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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2013 Financial Results – analyst briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2013 Financial Results analyst briefing, for release to the market.

Yours faithfully



Damien Coleman
Company Secretary

TRANSCRIPT OF PROCEEDINGS

TELSTRA – FULL FINANCIAL YEAR RESULTS (BRIEFING #1)

9.14 AM, THURSDAY, 8 AUGUST 2013

MR KEYS: Okay. Good morning, everybody. I'm Andrew Keys, the director of investor relations at Telstra. On behalf of Telstra, welcome to our full year results announcement this morning, whether you be here with us in Sydney or joining us through the webcast. At the conclusion of the presentations this morning from David Thodey and Andy Penn, we will be taking questions here in Sydney from analysts, and also over the conference call service. I will now hand over to Telstra's chief executive officer, David Thodey. Good morning, David.

MR THODEY: Thanks, Andrew, and let me just add my welcome. Good to have you here, and we will be taking you through our full year results for 2013. Now, consistent with previous years, what I'm going to do is just give you a brief introduction – a little bit of an overview of the results – and then I'm going to get Andy to come up and take you through the results in more detail, and then I will come back at the end and just give you a bit of an update on our operational performance, and also around our strategic priorities. So let's turn to the results.

So we've delivered a solid year's results, including income growth of 1.9 per cent, EBITDA growth of 3.9 per cent. Free cash was at \$5 billion and net profit after tax growth of 12.9 per cent, and I'm pleased to announce we will pay another \$3.5 billion in fully franked dividends. And most importantly, it's about what we do. We've delivered again on our commitments to the market. We've improved customer service this year, and we've included new ways of interacting with our customers, and also very importantly, we've introduced a large number of new products and services, and I'm pleased to report that TIO complaints were down again – eight per cent, year on year.

We also continued to win market share, and that's both across our Hong Kong property and also in Australia. We have seen another 1.7 million mobile customers join us across Hong Kong and Australia, and in Australia, we had 1.3 million domestic [retail] mobile customers join us. We've also continued to build momentum in our growth businesses. NAS has delivered a very pleasing 17.7 per cent growth, and our international business has delivered 16.2 per cent growth. But really at the heart of the domestic business has been the mobile business, and they have delivered a six per cent growth, which is very pleasing.

Also, we've continued to invest in our network leadership, and of course that's all about creating differentiation in our core networks. We invested \$1.2 billion in our mobile network, and of course now the 4G network covers 66 per cent of Australia, and we're going to grow it out to 85 per cent of the country [population] by Christmas. So what we're doing is really investing to maintain that competitive differentiation. But lastly, and very importantly, is while we've been growing our customer base, we've been managing our costs very tightly, so we saw costs only grow 0.5 per cent, and labour was down 3.3 per cent. You know, this good cost management has also contributed to a very strong EBITDA margin performance across the company. So it has been a solid year's performance, and we're very pleased that we're working on our strategic priorities and continuing to do that consistently. So with that, let me now throw across to Andy Penn, who will come

and give you a more detailed insight into the results, and then I will come back later on. So Andy, over to you.

MR PENN: Thanks very much, David, and good morning everybody. So here are the results for Telstra for the year ending 30 June 2013. In my presentation, I will cover five topics. Firstly, I will take you through the overall results and comment on how we tracked against guidance. Secondly, I will take you through the performance of our key product groups – fixed, mobiles, data and IP, media, NAS and International, as well as a segment view. I will also comment on the NBN financials. Thirdly, I will comment on our expenses and the continued progress we're making in our Productivity program, which David just referenced, and fourthly I will provide an update in relation to our key balance sheet movements and capital position, and finally, I will conclude with some comments on guidance for 2014.

So sales revenue for the year was up 1.1 per cent to \$25.5 billion. I will take you through the drivers of that in a moment. Total income was up 1.9 per cent to \$26 billion. EBITDA was up 3.9 per cent to \$10.6 billion. On a guidance basis, excluding the impacts of TelstraClear, total income and EBITDA were up 3.3 per cent and 4.8 per cent, respectively. EBIT was up 9.8 per cent to \$6.4 billion, and this supported strong growth in earnings per share, which was up 11.6 per cent to 30.7 cents per share. Accrued CAPEX for the year was \$3.8 billion, consistent with our increased CAPEX to sales ratio of 15 per cent, and free cash flow was down 3.3 per cent to \$5 billion, although this was after Spectrum payments during the year, offset in part by the proceeds from the sale of TelstraClear. Finally, and in line with guidance, the board has declared a final dividend of 14 cents per share, and this brings the total dividend for the year to 28 cents per share, fully franked.

Across the business, we have maintained our growth in sales revenue. Excluding TelstraClear, sales revenue was up 2.4 per cent. Before this adjustment, sales revenue was up 1.1 per cent, to \$25.5 billion. Fixed revenues declined 2.7 per cent and media declined 7.8 per cent. Sales of IP access were not enough to offset declines in legacy data businesses, and data and IP reduced by 2.2 per cent. Against this, we saw continued growth in our mobiles business, as David has mentioned – up six per cent or \$520 million – and strong growth in NAS and International, up 17.7 and 16.2 per cent respectively.

Let me now turn to each of the individual product portfolios, firstly fixed. Our fixed portfolio performed well despite a 2.7 decline in revenue to \$7.3 billion. PSTN revenue declined 9.5 per cent, with the number of retail lines down 346,000 to 6.5 million. Offsetting this, fixed broadband revenue was up five per cent to \$2.1 billion, with retail fixed broadband revenue up 9.3 per cent. This was supported by continued growth in retail fixed broadband customers, up 173,000 to 2.8 million, and growth in ARPU, up 1.6 per cent. We continued to see strong performance in margins in both PSTN and fixed broadband, and this reflects the benefits of our productivity program and also the increasing scale benefits of sharing our network over our growing customer base. Finally, the number of bundled customers grew 238,000 to 1.6 million, now representing 59 per cent of our fixed broadband base.

The mobiles business, as David mentioned, has had a very strong year, reflecting our continued investment. Revenues were up six per cent, to \$9.2 billion, in a market

that declined by about 1.5 per cent. Over the last three years in mobiles, we have delivered 7.2 per cent compound growth in revenues. Revenues were up 2.8 per cent in post-paid handheld, and 11.2 per cent in pre-paid handheld, where we gained significant market share. We also grew 17.5 per cent in mobile broadband. Notwithstanding a lower contribution from international roaming and early termination charges, post-paid handheld ARPU, excluding MRO, was flat \$65. This was supported by growing data use, particularly in the second half of the year, and during the year, we saw our smartphone penetration in our total customer base grow from 60 per cent at the end of last year to more than 70 per cent this year.

EBITDA was up 10.7 per cent to \$3.5 billion, with compound growth over the last three years in EBITDA of 15.7 per cent. The EBITDA margin improved a further two percentage points to 38 per cent, and was 39 per cent in the second half of the year. Mobile customers grew 1.3 million to 15.1 million as we continued to see improvements in churn, which was down 1.4 percentage points to 10.8 per cent. During the year, we invested \$1.2 billion of capital into our mobiles business, a significant proportion of which has been into the network, including the LTE roll out. We will invest a similar amount in 2014.

In IP and data, we are continuing to see customers migrate from legacy products to IP networks and NAS-based solutions. IP access was up 5.9 per cent to \$1.1 billion. However, this was not enough to offset the decline in other data and calling products and ISDN revenues, which were down 6.5 per cent and 5.9 per cent respectively. Notwithstanding this, retail IP access and data revenue combined was up 3.3 per cent as a result of market share gains, customer migration onto IP networks and bandwidth upgrades. The EBITDA in the portfolio remained broadly flat at \$2 billion, with the small fall in revenue offset by a one percentage point improvement in the margin.

Now, turning to NAS, we saw accelerating growth in NAS, with revenue up 17.7 per cent to \$1.5 billion. This was particularly the case in the second half of the year. This was supported by strong growth across all major product categories, including cloud up 33 per cent, unified communications up 17.7 per cent, and managed network services up 20.7 per cent. During the year, we signed a number of significant contracts. These included deals with the Department of Defence, the Victorian Country Fire Authority and the Tattersalls Group, and this places us in a strong position, with long-term contracts supporting future growth across multiple industry and government sectors.

Encouragingly, we saw growth in 2013 in all customer segment groups. Consumer revenue was up 3.3 per cent, to \$10.7 billion, and this was underpinned by strong growth in mobile services revenue, up 8.8 per cent, and fixed broadband revenues, up 10.4 per cent. Telstra Business returned to growth, with revenues up 1.1 per cent to \$4.7 billion. This was supported by strong growth in NAS, up 26.4 per cent, and mobile services, up 2.4 per cent. We also saw growth in Enterprise and Government, up 1.3 per cent to \$4.3 billion, also underpinned by strong growth in NAS. And finally, Wholesale revenue was also up, and this was as a result of the NBN infrastructure access revenues received.

Turning then to media, and firstly Sensis. Sensis' performance was in line with our expectations as the business continues the challenging journey of transitioning to a digital model. Revenues were down 11.7 per cent to \$1.3 billion. Print revenues were down 11.4 per cent for White Pages and 25.6 per cent for Yellow Pages. Against this, we saw an acceleration of growth in our digital portfolio. Revenues were up 11.3 per cent to \$415 million, compared to growth in 2012 of 4.5 per cent. During the year, we saw 110 million visits to Yellow Pages digital, and 68 million to Whereis, as we continue to build out our digital products. The decline in other revenue was due to lower call volumes across all voice products. EBITDA was down 21.7 per cent to \$571 million. Whilst the EBITDA margin reduced six percentage points to 44 per cent, we were able to offset some of the decline in revenues through productivity improvements. In summary, while we're making progress on the Sensis transition, it does remain a challenging one.

Turning to Foxtel, Foxtel had its first full year including the acquisition of Austar. Revenue was up 3.9 per cent to \$3.1 billion, compared to 2012 on a pro forma basis. This was supported by a 3.4 per cent increase in subscribers to 2.5 million, largely due to improvements in churn rates, which were down two percentage points to 14.2 per cent. We also saw good growth in IP subscribers. EBITDA was up 22.4 per cent to \$944 million, and this followed significant cost synergies from the Austar integration. EBIT was up a very strong 40.7 per cent to \$511 million, and this supported a 43 per cent increase in the dividend to Telstra to \$155 million. Finally, we also saw a modest increase in cable access revenue from Foxtel to Telstra, up 1.7 per cent to \$120 million.

In the other media assets, we saw a decline in revenue of 1.5 per cent to \$735 million. Premium PayTV, where Foxtel premium services are re-sold through Telstra, was down 1.2 per cent to \$595 million. Paylite, which includes the more strategically important revenues from bundling T-Box and Foxtel in conjunction with BigPond movie services. During the year, we sold a further 168,000 T-Boxes, bringing the total units in the market to more than half a million, and in May we launched our entertainment bundles, which we expect to support future growth. These initiatives helped grow revenues from Paylite, up 11.3 per cent to \$71 million, offsetting the reduction in Premium PayTV. Other digital content services revenues declined 13.8 per cent to \$69 million, mainly reflecting the continued reduction in feature phone usage as our customers shift to smartphones.

Turning finally to our International portfolio, again we saw strong growth in International, which is our predominantly Asian businesses. Revenues were up 16.2 per cent, to \$AUD1.7 billion. In Hong Kong, we attracted 425,000 new customers to CSL across all brands, to bring our total customer base to 3.9 million. This supported growth in revenues, up 17.6 per cent to \$AUD1 billion; up 16.9 per cent on a local currency basis, whilst EBITDA on a local currency basis was up 14.9 per cent. In China, Autohome had a very strong year, with revenue up 73.8 per cent. This was partly offset by the impact of discontinued businesses that we exited last year. Finally, we continued to grow our global connectivity business, and we are expanding NAS into Asia. Revenues are up 11.4 per cent to \$566 million. During the year, we opened a new data centre in Singapore, and we signed a number of

international contracts, including with Jetstar, Fitness First and other international companies.

Before making a couple of comments on productivity, I will take you through the key elements of income relating to NBN during the year. Total NBN income was \$399 million. This included \$11 million and \$168 million respectively from the Retraining Deed and Information Campaign and Migration Deed. The full amounts under these deeds were received last year, and the Retraining Deed will be amortised over a 10-year period. The remaining \$92 million under the Migration Deed will be amortised in 2014. The TUSMA agreement became operative from 1 July 2012. Income under this agreement during the year was \$124 million. This was partly offset by the revenue that we received last year under Universal Services Obligations, which is included in our fixed portfolio.

We also received \$89 million in relation to the Infrastructure Services Agreement. This included rental income associated with access to network infrastructure and the sale of leading conduits. Finally, we received \$7 million in early PSAA payments.

Let me now turn to our productivity and simplification program. If we adjust for the effects of M&A, which is essentially TelstraClear, our total comparable operating expenses in 2012 were \$15 billion. During the year, directly variable costs associated with the growth of our business increased \$600 million. Underlying inflation added a further \$300 million.

As our customer numbers increase, this adds work volumes to the business. During the year, we added more than 1.5 million new customers across fixed broadband, mobile in Australia and Hong Kong offset by a reduction in PSTN customers. This customer growth led to a \$300 million increase in operating expenses. And finally, we invested \$200 million in initiatives for longer term growth. These included our customer advocacy program and the implementation of NPS; customer service improvements; the digital program in Sensis; and some additional NBN works. Against these increases our productivity and simplification program delivered \$800 million of net benefits to our expense position in 2013. In conjunction with a positive impact from the net bond rate and mobile terminating rates, total operating expenses for the year were \$15.4 billion. \$15.4 billion, I apologise.

Turning now to capital management. I presented our strategic framework for capital management to the market in April of 2012. Our approach remains unchanged. Applying this framework, cumulative excess free cash flow as at 30 June 2013 increased \$600 million to \$1.6 billion. I also advised the market last year that we expected to generate \$2 to \$3 billion of cumulative excess free cash flow over the next three years. This takes us into the second half of 2015. Assuming the NBN rollout continues to be broadly in line with NBNs current plan, we still expect this to be the case. We will continue to communicate our cumulative excess free cash flow in conjunction with results.

In relation to some of the more detailed capital movements, our total accrued capex increased 5.6 per cent to \$3.8 billion. This reflects the increase in capex to sales ratio that we announced last year to support the acceleration of the LTE mobile network expansion. In total we invested \$1.2 billion in the mobile network, and as I mentioned earlier, we will be spending a similar amount in 2014. Free cash flow of

\$5 billion includes the cash proceeds from the sale of TelstraClear, offset by payments for the spectrum licences amounting to \$821 million. The \$1.3 billion commitment for the digital dividend spectrum following the auction in April is payable in the second half of calendar 2014.

During the year, we had \$4.1 billion of debt maturities that were funded from \$2.1 billion of new issuance, and the running down of our liquidity position by \$1.4 billion to \$2.5 billion. Through this, we reduced our long term borrowing costs by almost 10 per cent to 6.4 per cent, and we extended our average debt maturity from five years to 5.5 years. We consequently end the year in a strong financial position.

Before handing back to David, let me make a couple of comments on guidance. Our guidance for 2014 is low single digit growth for both total income and EBITDA. We expect our capex to sales ratio to be in the region of 15 per cent as we continue to support the acceleration of the LTE network. We expect our free cash flow to be in the region of \$4.6 to \$5.1 billion, a small decrease on 2013. This mainly arises due to the expected increase in tax payments from the introduction of monthly instalments. In other words, we will pay 14 months' tax in 2014. As previously advised, we have returned to our normal policy of advising on dividends as they are declared, in conjunction with our results. We are therefore not providing guidance on dividends today. Thank you very much, and I would now like to hand back to David.

MR THODEY: Thanks, Andy. I think you see from the results that there really has been a result of the steady execution against these four priorities we set nearly three years ago, which are, namely, improving customer satisfaction and service, which has really been at the heart of what we do; retaining and growing the number of customers that we serve; simplifying the business; and then, finding new areas of growth. So what I thought I would do this morning is just give you a brief update on each of those four priorities, and just give a bit of an insight of what we're really doing.

Firstly, customer satisfaction. Well, over the last year, we've concluded about 10 million surveys of our customers. As you know, we have deployed this new Net Promoter Score, or customer advocacy metric, within the business. And, really, it's a system that is all-pervasive across every part of the business. It's online, phone calls, face to face interactions with our customers. And when we do these surveys, we ask customers to score us between zero and 10, and to be an advocate, you've got to be up in the nine to 10 level. But what's more important in this is that we monitor every interaction, so we review NPS by product, by episode, ie, could be a move, or it could be an activation, or it could be a billing experience, and we look at it by sales channel, and we also look at it, obviously, about how our field staff, when they turn up to your home, or are building something in the market.

In this way, NPS has really become a critical tool for us to really monitor how the business is going. So rather than being sort of an arbitrary metric, it's very much integrated into what we do every day. And it's really part of the fabric of the business. For example, every morning, I get an MMS which actually gives me the scores from the previous day, about all the episodes and the interactions, so I can see

how we're tracking on the previous day's performance. And we set targets by month.

Every team in the company also has a weekly or a fortnightly – what we call a T-Time meeting, where they come together to talk about how they personally can make a difference in terms of improving customer service.

Now, this has only been for a year, we've been working with NPS, but it has really changed the fabric of the business and what we do. And then, very importantly– 40 per cent of our short-term incentives for all our staff – now, that's just excluding Sensis, wholesale, International, we set a separate metric – are based on the performance of this NPS target. That's very significant, and really puts customers right at the heart of what we do every day. So capturing the NPS score for each interaction, as well as the written comment, gives us the ability to really drill down to see what our customers are saying every day, and how we can improve the level of service that we provide.

Now, I should stress, while we are improving, we still think there's enormous opportunity to improve and do better, because we see every day just where we do fail. And to improve our service, we must reduce the time that our customers have to deal with us. So it's about how we respond to problems, and also be more consistent across all the different touch points that we have with our customers every day. So that's part of the attitude. But also, you've got to have product and brand leadership, and you've got to also focus on those perceptions. So I'm pleased to say that we've introduced a lot of new products and services this year. You know, mobile customer data alerts has been really important in terms of keeping customers informed about their usage of data plans on their phones. This includes the alerts, and we're doing more and more of them. We've still got a lot more to do in that area.

Also, we introduced No Lock-In plans for post-paid mobile customers. And this provides customers the option of not taking out a 12 to 24-month contract, but actually still signing up to Telstra and getting a wonderful service.

Also, we've introduced a loyalty program, for the first time, that Telstra has ever had such a pervasive loyalty program, called Telstra Thanks. And it's for all our customers, and you can get tickets to movies, concerts, sporting events, and it has been incredibly successful. To date, we've communicated with 15 million customers, and we've provided more than 600,000 tickets, which has been way beyond our expectations.

And we're also making it easier and quicker for our customers to deal with us, and actually allowing them to deal with us how they want to do it. So we've seen a tremendous growth in our online service interactions, which have now reached 40 per cent of all the interactions we have with our customers. And I will talk about that a little bit more later on. So it's very encouraging to see the progress, but we really do believe there is still a lot more that we can do. So, now, let me turn to retaining and growing customers, which was our second focus area.

As Andy took you through the results, our strategy is very important about retaining customers, and also growing the number of customers that we serve. As you saw,

our domestic mobile business continues to grow. You know, we now have more than 15 million [retail] mobile customers. And very importantly, this is profitable growth. And we're growing our customer base, holding up as stable and increasing our mobile EBITDA, which has been what we've been so focused on now for three, four years. We have now sold 2.8 million 4G devices. Now, that breaks down at 1.9 million handsets, 200,000 tablets, 400,000 dongles and 300,000 mobile wi-fi devices. That has been very encouraging. The take-up of 4G has been very good. As I mentioned, the Hong Kong, the CSL customer base increased by 425,000. And, you know, Hong Kong is a very competitive market. There are five key players there. And pleasingly, we've grown customers across all three of the brands that we have in that market. So mobiles is going well.

In the fixed retail broadband market, we've also increased our customer base by 173,000. And it was a competitive market. This continued growth allows us to also push our bundles out more aggressively, and our results in the bundled area has been very successful. Consistent with market trends, we continue to lose PSTN lines, but less than in the previous year at the aggregate level. In 2013, the PSTN line decline was 287,000, which is a reduction on the 313,000 that we lost in full-year 2012. So that was actually a very pleasing result. And, as Andy mentioned, all three of our domestic retail segments group – and that was very pleasing, especially to see Telstra business return to growth in the second half, and they are doing very well. And, of course, as Andy also mentioned, the wholesale segment grew, which is very pleasing.

So now, let me turn to the third one, which is around productivity or simplifying our business. We have delivered another \$1 billion of productivity benefits this year. You see, simplification affords us the right to reinvest into our growth opportunities, so we're always trying to balance this business. And, of course, the other key area is how to invest in the new customer service initiatives, whilst keeping our total expenses flat. That's really what we're trying to do. Over the past three years, we've seen some really significant benefits coming out of the productivity initiatives, and I'm just going to touch on four of them this morning: (1) across supply chain; also talk a little bit about the online sales and service capability. Another critical area for us is credit management; and, of course, about simplifying our operating model.

So firstly, to the supply chain efficiency. We have delivered a tremendous change here by reducing the number of suppliers that we deal with. This year, we reduced the number of suppliers by seven per cent, but over the life of this program, the last three years, we reduced the number of suppliers by over 20 per cent. This allows us to build deeper, longer-lasting relationships with our key suppliers. We've also reviewed and optimised 10 per cent of our third-party spend this year, and we've reviewed over the three-year period 85 per cent of all the contracts we have with our suppliers. That's about delivering a better outcome in terms of the relationship we have with our suppliers.

Secondly, with our online sales and services, we have made really good progress in the last 12 months. Now, let me just take you through a few of the highlights. My Account is a service we offer our customers to enable them to track their usage, pay their bills and review their plans online, and we now have two million regular users

on that service and the feedback we're getting from that service is very encouraging. We also now have the 24 by 7 app which enables customers to manage their account anywhere and anytime on their mobile phone. We have had over 2.5 million customers download the app, and we now have over one million active users and this is a very, very important part of how we're going to deliver service into the future.

Customers can also check with us online anytime, 24 hours a day, seven days a week. For example, if you need help to pay a bill, recharge your account, check your usage, activate your prepaid service or move your Telstra service, you can chat online with a Telstra agent. We have doubled our live chat volume this year and currently we engage with about 5000 sessions every day. Our consultants can chat online with multiple customers at the same time, so whilst this is hopefully more convenient for our customers, it also delivers us great productivity improvements in how we're handling customers' questions. So some really good progress in terms of our online sales and service, and this will be a very, very important strategic pillar as we go forward.

Thirdly, we have also delivered significant productivity through careful management of our credit management setting. Improved pricing, better plans, and with more inclusions and also improved processes have enabled us to more effectively balance our risk appetite with our customer growth and profitability objectives; a very, very important consideration. As you can see from the chart, we have reduced our bad debts expense over the last four years during a period of significant customer growth and revenue growth; very, very important aspect of what we have been doing. Lastly, we are making progress in simplifying our operating model, something within Telstra that is very important.

As our business evolves, we are increasing employee numbers in areas where we see continued growth while restructuring areas that are in decline. For example, the international group grew by 380 staff this year; the NBN team grew by 150 people; the NAS operations team grew by 72 and our Enterprise and Government team also expanded with the addition of 350 roles from the Defence contract. But, importantly, some of these changes mean we are increasing our capability offshore to deliver many more of the contracts we're signing across Asia. This is a very important consideration for our NAS business. And so we're going to see other increases, which we will need to do, as we make competitive markets while restructuring our business.

Very important to understand the traditional business both Sensis as it goes from print to digital and our fixed lines services especially voice are the areas where we're having to completely re-engineer and we are seeing decline in the work that we need to do in those areas. So you're going to continue to see this trend over financial year '14 as we continue to rebalance the business, and a critical part of what we do and it's hard work. We're also moving towards having larger call centres and we're providing our customers with a better online customer experience which hopefully will mean, in turn, that we will have a declining need of number of calls going to our call centres. Across the organisation, we've reduced the workforce by 2,251, and 1,323 of those with TelstraClear. So you can see this balance is very important as we manage going forward.

Overall, I believe there still remains tremendous opportunity to improve the operational efficiency of the business while still growing in the critical new growth areas. So let me now turn to those growth areas and give you a bit of a picture of how we see things going there. As Andy said, we have got a strong revenue growth from NAS and from International. I am pleased that these businesses are delivering significant growth, and this has been the result of nearly three years of effort and our capability continues to grow in these businesses. Part of the NAS growth strategy is to expand into international markets, especially into the Asian region working off that core REACH asset.

These discussions are underway about establishing more competency within the Asian region so we can serve these customers across Asia; a very important part as we try to drive out this NAS business. For international, you have heard that the customer growth that we deliver to Hong Kong mobiles business where that's a very competitive market, but, very pleasingly, Andy also mentioned the Autohome growth, our online car sales business, delivered 74 per cent top line growth; very exciting. Also to drive future growth, our ventures team, who are based both here in Australia and also in Silicon Valley, have had a successful year. We have taken up minority positions in Kony Solutions, HealthEngine, Whispir, and IP Health during the year.

I do want to stress these are strategic investments and early stage companies that really fit in terms of core strategic intent. To support our growth initiatives, we have established two new business units this year; one called E-Health and another one called Global Applications. And we announced it six months ago and we're pleased to say that both these business units are starting to make progress. You know, for Telstra it's very important we continue to find new business opportunities in order to achieve our growth aspirations. Before I just sort wrap up, I do want to just mention asbestos.

As you know, we have been managing asbestos within Telstra for a long time. Our copper network was built over the last 100 years, and often, as was commonplace during that time, we used asbestos in the concrete structure of our pits and also in some exchanges. And this is similar to many other organisations in Australia. Now, as you would be aware, regrettably we had some issues with asbestos handling with our contractors which has caused us to go back and really look at all our pit remediation processes. I'm pleased to say that on Monday, we advised our contractors they could recommence work, really starting from 19 August in a progressive fashion, as long as they met our revised and more stringent licensing requirement of class B, and also on the basis they completed further training and also our compliance standards.

Now, with all this, I'm pleased to say that we're still meeting all our contractual commitments to the NBN in terms of the agreements that we have in place with them. I do want to stress that, from a financial perspective, our current assessment is that this issue bears no material financial impact on the company. You know, we do take this issue very seriously and we remain very vigilant in managing asbestos within the network, but our priority is to our employees, to our contractors and to the community. That is where we must place our priorities in terms of having a safe workplace. So before I finish, let me just summarise today's results. I'm pleased to

say we continue to execute on our strategy and, as I said at the beginning, we have met all our commitments.

We have met guidance of low single digit total income and EBITDA with a free cash flow of \$5 billion and we have confirmed a 14 cents fully franked dividend bringing the total to 28 cents per share for the full year, '13 year. And, as Andy went through, we maintain a strong capital position. I must stress though, we are still very focused on improving customer service. Customers are telling us our service is improving, but we believe there is still much to do across all parts of our business, and pleased to say, as we enter into this year, that business does have momentum.

While I'm sure the coming year will be more competitive, we are still confident we will continue to focus on product excellence and improving customer service. If we do that, we can deliver on single digit income and EBITDA growth. So with that, thank you very much. What we're going to do now, is just going to get this table in the middle and then Andy and I will be very pleased to take your questions. So thank you very much.

MR KEYS: Okay. We will start off with some questions here in Sydney. Good morning, Ian.

MR I. MARTIN: Ian Martin, CIB. It's an excellent result and well managed. Thank you for that. The nature of these questions though is that, you know, you have to focus on areas of concern.

MR THODEY: Yes.

MR MARTIN: The first one; the mobile business segment, you mentioned the importance of, you know, the low churn and the stable ARPU. I'm just wondering whether you could perhaps comment on the outlook and particularly whether you're starting to see some price pressures emerge there in the context of Vodafone's flat rate daily international roaming charge, is the first question.

MR THODEY: Right. Okay.

MR MARTIN: Secondly Andy, to that free cashflow target for three years and to the extent that, you know, hinges on those NBN payments. At the time that you made those comments, the expectation of Telstra was that the disconnection component would increase up to 2014 as the NBN roll out gains momentum relatively constant. It's going to be a long way behind that, but I just wonder whether the implication of that series of delays at NBN Co for that two to three million target. Secondly, whether the four billion itself, 2010, post tax NPV, how robust is that given the extent of delay? And thirdly, are there any flow on implications to the infrastructure component as well? Are there delays in providing infrastructure and getting infrastructure revenue because of those - - -

MR THODEY: While Andy thinks about all those ones, let me handle the mobiles one, Ian. Look, firstly, I have been surprised – I mean, I have looked at all the mobiles businesses around the world and, as you know, in Europe they have been a bit flat, if not declining. US has been – you know, for different reasons, has seen

some good growth. So we have been looking at the mobiles business very closely. Demand is still strong, Ian, and we're seeing people taking up multiple devices and especially with the, you know, tablets and with phones, we have now gone to 70 per cent penetration of smartphones, still driving great data uses, and we're managing that data usage and the yield on data a lot more closely. I think I referred to that last year.

Look, no question that our, you know, competitive market are sort of coming to the end of sort of some investment period, but I do want to stress, we put international roaming packages into the market nearly four months ago, which were a completely different structure. So, yes, we watch that, but I do want to stress, we have always said on the mobiles business we will remain competitive. We're just trying to look at exactly what they have put out there. Yes, a little bit more competition, but I don't think that necessarily means we can't continue to grow. We had a good second half, so we have got good momentum coming into the business.

I think we have got to continue to work across small business in terms of how we redeliver, you know, the technology, the productivity enabling driving differences, and so our focus is changing a lot, and that's some of those investments we're doing in mobiles around some of the – our partnerships we have got with people like Kony, which is the way you render applications on to the phone. We're seeing incredible take up in that area and a lot of interest. So, interestingly, I'm not as pessimistic as many around the world on the business, and I think we have got good opportunity to continue to grow. It's going to be tough. I'm not saying it's easy, but we have got quite a few of the levers we're managing at the moment and I think we're feeling reasonably confident as we go into the year but we watch it every month, as you can imagine. Andy, do you want to handle the ones on free cash and - - -

MR PENN: Sure. Thanks, Ian. I think essentially your question is, you know, does the sort of rate and pace of the roll out of NBN, and to what effect does that have on sort of earnings and pre-cash flow. I would like to sort of say that the two to three billion wasn't a target as such, it was more just I wanted to provide guidance on what we thought that could be and we will continue to report what it is, but we're not setting it as a target. And, of course, to the extent to which there is a slower roll out that had previously been anticipated for NBN, that will effect some aspects of the receipts from NBN, of course, including the PSTN payments and, to some extent, the infrastructure service payments as well, but it won't effect the TUSMA payments and, of course, as you can see from the slide I had up earlier, we already received \$89 million this year in Infrastructure Services Agreements.

So the answer is, it has some impact, but, I mean, obviously it's dependent on the roll out. We have excess cumulative free cash flow at the moment of 1.6 billion, so it would need to be a fairly material change to the current plan for it not to allow us to be in that region of two to three billion by the second half of 2015. And likewise on earnings, our earnings are not dependent on the roll out. Of course, the final point to make is, of course, if the roll out doesn't occur at the rate and pace which is currently suggested it will do, then, of course, we retain PSTN customers for longer and that has a consequential positive impact on our profit and loss account as well and free cash flow. So there's a few swings and roundabouts. The headline is that if it was a

major, major delay or change, then it could have a more significant impact, but not if it's around the margin.

Mr MARTIN: And the four million 2010 NPV for the disconnection component is that still a robust figure, despite the delays?

MR PENN: Well, of course, you know, that's dependent over the very long term. That's the net present valuation calculation, and so obviously it's affected by the timing of the receipt of the cash flow. But on the other side of the equation, of course, the net present value of retaining PSTN customers for longer in their current contracts has a more than offsetting impact – a positive impact.

MR MARTIN : Yes. Thank you.

MR KEYS: We might – will take questions from Sameer and Paul before we go to the phones, because the guys have got to stand up for quite a while to get their questions.

MR CHOPRA: Good morning.

MR THODEY: Good morning, Sameer.

MR S CHOPRA : Congratulations on a very strong result I have two separate questions, one for you, David, just on mobiles, and one for you, Andy, on the guidance. So David, on mobiles, you know, Telstra took a lead early on in bundling the handset to the MRO plan.

MR THODEY: Yes.

MR S CHOPRA : I was wondering if you could talk to what you're saying or what your plans might be to monetise mobile data growth better. We've seen good stuff on the horizon. We've seen Optus introduce new plans.

MR THODEY: Yes.

MR S.CHOPRA : Perhaps you could share your thoughts on that, and also whether you're seeing any shift in the handset mix, and whether we could expect improvements in the COGS ratio going forward, as Android devices take a stronger hold. Andy, just on the guidance, you mentioned that there has been significant refinancing of the debt. I was wondering if you could talk to what happens to finance costs in FY14, if you're willing to venture a number around the NBN infrastructure payment for next year as well, it would be helpful.

MR THODEY: Thanks, Sameer. So why don't I try and address the mobiles questions. First in terms of the monetisation of data – it is an area that we do spend a lot of time on. It's a difficult equation, but we are seeing, you know, some results of reducing the allowance on the plans, which we did, though as you rightly point out, you know, others in the market have moved that around a little bit, too. But we're pretty pleased with the yields we're getting per megabyte at the moment. What you're really referring to is sort of innovative plans that we've seen in the US,

and yes, we think there's a good opportunity for those, Sameer, so I won't talk too much, but I think innovative mobile plans – especially if you've got multiple devices – is a very sensible thing to do, and, you know, we will see new handsets coming into the market.

As I said, we're about 70 per cent smart phones across the base now, of the 15 million, so it's pretty high, but we do continue to work with all those suppliers, to try to, you know, optimise our position and get the mix right. I like have a mix of Android and iOS, and we also like Nokia. We quite like Windows 8. But you've got to be very careful about which market segment you're going after, so I think that we're working hard at that mix. We do see different ARPUs buy different handsets, and I'm not probably giving you all the details you want, but we are very, very focused on that. I think the monetisation of data – you know, a lot of people, because they only use wi-fi, think data is – they get into this view that it's free. It's not free. Everyone pays for something, and we've got to also manage that transition, about not getting too enamoured with wi-fi offload.

We don't really believe in that. We think providing a seamless experience to the customer across, using LTE to wi-fi is really important. That's why we're investing another 1.2 billion into the mobile network, and we will get 85 per cent of the country by Christmas. We think that's a really big differentiator going forward, and we get a lot of really positive feedback from across the market on that, which is really great. So yes to both your questions, but not a lot of detail, I'm afraid. But I'm right with you.

MR PENN: Sameer, so just to your questions in relation to in terms of the cost of debt, as you saw, we've managed to bring the average cost of the debt down this year through the program that we have. We had a fairly big program this year. We don't next year. We've got about 600 million – well, sorry, 2014. We have about 600 million of redemption, so overall, I would expect our gross debt position to be on average lower than it was in 2013. A caveat for in the first half of 2015 – fiscal 2015, which is the second half of next calendar year – we do have that 1.3 billion Spectrum payment, and I mentioned before that we will fund that from debt.

So we will look to probably increase our debt position as we close out the 2014 years. So overall, the net of that is that I expect our average debt position to be no higher than last year, and our average cost of debt to be a similar level as it was last year. With the NBN infrastructure payments, I'm afraid I can't really provide any more guidance on those. As you saw, we've had 90 million in this year. It is – to Ian's earlier question, it is slightly dependent, of course, on the rate and the pace of roll out, and we're not providing any further breakdown or guidance.

MR KEYS: Good morning, Vikas.

MR GOUR : Vikas Gour Deutsche Bank. Just firstly with the Adam acquisition not proceeding, are you still looking to come out with some sort of a low-cost brand equivalent? My second question is about data and IP, and Network Application Services. Great result there. Just wondering – on the data and IP side, do you see the bandwidth price decline plateauing, and over the medium-term, are the 65 per cent EBITDA margins sustainable? And lastly, on the NAS side, are you seeing that as a

must-have product bundle to support the higher margin data and IP business, or is it a stand-alone offering that will grow in terms of earning contribution over time?

MR THODEY: All right. I think I might handle both ones, but if you want to help

MR PENN: No, no. Please, you - - -

MR THODEY: Yes.

MR PENN: Yes.

MR THODEY: Look, on the Adam transaction, we were disappointed it didn't go ahead. Took too long. Time kills deals. It was most unfortunate. Look, we're looking at our options now. We still think there's an opportunity for something, but we're just going back and re-looking at things, so we will give you more about that in due course. In terms of the data and IP business, look, obviously you're getting ISDN decline, because, I mean, ISDN is the product that connected to most PBXs around the country, so that's going down. But actually, we're seeing a greater take up of IP in the small and medium business, so we're actually very pleased with the Connect IP product there.

One of the things about the IP core network is that we did that big investment nearly six years ago, and that's pretty stable, so we can, you know, load that network up. Yes, there's always pressure for our large corporates, for more bandwidth for less price, but I think we've got quite a bit of capacity in the network, and we seem to be managing pretty well, so I think margins are pretty good on that product going forward. But remember, what we're doing is adding differentiation. I mean, not getting too technical, but applications, shared networking. You know, adding cloud services managed WAN is really the differentiation that we need to really put around that core IP network. It is a very large IP network. You know, it has now got – gee, I think we probably have 360 to 400 points of interconnect. It is very big and very robust, and then it has got those big Cisco switches in the middle.

But in terms of – which really leads me onto the NAS question. Look, initially, we started the NAS business as an addition to our core network service, and I think that's the way the customer often looks at it. They say, "Look, I've got a network. You know, can you come in and manage my routers, manage all my voice interconnect, and do that." So that's where it started, but we've made a very conscious decision that NAS needs to be a stand-alone profitable operation in its own right as well. So as you see us building our capability in call centres, you know, unified comms, security services, you know, the whole area around video conferencing, those businesses all need to be stand-alone profitable as well, as well as wrapping around that core network.

So that's what we're doing, and we're on a journey in that area, and I'm pleased to see the results we've had. You've got to be very careful. We've looked at other offerings around the world that had very high revenue growth and not much bottom line growth. We don't want to go there, and the guys are really working hard at it,

and as you will see from those contracts signed with Defence also Tattersalls – all very good contracts, and we will continue to work in that area. Okay.

MR GOUR: Sorry, just one other question

MR THODEY: Yes.

MR GOUR. : You saw that, or the results were showing that there was a remarkable reduction in the rate of decline in the PSTN lines. Do you think that was driven by market behaviour or something that Telstra did different in this half?

MR THODEY: I actually think, personally, and I haven't actually conferred with my friends here, but I think the bundles are starting to work because when you bundle, the churn in the combined PSTN, your fixed broadband and, you know you know, mainly entertainment packages, mean that we sign a two-year contract, and therefore people stay on, and it makes it simple for the customer. So I think you're seeing a bit of that result. I mean, obviously remember in that number you've got all the people who leave the category, people who are, you know, transitioning to VoIP services. Obviously in enterprise, we've got more people transitioning to VoIP, and that's just what you would expect. But no, I think it has been more in the consumer segment. But I should – do you want to add something to that?

MR PENN: Well, the only other thing I would add is because of the way in which the pricing works between the bundles, between the allocation between fixed and PSTN – whilst there was an improvement in the second half of the PSTN, it's probably over-emphasised as a consequence of that allocation as well. But nonetheless David's points remain valid.

MR THODEY: Yes, yes.

MR GOUR : Thank you very much.

MR KEYS: Okay, good. Hi, Paul.

MR BRUNKER. : Morning. I'm Paul Bruncker J.P. Morgan.

MR THODEY: Yes.

MR BRUNKER: I will just come back to the mobiles if I may, guys. As you know, Optus has launched a strategy on excess data usage, where you can step up to the next plan.

MR THODEY: Yes.

MR BRUNKER : They actually talk about it having a significant revenue effect for them. Could you venture an estimate of what those sort of charges mean to Telstra's revenue line currently and how you might have to respond to that initiative? I also had a question on CAPEX, if I may. So the LTE roll out is fairly well advanced now. How do you see the CAPEX budget moving from there? What takes up the

slack from there? Is the NBN at this point having any effect on the CAPEX budget for the fixed business or is it too early to see that?

MR THODEY: I will let Andy talk about the CAPEX on NBN – that it's not significant. But anyway, we will talk about it. Look, I'm not quite sure how to answer your question. I mean, I'm not aware of what, you know, others are saying in the market. But look, we manage the excess data usage very closely, Paul, you know, the way we provide, you know, a data allowance, and then if people go over that, there's a charge, and it's a fine balance that you've got to get because excess data usage may be good revenue, but it really annoys customers, and you get bill shock and all those sorts of things, and we're working that through. But really I'm not so driven by what others say.

I'm more driven about what we do for our customers, and what is right for us, and I think we've got a pretty good feel on that. I'm not inclined to talk about what we're going to do next month, but I can tell you we know very intimately whatever is going on in the market, and we respond, and we've always said that we will remain competitive. I'm not going to go back to where we were five years ago, with 40 per cent premiums. We have got a very clear strategy. We will remain competitive and we will, you know, sell the differentiation of a network that's 2.2 million square kilometres, with a competitor that has a network that's half the size of our network. So let's keep that in perspective, in terms of when we're talking about network strength, okay, and a great LTE network that goes very well.

MR PENN: Paul, in relation to CAPEX, though, as I mentioned before, guidance for 2014 is 15 per cent CAPEX to sales, so similar sort of level of investment, and as we announced recently, we expect to extend the LTE coverage to 85 per cent of the population essentially by Christmas, by the end of the calendar year, and then, you know, we're continuing to invest in further technologies beyond advanced LTE, etcetera, beyond just the roll out in terms of population coverage, in the second half, and the transit build of the NBN network is scheduled to be completed by around about the end of the current fiscal year. So we haven't yet set guidance on CAPEX for 2015.

We did say previously that, you know, the 15 per cent, the one per cent increase, was really over this couple of years to support those two initiatives, and that remains the case. But I mean, the one thing I would say is that I think that what we've demonstrated is that where we've chosen to invest for the longer term, that has been beneficial for us, and it's the right thing to do. So we will have to take that into account, but at the moment it's 15 per cent this year and last year, and we will complete the LTE extended roll out and the NBN transit build this year.

MR THODEY : Yes, they're two important points, aren't they? So both the LTE and the NBN transit build finish at the end of this year.

MR KEYS: Okay. Thank you. We will take a call from the phone first. Operator?

OPERATOR: Thank you. I've got Raymond Tong on line for you. Go ahead, please, Raymond.

MR TONG: Morning, David. Morning, Andy. I just have three questions. Firstly, just on mobiles again, we saw an inflection in the post-paid ARPU in the second half. Can you maybe talk about the drivers of this, and maybe talk about are you seeing sort of high usage of 4G over 3G, and people moving up tiers and paying a bit more. Secondly, just the outlook for costs. Can you talk about what you're expecting for cost growth in FY14, and thirdly just on the cash flow, think gross operating cash flow was down nine per cent year on year, and the conversion was lower than the previous year. Can you maybe talk about the drivers of that.

MR THODEY: Do you want to take the last two?

MR PENN: Sure.

MR THODEY: Did you get the last two?

MR PENN: Yes.

MR THODEY: Look, in terms of mobiles ARPU, look, in general, we're seeing good ARPU, strong on 4G, and so, as people migrate up, we are seeing them often, not always, but often, moving to a higher plan, and that has been encouraging. And we want to continue to see that, both as the functionality of the handsets get richer, and then managing that data allowance. The question on ARPU, what was your question on ARPU was the - - -

MR PENN: I think the question is, we saw 2.7 per cent growth in post-paid ARPU increase in the second half of the year, and I think your – it's just your hypothesis there that definitely it was more data plans, it was increased use of data, it was customers trading up. That is the reason why we saw that growth.

MR THODEY: And - - -

MR PENN: probably got it, and that's the benefit of the LTE network, clearly, and the 2.8 million devices David mentioned has really driven it.

MR THODEY: Yes. The other interesting factor, as people move off the 3G to the 4G for data, is that it actually is sort of lightening the load on the 3G network. Because a lot of people ask me, say, "Well, gee, how many customers have you added over the last three and a half years?" So it has been 4.5 million, how is the network performing? The great thing is that, as the customers migrate, now, to 4G, yes, where we were getting some contention, and, by the way, we managed that very carefully, in terms of contention at the sell level, we've moved along to the LTE, which is far more efficient, and therefore we're getting a really good balance going forward. So that has been, actually, a double benefit, higher ARPU and better management in terms of capital deployment in the network. So, Andy, did you want to take a - - -

MR PENN: Sure. So the other two Raymond just on cost growth, so, I mean, our strategy on costs remains the same. As you heard David speak, simplification of

productivity improvements remains one of our key strategic platforms, and will continue to do so, and we will continue to target similar levels of productivity improvement on the one hand. On the other hand, that's obviously supporting our continued investment and growth in the business. So I think, you know, you should expect to see a similar pattern. We will be looking to hold non COGS costs broadly flat through productivity improvement, and COGS DVC's will obviously probably grow a little bit, and in conjunction with our continued business growth, but overall, our focus is on the broader margin of the organisation. And, as we saw this year, we increased the margin at organisational level by just over a hundred basis points, and, you know, in pretty much every product group or business group other than Sensis, so that will continue to be the focus.

On the operating free cash flow, the reason why operating free cash flow this year was down relative to last year, you may recall, the two payments that we received from Government in relation to the retraining deed and the migration deed totalled 450 million. We received those all in cash in the last financial year, albeit they're amortised from the P&L account over the current financial year. And we also saw some improvements in investments in working capital inventories, MRO, etcetera, to support business growth this year. So they were the trends. The bigger driver next year, in free cash flow, as I mentioned earlier, the reason that's down a little bit is because of this dynamic where, because we introduced monthly payments of our tax bill, which is a Government policy change, effectively it means that in FY14, specifically, we will pay 14 months' worth of tax. In cash terms.

MR KEYS: All right, thank you.

MR EARY: Three sort of questions. First one is just on costs, second on NAS, third on the actual portfolio within the group. On costs, the last couple of years, you've taken out, I think, nearly a billion dollars each year. Is that – as we look into sort of '14 and '15, are a lot of the easy gains been done or can we expect a billion dollars to come through again and actually talk through, obviously, what are the easy wins you've had, and obviously, where you expect those gains to come through from? The second question is just on NAS. I mean, if you look at the run rate, the first half versus the second half, second half, I think, was nearly 22 per cent, first half was, like, 11 per cent. Can you give us an expectation where that run rate flows into '14, but also give us a view in terms of how the profitability of that section sort of changes with the revenue inflection. And then the last question, obviously, I think, David, your slide at the end of the pack was talking about, obviously, different verticals there has been a number of small M&A bolt-ons throughout the year. Is there any, you know, allowance within the current guidance for further bolt-ons? And, you know, can we expect any sort of portfolio rationalisation over the next sort of 12, 18 months, whether there are assets there that are deemed non-core which you've, you know, historically flagged.

MR THODEY: Right. Okay. So I – maybe Andy and I will handle these together. I'll comment and then you can add some clarity. Look, the productivity improvement program, which is really important, we've got to keep going. Is it as easy as it was four years ago? No. It's getting tougher. However, we still remain dissatisfied with the amount of sort of wasted work in the company. And that goes from things like – well, you know, we still have too many systems that don't work,

or require re-keying or, you know, we have to use webforms rather than integrating into the core which means even on the – at the moment, in our NBN activation, there's a lot of manual work as we rebuild those systems. So we think there's still a lot of opportunity, but it's really driving end to end process improvement.

Even when you look, like, a simple move, I mean, I – it's a bad customer experience, or not as good as we would like to be, and it takes us an incredible amount of effort to get all the – you know, all the PSTN moves, the fixed broadband or cable move, and maybe a Foxtel move done at the same time. I think, personally, we can cut – if we get it right – that by about 60 per cent of the cost and time. They are the sorts of things we've still got to work on, and I think that Robert and the team have got that in our sights, and we have also been looking at our future operating model over the next four to five years, and where we need to be in 2020.

Obviously, in NBN world, our margins in that part of the business are far lower than what we have today. So we have to really work at a far lower transaction cost than we are today. So that's what we've focused in on, and it's a mixture of systems and processes. There's some, you know, behavioural signs in terms of first call resolution. I still think we take too long to resolve customer issues, and I know Karston and the team are working on that we've done a lot of work in just supply chain, which Robert has been working across, and then we've got a big project on future ways of working, which also means a whole different way of which we're going to structure the company. So we think there's still a lot. I, without putting an absolute commitment to – our target is about a billion a year for the next three or four years. So a lot of work. It's not easy. But we've got to do it. We don't have an option. So that's going to mean some big changes in the business going forward. So that's where we're at with that one. Did you want to add anything more to that, Andy?

MR PENN: I - - -

MR R EARY: David just before you move on is that OPEX out or is that going to be a change in terms of capex and opex.

MR THODEY: It's opex. When we talk about gross level productivity improvement, it's, you know, could be revenue improvement, could be capex, it could be opex. So it's not – and sometimes we will reinvest, and sometimes we don't, but overall, it sort of allows us to measure to opex more tightly. Do you want to comment?

MR PENN: Literally, I was only just going to say really quickly, I think productivity is a frame of mind, and I'm feeling old here, but for 30 years of my career, I've been hearing about low-hanging fruit, and the fact that, you know, you've achieved it all. I think it's a frame of mind, and I think the frame of mind in Telstra is, you know, there are always opportunities, and we need to continue to challenge ourselves, and that's how we drive further improvement in the business.

MR THODEY: Yes. So, Richard, a lot more, and it's not easy, but we've got to do it, and there are some tough decisions along the way as well. Second question was

around NAS and, you know, the half on half, 11 and 22 per cent. Look, my definition, the big – it's a bit contract, and therefore you're very lumpy in terms of what you do. Remember, we signed the Defence contract in April, so that's just starting to flow, and that's a big contract that will come on stream – well, it has come on stream now, and then into the FY14 year. The – in the NAS business, you've got to look at profitability by every product line and by contract, so we look at our unified comms practice, the profitability there. We look at our call centre practice and our profitability there. We're looking at our security, you know, video conferencing, etcetera.

So you also need to really manage closely, when you sign these big contracts, to manage the cost out, and get economies of scale across all of it. So the way you drive profitability is, you sign up these big contracts, you put in standard operating models across them all, and that's the way you can deliver a better outcome for the customer, and also still make money for us. So hopefully, you will see more – I'm hoping – more consistency in our level of profitability across those businesses going forward, but they will always be a little bit lumpy, quarter by quarter, because it really depends on what deals you've signed. But, as we go into next year, we've got a pretty good backlog. We've still got to do more in the first half of sales, but we're feeling reasonably confident as we go forward. So that's is there anything more on that?

And then, look, even M&A bolt-ons look, the ones we've done have been pretty small. They are – I can't remember how much we invested yes, tens of millions. Look, we continue to manage our portfolio very tightly. You saw us make the decision on TelstraClear. Look, I can't say much more on that, Richard, today, but, you know, it's a, you know, we think we've got to keep looking at how well our capital is working for us across all our different areas. We do think bolt-ons are important, especially around the growth portfolios. And that's what we will continue to do, and we will continue to look at the – how well each part of the business is performing, and make decisions accordingly. Okay?

MR EARY: So there's nothing allocated in the guidance

MR THODEY: No. They're just specifically on guidance, so guidance doesn't – it just depend on any acquisitions, and neither does it sort of cater for any acquisitions. But having said that, the sort of things that we've done, you know, wouldn't affect our outlook.

MR EARY: Okay.

MR KEYS: Yes. Okay. Operator, could we take a question from the phone, please?

OPERATOR: Thank you. Next question comes from Mark McDonnell. Go ahead, please, Mark.

MR M. McDONNELL: Well, good morning, David, good morning, Andy. I have a fairly high level question, and it really goes, in part, to the revenue position, David, which, you know, clearly there are some pockets of string, but at a group level, for

some years now, you've really only been able to manage pretty flat outcomes, particularly on an after-inflation basis. And, you know, that's despite some good successes in a number of new initiatives, and when you look at the detail, it's quite clear that there are some real areas of weakness in the business. And one of those in these results, of course, is in the media portfolio, which I think, frankly, I would have to describe as non-core. So my question is, is there something in the culture of Telstra that would prevent the board from deciding to divest non-core, non-performing businesses within Australia?

MR THODEY: Mark, I – well, in terms of revenue growth, I think that, obviously, it's a balancing act across many portfolios at any one time, and therefore, you've got to look at the dynamics in the market, while still driving good, profitable growth where we can. And I think actual profit results have been pretty good in terms of the results as we've taken costs out. In terms of your question about how we manage portfolios and their relevance, I think that the board and senior management are wanting to confront the big issues about relevance of assets, and we will continue to review them as we go forward. And which, like we always have done. So I don't think there's anything that precludes us or excludes us from looking at options, and we continue to look at what makes best sense for our shareholders.

MR McDONNELL: Thank you.

MR THODEY: Okay?

MR KEYS: Operator we'll take one more question over the phone, and then we will come back to some here.

OPERATOR: Thank you. Your next question comes from Justin Diddams, from Citigroup. Go ahead, please.

MR J. DIDDAMS: Morning, guys, thanks for the question. It's just really around the guidance for revenues. You're talking about low single digit revenue growth this year, and I wondered, it took 1.3 million mobile customers to add six per cent revenue growth to the mobile business while, you know, the other businesses like PSTN and media and so on were declining. Now, you know, let's assume, for argument's sake, that PSTN continues to decline in FY14, and, you know, media continues to struggle a little around Sensis, and, you know, IP goes backwards. Do you need to add another 1.2 million mobile customers in FY14 to hit your revenue target?

MR THODEY: I don't think we disclosed that specific detail actually, Justin. Do we need to continue to be successful in, you know, getting our fair share of that market? Absolutely, especially as customers take on multiple devices and there's new ways of delivering new services, like Foxtel Go, etcetera. But, no, we feel comfortable with where we're going for next year and – but, you know, we are assuming that we will continue to grow the number of customers. We have in the mobile businesses, people take on new devices.

MR PENN: I think David and, Justin, I mean, the pattern will be the same. I mean, we will obviously, at the net level see a reduction in revenue for fixed, but we're

growing strongly in fixed broadband, so that's helping that. Sensis obviously will continue to decline, but other media assets we would expect to see some increase, but then obviously the drivers of the growth will be mobiles, NAS and International.

MR J DIDDAMS: Thanks, guys

MR KEYS: Okay. Sameer.

MR S CHOPRA: Just two questions. First, you know, can you give us a sense around what percentage of the base is now an MRO plan? This has been one of the headwinds on the ARPUS, we've seen the ARPU improvements starting to occur and if you could give us a sense around where we stand on that. And the second one is just a follow up to Richard's question around NAS. You know, mobiles is a very big scale business. The incremental margins have been very impressive. What are the incremental margins like on NAS, are they in that sort of ilk? You know, when you bring on new customers, do you get margins that are two to three times better than what the existing margins were on that? If you could talk to that.

MR THODEY: Okay. Have you got the MRO numbers?

MR PENN: I don't have the exact percentage in front of me - - -

MR THODEY: Okay.

MR PENN: - - - but, I mean, I think the point I made earlier, which was that the proportion that's actually on a smartphone base is now 70 per cent, so it continues to increase, but I can offline and confirm that

MR THODEY: Yes. We can get back – I don't have the numbers off the top of my head, but it's like a large – I mean, we have put the no contracts plan on the market. I'm just looking – it's in one does anyone in the team know. No and Gordon's not here? Okay. So we will come back to you on that one. ¹

Look, in terms of NAS, no, it's not like a mobiles business; it's a services business. So I would say it's more like a construction industry. It's about each contract you sign and how you leverage your core capability. So actually, the type of contracts you would sign and then your ability to take cost out across all the contracts you have got by standardising methodology, etcetera, is more the nature of the business. So, I mean, a fully performing NAS business is going to have growth margins in the 20, 25 per cent, so it's not a mobiles business at all, but also it doesn't require anywhere near as much capital.

So, you know, the capital requirement for NAS is very low. We do a little bit of infrastructure build there, but it's a people methodology type business with some equipment that you buy and integrate along the way. So that's just – so that's why it's a very different business, and as – we're growing the number of people in the NAS business. So if you look at our unified comms, or call centre area, I think it has gone from about 50 to 100 people just because we're doing more work managing call

¹ The answer to this question has not been provided offline. Telstra is not disclosing that number.

centre operations, you know, putting in good processes, helping big companies, you know, really managing more efficiently. So it's not similar to a mobiles business at all. It's very different.

MR S CHOPRA: For example, on NAS currently, my expectation is that it's kind of doing mid-teens type margins and then going to a high – mid 20, early 20's; would that be fair.

MR THODEY: I think our objective is to get up to those mid 20's. It's probably maybe a little bit lower than that on the – at the moment, but it's sort of that sort of range. We have just got a lot of work to do to get it to where we need it to be, but we're on the way, and we have got a great team sort of now working in it and actually hired some very capable people coming in from the industry. I don't know if you have seen it, but there has been about five or six key hires we have made who are really sort of bulking up that team to really drive the discipline and rigour that we need there. Okay. Thank you.

MR KEYS: Ian.

MR I MARTIN: Thank you. I saw – I think it was in your media release that you have announced a new division, one of which was E-Health.

MR PENN: Yes.

MR I MARTIN: I wonder if you could outline what your expectations are for that and, you know, how significant it might be; where it might fit into the business and so on.

MR THODEY: Okay. Yes. We actually – I think we announced it four or five months ago, but we did refocus on it a bit in the media release. Yes. Look, we really believe, Ian, that there's an opportunity about the connectivity of managing different health transactions and delivery of health services, both, you know, from hospital, to medical centre, to pharmacy, through to, you know, the people working in the field, and connectivity is a critical enabler, but you need to add value on top of that. So if you're looking at, say, prescriptions, for example, I mean, today often you have got to go to a doctor to get a piece of paper and then you take it down to the pharmacist, and there's real change going on in that industry. So we have hired a guy called Shane Solomon who has worked in the industry for a long time. I think, he ran Victorian Health for a while and was up in Hong Kong.

And so it's all about the interconnectivity in health, and, of course, we have got the electronic health record, but that's really not it; it's about how you enable that through the whole network. Also you have probably heard that we have some of the highest rates of people being in hospital each year and if you can get to more, you know, home health care, how do you deliver that? Well, technology takes a very critical role. But we're not getting into the devices area of, you know, those remote diagnostics; it's more about the enablement and connectivity level. And I think you will, you know, see some action in that in the next sort of six months. And so, yes, we're very optimistic.

MR I MARTIN: A broad revenue projection or - - -

MR THODEY: No, not yet. I think we have got to crawl a little bit before we start, you know, mentioning too many numbers. Yes.

MR KEYS: Okay. Vikas, we will make you the last question.

MR V GOUR: Just two questions from me. On the Hong Kong business, great result. I believe penetration for mobiles there is somewhere near 200 per cent.

MR PENN: Yes.

MR V GOUR: How are you generating 425,000 new customers there and obviously 16 per cent revenue growth? What are some of the trends that you're seeing there and can they be replicated in Australia? And, secondly, the question around NAS again; is it possible – I mean, we have spoken about double digit CAGR growth for some time to come.

MR THODEY: Yes.

MR V GOUR: Is that possible to do organically without acquisitions in Asia, for example?

MR THODEY: Okay. Hong Kong market – and I will get Andy to comment as well, because he is on the board there – yes, look, it's a very competitive market. We have been very pleased with our performance there, but, again, it has been because we invest in network supremacy and either we put in more capital this year. It's a very good LTE network and the local community there is very discerning about the quality of the network and will switch out very quickly if it's not a good experience. So, yes, I think that it is a competitive market, but also it's at a, you know, critical point in terms of the geography of greater China, and so that's why we continue to look at what our options are there. But, Andy, do you want to continue?

MR PENN: I think the only thing I would add is that we operate three separate brands in three different market segments in Hong Kong and we have gained share in each of them and we have actually been very clinically focused about our value proposition in each, all of which is underpinned by, as David said, that core belief in the superiority of the network being very, very important. So we, again, were the first to roll out LTE in Hong Kong; we have been investing in Spectrum; we're continuing to sort of build our capacity in the network and I think that's really what's driving it.

You're right, I mean, smartphone penetration in Hong Kong is quite high and I'm sure all of us who have spent time in Hong Kong, you only need to look around to see that's the case, but as with Australia, you know, we don't see any sort of shortage in that ongoing sort of demand from our customers to want to get access to more devices and more data usage. So, you know, we're pretty positive. It's competitive, but we're positive.

MR THODEY: Yes. And then to your question on NAS in Asia. I mean, as you are aware, you know, we bought the REACH asset which runs this very big IP core network across Asia and, as you're seeing, both Australian companies going into Asia – you know, both US and European companies coming into Asia and also more Asian companies expanding, you know, throughout Asia. You know, from the Japanese, there's more activity in terms of them moving to Asia; even Chinese companies. The demand for bandwidth through to the region is very high. That's why we have invested in a number of undersea cables in the region, especially also coming into the west.

But the real issue is that bandwidth is one thing, but how do you create a managed service, because if I'm a company I want, you know, a managed voice service; I want – if I'm doing a lot of seismic work, I want, you know, some assurance of how we're managing the data through the network. And that's really what we're seeing, and I think there are good margins in that business. Now, your question is do – can we do it through organic growth alone? Well, I think there's good organic growth there, but, as I have always said, that we will always consider bolt ons to those core capabilities.

So if we can find some, you know, complementary companies that can help us in that endeavour, yes, we would be willing to, you know, talk to them about options, but it may be partnering, or it may be acquisition. It's either/or is fine. But, no, it was good to see the growth there this year, but I think we very focused on what we need to do there and it's going to be a, you know, decade of focus and drive, and so it's a long term strategy. Yes.

MR IGOUR: Okay. Just on the Hong Kong point. I mean three different brands and three separate markets, is that something that you're looking to emulate here through your wholesale strategy, or otherwise?

MR THODEY: Well, a little bit in the sense that we're very pleased with the Boost transaction we have done and that's given us another brand in the market. I think we will selectively look at that. We have opened up the mobile net when the 3G net went to wholesaling, and so we're doing it a little bit more that way. So, yes, we are open to that in terms of branding, but, you know, steady as you go.

MR IGOUR: Thank you.

MR KEYS: Thank you. Okay. We do have one more call.

MR THODEY: Okay.

MR KEYS: And we have got the time.

MR THODEY: Yes. We have got the time? Yes.

MR KEYS: So we will take that call and then I will hand over to you for closing remarks, David. Thanks.

MR THODEY: Okay.

MR KEYS: Operator, last call, please.

OPERATOR: Thank you. I have got Christian Guerra from Goldman Sachs. Go ahead, please.

MR KEYS: Hi, Christian.

MR GUERRA: Good morning, David and Andy, and congrats on the result. Just a quick question on the mobile business and I guess the sort of longer term outlook for the mobile business. It obviously has been a fantastic driver of the company, both in terms of sales and earnings over the last couple of years and I find have been a very happy customer for a long time now. I guess when you're now talking about LTE reaching 85 per cent by the end of this year, that, again, puts you sort of, I guess, way ahead of the competition, but on a sort of three to four year view, what's the next step given that obviously Vodafone have kicked off their 4G roll out – still – you know, at about five per cent still miles behind you guys, but on a three to four year view, what's the sort of next step for the mobile network just to stay ahead of the competition?

MR THODEY: Right. Well, Christian – yes, it's quite a long answer actually. Look, we see a long and exciting technology road map on the mobile network. You know, there's LTE aggregation that, I think, Brendon announced our trials in that area, and what we call LTE broadcasts or EMBMS, which is about how you carry video traffic on the network. Both those technologies open up new opportunities. We're also seeing some exciting possibilities. One of the constraints in mobile networks is when you get aggregation of a large number of people in the same location, like the Lions tour or things like that, or netball games, and it's very hard to build a network dynamically at that time.

So the question is how can you build a sort of a hybrid technology environment that really gives a great customer experience, because, as you know, when you're watching television at home, you get a replay; if you're at the game, it's actually hard unless it comes up on the big screen. So can you have the personal experience on a handset, or can you do different things in a stadium, or when there's the – we got a complaint the other day when there was a – I think it was a skiing championship down in – somewhere down in the south-west of New South Wales. So suddenly, you know, a little town; another 10,000 people turn up and they say, "Why doesn't my mobile work?" and, you know, normally the population is about 300 people.

So we think there's some opportunities there as we find wireless more seamlessly integrated and also more penetrated into new areas, and we're working on some opportunities in that area that I think are quite exciting. I do see a plethora of new devices coming along. I mean, the – I know you hear about the internet of everything, but I think the internet of everything is going to be a lot more wirelessly connected than actually fixed lined connected. That's not to say that it isn't important to have fixed line in the end; it's still very important, but I think wireless connectivity – you see some of the exciting things happening in just management of assets. Those – all those areas mean that you have to really drop them in the

machine, the machine, and, actually, a very different type of process re engineering, that you go in and work with large customers. Now, some of the ARPUs are very small, but you get very high volumes, and therefore it creates great opportunity. So, as I look at it, and as I spend time in the valley, I see some really exciting opportunities. I know Ericsson is very enthusiastic in terms, and you know, and, of course spectrum which we already have a lot coming our way, which is very exciting, and we start to get that, what, 2015? And so we're working on some quite exciting new designs in terms of network typology, and also new applications for customers. And so, yes, interesting times. So I see the business sort of transitioning to a new stage of growth now. We've got to get through this period, and I understand voice is not what it used to be, but hey, that's just the nature of our industry. And we just move on. So I think we can talk more about it separately but that's sort of my view. So, Andrew, would you like to - - -

MR KEYS: Would you like to make some closing remarks?

MR THODEY: Great, thank you. Okay, well, look, I, look, I will just finish on where I began. I think, you know, they're a solid set of results. I think we're really delivering on what we set out to do. I think the – the opportunities remain quite high. I mean, there has never been a time of greater demand for our products and services. It's still that age-old issue of how you monetise the demand. And we're very focused on that, and how we can go and differentiate the value-adding areas that will give us new growth areas as, you know, as some of our traditional areas continue to decline. And that's what we're focused on, and I think that the team have done a tremendous job in pulling it all together, and the company continues to transition and transform, and we've got a lot of work ahead of us, but we feel inspired and excited about the future. So thanks very much for your time today, and we will look forward to seeing some of you over the next few weeks. Thank you.

TELSTRA EVENT CONCLUDED AT 10.47 AM