19 February 2020

The Manager
Market Announcements Office
Australian Securities Exchange Limited
20 Bridge St
Sydney NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam,

Financial Reports – Year ended 31 December 2019

Vocus Group Ltd today provides the attached Financial Reports for the half year ended 31 December 2019.

Authorised for release by:

Simon Lewin
Company Secretary

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VOCUS GROUP

HALF YEAR FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019
INCORPORATING THE REQUIREMENTS OF APPENDIX 4D

19 FEBRUARY 2020

Appendix 4D (ASX Listing Rule 4.2A.3)

Half-Year Report for the half year ended 31 December 2019

Vocus Group Limited

Six months ended 31 December ($'m)	2019	2018	%chg
Statutory Revenue	901.9	969.0	(6.9)
Underlying EBITDA[1,2]	179.3	176.4	1.6
Statutory EBITDA	181.2	168.6	7.5
Underlying EBIT[3,4]	97.0	102.0	(4.9)
Statutory EBIT[3]	45.9	50.0	(8.2)
Underlying NPAT[5,6] **after minority interests**	54.4	54.6	(0.4)
Statutory NPAT [6] **after minority interests**	12.8	16.5	(22.4)
Basic earnings per share - cents	2.06	2.65	(22.3)
Diluted earnings per share - cents	2.02	2.62	(22.9)
Fully Diluted Underlying EPS (¢)[5]	8.56	8.68	(1.4)
Net tangible asset backing per share - cents	57.5	52.0[7]	10.6
Interim dividend per share –cents	-	-	-

1. Pre significant items and below the line costs of $(1.9)m ($7.7m costs in prior period), as disclosed in section 1.3.
2. EBITDA refers to earnings before net financing costs, tax, depreciation and amortization.
3. Statutory EBIT refers to earnings before net financing costs, impairment and tax.
4. Pre significant items below the line costs of $51.1m (costs of $52.1m in prior period), as disclosed in section 1.3.
5. Pre significant items below the line costs of $41.6m (pre significant costs of $38.1m in prior period), as disclosed in section 1.3.
6. NPAT refers to net profit after tax.
7. Comparative Net tangible asset backing per share is as at 30 June 2019.

The Vocus Board has made the decision not to declare an interim dividend for the half year ended 31 December 2019. As disclosed to the ASX on 25 June 2018, Vocus closed an increased syndicated debt facility with its lenders. The Syndicated Facility Agreement stipulates that dividends will not be paid until the Net Leverage Ratio is below 2.25x for two consecutive testing dates. The Net Leverage Ratio as at 31 December 2019 is 2.81x, a reduction of 0.07x from 30 June 2019.

The half-year results commentary is unaudited. Notwithstanding this, the Appendix 4D, the OFR and results presentation all include certain financial data which is extracted or derived from the Half Year Financial report for the period ended 31 December 2019 that has been reviewed by the Group's Independent External Auditor.

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DIRECTORS' REPORT

The directors present their report, together with the financial statements, on Vocus (referred to hereafter as the 'Consolidated Entity' or 'Vocus') consisting of Vocus Group Limited (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled for the half-year ended 31 December 2019.

Directors

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

Robert Mansfield AO	Non-Executive Chairman
Kevin Russell	Group Managing Director & Chief Executive Officer
David Wiadrowski	Non-Executive Director
John Ho	Non-Executive Director
Julie Fahey	Non-Executive Director
Mark Callander	Executive Director
Bruce Akhurst	Non-Executive Director
Matthew Hanning	Non-Executive Director

Principal activities

Vocus Group Limited (ASX: VOC) is Australia's specialist fibre and network solutions provider, connecting all mainland capitals with Asia. Regionally, Vocus has backhaul fibre connecting most regional centres in Australia. Vocus also operates an extensive and modern network in New Zealand, connecting the country's capitals and most regional centres. In total, the Vocus terrestrial network is c.30,000 route-km of high performance, high availability fibre-optic cable supported by 4,600km of submarine cable connecting Singapore, Indonesia and Australia and 2,100km of submarine cable between Port Hedland and Darwin and connecting offshore oil and gas facilities in the Timor Sea. Vocus owns a portfolio of well-recognised brands catering to enterprise, government, wholesale, small business and residential customers across Australia and New Zealand.

Review of operations

Please refer to the Operating and Financial Review for further details relating to Vocus operations and results for the half-year ended 31 December 2019. The Operating and Financial Review includes information that Vocus shareholders would reasonably require to make an informed assessment of Vocus' operations, financial position, business strategies and prospects for future financial years.

This Operating and Financial Review is to be read in conjunction with, and forms part of, the Directors' Report.

Significant changes in the state of affairs

The following change in the state of affairs of Vocus occurred during the year:

Class Action:

Vocus announced on 23 December 2019 that it had reached an agreement to settle the class action commenced against it in April 2019 in the Federal Court of Australia. The settlement of the class action, which is without admission of any liability, is subject to Federal Court approval. The settlement amount is $35 million inclusive of interest and costs. Vocus will contribute $3.5 million to the settlement, which will be reported as a significant item below underlying EBITDA. The remainder of the settlement is fully insured.

Vocus' Board determined that the agreement to settle was a commercial decision made in the best interests of the Company and its shareholders.

Rounding of amounts
Vocus is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 (formerly ASIC Class Order 98/0100), and in accordance with that Instrument, amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors

Robert Mansfield
Non-executive, Chairman

19 February 2020
Sydney

OPERATING AND FINANCIAL REVIEW

1. GROUP OPERATING PERFORMANCE

1.1 Overview of Operations

Vocus Group Limited (ASX: VOC) (Vocus) is a specialist fibre and network solutions provider. The Company owns an extensive national infrastructure network of metro and back haul fibre, connecting capital cities and regional centres across Australia, New Zealand and into Asia. It is the second largest fibre network in Australia.

Vocus targets the enterprise, government, wholesale, small business and residential market segments through a portfolio of brands. Vocus offers both consumer and wholesale NBN services within Australia through all 121 NBN points of interconnect, as well as 100% coverage of the UFB network in New Zealand.

Vocus Network Services

Vocus Network Services operates under the Vocus Communications brand and provides telecommunications products and services to the enterprise and wholesale businesses, and all levels of Government, in the Australian market. Products and services include Networks and Connectivity, Cloud Platforms and Security, and Workplace Collaboration. Within the wholesale segment, Vocus provides high performance, high availability and highly scalable communications solutions which allow service providers to quickly and easily deploy new services for their own customer base. For further information on the financial performance of the division please refer to ***Section 2.1.***

Retail

Retail focuses on the price sensitive and value seeking segments of the consumer market and the small to medium business segment. It provides telecommunications products and services including broadband, voice and mobile services, as well as energy products. Within the Consumer business, the go to market brands are **dodo™** and **iPrimus™** with some small legacy brands from prior acquisitions also maintained**. Commander™** is the go-to market brand for the small and medium business segment. For further information on the financial performance of the division please refer to ***Section 2.2.***

New Zealand

New Zealand operates in all key segments of the market, including Business, Government, Wholesale and Consumer. In Business, Government and Wholesale the division's key brand is Vocus Communications. The key Consumer brands are Slingshot and Orcon. The New Zealand business is run as a separate business to Australia and includes all New Zealand overhead and network related costs. For further information on the financial performance of the division please refer to ***Section 2.3.***

The Operating and Financial Review excludes the impact on AASB 16 Leases from underlying results, table 1.2, 1.3 and 1.4 provides a reconciliation between Statutory EBITDA to Underlying EBITDA. Section 2.5 shows the impact of AASB 16 Leases on the Profit and Loss, Balance sheet and Statement of Cashflows for the period ended 31 December 2019.

1.2 Reported Earnings Overview

$m	31 December 2019	31 December 2018	$ change	% change
Statutory Revenue	**901.9**	**969.0**	**(67.1)**	**(6.9)%**
Recurring	*876.4*	*899.9*	*(23.5)*	*(2.6)%*
Non-recurring	*25.5*	*69.1*	*(43.6)*	*NM[6]*
Statutory EBITDA[1]	**181.2**	**168.6**	**12.6**	**7.5%**
Depreciation	*(74.8)[4]*	*(62.6)*	*12.2*	*19.5%*
Amortisation	*(60.5)[5]*	*(56.0)*	*4.5*	*8.0%*
Statutory EBIT[2]	**45.9**	**50.0**	**(4.1)**	**(8.2)%**
Net finance costs	(26.1)	(26.2)	(0.1)	(0.4)%
Income tax expense	(7.0)	(7.3)	(0.3)	(4.1)%
Statutory NPAT[3] after minority interests	**12.8**	**16.5**	**(3.7)**	**(22.4)%**

1. EBITDA refers to earnings before net financing costs, tax, depreciation and amortization.
2. EBIT refers to earnings before net financing costs and tax
3. NPAT refers to net profit after tax
4. Depreciation includes $8.9m related to the adoption of AASB 16 *Leases*
5. Amortisation includes $44.1m related to acquired customer relationships and software
6. Not meaningful

1.3 Reconciliation of Statutory to Underlying Results

The key significant item for the period ended 31 December 2019 mainly relates to the amortization from purchase price allocation.

H1FY20 $m	EBITDA	EBIT	NPAT
Statutory Result	**181.2**	**45.9**	**12.8**
Significant Items			
AASB 16 *Leases[1]*	(10.9)	(2.0)	3.2
Gains/losses associated with foreign exchange & other	0.1	0.1	0.1
Net loss on disposal of assets	0.3	0.3	0.2
Long term incentive	4.1	4.1	4.1
Amortisation from purchase price allocation[2]	-	44.1	30.8
Other significant items	4.5	4.5	3.2
Total Significant Items	**(1.9)**	**51.1**	**41.6**
Underlying Result	**179.3**	**97.0**	**54.4**

1. AASB 16 Leases introduces a single, on-balance sheet lease accounting model for all leases where the Group is the lessee. The Group has adopted AASB 16 Leases using the modified retrospective transition approach effective 1 July 2019 with no restatement of comparative information, refer to Note 2 of the financial statements and section 2.5 of the Operating and Financial Review.
2. The amortisation expense relates to acquired customer relationships and software.

1.4 Reconciliation of Underlying EBITDA to Statutory NPAT

$m	31 December 2019	31 December 2018	$ change	% change
Underlying EBITDA	**179.3**	**176.4**	**2.9**	**1.6%**
Underlying depreciation & amortisation	**(82.3)**	**(74.4)**	**7.9**	**10.6%**
Underlying depreciation[1]	(65.9)	(62.6)	3.3	5.3%
Underlying amortisation[2]	(16.3)	(11.8)	4.5	38.1%
Underlying EBIT	**97.0**	**102.0**	**(5.0)**	**(4.9)%**
Underlying net financing costs[3]	(20.9)	(26.2)	(5.3)	(20.2)%
Underlying Profit before tax	**76.1**	**75.8**	**0.3**	**0.4%**
Underlying tax expense	(21.7)	(21.2)	0.5	2.4%
Underlying Net Profit after Tax	**54.4**	**54.6**	**(0.2)**	**(0.4)%**
Significant items before tax	(51.1)	(52.0)	(0.9)	(1.7)%
Significant items after tax	(41.6)	(38.1)	3.5	9.2%
Net Profit after Tax	**12.8**	**16.5**	**(3.7)**	**(22.4)%**

1. Underlying depreciation excludes $8.9m related to the adoptions of AASB 16 *Leases*, please refer to section 2.5.
2. Underlying amortisation excludes $44.1m related to acquired customer relationships and software
3. Underlying net finance costs exclude $5.1m related to the adoption of AASB 16 *Leases*, please refer to section 2.5.

1.5 Revenue and Underlying EBITDA Earnings Overview

Discussion of the factors driving revenue and EBITDA are contained in the commentary on divisional performance.

$m	31 December 2019	31 December 2018	$ change	% change
Recurring Revenue	**876.4**	**899.9**	**(23.5)**	**(2.6)%**
Vocus Network Services	305.7	292.1	13.6	4.7%
Retail	382.2	433.8	(51.6)	(11.9)%
New Zealand	188.5	174.0	14.5	8.3%
Non-recurring Revenue	**25.5**	**69.1**	**(43.6)**	**NM[2]**
Total Revenue	**901.9**	**969.0**	**(67.1)**	**(6.9)%**
Direct Costs	(512.7)	(564.8)	(52.1)	(9.2)%
Gross Margin	**389.2**	**404.2**	**(15.0)**	**(3.7)%**
Overhead Costs	(209.9)	(227.8)	(17.9)	(7.9)%
Underlying EBITDA	**179.3**	**176.4**	**2.9**	**1.6%**
Underlying EBITDA Margin (%)	**19.9%**	**18.1%**	**N/A**	**180bps**
Vocus Network Services	111.2	100.0	11.2	11.2%
Retail	39.5	50.6	(11.1)	(21.9)%
New Zealand[1]	30.5	28.3	2.2	7.8%
Corporate	(1.9)	(2.5)	(0.6)	(24.0)%

1. Amounts presented in section 2.3 are converted to NZD using the average FX rate of 1.06 in 1H20 and 1.08 in 1H19.
2. Not meaningful

1.5 Depreciation and amortisation

Depreciation and amortisation of $135.3m, increased $16.7m on the prior period (+14.1%) was mainly driven by the adoption of AASB 16 *Leases* and the depreciation on the Right-of-Use assets of $8.9m, the Australia Singapore Cable being depreciated since entering commercial service in September 2018, as well as the increase in depreciation and amortization associated with increased capital expenditure.

1.6 Net finance costs and income tax expense

Net finance costs decreased by $0.2m on prior period to $26.0m, and $5.3m excluding the impact of AASB 16 *Leases.* This was mainly driven by lower interest rates and lower average debt levels in the current period. Income tax expense on statutory profit in the period was $7.0m, compared to $7.3m million in the prior period. This resulted in an effective tax rate of 35.4%, against an effective tax rate of 30.8% in the prior period. This increase was largely driven by an increase in non-deductible expenses in the current period.

1.7 Cashflow[1]

$m	31 December 2019	31 December 2018	$ Change
Net cash from operating activities	121.1	136.7	(15.6)
Net cash used in investing activities	(105.6)	(215.1)	109.5
Operating free cash flows	***15.5***	***(78.4)***	***93.9***
Net cash (used in)/ from financing activities	(13.5)	76.9	(90.4)
Net movement in cash	2.1	(1.5)	3.5

1. This table excludes the impact of AASB 16 Leases, refer to section 2.5.

Net cash from operating activities over the period was $121.1m, a decrease of $15.6m from $136.7m in the prior period mainly driven by:

- An increase in finance costs paid of $10.0m, mainly due to timing of interest payments *offset* by a decrease in income taxes paid of $1.6m; and
- A net reduction in collections of $7.2m driven by negative movements in trade and other payables and prepayments, slightly offset by positive movements in trade receivables.

Net cash used in investing activities over the period was $(105.6)m, a decrease of $109.5m from $(215.1)m in the prior period mainly driven by:

- A decrease in spend on the Australia Singapore Cable of $132.3m which was completed in the prior comparative period; partially offset by
- An increase in spend on growth, sustaining and improvement capital expenditure of $22.8m, for further details refer to section 1.8.

Net cash used in financing activities over the period was $(13.5)m, a decrease on $90.4m from $76.9m in the prior period mainly driven by a decrease $92.1m in cash borrowings due to $5.4m in repayments during the period, compared to $86.7m in proceeds from borrowings in the prior comparative period, slightly offset by a lease liability movement of $1.7m.

1.7.1 *Adjusted Operating Cashflow*[1]

$m	31 December 2019	31 December 2018
Net cash from operating activities	**121.1**	**136.7**
Interest, finance costs and tax	39.7	31.3
Adjusted Operating Cashflow	**160.8**	**168.0**

1. This table excludes the impact of AASB 16 Leases, refer to section 2.5.

1.7.2 *Cash Conversion*[1]

$m	31 December 2019	31 December 2018
Underlying EBITDA	**179.3**	**176.4**
Underlying net working capital movements	(11.0)	(0.1)
Historic unwind		
Deferred revenue unwind	(5.3)	(5.8)
Onerous provision unwind	(2.2)	(2.4)
Adjusted Operating Cashflow	**160.8**	**168.1**
Cash Conversion	***90%***	***95%***

1. Cash conversion % is calculated by dividing Adjusted Operating Cashflow by Underlying EBITDA.

Cash conversion has decreased to 90%, from a comparable base of 95%. The key factors driving the decrease are:

- Negative underlying net working capital movement of $11.0m, mainly related to negative movement in deferred revenue and prepayments relating to a large ASC contract.
- Historic deferred revenue brought to account was $5.3m, primarily relating to revenues recognised under the North West Cable System project and the run-off of contracts acquired through the Amcom and Nextgen acquisitions.
- The release of onerous provisions on $2.2m, primarily relates to the un-wind of property leases and the Metronode contract assumed as part of the Nextgen acquisition.

1.8 Cash Capital Expenditure

$m	31 December 2019	31 December 2018
Growth	50.2	38.1
Sustaining	19.1	10.4
Improvement	35.6	24.6
Capital Expenditure (excluding ASC)	**104.9**	**73.1**
Australia Singapore Cable	0.7	133.0
Total Capital Expenditure	**105.6**	**206.1**

Growth capex over the period is linked to continued investment in our customers.

Sustaining capex has increased with investment into capacity and platform capabilities across the Vocus network.

Improvement capex – investment into platforms to generate productivity savings and improve efficiency mainly related to Future State network transformation, which will simplify and modernise our network.

1.9 Net Debt

$m	As at 31 December 2019	As at 30 June 2019
AUD facility limit of A$1,145m and is drawn to:	998.0	989.0
New Zealand facility limit of NZ$150m and is drawn to:	91.1	105.2
Bank loans	**1,089.1**	**1,094.2**
Backhaul IRU liability	6.1	11.9
Lease liability	13.2	15.5
Borrowings per balance sheet	**1,108.4**	**1,121.6**
Cash	(89.3)	(87.2)
Net Debt	**1,019.2**	**1,034.4**

The Group has a syndicated debt facility of AU$1,240 million (including a $95m bank guarantee/letters of credit facility) and NZ$150 million. The facility provides the Group the flexibility required to execute its growth strategy over the coming years.

The maximum allowable Net Leverage Ratio (NLR) for the facility is summarised below:

Testing Date	Maximum Net Leverage Ratio (NLR)
31 December 2019	**3.50x**
30 June 2020	**3.25x**
31 December 2020 and thereafter	**3.00x**

The facility has a weighted average tenure of 1.9 years and the facility agreement stipulates that dividends will not be paid until the NLR is below 2.25x for two consecutive testing dates.

1.9.1 Financial Covenants

Financial Covenant [1]		As at 31 December 2019
Net Leverage Ratio	≤3.50x (Net debt / LTM EBITDA)	**2.81x**
Interest Cover Ratio	≥5.0x (LTM EBITDA / LTM Net Interest Expense)	**7.6x**
Gearing	≤ 60% (Net Debt / (Net Debt + Equity)	**30.4%**

1.Bank methodology used to in the calculation of financial covenants

Vocus Group is compliant with its syndicated facility financial covenants as at 31 December 2019. The Group measures its financial convents excluding the impact of AASB 16 *Leases* accounting standard.

VOCUS GROUP

2. DIVISIONAL PERFORMANCE

2.1 Vocus Network Services

The Vocus Network Services division comprises the Enterprise, Government and Wholesale business segments. The go to brand in the market is predominantly Vocus Communications.

2.1.1 Earnings Summary – Vocus Network Services

$m	31 December 2019	31 December 2018	$ Change	% Change
Revenue	**331.2**	**361.2**	**(30.0)**	**(8)%**
Recurring	305.7	292.1	13.6	5%
Non-recurring	25.5	69.1	(43.6)	NM[2]
Recurring revenue	**305.7**	**292.1**	**13.6**	**5%**
Data Networks	200.0	196.9	3.1	2%
Voice	45.5	45.6	(0.1)	0%
NBN	34.7	22.9	11.8	52%
Data Centre	18.8	21.7	(2.9)	(13)%
Other	6.7	5.1	1.6	31%
Direct costs	**(136.2)**	**(174.8)**	**(38.6)**	**(22)%**
Cost of Goods Sold	(114.2)	(149.1)	(34.3)	(23)%
Infrastructure & Operations costs allocation[1]	(22.0)	(25.7)	(3.7)	(14)%
Gross Margin	**195.0**	**186.4**	**8.6**	**5%**
Overheads	**(83.8)**	**(86.4)**	**(2.6)**	**(3)%**
Selling, General and Administration costs	(35.8)	(32.9)	2.9	9%
Infrastructure & Operations costs allocation[1]	(33.5)	(33.8)	(0.3)	(1)%
Corporate costs allocation[1]	(14.5)	(19.7)	(5.2)	(26)%
Underlying EBITDA	**111.2**	**100.0**	**11.2**	**11%**
EBITDA margin (%)	33.6%	27.7%		

[1] Allocation methodology set out in section 2.4.

[2] Not meaningful

Recurring revenue increased by $13.6m on the prior comparative period to $305.7m, driven by:

- Continued sales growth of international capacity on Australia Singapore Cable;
- Positive momentum maintained in NBN services; *offset by*
- A material one-off churn event from VHA migrating services to TPG. This impacted 1H20 revenues by $8m to prior comparative period.

Non-recurring revenue decreased by $43.6m on the prior period comparative to $25.5m, driven by the expected reduction in project revenues from the Coral Sea cable build which was completed in December 2019.

Overall overheads have reduced 3% on prior comparative period driven by cost savings from the negotiation of supplier contracts across the business. This has been partially offset by additional investment in products and marketing capabilities to drive new customer growth in the Enterprise and Government segments.

Underlying EBITDA for the period increased by 11% on the prior comparative period. The EBITDA margin is higher due to a change in revenue mix. Revenue generated from the Coral Sea cable construction project which attracts a lower margin has decreased by $43.6m compared to the prior comparative period.

2.2 Retail

The Australian Retail business services the consumer and small to medium business markets.

Consumer offerings include broadband data, voice, mobile telecommunications and Fetch TV under the iPrimus and dodo brands. The division also markets gas and electricity services in selected states as either standalone or bundled with broadband as part of the dodo brand.

In the small to medium business segment, Commander offers a range of communications solutions to Australian businesses, including broadband data, fixed voice and mobile services. Commander also offers electricity in selected states.

2.2.1 Earnings Summary

$m	31 December 2019	31 December 2018	$ Change	% Change
Revenue	**382.2**	**433.8**	**(51.6)**	**(12)%**
Legacy Products	73.3	139.3	(66.0)	(47)%
NBN	150.3	125.2	25.1	20%
IP Voice	13.8	12.9	0.9	7%
Mobile	27.2	28.4	(1.2)	(4)%
Energy	98.4	104.7	(6.3)	(6)%
Other	19.2	23.2	(4.0)	(17)%
Direct costs	**(254.9)**	**(281.6)**	**(26.7)**	**(9)%**
Cost of Goods Sold	(247.4)	(272.9)	(25.5)	(9)%
Infrastructure & Operations costs allocation[1]	(7.5)	(8.7)	(1.2)	(14)%
Gross Margin	**127.3**	**152.2**	**(24.9)**	**(16)%**
Overheads	**(87.8)**	**(101.6)**	**(13.8)**	**(14)%**
Selling, General and Administration costs	(67.8)	(81.9)	(14.1)	(17)%
Infrastructure & Operations costs allocation[1]	(11.9)	(11.5)	0.4	3%
Corporate costs allocation[1]	(8.1)	(8.2)	(0.1)	(1)%
Underlying EBITDA	**39.5**	**50.6**	**(11.1)**	**(22)%**
EBITDA margin (%)	10.3%	11.7%		

[1] Allocation methodology set out in section 2.4.

SIO's ('000)	As at 31 December 2019	As at 31 December 2018	Change	% Change
Voice	179	255	(76)	(30)%
Copper	91	192	(101)	(53)%
NBN	388	336	52	15%
Mobile	193	181	12	7%
Energy	132	134	(2)	(1)%

Metrics	31 December 2019	31 December 2018
Copper ARPU $	55.4	58.0
Copper AMPU $	23.9	26.0
NBN ARPU $	66.4	64.1
NBN AMPU $	21.9	21.1
Net churn – Copper (%)	(4.2)	(3.2)
Net churn – NBN (%)	(1.7)	(1.7)

Revenue declined 12% on the prior comparative period. This is an improvement when compared to the previous financial year, which declined 15%, driven by the improving performance of the Dodo brand. The Commander brand continues to decline driven by legacy voice and copper services.

Revenue decline is mainly driven by 47% reduction in Legacy products (Copper and Traditional Voice) partially offset by growth in NBN and IP Voice products.

- Legacy products including Voice and Copper (ADSL) declined by $66m compared to the prior comparative period, driven by:
  - Voice revenue (PSTN phone lines) decline due to reduced services in operations (SIOs), NBN roll-out, line consolidation in the Commander business and mobile substitution. This was partially offset by increases in IP Voice services.
  - Copper (ADSL services) declined due to migration from legacy broadband to NBN. Copper average monthly churn increased by 1% compared to prior period reflecting NBN roll-out progression into more areas.
- NBN revenue increased by $25.1m representing a 20% increase to prior period as a result of increase in SIOs 15% as well as increase in ARPU as a result of a change in plan mix in Dodo towards higher tiered plans. Average monthly churn on NBN services remained flat at 1.7%
- Mobile services increased by 7%, mainly driven by Dodo, compared to the prior period, however this was offset by declining ARPU due to changes in mix following the launch of new lower priced SIM only entry level product offerings.
- Energy revenue reduced by $6.3m driven by lower average customer energy usage relative to prior period and a 1% reduction in customer numbers.
- Other revenue was lower due to reductions in other account fees and charges.

Strong cost control measures have partially mitigated revenue declines. Direct costs decreased by 9% against prior comparative period. Key areas of cost savings are across NBN and Mobile products. NBN wholesale prices have decreased in key product offering as well as tight control on bandwidth purchases. A new MVNO agreement, effective Q4 FY19, has decreased operating costs for Mobile offerings. There has also been a 14% decrease in overhead costs mainly related to lower headcount, marketing and call centre efficiencies.

Underlying EBITDA margin declined by 1.4% due to tight cost management, partially offsetting margin erosion from legacy products and migration to NBN.

2.3 New Zealand

The New Zealand Division is structured into two primary business units Consumer/Business and Enterprise/Wholesale with both offering Telecommunication and Energy goods and services. In the Consumer/Business segment these goods and services are sold under the brands of Slingshot and Orcon, and in the Enterprise/Wholesale segment under Vocus Communications and 2Talk.

2.3.1 Earnings Summary

NZD $m	31 December 2019	31 December 2018	$ Change	% Change
Revenue	**199.6**	**188.2**	**11.4**	**6%**
Enterprise & Wholesale	68.3	64.8	3.5	5%
Consumer & Business	131.3	123.4	7.9	6%
Direct costs	**(127.0)**	**(116.0)**	**11.0**	**9%**
Gross Margin	**72.6**	**72.2**	**0.4**	**1%**
Overheads				
Selling, General and Administration costs	(40.3)	(41.6)	(1.3)	(3)%
Underlying EBITDA	**32.3**	**30.6**	**1.7**	**6%**
EBITDA margin %	16.2%	16.3%		

SIO's ('000)	31 December 2019	31 December 2018	Change	% Change
Broadband Consumer SIOs	205	194	11	6%
Copper broadband	82	109	(27)	(25)%
UFB	123	85	38	45%
SMB SIOs	21	21	0	0%
Energy SIOs	29	22	7	32%
Mobile SIOs	39	26	13	50%

Key Statistics	31 December 2019	31 December 2018
Broadband ARPU (NZ$)	73.2	69.8
Broadband AMPU (NZ$)	28.7	27.2
Net churn rate copper broadband (%)	2.3	2.3
Net churn rate UFB (%)	1.8	1.7
Market Share UFB (%)	14	13

New Zealand revenue increased by $11.4m on the prior comparative period. The increase of 6% was underpinned by growth across both the Consumer/Business and Enterprise/Wholesale business units.

In Consumer/Business the increase was as a result of growth in underlying customer SIOs as well an improvement in underlying Broadband ARPU's in the Consumer segment. There was no growth in the Business SIOs as the focus was on transitioning the customers to the Orcon brand to improve the digital service model.

Enterprise/Wholesale revenue growth was achieved from an increase in Telecommunication services. The key areas of growth have been a result of increased demand for international and domestic wholesale services along with demand for high capacity backhaul services to support the streaming of the Rugby World Cup in New Zealand for the first time. There is continued price pressure in both the Enterprise and Wholesale markets, but this is consistent with previous years.

Direct costs increased by 9% over prior comparative period. The was an increase was driven by third party network costs to support the increased revenue across the business units. This was partially offset by a decrease in overhead costs relating to the ongoing digital automation programme reducing support FTE's and lowering the cost to serve.

Underlying EBITDA increased by $1.7m, representing a 6% increase on prior comparative period. This result was a combination of the 6% organic revenue growth achieved and the reduction of underlying direct costs.

2.4 Infrastructure, Operations and Corporate

2.4.1 Underlying EBITDA analysis pre allocation to Vocus Network Services and Retail

Infrastructure, Operations and Corporate costs comprises the Australian Network & Technology function that manages the Group's Australian infrastructure and IT assets, as well as the Australian head office Corporate activities such as finance, legal, facilities, secretariat and human resources.

$m	31 December 2019	31 December 2018	$ Change	% Change
Underlying EBITDA	**(99.4)**	**(110.1)**	**(10.7)**	**(10)%**
Infrastructure and operations	(75.3)	(79.7)	(4.4)	(6)%
Corporate	(24.1)	(30.4)	(6.3)	(21)%

Infrastructure, Operations and Corporate costs decreased compared to the prior period with the main driver being successful renegotiations of contracts with suppliers, rationalization of facility costs and a reduction in employment costs.

Please refer below for Infrastructure and Operations and Corporate cost allocations to Vocus Network Services and Retail. These costs are not allocated to the New Zealand as it operates independently of the Australia operations.

31 December 2019 allocations:

$m	1H20	Retail	Vocus Network Services	1H20 (post allocations)
Underlying EBITDA	**(99.4)**	**(27.5)**	**(70.0)**	**(1.9)**
Infrastructure and operations				
Direct costs	(29.5)	(7.5)	(22.0)	-
Overheads	(45.4)	(11.9)	(33.5)	-
Corporate				
Direct costs	-	-	-	-
Overheads	(24.5)	(8.1)	(14.5)	(1.9)

31 December 2018 allocations:

$m	1H19	Retail	Vocus Network Services	1H19 (post allocations)
Underlying EBITDA	**(110.1)**	**(28.4)**	**(79.2)**	**(2.5)**
Infrastructure and operations				
Direct costs	(34.4)	(8.7)	(25.7)	-
Overheads	(45.3)	(11.5)	(33.8)	-
Corporate				
Direct costs	-	-	-	-
Overheads	(30.4)	(8.2)	(19.7)	(2.5)

Infrastructure, Operations and Corporate costs have been allocated across Vocus Network Services and Retail. There is no allocation to New Zealand as this division has standalone finance, legal, facilities, human resources and technology functions. The unallocated costs of $1.9m are made up of board and CEO office costs.

The allocation of Infrastructure and Operations across Vocus Network Services and Retail has been determined by identifying directly attributable Retail costs and allocating a portion of residual indirect shared costs to the Retail division. Direct costs include the Retail specific operating support system (OSS) including maintenance and security and third party network costs. Indirect costs are made up of external vendors and internal labour.

The allocation of Corporate costs across Vocus Network Services and Retail has been determined by specifically identifying costs associated with the Retail division ($8.1m), with the remainder allocated to Vocus Network Services ($14.5m). Retail costs comprise directly attributable office costs and warehouse costs, with legal, finance, and human resources support costs determined using an allocation methodology. Legal and finance costs have been allocated with reference to divisional revenue, with human resources support costs allocated based on headcount.

2.5 AASB 16 Leases impact on Results

Statement of Profit and Loss

	Excluding AASB 16 *Leases*	AASB 16 *Leases* impact	Including AASB 16 *Leases*
Revenue	**901.9**	**-**	**901.9**
Other gains and losses	**(4.9)**	**-**	**(4.9)**
Expenses			
Network and service delivery	(511.2)	3.6	(507.6)
Employee benefits expense	(116.0)	-	(116.0)
Depreciation and amortisation expense	(126.4)	(8.9)	(135.3)
Administration and other expenses	(99.5)	7.2	(92.3)
Net finance costs	(20.9)	(5.1)	(26.0)
Profit before income tax	**23.1**	**(3.2)**	**19.9**
Income tax expense	(7.0)	-	(7.0)
Profit after income tax	**16.0**	**(3.2)**	**12.8**

Balance sheet

	Excluding AASB 16 *Leases*	AASB 16 *Leases* impact	Including AASB 16 *Leases*
Current assets	315.5	-	315.5
Non-current assets	3,847.9	193.8	4,041.7
Total assets	**4,163.5**	**193.8**	**4,357.3**
Current liabilities	464.6	9.9	474.5
Non-current liabilities	1,318.4	187.1	1,505.5
Total liabilities	**1,783.0**	**197.0**	**1,980.0**
Net assets	**2,380.5**	**(3.2)**	**2,377.3**
Total equity	**2,380.5**	**(3.2)**	**2,377.3**

Statement of cash flows

	Excluding AASB 16 *Leases*	AASB 16 *Leases* impact	Including AASB 16 *Leases*
Cash flows from operating activities			
Receipts from customers	985.8	-	985.8
Payments to suppliers	(825.0)	11.0	(814.0)
Interest received	0.2	-	0.2
Other finance costs paid	(30.3)	(5.1)	(35.4)
Income taxes paid	(9.7)	-	(9.7)
Net cash from operating activities	**121.1**	**5.9**	**127.0**
Net cash used in investing activities	**(105.6)**	**-**	**(105.6)**
Cash flows from financing activities			
Net proceeds from borrowings	(5.4)	-	(5.4)
Repayment of finance leases and IRU liabilities	(8.1)	(5.9)	(14.0)
Net cash used in financing activities	**(13.5)**	**(5.9)**	**(19.4)**
Net increase/(decrease) in cash and cash equivalents	**2.1**	**-**	**2.1**

3. GROUP OUTLOOK

3.1 Group Strategy

Vocus has a clear strategy to deliver long term sustainable growth. The opportunity in each of the three independent operating businesses requires a different strategy.

Vocus Network Services

Operating under the Vocus Communications brand, Vocus Network Services is building Australia's specialist fibre and network solutions provider.
Our key assets, connecting Australia with Asia and the USA, are our fibre and core transport network.

- 15,020km of inter-capital network in Australia
- Over 9,500km of metropolitan and regional fibre in all major centres
- 4,200 km of inter-capital network in New Zealand
- More than 5,500 on-net buildings
- Connectivity to 17 major sports stadiums
- 4,600km Australia Singapore Cable providing a gateway to Asia
- Connectivity to the USA via investment in IRUs
- North West Cable System connecting offshore oil and gas facilities

Vocus has significant market share opportunity leveraging the quality and extent of our fibre network assets throughout Australia. Digitisation, automation, artificial intelligence, machine learning and 5G are all increasing demand for data connectivity and high bandwidth consumption. Furthermore, hyperscale cloud companies are consuming significant capacity across Australia and into Asia along with large Enterprises increasingly adopting private and public cloud. As these trends continue, there is increasing demand for diversity of supply across multiple providers of network services to meet future growth projections.

Within the core Enterprise, Government and Wholesale segments, a highly targeted approach has been adopted to focus on key verticals whose needs align to our core assets and capability. Understanding that these verticals require different products and go to market strategies to be successful, we are focused on strengthening our sales capability and further differentiating from our competitors by delivering enhanced customer experiences and engagement. This will involve the rationalisation of products and services along with investment in our people to drive our growth ambitions.
To capture the wider market opportunity, the reinvigoration of indirect sales channel partners will allow Vocus direct sales teams to focus on higher value customers in key market segments. In addition, there will be an increased focus on strategic partnerships with major technology players to extend our reach and branding, particularly in products such as public cloud, SD-WAN, and voice and collaboration.

With the Australia Singapore Cable becoming operational during the last year, Vocus will harness this asset for international and domestic growth. This will be achieved through the creation of an international sales team along with an increased presence in Singapore and the USA.

Retail

Retail was established as a standalone business unit during FY19 to implement a strategy to return the business to profitable growth. Retail focuses on the price sensitive and value seeking segments of the consumer market and the small to medium business segment. It provides telecommunications products and services including broadband, voice and mobile services, as well as energy products. Within the Consumer segment, the go to market brands are **dodo™** and **iPrimus™** with some small legacy brands from prior acquisitions also maintained**. Commander™** is the go-to market brand for the small and medium business segment. The Retail business is currently skewed to legacy voice and data products, such as PSTN, ISDN and ADSL. This legacy revenue is declining due to migration to VOIP and mobile solutions, and particularly to the NBN which also attracts lower margins.

To address this structural decline, Retail is executing a multi-brand strategy to drive profitable growth through revenue diversification and taking market share in mobile and energy. In addition, the operating model is changing to be digitally driven sales and service, driving down cost to acquire and cost to serve, to build a scalable, low cost business.
Within the broadband market, one-time costs to acquire and connect customers to the NBN are high and chasing market share is expensive. Accordingly, the focus is to successfully migrate existing ADSL copper broadband customers to the NBN, and leveraging broadband as the entry point into the home, to bundle energy products. This has the benefit of lengthening customer tenure whilst growing margin and is a strategy that will be pursued.

Relative to existing share of the fixed telco market, Retail has very low market share in mobile. Although all brands have high levels of awareness relative to other challenger brands, the Commander brand is uniquely placed as an SMB-only brand to grow mobile penetration. The Optus MVNO arrangement provides a path to 5G and fixed wireless broadband which also broadens the mobile product offering.

New Zealand

The multi-brand strategy continues to be a key focus to capture disproportionate share in the New Zealand fibre market. The scale and resiliency of the Vocus network has been a continued area of investment to support these growth ambitions and this is reflected in the exceptional network experience for all customers. As the uptake of fibre continues to remove the last mile bottle necks, the value of the network ownership continues to increase.

While the Consumer & Business segments remain highly competitive, the high brand awareness of Slingshot and Orcon combined with the bundling of both energy and mobile services provides unique differentiation. The digital and process automation program continues to improve the customer experience while delivering a low-cost operating model for improved competitiveness.

The focus in the Enterprise and Wholesale segments has been to leverage the network and to more effectively target high bandwidth users that value network performance. As the adoption of cloud services continues to improve this is creating more opportunities as enhanced network performance and real time management. Vocus is on the Government TaaS panel and as a direct supplier while also supporting key partners with their network requirements in this segment.

While continuing to demonstrate leadership in fixed network services and capability, mobile services will become an increasing area of focus in the next couple of years. This will include both traditional mobile based services along with fixed wireless services under a new arrangement with our mobile partner.

3.2 FY2020 Guidance

For FY20, expectations are in line with previously released guidance:

- Underlying EBITDA – $359m - $379m
- Capex (ex ASC) – $200m - $210m

3.3 Business Risks

The Company's risk management approach is set out in detail in the Corporate Governance Statement which is available on the Company's website **www.vocusgroup.com.au**.

The Business Risks are consistent with those disclosed in the 30 June 2019 Annual Report.

Auditor's Independence Declaration

As lead auditor for the review of Vocus Group Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Vocus Group Limited and the entities it controlled during the period.

Partner
PricewaterhouseCoopers

Sydney
19 February 2020

	Note	Consolidated 31 Dec 2019 $'000	 31 Dec 2018 $'000
Revenue	4	901,905	969,040
Other gains and losses		(4,856)	(2,048)
Expenses			
Network and service delivery		(507,588)	(570,802)
Employee benefits expense	5	(115,985)	(113,934)
Depreciation and amortisation expense	5	(135,300)	(118,583)
Administration and other expenses		(92,289)	(113,614)
Net finance costs	5	(26,018)	(26,222)
Profit before income tax expense		19,869	23,837
Income tax expense		(7,034)	(7,338)
Profit after income tax expense for the half-year attributable to the owners of Vocus Group Limited		12,835	16,499
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Loss on the revaluation of financial assets at fair value through other comprehensive income, net of tax		-	342
Foreign currency translation		899	12,929
Net movement on hedging transactions, net of tax		(9,057)	7,961
Other comprehensive income for the half-year, net of tax		(8,158)	21,232
Total comprehensive income for the half-year attributable to the owners of Vocus Group Limited		4,677	37,731
		Cents	**Cents**
Basic earnings per share	6	2.06	2.65
Diluted earnings per share	6	2.02	2.62

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

Vocus Group Limited
Statement of financial position
As at 31 December 2019

	Note	31 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		89,290	87,199
Trade and other receivables		147,187	152,620
Prepayments		36,900	27,694
Contract costs asset		21,193	20,386
Derivative financial instruments		9,765	22,659
Other		11,209	11,134
Total current assets		315,544	321,692
Non-current assets			
Plant and equipment	7	1,751,503	1,768,274
Intangibles	8	2,019,882	2,044,163
Right-of-use assets		155,589	-
Contract costs asset		10,675	8,160
Deferred tax		83,492	44,836
Other		20,590	25,177
Total non-current assets		4,041,731	3,890,610
Total assets		4,357,275	4,212,302
Liabilities			
Current liabilities			
Trade and other payables	9	236,950	252,484
Provisions		26,397	27,338
Deferred revenue		55,825	60,010
Lease liabilities		14,966	-
Income tax		4,266	3,154
Borrowings	10	131,101	59,493
Derivative financial instruments		2,120	4,975
Other		2,914	4,445
Total current liabilities		474,539	411,899
Non-current liabilities			
Provisions		24,033	27,453
Deferred revenue		163,421	170,908
Borrowings	11	964,145	1,062,137
Lease liabilities		160,091	-
Deferred tax		179,177	149,174
Derivative financial instruments		13,007	11,203
Other		1,616	11,515
Total non-current liabilities		1,505,490	1,432,390
Total liabilities		1,980,029	1,844,289
Net assets		2,377,246	2,368,013
Equity			
Contributed equity	12	3,776,212	3,775,752
Reserves		33,470	37,532
Accumulated losses		(1,432,436)	(1,445,271)
Total equity		2,377,246	2,368,013

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

Consolidated	Contributed equity $'000	Reserves $'000	Retained profits / (accumulated losses) $'000	Total equity $'000
Balance at 1 July 2018	3,775,454	11,658	(1,433,368)	2,353,744
Change on initial application of AASB 15 and AASB 9 - net of tax	-	-	(45,913)	(45,913)
Balance at 1 July 2018 - restated	3,775,454	11,658	(1,479,281)	2,307,831
Profit after income tax expense for the half-year	-	-	16,499	16,499
Other comprehensive income for the half-year, net of tax	-	21,232	-	21,232
Total comprehensive income for the half-year	-	21,232	16,499	37,731
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	72	-	-	72
Share-based payments	-	5,673	-	5,673
Transfers	226	(226)	-	-
Balance at 31 December 2018	3,775,752	38,337	(1,462,782)	2,351,307

Consolidated	Contributed equity $'000	Reserves $'000	Retained profits / (accumulated losses) $'000	Total equity $'000
Balance at 1 July 2019	3,775,752	37,532	(1,445,271)	2,368,013
Profit after income tax expense for the half-year	-	-	12,835	12,835
Other comprehensive income for the half-year, net of tax	-	(8,158)	-	(8,158)
Total comprehensive income for the half-year	-	(8,158)	12,835	4,677
Transactions with owners in their capacity as owners:				
Share based payments	-	4,096	-	4,096
Transfers	460	-	-	460
Balance at 31 December 2019	3,776,212	33,470	(1,432,436)	2,377,246

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

	Consolidated 31 Dec 2019 $'000	31 Dec 2018 $'000
Cash flows from operating activities		
Receipts from customers	985,814	1,017,079
Payments to suppliers and employees	(813,977)	(848,988)
	171,837	168,091
Interest received	287	358
Other finance costs paid	(35,414)	(20,393)
Income taxes paid	(9,690)	(11,311)
Net cash from operating activities	127,020	136,745
Cash flows from investing activities		
Payments for property, plant and equipment	(82,778)	(54,302)
Payments for intangible assets	(22,791)	(18,861)
Payments for projects under construction	-	(132,975)
Payment for purchase of business, net of cash acquired, acquisition and integration costs	-	(10,341)
Proceeds from disposal of investments	-	1,342
Net cash used in investing activities	(105,569)	(215,137)
Cash flows from financing activities		
Net proceeds from borrowings	(5,391)	86,675
Repayment of leases and IRU liabilities	(13,969)	(9,801)
Net cash from/(used in) financing activities	(19,360)	76,874
Net increase/(decrease) in cash and cash equivalents	2,091	(1,518)
Cash and cash equivalents at the beginning of the financial half-year	87,199	57,914
Cash and cash equivalents at the end of the financial half-year	89,290	56,396

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

Note 1. Reporting entity

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

Vocus Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 10
452 Flinders Street
Melbourne Victoria 3000

A description of the nature of Vocus' operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 19 February 2020.

Note 2. Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period and up to the date of this report in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Except as described below, the principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Note 2. Basis of preparation (continued)

AASB 16 - Leases

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

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

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

- Property, plant and equipment decrease by $6.6m
- Right of use assets increase by $163.1m
- Deferred tax assets increase by $2.9m
- Borrowings decrease by $15.5m
- Lease liabilities increase by $181.6m
- Trade and other payables decrease by $1.3m
- Other liabilities decrease by $8.3m

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

- in some cases, the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- not to bring leases with 12 months or fewer remaining to run as at 1 July 2019 (including reasonably certain options to extend) on balance sheet. Costs for these items will continue to be expensed directly to the income statement;
- not to apply AASB 16 Leases to low value assets i.e. < $10,000 based on the fair value of the asset as new; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

AASB 16 Leases - Accounting policy applied from 1 July 2019

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

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

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

New standards, interpretations and amendments not yet adopted by the Group

Other new accounting standards, interpretations and amendments have been issued but are not yet effective, however these are not considered relevant to the activities of the Group nor are they expected to have a material impact on the financial statements of the Group.

Net current asset deficiency

As at 31 December 2019, Vocus' current liabilities exceeded its current assets by $158,995,000 (2019: $90,208,000). Vocus is satisfied that it will be able to meet all its obligations as they fall due given its strong profitability and operating cash flows, existing cash reserves and available finance facilities. As such the financial statements have been prepared on a going concern basis.

Note 3. Operating segments

Reporting segments
Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management. Operating segments represent the information reported to the chief operating decision makers (CODM), being the executive management team, for the purposes of resource allocation and assessment of segment performance.

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

Specifically, the Group's reportable segments under AASB 8 are as follows:
- Vocus Network - Services
- Retail
- New Zealand
- Infrastructure, Operations and Corporate

The reportable segments represent the group's cash-generating units for impairment testing purposes, except for Corporate which is allocated to the three cash-generating units.

The prior year reporting segment information has been restated below in line with current year segments. Consistent with information presented for internal management reporting purposes, segment performance is measured by EBITDA contribution.

Major customers
During the half-year ended 31 December 2019 there were no customers of Vocus which contributed 10% or more of external revenue (31 December 2018: nil).

Segment revenues and results

Consolidated - 31 Dec 2019	Vocus Network - Services $'000	Retail $'000	New Zealand $'000	Infrastructure, Operations & Corporate $'000	Total $'000
Revenue					
Sales to external customers	331,211	382,235	188,459	-	901,905
Total revenue	331,211	382,235	188,459	-	901,905
EBITDA	181,241	67,018	30,455	(108,378)	170,336
Depreciation and amortisation					(135,300)
Net finance costs					(26,018)
AASB 16 Leases transition					10,851
Profit before income tax expense					19,869
Income tax expense					(7,034)
Profit after income tax expense					12,835

Note 3. Operating segments (continued)

Consolidated - 31 Dec 2018	Vocus Network - Services $'000	Retail $'000	New Zealand $'000	Infrastructure, Operations & Corporate $'000	Total $'000
Revenue					
Sales to external customers	361,185	433,865	173,990	-	969,040
Total revenue	361,185	433,865	173,990	-	969,040
EBITDA	179,229	78,856	28,335	(117,778)	168,642
Depreciation and amortisation					(118,583)
Net finance costs					(26,222)
Profit before income tax expense					23,837
Income tax expense					(7,338)
Profit after income tax expense					16,499

Revenue by geographical area
Vocus Network Services and Retail both predominantly earn revenue in Australia with insignificant rest of world income, the New Zealand segment only earns revenue in New Zealand.

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

Note 4. Revenue

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

Consolidated - 31 Dec 2019	Vocus Network - Services $'000	Retail $'000	New Zealand $'000	Total $'000
Major product lines				
Voice	45,549	50,905	26,678	123,132
NBN/UFB/Broadband	34,667	186,517	92,325	313,509
Data Networks	225,458	-	22,015	247,473
Mobile	61	27,152	5,278	32,491
Data Centres	18,813	968	2,670	22,451
Energy	-	98,426	36,105	134,531
Other	6,663	18,267	3,388	28,318
	331,211	382,235	188,459	901,905
Geographical regions				
Australia	331,211	382,235	-	713,446
New Zealand	-	-	188,459	188,459
	331,211	382,235	188,459	901,905

VOCUS GROUP

Note 4. Revenue (continued)

Consolidated - 31 Dec 2018	Vocus Network - Services $'000	Retail $'000	New Zealand $'000	Total $'000
Major product lines				
Voice	45,738	79,709	26,988	152,435
NBN/UFB/Broadband	23,083	197,662	84,900	305,645
Data Networks	271,067	-	22,059	293,126
Mobile	115	28,408	4,604	33,127
Data Centres	16,370	1,172	2,639	20,181
Energy	-	104,691	28,817	133,508
Other	4,812	22,223	3,983	31,018
	361,185	433,865	173,990	969,040
Geographical regions				
Australia	361,185	433,865	-	795,050
New Zealand	-	-	173,990	173,990
	361,185	433,865	173,990	969,040

Note 5. Expenses

	Consolidated 31 Dec 2019 $'000	31 Dec 2018 $'000
Profit before income tax includes the following specific expenses:		
Depreciation and amortisation		
Depreciation[1]	74,821	62,550
Amortisation[2]	60,479	56,033
Total depreciation and amortisation	135,300	118,583
Net finance costs		
Interest income	(1,792)	(1,711)
Interest expense	27,810	27,933
Net finance costs	26,018	26,222
Rental expense relating to operating leases	-	10,813
Employee benefits expense		
Salaries and wages expense	82,521	78,694
Employee on-costs expense	13,797	13,071
Employee leave expense	(733)	42
Share-based payment expense	4,096	5,673
Other employee benefits expense	16,304	16,454
Total employee benefits expense	115,985	113,934

[1] Depreciation relates to depreciation on plant and equipment (note 7) of $65.9m and depreciation of right-of-use assets of $8.9m.
[2] Amortisation relates to amortisation on intangibles (note 8).

Note 6. Earnings per share

	Consolidated 31 Dec 2019 $'000	31 Dec 2018 $'000
Profit after income tax attributable to the owners of Vocus Group Limited	12,835	16,499
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	621,865,003	622,216,811
Adjustments for calculation of diluted earnings per share:		
Options	13,154,692	5,794,087
Performance rights	508,129	664,077
Weighted average number of ordinary shares used in calculating diluted earnings per share	635,527,824	628,674,975
	Cents	**Cents**
Basic earnings per share	2.06	2.65
Diluted earnings per share	2.02	2.62

Note 7. Non-current assets - plant and equipment

	Consolidated 31 Dec 2019 $'000	30 Jun 2019 $'000
Fibre assets - at cost	1,659,891	1,626,892
Less: Accumulated depreciation	(247,043)	(221,824)
	1,412,848	1,405,068
Data centre assets - at cost	67,931	67,779
Less: Accumulated depreciation	(31,987)	(29,707)
	35,944	38,072
Network equipment - at cost	403,127	379,881
Less: Accumulated depreciation	(188,181)	(157,799)
	214,946	222,082
Other plant and equipment - at cost	71,750	64,654
Less: Accumulated depreciation	(36,172)	(30,383)
	35,578	34,271
Capital work in progress	52,187	68,781
	1,751,503	1,768,274

Note 7. Non-current assets - plant and equipment (continued)

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

Consolidated	Fibre assets $'000	Data centre assets $'000	Network equipment $'000	Other plant and equipment $'000	Capital WIP $'000	Total $'000
Balance at 1 July 2019	1,405,068	38,072	222,082	34,271	68,781	1,768,274
Additions	-	-	-	-	58,634	58,634
Transfers	39,878	437	24,478	7,432	(72,225)	-
Disposals	(2)	(257)	-	(35)	-	(294)
Reclassifications	-	-	-	-	(3,003)	(3,003)
Exchange differences	347	12	78	(34)	-	403
Depreciation expense	(27,222)	(2,320)	(30,283)	(6,056)	-	(65,881)
AASB 16 Leases - reclassifications	(5,221)	-	(1,409)	-	-	(6,630)
Balance at 31 December 2019	1,412,848	35,944	214,946	35,578	52,187	1,751,503

No impairment indicators are present relating to the carrying value of fibre assets, data centre assets, network equipment, other plant and equipment and projects under construction.

Note 8. Non-current assets - intangibles

	Consolidated 31 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Goodwill	1,467,109	1,466,265
IRU capacity - at cost	201,053	188,089
Less: Accumulated amortisation	(74,312)	(67,195)
	126,741	120,894
Customer intangibles - at cost	381,063	381,061
Less: Accumulated amortisation	(242,675)	(211,890)
	138,388	169,171
Software - at cost	230,789	211,977
Less: Accumulated amortisation	(144,751)	(122,235)
	86,038	89,742
Brands - at cost	180,500	180,500
Other intangibles - at cost	2,528	2,048
Less: Accumulated amortisation	(450)	(325)
	2,078	1,723
Capital work in progress	19,028	15,868
	2,019,882	2,044,163

Note 8. Non-current assets - intangibles (continued)

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

Consolidated	Goodwill $'000	IRU capacity $'000	Customer intangibles $'000	Software $'000	Brands & other intangibles $'000	Capital WIP $'000	Total $'000
Balance at 1 July 2019	1,466,265	120,894	169,171	89,742	182,223	15,868	2,044,163
Additions	-	-	-	-	-	32,253	32,253
Transfers	-	12,948	-	18,703	480	(32,131)	-
Reclassifications	-	-	-	-	-	3,003	3,003
Exchange differences	844	11	-	52	-	35	942
Amortisation expense	-	(7,112)	(30,783)	(22,459)	(125)	-	(60,479)
Balance at 31 December 2019	1,467,109	126,741	138,388	86,038	182,578	19,028	2,019,882

No impairment indicators are present relating to the carrying value of goodwill, IRU capacity, customer intangibles, software and brands and other intangibles.

Note 9. Current liabilities - trade and other payables

	Consolidated 31 Dec 2019 $'000	30 Jun 2019 $'000
Trade payables	106,077	94,206
Revenue received in advance	12,685	11,274
Accruals	88,761	123,860
Goods and services tax payable	11,669	4,617
Other payables	17,758	18,527
	236,950	252,484

Note 10. Current liabilities - borrowings

	Consolidated 31 Dec 2019 $'000	30 Jun 2019 $'000
Bank loans	125,000	50,000
Backhaul IRU liability	6,101	5,811
Lease liability	-	3,682
	131,101	59,493

Refer to note 11 for further information on assets pledged as security and financing arrangements.

Lease liability has been reclassified out of the Borrowings note and into Lease Liabilities as part of the AASB 16 Leases implementation.

Note 11. Non-current liabilities - borrowings

	Consolidated 31 Dec 2019 $'000	30 Jun 2019 $'000
Bank loans	964,145	1,044,223
Backhaul IRU liability	-	6,101
Lease liability	-	11,813
	964,145	1,062,137

Lease liability has been reclassified out of the Borrowings note and into Lease Liabilities as part of the AASB 16 Leases implementation.

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

	Consolidated 31 Dec 2019 $'000	30 Jun 2019 $'000
Bank loans	1,089,145	1,094,223
Lease liability	13,247	15,495
	1,102,392	1,109,718

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

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

Net debt

The table below lists the carrying value of our net debt components:

	Consolidated 31 Dec 2019 $'000	30 Jun 2019 $'000
Bank loans	1,089,145	1,094,223
Backhaul IRU liability	6,101	11,912
Lease liability	13,247	15,495
Less: Cash	(89,290)	(87,199)
	1,019,203	1,034,431

Note 11. Non-current liabilities - borrowings (continued)

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

	Consolidated 31 Dec 2019 $'000	30 Jun 2019 $'000
Total facilities		
Bank loans	1,288,913	1,313,486
Bank guarantee / letter of credit facility	95,000	95,000
	1,383,913	1,408,486
Used at the reporting date		
Bank loans	1,089,145	1,094,223
Bank guarantee / letter of credit facility	68,662	71,411
	1,157,807	1,165,634
Unused at the reporting date		
Bank loans	199,768	219,263
Bank guarantee / letter of credit facility	26,338	23,589
	226,106	242,852

The Group's bank facilities at 31 December 2019 consists of a $1,383,913,000 senior finance facility (2019: $1,408,486,000), comprising AU$125,000,000 amortising CAPEX facility, AU$75,000,000 bank guarantee/letters of credit facility, AU$1,020,000,000 and NZ$150,000,000 facilities that are non-amortising and can be used for general corporate purposes. Interest on the facility is recognised at the aggregate of the reference bank bill rate plus a margin.

An AU$20,000,000 uncommitted facility bank guarantee/letters of credit facility provided on a bi-lateral basis is also available to the Group.

Note 12. Equity - contributed equity

	31 Dec 2019 Shares	30 Jun 2019 Shares	Consolidated 31 Dec 2019 $'000	30 Jun 2019 $'000
Ordinary shares - fully paid	620,571,174	622,263,818	3,778,039	3,786,691
Less: Treasury shares	(330,001)	(2,022,645)	(1,827)	(10,939)
	620,241,173	620,241,173	3,776,212	3,775,752

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2019	622,263,818		3,786,691
Employee share scheme buyback	7 October 2019	(1,692,644)	$0.00	(8,652)
Balance	31 December 2019	620,571,174		3,778,039

Note 12. Equity - contributed equity (continued)

Movements in treasury shares

Details	Date	Shares	Issue price	$'000
Balance	1 July 2019	(2,022,645)		(10,939)
Employee share scheme buyback	7 October 2019	1,692,644	$0.00	8,652
Forfeiture of loan funded share plan	7 October 2019	-	$0.00	460
Balance	31 December 2019	(330,001)		(1,827)

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

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

Note 13. Fair value measurement

Fair value hierarchy
The following tables detail assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Derived from valuation techniques that include inputs for the instrument that are not based on observable market data

Consolidated - 31 Dec 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Electricity derivatives	-	6,802	-	6,802
Forward foreign exchange contracts	-	3,675	-	3,675
Interest rate swaps	-	7	-	7
Total assets	-	10,484	-	10,484
Liabilities				
Forward foreign exchange contracts	-	(462)	-	(462)
Interest rate swaps	-	(10,707)	-	(10,707)
Electricity derivatives	-	(1,250)	(2,708)	(3,958)
Deferred consideration	-	-	(200)	(200)
Total liabilities	-	(12,419)	(2,908)	(15,327)

Note 13. Fair value measurement (continued)

Consolidated - 30 Jun 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Electricity derivatives	-	15,892	-	15,892
Forward foreign exchange contracts	-	7,214	-	7,214
Total assets	-	23,106	-	23,106
Liabilities				
Forward foreign exchange contracts	-	(92)	-	(92)
Interest rate swaps	-	(12,151)	-	(12,151)
Electricity derivatives	-	(1,400)	(2,535)	(3,935)
Deferred consideration	-	-	(385)	(385)
Total liabilities	-	(13,643)	(2,920)	(16,563)

There were no transfers between levels during the financial half-year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities are estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements
For further details on how valuation methodologies are applied in determining fair value refer to note 25 in the 2019 Annual Report.

Note 14. Events after the reporting period

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect Vocus' operations, the results of those operations, or Vocus' state of affairs in future financial years.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of Vocus's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Robert Mansfield
Non-executive, Chairman

19 February 2020
Sydney

Independent auditor's review report to the members of Vocus Group Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Vocus Group Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Vocus Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Vocus Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
19 February 2020