've all aspiring and wanting to be held fully accountable for their profit and losses, et cetera, but they didn't really have -- they had numbers that were coming through to them that Mark, for example would say that I'm not really sure where that number come from, it didn't really align with what my expectation was. When we moved into the new structure and we're very close to being there, that excuse will go away. Mark will have to have complete control over his numbers. But it's not just the profit and loss. It's obviously the balance sheet, it's cash flows, it's working capital management, it's CapEx, it's return on investments, et cetera, budgeting, forecasting, billings, collections, the whole lot, right. They will be fully accountable for everything that goes on within their business. And they'll have the finance teams and the financial systems that will allow them to be effective in managing their business.

In terms of financial systems, as I said earlier, we -- I came on board, and we've got 3 core ERP systems. We're in the process of detailed planning to migrate to 1, which is Pronto, which is the bulk of the business is already managed within the Pronto environment. So we'll have a number of parts of the business, New Zealand for example, would be switched fully across to Pronto by July 1. Our Group Services, which is the fourth arm of our business, I guess, and I'll talk more about that later, that will be fully on Pronto by July 1. Mix business where there'll be a couple of stage migrations. The Nextgen part of the business probably around September and then the other part of this enterprise and wholesale business by the end of December. So working within 1 ERP will make a huge difference. Sorry, I've skipped the -- I skipped off the CRP. The CRP is another key project of mine, that stands for consolidation, reporting and planning tool. We've got a complex organization. We've got something like 70 legal entities. We operate in multiple currencies, mostly Australian dollars and New Zealand dollars, but we also have Singapore dollars and Philippine peso. But the CRP will allow us to actually build a single source of truth. It will sit over our ERPs. It will be where we'll do all of our external and internal reporting, not just financial, but operational metrics as well. So our operational and financial review, for example, that we provide for every half year will come from this system. It will be a single source of truth if you like. So we're in the process of implementing that. We'll have the first phase up and running by July, and looking forward to getting that on board. And then, obviously, we've got lots of opportunities as well -- couldn't get to it with this clicker, in terms of other financial systems, we'll have a common IP and procurement system by the end of the year as well and also an expense management and account reconciliation tool. So they're just some of the many things that we're working on. At the moment, we've got -- my team got something like 30-plus projects that we're working on all around driving these types of changes.

In terms of transformational processes, there's been a lot of some of my 30 projects are around deep diving into these areas here, balance sheet review in particular. I need to be able to get to the end of this financial year and when we report in August be very comfortable with the content of the balance sheet. I'll talk about some of those items in the next few slides, ones that were obviously of particular concern to investors in the first few months that I started. So I'll hopefully give a bit more clarity on those. But I hope that in the next few weeks, that work will be finished, and I'll have -- a great more -- deal more confidently around the rest of the balance sheet. There's nothing at this point in time as I stand up here that I'm concerned about, but certainly by the time that I come to you to present in August, I need to be very clear in regards to that, my position on the balance sheet. Working capital and cash flow, that review is well advanced. I'll talk about that. As I said, capital expenditure, we're doing a lot of work, not just around the approval process, but also around reporting and monitoring. That's quite a basic thing. I can (inaudible) for sure, but we didn't really have a great deal of that when I first started. So didn't have a lot of visibility into where the CapEx is going to be spent by month over the next 6 months, for example. And now we're getting to a point where we've got that visibility, which is great. It gives myself, Geoff and the executive team something to work with. And then Group Services deep dive. I'll talk about that later on, but that's been not quite a big black hole of costs, but we -- but as I said, we'll talk about that later on. But we're unraveling all of that mystery as well.

I'm not going to dwell on the next couple of slides because I've then got some slides to go into a lot more detail. Obviously, some of the key questions that were asked to me were the confusion, I guess, that when we first -- when I first started in regards to the H1 results was around the impact of deferred acquisition costs and the reset of that. And as I said, I've got a few slides in there. I know you've all probably skipped ahead. And obviously intangibles -- it's mostly the acquired customer contract or relationship intangibles and software intangibles. I've got a slide on how that runs up over the next period of time and to help with your analysis also in regards to onerous contracts, that's an area that's driving a bit of negative working capital at the moment, so I've done a bit of a deep dive into that. And deferred revenue is a large item as well. We've -- as you can see there, it's like a $210 million, $220 million. At any one point in time, we have about $50 million or $60 million that's sort of deferred, but just on a rolling 1-month sort of average for the mass market part of the business as we prebuild for some parts of our services. But the rest of it's long-term deferred revenue, mostly in the enterprise and wholesale part of the business. And I've got a run-off schedule for that as well. And a lot of that obviously came from the Nextgen acquisition, where the previous owners took the cash, and we're recognizing the revenue over a long period time.

Just and the last point here is in regards to the -- we did receive $23 million of advanced payments for those one-off contracts that we spoke about in more detail at the Macquarie conference. That -- those contracts are now finalized, and so that money will move from deposits into deferred revenue probably this month.

So subscriber acquisition costs, let me just have a pause. We have a lot more clarity for you guys in regards to what our opening balances were -- I better get used to this, our opening balances at June, for each part of the business, mass market, New Zealand, enterprise and wholesale. And you can see that bulk of the deferred acquisition costs are sitting in the mass market part of the business. Before I start, I mean obviously, the chart itself talks through the beginning balance and what we differed and expensed in H1, what we deferred and expensed in H2 and what our balances are expected to be at June 30. Obviously, they just forecast these numbers there, and therefore, what the EBITDA movements are. In regards -- and I did speak about this at the Macquarie conference and to a lot of other investors even in H1, that a big part of this differential between what we've deferred and what we've expensed, and for the full year it's around $41 million, which does then come back to us in the cash flow slides later on, is as a result of the acquisition of M2, and when we acquired M2, we had to value our customer contracts as an intangible, and that got -- an amount got created in the balance sheet as part of purchase price allocation. And the deferred acquisition costs were reset to 0. So we've now been through a period of a normalization, if you will, of our acquisition costs as we've been differing more than what we've been expensing. And that net period is coming to an end. We should see that by the beginning of quarter 2 of next financial year, the differential between what we defer and what we expense should disappear completely. And so that the $41 million favorable impact to earnings this year, which has been a cash impact next year, should only be about $3 million, okay.

There is -- sorry, going on to in terms of what we do defer, the types of acquisition costs. You can see predominantly there, the sales commissions, sales credits, when we do offer people 3 months free or things like that, provisioning and early-life costs. So that sort of for the first month, just setting up the customers, getting them up and running effectively. Those costs have been getting deferred. Hardware has been getting deferred. Although modems now are no longer deferred, they're capitalized separately, especially for the NBN offering. And that's -- so that's fixed assets and they get expensed over the life of the contracts that are similar to a deferred cost, I guess. So that's the types of cost on average for this year for Scott's part of the business. The deferral or the amount deferred per subscriber -- or sorry, service in operation, is -- it's been about $107. That will actually be less if you look at the last 6 months because the modem now has been sort of coming out and getting dealt with separately. So it's probably on average now in the -- around the $80 or $90 but changes a lot every month as we -- depending on the volume -- that volumes had come through.

There is a change in the accounting standard that we've -- coming up on in FY '19 where the amounts -- or the items that we can defer will be less. We're working our way through that, but the initial analysis is that probably only about 40% of what we currently defer will be allowed to be deferred. So I have a few options, I guess, in regards to what we might do. We might just continue on with our current policy until FY '19. We may early adopt or we may -- but to be honest, because we've reached the point of normalization, that actually has -- none of those options have any impact on next year at all. So it's really an issue that now we've worked our way through by the end of -- mostly by the end of June. As I said, that's a small amount in Q1 next year. And there is, for those of you who are interested, some more detail about that accounting standard change and the current standard that we apply in the appendix.

So deferred revenue. Most of this deferred revenue, this is the 190, as I said, I haven't put on the slide here, the stuff that comes through in Mick's area -- where is Mick hiding? Oh, there -- oh, sorry, Scott. In Scott's area, he has, as I said, around $50 million that just rolls over every month. We have a bill in advance when it comes to revenue. So this is mostly in Mick's area in the enterprise and wholesale and part of the Nextgen business. So you can see that in FY '18, in particular, it's almost $18 million of deferred revenue that will get recognized, so revenue with no cash. The cash would have already been received by us sort of in the vast majority of the Nextgen by the previous owner. And you'll see that, that drops dramatically in FY '19 to about $12 million. But then it has quite a long tail. I don't think -- I'm not sure how much past 2030, but probably another 5 years -- another 10 years. There you go, thanks Kelly. It's important, I guess, that you guys have that visibility, so in terms of modeling, you can take that into consideration.

Acquired customer relationships and software, these are non-cash items and as a result of the acquisitions that I mentioned earlier. The software pretty much runs out in the next few years and the customer relationships also has quite a long tail. And this is all done independent valuations at the time of acquisitions and the allocation of purchase price and also the run-off profile as well.

The other big item where we have quite an overhang for a number of years is onerous contract provisions. I guess, these again mostly are created on acquisitions. We have I guess 2 key parts of our onerous contracts, and that's property leases to where we've identified properties that we want to get out of, Nextgen properties and Amcom and M2 properties, wherever they are, where we've -- have overlap. We've taken provisions up. We still have the cash running out of those. The quicker we can get those sublet and those costs -- cash costs avoided, the better from my perspective. But this is the run-off profile as it is at the moment. And the second element is for when we've acquired Nextgen there was a take-or-pay arrangement with Metronote, which is the data center operator, which Mick can answer any questions on that one. But it was deemed -- an element of that was deemed onerous in terms of the conditions and the pricing attached to it. So that probably makes up about -- well, I think in the latter years, most of that $4 million is that Metronote contract runoff.

Okay. Working capital. I need a pause for this one. So I did -- I had my team have a crack at it for a few months in terms of trying to understand our working capital movements and especially in the H1. Obviously looking back to the presentation that I made at -- for the half 1 results, we had a huge negative working capital movement that when I get asked detailed questions, it was pretty difficult for me to be able to answer those. It's taken from then until now to get that level of visibility. My team made great progress for sure. But at the end of the day, I needed to bring in some professional people. PriceWaterhouse had been in now for 2 or 3 weeks and been helping me unravel this. It's been a great project in terms of the insights, and obviously I'll share those with you today. There's some further work that they're doing for me, not necessarily around I think we've got to the heart of the numbers and the key drivers that are impacting our working capital. But I'm now wanting them to systematize the reporting around our working capital and our cash flows. So it's a tool that we can use going forward every month.

So you will see in the subsequent slides that there's a number of items that impacted H1. Cash, most of those do flow into H2 and impact H2 of FY '17. But then many of them come to an end. And so we see light at the end of the tunnel as we enter FY '18. So our cash conversion as poor as it was in H1 is probably likely to be similar to that in H2. But I do see, certainly, and I'll talk about the items, that in FY '18 and beyond, there's no reason why this business shouldn't be getting into above 90% cash conversion if not actually higher than that depending on obviously how our EBITDA grows more importantly.

So this is a bridge or a waterfall, I guess, this is for H1. Those of you that looked at -- there's a lot of columns. I'll talk to probably most of them but the $120 million on the far left is the operating cash flow that we reported in our statutory financial results for the first half. And the $187 million on the far right is our reported underlying EBITDA. And so obviously in a perfect world, we would've delivered $187 million of operating cash. But there was a number of items that have impacted that. I've broken them, I guess, into 2 components -- well, 3. The -- I removed the $23 million of the upfront deposits -- cash that we received from a couple of those contracts in December because that's obviously for work that won't be delivered until future years. So really, the $120 million is even worse. It's actually a $97 million, which is a cash conversion of only 52% as can see there, pretty poor. Then, I guess, the middle bucket is items that actually the work that I've done and PriceWaterhouse and analysis, these are things that we'll work our way through in the short-term. So literally as we finish FY '17, these items should not impact FY '18's cash flows, okay. So I do look at them as short-term working capital hits. The SAC, I've spoken about, that was the first half differential between what we deferred and what we expensed, but the cash still came through. So it was a negative working capital drain. That $28 million becomes about $13 million in the second half. I think you'll see that on the next slide. We had an arrangement with Optus, which back in about April of last year, I think it was, is renegotiated, which meant that we had an amount of money that we had to refund them, which we're refunding them over a period of time. That unwinds completely by June so that disappears in terms of for FY '18 impact. The $43 million, there is a slide specifically on that, but that's a number of items. A big part of that was AP and releasing of AP that was sort of held over at June of '16, during the course of the first half. But as I said, I've got a slide on that coming up. And then a small amount of other. These other items on the -- in that last section, straight-line leasing differential, deferred revenue online at onerous provisions, they'll hang around for a few years to come, and you'll see that on the next slide. So I don't -- I see them as more medium-term issues that will drive or delay us or prevent us from getting 100% cash conversion. I guess, what's not captured in here is the fact that Mick will be out there chasing these one-off projects, and so we'll get some lumpy revenue or cash coming in as a result of those, but I haven't factored any of this at the moment.

So a lot of numbers on this slide. I'll do my best to talk to the ones that are important. I guess, the items that I've spoken about, onerous provisions and deferred revenue, bounty and subscriber acquisition costs in particular, you can see the first half impact of about $36 million, $37 million. Second half, that's -- oh, sorry, the total specified item's about $48 million, and $38 million that flows through into the second half of FY '17. You can see that the impact in FY '18 is only about $37 million, okay. And so all of these -- most of these numbers here you'll have seen on those previous charts that I've given you in terms of the runoff of deferred revenue and onerous provisions, et cetera. So I've got a fair bit of confidence that this is the only non-cash or cash item that will flow out that will impact working capital in the first -- or in FY '18. And then, obviously, it declines as we go into the outer years as well. The other big items obviously in -- for H1 and H2, the $43 million was on that previous slide. The $38 million, I'm expecting that we've actually or I know that in January in particular we had another big outflow of accounts payable as we basically normalize our accounts payable balances, so effectively working on holding back balances in excess of what would be a normal month end. So I've -- the $38 million is a drain on working capital for this half as well. But I do have confidence that in outer years, that's not going to happen. I do have very strong confidence that we'll finish FY '17 with a normal working capital position, which means that we won't be taking our tile at every half year in terms of holding back creditors and things like that. So yes, so that's why I've kept that clear for the outer years.

What I haven't -- as I said earlier, I haven't put in -- there is some money that's going to come in in the next couple of weeks, that have already -- a little bit is coming in June already. But for mix, those one-off contracts that we spoke about at the Macquarie conference, there's some probably $5 million or $10 million of cash that will come in -- for June 30th and then a fair bit more in the first quarter of the next financial year.

And then as I want to talk to all of this but then that's the breakdown of the $43 million that you saw in those previous slides. So a number of items. I guess, most pleasingly and a question that I didn't -- I wasn't able to answer articulately, I guess, at the -- in February was how much of this is driven by debtors blowing out. And as you can see here, it's debtors is really not one of the bigger issues that we face. I mean, it's obviously an opportunity that we have to drive that and work that hard, but it's not causing our working capital -- the major working capital variances that have been -- that are driving this year's performance.

Moving on. Capital expenditure, let me get my slides right. So we've spoken about it a number of times, where I do see this is an area where I first came on board I was a bit surprised by the lack of rigor around how we manage working capital, how we sought approval for capital, how we -- the delegations of authority that people had within the business to actually go out and spend CapEx. So all of those areas are being addressed and tightened up dramatically. Again, I was surprised by the lack of reporting, the lack of forecasting around CapEx, a reporting of what we have spent and in which areas and the lack of forecasting in terms of the phasing of our expected cash flow -- or sorry, CapEx needs in the months ahead. So we've been working very hard in regards to building processes around rectifying these areas. I mean, we're hard at it still. It's not like we've got to a final landing on where we need to be in terms of the forecast, for example. We're on second or third iteration, and it's getting sharper and sharper every turn which is great. And we're going out for longer and longer periods as well. So I'm feeling a lot more confident around CapEx than I ever have. And obviously, with the support of the executive committee in particular and what Geoff spoke about with the transformation office and the allocation of large CapEx being run through a rigorous process, I'm a lot more comfortable going forward.

In terms of FY '18, we do have opportunities. Again, Geoff spoke about the transformation and the fact that doing field projects should mean that we are actually spending less CapEx on the useful many, which is great. But Mick -- and Mick does have opportunities with the enterprise and wholesale part of the business to leverage more of our on net buildings rather than going and building more fiber. But we'll still do that where it makes sense and the economic returns and the cash flow returns are passed the test. And obviously Mick now is putting in new processes across his business, which means that we're looking very closely, not just at the economic returns of the CapEx but the cash payback period as well.

Breakdown above. I'm getting towards the end. [I'm going for time.] Good. In terms of other, the $80 million, those of you that looked backed at our operational and financial review at February, you would have seen obviously the EBITDA performances of the 3 divisions. And then there is this big bucket of other or other we call Group Services. Group Services includes our technology. So all of our IT, all of our network costs. When I say all, not necessarily all, because Nextgen network costs currently aren't in that $80 million. But as we move forward into FY '18, we'll be capturing those within the same area. But it does currently include CVC, which is something that we want to make sure we push back to the businesses so we're just figuring out the right way to do that. And that also includes the shared functions of my group finance team, the execs, the board costs, legal, commercial, HR, et cetera. So we're -- and it -- it does get the benefit of the call it termination revenues. It's about $12 million per year. So if you want to -- that $80 million is a net number, okay. So it's actually higher than that from a gross cost perspective. Anyway, we are doing a lot more work on this. I can't give you a lot more clarity now because that work is still ongoing. In terms of as we move into FY '18, we are budgeting at a lot lower level of detail than we've ever budgeted before. So each of the buckets within this Group Services will have detailed budgets by month, have an owner of those budgets will be people we held accountable for the performance of those P&Ls or cost centers in most instances. And so as we move into the first half of next financial when we report, I should be able to give you a lot more clarity around those costs.

Energy risk. I got -- I guess, on the back of the $5 million when we talk to -- at the Macquarie conference about the $5 million margin impact of extreme weather events in Australia, predominantly in February, across the eastern seaboard, I guess we got a lot of questions around our energy management put in the business. We do have a very rigorous process. We have what we call a Wholesale Energy Risk Management committee, which Rhoda chairs. It's still mostly double Dutch to me when I talk about some of the -- some of those things that they do. But we do have a very rigorous process. We do have strong hedging policies in place. We look to hedge for 4 quarters out and that's sort of rolling. So as we move into the next quarter, we increase our hedges for the third and fourth quarter. So we are well protected in regards to our hedges. Obviously, we can't hedge away all of our risk, otherwise we wouldn't -- there's probably no point of being in business. But we've -- apart from that one event, we've actually got a very good, strong process in place. The energy business has done very well in the last few months because of the cold weather in Melbourne. Scott's praying for more cold weather in June, so am I. And obviously some of the other things that help from a risk perspective is that we have a geographic spread of customers. So we operate in a number of states. We operate across gas and electricity. And our contracts are short-term contracts, so we actually have pricing -- the ability to change pricing as we need to, okay. So and coming into the business, I think this is one area that I found that has been, that I've been very pleased with in terms of the level of rigor and detail that versus some of the other things that I've spoken about already around CapEx, for example.

Synergies. This could be the last time I speak to you about synergies. It's a bit embarrassing for me to stand up here and talk about $57 million of synergies, and then you guys look at our bottom line and say, "Well, where are they?" Don't worry, I ask the same question. It is getting more and more difficult, I guess, for us to try and allocate these synergies across the 3 businesses that we bought. So how we've historically done it. I think going forward, I'd like to see that we actually more present to you guys the opportunities around business efficiency and the transformation projects that we're all working on and measure ourselves against those and key metrics associated with those. So this could be the farewell to the synergy slide.

Okay. Just finally on the balance sheet, and I guess, it's a hot topic. I understand that. In terms of net debt, I guided at the Macquarie conference to a number -- for June 30 between $1 billion and $1.1 billion. That's a big range. It's probably -- I've got a number -- an update as of yesterday, and it's probably a little bit below the midpoint of that. So if that's helpful for everybody. So it's actually -- I'm pretty comfortable with where we're sort of going to land in terms of net debt in particular as a result of all of that negativity around the working capital in H2. We've been able to work our way through that net debt. Net debt at December was $988 million. So it's probably going to be about $50 million or $60 million worse off than that, which is not good I know. But as I move into FY '18 and the improvement in cash conversion that I expect, we should be able to start addressing that position.

We are doing detailed financial planning and forecasting for -- certainly for the next 3 financial years. That work is well advanced and very timely as it pans out with KKR. But also, obviously from my perspective, giving me a lot more comfort in terms of where the business is heading from a financial perspective, from a cash flow perspective, from a debt and covenant perspective. So that work we're obviously not going to share that with you guys at this point in time. But certainly, that work is well advanced. And in terms of other cash improvement levers, working capital will continue to be a huge focus of myself and the finance teams and indeed the executive. So Scott's got a project, project Bradman, I think he calls it, which is all about improving the cash conversion within his receivables to at or above Don Bradman's batting average. So -- which is great. But and we need to continue to drive those types of initiatives. Stronger control of the CapEx, I think that will -- and what we spend and when we spend it will certainly be helpful. Tighter cost control, and we've spoken about that a number of times, will be very important as well. And then obviously, things like decision -- dividends or asset sales will be a board decision, but obviously help through advice for myself and Geoff in particular. But those are some of the other levers that we have.

So that's it. Jump into Q&A.

QUESTIONS AND ANSWERS

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

It's Eric Choi from UBS. Great presentation, Mark. Just had a question on the working capital. So just looking at the scheme booklet, the M2 standalone entity probably had about negative -- $25 million to $30 million of negative working capital movements per year. And the reason that was given was these deferred commission revenues. It seems like we're banking on these deferred commission revenues to sort of normalize from FY '18 onwards. Can you maybe touch on a little bit, give us a bit more clarity on what these are and why we're so confident that they'll normalize?

Mark Wratten - *Vocus Group Limited - CFO*

You're talking in the mass market part of the business?

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

Correct.

Mark Wratten - *Vocus Group Limited - CFO*

Yes, I mean, I'm not aware of any -- sorry, Scott do you want to answer? I mean, I haven't obviously gone back on that. But I mean we've looked at everything that's happening within the business today. In terms of commissions, it's sales commissions that are paid within M2, but they're coming through every month. There's no deferral that I'm aware of and associated with those.

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Yes, we'd actually -- let me take that question (inaudible) I think it's related to the unwind of what was in the current balance sheet (inaudible) as bounty issues. We were taking bounties to connecting (inaudible) services and those bounties reduced. And so basically we're still paying back an excess charge at a higher bounty rate to Optus. And the inflows we're getting from Optus for new services we're connecting were lower and that was that working capital delta. I think that's probably what the issue is, but (inaudible) take that on those and (inaudible).

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

Okay. And just one more follow-up if I could. Obviously, there was about $45 million of one-off contracts and you sort of explained the way $23 million of them. Wondering if you can give us (inaudible) on the other $22 million, please?

Mark Wratten - *Vocus Group Limited - CFO*

Yes, so I think $5 million or $10 million of that will come through in the next couple of weeks. In fact, we're expecting $5 million any day -- I mean come through today. I'm looking at Mick. A big part probably closer to $10 million will come through in the first -- mostly in the first quarter of next year. That's actually a -- it's more of a construction type contract so it's not a capacity contract. So that alone should have -- we should get the cash mostly within Q1, maybe a little bit will end into Q2. But the rest of those other long-term capacity ones should come through probably July or August. Yes, so very imminently which should be nice.

Fraser McLeish - *Crédit Suisse AG, Research Division - Head of Telecommunications and Media Research and Director*

Mark, Fraser McLeish, Crédit Suisse. Can you just talk about the cost base and cost controls at a higher level? I mean, do you think this business is carrying a lot of additional cost because the processes, et cetera haven't been running efficiently and that once you get everything running efficiently, there's quite a substantial amount of cost that can come out?

Mark Wratten - *Vocus Group Limited - CFO*

Yes, look, I haven't run a deep dive into that, but I think Mick, Scott and Mark will all probably agree that there's costs that can be driven out of their business. Geoff spoke about the need to automate more. That will actually -- a big part of that's especially for Scott, and I don't want to steal your thunder -- his (inaudible) way for him but is around driving cost out of this business through automating the customer experience, I guess. Look, I think from a finance function perspective, I can talk to that more clearly, I don't think we carry a lot of cost in the finance function. Do I think it can be more efficient? I absolutely do, but I probably need another year of just getting everything fixed before I can start working on efficiencies. I think there will be some opportunities, for example, down the track to do more shared services around accounts payable and that. But you're not talking large amounts of money. But I think overall, when I talk about our Group Services area, which is the big spend there is technology and networks and getting that visibility, the lower-level P&Ls, having people accountable for preparing budgets and forecasts and analyzing and commenting on their actuals, I think we're going to find that people will be looking at cost like they've never looked at them for a while. And out of that hopefully will come a lot of opportunities to switch things off that should have been switched off a long time ago maybe or to stop doing things that are otherwise -- you've got people being measured and I'm sure but we'll see more cost efficiency coming out of that. So I'm pretty certain in the Group Services area that it's a huge opportunity.

Raymond Tong - *Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst*

It's Raymond Tong from Evans & Partners. Just a couple of questions. Just on the CapEx, you mentioned that there's going to be more discipline going forward. Can you give a sense of what kind of criteria that you're going to look at and use when deciding what CapEx to spend going forward?

Mark Wratten - *Vocus Group Limited - CFO*

Yes, pretty traditional one. No return on capital payback periods. I think from in mixed area in particular it's what are the opportunities like to build a -- connect another building is there more than one customer opportunity there because typically in some of those instances that the first customer doesn't necessarily give you a payback at all, maybe even the second one. But it's the one subsequent to that where you really get a great return. So it's just -- it's just the typical ones that I've been working with the Brambles and Recore for years they have return on capital over the last payback periods, strategic needs. Sometimes you've got to spend the money. In networks and technology in particular, there's going to be a need for sustainable -- sustaining CapEx, right, and there's probably some investments that we need and maybe that's catch up for the last few years to drive the network efficiencies. Rhoda and the team -- or sort of now Simon and the team are going to have to probably spend some money so that might not have an easily identifiable sort of return and sort of set of metrics, I guess, but we have to spend it.

Raymond Tong - *Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst*

And is there a sort of like a sort a of medium-term CapEx to sales level that you are thinking about for the business?

Mark Wratten - *Vocus Group Limited - CFO*

No. I would sort of I get trying to look at that I think we certainly can drive CapEx as a percentage of revenue down. We're doing a lot of work as I said around the 18 to 20 time frame for sort of the CapEx, I guess, first cut anytime you get a budget first cut you always get a wish list. Now we're actually the executive team and I were able to actually have a look at that, and we can actually -- we're going to have to allocate capital and we're going to have to limit it so we're going to have to figure out how we can live within a lower-level and defer projects -- certain projects. So look, I can't speak to what is the right level of CapEx spend to revenue. It will vary across different parts of that business. Scott has a very different need for CapEx than Mick does. And then Mark has a bit of a hybrid, given it's business is consumable all the way through to enterprise and wholesale. But certainly I think overall, consolidated, lower CapEx to revenue than what we've been experiencing for sure.

Andrew Levy - *Macquarie Research - Analyst*

Andrew Levy, Macquarie. Mark, how comfortable are you with the balance sheet if you can't get the upfront sales on ASC going forward and the implications of that project on your balance sheet over the next few years?

Mark Wratten - *Vocus Group Limited - CFO*

Yes. Look, that's obviously a pretty big hot topic in the boardroom and the executive room. I think there's a huge amount of CapEx associated with ASC in the next -- in the first half of next year. It's AUD 90 million to AUD 95 million. Can I fund it currently out of operating cash flow and debt? I probably could, but it would push out covenants, brought to the edges of our covenants, which is not where I'd like to be and I'm sure the board would like to be. Things like dividends would have to be thought of very seriously or asset sales. I mean -- so and then if I did do that, if I did sort of funded through operating cash and debt will mean other parts of the business would suffer in terms of the CapEx that I can allocate and mix that would have to come down dramatically. So it's a pretty tough question that we've got to deal with. I know there's a section on that coming up.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes, I think quite simply we'd say that the business is not going put its balance sheet at risk. And we're committed to securing the customer contracts to put the funding in that system, but the business is not going to put its balance sheet at risk.

Dion Hershan

Mark, it's Dion Hershan from Yarra Capital. You mentioned about the last comp synergies you discussed. But Slide 38 shows an incremental $24 million of cost savings year-over-year. Can you discuss your confidence around getting that through the business improvement or other initiatives?

Mark Wratten - *Vocus Group Limited - CFO*

Yes, look, while I may not guess for the growth transformation and technology coming up, and Rhoda can -- and Geoff can probably talk to that. But I think the projects and the opportunities for that incremental $24 million are still there. I mean, most of that is the longer-term, hard slug network integration activity that now Simon's obviously going to get handed to him. So I think the opportunities are there, without a doubt. But as I said, I mean -- I guess, this slide is a bit of a -- for me coming onboard and just certainly seeing the $57 million -- I can point to all of that $57 million. I've got spreadsheets around every name that's left the business and other costs that have been driven out but obviously not being reflected in our earnings or not being so visible in our earnings is a bit of an embarrassment. But I do believe that, that differential is absolutely still there and if not more, Dion.

Craig Wong-Pan - *Deutsche Bank AG, Research Division - Research Analyst*

Craig Wong-Pan here from Deutsche Bank, 2 questions. Firstly on Slide 22, the last point there about medium-term savings from financial systems. So I guess over the medium term, is that material, the savings there?

Mark Wratten - *Vocus Group Limited - CFO*

No, not material at all, and neither is the actual cost of putting in the CRP and the consolidated one Pronto system. The CRP is Software-as-a-Service, it's about $100,000 a year. It's minimal. But over time as I -- we've got a lot of different financial systems that we use and as we switch those ones off and consolidate to one, I do expect that we'll have some of the -- some savings for sure but nonmaterial, maybe a couple of hundred thousand.

Craig Wong-Pan - *Deutsche Bank AG, Research Division - Research Analyst*

And then the second question on net working capital. So you mentioned for the end of FY '17, you think that will be sort of a more normalized level as you sort of see accounts payable get back to more normal terms. But then you may have a point of potentially getting a benefit there from that amount of net working capital. So I just wanted to clarify.

Mark Wratten - *Vocus Group Limited - CFO*

Yes, and I haven't factored that in, right. But I do believe, certainly on the payables side, for example, I mean, we can manage that better not by holding creditors back but by negotiating better terms. I think there's some opportunities there. We don't really have a good procurement function at all. So I think there's some -- certainly some opportunity there which also links to cost opportunities, cost efficiencies. I think in receivables, I think there's -- we could -- we always need to look at that, and Scott's got on board a new head of credit who's going to have a great opportunity to drive some further change there. But incrementally what that might mean, maybe $5 million or $10 million, but still, let's take it. I think inventory, one thing that happened in the first half was that the inventory levels, particularly in Scott's business, grew as we stock up on modems for the NBN rollout. And once I get the whole lot of that issue to Scott, now Scott and his team have been managing that, and our inventory levels have come down in the last 3 or 4 months. They're the types of opportunities that I think we need to be always focused on in the business.

Kelly Hibbins

I've got one from the website around some cadence. Just sort of on the back of the downgrade, at the Macquarie conference. Are you comfortable now that management forecasts have properly factored in and are consistent with the current (inaudible)?

Mark Wratten - *Vocus Group Limited - CFO*

Yes, absolutely. As I -- and with the pains to talk to, during the Macquarie conference, to a number of investors that we met, the decision on those, the one-off projects, was not me coming on board and trying to clean up, it was just myself and the finance team applying accounting standards as the business has applied them in the past. And that's why Nextgen had $160 million of deferred revenue. So yes, I'm very comfortable.

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

It's Eric Choi from UBS. Just a couple of follow-ups on the CapEx. So that $180 million to $190 million, Mark, how much could you reduce that by if you switch from building out CapEx to using third-party tails. So that's the first question. And the second one is related to the data centers and the CapEx. So the way I understand it is your data center assets are probably quite old and probably come CapEx investment. So if you divested those, how much could you shave off that $180 million to $190 million build as well?

Mark Wratten - *Vocus Group Limited - CFO*

Yes, well Mick will have an opportunity to talk to you. Do you want to answer that first one? Or maybe both because data centers are within his business as well.

Michael Simmons - *Vocus Group Limited - Chief Executive of Enterprise & Wholesale*

Yes, maybe I can answer the CapEx question. Historically, in the past, the business has a layup so can you get sales people can have authority to speak CapEx without reference to the sales revenue or the cash return? So we're changing the business model, so things like me in it can't be ordered without reference to the cost to build and the revenue that's secured. It's basic business rules, cashback rules. How much we can reduce that by? I think it's too early to tell. If it's targeting towards $90 million this year on customer CapEx, is it realistic to have that? It is with the business rules we're putting in and embracing third party more. Importantly, embracing third party, and then we have developed a tool called the snapper tool, means we can -- once there's more than one third-party service on a building, we can go back and build with knowledge that we've got the revenue to support the build. So building in reverse more a synergy than speculative CapEx. Where we end up? I can't give you a firm guidance on it because there are a number of major bids that we're working on that will push that CapEx up, but just in terms of payback rules, a general rule at the moment is within 12 months, and it's going to be pretty special to be outside 12 months. So theoretically, we can get cash back and get better cash flow going forward.

Unidentified Participant

What about data centers?

Mark Wratten - *Vocus Group Limited - CFO*

The data centers are not a significant cash drain at the moment. I think we expect $3 million is our forecast cash flow for '18, and so this might push towards $4 million.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Forecast CapEx.

Mark Wratten - *Vocus Group Limited - CFO*

Forecast CapEx.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes.

Mark Wratten - *Vocus Group Limited - CFO*

So we aren't seeing it as a big number going forward.

Unidentified Company Representative

We're surely running out of time, Kelly.

Kelly Hibbins

(inaudible).

Unidentified Company Representative

Okay, great. Look, as I said at the beginning, there's probably further questions as you digest the information I've shared with you. So just feed them through kelly, and we'll be -- do our best to answer them for you over the coming weeks.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Thanks, Mark. I'm just now going to hand over to Rhoda Phillippo. As I mentioned before, Rhoda is a nonexecutive director on the board and has been on the board for a couple of years now, a couple of very, very busy years. And when we -- I acknowledge that post the Nextgen acquisition that we needed to do a comprehensive review of where we're heading with technology. We -- in absence of a clear plan or an architecture, a lot of activity without a clear understanding of what was being delivered and what the benefits were, Rhoda volunteered to come in and lent her experience and through the process of actually doing that review has helped us in terms of -- has moved from just doing the review and helping me implementing the new plan. And so she remains a nonexecutive director, but has made a significant contribution of implementing a technology plan in Transformation Office. So I hand over to Rhoda.

Rhoda Holmes Phillippo - *Vocus Group Limited - Non-Executive Director*

Thank you, Geoff. And I think it's still morning, good morning, everyone. And it's a real pleasure to be here talking to you today. And it's very, very rare as a Board of Directors that you get the opportunity for the insight and involvement I've had over the last 6 months and to see it firsthand the incredible upside potential that there is in this business. So it'd be great just to share a little bit of that with you. And I'm actually a 3-decade veteran of technology and transformation in the U.K. with British Telecom and in Australia and in New Zealand. And I think what I'd say to you with a hand on heart is that I don't think I've seen an integration and transformation as complex as the one that Vocus is undertaking in Australia and New Zealand over the last 17 or 18 years. This is a sizable piece of work to do, and I have every confidence that we'll deliver it.

And look, if you look at the combination of skills, technology skills the business has brought together, it is quite phenomenal and the depth and breadth of the skills there. And then if you add to that, the people that have joined Vocus from the Telstras and the Optuses of this world that is truly a technical and technology depth that is ones tapped and pointed in the right direction quite phenomenal. And if you add to that the culture that this business has, which is really a combination of a lot of start-up businesses, all with very, very different histories, but with that wonderful have-a-crack mentality and how they approach things, the ability to move at speed and with flexibility is absolutely there.

So when Geoff asked for my help at the end of last year just after the Nextgen acquisition, it was because he was trying to answer the question, which is, with all of that behind us, why aren't we moving at the speed we should be moving? Why aren't we recognizing the upside? And what more could we be doing?

So in about December, I commenced a review on behalf of the board into what was happening in technology and transformation and discovered really that what we've done is just put too much into one pot. So we had charged our Chief Technology Officer at the time with managing, bringing together 4 to 5 different network organizations with everything from the gold plating that would have been done by Nextgen Networks through to the sweating the assets that might have been done in bits of M2 and everything in between.

So bringing that team of some 450 people together, taking bold, hard decisions about how you streamline those skills and pick one person when you've got 3 people on a job and don't panic about the IP, plus the huge projects and program of what, from 348 projects were on foot at the time. It just wasn't doable in one big port.

So through the review, what we've done is, we've set about separating that out, identifying clearly our enterprise-wide priority projects, and I'm going to talk a bit about those, making sure that those were resourced consistently and making sure that we manage the communications around that, and the lady that we've appointed to help us do that is in the room today, and I'll introduce her in a moment.

So setting that agenda clearly and the Transformation Office and establishing the chief technology office to do what it should be doing, driving our enterprise architect road map, running our network IT and application services and working very closely with Mark on how do we allocate capital, how do we forecast it, how do we feedback from the benefit.

So we've just got on with it, really, and somebody was asking me beforehand, surely, your chief technology officer will start and he'll want to take 100 days to review what you've got and then 100 days more to put that in place and same with your head of transformation. Well, that might happen in other businesses, but we're charging ahead with that. We've chosen a chief technology officer and a head of transformation shortly who are both happy to pick up the reins and run where we've got to, so there isn't going to be any stumbling and stopping.

So even as Geoff says, we'll join us on the 3rd of July, he has an impressive pedigree in telco, digital, IT transformation in several different industries. I've been fortunate enough, well, I don't know whether Simon would say that, but our paths have crossed career wise 4 times over the last 17 years, and I absolutely know that we've got the right person on board to pick up the reins from me on the 3rd of July, because as Geoff says, I head to Europe on the 7th of July for a well-deserved holiday and then -- and get going on that.

And look, it would've been great to be able to tell you who our head of transformation was today. We have a very, very strong candidate in mind, but another candidate that looks equally as strong, who got back from China yesterday. So we're meeting with him tomorrow. But in both those candidates, we've got the right person to pick up and run the Transformation Office going forward.

We've also got on with restructuring the teams. I mentioned at the beginning that what we had was a number of network operating centers, 3 or 4 different network services teams running in different ways because of the way that they came from their standard organizations. And by and large, what had happened in the technology teams was those were left well alone for a couple of reasons. One was that the understanding across companies about how things were done was not there. Processes were very, very different. The end customer was also very, very different because one business did data only and one did voice and data. And then for those of you that I've ever had the pleasure of managing technology environments and engineers, the religious arguments about which voice platform is the best one and why there's absolutely no way you can switch that one off because the other ones just don't do the same thing. So all of those integration issues were running, too. And what we've done since the end of March is done a really detailed organization design review about what's the optimum way to run this business. We have sizable teams. The network services, the technology teams, over 400 people. You have over 100 people sitting in your application services teams. Those are both big businesses in their own right elsewhere and Australia. So really, analyzing what were all the roles, what was the streamlined way we could do and how could we design this organization in a way to free up the ability of those people as opposed to duplicate them, and at the same time, take some significant costs out over the course of the next year.

We consulted on that organization over the last couple of weeks. We finalized the organization design after consultation and feedback yesterday. We've announced people in posts where they are direct fittings. We've announced roles that we're going to shut down where we're shutting them down. This will be phased, taking the business over between now and December this year, and we've really steadied the ship as far as technology is concerned so that we're off and running.

The largest bit of feedback that we had from lots of people and lots of teams were twofold. One was about the fact that they wished we'd done it sooner, because when you sit in a job and you know there are 2 others doing the same job, it's -- you know that it's going to happen at some point in time. And the other bit of feedback is about making sure that we're absolutely focused on retaining the important IP as we roll out over the next 3 to 6 months and because there are legacy systems out there that we need to make sure don't get -- we don't lose that person or IP.

So the technology team now looks something like this. 50% of the roles, the leadership roles have filled internal candidates who do those jobs at the moment, and the other 50% were well progressed and interviewing for the moment.

So our GM, IT and security services, Alan Ariti, comes originally from the Westnet and Amcom business. Our GM of network services, Steve Hay, comes from the M2 business, but prior to that, I think, People Telecom, and our GM of application services, Simon Robson, comes from the Vocus business. So we've got a lovely blend there from our founder organizations, which is a strong, strong basis. And then the GM, technology architecture, Luke Mackinnon, who's in the room now and will, obviously, be speaking to you about our ASC project, has moved to do that permanently, leaving us a vacancy in the architecture space.

The GM, technology planning, is our equivalent of the roles that Mark Wratten spoke about in his finance organization. So that role there will do our planning capability, our forecasting of budgets, our CapEx management and also simplifying supply. As you can imagine that with 4 founder organizations, you've got not just lots of favorite network applications and designs, but lots of favorite suppliers. So this role will be our bulldog terrier, similar to one that Mark Callander has in New Zealand, streamlining those and driving significant cost savings.

And then a GM, technology, looking after this -- the program of work and technology, and I'll speak a little bit more about that in the Transformation Office.

So Simon gets the chance to pick up half of his team and heads a very strong team.

Just speaking about separating out our transformation agenda because we've moved very quickly there as well. I head a board's subcommittee to oversee technology and transformation. So when I step back off that line of being an NED supporting the business, I'll still be involved in a significant way in guiding from a board stance where we go with all of these projects. And I'm ably abetted by Craig Farrow and Bob Mansfield. And Bob, obviously, brings such a wealth of telco expertise over many years and wise views, because I don't think there's many things he hasn't seen happen over his decades in the business. So it's wonderful to have him around.

We've created, as Geoff recite to, an executive transformation steering group. It's really fun trying to facilitate a lot of high-energy, high-active people to sit for 4 hours prioritizing a project work stack and agreeing what they're going to stop. And with a couple of those meetings, I have discovered that if you put Scott Carter in charge of moving your slides on, then he has to stay focused and attentive for the 4 hours, and that's working really well. But yes, we've got -- some of my secrets given away -- we've got clear times of (inaudible) that transformation steering group, and as Mark Wratten says, that's the one place where priority projects will make it through the gate or not. As I said, we had over 300 projects on foot. We've identified the top strategic projects that are going to make the most transformational difference sort of over the next 2 to 3 years, both for Vocus as a whole and then within each business unit. We've clearly identified the projects that we're going to stop, and then there's a lot of stuff in the middle. And a lot of stuff in the middle is predominantly driven by the great plans for product initiation and product initiatives that come out of Mick and Scott's area. So we've put in place a streamlined product oversight committee, and they will prioritize the projects, and then they'll drop into that project work stack.

We've completed a review of all our internal program project and be a skill level, so we've got clear development plans for that. And all the project roles have been pulled out of the various teams and moved into a dedicated structure in transformation, which I'll share with you in just a moment.

And look, somebody asked Mark the question, how do we decide what gets through the gate? Well, it's really simple. We need to take 1 or 2 out of the priority drivers that Geoff spoke about. So they're either driving top line growth and delighting customers or they're improving returns or they're simplifying our business and reducing costs. And if they're not taking a major step forward on any of those things, the clearly identifiable benefits over a 1- or 2-year period, then they're unlikely to make it through the -- to the door.

So look, the governance looks a bit like this: the board committee; the transformation steering committee; the Transformation Office; our top strategic projects and then our resources being aligned to the business units they support. And similarly, as with the technology team, while we haven't quite landed our head of transformation yet, we have appointed our GM for mass markets joining us. I think I conveyed his name, Andy Barker, because I get that wrong sometimes, joins us at the end of July, huge retail experience, most recently in Australia in Coles, but also in the U.K. And Mick doesn't know this yet, but we've just finalized the appointment of the enterprise and wholesale program manager joining us with a massive experience in telco enterprise government projects most recently with Australia Post. And we're very close to announcing the technology and program manager. New Zealand's been up and running, as Geoff said, for 6 or 7 years. So we're learning a lot from our Kiwi colleagues, not just on rugby. And on the shared services, Alex West -- Alex Cook is our head of program management there, helping Mark with that program of what, predominantly in finance, but we have some significant projects that we want to get away supporting the people agenda, as Geoff mentioned earlier.

So a sneak peek of what those top projects are. And the first page here are predominantly the ones that are about getting us to a much more simplified network architecture, because you can imagine that for every dollar of capital that you invest in your forward path, you've got to be so careful that you're not driving technology debt or technical debt with what you've left behind in legacy. So over the course of the next year to 2 years, you will see us simplifying our MPLS networks into one super core. You'll see us putting in place automation and orchestration to take some of the complexity out of how we service our customers and significantly reduce the number of physical bodies that we need to position our customers, particularly in the enterprise and wholesale space. We'll move to one network operation center in Melbourne. We have 4 at the moment, 4.5 if you count some of the satellites that have been set up, and we'll really streamline and simplify our voice products and architecture for our enterprise and wholesale customers. We mentioned a couple of times, we have an excellent voice architecture that actually emanates out of our M2 business, and then we have some overlay in that and what was done in Amcom, so bringing those together into a seamless and simplified architecture.

And I won't steal Scotty's thunder, but Genesys and Salesforce enable the automation of a lot that we do in our consumer business. He's got some relaunch work to do for our value brands and our price brands. Mick will mention what we're doing in terms of speeding up the contract-to-cash process, simplifying those processes and automating as much where we can. Scott will mention the work that we're doing on automating nbn, so that we can realize those percentage achievements of punching well above our weight and how many nbn customers that we win. Hamish has been introduced. Huge task with Hamish. Although he sits inside Scott's business, he said, I will, at one point when we said, will you drive that as a single data and analytics function for the whole of the business. And as Geoff says, being data-aware and data-knowledgeable will be critical to where we're going to take leadership in the future. And Mark's mentioned that the consolidated reported planning tool will be in place really quickly. Enabling those financial insights are going to be critical.

So the secret to our success and the secret to where we will win is about agility and focus. And there are lots of low hanging fruits in the stack of work. I wouldn't want you to look at that program of work and go. Well, it will be 3 years before you see the delivery of those. Some of those projects like getting to a super core and orchestration and automation are longer-term projects, but the benefits are well worth the investment. Others of those, one of our top strategic projects that we delivered this weekend was the streamlining of the systems that supports our data network (inaudible) call them Vocus business.

And so we've adopted agility in name, but not agile. I don't want anybody to think that we've become agile evangelists, but getting the whole business working on fortnightly sprints where we're seeing the value of delivery benefits every 2 weeks. And that kind of gets through that almost inertia that happened when all looked too big and too difficult and too much on so that people can see the progress.

Benefits analysis. So clear definition, the front of projects, for those of you that have worked in these areas at times is really easy. But when you've the business like this, the Vocus business evolved where CapEx is unlimited. You were building customer networks and so it felt like a good idea. You could go run after it, and you were driving huge value. And then suddenly, you've to say, well, actually, what Mick's saying, it might be a buy versus a build decision. You're really challenging the culture of how people felt, and therefore, getting them to feel that we're not going to be process-heavy but governance-appropriate for what they do is really, really important.

And look, really staying focused on those business drivers. And I love to have a crack, a value. It's one of my favorite ones. But having a crack in a disciplined way is not a bad thing in this business. And kind of popping down and seeing the developer downstairs and saying just do a couple of hours on this for me is kind of going to be a thing of the past, as we get priority resources allocated to priority projects, because those couple of hours end up being a week, a month, 3 years and the project never finishes.

So there will be significant investment of our CapEx. You've been asking Mark about where will you be saving on the sustaining CapEx. Unless we get more efficient on that, we'll be reinvesting quite a bit of that CapEx in our transformation agenda, and that will be about automating, streamlining our processes and making sure that where we do have people working on things. They're absolutely the right skilled people, and they're supported by systems that help them do their job.

We'll be looking for some early returns, and we'll be very visible with you about those early returns. And there'll be a continuous review of priorities and progress. And one of the things about this industry and technology is that it's constantly changing. And one of the biggest lessons from our New Zealand colleagues is that you have to be ready to change course when you need to change course. And there are those projects in there that we just have to do, the ones that are to do with compliance and security and ensuring that we safeguard our business and our customers.

So that's what we're up to. And just as a bit of fun to finish, when I worked at British Telecom, there was a person whose job I really envied. Their job was to name projects, and they were paid about the equivalent of $300,000 a year for doing that. So I always thought that was a great job. And we decided to name our projects after Australian sports people who were recognized in an article at the end of last year for not being dickheads. So if you ever come across our project names and wonder where they come from, they're completely consistent with our values, and they're recognizing some great Australian sales people. Thanks very much.

Unidentified Participant

I just had a -- you gave us timelines around one of the projects, which was around the MPLS core. Could you give us a sense around the timelines for the other projects? And when do you think the benefits from these projects really start to eventuate? Is it at the end of the projects or 2 years down the track? And have you started on these projects?

Rhoda Holmes Phillippo - *Vocus Group Limited - Non-Executive Director*

Yes. So about 50% of those are in flight at the moment. I'm not going to steal Scotty or Mick's thunder, because it's not fair. So they will speak to the Genesys, Salesforce, the Contract to Cash and some of the other projects there. The ones that aren't kind of fully up and running are because we're doing proof of concepts, particularly on some of those network projects. The voice one is another example. You'll start to see the benefits delivered from that immediately. We're already seeing quite a few flow through and because of that fortnightly approach to get out there, fix something, sort something, do something and change things. So progressively, over the course of the next 12 months, you'll see, I would think, about 40% of the benefits from the projects that are up there and the remainder falling in the 0 to 2 years.

Raymond Tong - *Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst*

Raymond Tong from Evans & Partners. Just you mentioned a significant investment over the next 3 years. Can you maybe help us understand the CapEx and OpEx investment that's required for the transformation program?

Rhoda Holmes Phillippo - *Vocus Group Limited - Non-Executive Director*

So as I said, some of these are scoped, some of them aren't. So I don't want to put a finger into the air on that, and it's also part of the work that we're doing with Mark on finalizing the 3-year business plan. So we'll probably share the detail of how much we're reinvesting when we share that with you at the full year results.

Raymond Tong - *Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst*

Okay. And just in terms of the synergies, the slide that Mark put up before, how dependent on some of these projects is achieving those synergies down the track?

Rhoda Holmes Phillippo - *Vocus Group Limited - Non-Executive Director*

Very. And so not being flippant at all, but one of the reasons we're moving away from synergy reporting to business improvement reporting is neither I trust together the technology organization, picking out what's the Nextgen benefit versus an Amcom benefit is almost impossible. So kind of for synergies, read the transformation agenda and the benefits that come out of that going forward. That's where you'll be able to see us deliver those. Am I as confident as Mark is about the ability to realize those outcomes? Absolutely. And as Mark says, there's upside there as well.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

One more?

Unidentified Participant

Just in terms of the talent to execute on these projects, are you bringing on people from inside the organization? Or are you able to find these people outside? Because a lot of the telcos are in growth mode, spending on CapEx, on IT systems. Where are you finding these people from?

Rhoda Holmes Phillippo - *Vocus Group Limited - Non-Executive Director*

Okay, that's a good question. So a mixture. So I would say that at the program management, the senior driving level and the level of maturity that we had internally just wasn't there, which is why I've named 2 or 3 people that we're bring in from outside. At the project manager and BA level, we have good internal people. Some very, very skilled people have joined us. And remember, we cover a lot of basis, so we have the West as well as the East in terms of finding those people. The team will be, I think, very balanced. We'll use short-term contractors where we want to bring in specific skills on projects to help us go quicker and faster. And then probably more permanent roles to rank some of those network project management that just needs the expertise of those people who understand our network. So very balanced in terms of what we do. And interesting what you say, been interviewing quite a lot of candidates and some of them that come from the Telstras and Optuses of this world, and kind of no offense, but their ability to work swiftly, agilely and do things in the quick way that we want to do in Vocus just isn't there. So actually, culturally, the types of people that we're much more likely to deal with are people who've been in some of the more medium-sized organizations or the IT-type organizations that work that way as a matter, of course.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Thank you. We actually might -- just in terms of the time, we might actually thank Rhoda and just hand over to John. If you've got some follow-up questions, please feel free to ask them via (inaudible) or during the break. So thank you, Rhoda. Thanks, John.

PRESENTATION

John Allerton - *Vocus Group Limited - Commercial Director*

Good morning, everyone. I'm going to give you all a brief update on the ASC project, realize it's very topical, and give you all some insights into what I see is the strategic importance of the overall project and its value to the Vocus Group.

So what you've got up there on the slide really is just a reminder of the expense and the coverage of the Nextgen terrestrial network, and then obviously, showing the ASC project.

The ASC project is, obviously, an infrastructure project, with traditionally 25 years is the timeframe allocated to subsea systems. What you find with technological advancement of that long period of time is, obviously, a great opportunity to expand that capacity on the systems and improve the efficiencies. So you generally work towards 30 years of economic life. So it's a long-term project by anyone's measure.

The construction of the cables and the repeater equipment started back in April in France. The project remains on budget and on track, and we believe now it will be ready for service roundabout mid-2018 next year.

So by any measure, we think we're at least 12 months ahead of any competing projects that are underway.

Our discussions with potential customers, including foundation customers, is going well. The interested parties include a range of the OTT players, international carriers as well as government agencies.

And in addition, what we've done, I think to Luke Mackinnon's, the name we've mentioned earlier, we've stood Luke as the head of the international business unit, and his primary task is to leverage the ASC capacity so that we can get access to ownership economics on other international cable systems and so build a portfolio of IP transit products. I'll talk to a bit more to that in a moment.

Next slide. Thanks.

So obviously with a head start in the competition, we intend to leverage this opportunity and establish ASC as the primary route between Perth and -- rather between Singapore and Australia and really tackle those burgeoning markets. And I'll talk a bit about the demand in a moment. But those are key markets around the demand for capacity between Singapore and Australia, obviously, that's on the cable system as well as Singapore and Indonesia. But then also, there's an opportunity, we believe, for transit traffic to the U.S., and I'll talk a bit more about -- give you a bit more color about why I think that's a significant opportunity.

Thanks, Kelly.

In terms of there being 2 cable systems, it's worthwhile just referring to the bar chart on the right-hand side there where independent research done by Telegeography has predicted that based on their forecast, the capacity on both the systems that are currently either deployed or underway will be fully exhausted by as early as 2025. So there is certainly, in terms of their research, plenty of demand along that route, and we think there's good reasons for that to be substantiated. Furthermore, we think that the existence of 2 routes provides the ASC with a unique opportunity to offer diverse service across, and therefore, importantly, not only diverse service across that route, but then it becomes a legitimate alternative to other IP transit options, which, again, I'll get to on the next slide.

Thanks, Kelly.

This is a little bit busy, but what it demonstrates is where the concentration of many cable systems currently exist internationally, and obviously, causes -- must be causing some people course, who thought around some of the challenges of those routes. And I'll get to that in a moment. We believe there's real opportunity for us to attract IP transit traffic from Southeast Asia and potentially further north, obviously, dependent on the latency requirements of the particular traffic types. We talk into in about the great southern route and that's obviously depicted on those drives, so at the end there's a couple of reasons why we think that's important. That hasn't really been an option previously with the SeaMeWe-3 cable, that's a single path cable. It's obviously capacity constrained, because it's an all-cable systems, and it's running to a number of challenges in terms of quality and cuts of the cable system. Obviously, that will now change with Sydney (inaudible) seeing there potentially another cable system on that same route.

We think that's going to become increasingly important, however, because there are significant geological challenges in that concentration whereas other cable systems run across what we refer to it as a northern route between Southeast Asia and the West Coast of the U.S., that's, obviously, earthquakes, tsunamis and all those kind of things ugly things that tend to happen in that region. But in addition, there's, obviously, geopolitical challenges, and of course, they go through the South China Sea, as an example. So we think there's a real chance for us to develop opportunities along the new route.

Traditionally, up-to-date focus is tended to acquire its international, its IP transit capacity by offtake arrangements from existing cable systems. And obviously, what we have now is the opportunity to combine not just the ASC, which is highly owned by Vocus, but also importantly the terrestrial group that we covered off on the first slide, and to combine those 2 to offer essentially an alternative transit path for traffic across Australia. And we think that is an enormous opportunity. But not only that, it gives us the chance to take the capacity that we have on ASC and through swaps acquire ownership economics on international systems and through that, get access to international peering hubs, and therefore, develop an international peering -- global peering relationships, which again goes to the heart of getting equivalent to ownership economics and being able to offer competitive offering.

And then in addition to expanding those global peering arrangements, we, obviously, will focus on strategic regional partnerships. We've obviously got the important learning party agreement with XL Axiata, but in addition, we plan to look further afield to important marks like Chennai and Manila and look to expand our relationships there as well.

So really, in summary, the ASC is on track. It's being managed by highly capable and well-experienced team. And I'm very confident that we'll deliver significant shareholder returns and growth over the 30 years plus economic life that the cable system has. Thanks, Geoff

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Geoffrey Horth - *Vocus Group Limited - Group CEO*

John, do we have a little bit of time for questions?

QUESTIONS AND ANSWERS

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

Eric Choi from JPMorgan. Can you just give us some details on some of the top points of contention when you're negotiating with the customers? Is it purely pricing? Or is it timing? Or are there other things that you need to factor in?

John Allerton - *Vocus Group Limited - Commercial Director*

No. Well, I think I'll take the pricing question first. I think we've come up with a price book that, obviously, is designed to reward customers for making decisions early, because that's obviously in our interest, so we can help fund the overall project. Certainly, the reaction from customers has been that we've offered attractive pricing. No one said it's dirt cheap, obviously, but it's certainly attractive pricing, and they're taking -- they're all taking on board our proposals and working through them as we speak. Obviously, the foundation customers, we're offering them particular advantages because we're looking for them to take significant amounts of capacity on the cable system. And again, we're pretty confident that our prices are competitive, but reasonable and certainly deliver attractive returns from a capital investment point of view.

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

So what do you think is your customers' reservations on going ahead and inking a deal? And how do you get over those hurdles?

John Allerton - *Vocus Group Limited - Commercial Director*

Well, frankly, I don't know that we've had reservations expressed. Obviously, the (inaudible) sitting there saying that you're planning already for service mid-June 2018, and our response is to say we'll offer you incentives to sign up earlier. And that's really where the discussions have gone so far. They're all looking very closely at the proposal we have in front of them, and we're looking to progress those as soon as possible.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes?

Nick Harris - *Morgans Financial Limited, Research Division - Senior Analyst*

Nick Harris from Morgans. Just wondering if you can make a couple of comments on, I guess, your ideal debt versus equity contributions in that cable. And what sort of cornerstone commitments in terms of number of customers or capacity that you'd need to make it stack up in your book?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes, I think the simple answer to that is that we expect either in early-stage commitments or ready-for-service contributions, so the customer cohort that we're talking to about cornerstone and there's a second customer cohort (inaudible) loyal level of capacity that are prepared to make our fierce commitments. We'd expect -- we're looking for the vast majority of the construction -- we're running construction costs to be covered by that -- those immediate or the shorter-term commitments and the ready-for-service commitments. So that's where we are looking to unload our customer commitments. Obviously, over the economic life of that asset, we drive additional revenues through, and so we have a pretty significant list of strategic customers and pretty advanced negotiations, and we're talking to everyone from the OTT to government agencies and international carriers.

John Allerton - *Vocus Group Limited - Commercial Director*

I'll just come back to the comment about the Christmas round reservations, but more attributes of the customers we're looking forward. I think the foundation customers are certainly looking for what they refer as spectrum-sharing arrangements, which we talk about a fraction of fiber sales. In essence, what they're looking for is they want the ability to ensure that if there is additional capacity through technology advances made available, that they can asses those enhancements. And most of them are really talking about the option to put in line terminal equipment. But you can only think your way through how many pieces of line terminal equipment do you want to operate on one single cable system for it still to be really economically sensible. So it's really about accessing the economic outcomes of having the economic equivalence of spectrum sharing or fractional fiber sales, as we say. And what we've done is we've identified one fiber pair system. So there's a scarcity. There's only only fiber pair available for spectrum sales, and again, it will be on the basis of first come, first serve. So again, another way we've looked to secure those foundation partners and seeking to address what their requirements are in the longer term.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

I think the other thing to notice is that we have some very specific and valuable utility that we can deliver those customers, if you're taking spectrum as not just spectrum or capacity that lands in Perth and Sydney, it's capacity we can hand off in Adelaide, Melbourne and if you're building data centers and hosting your data in multiple locations, then we actually have the terrestrial asset -- significant terrestrial asset delivery. So we have some very specific utility in those spectrum offers that, we think, is valuable to those foundation customers as well, and we're definitely emphasizing that in our proposals.

John Allerton - *Vocus Group Limited - Commercial Director*

And they certainly acknowledge the value of that ability to drop off in each of the capital cities as a key differentiation that we offer.

Dion Hershan

Dion Hershan from Yarra Capital. This project is being proposed for a number of years. Why do you believe you haven't secured large foundation customers already? And the second question, Geoff, can you just confirm your comments that this will be completely funded by client financial commitments as opposed to the Vocus balance sheet?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes, I think the reason it hasn't secured major customer commitments is because it's been going on for years. The reality is that people lost confidence in the previous owner's preparedness to build the system and that when you drag on for a long time and there was a significant amount of underlying demand for acquisition to be built 5 years ago, the reality is now we are sending a very strong message to the market that we are building this. And it's absolutely a strong desire to have the vast majority of these remaining construction costs covered by these cornerstones. And a significant part of a lot of opportunities that exist with customers that made commitments at ready for service, and he'll make those commitments on strong commercial terms and acknowledging that the system will be first to market. So it's absolutely what we're aiming for.

We are probably out of time. And I'd say that likewise, if you have -- sorry, you've got more question. Sorry...

Dion Hershan

John, I was just going to ask, what's the avoidable capital going forward now if you chose not to proceed with the project in the context of sort of Mark's presentation before?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes, I think, obviously, board acting very diligently would have a very clear understanding of that, but the reality is that we are absolutely committed to securing the customer orders to run the system. So yes, that's -- as I said, we're in various stages of negotiations with a number of strategic potential cornerstone customers, and we are absolutely committed to securing those customers -- those customer orders to run the system.

John Allerton - *Vocus Group Limited - Commercial Director*

And the people we're talking to don't have reservations about us continuing. That's, obviously, important entering the negotiations and securing those customer contracts. So that's what our focus is 100%.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Okay. Thank you very much, and thanks, John. Our last presentation before the lunch break is Mark Callander, Chief Executive of New Zealand. Mark joined the business following our acquisition of Call Plus Group in a little over 2 years ago now. Is that right?

Mark Callander - *Vocus Group Limited - Chief Executive of New Zealand*

Yes, yes.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Mark runs our go-to-market New Zealand from end to end. He's actually -- we made a deliberate decision to not bring New Zealand into a large number of our shared services. Mark runs his own networks and technology teams. These are HR function, and a great business. And over to Mark.

Mark Callander - *Vocus Group Limited - Chief Executive of New Zealand*

Thanks, Geoff. It's always tough following a riveting finance presentation, but I'll see how I get on. Also, very interesting to hear Mark's great reviews on accountability, but I'm sure we'll take it off-line and talk about it later as well.

Obviously, I'm a bit squeezed for time now, which is a little bit lucky because I did have a couple of agenda items on rugby in America's Cup, but I'm going to crossover both of those, and you can catch me a few minutes after the lunch.

So I'm going to share some insights in terms of the New Zealand market, just kind of where we're positioned and a few other key initiatives that we're looking for over the next 12 to 18 months.

In terms of context, the New Zealand market is worth just $5 billion, broadly split 50-50 between mobile and fixed networks. Obviously, we specialize in fixed. We have a very large unbundled network, which we embarked on several years ago. We do have an (inaudible) relationship with Spark, and I'll describe that relationship. It's a good relationship. It enables us to compete in all segments through both the residential prepaid market through to the business, and hopefully, the enterprise market.

In terms of the segments we play in. We do play across all segments. So we've got about 4.6 million people, about 350,000 businesses in New Zealand. And we have about 90% broadband penetration.

The one thing that's probably worth mentioning is our UFB program. So you have nbn helping me over here. Obviously, all UFB programs, I'll describe it as a real fiber program. So we're actually putting fiber to the home, not just to the curbside. So it's quite a generational investment that the government is making that's creating quite a tipping point in terms of the New Zealand market for switching customers for the first time. We've already passed close to 1 million households now, and uptake rates are getting towards 30%, 35%. So we've certainly reached a tipping point in terms of the product being the mainstream product in the market.

And lastly, we're also seeing the emergence of fixed wireless access. So I noticed there were some questions earlier about fixed wireless access and our views on it. So it's about 50,000 Spark customers that have moved to fixed wireless access product. As Geoff mentioned, they're really targeting customers on a 50-gig product or less. So our wallets are watching brief for us. It's nothing worth concerning enough at the moment, but again, our focus is purely much on the fiber space and fixed space that's hit our sweet spot into that market.

In terms of the business overall, we've got a really good diversified portfolio, and it's really an important point to make, because essentially, this drives a lot of our network investments. So if you look at our Consumer business, which is about 55% of the total business, we essentially build our network for peak capacity, right. So there's kids, moms, dads coming home. We're designing a network for our 10:00 peak. Outside of that, obviously, we have a strong strength in Business, Government and Enterprise markets. What's really, really important is we have to build resiliency and reliability into the network, all right. So we get a really big counterbalance between our Consumer business and network investment.

The flip side of all of it as well is we create this network, which has got a massive scale, and we look to leverage that scale through our wholesale relationships. So we're actually one of the -- I'd say one of the most motivated wholesalers in the market, all right. So we're a key neighbor of competition. UFB is also a level-playing field. It's equivalent of input for all players. So there's lots of new entrants entering the market. So it's players like Stuff Fibre, for example, are a player that we've been able to run our network. So a full end-to-end (inaudible). So it's a great opportunity that we're trying to leverage.

In terms of product splits, if we did this 10 years ago, we would have these fantastic fixed wireless revenues and 80% margins. It's not quite the same anymore, unfortunately. We're now a data business, which you can see 75% of our revenues come from data. Broadly split between our Consumer portfolio, obviously, very data-centric in that space, and our ethernet and fiber products in the Business and Enterprise space.

In terms of what drives our business, this slide again, this kind of really covers our strategy on a pie from a New Zealand perspective. It all starts with our enabler, which is our network, all right. So we talk a lot about singular scale in our business, and it's about making investments and our business to deliver the lowest possible costs, the lowest possible migs delivered per customer and for (inaudible) who is with the Consumer customer (inaudible) small business customer, all right. We have a very myopic focus on this area. The key aspect for it is to enable our retail business units to succeed. So we're not talking about our growth engines and we talk about bundling more. We do have a healthy brand strategy that we go to market with. It's about leveraging the investment we have in our network to bundle more and automate more and get more out of every dollar we invest. We have the same New Zealand. If it moves, automate it. And if it doesn't move, automate it till it does. Is that right? We have our IT guys that sit down and contacting and listen to phone calls. When they're listening to phone calls and they're hearing an action that's been done over the phone, that can be automated, goes straight into a development team to automate it, all right. So it's a really strong (inaudible) that runs through the business.

Obviously, we are very, very customer-centric. So this feeds back into the group value, To be the Most Loved Telco. So again from our perspective, we drive NPS through all of our businesses, all right. The customers are actually at the heart of everything we do. The key point we make here is delivering services on their terms, all right. So if a customer wants phone-based support, that's how we'll meet their needs. If they want account management through our business and enterprise space, that's how we meet their needs. But I want to talk to out there our favorite customers in the world, all right. We build mobile apps, so they engage with us, all right. If they want to take a call later, they can register a call through their mobile app and our agents will call them at a later date, all right. So a big focus on customer-centric aspects of that business and delivering service on their terms.

And lastly, obviously, our people are the difference. This is probably reflected in the stability of my team. I've had a very stable and secured team. They're even unemployable anywhere else, or they actually do a pretty good job. Actually, we had a guy that just just stick to us over 20 years in the company, and I actually looked at his original contract and I think he misinterpreted permanent contract that he can't leave. So we're trying to help him move on, but we're getting there.

So -- but on this point here, the key issue for us is productivity. So the challenge in the market, we have to be delivering the most revenue per employee than our competitors. So our key point of difference typically is a challenge in the market. We're delivering process that's slightly cheaper. We're delivering more value. We can only do that if we have engaged productive employees, all right. We have a big benefit between having an engaged employee is better customer outcomes and better customer satisfaction, all right. So that's a win-win, productivity from a competitive standpoint, and obviously, engagement from a customer satisfaction perspective, all right.

I'm going to dive into a couple of segments now. Obviously, the New Zealand marketplace and all the segments that the Australian market doesn't have a very similar team to Geoff's executive team, it's better looking. But in terms of the business market segment, it is worth about $2 billion, okay, again, broadly split 50-50 with mobile and fixed. The market structure is slightly different in terms of the Australian market from the size and scale perspective. So as you can see, we're very dominated by small-to-medium enterprise and it's a few hundred thousand of them, all right. Those businesses do need to be served in a fairly automated fashion. So again part of what we learn in our Consumer market side of the business is to create automation in terms of the small business space.

A big opportunity that we see in the New Zealand market is more -- is part of the merge going up the stake. So I'm going to talk a little bit more a bit later about how we're going to going into the Enterprise and Government space.

As Geoff mentioned earlier, it's a piece of the market that independently the businesses haven't been able to do. Vocus has historically led to product dip and capability, and Call Plus has also had some product gaps and level the relationships that are needed to do to go up into that high space. So the Corporate and Enterprise space and particularly the Government space is a key focus for us.

However, to achieve this, we are making quite a fundamental change to our business. And that's from a brand perspective. So we're actually going to a unified Vocus Comms brand across all business segments.

So that means the Call Plus brand, which has significant legacy was, obviously, the original company, 20 years heritage in the market. So pretty sad to say goodbye, but we've got to move on. There is a lot of really positive equity in the Vocus Communications brand in New Zealand. There is a strong reputation and infrastructure plan, and it's got strong relationship between government, and that really is ideally positioned to be our go-to-market brand in the New Zealand space. This program work has started now. We've actually started going out to our customers now to communicate the change on our Call Plus customers from July. Ironically enough, we'll start getting the Vocus Communications build. We try not to drag our IT projects too much, so we just change the logo on the top-end corner and this does seems pretty heavy.

Now the key issue here is the single product stack, all right. So a good example of that is, immediately I solve a problem in my Vocus Communications Enterprise and Government space, because already we have mobile capability in Call Plus business, all right, and I can take that capability now and deploy it into the Enterprise and Government space. So nearly instantaneously, I solve the product haul, it's going to be quite critical for our focus in the Government segment moving forward.

And as I've keep passing on about singular scale, so as we simplify our systems and websites and provisioning systems and go-to market, we're going to get more efficiency into our business, all right. So operational efficiency for single scale in that business space will be much more effective for our business. We'll also be able to leverage subscale teams. So at the moment, we duplicate provisioning teams and service delivery teams across the various segments we play in. We're able to build large component teams and streamline prices.

Go-to market is going to stay exactly the same. So there's no material change to how we're going to go to market. We're still going to have indirect through our key reseller partners, such as Dimension Data, Datacom and IBM, and we're going to have a direct sales process through, again, our corporate team and our telephone base teams.

On the topic of new opportunities, as I've mentioned, the government sector is emerging very quickly as a big opportunity for us. We have got lots of experience in there through the Vocus business through what was called OneGov. However, the government is changing to a centralized procurement model through our new program called TaaS, which is telecommunications as a service.

So what the mergers essentially enabled us to do is previously, we were part of one of the reseller partners to service this market. With the product dip we've not got, we've actually made a bid to be a direct supplier to the TaaS framework and to the connectivity tail, all right. So this is a big opportunity. It's about $130 million category. It's got 400 agencies. We've already got the experience in this space. We've already got a good list of customers in this space. We've got the brand, reputation and brand credibility to carry it off. It's now taken a singular scale and a singular product stake into their market segments. We will find out how successful we've been towards the end of this year. We have put on the burden and we've gone through the first stage, which has gone very, very well. All going to plan, we'll see growth in the first half of '18, but the real big opportunity for this is financial your '19 and onwards, all right. So a very, very big focus for the team.

All right, in terms of the consumer market, as Geoff touched base on, we have about 14% market share in the consumer space. We do have -- the question came up, do we just target about 650,000 hungry households? The answer is no. We have brands that appeal to a wide range of customer segments, okay. But by default, the way the business has evolved and our investment in our data networks, we appeal, attract and are very successful with data-hungry households.

To give perspective, Geoff mentioned, average across the overall customer base is about 300 GB. Our fiber base, average is over 400 GB, and our most loved customer does about 10 terabytes a month for $129, all right. So if you find him, that would be great.

How can that happen? Again, it comes back to the fiber program we have in New Zealand, because we do deliver gigabyte fiber to the home, all right. So it gives you the sort of breaks we have in terms of that fiber space. This is only made possible through the network economics that the merge has brought about. If you'd asked me 2 years ago when I used to have sleepless nights about, it was about data usage, because I didn't own a network. And from a New Zealand perspective, more and more context is coming locally. We've got bigger cases throughout our network (inaudible) cases distributed throughout our network. More and more traffic is being delivered locally. So I don't expect sleepless nights anymore. Plenty of everything, not sleep events. I only have 3 kids. But outside of that, I like to have the network economics really make a really competitive play for our consumer brands.

The -- go to the next slide. In terms of what drives our team in this space, it's got 5 key things I want to talk about here. It has been a very challenging year for growth, all right. So the New Zealand market is probably as competitive as I've seen it in the consumer space for a very long time. Not that I'm going to take it lying down, but others have been in the nature that we have been for the last 12 months.

Despite that, we've actually had some of our lowest levels of churn in the business, and this is largely driven through: a, our focus on fiber, fiber customer has trimmed profile significantly less than a copper customer for obvious reasons; and second to that, our service environment. So we've invested heavily in the service ethics of our business and very heavily in terms of our self-service and our digital ad platforms, all right. So the reflection of this spot has been in a very competitive market. We're probably losing our share of growth connections at the churn line, we're actually holding our customers really well. That's a reflection of our brand on top of that as well.

We're actually winning. So we are taking 20% of new orders in UFB. So last quarter, we took 20% plus of all new orders. So against the backdrop of 14% market share and probably a bit on that, again, we only have 2 brands to play in the fiber space, which is Auckland and Slingshot, and they probably sit at about 11%. So we're nearly betting twice our weight in that space. So we're winning pretty well in fiber.

Second to that, we're winning really well in the high-speed game, all right. So when it comes to high speed, we have 70% to 80%. All of our customers are on 100 MB plans or higher, all right. In the Auckland base, 40% of customers take a gigabyte plan, all right. So we've got really good offers coming through at the high end of town for good high-speed productions and [normal] compliance. And our ultimate goal is to connect 1 of the

4 homes, so if you walk around my organization and speak to anyone from the consumer business, the one thing that they'll tell you about is we're all about connecting 1 of 4 TV homes. All right, and we know that we'll do that through fibre because fibre is the generational switch to once in a lifetime opportunity that we're at, trying to leverage now. If you are interested in a free Samsung TV or not paying for your broadband for a while, you should visit New Zealand, because there is some really good offers at the moment. I'll just illustrate it to my PA but Trust Power has come up with very aggressive campaign, offering up to NZD 65 and Free Samsung TV, which is pretty compelling for a residential broadband offer. More consuming that you have the incumbents, followed fairly aggressively, so if you are in Spark, you can get Netflix free for a year, you can get Lightbox free for a year, you can get 3 months free. Some of these Vodafone offerings are very strong sign of credits.

All right, so the market has changed. You've, obviously, got 2degrees through the acquisition of SNIP, have much more focus on consumer fix market than we've had before. So the market has changed. So on a very -- down the last 12 months, we've got a big focus ahead of changing competitive landscape and Vocus will need to evolve as a result of this. This graph here just tries to illustrate that point. At least have been about NZD 8 million across the 3 brands in the New Zealand market. I may not say, we're betting above our weight, based on results we're delivering and the share we're continuing to hold. As you can see, the new entrants out spinning us significantly, 3 to 4x in some instances, all right? And let's just assume, our consolidate must've been across all 3 brands into 1. All right, so the dynamic has changed and marketing dollars have been diluted, and we shouting into a wind tunnel.

All right, so we have made the decision to drop one of our brands, okay, and so the brand we're dropping is Flip, and we're going to head-to-head with our Orcon and our Slingshot brands. Those are very bold moves but great move but I think that certainly aligns with, how we need to evolve with, as the market has changed. So we'll be doubling down and focusing on these 2 brands moving forward. Why did we chose Orcon? Quite simply, it actually has a really, really strong heritage in the market, all right. It has had NZD 25 million spends in marketing, over the last 10 years on the brand. It was first to everything. All right, it was first to do LLU, it was first to give unlimited. So it has this real pioneer, entrepreneurial feel to it and had a really, really low customer base. So it's just -- hasn't been loved as much as it should have been over the last few years, and it's now part of our job is to reintegrate this brand and get a fighting fist to get it operationally fit to get back into the market. We actually completed against Orcon, for a while. We bought the Orcon business, a few years ago and we used to hate them because they always used to have a great PR and found more customers than us, so we bought them. So it may take the problem away.

Obviously, this is from a marketing standpoint, the consumer brand is all about awareness, all right? You've got to get to the start line, you've got to get into the choice set, all right. If you fail to get into the choice set, you're never going to win. So you can see on this graph here -- a slightly different from my presentation, so I'll skip that. All right, let's get to the next slide. So this point here is supporting one of the key reasons why we have chosen the Orcon brand over Flip, all right? So Flip's awareness AMPU still sits at just 10% of the market, all right? So for anyone that's thinking about joining an ISP at the moment, I need 10% of people putting it into the choice set, all right? So from awareness, you come down to consideration, all right? So we've got 10%, consideration drops again and you come down to preference, who's going to chose you, all right? So it's an absolute no-brainer to back the Orcon host. The thing you might think, we're a little bit crazy about is, Flip has bought (inaudible) brand from a service perspective, all right? So typically, once all the service towards New Zealand, has very hot online digital engagement, very high levels of online support. But you've got to come back to the economics of the Orcon business, all right. It does have 30% higher ARPU's, 60% higher AMPU's, all right. That is a leader in the fibre space. So if you look, the way the market has changed and where the market is gone, and where the business is going into the New Zealand market, Orcon is prime to set up and take that position. That's prime to be a leader again. And the way I like to look at this, we got the top 3 spots anyway, so we can let one go, still 1 and 2.

However, to do this, we do need to make change, and we have launched an internal campaigns with MOGA, which has a familiar campaign slide, which is very recently polarizing, kept it off its vibe, a few people may be playing too heavy with it. But -- so MOGA is all about making Orcon great again, all right. So it's getting it back to its grassroots, it's putting the fire back in its belly, and making the change that needs to, so this brand can succeed and stand along with some top brand, to connect the 1 in 4 TV homes. We're going to leverage, obviously, what we've learned from Flip. So Flip is a fantastic online support model and engagement model, and sales (inaudible). So we've taken the learnings from the Flip model, and we're deploying them onto the Orcon business. We're also building a highly technical support desk in New Zealand, all right. So a Kiwi supported brand in business in terms of a healthy support. So real fundamental change, this business should be known for its support and the way it used to deal with customers and its loyalty, it has lost that over the years, through the way the model hasn't evolved. We are going to be more aggressive on pricing. For example, we've already dropped kept plan, so we are only offering unlimited plans to the market. Again, they are the ones with a brand, they are the ones with a value. We're going to back it up with proof points, all right. So we've been launching mobile into the Orcon brand in Q1, and we're also rolling out Power, so touch base on power shortly, but we'll also roll Power out. So we're not going to change the service model, the experience, the investment in marketing, also going to have new proof points. So the market can see a visible change in terms of the direction of this business. On the top of Power, we obviously acquired a retail electricity provider in to symbolize our Switch utilities. So again, when you look at Power marketing in New Zealand, it is a big market, it's a NZD 6 billion market. It is dominated by 5 gentailers, that are trying to looking after their customers. So we see a miss of opportunity coming to the market like this and provide the level of disruption that we've done in the broadband sector into another sector. It adds along beautifully with our strategy that have brands of sales, marketing and service engines. We're constantly rolling out products that we can put down those brands that are relevant, they can increase share of wallet, they can increase returns and they can fit into our automated profile.

We are still continuing to invest in the business we acquired. So Switch Utilities, itself is a target for small commercial market. That business has actually gotten really well. A large new sales for our new direct door-knocking team. So we're continuing to invest in the business we've acquired but more importantly, we want to invest now in consumer brands going forward.

And this slide just essentially reinforces the strategy behind our entrance into the Power market. Firstly we know we can innovate, all right, and again, we talk a lot about our systems and our agility and agile frameworks. I think, it's a little bit of illustration of that when Slingshot launching Power 4 months following the acquisition of Switch Energy, all right. And this is all on a single bill, something we get asked every time, we say we've launched Energy, is it on the same bill, yes it's on the same bill, where else would you put it? But it's that agility that does set us apart from our competitors. The buzz internally from our staff and our ability to, I guess, I get from the standing still staff, over the Christmas period, to launch a full energy retailer in terms of Slingshot business, is absolutely phenomenal and full credit to the team. We might be onto something, as I've mentioned, we've signed up sales and customers. Unfortunately, you can't hide your success in the New Zealand market, because all on the outreach of the authority's website, so can't even forge it, I've got to tell the truth. So all that, that's on there, we are rolling out right through the nation. So at the moment, we are largely in the Oakland market, our better trials are being in the Oakland market. So it is the process and we're now rolling it out nationwide. Obviously, key driver for our perspective is share of wallet and chain retention. We've seen Trust Power, be very successful in the market, we're not going to be a copycat killer. We've actually done something different in the market. We are bundling. For us, it is about the bundle. We don't own electricity-only customer. But we're going to roll out some teams for customer to bring broadband and Power together, all right.

And by doing that we, hopefully, will see the tune peripherals that we're seeing in the the fibre space and lower as more product hit bundle into their proposition. Just wanted to touch base very quickly on growth and transformation. As Rhoda, touched based on. We've hit a fairly myopic and disciplined focus on transformation over the last 12 months, since the merge. It's been challenging, it's been frustrating for few people but it's an absolutely necessary part of their business to again, avoid taking who did running for your business. The approach we've taken from most of our businesses that we've acquired in our journey and like I said, we've put our blankets on and we try and integrate that into our core business as quickly as possible. And the focus merge has been no different. What that actually means for us though, is a transformation that brings synergies and savings, so yes, we've done all right, that's awesome. But it's more about the other things that we discovered. So also, moving single points of failure in your work. It's about building the capacity through your network now, so you can streamline the process, you don't have the like for kit to arrival passing on to your network, all right. It's about singular scale, all right. It's about the network guys having one system to look at, not two, all right. It's about the network guys having one system look at, not two. Provisioning systems, one system, not 2, all right. So singular scale. So we've gone through, we're actually coming to the end of it, I might actually announce system with staff, because we do want to get to back to our DNA, which is a growth business. Our business gets excited by growth opportunities and growing market share, growing share of wallet, transformation of wallet is all really important, you wouldn't sum up to more business if you don't come into transformation, get synergies, all right. By trying to grow market share, being more aggressive against our competitors and start winning, all right.

So our transformation has come to an end, somewhat to a slide that was mentioned. I don't want to talk about transformation in New Zealand, anymore. We're going to be talking about growth initiatives, growth opportunities and how we are going to start winning again, that's what gets me excited and that's what gets all team excited in New Zealand. I am going fast, so I can get to my (inaudible) speech. So I am closing this one between you and food at the moment, and how I'd have followed you. Really what is going to drive the shareholder value, and, again, it comes down to the points that Geoff mentioned, it's certainly growing the margin pull, all right. It comes back to operational efficiency and singular scale from our perspective, and being myopic and disciplined about that moving forward. And makes margin lost of valid customer, all right, and I'm going to achieve that totally. So you can up here, we're going to grow broadband and your share, that's awesome, all right. We're going to succeed in Energy, all right. I've applied sense, we guarantee, I can assure you, we're going to make some sales in the first month, we're going to make as many sales as we can get as well, all right. We're going to take that Energy, and we're going to roll it out for all, coming to rolling down to our small businesses propositions and then devices communications as well, all right. We're reducing cost of service, you've heard me talk about, this is part of our DNA, this is what we do. This is how we try and get our business as productive as possible and as LEAN as possible. And overall Orcon, is going to be a strong and neat position for the business and their contribution to the overall. Great, all right, gets onto the questions, sorry, I'm a little bit quick, I'm just cautious of time. Any questions?

Sameer Chopra - *BofA Merrill Lynch, Research Division - Head of Australian Research and Co-Head of Regional Telecom Research*

I had a question about...

Mark Callander - *Vocus Group Limited - Chief Executive of New Zealand*

Sorry, just name -- can you start with your name? just for the...

Sameer Chopra - *BofA Merrill Lynch, Research Division - Head of Australian Research and Co-Head of Regional Telecom Research*

Sure, it's Sameer Chopra from Bank of America Merrill Lynch. Thank you. Everyone you meet in New Zealand, talks about how difficult the operating conditions are and that things have become very challenging, which you have not pointed out. What's your sense, are margins going to be softer a little bit or lot, given the amount of discounting that's going in the market? And when do we start to see some level of rationalization because it's incrementally, it looks like last 6 months, this is getting worse, and every guy I catch-up with says the same thing.

Mark Callander - *Vocus Group Limited - Chief Executive of New Zealand*

Yes, it's interesting. So, look, the first answer to that is -- if you don't have any record with economics, I'd -- unless you have got it. It'd be very challenging. While we've I think have ran out of bubble, you've got competitive tension largely got through 2degrees, who they are coming and trying in front of ICO, all right. They are doing, what I'd do, they're coming in very, very aggressive. So I think it will come out of this stage. I don't think it is a long-term stage. And I'd like to say, coming back to our brands and our strategy, if we're not seeing high tune and we're focusing on those sequence where we can actually deliver the experience to customers want, we shouldn't be impacted by a lot of the high tune poll that's happening at the lower end of the market. So that's our focus. I think the market will be more rational, because it doesn't appear to be terribly rational at the moment, to your point, and we'll just continue to be (inaudible) and be more competitive and relevant until it changes, and that's all we can do.

Brian Han - *Morningstar Inc., Research Division - Senior Equity Analyst*

Mark, it's Brian Han from Morningstar. Does your business enjoy much synergies being part of Vocus Group? Or do you think you can prosper on your two feet because looking at your presentation, you seem like standalone business?

Mark Callander - *Vocus Group Limited - Chief Executive of New Zealand*

So we operate on a standalone basis, so absolutely, synergies happen through knowledge sharing, what we've done in the agile framework. Scott and consumer teams talk around, what's working from a consumers perspective, what's bundling, speaking to Mick about cloud and how we can collaborate around cloud from a transitional perspective. We actually share from really good transitional customers, as well. So while we certainly operate in isolation as a standalone business, it's absolutely synergies and sharing that goes on, on the transitional level.

Unidentified Analyst

Mark, (inaudible) from Watermark Funds. Just 2 quick ones from me. First thing consumer broadband, do you feel the appalling ratios from the other carriers. Do you ever index any other ISPs in terms of the cost that you are acquiring?

Mark Callander - *Vocus Group Limited - Chief Executive of New Zealand*

No. So, I haven't experienced, we're typically winning them from Spark.

Unidentified Analyst

Okay. And secondly, quick one on content. Common feature across the New Zealand market and some of these customer acquisition offices, I have very content deals, Spark, (inaudible) and Lightbox. Obviously it closed the partnership between Vodafone and Sky, just wasted on content and the content you're providing to your customers?

Mark Callander - *Vocus Group Limited - Chief Executive of New Zealand*

Absolutely. So 100% focus is facilitation of content, all right. So I don't have the great deal of feel of the results, our brands -- all 3 brands rank top 1, 2 and 3 in terms of speeds and deliveries performance of that consumer space. We don't even need to drive and get into the content space. Again, fairly good hidden in office, but again, a need for reflexes in the team in the month, all right. So if you're rational purchaser and you go through the process, it's not that compelling, if you peel a bank. There's lots of noise with Sky and Vodafone, obviously, at that moment. That doesn't look like it's going anywhere. So I'd certainly don't lose sleep all over. Yes, our content position, in fact, I'm very happy where we sit from the content perspective and that's just delivering out very well.

Kane Hannan - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is Kane Hannan from Goldman Sachs. Just in terms of the Flip closure. Seeing, do you expect very much risk with that decision and then with the existing customers just migrate across to an identical plan or how is that?

Mark Callander - *Vocus Group Limited - Chief Executive of New Zealand*

Yes. should have clarified that. We'll be grand hovering, a.k.a. cash scale. So we'll just put them out in the posture. We went to fourth migration at all. We've got a large ops support area that will continue to support them, and that will just become smaller portion of our business over time. And then as we build the base back into Orcon and Slingshot, that will essentially make the shortfall of Flip has done in our business.

Kelly Hibbins

(inaudible). Look, I'd like to -- I think, thank you very much Mark, I think, it gives you a good understanding of what's happening in New Zealand. Really that doesn't miss any the opportunities to take the first. Definitely. Yes, so we are having our lunch right now. I think we are on break until 1:30. So please place the (inaudible) on the back, unless you are on the webcast, of course. So you please enjoy the food and we'll catch up once you have had the lunch, and we'll see you back at 1:30.

(Break)

All right, I'll introduce the next speaker. As you all have heard from presentation Michael Simmons, known as Mick. Mick has took on the care taker role on the wholesale division, earlier this year in, I think, January, shifting from a non-executive director role of the board, to help us manage that business from an interim basis, and he liked it so much that he agreed to accept the role permanently, when we asked him to. So Mick, has had as a shorter pedigree in the Telco sector working in a senior management roles, including as a CEO of SVT, which became TPG. So I'll hand you over to Mick, and he will give some insights into what he is doing in the enterprise wholesale division, what he has discovered and what the plans are.

Michael Simmons - *Vocus Group Limited - Chief Executive of Enterprise & Wholesale*

Thanks, mate. Heavy stomach, heavy eyes, I hope, I can get your attention by telling if we can execute in and out of wholesale and execute with transformation. I think, we can move the needle in the company but it's not a forecast from my CEO. The motivation for taking on the permanent role, is the privilege to play a small part in the opportunity I saw. And hopefully today, I can open your minds to that opportunity, share some of that opportunity to you. But also addressing on concerns that I've heard and heard by first hand and second hand on some of the things that we're doing in the enterprise and wholesale space, and please ask the question if I don't address that.

Most importantly is, we are not Vocus, by business model. We are a mixture of 4 companies -- 4 great companies in their own light that have come together in a very short time. And I've heard, most directly and indirectly that we're breaking Vocus, and if that means we're breaking the company on the far right-hand side? The answer is yes, we are, because that's a business model that suited that company as a startup, and we're not that. So we are a heritage of 4 great businesses and Amcom, the most mature business. A fully rounded product set, was on its path to becoming a full-service Telco, but constrained geographically. M2 was constrained by capital. It started out as a reseller, primarily, in the SMB space, brought in some wholesale and made some good acquisitions but remained, predominantly, a reseller. Nextgen, it wasn't constrained by capital, it had backup loads. I think it lost $1 billion by the time it went into receivership, and was bought out of receivership by Nextgen and continued on that path of building big networks and Vocus, the youngest in the group of companies, David bought Pipe Networks, David bought Pipe Networks, you might remember. And before Pipe Networks come along, you couldn't buy that further. They produced a great EBITDA, but no cash, David bought them, turned off the CapEx, limited the dock further, a market opening arose, Vocus leading and did it very well and developed a great set of -- a great little business as a startup, building fibre and filling the gap of Pipe. and taking a lot of the Pipe employees, that build that Pipe Network, to create Vocus. But together, none of them that Vocus business model, can't work in the future. What I would like to do is, just share with you, the differences between all of these companies. The individual business is concentrated on different market segments. You see there is a yes in every vertical, except enterprise. But yes, there is a small market share. And that's the opportunity, particularly, in enterprise. In geographic concentration, the businesses deferred again. You will see a high in every horizontal other than Queensland, and they won't win the state of origin, so I don't think that really matters. Like you'll see, high concentration does not necessarily mean execution. None of those businesses executed to capture large market shares individually. The business is developed or invested in different infrastructure and systems. Once again, you'll see yes in every vertical except over the top. That's a future focus for us to drive connectivity to bringing new solutions and software in particular that will drive our connectivity.

Also, in products, the businesses concentrated on different products across the market and different geographic segments. Once again, there's a yes in every horizontal, but no one business get it all. And finally, the philosophy in building a business. Again, a yes in every horizontal. All businesses embraced third-party by one, and this is a further criticism we've heard, that today we're embracing third-party more than we ever have before, and yes we are, and there are reasons for that which I'll deal with a later date. You put all of those business together, and we have the ability to build a national full-service Telco. We need to unify those businesses, and we need a national approach. We need to leverage the strengths and the infrastructure of all of them. And that starts with a consistent and expanded product set, nationally. We need to penetrate enterprise and government in the carrier market. We don't have the share that our businesses and our infrastructure justify.

And we need to enter new markets. There are markets that none of these businesses have pursued aggressively. And we have to increase the share of wallet. We needed a solid account management program, that will cross-sell and up-sell, that will leverage our assets and expand our products across our customer base. One of our biggest faults I see is, we tend to be one product, one customer, across the business. And most importantly to drive this top line growth, we need to embrace the Nextgen Network. It is opening up markets and discussions that are surprising me everyday far beyond what I ever expected. And also embrace new products that haven't been embraced under the traditional Vocus model, including cloud. We need to reduce our cost to serve and how big bet there is Vocus want our customer portal. It is in its infancy, it's one of the major projects for transformation and it will fix our sell-to-tell. Our sell-to-tell is too long and I'll deal with that shortly. Also, we have to remove duplication. You will see in the slides previously, where I summarized the attributes all of the businesses. There was significant duplication, 4 play-out platforms, 12 billing platforms, 4 voice platforms, multiple delivery platforms, multiple CRMs. It's all over the business, and we need to drive that out and adopt one platform across the business. And most importantly, to improve returns we need to focus on hold and farm. None of the businesses had been holding and farming, they've predominantly being acquiring. There has been some flaky account management models, but not a concentrated attempt at holding the baseline. And most importantly, we need to improve the returns on business. I thought, I'd deal with question that Raymond and a few others raised about CapEx and maybe, give you few examples of decisions processes we're facing today, so you get an understanding of CapEx. So income of Vocus has come together, and the Vocus approach to selling product was introduced across the business. And that allowed salespeople to sell on it, without reference to capital or returns on their capital. And we got a product called on-net, which was on-net40, which had a build and that had CapEx, it was thought to be $14,000 a build and that's now about $23,000 per build. And we had, I believe, in on-net had 0 CapEx. So we had salespeople selling services and some of these services were $500,000 a month, and our CapEx was averaging $20,000 to $23,000 a build and that's not sustainable. We need to address our CapEx and we need to assess every build and every opportunity on its merits, when it requires a build, and we're doing that. And we're trying to achieve a 12-month cashback policy all or less, irrespective of term. However, there are instances, where that won't occur, I can give you an example today, where we're acquiring a fibre build, where it's 22 months cashback, but it's into a major DC and its a 6-year deal. And so that major DC comes on-net and so I think that's a good deal and I think we pursued it. But I can give you another example, where a deal we just knocked back, where the CapEx was $44,000 on a $500 per month revenue, and under the previous near-net rules, where salespeople could accept those orders without recourse, we would have built that. And that doesn't make sense. And we are embracing third-party, and we I'll give you one more example of that in a recent piece business. We did have a policy in the business, where we would only undertake a contract, if there was a proportion on-net, so it had to be a minimum 30% on-net, otherwise we wouldn't do the business, we wouldn't bring into the third-party tale. So Nextgen, wins a piece of business, it's $2 million a year, it's a $6 million deal, and none of it's on-net and it gets knocked back. And so we evaluate -- so previous management evaluate the build to bring 30% on-net. It's a big 7-figure number to bring it on-net. So we come on this saying, we bring in this greater rigor. And we look at this deal, and we look at the third-party, we look at the returns on the third-party and the returns on the build. And the returns on the build was average cash margin of $335,000 a year over 3 years, that's average. And if you do third-party, it's $602,000. We do third-party, 100 % third-party. And we're deploying that today, and we need to have that contract for 64 months to get a cashback even. But if we introduce another product to one of our that has third-party, a cloud product or a voice product, then, maybe, we build, but we build in own site, we build with certainty and either, reflux the rigor way of bringing the CapEx and that's why it's very difficult to sit here and say we can improve on our CapEx. It was $90 million last year, and our revenue was nowhere near -- growth was nowhere near $90 million with the CapEx. That -- the revenue growth we had last year would never get out $90 million back in CapEx. So we need greater rigor in the cash returns, and we're implementing that. And that's something the business is not -- has not had historically. If that's -- and to my thinking that is not breaking the business, it's making it a better business for shareholders.

The size of the price. We have a 5% market share that I'll talk shortly about the Commander business coming into our business. It will be roughly a 1/3 of the revenue. So if you think of the size of the price, Commander business and SMB business, what is the size of the price in enterprising government. It is very, very big. We have a very low market share. We should have more. The matrixes -- matrices I put up there previously that showed market geographic segmentation capability, our product and infrastructure capability. And a unified business philosophy means we must grow and should grow this share. So we need to embark upon a transformation to a new Vocus, and that has started. And it's started by picking the best attributes of all companies; bringing greater financial rigor to the business; expanding our share of voice; so entering new markets; embracing the Commander SMB; adding a business partner program; leveraging the infrastructure we had, in particular the Nextgen Network, what an awesome asset. With a consistent consistent, pricing, but not ubiquitous pricing, we have previously adopting the Vocus model that had been driving ubiquitous pricing into the business. We have different prices today in Northern territory where we dominate that market, particularly in government than we do in Sydney, but we are pushing ubiquitous pricing into the West and into Northern territory, it makes no sense. So consistent pricing and national -- consistent products and national approach, but not ubiquitous pricing, and we need to embrace the full product set. We need to embrace third-party. It will drive down CapEx, it will maximize returns to shareholders. We will still build where it makes sense, and we'll build in reverse. We'll build to create synergies, not necessarily betting shareholders money. And we've reintroduced rebuild. It was killed months ago. Rebuild, reselling Telstra's [PSDA]. And why would we do that when Corporate is in decline? We're going to win a customer, and we're going to manage the transition to copper. Hopefully, we manage the transition to copper. It's a low-hanging fruit today because most people are not and the margins are very healthy. IP VPN We are going to embrace IP VPN throughout the nation. To give you a really good example, we've had 2 sales divisions historically up until a couple of weeks ago. We had the West, which is predominantly Amcom; and the East, which was predominantly Vocus. And in the West, we were winning 40% to 50% every month. Revenue was IP VPN. So more complex, a better product and more sticky product. In the East, it's less than 10%. It's the Vocus heritage in 1 geographic region and the Amcom heritage in another. And then you overlay the Nextgen heritage of chasing EBITDA returns, and you've got mixed models that need to be unified. We need to resell over-the-top applications, software solutions that drive our connectivity, and we need greater rigor on our dark fiber, in our builds far greater rigor. We need to increase our distribution. I've talked about business partners and the Commander business, but we need to attack enterprise government and carrier, and I'll talk about that shortly. Our share there is way below our capability. And we need to retain and grow, hold and farm, hold that baseline, and we're not doing that today. And lastly, (inaudible) and I'll deal it shortly. It is unacceptable, we have failed shareholders in our ability to deliver product in a timely manner. So what are we going to do? We are going to embrace the Vocus brand. We want everybody to carry this brand with pride into the market, into all channels, into all sectors, both direct and indirect. Historically, we've been somewhere with various businesses, but not everywhere and we're going to do that going forward. We're going to really drive hard on account management. We've been acquisition-focused, and that's a startup mentality. We've been rack them'ers, stack them'ers. Geoff said throw them over your shoulder and go and get another one. Our salespeople were not incentivized to hold customers. Sales incentives were about signing the customer, didn't matter if it build, didn't matter if it was delivered, didn't matter if it canceled. In fact, salespeople didn't know a customer canceled. We need to change that. We need to bring in account management. We need to love our customers. So acquisition is not the only hero in the future. We have to build a farming resource. And we have to align sales and incentives for that goal of retaining our customers.

Wholesale. Elephant in the room, I think. We sell wholesale -- as a quote from Steve Jobs when iPhone was going to cannibalize the iPod. And we sell wholesale. We sell to our competitors. Matter of fact, we're now selling wholesale to our competitors, and my good friend Scotty Carter in the consumer space, because we're selling NBN wholesale to go after our Dodo customers. But if we don't, someone else will. And we have the asset and we should do so. Our customer list in wholesale is long. We are not dominating the carrier space. We have 1 carrier in the top 20 customers. And I can tell you it's not Superloop.

The elephant in the room. Our Nextgen has enabled us opportunities that we have not previously seen. We're having conversations with the biggest carriers in the land and the international carriers, the BTs, the AT&Ts, the Verizons, and also some of the biggest incumbants, none of which are in our top 20. We have 3 wholesale divisions. We have the ex-M2 business. a lot of customers with a very low spin. We have the ex-Vocus business where Superloop is not in the top 20. And the ex-Nextgen business, in its own right 50% of its billings is wholesale, but only 50% of that 50% is in the carrier space, and that rests with 1 major customer who we know is running off in Vodafone. But today, we're back in the room. We're back in the room because we have the Nextgen asset, and we have the capability to deliver the product. Nextgen lost that business. We had every chance of winning back what's left. Also in wholesale, we need to introduce new products, and there are a couple of products on horizon. The NBN wholesale, in particular, we have high hopes for. We reached all 121 (inaudible) the Nextgen asset allows us to do that, we can compete, we can meet the market on price, and I think we've got a great model. We're also introducing cloud into that sector, predominantly into the smaller wholesales -- wholesalers (inaudible) as a service, storage and backup. We have a bit of workforce restructuring also. We are trying to improve our go-to-market. We've got a solid team. We have lost people. We're not unhappy with some of those people leaving us. We have seen growth return to wholesale, and we have achieved 12% in the last 4 months.

Our corporate approach, this is varied once again due to our heritage. If you think about our corporate sector prior to the Nextgen acquisition, has been divided into 2 sales organizations, West and East, with 2 different leaders and 2 different heritages, one the startup, one the mature business. The startup, it has half the build revenue of the mature business, and that's partly because it is a startup, it is new on the scene. But it also due to a number of other reasons. There hasn't been aggressive investment in representation up until late last year. So up until late last year, we had very few people in Melbourne and nobody in Brisbane. We took a very limited product set to market, dark fiber, ethernet, IP transit. And as a result, we signed a lot of customers with a lot of low value. In the West, we took IP VPN, we took IP voice, we took all of our full product set we embraced rebuild, we embraced third-party. And consequently, we captured more share, and the margins are quite similar when you look at that analysis on a invested-cash basis. We need to refresh the East, and that has started. We have collapsed East and West sales teams together. We have 1 national leader. We have brought back all of the full product set that we are able to deliver today to all of the sales teams nationally. And if we can simply -- as Geoff touched on earlier, simply in the East achieve half the market share that the West has today, it's a $150 million worth of billing. In the West, it has been in decline. It has been in decline because -- partly because a lot of the products they took to market were withdrawn or were encouraged to be withdrawn. A few of the sales guys there would still sell it -- may sell it undercover. We have brought that back. All of -- the full product is back, the culture is back and MRR is now leveling. The Nextgen Network enables us to grow in the West. It won't be anywhere near the East, but we can grow the West. And the Nextgen Network enables us to do that. Today, we're having conversations in the West because of Nextgen that we would never have had individually as Amcom or any other business. We're down to the final 2 now with 2 of the largest miners in the globe, us and (inaudible) are in a shootout. Optus and TPG are out. That gives you a feel for the opportunity that we have today. And we can get growth back in the West. I should qualify, when I meet the West, I meet the South Australia, WA and NT. We have a good government share there, but I think growth will come in the West through bringing back the business partner program, bringing back the expanded product set. We will pick up a little bit more government business, particularly in WA. We're bringing back cloud. The last 2 months out of the West, over 30% of the assigned revenue has been for our cloud product. And that is testament that our full product set works.

Government. It's just the time for Nextgen. It's the most unfulfilled asset of our time, over $1 billion invested in this thing, and it really positioned itself to be a carriers carrier in -- into the government market, but it never succeeded. And it never succeeded because it didn't have the full product set. And we give it that today. It is a great asset. And so voice, cloud, IP VPN is back on it, and we're having those conversations right now. We are in all State and Federal Government panels, in particular New South Wales and Fed, where the big money is. Market size is huge, our share is very, very low. Last quarter, $12 million TCV out of the Federal market alone. We've built a dedicated government team, and they are pushing into that market aggressively today. Business in the pipeline qualified and hoping to close, hoping to close this calendar year to give you a feel for the size of the price here. In New South Wales, it is $8.5 million TCV and federally it's $39.4. That's business we're qualifying. We're in the room, and we're working it today. Most importantly, the biggest opportunity I see, I see 2 great opportunities in this sector. One is federally. Nextgen very, very small share, but the majority of federal government agencies engaged with them in some form, but we're not there. We're not there In terms of volume, and we're not there in terms of full product set, but we can be, and that's the opportunity. And some of the stuff we're seeing out of our national security agencies, in particular, some of the big wins and opportunities we're acquiring, it is truly exciting. And the other big opportunity is Victoria. We went on the (inaudible) contract, TPG was removed. $190 million (inaudible) coming up for grabs. We've got good representation in that State today. It is probably -- what I think, I know, are best represented sales team on the Eastern seaboard. We've done a refresh there, It's strong. I wish it was the same. I wish it was the same in Sydney. But we're very hopeful that the government will drive the growth we've indicated as well. Commander. So I launched to take out a bid for Scotish business 2 weeks ago and successfully executed without much fightback. And there is a reason for that because Commander sales business, (inaudible) business, it's a great business. Significant build revenue and it includes the old Promise business. But, I think, it is not evident here as we're sitting back thinking we don't have a business partners program in our business. It's in all over telecom, so a build at TPG helped -- it advised another carrier in building it. We don't have it, and we needed. And we need a national business partner program. When we looked over the fence, there was a deal-up channel partner program sitting there in Commander. And we digged deep, there was a lot of overlap. Commander does IP voice. We do IP voice. Commander do VPNs. They do rebuild, they do Cloud. All of the products I just mentioned that we take into enterprise and government, that we want to take into business partner, Commander does today, albeit to a smaller customer base. And one thing we're most guilty owning this business is when we integrated the businesses and we put them together, the management team said, I'm going to take the 10 biggest promised customers, you can have (inaudible) business back, we don't want it, we just take those 10 biggest ones because we'll sell them dark fiber and the ethernet and we don't want the rest. And that was a mistake. So we need to bring them back. And we need to align them with our national business partner, and we need to use that business to teach us how to sell indirect across our business. We need to unify the product, unify our marketing, delivery and support teams. There's overlapping all 3. We've people delivering IP voice, sitting alongside each other in the same building here in North Sydney. And they're not even talking to each other. And I don't think they even know each other's names. And we need to change that, we need to embrace all of those businesses -- all of those people together as one business. And we also need to expand the product set. The biggest challenge we have in Commander and in particular is the Capitol Fiber phenomenon that we're now seeing, as more and more fibers built into the market, either by the (inaudible) on their behalf or by (inaudible) and others. We have an event coming where copper is becoming less relevant. And consequently, we got a voice decline, and it is something we need to address, we need to address quickly. And it was sitting out there and it wasn't. So we've got some ideas on some products we can bring in. Our NBN wholesale product will help firewall, service will help backup, backup will help and expanded product set will help, the merger will help and moving forward. Probably one of the biggest issues we have had in growing the business is that we haven't wanted to grow the business. What we wanted to do is acquire the business, but not grow it, not hold it, not love it, not earn it, and we've changed that. We've appointed a National General Manager partner business of account management and business partner to drive the business partner program, drive the account management program. It's very structured, its account planning, it's meeting with customers, it's targets for account managers to grow to farm, it's targets to hold. It's a national approach. It's not different across different business. It will apply in Nextgen, it will apply in Vocus, it will apply in Commander as well. It's one of our main pillars to increase market share. I think, we can acquire. I think we've acquired quite well in the past. With our expanded products and unified approach, we can acquire even better and we can expand in the markets. If we can hold, this will be one of the main pillars, I believe, in increasing our revenue and market share. And most importantly, we're going to align our salespeople. So the sales in (inaudible) are not only about acquisition. It is very, very much focused on holding and growing what you hold. The best example I can give you of the opportunity here is I addressed a group of CIOs, one of their largest (inaudible) in Australia. And we went into the meeting and some example of how we got different platforms and how we got to bring them together. So we're operating different CRM. So we go into the meeting, and I go in thinking we have one of these CIOs as our customer. And these are all multimillion dollar business in terms of Telco spend. And so I did (inaudible) Vocus and can we have your business please. And one of the CIOs goes halfway through, you are boring me, I'll just do a rip around the room, how many of you people -- how many of you guys are customers of Vocus, and 6 hands go up. I go hang on, i thought we had 1 customer. And when we went back and went through the CRM, all of those businesses were customers of Nextgen, but it was like that, and I had 1 product to point-to-point link for 1 high-capacity side, might be a data center, but we hadn't farmed that business. We hadn't gone back and sold multiple products, and loved that customer and grow our revenue. Service delivery, our biggest problem. Service delivery is unacceptable. It's deteriorated over time, as businesses have been acquired. It's due to a number of reasons. There has been a spike in acquisition, in that we have brought more businesses in, which means more orders, and it's gone into a factory that didn't have experience in delivering a vast array of products, and at the same time we're trying to turn those products off. And that factory was delivering across 4 different platforms. And the information and the orders were coming through some of it manually, some of it through sales force and some of it through other applications. And so we did late last year is we forced 60 bodies at it and we didn't fix it. And so earlier this year, we had $4 million worth of MRR in the backlog, $3 million of which was greater than 90 days. That's MRR, not being delivered. So it's our major challenge. It's the major project fopr that transformation office. Its contract to cash. What's the solution? We've changed leadership. We've changed the approach to which we deliver. We've got a customer-centric approach to delivery now rather than product centric. It was very product-centric. If you bought 2 products, went to different people. The people delivered a product. They didn't engage with the customer. If you talk to our customers what was their biggest brief, no one talks to me. My order goes in and I don't hear anything from you and nothing happens. And who do I communicate with? I don't have an account manager or i can't find an account manager, and if I don't have a delivery -- dedicated delivery coordinator. So we've changed that. And what we've basically done is gone back to experience. The guy running delivery is the guy who executed for Amcom. And I remember being a shareholder of another company that was a customer of Amcom trying to convince them, that they should move their business before we owned Amcom. And I was told continually, there might be more expensive, (inaudible) I delivered on time, and we brought that resource back into the business with our leadership. And our national approach to product offerings will also improve. But the major improvement will come from our contract to cash, and there is a number of features to that, our customer portal, Vocus 1. I'm going to build a customer portal that will also be the employees portal. It will be the portal and the tool that salespeople and account managers and delivery we'll use to manage the customer relationship and it will be the portal that the customer uses to manage their engagement with us, they will be able to see their order, they'll be able to see that built. When there is, outage, which there never is, they will be able to look at that outage. But we'll also bring through that contracted cash features that we need to bring in the business, it will improve our customer management and our delivery. Orchestration and automation is paramount. Particularly with that cloud product, we want orchestration and automation so that the customer can turn it up and down. But also bandwidth, so a software to find networking networking will come through contracted cash, (inaudible) will come through contracted cash. Vocus 1 will have consistent product with consistent pricing and consistent rules. We will be able to manage our price, we will be able to manage our CapEx far better, and hopefully we can get this funnel emptied in the future. So to wrap up, priorities grow revenue. In the West, it won't be as great. It will come from leveraging the Nextgen Network. It will be about bringing back the products that were taken away. It will be about embracing business partners far better than we had in the future. In the East, what an opportunity. It's about increasing our share, penetrating enterprise, penetrating government, penetrating the larger business, implementing business partner programs, loving our customers, implementing a strong account management. In wholesale, we need to attack in the carrier space. There is enormous opportunities there, tens of millions of dollars, potentially hundreds in business that sits elsewhere that we can deliver and we can service. Government. We need to grow into government aggressively, and we have the capability to do that and the Eastern seaboard governments are EU procurement cycles, expand markets and business partner in commendable will help with that. Unified national approach to product is paramount, and our investment in Vocus 1 and improving our sold (inaudible) and decreasing our delivery time. And most importantly, control around our capital allocation, the way in which we spend our cash and being far more vigorous about when we do spend it and when we don't spend it. That's me. Questions?

Andrew Levy - *Macquarie Research - Analyst*

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Andrew Levy, Macquarie. Mark, can you talk to sort of the positioning of Vocus in the market for lots of those products, and you talked about the products that you want to bring in and you talked about the competitive set. Where you sit from a positioning when you guys have hitches and also from a pricing perspective, where you guys pitch relative to competitors?

Mark Wratten - *Vocus Group Limited - CFO*

Yes, I think testing is in the market. I'm fearful that we have been price-based selling to a greater extent than we should not taken some counsel from one of the organization that runs a lot of attendance for enterprise, and the feedback is we invariably are the cheapest in the room. The 2 big bids i spoke of that we had, the end of the final to us and one other party and it's (inaudible) and TPG, which is testament to our capability we are the cheapest and there is a a big gap. So I'm fearful that we are may be leading on price earlier than we should. But you got to be (inaudible) to the sales guys or the customer facing, having the asset set we have today and having the ability to value add and have different conversations is new to them, particularly on the East. So we need to get not only better representation on these, but we need to educate them far more. In the West, the more in show business, they're very much more conscious of the price. And when it first come on the scene, they said you're pushing Sydney pricing in the WISI and Northern territory, and we're already there, we don't need to move on price, and so they're been around longer and they've -- they approach it differently and -- but sort of waxing on a bit. But to answer your question, I think we're probably price leading a bit too much and not leveraging our asset. And then the other thing we've been guilty of is giving stuff away. We've been too easy to give away 3 months if you sign up we've killed that, and we've killed goodwill credits. I think we've killed a lot of things.

Sameer Chopra - *BofA Merrill Lynch, Research Division - Head of Australian Research and Co-Head of Regional Telecom Research*

Sameer from Bank of America, Merrill Lynch. I have 2 questions. One is, if you look at NexGen, can you give us a sense around what utilization looks like on the network, do you think you'll need to add more capacity improved electronics, and given the asset we sort of build in early 2000, i just want if you could talk about the state of the network itself? And the second one, this probably only happens occasionally, but when you do lose a customer, what's typically the reason they give you for switching away?

Mark Wratten - *Vocus Group Limited - CFO*

In terms of the NexGen, I would say one thing NexGen has done well is invested heavily. The CapEx has been quite heavy over the years prior to our ownership. I forget what the number was. I remember seeing it recently and so I have continued to invest in that asset. I don't know if I can speak intelligence enough on its remaining useful life and I probably have to wait for that to our engineers but I'm not aware of any risks in the foreseeable future in that asset reaching useful (inaudible) In terms of efficiency, we don't have a problem at all. The biggest problem with that asset is, it has never ever fulfilled its potential. Of course, it's only ever had 1 product, and that's point-to-point our capacity links, and then that's built chasing rainbows and it has used a lot of third-party to support that infrastructure. But it's had one product and it hasn't had multiple products on it to enable it to full fill its future. In terms of the conversation with, in terms of why and what customers turn, I think the feedback I'm seeing in recent times is because we're not the big 3, we're not them, there seems to be a desire for challenger and a smaller operator. I think there's also an element of we're meeting the market in terms of price. It's not because we have an expanded product set or we're doing -- we're offering anything different historically. I think, it's more about I want to change because I wasn't happy and our price is driving that change.

And that's why our customers coming to us, asking customers leading what exactly.

We don't know about -- we haven't studied -- we haven't historically studied cancellations well enough. It's only in recent times that we're letching -- that we've letched onto this. Customers would go and would cancel, and it wouldn't be recorded anyway. You would just have -- you would have -- and more often than not, the cancellation wouldn't be processed and then be crediting a bill that had been issued after cancellation. So this is the heart of this problem in account management and loving our customer. We don't have enough insight into why they live to answer that intelligently, because once we sign them, we haven't been encouraged to love them, to be the most loved Telco. and Amcom did have that heritage to a little extent, and Nextgen had some account management. But in the case of Amcom, the new incentive over the past 12 months have driven that out the behavior, the behavior out. And in the case of Nextgen, my guess is customer loss which it has been somewhere particularly in carriers one was the TPG (inaudible) that hurt, that's been the major loss and that was for other reasons. (inaudible) spectrum we have a having a different conversation (inaudible) and now we're back in the room. So in Nextgen it's more about not having the right product is It would by my guess there. But I -- we don't have enough knowledge to answer that truly intelligently, but I -- it is a focus for us to find out. Just about that network capacity question, there was a pretty significant progress where work implemented over the last 2 to 3 years, where the call -- Nextgen network the call was upgraded to 100 gig throughout. Now that's almost entirely done that is some of the regional capacity is still on 10 gig but it is millions of dollars not tens of millions of dollars worth of upgrade. So that capacity is actually very well accommodated within network today than there is lots of lightened opportunity to grow to bandwidth without entering additional CapEx. Just on that asset one thing I want to mention that I forgot to -- there's dynamic happening in the market this comes to the CapEx and building dark fiber and using third-party there's one thing that -- this is a personal view, it's not -- no one else's view. And I might and I'm probably wrong. But -- I've been around a long time and so I can remember coming on the scene where everyone build backhaul networks and excess networks weren't that popular, this is in the late '90s, early '2000s. And that all of a sudden everyone was building access network and the competitive advantage was the access network because the backhaul networks are being builtk. Here on forward now, what's the most valuable asset in my view -- a backhaul network is a lot more valuable than or becoming as valuable if not more valuable than excess networks. because you got to text via building fiber to consumers and they're threatening to do it to businesses later this year. Telstra are now a very willing wholesale provider. They're wanting to promote the copper of fiber transition. So there is different conversations with Telstra. There is -- we've got aligned fiber and aligned capability and there is wireless solutions as well. So it is a vast array of access networks, but the backhaul network you want is the one that reach the poise and the one to reach deep into regional markets and that's becoming a competitive advantage, and we've got one of the best. So -- and that's the thing we've got to pursue because of that backhaul network we can build pops into regional towns that bring access networks into a backhaul and those access networks are short-hauled access networks 1k, 2k low cost to build comes into your backhaul and that backhaul network is an extremely valuable asset. And that's why we should be embracing third-party and that's why we should be more critical about CapEx because we've got taxpayers spending the money for us, well, it is wonderful.

If we can just speak to the CVC, that (inaudible) would be great. Just ring up [Malcom] (inaudible) and bill me some fiber.

Eric Pan - *JP Morgan Chase & Co, Research Division - Analyst*

Eric Pan JPMorgan. So when you talk about holding and farming and going back to existing customers and selling them more services, how much additional CapEx is that come with? Are you leveraging your existing network capability or do you have to putt in more money in order to do that?

Mark Wratten - *Vocus Group Limited - CFO*

Absolutely leverage. It's converged services. Everything is IP. It's on the same link. It's on the same tile-access technology. There may be, depending on the point where we are in time, there may be step change CapEx in cloud. Cloud tends to have -- you bring on 100 customers and you got to step change CapEx for the next 100. But some of the margins we're seeing in cloud, we just did a great deal $0.5 million a year, 70% margin. The cloud product, I'm amazed why we walked away from this, we didn't pursue it. We had 4 cloud platforms and we turned it off. Got to figure out it doesn't make sense. So there is some CapEx in cloud, it's a step change. In the case of voice there may be some CPE, but it's not material, it's material for Mark.

Eric Pan - *JP Morgan Chase & Co, Research Division - Analyst*

And just to follow-up, we've heard that Telstra has been very aggressive in the enterprise market, coming in with maybe up to a 30% discount on their existing pricing and trying to lock in customers for a longer period of time. Is that what you've been seeing and how do you counter that?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes, we have been saying it selectively, not nationally. There are pockets of opportunities where we've -- where they have been without process. So that's a shock. When they are without price, it's -- it is bit of a shock. So yes, and they've got a squeezed play coming on in. They've got the copper of fiber, risk as well and if the NBN keeps building or threatening to build fiber in the business then it's a bit of a rise coming on. And we sit back within a connecting the buzz and we can be selective on whether we build or bur maybe we're building retrospectively as well.

Unidentified Company Representative

Okay, we are -- sorry the time is running just a little bit over so should we get over an hour here in time we'll hand over to Scott now. We will be hanging around for the little bit of time after the session. So please feel free to come and ask any questions from anyone of the presenters or anyone of the team that's in the room. I'm now going to hand over to Scott Carter.(inaudible) So Scott until recently, until the takeover was running the mass market business in Australia (inaudible) actually we spent some time talking about the command of business channel, may be a couple of months ago and it was very obvious that -- you've got -- actually you've got real capability in that business and you've got duplication of resources and processes and marketing and product. And having the single brand we take the market in Australia for all the business became the preliminary brand and so soon you've (inaudible) consumer and there's a bit of tic tac about which is the bigger vision.

Unidentified Company Representative

Refer to Slide #3 and I'm back.(inaudible)

Unidentified Company Representative

So Scott entered the business in 2011, 12 (inaudible) mass market business in the past 3 years now and now he is responsible for the consumers.

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Thanks, Geoff. Thanks very much. I appreciate. Thanks first of all. (inaudible) last one of the afternoon. (inaudible). Thank you for staying. So what I want to do is give you an insight to the Vocus consumer strategy for Australia. It's a cracking business, first of all. I'll just start there. It's a really, really good business. It's a business that is characterized by very high volumes by large numbers of customer transactions, but also characterized by the fact that it's got single digital market share in every market that it plays in. So we've got tremendous opportunities to make it grow up and grow up really quickly. We are a business that has been driven by our jewel in the crown, which is Dodo. Dodo has been the primary consumer brand in Australia. And today, I'm going to give you some insight to what we're doing to extend Dodo's position in Australia and take advantage of its very broad product range and position in market. I'm also going to give you some insight to how we're going to make iPrimus great again. And I think it's absolutely appropriate in the year that iPrimus turned 20 years of age. It was the first license carrier in Australia -- first carrier to be granted the license in Australia in 1997 when the competition started. So it's absolutely appropriate to bring it back now when we've got a disrupted markets through the NBN changeover bid and make it great again.

You'll see a lot of similarities in my presentation across Mark's and Mick's and back into Rhoda's for transformation and that's because we're one really close tight-knit team in this organization. It's the best executive team I've ever personally been involved in. And to work in a business where there's not a crack a lot between us, means that our strategies do actually align even though they're developed independently in our own management team. So it's a positive. It will make this (inaudible) a little faster.

What I'm going to talk about today is where we play and how we win. To give you an idea of what the markets are that we're in, the consumer business in Australia is in 2 markets, in the telecommunications market and also the energy retail market. I'm going to talk to you about our revenue split by those segments and also by product. I'm also going to tell you a little bit about what you already know, the incredible, insatiable demand for consumer broadband and the growth drivers. We're going to continue to have people searching for brands and providers who can deliver on a great promise in each one of the relevant segments. I think I'm going to talk to you about the key things that drive shareholder value through this business unit. I'm going to tell you about not only the things we are going to do, but also share with you insights of what we've done so far and where we are in our journey so far because this is not new. This is something we recognized some time ago and thankfully, got a lot of support from the board after we merged with Vocus Group and accepted to take on the goal that Geoff shared with you at the beginning of the day, which is to make our brands the most loved telco. So we actually already made a lot of investments into this part of the business, and we're starting to get time frames in the near future for these investments to start rolling out.

Finally, I'm going to give you an idea of some of the things that we're actually doing, give you some examples of, okay, so you transition your operating model. What does it mean? Bring it to life. What does it mean in each part of the cycle? If you think about my business, you can make it really, really simple. We've invested bucket of money into marketing to try and find customers and win customers in these brands. We invested money into sales into all sorts of different channels to go and find customers. We also invest money into retention to hang on to them. We invest a significant amount of money in customer service, and we invest a significant amount of money in customer service and then, as I said, we invest money in trying to retain our customers. What we need to do is become more efficient and more effective in each of those, and I'll bring that to light.

The Australian market, we've got 10 million households in Australia. In the telco market, we participate in the fixed broadband market on the left. As of the end of the year, the idea is to get that to 7.3 million fixed broadband households in Australia. That excludes satellite. And today, we stood at 7.3% share of market across our consumer brands in the Australian fixed broadband market. What happens between now and 2020, as you know, the NBN rollout, that market actually expands. And it goes up to near 8 million homes. So we've got 2 jobs to do. One is to continue our growth and net growth to make sure we can keep our 7.3%, but our goal as a consumer division is to grow to a double-digit share in the consumer market. That is what Mark spoke about (inaudible), what his team's galvanized around my team, absolutely galvanized around the fact that we want to have double-digit share in the Australian broadband market.

In the energy market, we participate in 4 states, South Australia, Victoria, New South Wales and Queensland. Queensland -- it is Southeast Queensland. So it's very hard to color in that state just into the Southeast. So we color all of it in. The reality is that means that there's 9 million homes that are contestable for electricity and over 3.5 million -- 3.6 million homes that are contestable for gas. We today have about 100 -- just over 150,000 total energy services, which is electricity and gas. We don't sell gas on its own. So we only do electricity in Queensland and South Australia, and we do gas in New South Wales and Victoria. Less than 1% share, and I'll show you later on that these businesses have absolutely been. Although under the one brand of Dodo, the energy business, they've been standardized businesses largely. There's been very, very little bundling that's occurred across this part of the organization.

So what does it mean? It means we're pretty excited. The market on the left-hand side, the NBN is doing a tremendous job at the moment getting past 5 million homes in Australia. This year is a milestone. But then next year, they will pass another 3.6 million. So that market is getting incredible amount of stimulation with and without my marketing dollar. What we need to do is to work at how to be more effective with the dollars we have to win share during that changeover win. And on the right-hand side, the energy market, plenty said about the energy market at the moment, but as Mark covered off, we have a balanced approach to hedging policy to make sure that we can maintain margins in energy, and we've got great opportunities to bring those 2 closer together in a similar vein to what New Zealand is about to do and start bundling to draw through the NBN opportunity.

Consumer revenues are diversified. As you will see on the left-hand side, 25% comes from energy and 67% from telco. You break the telco's 67% out, you've got 54% of it in broadband. The one that's probably underway and the one that needs to improve in our business that we've already set plans is mobile, and only 7% of revenue, of course, that's a massive opportunity. We've got over 0.5 million broadband customers. There's opportunity that every one of those households to sell the mobile. We've got over 100-odd thousand energy customers. They are also consumers of mobile. So we have been (inaudible) around in the last 5 or 6 months and get positive growth in postpaid mobile. And we've also been able to get people engagement with Optus' (inaudible) partner to be able to move that further as we go into FY18, as it is core to our strategy.

So what's driving demand? It'd be no surprise here. Anyone who's house hasn't had more connected devices in the last couple of years, I'd like to talk to you afterwards, and understand what it is you do. It's growing about mad. The drawing that's up on the board here is actually a drawing from some of our iPrimus research. And I'll tell you more about iPrimus later, but we've done a really great research project. And we ask people. And I said, (inaudible) the focus groups, which we do. It's a little bit weird looking at (inaudible) table, but (inaudible). And they're asked to draw their Internet in their household and one of them drew this. And if you can't see it at the back, it says Optus mobiles, it's got some cable, it's got Telstra, it's got Wi-Fi, Netflix stand and Foxtail, 3 iPads, 2 Xboxes, 4 laptops, couple of iPods and clearly, a fitness freak, has a Fitbit as well. So that's what's happening inside the house. And all of that's driving incredible demand. We're just about seeing Australia release some products like Google Home, Amazon Echo and of course, Apple HomePod that was released in the U.S. just 2 weeks ago. Netflix Stand, Amazon, YouTube, Spotify, wherever you want to go, incredible demand being driven through there. Changes in consumption to Free to Air TV, very topical today with one of our Free to Air television stations going to voluntary administration, massive changes in this part of the business. But what it means is that consumers are now consuming content on their terms when they like and how they like, and they're doing a lot of it in the household because of the large and unlimited plans in Australia. This is the big one though. As I said, 3.6 million Australian homes get the opportunity to choose NBN in the next 12 months alone. So we had to be match fit and ready to go and take share in that market, and I'm pleased to say that we've done a truckload of work in the last 2 years to really improve our capability by migrating customers to NBN from existing base and also our capability to go and win new customers in market in both of our brands.

Most important part of what we do though is to drive shareholder value. We don't have a job unless we drive shareholder value, and that's what we're here to do. The way we do that is to drive top line revenue. Key to this strategy, I'll show you in a moment, is to go to a complete dual brand strategy in Australia. On the front page, I showed you Dodo and iPrimus. The reality is that Dodo (inaudible) bring the dual and iPrimus we all know, but hasn't really stood for much in recent years and we are about to change all of that, which I'll cover in a moment. We've got great opportunities to go back and drive value from our existing customer bases that we spent a lot of money acquiring, and we left a lot of value on the table. The opportunities to cross-sell are immense in our base. And if you think about the things I'll talk about later about data science, capability and analytics, we realized this sometime ago and then we brought in a very talented team of data scientists to start analyzing our customer base, understanding where the opportunities are, how to talk to them, when to talk to them to get the best outcome for our business.

Cost to serve. We're probably late in transformation. If I ever got to call that we're late in transformation, I hope that the consumer business drive a lot of thinking in the great way that Rhoda and the team have done in putting the transformation team together because our business is littered with tremendous opportunities to completely transform our operating model. We're a business today -- I'll give you a couple of things. We're a business today that does about 6 million customer transactions a year. And we do have 80% of (inaudible) in the room. So if you can just imagine for a moment that majority of our customers in Dodo are sub 40, 45 years of age. So they use their habits and their behaviors are very digital orientated that I'd like arguably talking to people, it's potentially the second, third or fourth choice is to talk to a human being nowadays, yet we've still got people in the middle. We've got really great people. We're still going to have great people, but we have to augment this capability with digital capability. We have to give people the ability to be -- the things that Mark said, to be serviced on their terms, why they want, when they want and how they want. So cost-to-serve is an incredibly big opportunity for us and, as I said, we've already laid the plan. We're just going to roll it out and execute it now. It's not about dreaming up a strategy. The strategy is in place. It's all about execution in this business.

Simplification. In a complex business that came from many parts of the globe, there are lots of little businesses that are inside the customer path like every other part of the organization. We need to drive simplicity. We need to back the things that we know that we're really good at and do them well. We need to back out of things that are not core anymore. So with a lot of focus in our business to do something that a lot of companies don't do and it's called do best. It's actually one of the 5K drive to consumers to do less. So we are actively trying to find the things that we shouldn't do and shut them down, because if we take that one out of the equation, we're lot better with the things we should be doing.

(inaudible). As I said, I'll talk more about data analytics later, (inaudible) a bug there, right? Let's be frank. If you look at our OFR from the first half and you say the copper churn was reported, I think, at 3% in the OFR in the first half and we're reporting NBN churn at less than 1.5. So (inaudible) gas strategy is crystal clear with (inaudible) NBN. It is moving and moving fast. Right. There is no other important thing with our customer base and moving to NBN as soon as we can. We're not holding out because we don't -- we're not enjoying deep infrastructure margins on a lot of our customers. Most of them are retail customers. So we moved to NBN and get a lot better churn profile a lot quicker. That naturally will help churn. What I didn't tell you is in that some 7.3% broadband share on the slide before, 30% of that broadband today is actually NBN, 70% is on copper and 30% is on NBN.

And we are every week, every month doing a high number of NBN services in our business. It is made up of a combination of migrations and acquisition. And the migration pool gets bigger as the rollout pool gets larger, and you got to get to more customers. But there is nothing more important. We just cannot stop moving our customers quickly from a copper environment to an NBN environment.

(inaudible) share of wallet and delivering NBN experience, I've been asked this question a lot. Is this NBN churn sustainable? Can you hold onto it? Is it realistic? Yes. So various simple reasons is that fundamentally we're able to manage the end-to-end customer experience, because we're planning our network into the 120 employees around the country on the back of the NBN network. So last mile is same for everybody. (inaudible) provisioning. We design and build our network to give our customers a great streaming experience, because we know that's what they want to do in their homes, that's what they've told us. So we can deliver a good streaming experience to our customers, frankly (inaudible) their own because they've never ever, ever asked me what's (inaudible) They never asked me ,"Does my streaming work, is my television working?" I think it's a really important distinction, giving idea in the Dodo will today 7 out of 10 NBN services we have are on the lowest speed that NBN provides 12 1. And that's a good thing, because that customers are happy there and we get the lot of churn rate, the. Customers are able to be delivered on the Dodo value proposition, which is low priced. And we're getting, as I said, a really good churn rate. The opportunity going forward is that demand increases in the Dodo has is the ability to upsell them. It's to take them to the next place, to take them up $10 in ARPU, and also increase the AMPU to cover any potential cost on the saving side and other elements that come into it. So that's your brand strategy. This is the last time you'll say the [Dodo and] iPrimus logo was really tempted to roll in even out today, but I'm not going to. We have done a lot of work with iPrimus and that's certainly (inaudible) before so to say just what you did a year or so ago until it's out build up. I want to stop and tell you what happened with iPrimus. We bought iPrimus into group in May 2012, which is just under a year later brought Dodo. And Dodo was a business, it just had amazing growth credentials. So we put everything really into Dodo and iPrimus, we put into holding pattern. One day I saw a research project that was done on Commander. And it showed an amazing amount of win as iPrimus do. And in the spirit having a crack, this is very interesting story, I then went up to marketing and said, "What it would take to spin off a marketing campaign? What sort of a product can we add?" and you probably remember saying iPrimus come back after a little while. Yes, iPrimus for all of us was the all message we put beyond it. We did that to say if it work because that's the way we run our business. And I had full support of Geoff and who will say if [I had to go to] spend the money, (inaudible). And we created a great problem for ourselves. We worked out that iPrimus resonated in a different part of market to Dodo, but what we also then find out is that the systems required all were just not just able to handle the volumes in an efficient manner for what we noted. So we have to slow it down again, and that's pretty frustrating when it (inaudible) because I got off from growth (inaudible). We're really, really competitive and we want to grow and we have to slow it down. What we did in slowing it down was within and without did the work around what is it stand for. We did the research. How we're going to relaunch it? What are the proof points? What target markets are going to go after and how is it going to win? We then at the same time went about putting a new platforms. You would have heard from Rhoda before Salesforce and Genesis. To be very clear, this is a new customer engagement platform that I'll talk to in some detail. But it basically allows the customers to engage with us through any channel they like, social, web, chat, (inaudible) however, they want to engage, they can engage with us. And then the Salesforce platform allows them to see everything about that customer in a single plane of glass. And it also allows the customers to self serve themselves. And in the research, we found from iPrimus, this is exactly what those customers want to from a telco in the value part of the market. So we're designing a new business. We're going to make this business great again. It's got 20 years of investment into the brand in Australia. That's got a really great opportunity to step up and play above Dodo in the middle of that market.

What would people say about iPrimus? The new iPrimus, is they are talking to their friends often ask that question. I'd say it's great value, great quality and when I need services, it's absolutely amazing. And on the Dodo side, what I would say is it's a great product. It works (inaudible). So it's very clear distinction between where those 2 brands will operate.

Pointing out a little bit. I just thought I'd break it down and tell you what Dodo does. There is a really subtle change in the Dodo catch (inaudible) here. Dodo was all about connected say, (inaudible) loss 15, 16 years ago Dodo. And it was about connected site, the great value on every single product. So when you connect with Dodo, you'll save money. But to do that you got to pay by direct debit, pay by credit card, pay in some advances some rules come with it. Then what's happened is over time, it's evolved its product set. So from broadband, it lost energy 5, 5.5 years ago in Dodo and that business now is tracking to $180 million, $190 million a year revenue, with very little penetration of bundling with telco. And then added a small insurance business, about 30,000 people have trusted Dodo with their insurance policies. It does target a price ticket, right? We moved Dodo up in the year and you'll know we moved it back down again, because it was actually against what the brand stood for. We thought we could, but we just couldn't. So again, we have a lot of crack. We make mistakes. We got it wrong and we just fixed it. So we brought it back to where it should play and that's the way we price leader in the market.

It's got a broad range of products and services where you can talk to customers about and I'll talk about how that helps our distribution shortly. And it targets for only 18- to 40-year-old that average below average income. In iPrimus, it's going to relaunch is the most flexible Internet you can get, but unfortunately, I can't share the price points really today because they will come with the brand launch when we go in the first half of '18. It will do broadband, entertainment and mobile. And it will play very, very hard in the NBN changeover space, and it will play against the Tier 2, Tier 1 that are out there today. So that when people having to make an actively choice to choose, it's something fresh, something new, it stands for great value. It's still priced competitively and delivers a great service proposition.

Dodo bundle and save. In Dodo today we build about 550,000 distinct households, right? So just over 0.5 million households. What's really interesting now is when you go back to basin and have a look at it. There's 280,000 of those households that have got broadband only. And of that 50% of them we can go back and offer a great value energy deal today. You'll probably looking at us and say, why didn't you do it? It's because fundamentally we've just been chasing growth in each one of these particular product areas day in, day out, that's what we've been doing. Now what we're doing is we're starting to augment the resources in Dodo, we're using data science capabilities, so we're working at who to go to, when to go to and with the right offer. And now we've got some great opportunities to potentially double -- you definitely double the AMPU of a broadband customer in each one of those households by being able to add energy to them.

Likewise, in energy, we've got tremendous opportunities to go back and give them broadband. You look at that and say well, are they really going to buy broadband from you if you got energy. I'm happy to tell you that the NPS in our Dodo, power and gas business, regularly tracks between 35 and 40 positive. So those customers are extremely happy. It's got very low churn in Dodo, power and gas. So I think the ability for us to go back and offer them an NBN proposition that is build to do the things they want to do in their home is very, very strong. And likewise, the mobile opportunities is one that we -- as I said at the beginning, we're working on and we'll push pretty hard throughout FY '18. So what the point of this is to give you evidence that there is incredible amount of value, that's low cost and low risk in the Dodo base today that we're going to leverage.

This is what's happened in Dodo, by having a broad product range we've been able to establish a retail kiosk network. This is been work over a couple of years and somebody you followed are probably going to, gees, you've grown up from 70 to 100, we had, but this is a combination of fixed kiosk and also pop up kiosk. Pop up kiosk is a new initiative on the back of the NBN rollout. We're now able to tell 6 months in advance who's getting NBN, and we can go on price to pop up kiosk in those local areas so that we capture the pent-up demand that's there at the point of RFS, or ready for service in NBN. It's been a really successful strategy so far. We don't know how much it will flex. To be honest we don't know if we'll have 100 or 150. That would depend on rollout and how many are in each of those population groups.

I think the one thing to highlight that we always talk about in kiosk now continue to, is this business is not viable if it was a telco only business. It relies on the earnings that it gets from energy and telco to be able to get the economics to work. Really important. To give you an idea of Dodo today and how much the kiosk represents, in the last few months it's been tracking close to 20% of total sales volume in Dodo. And of that, over 30% of the total sales volume have been energy. So that's the evidence to say it's actually -- it's really important we wouldn't be able to have it without it. And what's being interesting is the research we've done recently and the customers are telling us that they enjoy having face-to-face, they didn't have a face-to-face option prior to this channel. And what's really interesting is when we work with NBN, they know that customers are looking for someone to go to, to talk to in NBN changeover and ask all or their questions. So we're getting a lot of traffic for people wanting to know more about NBN and that's converting to sales.

Relaunching iPrimus in the first half of '18, leveraging brand equity. For 20 years management spend in this brand called iPrimus. At one stage it sponsored 3 Victorian football clubs all at once. There was awful lot of -- I'm talking about hedging your bets. And anyway -- and what's really interesting about -- and I say that story because I sat in all the research groups and lot in lot of my team and that's what customer said. When they're asked, just bet are you -- did they sponsor this football club, that's quite amazing. So it's got -- as you'll see here, this is iPrimus here, 61% is aided awareness and 10% is unaided awareness. It's really loud on unaided. So it's a great opportunity for us to grow in that area. The other one I'd like to talk about quickly is a little jewel in the crown called Dodo that is 74%, and for the benefit of the chart all the other competitor have been taken off there and we've put competitor 1, 2 and 3. But I can tell you that it's sitting fourth and sitting fourth handsomely. So the marketing we do dollar-for-dollar and pound-for-pound in Dodo is really effective, and we know that. We know that because of the inquiry levels we get, the conversion levels we get and sales volumes we get. We just didn't know that it is as high as it does and we're really proud of that. And what we want to do now is take iPrimus and lift it up to here because as Mark said before, if you get awareness up, you get consideration up, you get preference, you get lots of sales and it's really, really important.

It does target a different audience through the test and trials we've identified that it's actually getting a different customer. So what this is on the scale is low on the left hand side in income and high on the right, and then all the households at the bottom through the young singles at the top. So it's carving across 2 different markets. Look at that and say, is that real? Is that really what's happening? I'll give you the evidence that I use to support it is in Dodo, I told you that 70 -- that, sorry, a large a volume of NBN service and Dodo at the lowest speed, yes. In iPrimus 60% of the NBN space is actually the [25/5]. So it's actually attracting a higher ARPU, higher AMPU in different speed.

THOMSON REUTERS

So in terms of transforming our operating model to get across to serve advantage, it is we're we get operating leverage. We've always been affective sales marketing and service organization. We just haven't had a digital platform to run our operations on. While we've got us invested in Genesys, it's a world-class contact center solution. We use the world -- words any channel contact because that's really what it delivers. Sales force single pane of glass taking a lot of different billing systems of presenting information on a single pane for a -- for an agent to be able to talk to a customer in having a meaningful, rapid, first-time right discussion with the customers is pretty important. We then toggle that information lots and lots of transaction and digital information into analysis and insights and then we continue to optimize this entire customer engagement overtime. So over time our business gets more and more and more efficient as we continue to learn about things our customers and plug up back into the model.

It assist with CTS, revenue growth and churn. I just want to show you 3 things really quickly that sort of bring the life. So what does all that mean? What does it look like? One, this is how we work today. Most of what we do is, as I said is, call center sign up & service. We've got a team of close to 3 -- or good over 3,000 team members in the Philippines that support the consumer business today, do a fantastic job, doing a lot of transactions. We've got a kiosk network, I mentioned before, that only got sign ups not service. And we've got online sign up & service, but it's much lower than even our New Zealand counterparts because we haven't got the platform in place that we've needed. But good news is, the transformation projects you can go back through the slides and pick 3 or 4 or 5 of those things and all related to consumer business delivering on its transformation agenda.

What will happen very soon into the future is that we'll have this model, where most of it is done online. We'll do higher volumes but a lot of the volumes will be done online. We know that our customers want to help themselves and serve themselves. We'll continue to use kiosk as a face-to-face option again, delivering on the customers want to do things on their terms and also call center sign up & service will still be important but it will be augmented by the digital platforms, they're obviously lower cost and very scalable.

We're putting our customers in control. Again, this is from the research we did. 85% of our customers use mobile apps today. 63% of them told us they want to use their apps to do the things that they call us to do today for their account. And they also -- we also found from that research it's only 11% in the Dodo sample actually use their apps. So the first question then is, why? Because their apps really aren't up to scratch. So we're making big investments now around making sure that we get the right apps to put in their hands, to make the journey easy for them both in doing a sale, which is the example on the left-hand side or servicing yourself, which is on the right-hand side. So these will be rolled out very shortly.

The last one is the agent console in Manila. A guy that we know has a great experience. You get to say incredibly passionate, a group of 3,000 people, some of the best copy and paste out us, I've ever seen in the world. And that's because they work in multiple systems to data service and customer. So we're able to simplify that. We've done a lot of work to understand what it is, what drives volumes, et cetera. We've made investments in a world-class platform in sales force. It means we can bring it all or most of the transactions, 80%, 90% of what they're talking to under a single stream. The examples are call inquiries, balances, usage, any milestones or outstanding. A knowledge panel, which becomes really important, which we can also express to the customer. So if they've got an inquiry that can help themselves and solve it. In the middle is a unified ticketing platform. If you put a ticket into it, it doesn't matter if it's find, email, chat, however it's got their it's all in 1 panel. We never had that before and that drives a lot of the cost to serve in a consumer business.

On the left is the number of services you have, any open cases you have and any history. So make a massive difference to our agents, in fact, we've rolled out the first level training about 1.5 week ago, in Manila, to the beta testing group because we're rolling this out in iPrimus in the first half as the first brand. And the major comment -- the key comment I got back that I love from an agent was, this is as easy use as Facebook.

Now we're for providing that to our agents, we're providing a platform to service our customers better, which drives a lot of cost to serve and improve customer's lifetime value and make their most loved telco gone.

The final bit I want to talk about is Unleashing Analytics into our business. Again, it was March of last year, I was over to Google in the U.S. and I met a really smart talented guy who was running an analytics function for another business. And we had a burger and a beer, and I told him our story about our business, how wonderful it is. Eventually he convinced that we should come and join. And since then we put together a really outstanding team of data scientist, and taken all that data from our legacy systems and spun it up into an AWS environment, where we've got incredible capacity to run really complex queries really quickly. So that we can start analyzing the rich data we've got.

We're billing 1.4 million service records a month. We're dealing with hundreds of thousands of households, we've got 5 million 6 million transactions a year, we're rich in data. We just want to rich in insight. So the insights will give us better customer segmentation. Running a jewel brand strategy, who do we talk to and when? When NBN's rolling they had to -- we know whether to iPrimus data on the letter box. How do we get better probability of those things so we can just cost to market? What I made it and manage acquisition or retention process is we only have a finite number of resources. How do we know where to point and shoot them? So this is absolutely the job that analytics is doing. Now I say Unleashing the call. We're sticking it right in the middle of that business and it will drive every part of the investments we're making customer journey because we have to, because you can't just keep spending and spending and spending. We've got to continue to drive return on our dollars in marketing, cost-to-sale and also cost-to-serve.

And churn modeling and customer loss prevention -- prediction, I should say, not prevention -- prediction. Churns again. We've made a great business of finding customers. If we become a great business at keeping customers and extend the life, which is how we define most live telco, which is have a longer lasting relationship with me, then this business grows exponentially. So I just want to show you a quick example here that guys in analytics have been running for us. They took 225,000 Dodo customers records, they then took a series of information points around the financial status of them, the tenure, how long they've been with us, what products they had, what the demographics were, et cetera. To create a model effectively, to try and predict better outcomes of which customers are most likely to churn. From that I found a group of 11,000, that they then took and broke into 4 different cohorts, which you'll see on the screen behind me. The idea here -- this is not a complete test, so the numbers are probably irrelevant. It's the idea that we're trying to talk to you here, is that we're actually building a model that will continue to take inputs from each of these tests we run. And over time it's predictability, it's ability to predict, which customers we should be talking to are mostly likely to churn will improve. It's effectively deep learning. The basis of what IOI is build on today. So the more inputs you give and the better outputs you get. The only stage is out and we're seeing 2x better result using this model than the traditional life, simply going back and trying to resign your customers. So it's very early life. But I wanted to give you an example the sort of things that we're doing, and we'll do this across every part of that business, acquisition, retention and also customer life cycle. The smarter we get, the more efficient we get.

So what are our priorities? They're all up on the board, but I can summarize it by saying, we have to drive the margin pool, we have to continue to drive more margin from the existing customers we have and the new customers we gain and that's done through acquisition and also bundling strategies in the brands. It's done by making sure that iPrimus is a leading brand, not a backstage thing of the Dodo because it will bringing higher ARPU and AMPU. We have to make sure we reduce cost-to-serve, augmenting our current great business with the digital platforms delivers on the cost-to-serve initiative, and we also have to make sure that we reduce churn, which means keeping our customers longer. The great signs out with 30% of broadband on NBN, and we're getting it now. We just kind of continue to work on that and continue to drive it down and we have a really healthy and sustainable consumer strategy that's single-digit share today. We wish to make double-digit share in the future. Thank you.

Rhoda Holmes Phillippo - *Vocus Group Limited - Non-Executive Director*

We will move to questions.

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

Scott, it's Eric Choi from UBS. [Sudden] 2 questions. The first one was just on copper churn. So if you think back to when the M2 and Vocus merger was first announced, simple phases was, (inaudible) VOCs infrastructure to improve user experience, lower churn. Do we still think that's an opportunity? Or is other churn reduction measures going to be more sales and marketing lift like in your examples?

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Yes. Okay. Is that your first question?

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

That's first question. And then the second one was just around, and I apologize if this is for Mick, but we've got really good KPI disclosures around most of the businesses now, but the one where sort of still lacking clarity is probably Commander SMB. So just wondering if you can give us a feel for how the economics or the AMPUs of a -- of an SMB customer change as they transition from PSTN to NBN?

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Yes. I'm happy to, if you want, happy to give it to Mick. I still remember it. That's good. The first part of your question is that, if you think about our copper base, it's largely a resell base. They're -- a part of it on our network. And a part of it on our own network. We've done things to try and improve the user experience off of it by connecting. So for example, we've got iPrimus (inaudible). We're able to do things for those customers. But for the ones where we're reselling a Telstra service through Telstra wholesale that we've had previously, our strategy there is simply to move those customers. We've obviously done things to improve the experience in the resell environment. As the number of customers goes down, we're able to give a better experience on copper side. We've been able to achieve it, but without necessarily having to plug lots of network and it's being capital to do it. The copper churn now, really, if you think about the NBN rollout I've put on Slide 4 or 5 there, that will come so much quicker now. So the reality is that we've opened the pipe up, we've given what we can in a reseller world today to make it a better experience. And it is better. But the reality is, we just got to get them on to the fiber network as it rolls out and that will be fast, 8.6 million to 10 million homes by the end of next year.

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

Around the customer?

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Yes, a commanding customer. If you're referring to the voice to NBN area, you basically get a lower ARPU, because all the -- but the good news is, you also take out the service and equipment charge that you're paying away in a wholesale environment before. So in terms of AMPU dollars, it's largely similarly, the AMPU dollars that you get. Margin percentage is obviously changed out of different ARPU level. But the AMPU dollars are largely the same, and that's because everything effectively becomes our net, apart from the NBN sales. You're paying the IBC cost to the NBN. You're really not paying any incremental -- it's obviously cost for, say, cost for business subscribe services used during non-busy hours the same in general marked calendar years in New Zealand. We've provisioned our network for busy hours and not (inaudible) network. It's obviously available all day to the commanding customer at that incremental costs. There's opportunity there. And then all the voice traffic in an IP world. So when it goes from freestyle to IP, it traverses the entire Vocus network. So we get better economics there. So yes, you'll see ARPU come down. But I think the opportunity to hold AMPU dollars is absolutely there. And likewise, the other thing that drives it in getting broad data -- but the other thing that drives it is when you move from [PST] into IP voice, you generally have more handsets than you do phone lines. So that drives a little bit more in terms of the ARPU and AMPU for the customer.

Brian Han - *Morningstar Inc., Research Division - Senior Equity Analyst*

Hi, Scott. How confident are you that your sales platform and systems will be ready when iPrimus is launched? Or is this something that you have to recover because of the upcoming entrants into the NBN later this year?

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Yes, thank you. So what's your name?

Brian Han - *Morningstar Inc., Research Division - Senior Equity Analyst*

Brian from MorningStar.

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

All right. I'm very confident because I've been the guy who's chaired the entire steering group for the sales force and Genesis project. I was also the executive -- the head on the block, and I [stole] the capital from the board. I'm sorry. I couldn't be more confident the way we've delivered it in the first half. We've got an outstanding group of people who will work to do the integration of great project management laids. Yes, we'll definitely have it rolled out in the iPrimus platform. And then the plan is, which I can share and that sort of comes up the question, right. It was asked earlier. We'll then roll it out across to data as soon as we're done, and I promise. It's absolutely part of the launches. It's probably why we've held the launch back a couple of months, because I want to do it altogether around the path.

Brian Han - *Morningstar Inc., Research Division - Senior Equity Analyst*

So Scott, if you don't mind, just a side question. When Vodafone comes into the NBN market, which brand do you think will be under more attack from your point of view?

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Honestly, I don't think it's Dodo. And it's really hard to comment on our promise until we actually roll it out and launch it. I think all new entrants create threats and opportunities. And I think with the relative market share of 7%, most of it should be opportunity for us.

Unidentified Participant

Hi, Scott. [Scott] from Montgomery. Just wanted to get a bit more color on the consumer strategy with the reduction of cost-to-serve. So if we sort of summed up all those different initiatives and then looked at that per customer per month basis, what sort of dollars are we talking about in terms of what you could actually save? So if you're spending -- it's hard to say what the capital -- say, if you think it's per month or so, was that a reduction of $1 or $2? Is it sort of like that?

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Yes, okay. So we haven't really talked yet.

Unidentified Company Representative

I'm happy to share what we envisioned as the 5-year plan...

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Then I will say that 5 years we expect to see cost-to-serve reduced by 30% to 50%. And we expect to see cost-to-acquire reduced by 20% to 30%.

Unidentified Participant

And out of all those initiatives, what was the top 3 contributors to that? Are they all pretty even?

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Yes. Look, the cost-to-acquires is driven by augmentation of using kiosk and people to do sales to driving digital. That's part of the mix. That's reasonably logical 1. Cost-to-serve is by having a large number of people wanting to service themselves, but it's also driven by the fact that your broadband base is also working in your favor because your NBN, it's journey is half the rate. So the reality is that you've got more satisfied customers less likely call you in an NBN world. So you've got a (inaudible) effect, because you've got less contacts in total and then you got all the (inaudible) of the channels that all cost to different amounts to serve those customers. We, absolutely, remain crystal-clear in 5 years. We are transitioning this model from a human in the middle, so being able to move a large percentage of it into digital, low to no touch environment. And that's because the world is changing and we need to change our model with it.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

We have time for 1 more question, I think. So...

Raymond Tong - *Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst*

Hi, Scott. I'm Raymond Tong from Evans & Partners. Just in terms of your bundling strategy, can you maybe give a sense for where you think churn can get to? We had multi-parts in your bundle. You've got one product with no churn (inaudible) at the moment. If you are to -- where do you think you'd get to...

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Yes. I think, honestly, a long term -- long term, you put us back in the ground. So if the churn is 1-odd percent, that's probably thereabout. Ideally, you'd love to be able to get it at 1%, but I just don't know, Raymond, to be honest. I'm very pleased with the NBN results. Absolutely pleased on like-for-like for basis for a couple of broadband to NBN. Delighted. With bundling, I think, it'll make harder for people to leave us, going forward, if they're seeing on their bill but they're getting value on their second service and third service. And we've never done this, right. I may have to explain that. Data power and gas, for example, was, in Victoria, 30% off the electricity and 20% off the gas. And your broadband was the same broadband prices when you bought them separately or together. We are planning to make a move to change it, so they can demonstrate to the customer they are getting value. And the reason we're doing that is they're price seekers, and it's what turns them on, and it's what keeps them with the insight. We think it'll definitely improve, because if the uncomfortable level will cost more on the primary services that's potentially be behind.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Thanks, Scott. Thank you.

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Thanks.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Thanks. Just so we are better gainst the 3:00 close on target. I'll be very short. I just wanted to close it up by saying that we are already writing on. Today, our business is on track. We've delivered $1.8 billion of revenue and $365 million to $375 million of EBITDA. I think, importantly, we're not making any assumptions around one-off earnings contributions, any material assumptions around one-off earnings contributions to our earnings within that range. There is the potential for some slowing off, but, though, we'll obviously be calling them out in this period. I hope that you've seen that there is a very clear set of priorities to the (inaudible) business, and those priorities have strongly aligned with how we're going to create shareholder value. We obviously regard the margin (inaudible) around the way we make our businesses more efficient, to draw our costs out of our business every time we move to a digital-led environment, driving costs out, improving our customer satisfaction, then having strong governance and discipline in the way we allocate our capital, improving cash returns in time as well. I hope that comes through. But more importantly, how this comes through that one of the great challenges, one of the great priorities that we've had over the last 12 months is to make sure we build a really highly capable team. And I was sitting back, listening to the presentation that we saw today. It fills me with great pride to see the quality of talent and the level of engagement and the passion and enthusiasm the team have demonstrated today. So join me in wishing and thanking for their presentations today, and thank you for making the time.

We want to give anyone -- I just wanted to -- if people need to leave, I'm please you can go. If there was any final questions, I'm happy to take them or we'll just take them over a cup of coffee. Maybe we just got one. All right. And that's so early, Kelly. Sorry, about that.

Andrew Levy - *Macquarie Research - Analyst*

So it's Andrew Levy, Macquarie. Are you able to give us any color on some of the timing around the tenor and what the strategies out there, I suppose, but next year where we see earnings go up. And I don't know if I can (inaudible) you for any aspirational earnings targets. So Clearly there's going to be a lot of speculation. But for investors who are trying to weigh up some of the opportunities that are coming and people looking at your company, I thought it might be helpful.

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Sure. We've obviously -- we feel very strong sense of accountability for the business performance this year. It's really unacceptable. And we have some market funnel. We have -- we're very hard to get a better understanding how the world market stands in terms of improving the quality of the financial information and the work we've done for the last month or so and building out through the 5-year forecast. We have absolute conviction about the businesses' capacity to grow earnings over time. Obviously, we have some headwinds to overcome FY '18 with the deferred shutdown warning, and that will be a bit of a headwind. But we still believe we can grow earnings through FY '18. And we think that the -- executing on this plan, growing margins and driving our costs, can actually be, mainly, the business delivers quite materially in Australia in the 3- to 5-year horizon. We have absolute conviction about that.

Is there anyone up? There's a question from the back.

Sameer Chopra - *BofA Merrill Lynch, Research Division - Head of Australian Research and Co-Head of Regional Telecom Research*

Hi, Geoff. It's Sameer. My question is around, as the NBN kind of moves to HFC, do you see any differences in how you're able to acquire customers? Is it different? Is it slower, because people have been saying HFC is a little bit different than fiber to the node?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes. Scott, I suppose, you're going to be happy to take -- talk to that.

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Sure. The question was basically the HFC?

Sameer Chopra - *BofA Merrill Lynch, Research Division - Head of Australian Research and Co-Head of Regional Telecom Research*

Yes. The HFC -- the NBN moved to a HFC rollout. I was just wondering is there a difference that you're seeing in terms of your acquisition profile? Are you able to acquire faster, slower if the NBN moves to HFC?

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Yes, it's really not much difference. The only difference (inaudible) downtime is the workforce planning, and that happens at NBN. So they've got particular demand and resources. Sometimes the provisioning days can go up. That will make us measure that every single day. So we see trends buying out. We'll take activity out of that area and we've got to put it down there. So we'll do that just to maintain customer experience, because the reality is the rich pool of NBN opportunities out there. You don't just rely on one. So we'll move it around based on where NBN resource planning is at any single point of time. But we do a full review on NBN every 7 days, so that we can keep a close eye on it.

Unidentified Participant

Geoff, [Raymond Jay], again. I may also have a question for Mick. Just you talked about the government and enterprise opportunity of that $3.8 billion, when you look against your competitors, do you think that being, I suppose, Australian-owned with Telstra is a competitive advantage when you go into their tenders?

Michael Simmons - *Vocus Group Limited - Chief Executive of Enterprise & Wholesale*

Absolutely, absolutely. We're, with the number of federal government agencies, we're one of them in being considered because of that very reason. That's across numerous fed. And the [Tippens] contract, there's restriction around sovereignty in that as well. So absolutely.

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

It's Eric from UBS. Just a follow-up to Raymond's question. So it looks like there's about $800 million of government pipeline for Nextgen over the next to 2 to 3 years. Just wondering if that's -- we should be thinking that as an unusual sort of bump or has -- Nextgen had those sorts of opportunities in the past and it just failed to execute because of bad sales or whatever reason?

Scott M. Carter - *Vocus Group Limited - Chief Executive of Mass Markets*

Had them in the past as contracts mature. It always been there. It's a different discussion today with the different proxy. If we think about some of the agencies, some of the security agencies and the RBI and our customers today, not we (inaudible) voice to any of them. And we're having those conversations today. So it's about product set. But it's access network and over-the-top products that can be bundled with the connectivity.

Eric Choi - *UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst*

And maybe just one final question for Geoff, sorry. Just on ASC, I know you're very committed with that. Hypothetically, if you would have stopped the project in the next month or so, what sort of break fees, if any, will there be? What sort of CapEx can you sort of not unwind sort of committed to already?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes. Obviously, the board's view is going to impress at this magnitude. You understand those intuitively. Be responsible not to understand what those things are. I said before, the business is very committed to securing those customer commitments to build the project, and we feel we're well positioned to do that. We're in various discussions with a number of parties. I think that's something that's probably fall off out of matter.

Eric Pan - *JP Morgan Chase & Co, Research Division - Analyst*

Just one last question from me. Eric Pan, JPMorgan. And when we think about the amount of money that's being invested in your network, if one is out to replicate your network today, how much do you think it would cost them?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

It's an extraordinary amount of money. It's actually hard to -- in the situation where anyone would, the reality is to go on build $1 billion of long-haul networks that Nextgen built. It's at least $1 billion of investment to build that network. The reality is that there is competing networks there. It would be very hard for anyone to justify building it again, to build the metro Ethernet. The metropolitan networks would be hundreds of millions of dollars. It is -- now the business has significant asset value (inaudible). But importantly, it has a significant portfolio of customers and earnings in the assets. As proven by many builders over the years, the assets aren't worth much. Replacement costs are irrelevant. You're going to have revenue on them. And importantly, the business has very high-quality revenue and earnings flowing on those assets. And over time, we have the opportunity to drive more and more revenue by migrating customers on that and by acquiring new customers. So I think it is definitely important we acknowledge that the assets of this business are extraordinary. That's what opens up the opportunity for us to compete in these 5 government accounts and to talk to the carrier market. And really, it is our -- I'll take it to compete. And it's one that we are absolutely focused on executing on.

Nick Harris - *Morgans Financial Limited, Research Division - Senior Analyst*

Nick Harris from Morgans. Geoff, just as a question on the gearing and, obviously, your levels of comfort. When we look forward next year, obviously, Mark has done a really good job of explaining how it's going to improve that cash flow conversion, which is going to help (inaudible) if your CapEx comes off a little bit. Is that what we really need to see to come through for the debt to come down? Or is there a possibility of sort of non-core divestments like the data center business or other business?

Geoffrey Horth - *Vocus Group Limited - Group CEO*

Yes. I think that's -- absolutely. Our business is always -- was going to be open to any contemplation of divestments where it makes sense to shareholders. And we -- because we monitor about that. The reality is that we have divested a couple of small non-core assets. We've divested a joint venture in New Zealand (inaudible) the rest of the outcome HCS platform (inaudible) the solution that sort of carry the small system integrators' opportunity. We talked about the fact that we don't see that as necessarily core assets (inaudible). We thought of it as become a very significant category. There's great operators in that market. It's a business that can generate cash flow for us and we don't have any compelling need to sell. But if it's attractive to someone else, then we'd be open to divesting that. In terms of delevering the business, we need to delever earnings growth and it needs to generate free cash. And I believe we remain confident that, that opportunity is available to us. And so I think, I believe, that we can grow earnings in FY '18 and you can get the numerator and the denominator moving, then you delever quite quickly. And that's really why we are so -- we're obviously focused on costs and working capital and CapEx, and we're getting better visibility on those things we've ever had. We lost a lot of that through the integration of the finance organization. And Mark's done a great job of just starting to peel back the onion and give you some better understanding of it. So we think it's a very high focus in the business and the board are very conscious about our leverage position and confident that the business can deliver in its own right.

And that sounds like a wrap-up. So once again, thank you for making the time today. And please free to hang around. We'll be here for a little while, if you've got any follow-up questions. And yes, once again, thank you.