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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2017 Financial Results – analyst briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2017 Financial Results analyst briefing, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

Telstra Corporation Limited
ACN 051 775 556
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MR P. KOPANIDIS: Good morning, everyone, and welcome. My name is Peter Kopanidis. I'm Telstra's Head of Investor Relations. And on behalf of Telstra, I welcome you all to our 2017 Full Year Results Presentation. As an important symbol of respect, it is our custom at significant Telstra events to acknowledge Australia's first people, so therefore I would like to acknowledge the traditional owners of the land on which we meet, the Wurundjeri People of the Kulin Nation, and pay my respects to elders both past and present. After presentations from our CEO, Andrew Penn, and CFO, Warwick Bray, we will be taking questions from investors and analysts both here in Melbourne and also on the phone. With that, I will hand over to Andy. Good morning, Andy.

MR A. PENN: Well, thank you very much, Peter, and good morning, everyone. Thank you very much for being here and also for hooking in online. And good morning and welcome to Telstra's results announcement for the year ended 30 June 2017.

In addition to the results this morning, we have a number of important matters to communicate. I therefore wanted to start by giving you a run-through of how we will manage the morning's proceedings. In my presentation, I will provide you with an overview of the financial results and other highlights for 2017. I will then make some comments on the positive progress that we are making in relation to the implementation of our strategy.

I also want to comment on the progress that we are making with the investment of up to $3 billion through our strategic program that we announced this time last year. I will take you through the results of our review of capital allocation that we announced at last November's investor day, and this includes plans in relation to the dividend, the nbn receipts and our capital management framework.

Finally, I will provide a summary of my comments before handing over to Warwick, and Warwick will take us through the financial results for 2017 and our capital management plans in a bit more detail. We will then open for questions.

Turning then straight away to the financial results for the year ended 30 June 2017. 2017 has been a strong year and we're pleased to have delivered against our guidance, against our strategy in the context of what is a highly competitive and dynamic market.

Total income on a reported and guidance basis was up 4.3 per cent to $28.2 billion. Excluding regulatory changes to MTAS and FAD total income was up 5.9 per cent. EBITDA was up two per cent to $10.7 billion on a reported basis, and up 4.5 per cent to $11.2 billion on a guidance basis. And on a guidance basis, excluding the regulatory impacts of MTAS and FAD, EBITDA was up five per cent. Net profit after tax from continuing operations was up 1.1 per cent to $3.9 billion. And earnings per share was up 2.8 per cent to 32.5 cents per share and the Board has declared a final dividend of 15.5 cents per share. This brings the total dividend for the year to 31 cents per share.

Turning to the other highlights, during the year, we returned $5.2 billion to shareholders through dividends and via on and off market share buybacks. As I said at the half year, our number one objective is and remains to improve the experience that we provide to our customers. And I'm pleased to confirm therefore that's exactly what we're doing. Both strategic and episode NPS improved strongly in the second half of the year, improving six points and two points respectively. Mobiles also performed strongly. Importantly, we saw a modest increase in mobiles services revenue in the second half and a reduction in postpaid handheld churn in the second half. The mobiles EBITDA margin for the year remained strong at 43 per cent.

We are seeing continued customer growth across all key segments. New mobiles services were up 218,000, including 169,000 postpaid handheld. Retail fixed broadband services were up 132,000 and retail bundles were up 224,000. Almost 90 per cent of our retail broadband customers are now on a bundle. The proportion of those that are also now on an entertainment bundle grew more than 50 per cent in the year and they now represent one third of all of our bundles. We continue to make good progress in the nbn market and added 676,000 nbn connections during the year, taking our nbn market share, excluding satellite to 52 per cent. Contrary to recent commentary, this has not been through significant price reductions. The pricing on our core plans remain unchanged over the last 12 months, although there is no doubt the competition has increased and we have enhanced the value in each of these plans.

Our Network Applications and Services business grew very strongly, with income up over 30 per cent to $3.3 billion in the year. This was driven by major contract wins and renewals, as well as growth in nbn commercial works. Importantly, we also delivered our improvement target in the EBITDA margin for NAS of three percentage points.

It has been a very strong year for our productivity efforts. We have reduced underlying core fixed costs by 3.5 per cent or $244 million and this is ahead of the target we have previously communicated to the market. On top of this, we delivered productivity in our new businesses, where we have also reduced costs by an additional $68 million. And, as you will hear later on this morning, we are announcing an acceleration and an increase in our overall productivity program.

We further extended our mobile network during the year, with over 2,200 mobile sites either built or upgraded to 4GX and while our standard 4G coverage was extended to 99 per cent of the population.

Warwick will take you through more of the details of this in a moment. However, I now want to take the opportunity to step back for a second and look at our broader strategic transformation and the results of our capital allocation review. Two years ago, we announced our vision, our vision to become a world class technology company that empowers people to connect. I would like to remind us of the two really important reasons why this is our vision.

Firstly, the traditional worlds of telecommunications and computing are converging as they are in many areas of technology. We are seeing technology innovation transform industries, transform businesses and transform the way in which we live our daily lives. Driving this is the fact that virtually no technology innovation today that is not enabled by connectivity. We believe that in the future, everything will be connected to everything. Much of this innovation is being driven through software based applications and services. These applications and services are providing transformational experiences for our customers.

Telstra, as an organisation, has deep technology experience and expertise and capability in the field of network and electrical engineering. Indeed, we are a world leader. The applications and services on our network today require us to lift our capabilities in software engineering, data architecture and data science to the same level because these capabilities are critical to us to ensure that we can create, curate, build and deliver the best applications and services to our customers and to ensure the applications that they use work best on Telstra's network. They are also critical because software is driving more deeply into the network itself through network function virtualisation and software defined networking.

The second reason for our vision is simple. Technology innovation is driving very, very significant growth in demand in data across our networks. It's driving growth in demand of telecommunication operators globally. However, the bottom line is the value that is being generated from this demand is overwhelmingly going to the layer of the applications and services. In media, for example, the improvements in the quality of telecommunications and increased capacity in networks has enabled high definition video streaming to become a daily reality in all of our lives. New streaming services such as Netflix have benefited very significantly from this whilst the telcos globally have not captured value to the same extent.

Our vision, therefore, is to play a more significant role in this part of the value chain as we are already doing very successfully in our Network and Application Services business. And the good news is since the announcement of our vision two years ago, we have made very significant progress in transforming Telstra. Since inception, Telstra ventures has invested more than $300 million in 45 technology start-ups – muru-D, our accelerator, has helped launch 77 new businesses. We've become a more innovative company. We've launched Telstra Labs including software and hardware labs. Australia's first open IoT lab, a 3D printing lab and collaboration areas for our partners and for our customers.

All these initiatives have been material in increasing the level of innovation in the company. We were recently ranked number one for innovation in the ASX100 by a considerable margin by the Australian Private and Venture Capital Association. At the same time, we've taken steps to simplify the business. We've repositioned our strategy to focus on new growth in adjacencies close to the core. We've made significant investments in core infrastructure assets such as Pacnet and other subsea cable investments. We've also made significant acquisitions in applications and services such as Company85 and Cognevo this year and Kloud and Readify last year.

At the same time, we have exited Autohome capitalising on the significant value achieved in that business and we've returned this to shareholders through on and off market share buybacks. In addition to our M&A activity, we're also organically building the new capabilities that we need for the future. We're shifting our software development teams to Agile and we now have more than 100 teams actively using Agile. We also have a strategic partnership with Pivotal, the leader in this methodology globally. We have a number of partnerships in Big Data and a team of more than 100 data experts at the company today.

In cyber, we have more than 500 cyber security experts and we will shortly be opening new security operation centres here in Melbourne and in Sydney with others following internationally. We continue to leverage active global partnerships with world leading technology companies including Google, Facebook, Apple, Microsoft, IBM, Cisco, Ericsson and Tesla and many others – bringing the best technology available internationally to our Australian customers.

In networks, we've implemented a major program of work to improve resiliency and redundancy. With over 8,600 mobile towers, more than 5,000 telephone exchanges, 200,000 switches and routers, around 240,000 kilometres of optimal fibre cable and more than 400,000 kilometres of submarine cable, our network clearly represents a very significant and strategically important set of assets.

The network, of course, will never be immune to the impact of natural disasters, physical damage and other events. However, we have substantially improved our ability to predict, pinpoint and fix issues, thus, improving redundancy and recovery times within the network. In relation to digitally based products and applications and services, we're delivering today some world leading digital experiences for our customers. In conjunction with the new

security operation centres that I mentioned a moment ago, we have just launched a new dynamic security offering for our enterprise customers addressing their growing cyber security concerns.

We've also launched the Telstra Programmable Network for our enterprise customers which brings to life, all of the major investments that we're making in our core network technologies. For our retail customers, we're seeing significant traction with the Netgear Nighthawk M1 mobile device which I showcased here last February at our half year results. It is still one of the fastest mobile devices in the world capable of downloads speeds of up to one gigabit per second. We've also launched our market leading Frontier modem providing an integrated fixed and mobile capability for home broadband customers.

In media, Telstra TV has now reached almost one million customers in Australia with very high NPS and very strong activation and usage rates. This is transforming the media experience in the home and we're about to dial it up again. I'm excited to announce this morning the launch of Telstra TV2. From this one device, our customers will have the unique experience of being able to ubiquitously search free to air TV, catch-up TV and all of the major streaming services including Foxtel Now, Netflix, Stan, BigPond and others. This is a real Australian first. The Telstra TV mobile app which accompanies this and brings this to life on a mobile will also give users a linked experience at home and on the go. And Telstra TV will personalise the experience for our customers based on their own usage patterns. Similarly, our NRL and AFL apps are the top sports apps in the market with more than 1.4 million users, a significant value component for our mobile customers.

And finally, through our Brand 3.0 work, we have successfully repositioned the Telstra brand. When asked about Telstra as a provider of world leading technology solutions, Telstra's brand perception has increased eight per cent, 10 per cent and 27 per cent, respectively in consumer, small medium business and enterprise over the last 12 months. We are already seen today as Australia's technology company.

Notwithstanding, this significant progress, though, of course, our markets are continuing to evolve rapidly. The competitive dynamics have intensified. We're seeing new entrants in both mobile and fixed, and pricing pressure in all sectors through price reductions, value enhancements and increased data allowances.

As a result, and building on the success of Belong Fixed in attracting new fixed broadband customers with simple no-frills offers, we will be launching Belong Mobile in the price-sensitive segment of the mobile market. By 2020, we estimate that this sector of the market could account for 25 to 30 per cent of the total mobile market. We will be providing more detail shortly, but we're very excited about the opportunities available for Belong Mobile and believe that it will be as successful as Belong in the fixed market.

Secondly, digital disruption is continuing to accelerate, not just for us but for all of our customers. When we announced our vision to become a world-class technology company that empowers people to connect, Netflix and Uber were still in their infancy in Australia; that is not the case today. This is impacting traditional business models with world-leading digital experiences, amazing experiences for customers, and it is changing customers' expectations, and we need to raise the bar and meet these expectations and deliver wonderful digital experiences for our customers too.

Thirdly, we are, of course, entering a very material period for the nbn. The rollout is accelerating. Since the build of the nbn commenced more than four years ago, roughly 30 per cent of homes in Australia have been connected. This number is expected to

increase to 85 per cent within the next 24 months. This will clearly have a significant impact on the whole of the industry, but it particularly affects Telstra because it essentially represents the re-nationalisation of a material part of our business, and of course, we reported to the market in May of 2016 that the consequence of that would be an expected negative impact on our ongoing EBITDA of $2 to $3 billion per annum.

Our view is, given the latest outlook of nbn CVC charges, which we estimate will more than double over the coming years – we now expect the impact is likely to be at the top of this range, in other words, around $3 billion.

These market dynamics confirm why our vision is the right vision. They confirm why our strategy is the right strategy, but they also confirm why we must accelerate our transformation. We're taking the opportunity today to announce an increase and an acceleration, firstly in our productivity plans.

We intend to do more, and we intend to do it faster. Firstly, we intend to bring forward our previously communicated $1 billion net productivity target by one year to 2020. Secondly, we have increased our target by a further $500 million in cost savings, and we plan to deliver, all-up, more than $1.5 billion in net productivity by 2022. As previously advised, we expect the benefits from these programs to accrue roughly equally over the life of them, and Warwick will take you through this in a bit more detail shortly.

But it is against the background of those market dynamics that we also announced our intention to invest up to $3 billion over the three years to 2019 to achieve a further step change in our strategic positioning and to deliver economic benefits of $500 million of EBITDA by 2021. This is in addition to our usual capital spend and takes our total capital investment, including spectrum, over the three years to 2019, to more than $15 billion.

Let me repeat that. We expect our total capital investment, including spectrum, over the three years to 30 June 2019, to exceed $15 billion. The incremental $3 billion is fundamentally focused on transforming the experience that we deliver for our customers through investments in network and the digitisation of our experience.

To date, those investments in the early part of the program have been predominantly directed to the network, and we have invested $750 million since November last year. In mobiles, we have rolled out 4GX to 89 per cent of the population, as I mentioned before, bringing double the speed of standard 4G and firmly confirms Telstra as the fastest mobile network in Australia.

We've shut down the 2G network, enabling us to re-farm very valuable spectrum. As you heard me say earlier, we have further enhanced resiliency and redundancy within the network, and we are building the necessary resiliency to accommodate the five-times increase in data volumes that we are anticipating over the coming years. Critically, we are building the foundations for the next generations of the network. This includes important foundation work in software-defined networking and 5G. We have rolled out our Next-Gen OSS, which is the layer of technology through which we operate the network. This new system provides capabilities for self-diagnostic, self-healing and a self-optimising network.

We're rolling out CAT M1 across our entire 4G footprint, creating an IoT network covering 3 million square kilometres of Australia. The Internet of Things is going to be a key area of technology innovation and growth. We already have 1.4 million connected IoT devices in our machine-to-machine business, and CAT M1 will give us the platform for the significant growth that we expect in IoT in the future. Finally, we have commenced the rollout of our

next-gen optical fibre and transmission network. Tasmania was the first state to benefit from this upgrade. This will increase Telstra's network capacity to one terabit per second and has already done so on each of Telstra's two subsea cables running across the Bass Strait. We're already rolling this out to the rest of the country and there is future potential to increase the capacity to 100 terabits per second. So not only do we have the largest network in Australia, not only do we have the fastest network in Australia, not only do we have the most reliable network in Australia, we now also have the smartest.

Notwithstanding these changes, our transformation cannot just be about our capabilities and our business model. It is also critical that we consider the right capital allocation approach. This is why in November 2016 we announced our intention to review this.

Over the last nine months, we have been reviewing our balance sheet structure and settings; we have reviewed our long-term capex requirements, our investment decisions, including in M&A; returns to shareholders, including dividends, buybacks and other forms of returns; and the best way to manage the receipts from the nbn. We have consulted extensively with shareholders and other stakeholders during this review. The overwhelming and consistent feedback from this consultation process has been to ensure that we are planning for the longer term and retaining financial flexibility. This includes the importance of retaining a strong balance sheet, particularly through the nbn transition period and in light of the increased competitive dynamics and digital disruption that I mentioned earlier.

It is against this background that I am pleased to announce where we're at in this review. Firstly, let me remind you of the nbn arrangements. There are essentially two streams of payment to Telstra from nbn. Firstly, the ongoing receipts for access to Telstra's extensive infrastructure, including our fibre, our exchanges and our ducts, and this will increase in line with the roll out of nbn. These will eventually reach just short of $1 billion per annum on full migration to the nbn.

Secondly, one-off receipts of approximately $9 billion, which are net of the cost to connect. These receipts and the cost to connect are phased over the period of migration. They partly but not fully compensate Telstra for giving up this aspect of our business.

As I mentioned earlier, the negative impact against which this compensatory payments need to be measured is the expected $3 billion per annum reduction in our EBITDA and this is after the inclusion of those infrastructure receipts. But it is the infrastructure access receipts that we are seeking to potentially monetise and this is where we're updating the market today; and by monetise, what we essentially mean is bringing them forward from a cash perspective.

If we were to proceed with the plans, it would involve approximately 40 per cent of the total receipts that are ultimately expected and this represents the already locked in receipts for the fibre and exchanges. The scale of the transaction is estimated to be in the range of $5 to $5.5 billion, with Telstra to retain some equity interest. If the transaction proceeds, our intention would be to use the proceeds to reduce debt by about $1 billion with the balance to support capital management to enhance shareholder returns.

The proposed transaction is subject to a number of steps, including approvals and consents from investors, the Government and nbn Co. We are currently in discussions regarding these approvals and consents. We cannot confirm whether they will be achieved, but we will update the market in due course. And I do need to be clear here, this is a complex transaction and whilst a considerable amount of work has been completed, the approvals and consents are not routine and cannot be guaranteed.

In addition to today's updates on the nbn receipts, we've also reviewed our capital management framework. The objective of this framework remains to optimise between maximising returns to shareholders, maintaining our financial strength and retaining financial flexibility. This is consistent with the feedback that we received during the consultation process. Warwick will take you through the key elements of the revised capital management framework shortly, but one important element is of course the dividend policy.

Recognising the strategic transition of the business and in meeting these objectives, we are announcing today a new dividend policy that will move us away from the historic practice of paying out almost 100 per cent of profits. The new policy which will commence after the payment of the 2017 final dividend will be to pay an ordinary dividend of between 70 and 90 per cent of underlying earnings. This is much more in line with our global peers and local large companies.

In addition to the ordinary dividend, we intend to return in the order of 75 per cent of the net one-off nbn receipts to shareholders via a fully frank special dividend over time. With the implementation of this new dividend policy we anticipate the dividend in 2018 will be 22 cents per share, including both the ordinary and special components. We realise that this is a material reduction from the historic level of our dividend reflecting the lower payout ratio.

We do not underestimate the impact of this on our shareholders and it is for this reason that we are providing advance notice of the change and why the Board has maintained the 31 cent dividend for 2017. These are important changes to Telstra's approach to capital management, and they're appropriate in the context of our strategic transformation. This is about setting the business up for success in the future, giving ourselves the flexibility to invest and to compete effectively. They also highlight the significant value in our core underlying telecommunications infrastructure as represented by the potential nbn monetisation opportunity.

So let me summarise before handing over to Warwick. Our 2017 results announced this morning demonstrate strong financial performance, delivery of guidance and our previous commitments to the market. There are also a number of other key highlights from the year. We continue to grow customer numbers and we are delivering strong performance in mobiles, NAS and productivity.

Our vision is the right vision and our strategy is the right strategy. We have progressed significantly over the last two years and we are strongly positioned for the future. Notwithstanding this, the markets continue to evolve rapidly and this is why we have announced our strategic investment program of up to $3 billion to achieve a further step forward in our transformation. We are on track in the early stages of this program and we have delivered very important capabilities in the networks for the future.

We have completed our capital allocation review and we are updating the market this morning of our plans to potentially monetise certain nbn receipts, changes to the capital management framework and a new dividend policy. Finally, we're increasing our level of aspiration in relation to productivity and we are delivering more productivity and we are going to be delivering it sooner.

Before handing over to Warwick, I would like to take the opportunity to thank the whole of the team at Telstra for their hard work in delivering for our customers and for our shareholders. I will now pass to Warwick who will take you through the financial results and the results of the capital allocation review in more detail before I return to the stage for questions. Thank you.

MR W. BRAY: Thank you, Andy. The agenda is on the screen, and beginning with our FY17 group results, which met guidance for income, EBITDA and CAPEX. Free cash flow was just above. On a reported and continuing operations basis, income was up 4.3 per cent, EBITDA was up two per cent, EBIT was down 1.1 per cent, NPAT was up 1.1 per cent and basic earnings per share was up 2.8 per cent to 32 and a half cents. From continuing and discontinued operations, NPAT decreased 33.8 per cent due to the sale of Autohome in the prior year.

The board has declared a fully franked final dividend for FY17 of 15 and a half cents per share, to bring the full year to 31 cents, the same as FY16. Our payout ratio was 95 per cent. The reported numbers for FY17 include the effects of restructuring costs which reduced EBITDA by $439 million, impairment related to the Health group which reduced EBITDA by $77 million and the MTAS and FAD regulatory pricing decisions which reduced income by $408 million and reduced EBITDA by $46 million.

On a guidance basis, income growth was the same as reported and EBITDA was up four and a half per cent. And excluding the regulatory decisions, income was up 5.9 per cent and EBITDA was up five per cent. Depreciation and amortisation has increased 6.9 per cent. This was mostly due to increased capex and investment in business software assets with shorter useful lives. Net finance costs decreased $119 million or 16.8 per cent mostly due to refinancing debt at lower rates and higher average cash balances.

Interest income was also lower due to an accounting adjustment in the prior year. Net finance costs on an accounting basis were $154 million lower than on a cash basis mostly due to capitalised interest and non-cash gains associated with our derivative hedge instruments. Income tax was broadly flat. The effective tax rate on continuing operations was 31.4 per cent and income tax expense was about the same as cash tax paid.

We now move to free cash flow which in FY17, on a guidance basis, was $4.3 billion. This was just above guidance due to better than expected working capital, including from mobile leasing. Free cash flow was down $511 million on FY16 mostly due to increased capex associated with our strategic investment. Our cash capex was $4.7 billion, similar to accrued capex and the capex to sales ratio was 17.8 per cent. Changing working capital reduced cash in both FY16 and FY17. FY17 working capital benefitted from the successful introduction of mobile leasing, through our Go Mobile Swap Plan and initiatives such as faster retail electronic bill production.

These improvements were offset by increased nbn DA one-off receipts, which are received quarterly in arrears, and increased inventory related to nbn commercial works. The reported free cash flow includes the effect of net M&A proceeds of $1.2 billion in FY16 and $140 million in FY17, including from the sale of Autohome, and this was the largest difference between reported cash in FY16 and FY17. Spectrum payments in FY17 of $625 million and outflows associated with restructuring costs in FY17 of $304 million.

Turning now to income performance by product, we saw an increase in reported income of 4.3 per cent to $28.2 billion. Our recurring core income increased 2.4 per cent or $607 million. Excluding the MTAS and FAD regulatory decisions, mobile was up $83 million, fixed down $351 million, data and IP down $114 million. Recurring nbn DA was up $79 million, and NAS continues its double-digit rate of growth, up $789 million or 30.6 per cent. Global connectivity was down $12 million but up 4.4 per cent in constant currency. Other core was up $133 million, including nbn commercial works sale of assets. Outside our recurring core income, one-off nbn DA receipts and connection revenue were up $999 million. New

businesses was down $43 million due to Ooyala, where the focus is on consolidating operations.

Turning to product EBITDA performance, overall we saw an increase in EBITDA on a guidance basis, up four and a half per cent to $11.195 billion. Our recurring core was down $332 million. The negative recurrence influence of the nbn for this year was approximately $300 million. The impact cumulatively since FY15 is now around $500 million. Given the last outlook of nbn CVC charges, which we estimate will more than double over the coming years, we now expect the nbn impact is likely to be at the top end of the $2 to 3 billion range, in other words, around $3 billion.

Outside recurring nbn impact, the remaining core was down approximately $32 million. We've seen some encouraging trends for stabilisation, and we will go through this on the next slide. One-off nbn DA EBITDA and nbn costs to connect were up $785 million, in line with the nbn rollout. This included $974 million of increased one-off nbn DA income, including retraining, partly offset by $175 million of increased net nbn costs to connect and $14 million of increased one-off DA costs. New businesses EBITDA was up $31 million, excluding impairments.

Turning to recurring core product EBITDA performance, starting from the bottom, the difference between the reported EBITDA of $10.679 billion and the recurring core of $10.086 billion is the nbn one-off, new business and guidance adjustments. Our recurring core EBITDA was down approximately $32 million, excluding the recurring impact from the nbn; this included some encouraging trends. Mobile was down $65 million; however, sequentially and on PCP, second half mobile services revenue increased. NAS was up $159 million, mostly offsetting the $166 million decline in data and IP, and global connectivity was up $10 million, or 8.8 per cent on a constant currency basis.

Turning now to the performance by product, mobile revenue was up 0.2 of a per cent, excluding MTAS. We've seen some positive signs with mobile revenue and ARPU stabilisation across the last three halves; we will see this on the next slide. Postpaid handheld revenue growth was flat in FY17 due to stabilising ARPU and continued SIO momentum. During the year we added 218,000 retail mobile services, including 169,000 postpaid handheld, to bring our total subscriber base to seventeen and a half million.

The mobile EBITDA margin increased one point to 43 per cent. Mobile margins improved slightly on the prior year, excluding the impact from MTAS and a one-off roaming credit benefit of around $130 million in FY16. The margin improvement included a favourable benefit in FY17 from reduced handset subsidies and the introduction of mobile leasing. Relative to the previous MTAS regime, our mobile EBITDA margin is up three percentage points, which is a non-economic change.

Looking at some of the mobile trends on a halves basis. Mobile services revenue in second half of '17 was up 0.7 per cent on PCP and 0.4 per cent sequentially. Growth was achieved across all mobile categories except for mobile broadband where the rate of decline has improved. Mobile EBITDA increased almost $200 million sequentially in the second-half of '17 due to revenue growth, mobile handset leasing and some seasonality. Postpaid handheld ARPU excluding MRO has been stabilising. The second half of '17 down 34 cents or half a per cent sequentially. The quality of revenue is improving due to customer migration to higher minimum monthly commitment plans.

By segment, postpaid handheld ARPU growth was achieved in consumer. Business and enterprise ARPU declined, however, the second half of '17 enterprise ARPU has grown

sequentially. Postpaid mobile churn continues to be low by international standards. Churn decreased 10.6 per cent in the second half of ’17. Previously reported churn has been restated to exclude some EFTPOS SIOs that are now reported in machine to machine.

Prepaid handheld revenues increased 1.8 per cent sequentially in the second half of ’17 and 10.1 per cent on PCP. Prepaid ARPU increased by $1.13 sequentially, with increased recharge revenue. Mobile broadband revenue fell seven per cent sequentially in the second half of ’17 due to a decline in ARPU and prepaid unique users. This largely reflects the mix shift from old legacy plans to newer plans at lower ARPU and increased sharing of data through mobile handsets as mobile data inclusions have grown.

We expect that future mobile broadband SIOs will be impacted by churn of business companion plans as they reach end of contract. We currently have around 500,000 of these companion plans in mobile broadband which were offered as add ons up to August ’16.

Machine-to-machine revenue or M2M improved 14.7 per cent sequentially in the second half of ’17, with 250,000 M2M SIOs added in the year. We continue to see growth in M2M, with new solutions being implemented in verticals, such as logistics. Our M2M business will further benefit from our recently launched CAT M1 network on our 4GX network which meets the demands of low power wide area Internet of Things applications. These advantages include low cost, low power consumption, deep coverage, a large number of connections and higher reliability of transmission. CAT M1 will enhance LTE coverage for underground and building areas that challenge existing coverage capability.

Turning now to fixed line. Our fixed business offers simple, flexible and high value bundles, with unique inclusions like Telstra Air, Telstra TV and more capable home internet devices. Fixed data revenue grew 1.9 per cent ex-FAD. We added 132,000 retail subscribers, including through Belong. The fixed voice revenue decline was contained to single digits. Our bundle products are performing well. We added 224,000 retail bundle customers during the year. 88 per cent of our retail broadband customer base are now in a bundle plan, many of which are on our entertainment offers.

Demand for our nbn services continues. During the year, we added 676,000 nbn connections, bringing total nbn connections to 1.176 million and a 52 per cent share ex-satellite. The fixed voice margin fell by three points and fixed data margin fell by 10 points. Fixed margins were negatively affected by one-off costs of connecting customers to the nbn and the ongoing nbn network costs. Excluding nbn-related items, the fixed data margin improved on PCP. We continue to focus on reducing costs in our fixed portfolio by, for instance, developing digital platforms in sales and also self-service functionality.

Turning now to data and IP. Data and IP revenue declined 4.1 per cent ex-FAD, reflecting customer wins in a highly competitive market. We continue to perform well in that market, with our customers embracing our complementary NAS products and also our Next IP network flexibility, scalability and security. We’re achieving volumes and connection growth in IP access, but IP access revenue declined 0.7 per cent. ISDN declined 10.4 per cent due to accelerated migration to IP access, unified communications, fixed data and nbn products. Our EBITDA margin of 59 per cent was influenced by yield pressures in the IP market.

Turning now to Network Applications and Services, or NAS, which grew over 30 per cent to approximately $3.4 billion in revenue. Managed network services grew 10.3 per cent. Our cyber security offerings were a big part of this success. We have enhanced our offerings as a result of the Bridge Point, O2 and Cognevo acquisitions. And our recent acquisition of Company85 will help to bring those services to our international customers. Unified

communications increased 8.8 per cent, including annuity growth through increased IP telephony SIOs and across our UC products. Cloud revenue grew by 50.2 per cent due to increased consulting and professional services and acquisitions including Readify and Kloud. Industry solutions growth of 66 per cent was mostly due to increased commercial works, including the nbn. The NAS EBITDA margin improved three percentage points through scale, scalable standardised offerings, lower unit costs and a beneficial change in product mix.

Turning to global connectivity, which consists of our enterprise business outside Australia and grew by 4.4 per cent in local currencies. Our customers have responded well to the scale, reach and low latency of the Telstra products. The margin improved one point, with EBITDA up 8.8 per cent in local currency. We have delivered one year ahead of schedule on the recurring annual synergy benefits of $65 million from our Pacnet acquisition.

Turning now to the media and, firstly, Foxtel, where revenue in the year decreased by 3.1 per cent, with a decline in total subscribers. Foxtel closing broadcast and Foxtel Now subscribers were flat year-on-year and grew three per cent in the second half of ’17 on first half of ’17. Whilst FY17 broadcast churn was higher, the higher churn was mostly due to the use of no fixed term contract offers in FY16. Churn improved to a more normalised level of 13.3 per cent in the fourth quarter of FY17. EBITDA decreased by 14.3 per cent to $754 million mostly due to lower revenue and continued investment in programming, including the new AFL contract. There was no distribution received from Foxtel in the year and cable access revenue was down five and a half per cent to $104 million.

Now, moving to media. Our media revenues increased 8.2 per cent, including growth in Foxtel from Telstra revenues of 8.1 per cent. Other media revenue grew nine per cent, mostly due to the almost 200 per cent increase in the number of Telstra TV devices in the market to 827,000. We saw an increase of over 250 per cent to 1.3 million customers who have activated our Sports Live Pass which includes AFL, NRL and netball content. This service is included with our mobile subscription and can also be purchased by other customers. Almost all of the Live Pass users are Telstra mobile subscribers.

Turning to income from the nbn Definitive Agreements or DA. This income grew to over $2.5 billion, up 87.6 per cent, including strong growth from the PSAA and ISA ownership receipts, which increased by 135.7 per cent in line with the progress of the nbn. Recurring ISA revenue from ducts, racks and backhaul was up 20.4 per cent to $466 million. These receipts reflect nbn co’s ongoing use of our infrastructure. nbn commercial works income related to the sale of assets was $216 million. We have separated this from ISA ownership receipts to provide additional clarity. In addition to nbn DA income, we also received nbn commercial works revenue in NAS of $682 million.

Turning now to our expenses. We’ve delivered against our cost ambitions for the year, with a three and a half per cent reduction in underlying fixed costs. On a reported basis, operating expenses increased 5.8 per cent or $958 million. Excluding guidance adjustments and going through each of the cost categories in turn, our core sales costs increased $320 million or four and a half per cent. Excluding the benefit from reduced interconnect costs due to MTAS, core sales costs grew by 10.1 per cent. Growth including increased nbn access payments, sales costs associated with NAS and nbn commercial works. Our largest sales cost, mobile hardware, was about flat year on year and the hardware margin improved.

One-off nbn DA and cost to connect increased by $214 million due to the increased pace of the nbn roll-out. The average net nbn cost to connect per customer fell by around 18 per cent. NAS labour and corporate expenses increased by $466 million. This included

increased nbn commercial works and increased NAS labour on large contracts. The cost growth supported $789 million of increased NAS revenue. Our underlying core fixed costs declined $243 million or three and a half per cent exceeding the run rate required for our more than $1 billion productivity target. This means that the results of our cost productivity programs more than offset inflation and re-investment. New business costs also declined by $68 million due to cost management and FX impacts.

Turning to our increased productivity commitment. Our FY17 performance demonstrates that we're delivering ahead of our more than $1 billion net productivity target. As mentioned by Andy earlier, today we're announcing we will do more on productivity and we will do this faster. We will bring forward by one year, our more than $1 billion net productivity target announced in November 2016 to deliver it by 2020. We're also announcing an increase in our target by $500 million to deliver more than $1.5 billion in net productivity by FY22. Our increased cost out targets offset one half of a top end of the $2 to 3 billion negative impact of the nbn. We will deliver increased productivity target through a continued focus on productivity. It's achieved through better customer outcomes. For example, through working with our assurance partners, we've increased first call resolution and achieved a four per cent reduction in relevant truck rolls.

Turning now to our capital position. Our balance sheet remains strong. Gross debt remains largely flat due to FY17 maturities of long-term debt paying off debt being offset by debt issuance. In FY17, cash and cash equivalents decreased and net debt increased, mostly reflecting the buybacks and increased capital expenditure. Our closing FY16 cash included the proceeds from the sale of Autohome. Our average gross borrowing costs reduced to 5.1 per cent and debt maturity was four and a half years. Gearing increased to 51.2 per cent as cash received in FY16 from the sale of Autohome was used to fund the Capital Management Program and strategic capex.

Our financial parameters remain with our comfort zones. Return on Equity and Return on any Invested Capital decreased slightly over the year and remained well above our costs of capital. Our future ratios will continue to be influenced by the changing mix in our major product as well as reduced profitability in our fixed business. We've changed our definition of ROIC from NPAT divided by invested capital to a more commonly used net operating profit after tax or NOPAT divided by invested capital. This change increased our reported FY16 ROIC by approximately 1.7 percentage points.

Turning now to the outcomes of the capital allocation review. We began this review in November in the context of changes to our company and industry including the long and short-term impacts of the nbn. We've updated our capital management framework to be appropriate for that context and to provide clarity around how we will allocate capital. The objectives are aimed at maintaining our fiscal discipline and are unchanged. They are: maximising returns for our shareholders, maintaining financial strength and retaining financial flexibility for investment. These objectives are supported by four principles that provide the structure and definition of what this means at a practical level. I will talk through 1, 3 and 4 and then return to 2 on the next page.

Firstly, we re-affirm our commitment to maintain balance sheet settings consistent with an A band credit rating. Our balance sheet comfort zones remain unchanged.

Principle 3 is target capex per sale ratio of about 14 per cent excluding spectrum from FY20. At our FY16 results, we outlined an increase in our capex per sale ratio ex-spectrum to approximately 18 per cent across FY17 through 19. After FY19, we expect to be back at approximately 14 per cent. Two factors suggest an opportunity for even lower capex.

Firstly, our business will change to a higher mix of lower margin, lower capex intensive businesses, such as nbn retail service provider and NAS and secondly, access network spending will drop out.

However, we maintain the 14 per cent target to allow for strategic investment. There may also be investments when spend is higher or lower than that 14 per cent. Spectrum is another important use of capital. We have a strong spectrum position and we will continue to invest. We note that there are a number of important auctions coming up over the next few years.

Our fourth principle is to maintain flexibility for portfolio management and to make strategic investments. Our investment criteria for acquisitions are unchanged. Investments must create value for our shareholders consistent with target financial hurdles, align with our corporate strategy and strategic direction, i.e., be close to the core and support growing and protecting Telstra's core business, and be consistent with our capital framework objectives and principles.

Our criteria demonstrate our ongoing commitment to prudent capital discipline by preserving the ability to create value for shareholders. Our M&A strategy remains focused around infrastructure assets such as Pacnet and applications and service providers in the enterprise area like Kloud and Readify. We will continue to pursue acquisitions where they make sense, however, large scale acquisitions are unlikely short-term as we focus on delivering the benefits from our up to $3 billion strategic investment program.

Turning now to our dividend policy. Our historic practice has been to pay close to 100 per cent of profits as dividends. We've been able to do this whilst investing in the business and maintaining a strong balance sheet, due to increasing EBITDA and proceeds from net asset sales. This high payout ratio and capital management following net asset sales has seen us return approximately 13 and a half billion to shareholders in FY15 through 17 by ordinary dividends and buybacks. However, as you heard from Andy, our world is changing. Technology innovation is accelerating, we're seeing new competitors, our business needs to transform and our dividend policy needs to match. This means we need to strike the appropriate balance between shareholder returns and preserving financial strength and flexibility.

In recognition of the importance of the dividends to our shareholders the Board has applied our new policy for FY18 and maintained 31 cents in FY17. Our new dividend policy is to pay ordinary dividends of 70 to 90 per cent of underlying earnings from FY18 fully franked. In addition, our intention to return in the order of 75 per cent of future net one-off nbn income over time as fully franked special dividends. We've now received net one-offs of about $1.5 billion to the end of FY17 which has mostly been paid out to shareholders by our ordinary dividends. At the end of FY17 to the end of the nbn migration, we expect further new one-offs post tax of $4 billion approximately, including 1.4 to 1.75 billion in FY18. As an example, underlying earnings were 25 per cent per share in FY17 and net one-offs were seven cents.

I reiterate Andy's statement that based on the changes announced today, we expect the FY18 total fully franked dividend of 22 cents per share including both ordinary and special dividends. In summary, now is the time for us to make sure that we have the right capital management framework for the future.

Turning to guidance, in FY18 we expect income in the range of $28.3 to $30.2 billion, an EBITDA of $10.7 to $11.2 billion. Guidance for EBITDA is after absorbing incremental restructuring costs of $200 to 300 million to support our increased productivity.

We are using dollar ranges across guidance, given we're now providing dollar-range guidance for net one-off nbn DA receipts less nbn cost to connect. We expect net one-off nbn DA receipts less nbn cost to connect of $2 to 2.5 billion. We expect spend on capex of $4.4 to $4.8 billion, or approximately 18 per cent capex to sell. We expect free cash flow to be in the range of $4.4 to 4.9 billion. As is usually the case, the basis on which we provide guidance is detailed in the slide footnotes. Thank you, and I will now hand back to Peter to moderate the Q and A.

MR KOPANIDIS: Thank you, Warwick. We will start with questions in the room and Ian, looks like you're well-positioned there. Ian Martin from New Street Research.

MR I. MARTIN: Good morning. Seems like a bit of a capitulation on dividends. Obviously with what's about to happen in the next two years of nbn migration, it's kind of sensible to reset expectations, but the key assumption to be made about nbn CVC pricing doubling over the next three years – that CVC price has been flat for the last two years and seeing it go up five per cent per annum over the next three years seems a bit unrealistic to me. I mean, it seems a very uncertain assumption on which to base a large part of a big capital change. In terms of the change in dividend policy, 70 to 90 per cent might make sense given the sense of changes that are coming through, but why not give 100 per cent of the one-off cash flow back to shareholders?

MR PENN: Thanks Ian for the questions. I mean, firstly, let me be very clear, the new dividend policy is not a statement of profit, it's a statement on setting ourselves up for success in the future. It's about setting up a dividend policy which is much more consistent with our global peers, much more consistent with local large companies. As you heard from the Chairman recently, we're in a world where we're competing with new players in the market which have very different type of dividend policy and it's about giving us the flexibility to invest.

Regarding the comment on CVCs, I didn't time band my comment on the CVC charges. I did say over the next few years. You commented on three, but I think the bottom line is CVC charges are expected to increase over time. We see that in nbn's own plan. And of course we're now actually about to get into the part of the transition where we're seeing – we're impacting enterprise customers and business customers as well and there's at least $1 billion worth of revenue we have with those customers which are on effectively nbn-type services and our latest view is that as a consequence of that, we've updated our view which we provided in May of 2016 now that we think it's going to be more at the top end of the range.

MR MARTIN: Right. Because nbn looking at $5 billion of revenue by 2020, you got 50 per cent market share, including the satellite component, so the total revenue – that will put you, at worst, in the middle of that range – two and a half billion.

MR PENN: In terms of – well, we're looking at it through the lens of effectively the business that we have today through our broadband business and our services, obviously, to consumer, small/medium business and enterprise customers and the approach that we've taken is that if you assume that the nbn is fully rolled out today relative to where we are today, what would be the long-term impact, and that's our assessment of the latest long-term impact.

MR MARTIN: In terms of the long-term impact at the Investor Day last October/November and the – I think when you announced the extra $3 billion strategic investment, the aim is to

move back to the underlying earnings by FY22. Is that still the expectation that you can return to that kind of level of earnings?

MR PENN: Well, I think, Ian, we've always been very clear. I mean, obviously the decision around the nbn is not a Telstra decision, that's a decision that was made a good number of years ago. We have endeavoured to be transparent about what we think the economic impact of that is. And then obviously we're responding as a company to mitigate the impact of that financially, and in that regard, last November we communicated that we had a productivity target of about $1 billion. We were committing to deliver an extra $500 million from the $3 billion worth of strategic investment.

Our ability to whether we can close the rest of that gap is really a function of whether the business can perform to that level. We should not underestimate $3 billion is a very significant EBITDA margin. So my position on that hasn't changed; the only thing that has changed is our view of the $2 to 3 billion dollars is at the top end of the range and on the other side of the equation, though, our strategic program is going well and so we continue to be committed for the benefits of that, plus also we're upping the target in relation to our productivity program by a further $500 million and bringing forward the billion by a further year.

MR KOPANIDIS: The next question comes from Raymond Tong of Evans & Partners.

MR R. TONG: Good morning, Andy. Good morning, Warwick. Just the first question, just under dividend guidance of 22 cents for FY18, can you give a sense for the split between the ordinary dividend and the special dividend just based on estimations roughly 75 per cent of the nbn payments for FY18 sort of equates to around about 10 cent special. Is that broadly right?

MR PENN: Look, I think – well, firstly, we – I won't provide a split, Raymond, because the Board, in making the decision, hasn't provided a split. I mean, I think the Board is acutely sensitive to the fact that this obviously is a significant change, sensitive to the fact that we have lots of investors for whom the dividend is important, and that's why the Board have been very thoughtful about making sure that we are providing advance notice of this, keeping the dividend at 31 cents in 2017 and also going through a very thorough process, which we communicated we would be last November, to properly assess the capital management framework.

What's the right policy? What's the right settings for the future? The policy is to pay out 75 per cent of the nbn payments[1] over the life of the overall program – so you should bear that in mind – not necessarily specifically 75 per cent in any one year, but beyond that, the board is not providing any further guidance in relation to 22[2] but conscious of giving shareholders an indication of what they're looking at in 2018, being 22 cents, but ultimately that will be finalised when they make their dividend decisions in conjunction with next year's results.

MR TONG: Okay. Thanks. And just in terms of the cost-out target of $1.5 billion now, can you maybe talk about the drivers of the incremental $500 million, sort of where that's coming from, and also potentially in terms of the restructuring charges for beyond FY18?

MR PENN: I will get Warwick to comment.

[1] Editorial note: net one-off nbn payments

[2] Editorial note: 22 cents per share

MR BRAY: Yes. So in terms of the cost-out, we still see enormous opportunities to get better outcomes for our customers and, through getting better outcomes for our customers, getting productivity, and that's the productivity we most like. So when we're able to solve a problem before the customer sees it through our advanced assurance capability, when the customer does call in, when we've got fully functioned guidance assurance so our agents know exactly what the problem is and it's sort of diagnosed by the computer, we can solve it right first time for our customer and we can avoid truck rolls, and that's real productivity that we've gone – we have gone after and will go after. And just to look at that in the past, I will note that in the nbn costs to connect, we've got that down – unit cost down 18 per cent in the year, and the fundamental reason that we've got it down is improving our customer outcomes. We're getting it right first time more often.

MR TONG: And just finally, just on the capex guidance of 14 per cent beyond FY20, Warwick I think you sort of indicated there is a bit of a buffer for strategic investments there. Does that include, I suppose, incremental capex for things like 5G down the track?

MR PENN: Maybe, Raymond, I can sort of jump in. I think – look, I think the point is that obviously investing for the future is critical in our business, and as you've seen over recent times, we have always been at the forefront of opportunities to invest. So we were the first to really invest in 3G. We went first in 4G, Next-Gen IP network and also the investments we announced last year. So we obviously want to retain the flexibility to continue to be a leader in technology innovation and be a leader in providing the best-quality and the smartest networks, as I said earlier.

I mean, I think what we're saying is over the term, we would expect that to be 14 per cent, but also given the mixed change in the business, we think there are opportunities to bring that down just because of the high proportion in NAS business and the transition of the last mile to nbn, but there will be periods when we might want to go above that to support initiatives – as I say, accelerate rollout. I think in terms of the $3 billion, we've been clear that that's very much about putting the foundations in place for 5G. Our expectation is the 5G standards probably won't get communicated or resolved until into calendar 2019. It's a global dynamic, and so ultimately the rollout of 5G will be something that we will need to sort of think about beyond FY19, FY2020, and the significance of that from a capital point of view is really going to be a function of how the technology lands and how we seek to deploy it.

MR TONG: Thank you.

MR KOPANIDIS: We will go to the Conferlink line. First question from Andrew Levy of Macquarie. Go ahead, Andrew.

MR A. LEVY: Thanks. If I could just ask three questions. The first one is just on nbn profitability. I was just wondering, the argument could more be made that it's a factor of competition rather than the CVC in terms of where margins are going and if the CVC was cut going forward would you be changing your estimates or do you think the retail market would move accordingly. And related to that, what retail margins do you now expect on nbn? I know you talked about 20 per cent a long time ago and then you've talked to lower numbers since but just wondering if you've got a fix now that more lines have gone across.

The second one was just on handset leases and any impact that's having on your profitability in the mobile segment either for the year that has just been or going forward.

And the third one was – and sorry if I missed it – but the Belong Mobile offering, did you mention what network reach or network could be supplied to Belong when it launches as a low cost operator? Thanks.

MR PENN: Thanks, Andrew. It's Andy. I will take a couple of – and maybe get also Warwick to support me as well. Just sort of dealing with perhaps the last one first. So no, I didn't provide any more details in relation to the specifics of the Belong Mobile initiative. I'm announcing today that it is our intention to launch Belong into mobile. We've been very pleased with the success we've had with Belong in fixed and we think we can replicate that in the lower price segment in the mobile sector as well. We will make further announcements regarding the product offering and the network offering, etcetera, at a future time. So that's on Belong.

On the nbn, you've made the comment that it's – obviously there's an increased competitive dynamic in the market as well. That is true. There is. Our – as I mentioned in my speaking points on our core plans – on our biggest bundles and our medium bundles – our pricing has remained pretty stable actually over the last 12 months. We have definitely increased the amount of value in those plans and we definitely see competition is having an impact on average ARPUs across the sector as well.

But the bigger impact is the – likely increase in CVC charges from where they are today to where we think if we look at the nbn plan and where data volumes are going, etcetera, over the next several years, that is by far the bigger proportion. And as I also mentioned when Ian was asking a question the nbn also has a number of services that are provided to our enterprise customers as well and we're at the very early stages of the transition there but that's going to roll out more in the future.

In terms of the retail margin, we haven't provided a sort of an end margin. I mean, obviously, with the calculations that we've done and the impact on this you can assume that those margins are pretty low just because of the way in which the CVC charges are increasing. And to your point, industry ARPUs are under some pressure and then there's more value costs going into the product as well. I don't have a long-term view of where those retail margins will end up.

But we have to tried to provide some colour on that in the transition in our fixed – in the slide that Warwick presented on our fixed business we've sort of separated out the current margins and then also the components of the one off costs of activation as well as the increase in AVC, CVC costs as well. And then I think the last question was in relation to handsets which I might get Warwick to answer and then if Warwick wants to add anything on my other comments as well.

MR BRAY: Thanks, Andy. Thanks, Andrew. Yes, so on that lease versus MRO for our handsets, economically it's broadly neutral over two years – a lease product versus an MRO product. Secondly, and most importantly, it's great for our customers so they get to share in the benefit of that – the value of the handset at the end and also get new handsets. Look, the third point of preamble is that it has a smaller effect on our financial statements than in many countries because in many countries they're going from subsidy to lease. We went from subsidy to MRO in 2012 which had profound effects on our financial statements and so it's a much smaller step to go from MRO to lease.

So now more specifically the biggest effect is in cash which I mentioned on the cash slide, there's a low single digit number of hundreds of millions benefit to working capital. The second is on EBITDA. This year it flattens our EBITDA by a bit more than $50 million in

mobile. And it has a single digit negative effect on ARPU and then in the main financial statement, there is an offsetting entry in other revenue and other income associated with the lease revenue and the lease expense.

MR A. LEVY: Thank you.

MR KOPANIDIS: The next question comes from Fraser McLeish from Credit Suisse.

MR F. McLEISH: Thanks a lot. Just a few from me. Just on the $5 to $5.5 billion you're hoping for from the securitisation – can you just confirm the tax treatment of that and whether that is post-tax? And also I noticed there's a footnote on that slide talking about – you're keeping a 25 per cent equity component. If you could just explain how that works, please. My second one is just on your $15 billion of capex over the next three years, and you say that includes spectrum. Does that include anything for upcoming 3.6 gigahertz auction which is likely to be a big one? And finally, just data points, Warwick, if that's all right, on the voice-only nbn subscribers; I didn't see that in the slide. If you would just be able to confirm what that was, that would be great. Thanks.

MR PENN: Thanks very much, Fraser. I think – I mean, the first thing I should say is that the transaction is not complete. We've done a lot of work on this and it is subject to important approvals and consents, and those have not necessarily been given yet. But in the spirit of providing the market with transparency, we wanted to let you know where we're at today. So if the transaction completes, obviously we will provide a lot more detail in due course, but essentially from a tax point of view, it is post-tax if I can put it that way – that calculation. And regarding the Telstra equity component which we allude to, the transaction that we are sharing with you, structurally it would comprise both debt and equity and it would involve Telstra if it did proceed to have approximately 25 per cent of the equity component.

But I don't want to provide more detail than that. It wouldn't be appropriate for me to do so because the transaction hasn't yet completed or concluded and may not, but I think it does demonstrate the inherent value of our underlying network infrastructure which is very very important – the fibre and the exchanges which this represents, but then also we have extensive ducts as well. But I think me providing more information wouldn't be appropriate at this time. We will do that if the actual transaction does complete in the coming period.

And then, sorry, just on the $15 billion – a couple of points from me. Firstly, I want to be clear, that's not a comment around an increase in our capital investment. I think it is just a demonstration of the seriousness with which we are investing into the future and it does include the incremental $3 billion – up to $3 billion that we announced last year, plus also our ordinary ongoing capex and then allows for some spectrum over the next couple of years and that does include the spectrum coming up for renewal as well as the [Correction – 3.6][3] spectrum which is being contemplated, but obviously the timing of that has yet to be determined by ACMA. Warwick, was there anything you wanted to add?

MR BRAY: Yes. Just on the voice-only subscribers, it's about 1.1 million.

MR McLEISH: Thanks. Sorry, did you say it does include – the spectrum does include the 3.6?

MR PENN: Yes, I did say that.

[3] Verbatim: 3500

MR McLEISH: It does. Okay.

MR PENN: And yes, it does. I mean, obviously it's hard to predict because the – obviously it will be a function of whatever the auction is, but yes, there's a couple of spectrum renewals and also that spectrum which ACMA is currently considering how we're going to run those auctions.

MR McLEISH: Great. Thank you.

MR KOPANIDIS: The next question comes from Kane Hannan from Goldman Sachs.

MR K. HANNAN: Good morning, guys. Just on monetising that 40 per cent of the payments again, just wondering how you arrived at the 40 per cent? And then in terms of the valuation, does that include the costs and capex associated with that revenue stream? Then just on the nbn DA receipts for '18, in terms of the range of $2 to 2.5 billion, is the revenue there in line with the corporate plan and then the costs side is the unknown? Or just some comments on that. And then finally, just around the ARPU expectations heading into '18, given you're launching Belong in mobile, obviously have the fourth entrant coming into the market, just give us a sense of what you're expecting in terms of your guidance and the competitive landscape in the market next year.

MR PENN: Okay. In relation to the first question, the 40 per cent essentially reflects the payments that are already essentially being paid under the contracts that are associated with the fibre and the exchange. That's simply roughly where the 40 per cent comes from. It doesn't include any of the future payments. It doesn't include any of the payments we currently receive in relation to the ducts that are currently being utilised.

As I said before, though, the transaction is not concluded and still subject to a number of approvals, so we will provide more detail when we ultimately announce, and it doesn't – it's just the payment side. It's not – it doesn't involve the costs, but there are clearly costs and capital involved in our investing in our infrastructure. We have very significant infrastructure assets. You heard me earlier talk about how we're upgrading our optical fibre transmission network, and we obviously continue to invest in all of our key assets, but this is purely looking at the payments in isolation.

In relation to the – the other question I think was in relation to the one-off costs, which is – I think Kane's question was we provided a range and was the range a function of the difference in estimates on costs or different in estimate in rollout, so I might ask Warwick to comment on that.

MR BRAY: We use – we are aligned with the nbn central plan, but we've put a range around it.

MR PENN: Yes. And then finally, in relation to the mobiles market, we're pleased with our performance in mobiles this year. We saw a just under one per cent increase in mobile services revenues in the second half and improvement in our postpaid handheld churn, which was very positive. We're launching mobile Belong. As I said, I think that – we think that the price – the lower-price segment or price-sensitive segment will probably grow over the next period of time, and we think we're uniquely positioned with mobile Belong. We're actually also seeing growth in our MVNO business as well. Look, I mean, I think it would be hard for me to speculate on where ARPUs in the industry are going, what the competitive dynamics are going to be. I think they're going to increase, obviously with potential for new

entrants, and that's why we're making sure that we continue to be very strongly positioned to respond.

MR HANNAN: Thanks very much.

MR BRAY: Just to add a bit more about what's going on with ARPU at the moment, if we divide it into the three segments, consumer postpaid ARPU is pretty strong at the moment, and so joiner ARPU, leaver ARPU and recontracting ARPU are all positively adding to the mix, and that's about our customers reacting well to the higher minimum monthly commitment plans and moving up to those plans with some of the great inclusions that are in there. What has happened is we've seen encouraging ARPU stabilisation and a bit of an increase in our enterprise segment, and so if current trends continue – like, it's all around – the future of ARPU is all around what happens in our business segment, the middle segment. So that was sort of a backward-looking point of view. Looking to the future, as you point out, there are those influences you've pointed out, and some of our customers are really enjoying our BYO plans, and that may have some influence in the future.

MR KOPANIDIS: Next question comes from Craig Wong-Pan of Deutsche.

MR C. WONG-PAN: Morning. Just a question, again, on mobiles. You've called out the sequential growth from first half to second half in mobile services revenue. I just wanted to understand if there's typically any seasonality in that or you're expecting growth to continue from second half levels. Second question on capital structure. I notice that you've kept your comfort zones. I just wanted to understand if those would change post the nbn roll-out. And then just third one on new business. The improved profitability in there. Still making some losses, though, but just wanted to get your ideas on where that's trending to over the next few years.

MR PENN: Okay. Thanks, Craig. We didn't have the – I just want to check that we heard you correctly. I think your first question was in relation to mobile half year – sorry, first half second year question, whether there was any seasonality driving that change. Secondly, really around our comfort zones. Do we anticipate those changing during the transition to nbn? And the third was in relation to profitability for the new businesses.

MR WONG-PAN: Yes.

MR PENN: And I might get Warwick to respond on the mobile seasonality and then the capital structure and comfort zones one. Maybe I will just quickly comment on the new businesses. I mean, I think the most important point on the new businesses is yes, of course, at what point do we get them to profitability? But I'm looking at this through the lens of what's the long-term more significant opportunity. And this essentially comprises our investments in health, where we have restructured the businesses into three or four core platforms of services and really pleased with how that's going strategically. As you know, we won the government's National Cancer Registry Project, which is very well advanced, and we see significant opportunities for the role of health – technology in improving the efficiency of the health sector.

In Ooyala – we bought Ooyala about three or four years ago now, and when we bought Ooyala, one of the clear views was that the volume of video going over IP was going to increase very strongly, and that has clearly been the case. If anything, it has gone stronger than we would have anticipated. The market has changed dramatically, as these things do, and there's areas where we need to improve our execution. I'm pleased with – I've made some changes of the senior leadership team level there. They're very focused on improving

the cost efficiency and improving the product proposition. We have got more work to do. We're not out of the woods on Ooyala yet, but I think in a more macro picture the opportunity in digital video and adtech and playback and media work management is ultimately significant. We've still got to get that model right.

So all that that's really sort of saying is that my focus at the moment is making sure we set those businesses up for success and for long-term growth, and if we can achieve that, then we will be in a strong position. So I think there's a couple of years' worth of work to do there yet at least.

MR BRAY: Thanks, Andy. On seasonality, there is a seasonal factor, and you would expect our second half of EBITDA in mobile to be normally better than the first. Having said that, seasonality in mobile has decreased a lot, so we used to see a lot of seasonality associated with roaming, and roaming is now a much smaller proportion of our business. The second thing going on with seasonality is that when there has been a hit phone over the last 10 years, that hit phone has been around September/October, so first half. This year, the handset events were pretty standard throughout the year. And the third aspect of mobile seasonality is with our prepaid business, we see a lot of – the biggest season for sales, of course, is around the Christmas period. So less seasonality in the past, but part of the reason that you saw the increase in EBITDA second half over first half – there would have been some seasonality in that.

In terms of our comfort zones, there is – so, look, the first thing is when we did the capital allocation review, we talked to our shareholders, our retail shareholders and our institutional shareholders in both Australia and internationally, and the overwhelming feedback was it was important for us to keep a strong balance sheet, and that's why we've reaffirmed our commitment to the A band credit rating. Our comfort zones leave a bit of buffer within that A band credit rating, as you would expect us to do, so they remain unchanged.

MR WONG-PAN: Okay. Thank you.

MR KOPANIDIS: Next question is from Eric Choi from UBS.

MR E. CHOI: Hey, guys. I just had three questions, if I could please. The first one is just a follow-up to Raymond's questions on the FY18 payout guidance. So I appreciate the 75 per cent payout on one-off nbn payments may vary year to year, but there's really only three years of significant one-off payments to go, so it still feels like we can back-solve most of the outcomes for FY18 EPS, and most of them seem to suggest an EPS outcome below FY17 EPS of 32.5 cents. So that's the first question. Just wondering if my maths is correct.

MR PENN: Do you want to – sorry, Eric. I'm just going to make a note of your questions, and then we will tackle all three, if that's okay.

MR CHOI: Sure. The second question is just on the monetisation of nbn payments. So you haven't actually precluded monetisation of the non-transit receipts. So I'm just wondering if that's something that you would also look at in future and whether you can confirm what the carrying value of the transit and non-transit assets on your balance sheet is. And then the last question is given you're only paying out 75 per cent of the one-off nbn payments, it feels like you will be building up quite a lot of franking credits. So even if you monetise those infrastructure receipts and conduct buybacks, I'm just wondering if you can confirm whether you will necessarily exhaust all of those franking credits. Thanks.

MR PENN: Okay. Look, thanks very much, Eric. I think in relation to the – your first point, sorry, which was around the guidance. As I said to Raymond – I mean, the policy is to pay 75 per cent of the one-off payments over time. I think we've been pretty specific in relation to our guidance on EBITDA and also on what we think the payments are going to be. And the Board has obviously given guidance in relation to what the dividend for 2018 is likely to be, as well.

So I don't – I'm not in a position to provide you any more information than that, and, obviously, you will need to make your assumptions accordingly. So I'm not trying to be unhelpful, but I think we've been very thoughtful about providing guidance on a number of different bases, and what has been front and centre of the Board's thinking is, most importantly, to give retail shareholders, and all shareholders, a very clear perspective of what the dividend will be for 2018, albeit that's obviously subject to their final decision.

On the monetisation question, as I said – I mean, it's still a potential transaction. It's not concluded. I think there – if it were to conclude there obviously would be opportunity to do more, both in terms of future payments and including the non-transit assets that you mentioned, which is essentially the ducts, but that's a decision for another day. And, as I said, this – we're providing you with some detail in relation to where we're at and our considerations here, but the transaction is not completed and may not complete and is subject to certain approval. They can't be guaranteed. And so I would not want to in any way get ahead of ourselves in that regard.

I think in relation to the last question, your point around if we retain more of our earnings, either through the non-distributed component of the one-off receipts and/or from our underlying earnings, obviously that would lead us to accumulating franking credits. One of the things that we've said in relation to the nbn potential monetisation is that we would repay debt by about $1 billion and we would use the rest for capital management initiatives and they would undoubtedly – we would look to very much return franking credits to shareholders as quickly as we can. And that has always been our philosophy. It's the Board's philosophy is – franking credits are most valuable in the hands of shareholders and so the quicker and the more effectively we can get them into the hands of shareholders is absolutely part of our overall capital management approach.

MR CHOI: That's helpful. Thanks very much.

MR PENN: Thank you.

MR KOPANIDIS: The next question is from Sameer Chopra from BAML.

MR S. CHOPRA: Good morning. I had two questions. One is on mobiles and the second one is just on the new cost-out target. So on mobiles, when do you think things will stabilise in mobile broadband because I think that has caught us by surprise how quickly it has come off, and perhaps you could give us some sense around what's driving this and what could, sort of, start to see that business stabilise. The other one was just around – so there's a new cost-out target of one and a half billion, but if I look at your head count numbers, between the first half and the second half, your total staff has come off by 250 people ..... 32,293. It doesn't look like you've stepped up the pace in terms of reducing the cost structure. Maybe you can give us some colour around what provides the incremental comfort that there's a one and a half billion pie out there.

MR PENN: Thanks, Sameer. I might pass those to Warwick, if that's okay, Warwick?

MR BRAY: Yes.

MR PENN: Sure.

MR BRAY: So on the mobile broadband, look, it was down 12.8 per cent in the first half and then down seven per cent in the second half, but – so the rate of decline has improved. Look, we see – we're enormously enthusiastic about the future of mobile broadband. There's still fantastic productivity opportunities for our business customers when they're field forces and sales forces are out and about to carry connected tablets and consumer customers. It brings tablets to life when they're connected continuously. Within that product set, we have had a bit of a back-book problem where we're just getting to the end of transitioning off those dongles and also some of the older plans are at a higher price. So look, it's a challenge on us. We're the leaders in this market and the challenge on us is to stabilise the category and then grow it. But I won't give a particular time on that.

MR CHOPRA: There's nothing caused by churn. It's just a re-pricing of the back-book?

MR BRAY: There's definitely churn from the dongles and then I would also note there are – you can think of the segments a number of ways. There's dongles, tablets and then cellular Wi-Fi. Cellular Wi-Fi is doing really well with the launch of our Nighthawk modem and the great plan attached for that. The segment that has been under the most pressure is prepaid mobile broadband, but that is getting smaller, so it will have less of an influence in the future.

MR CHOPRA: Good stuff. And just on costs, given the net headcount out during the period was just 250 staff. I'm just trying to comfort around why the cost out target's been high.

MR BRAY: Yes. I guess the fine one is if you look at, sort of, the pace of increase of the cost out, we did, I think, 1.6, 1.7 per cent in the first half and then it has been 3.3 per cent for the full year and so what that means is that the run rate near the end of the year – in order to get there, you must have a better run rate at the end of the year. So that gives us some confidence about the future. And I guess the second level of confidence about the future is the opportunities that we see to simultaneously improve customer service and achieve some productivity benefits.

MR PENN: I think just the other thing I would add, Warwick, is we are – we're absolutely adding new roles and some exciting new roles to the organisation. We've got 500 people – cyber security experts now. We have more than 100 data scientists. The new security operation centres will be manned by 50 of those security experts. We have more than 1,000 people in our health business. We saw a very strong growth in network applications and services up 30 per cent to 3.3 billion and obviously that there's some exciting new roles within the organisation that are supporting that growth.

I think overall, if you look across the year, our headcount is down overall by more than 1,000, but I think the point is more is that we're – our workforce is changing and as well as obviously improving our processes to deliver a better experience to our customers which results in productivity benefits. We're also looking to invest and grow in new areas in applications and services that I mentioned before.

MR CHOPRA: This extra half a billion dollars, Andy, which sort of product segments does it attack? Where can we expect to see the margin improvement?

MR BRAY: Look, it has to be – I mean, the first answer is it has to be across all of our products. And so as an example, just to give one – a network applications and services

where we're still committed to a margin in mid-teens and with network applications and services, part of the benefit there will be through improved unit costs. Also, one of the other areas for cost improvement is our legacy fixed business. And so a legacy fixed business has to transition onto an efficient nbn resale business so that would be a second area. But, look, it applies to all of our products.

MR CHOPRA: Thanks.

MR KOPANIDIS: The next question comes from Eric Pan of JP Morgan.

MR E. PAN: Good morning guys. Thanks for taking the question. On the securitisation, you've mentioned that it would be combination of debt and equity. Does that mean it would be consolidated and not done off balance sheet and net of the $1 billion in debt repayment that would leave about $3 billion of proceeds. How should we think about it whether it be return would be buybacks or special dividends and over what timeframe or would it depend solely on available franking credits and I got a follow-up.

MR PENN: Well, I think in relation to the first part – sorry, the second part of your question – I might get Warwick to answer the first part around consolidation. But in relation to the second part of the question, look, I really think those are decisions that the Board will make if the transaction proceeds. I think the first point that we have made today is that the intention would be to reduce debt by about a billion dollars. That would provide a significant amount of proceeds which would be for capital – a significant capital management program but how that – precisely what that looks like and over what period of time would be ultimately a matter for the Board.

I mean, I think we have in the last few years executed a number of on and off market buybacks and on the off market buybacks if we have excess franking dividend capacity it's a good way to return franking credits and to provide benefits to shareholders through those franking credits so they would definitely be in the mix of those decisions but, as I say, ultimately that would be a decision for the Board if the transaction proceeded and, Warwick, I don't know if you can comment yet on whether – what the consolidation implications would be.

MR BRAY: Yes. So we will give – if the transaction does go ahead we will, of course, give detailed financial accounting points at that time. What I would say is the transaction wouldn't make sense if the debt on the securitisation was treated as Telstra debt. So that would be a contingent point for the transaction to go ahead.

MR PAN: Right. That makes sense. And apology if I missed this. On the recurring payments – 40 percent of that is going to be securitised. What's the plan for the other 60 per cent?

MR PENN: Yes. You may have missed it, Eric. There was a question that was asked earlier and what I said was that that would be a decision for the future. As I say, this transaction is not complete. There's some important steps to go through in approvals and they may or may not be forthcoming but we wanted to provide the market with the information because we know – we've previously said the market we would be working on this. We wanted to provide you an update today and we also wanted to show you that, obviously, that relates to the infrastructure which is – underlying infrastructure which is very valuable but we haven't made any future decisions yet.

MR PAN: Right. And lastly, holistically speaking previously you've said that the company will need to sustain a $10 billion EBITDA for the 31 cent dividend. Does the 30 per cent dividend cut essentially mean that you won't be able to make any of that $3 billion nbn headwind?

MR PENN: Well, I'm not validating your comment on the 10 billion and 31 cents because I don't recall that. But nonetheless I think for the spirit of your question we try to be as transparent as we possibly can that the migration to the nbn – the establishment of the nbn is essentially shifting a material part of our business from Telstra essentially renationalising that back to the government through the nbn. Our latest estimate of the impact of that is $3 billion on a recurring basis of EBITDA once the whole nbn is fully rolled out.

We're not making a forecast as to whether we are offsetting all of that or not as the case may be, but we're trying to say we are making a commitment that we're going to deliver one and a half billion dollars of net productivity. We are making a commitment that we will deliver in excess of $500 million of EBITDA from the strategic program that we're implementing and our ability to fully offset that will obviously be a function of the future business performance and the market dynamics, we never suggested that we're going to close it all.

All we can do is say we're conscious of it and as a management team, we're focused on improving the business for the future. The other thing I would say which I mentioned earlier is that the change in the dividend policy is not a commentary on the profitability of the company, it's a commentary on having the right dividend policy for the future. This is about giving the organisation the flexibility to invest in the future. It's about moving us away from the historic practice of paying out almost 100 per cent of our earnings and it's in recognition of the market we're in today and the sorts of competitors that we're competing today and it's about aligning us with global peers and local market – large companies as well.

MR PAN: Great. Thank you.

MR PENN: Thank you.

MR KOPANIDIS: The next question comes from Roger Samuel of the CLSA.

MR R. SAMUEL: Hi. Morning, guys. Thanks for taking my questions. I've got two questions just on the dividend policy. Firstly, I just want to clarify the definition of the underlying earnings which is the basis of you paying the dividend. So we have the recurring EBITDA number as starting point and how should we be thinking about depreciation and interest expense? Is there anything that you allocate to one-off nbn receipts? That's my first question. And the second question is I know you're not providing the split between special and the ordinary dividend, but is it right to say that you will stop paying the special dividend once the nbn roll out is finished? So, say, around FY21? Thanks.

MR PENN: I think, Roger, I will get Warwick to provide most of the answer, but I think just on the last point, we're committing to pay out 75 per cent of the net one-off payments over time and that's what we will do, so pretty much by definition once the nbn is finished rolling out, we've received all those payments – paid out 75 per cent, you can assume that that special dividend would conclude at that point, but I might ask Warwick to talk about the first point on the definition of underlying earnings.

MR SAMUEL: Sure. Thanks.

MR BRAY: Yes. Thanks, Andy. Thanks, Roger. Yes, so it's defined as NPAT less the net nbn one-offs, and so they include the PSAA and the infrastructure ownership receipts – small amount of retraining less nbn net cost to connect less tax. And so we're not taking off from the NPAT any depreciation.

MR SAMUEL: All right. Thank you.

MR PENN: I think there is a footnote in the disclosure materials regarding that definition; I can't quite remember exactly where it is, Warwick. We can point you to that later, but it's in the disclosure materials.

MR KOPANIDIS: And the last question comes from Brian Han of Morningstar.

MR B. HAN: Good morning. I won't ask any more questions about the capital review, but just on a head-to-head basis over the next several years, Andy, do you expect more earnings to come from network application services or from global connectivity?

MR PENN: Do – by global connectivity, do you mean just sort of telecommunications connectivity generally or specifically?

MR HAN: Yes. The way – as you define it in your segmental presentation.

MR PENN: Yes. I mean, look, if I sort of take us back to a comment I made earlier, which is why is our vision to be a world-class technology company that empowers people to connect, it's because fundamentally, firstly, that we need to build the capabilities in applications and services, which are more in the world of software capabilities, data architecture, data science. So that we can make sure that those applications and services, whether they're ours or whether they're somebody else's, work better on our network than anybody else's network.

So that's the first point, and the second point is actually we think there's opportunity for us to build, curate, create applications and services ourselves, as we are through our various different offerings, and so it's a different economic model. It's much more service-orientated. It's lower EBITDA margin with lower capex, but actually the two are complementary, and what we find with our network application services business is where we can provide the most value for our clients is actually bundling the services with the network, such as in a managed network service or a managed security offering, because we can deeply embed the sensors and the technology into the network that our customers are using to provide the state-of-the-art cybersecurity, dynamic security offering.

So I think in a revenue sense, there's no doubt our applications and services business is growing very strongly, and we would like to think it's going to continue to do so in the future, but from my point of view, our strategy is we need to grow all of our businesses to their maximum potential both from a revenue point of view and from a profitability point of view rather than bias one over the other, but if you look at it through the customer lens, which is critically important, what customers are looking for is great solutions. Those solutions invariably come through the applications and services, and they're supported by the best networks. So yeah, as I say, I think revenue is clearly going to be strong growth in applications and services, but the underlying profitability of our networks business is also a significant driver of the economic engine of the company.

MR HAN: Okay. Can I just confirm that Warwick previously said you guys are comfortable with mid-teens margin for NAS longer term? Is that what he said?

MR PENN: Yes. That – he did, and in fact, we've provided some data and analysis on this – I can't remember – 18 months ago. Warwick is looking as if – Warwick, you answer the question.

MR BRAY: Yes. We certainly

MR PENN: Shouldn't speak for you.

MR BRAY: We certainly did target a mid-teens EBITDA margin for NAS, and what you will note – and that was two years ago, and what you will note is that the margin has been improving be about three percentage points each year. So we're on track for that target.

MR HAN: Okay. Thank you.

MR KOPANIDIS: So that concludes the investor analyst section of today's presentation. Thank you for your continued support and interest in Telstra. I will now hand over to my colleague Jason to moderate the media calls. Thank you.

SESSION CONCLUDED [11:06am]

SESSION RESUMED [11:12am]

MR J. LAIRD: Okay. We will now move to the media portion of the Full Year Results. I'm Jason Laird, head of communications at Telstra and I will just start in the room here, for Andy, and Supratim from The Australian.

MR S. ADHIKARI: Hi, Andy. Big day for Telstra today. I see the share prices taking a bit of a hit. I just wanted to start off with – I mean, is it fair to say that a lot of the capital allocation numbers you've put out today are really a reflection of the impact of – you know, the shadow of the nbn on Telstra's overall business? And are you – like, the statements on CVC, are you sort of kind of making a call that there is no room for nbn going to move on CVC and CVC prices will remain the way they are into the future?

MR A. PENN: Look, I think on the latter point around CVC, I mean, that's really a matter for nbn. I wasn't seeking to make any particular forecasts or otherwise. I'm just very conscious that we've been transparent with the market because the reality of the nbn, the decision around the nbn, does have a material impact on Telstra. It's different than everybody else because, essentially, it is a part of our core business today, which essentially migrates to nbn and so we migrate with that a significant amount of our profitability. And we are continuing to be transparent what that is, and it's a simple point that with the latest outlook on the CVC charges relative to when we did our first analysis, or the analysis that was behind the communication in about 18 months ago, the outlook on those has increased and that has an impact, and so we're just updating the outlook. That's all it is. It's not a comment on where the CVC charges should or shouldn't go, or on the pricing model at all. It's just purely providing that transparency.

And I think the second question really, which is around the capital management numbers, I mean, I think there's, well, two things. One is, as we've mentioned, I mean, this transaction regarding the monetisation potential nbn receipts is not complete and it's subject to a

number of different approvals. And so I'm not predicting the completion. We're just again being transparent.

But one thing I would say is what it does do is it demonstrates the significant strategic value of our underlying infrastructure and I think many people sort of, perhaps, perceive that with the development of the – the establishment of the nbn that Telstra no longer plays a role in fixed infrastructure. That's not right. We have significant infrastructure assets which are strategically very, very important: our fibre optics networks, which I've mentioned, we're upgrading, our exchanges, our ducts, our mobile towers, our international network infrastructure, our 400,000 kilometres of submarine cable, our routers or switches. This is a very significant and strategic suite of assets which is critically important for all of our customers in a world where the network is important to virtually all technology innovation happening today.

MR ADHIKARI: Well, Andy, given the rate of that innovation, and you mentioned you need to stay on the same footing as your global peers, well, as a Telstra retail shareholder should I be concerned that dividends – the – it's just not sustainable, even the one that you've laid out right now?

MR PENN: Sorry, you should be excited because, I mean, if you look at the world ahead that I see, you see a world where, as I mentioned, that our core business which is the provision of networks and telecommunications infrastructure is the backbone to pretty much all technology innovation that is happening today. I can't think of any innovation that's happening that is not intended to be connected, whether it's in agriculture, whether it's in logistics, whether it's in resources, whether it's in self-driving cars. All of that technology innovation fundamentally requires a backbone infrastructure of telecommunications and that's what's driving the volume of traffic on the network.

What's critical for Telstra's strategy is that we've got to invest in the capabilities above the layer of the network just as much as we have historically at the layer of the network. So we need the best network, the smartest network, the fastest network, but we also need the best applications and services. And whether or not they're, those applications and services, our own proprietary applications and services, or whether they're part of an overall solution and offering through our partners that we bundle into our services, that's really what's driving the growth. And the change in the dividend policy is really about recognising in that world how do we position ourselves for success with the right capital management architecture and the right balance sheet settings and the right dividend policy so we can continue to invest in the future.

MR ADHIKARI: Just one last one, if I may. You hinted during that analyst call that there is a potential for nbn co to compete directly in the enterprise market, and then there's also a proposed nbn tax that's being mulled in Canberra right now. Are you – is there a possible potential of nbn – of scope creep happening with nbn co where it competes directly with you for enterprise customers?

MR PENN: I think that's probably a question for nbn. I think we're just focused on making sure we have the best network. Our wholesale business is – whilst much of it disappears as a consequence of the nbn, we continue to provide wholesale services to core customers. I mentioned earlier, I think, that our wholesale MVNO business on mobile is growing very, very strongly. But I couldn't comment on what nbn's plans are.

MR ADHIKARI: And is the levy a concern for Telstra?

MR PENN: Well, we are a participant in the industry. I wouldn't say it's a concern for us, no.

MR ADHIKARI: Thank you.

MR LAIRD: Next question from Lucy Battersby.

MS L. BATTERSBY: Thanks very much. I was just wondering if you can explain in layman's terms what the one-off payments from nbn co are, like, the PSAA Infrastructure Ownership and Retraining.

MR PENN: Sure. Sure. Thanks, Lucy. Good morning. So, simply put, when the government privatised Telstra because, obviously, Telstra used to be owned by the government, it privatised all of the assets which exist in Telstra today. The government's decision several years ago to establish the nbn also involved a decision to, basically, renationalise, essentially, the part of the business which is, essentially, our fixed line infrastructure for retail and enterprise customers, so what we call the "last mile of infrastructure".

So it's, effectively, the connectivity from the home back through to 121 points of intersection around the country. So that piece of our business is, effectively, being renationalised. The impact on that on Telstra – because we lose – because we're no longer providing that business – nbn is - the impact on Telstra, we estimate today, is $3 billion in recurring terms from an EBITDA perspective. The one-off payments that we're receiving are, effectively, compensatory in nature.

So when a company gives up $3 billion, or think about it as essentially nbn buying that business off of us, we're getting paid a lump sum of $9 billion after cost – so essentially give up $3 billion per annum. And that's why I say it's only partial compensation because ultimately we typically trade, from a market point of view, somewhere between five, six, seven times EBITDA and that really is about three times EBITDA. But it's essentially a compensatory payment for the fact that we're giving up $3 billion of profitability which is going over to the nbn.

MS BATTERSBY: And the cost to connect – what is that? Is that the cost to connect each one when they get onto the nbn?

MR PENN: Correct. Essentially – so relative to, if you like, the status quo, we have to basically now transfer over millions of customers onto a new service. Every one of those transfers incurs a cost we need to, perhaps send new modems. We have to have technicians go out and do the connection. There's a lot of work associated with that connection.

MS BATTERSBY: But why aren't you charging that to each individual customer? Instead you seem to be slogging shareholders.

MR PENN: No, well, because from a customer's point of view, it's not for them. They don't want to pay to essentially reconnect the service they've already got just because it switched over to the nbn.

MS BATTERSBY: Okay. I just wanted to ask you some questions about the Australian media landscape at the moment. Have you guys had – asked to have a look at Channel TENs books?

MR PENN: Well, I couldn't comment on Channel TEN. I think the broader comment, I would say, is look, I think the media market is an exciting industry. We obviously are a participant because we have significant media assets, including our AFL and NRL investments. More people are watching more content on more devices every day of the week. You saw that with our Telstra TV device which now – we have nearly 1 million of them in customer homes. We've just launched Telstra TV 2, and as you know, we've been in ongoing discussions regarding how do we position Foxtel for success in that environment. What's the right structure and how we position that company into the future – but we remain committed to media.

MS BATTERSBY: And what is your outlook for Foxtel? Looks like subscriber numbers are going down and there's more and more challenges coming for Foxtel.

MR PENN: I think Foxtel has the preeminent content in the country. I think that, as I said, more people are watching more content. It has got some really exciting sports content and international content as well as its own produced content. There's no doubt that of course streaming and new services are changing the dynamics of the industry and Foxtel has to respond to that, just as many businesses are having to respond to the impact of digital disruption. And that's why we're committed to try and put Foxtel in the best possible position to respond. So I'm optimistic and positive about Foxtel's future and we're committed to the Foxtel business.

MS BATTERSBY: Yesterday the 7 CEO said that free-to-air TV might not be able to pay as much as it has for sports rights in the future. Does that open up an opportunity for companies like Telstra or Foxtel to outbid free-to-air TV for sports rights?

MR PENN: Well, look, I think the whole point is that the exciting part of this is that content is in demand. As I said, people are watching more content for more hours of every day. If you just look at our AFL and NRL apps, they're the most used sports apps in the country – 1.4 million users of them. And they're a brilliant customer experience. So I don't think there's going to be any shortage of demand for media and content. I mean, ultimately the price of that media and content is going to be a function of companies' willingness and ability to pay in the future. We just resigned the AFL and the NRL in partnership with obviously Foxtel and Channel 7 and Channel TEN for the next four or five years. So those assets are not going to come up for recontracting until – as I say, I think it's 2022.

MS BATTERSBY: But, for example, Big Bash is up for grabs. Could Telstra outbid free-to-air? It's not behind any – it's not on the anti-siphoning list.

MR PENN: Big Bash is – cricket is exciting content. We will obviously look at that as we do with other content.

MR LAIRD: We will need to go to the phones now, so I will pass to Mr Max Mason of The Financial Review.

MR M. MASON: Good morning, guys. I have a few questions. First, I wanted to start on the increased cost saving to $500 million. Would you be able to give me a little bit of colour on that? And on the remaining $1.5 billion earnings gap, would you be able to give me some of the colour about where you see the biggest growth areas for the company. I just wanted to get some clarity around some of the nbn payments. So am I right in saying that you will be

paying 75 per cent of the one-off payments, which will be roughly over the next four years, and you're looking to monetise the recurring payments that are, sort of, spread out over a number of years?

And just on the Belong Mobile offering, which is about to – well, you're – so you're going to launch pretty soon. Would you be able to give me an idea about where you're – sorry, the mobile broadband would you be able to give me an idea where your market share is for Belong broadband? You thought you could replicate the – that lower priced segment in the mobile market. And, I guess – is this, I guess, a recognition of below costs providers, such as Vodafone, and then, obviously TPG with its entry are actually building quite strong networks now.

MR PENN: Okay. Thanks very much, Max. So your first question is really around our increased productivity target. I think, fundamentally, it's a reflection of the opportunity that we see to basically improve the efficiency of the business and the customer experience that we deliver, partly through improving processes but also partly through the further digitisation of our business in terms of just making it easier for our techs and their frontline people to service our customers. You get a double benefit. You get a better outcome for customers and a better outcome for shareholders. And that has enabled us to bring forward the $1 billion that we said we would deliver essentially one year early and then increase our overall long term target. And it's a function of the fact that we're running ahead of our plan currently and it's the function of the fact that our work in digitisation is giving us that sense that we can do more.

The comment really regarding the remaining gap, I think, you, sort of – the question was which businesses do we see growing in the future. I mean, I think – we are very excited about, obviously, our Network Application Services business. That grew strongly, in the half, up 30 per cent, with a three per cent margin expansion. Mobiles is obviously a key important business for us. I mean, the market is very, very competitive. I would point to the fact, though, we had a very strong EBITDA margin for the year, 43 per cent, and we saw services revenue grow a little bit in the first half off the back of a decline in services revenue which has been as a consequence of the competitive dynamics.

And your point around Belong Mobile – I mean, we're launching Belong Mobile because we've seen the success of Belong Fixed and that business to your question, is now about 150,000 subscribers. So it's roughly about five per cent of our overall fixed broadband base is on mobile and it's growing very strongly. And so we're excited by the opportunities in – sorry, on Belong Fixed, and we're excited by the opportunities on Belong Mobile as well. And also, I should say, as I mentioned, I think, earlier, we also have an MVNO business, as well, so that business is growing very strongly as well, and so it's really recognising there are different segments to the market and it's about positioning a different brand in different segments to the market as well.

And I think your other question was really around the nbn payments. You're right. I mean, there's essentially two streams of payments, the one which are essentially one-off in nature, which I was just talking to Lucy about and they're the compensatory payments and they will be received over the period of the rollout of the nbn, which – I think the latest plan is for that to conclude around about the end of calendar 2020. And then there's the long term payments. So the long term payments are basically for access to Telstra's infrastructure which I've tried to highlight today is very, very extensive. And so the nbn is a customer of us and needs access to that infrastructure. And we provide significant data transmission services to them through that infrastructure, through the fibre, through the exchanges,

through the ducts and that's effectively the long term contracts which support this business model.

MR MASON: Okay. And how long is – are those payments spread out? Are they, I guess infinite, as long as the nbn is using your infrastructure?

MR PENN: No – well, we have previously disclosed that, and I'm just, sort of, looking to my colleagues in the audience. I mean, essentially, they go for around 30 years. I can't remember the precise date, but if you go back to the original explanatory memorandum I think you will find the date is in the explanatory memorandum. But it's certainly for the next 30 years or so. Then with options to continue.

MR MASON: And – sorry. Just one final one on that, when I was sort of looking through the presentation, you used the words "equity" in – you – that Telstra would keep a 25 per cent equity in relation to those nbn payments. It's not that you're going to list it as a separate company, are you?

MR PENN: No, no. Absolutely right, Max. No. It would not be listed as a separate company. If the transaction proceeded, and I do want to make clear that the approvals haven't been necessarily – sorry – that the final approvals haven't been achieved and may not be, but the structure of it would be, essentially, those payments would be, essentially, attributed to a separate investment company, if you like, and then people would invest in that company, debt investors and equity investors, and what Telstra is saying is that we would be one of those equity investors in that entity, if that makes sense.

MR LAIRD: Okay. Thanks Max.

MR MASON: Yes. Thank you.

MR LAIRD: Let's go to Peter Ryan from the ABC.

MR P. RYAN: Yes. Hi, Andrew. Look, just going back to the dividend and looking at the importance of the Telstra dividend over the years through the Telstra floats 1, 2 and 3. There is a little bit of a – I guess a love affair with that dividend. So just can you give us a bit of colour about how difficult it was to actually come to this reality that you had to sort of move with the times and pressures you're facing?

MR PENN: Yes. Look, thanks very much, Peter. And I think you're absolutely right to point that out because there's no doubt, and it's not a matter that we take likely that – lightly that Telstra shareholders do value the dividend significantly and, as you know – as you say, rather it has been a feature for Telstra's investors. At the same time, though, this is about making sure that we have the right capital structure and dividend policy for the future. We did spend an enormous amount of time looking at this.

We announced last November that we needed to really look at our capital management structure including the dividends, including other aspects of shareholder return in light of changing opportunities in the market for us, and that's what we've been doing over the last nine months, and the board has obviously concluded that analysis, and our view is that in setting Telstra up for success in the future, we need a dividend policy which is far more aligned to our global peers, far more aligned to local large companies, gives us the flexibility to continue to provide what is actually still a very significant dividend and attractive yield but also to give us the flexibility to invest in the future and compete in the future as well.

MR RYAN: Yes. And, look, just a very quick follow up. Did Telstra maintain its dividend during the GFC and in the wake of the GFC, or – I'm just trying to remember whether you might have cut like other companies during that time.

MR PENN: No. I can confirm, Peter, that Telstra did maintain the dividends during that period.

MR RYAN: Okay. Thanks very much.

MR LAIRD: Thanks, Peter. Let's go to Jeff Whalley from the Herald Sun.

MR J. WHALLEY: Just a quick one. I thought today's results shows Telstra cut about 1300 full-time jobs this year, about four per cent staff reduction. In the first six months of this financial year, Telstra said that it would cut about 1100 positions, and in June, you revealed to be cutting about 1400 more. A lot of figures there, but do today's figures suggest the majority of the new cuts are still to come, or – like, could you give us some colour around that?

MR PENN: Well, look, I think, Jeff, what I would say is that we've – we're investing in the future, and we – I mean, our workforce is definitely changing, but we're also adding jobs – exciting jobs in the area of – so I mentioned cybersecurity where we have 500 cybersecurity experts. We have more than 100 data experts now in our data analytics area. We have – we're just about to open two new security operation centres where there are 50 roles going into those.

MR WHALLEY: Yes.

MR PENN: We've got more than 1000 people in our health business, and we're putting on hundreds of people to support our NAS business. So our workforce is changing, and we're creating new opportunities as well. We will need to continue to change, but, ultimately, this is about providing better outcomes for our customers through improving the processes and digitising our business and, ultimately, that's what's going to most important if we can grow in the future.

MR WHALLEY: How much do you think that figure today was – that triage between old jobs and new jobs and how much of it was simply you haven't done the hard yards cutting yet.

MR PENN: Sorry, Jeff. Could you repeat the question. I didn't quite catch that.

MR WHALLEY: How much of it was – I suppose that triage between old jobs and – old economy jobs and new economy jobs, as you were sort of talking about them, and simply that you haven't done those cuts yet.

MR PENN: I'm not sure I completely understand the question. I mean, I think, basically, to date, our net cost out this year was $244 million. Plus, we also improved the efficiency of our growth businesses by $68 million. I mean, ultimately, we're targeting $1.5 billion, but we've put in place a lot of the steps that get us there. So the $244 million delivered this year is net in the year. The actual steps that we've taken are going to be greater than that because they obviously flow forward into the future.

MR WHALLEY: Okay. Thanks.

MR LAIRD: And then Corrine Reichert from ZDNet.

MS C. REICHERT: Hi, Andy. When will you be opening your Sydney and Melbourne cybersecurity centres because, previously, you said July, and where internationally are you planning on locating one?

MR PENN: Thanks, Corrine. Well, the new SOCs are basically in our office here in Melbourne in 242 Exhibition Street and then also 300 George Street in Sydney, but we also already actually have one in Canberra which we're likely to upgrade, and then we're looking at other international locations as well which – I know where they are, but I won't disclose them now. I will let that – leave that to the team, but, look, I think the point is that there's no doubt that large enterprises and even smaller enterprises today are becoming increasingly concerned by cybersecurity risks that they face.

As I've said a few times in this morning's presentation, there's virtually no technology innovation that's happening today that isn't intended to be connected. That means it's across a network, and what's critical is those innovations and that technology is protected from a cyber-perspective. We've got deep, deep, deep skills in cyber because of our own need to protect our network, but, also, we provide a very significant dynamic service for our enterprise customers, and this is really a significant investment in really building that service for our enterprise customers.

MS REICHERT: And will you be launching those later this year?

MR PENN: Sorry. I didn't quiet catch you, Corinne.

MR LAIRD: Later this year.

MR PENN: Yes. We will be launching those very soon. In fact, in – from the product's perspective – so there's two sort of things here. One is we have a dynamic product offering which is integrated with some of the best data analytics globally and the best access to data globally. So that's actually the fundamental offering, and then the security operation centres themselves actually enable ourselves on behalf of our customers, or our customers to monitor 24/7, effectively, the cyber activity on their network, and to put this in perspective, most large corporate now have got networks where the volume of traffic they have is generating millions and millions of alarms a day from a cybersecurity perspective.

I mean, obviously, a vast proportion of those alarms are – don't actually lead to anything, but you need the data analytics, and you need the artificial intelligence and the machine learning capabilities to process what's actually happening deeply at the network level, and you need the sensors deep in the networks, and that's the dynamic security offering that has already launched. We've already got customers on that offering and who are very pleased with that offering, and then we're supporting that with the security operation centres which would be open in the coming weeks.

MR LAIRD: So we have time for one more question. Lucy Battersby.

MS BATTERSBY: Thanks. I just wanted to clarify it looks like you've got three income sources from the nbn. One is contract work for the nbn and other, that's heading down to your revenue. You've also got the recurring that's going to be securitised, and then you've also got the one-off payments of which 75 per cent will be paid to shareholders. Okay. And - - -

MR PENN: That's correct, Lucy. That's a good articulation, but they will be securitised if this transaction is approved, and it's not yet approved.

MS BATTERSBY: And the money flowing to revenue – how long will that go for?

MR PENN: You mean the first amount?

MS BATTERSBY: Yes.

MR PENN: So we provide a number of services to nbn which are beyond what we call the sort of – the original agreements. So we're a provider. We do a lot of construction work. We've done a lot of planning and design work. We're doing the upgrade work for the nbn for the HFC. That's something that they've asked us to do for them. We do a lot of maintenance work for them as well, and those contracts will run, well, in relation to the construction work until construction build is finished, and in relation to the maintenance work, really for as long as the nbn seek to ask us to do that work.

MS BATTERSBY: And do you have an average cost per household of cost to connect, and is it for just people who connect as a Telstra customer, or is it for everyone?

MR PENN: No. I mean, the average cost will vary across different customers, business customers. It will vary across technologies as well. It's not something that we disclose, but it's – yes. But – so everybody will – there will be a cost incurred for everybody that's connected.

MS BATTERSBY: So everyone on the nbn– there's a cost to Telstra?

MR PENN: Essentially, yes. I mean, there are costs also to other RSPs as well, but are, essentially, migrating across has a cost to Telstra.

MS BATTERSBY: Okay.

MR LAIRD: Okay. Thanks, everybody. That concludes the media portion of the full year results. Thank you, Andy, and thank you, everybody, for your time today. Enjoy the rest of the day.

MR PENN: Thank you.

SESSION CONCLUDED [11:39am]