16 February 2018

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited - Transcript from Analyst and Media Briefings – Financial results for the half-year ended 31 December 2017

I attach a copy of the transcript from the Analyst and Media briefings held on Thursday 15 February 2018, in relation to Telstra's results for the half-year ended 31 December 2017, for release to the market.

Yours faithfully

Sue Laver
Company Secretary

MR N. BURLEY: Good morning and welcome. My name is Nathan Burley. I'm Telstra's Head of Investor Relations and on behalf of Telstra, I welcome you all to our first half 2018 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 to acknowledge the traditional owners of the land on which we meet, the Wurundjeri People of the Kulin nation and pay 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 on the phone, and with that I will hand over to Andy. Good morning, Andy.

MR A. PENN: Well, thank you very much, Nathan, and good morning and welcome everybody to Telstra's results announcement for the half year ended 31 December 2017. Today I'm going to be taking you through our key financial results, how we have delivered against our strategy and the progress that we are making importantly on our strategic investment program. Our results are in line with guidance and we're pleased with the strong performance that we saw in the half, in terms of mobile customer net additions, churn and nbn, in particular. These have been delivered in a period of very significant change, whether it's the migration to the nbn, the competitive dynamics, the ever accelerating pace of technological change and of course, as we also prepare for the transition to 5G.

I would argue that we are today in one of the most dynamic periods that the company has ever faced and it is against this background that we need to continue to increase our level of intensity and increase it even further. We need to do more and we need to do it faster. We are therefore driving a deeper sense and greater urgency in everything that we do. We are stepping up how we are aggressively competing in the market, particularly leveraging our multi-brand strategy, which is starting to pay off, whether it be through Telstra, Belong, Boost or for our wholesale business. We're absolutely focused on our cost reduction and while we announced increased cost reduction targets in August, we will always continue to look to do more.

We also continue to accelerate the strategic investment program which is critical to simplify and streamline our 100 years of heritage, increase our strategic differentiation and ultimately therefore, build the platforms for the future. However, at the same time, we need to scrutinise every aspect of our capital spending to ensure that our investments that we make drive the greatest results. And finally, we are driving future growth with new opportunities emerging from our core business.

Let me take you through the key financial results. Total income was up 5.4 per cent to $14.4 billion on a guidance basis and up 5.9 per cent to $14.5 billion on a reported basis. As we previously disclosed to the market, we recorded a non-cash impairment to Ooyala of $273 million as we wrote this business to zero. EBITDA on a guidance basis, which excludes the Ooyala impairment, was up 2.4 per cent to $5.3 billion. On a reported basis, EBITDA was down 2.5 per cent to $5.1 billion. Excluding the impairment, net profit after tax was up 9.5 per cent to $2 billion and earnings per share was up 12.2 per cent to 16.6 cents per share. Including the impairment, net profit after tax was down 5.8 per cent to $1.7 billion and earnings per share was down 3.4 per cent to 14.3 cents per share.

The board has declared a fully franked interim dividend of 11 cents per share and consistent with our new dividend policy, the interim dividend comprises a 7.5 cents per share ordinary interim dividend and a 3.5 cents per share interim[1] special dividend. We also announce that the DRP will be recommenced from the interim dividend.

And finally, we're also taking the opportunity today to reconfirm our previously communicated guidance for 2018, including the board's guidance that expects the 2018 total dividend to be 22 cents per share fully franked, including both the ordinary and the special components.

Warwick is going to take us through the detailed financial results shortly, but in the meantime, let me comment on some of the highlights from the last six months against the framework of the three pillars of our strategy: delivering brilliant customer experiences, driving value and growth from the core of our business and building new growth businesses close to the core. I will also comment on the progress that we are making in relation to our strategic investment program.

I know that we have more to do to improve the experience that we provide our customers. Delivering a brilliant customer experience is our number one objective and while we do have more to do, we have also, at the same time, achieved some important and significant milestones over the last six months. We're providing more value to customers in our fixed portfolio with new unlimited plans at the $99 price point and double the data for all other plans.

We are Australia's leading aggregator of digital entertainment products and we have injected more value into plans through inclusion of enhanced media offerings, including Telstra TV and Foxtel Now.

Similarly in mobiles we have enhanced all of our plans with more data, more media and more services.

We are further eliminating bill shock for customers with the introduction of Order Estimator which provides customers with a very clear picture of what they can expect in their first bill. We now issue 110,000 order estimates every month and customers who receive this service have an NPS feedback for us that is 18 points higher than customers that do not.

On the fixed we're moving to provide customers with an always on connected experience. We have launched the Smart Modem to more than 85,000 customers through our high value plan and I am pleased to announce that later this month we are extending this to all home internet bundles for new, migrating or recontracting customers. This Smart Modem brings together our fixed and 4G mobile networks in a single device to get customers activated sooner and existing customers back online quickly if their fixed service is interrupted. Once plugged in the Smart Modem will connect to homes or a small business to the internet within minutes over 4G without having to wait for the fixed service to be installed and switched on which can take a long time for customers that are migrating to the nbn.

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[1] Verbatim "ordinary" special dividend

Our new call centre solution Get Help means reduced call centre times for nbn complaints by more than six minutes and we're escalating 60 per cent less issues to Telstra field technicians as we're able to deal with these online.

We are confident that these initiatives are leading to a better customer experience. There's no doubt, however, that the roll-out of the nbn is having an impact on customer satisfaction across the country. As I have previously commented, the key issues from a customer's perspective are firstly the connection experience. And in this regard we are working very closely with nbn and the rest of the industry to improve activation and assurance for customers and the ACCCs recent decisions to regulate service standards from nbn to retail service providers like Telstra will help this. In the meantime, our Smart Modem will also make a material difference to customers.

The second nbn issue for customers is speeds. We have recently increased ours to further deliver a market leading 80 per cent minimum nbn speed during peak times, above the ACCCs guidelines. And in fact we're currently delivering on average 85 per cent during peak times. And finally, affordability – it is critical in the long term that nbn wholesale prices are set at levels which ensure affordability of broadband for all Australians. We are pleased therefore, that the nbn has recently introduced discounts on its 50/20 plans which is a step in the right direction as it enables this to flow through to retail offers for customers. We have responded by upgrading this to our plans on our most popular bundles and I'm pleased to also announce that we're in the process of bestowing 50/20 speeds to the majority of our nbn customers.

It is against this background of customer experience issues relating to nbn that strategic NPS was flat compared to the prior period while we achieved our three to four point increase in episode NPS which was up four points. Excluding nbn on our episode NPS, it was up six points.

I also want to take a moment to comment on the Universal Services Obligation given the recent announcement by government to review these arrangements and the importance of this to customers. The USO requires Telstra to provide a basic telephony service to every home in Australia. It is a contract that the government has previously put out to tender where Telstra has been the only party and the only operator in the market prepared to take on this obligation and it's a critically important obligation because it is important to ensure that every Australian is always connected.

We're open to revising the agreements that we have with the government and certainly considering new technology solutions to deliver the universal services obligation. And of course indeed, mobile coverage continues to reach more people, particularly when you're on Telstra's network which is by far the largest in the country. However, there are still people in remote areas who are not connected where mobile coverage does not exist and they need connectivity too. Now, others in the industry would like to remove the USO in order to avoid making their contribution but we will not cut this essential lifeline for regional Australians prematurely without a genuine alternative for the current USO in place for everybody.

Let me turn to the second pillar of our strategy – driving value and growth from the core. Telstra has now increased its customer base in mobiles for 20 consecutive halves despite intense competition. During the six months we again saw strong customer acquisitions with 235,000 net new retail mobile services including 130,000 retail postpaid handheld.

We also had success in wholesale mobility with an additional 118,000 net adds. In September we further invested in our multi brand strategy with the launch of Belong Mobile which has added 21,000 customers since its launch. We continue to see very strong performance in mobile postpaid handheld churn at a world-class level of less than 11 per cent.

Despite the strong customer performance however, mobile services revenues declined 1.2 per cent principally driven by postpaid handheld ARPUs which were down 2.9 per cent. Warwick will take you through the detail of the competitive dynamics that have impacted this in a moment.

On the fixed side, we've continue to perform well in nbn with 454,000 new connections in the half taking our total number of nbn customers to more than 1.6 million, representing a 51 per cent market share excluding satellite. In the half, we added 21,000 net new fixed data of services and 57,000 new retail bundles.

The acceleration of the roll-out of the nbn, of course, has a significant impact on Telstra, particularly on our EBITDA. As we have previously reported, we expect this to ultimately total around $3 billion per annum. Fixed EBITDA for the half was down 29 per cent with a $450 million incremental negative impact in the period. This was as a consequence of high CVC/AVC charges of $248 million and around $200 million from the loss of fixed voice revenue and wholesale margins.

This was partly offset by increases in recurring nbn DA's of approximately $80 million leading to a net nbn head win in the period of $370 million. Of the approximate $3 billion total impact per annum of the nbn on Telstra's EBITDA, we have cumulatively absorbed $870 million to date including the $370 million in the period. And it is against this background that we're pushing very hard and seeing strong momentum in our productivity program where we delivered a 7.2 per cent or $249 million decline in fixed costs in the half year period.

Our media strategy is continuing to deliver core differentiation to our products. We now have more than one million Telstra TVs in the market with the launch of Telstra TV 2 and more than 1.5 million customers watching AFL, NRL and Netball through the Telstra Live Sports App. We've expanded our digital content range. Most recently, we've secured the rights to live stream all AFL Women matches on mobile and on Telstra TV. We've also recently incorporated Foxtel Now into our fixed bundles offering by far the best range of media content and services in the country.

We continue to expand and deepen our network leadership in conjunction with a long-term strategic investments that we are making. During the period, we passed more than 90 per cent of the Australian population with 4GX which delivers double the traditional mobile speed of standard 4G.

As the demand for data continues to grow, we're committed to maintaining the largest and the fastest mobile network and our continued lead over the competition has been called out in a number of survey results reported in the half year.

The Ookla speed report on mobile networks in Australia which was released in November confirmed Telstra's superior performance well ahead of our competitors as the fastest mobile network in the country. Telstra's Speed Score was more than 15 per cent higher than the next nearest operator. The P3 survey also awarded Telstra the lead in mobile data speeds nationally, even more impressive given the exponential growth in data traffic upon our networks. We scored well on connecting roads between cities and towns, a testament to our regional mobile network investment program. In addition to Ookla and

P3 results, we commissioned a global network performance analyst, Systemics to conduct a comprehensive benchmarking survey of Australian mobile networks. Telstra again scored number one nationally across the four key performance categories of voice, browsing, data and video.

Today, over 99 per cent of all traffic on mobile networks in Australia is data. In 12 independent measures and awards across every year since 2012, Telstra has been rated the best and/or the fastest mobile network in this country. This is our leadership position that we intend to maintain because we know it is what is most important for our customers. Telstra also continues to lead in terms of brand, recognised for the third year in a row as Australia's most valuable brand as measured by Brand Finance.

Let me turn then to the third pillar of our strategy building new growth businesses close to the core.

Network Applications and Services continue to grow strongly with revenue up 14.1 per cent to almost $1.7 billion with continued strong performance in Cloud, integrated services and commercial works. Whilst we experienced the two percentage point decline in EBITDA margins, this resulted from the lumpiness of profitability in this portfolio as a consequence of a large number of contract milestones and contract wins. The underlying trend in NAS EBITDA remains on track and we still expect to achieve our target of mid-teens NAS margins over the longer term.

During the half, we enhanced our cyber security services with the opening of two new security operations centres in Melbourne and Sydney. We have plans to open a further security operation centre later this year in London. We have seen strong demand for our cyber security offering in the context of a market where there is becoming an increasingly important issue for companies and for boards. During the period, we confirmed we're investing in two new subsea cables with connections from Hong Kong to the west coast of the US as well as participation in the Indigo consortium which is connecting Perth, Singapore and Jakarta.

This will continue to support our growth in global connectivity where revenues were up 6.7 per cent on a constant currency basis. EBITDA was down 17 per cent due to one-off costs from intense pricing competition of revenue mix, however, we are on track to turn this around.

Our IoT business continues to be a source of new growth as it is nearing $200 million in revenue, making us one of the most successful IoT businesses globally. A good example of what we're doing in IoT is our recent acquisition of MTData which provides IoT capabilities and services to the logistic sector.

Recently, a partner of ours, Linfox, has selected MTData and Telstra as its strategic partner to install and implement advanced telematics solutions that will provide leading edge, actionable data for them to manage their transport logistics fleet.

Our Smart City Solutions have also gathered momentum with Telstra being awarded contracts from the City of Launceston and the City of Casey in Melbourne to solve modern city problems in parking management and environmental management.

Apart from the acquisition of MTData during the half, we also acquired VMTech which is driving delivery and management of enterprise grade hybrid cloud connectivity and security solutions.

I also want to take a moment to comment on Ooyala following the impairment announced earlier this month. The digital media and Adtech market globally has continued to change rapidly and become more challenging and this has been the primary trigger behind the write down. We're exiting the Adtech market, although Ooyala continues to have assets in digital medial workflow through its Flex product where the opportunity pipeline is strong. When combined with Ooyala's OVP products, we believe we have a set of offerings that we can scale in media services, although not sufficient to support the previous valuation.

We also have complementary assets and capabilities through Telstra Broadcast Services which provide network services and operations to many of the world leading broadcasters primarily focused on live events. TBS is growing strongly and is currently supplying and managing video services for broadcasters around the world direct from the Winter Olympics in Korea. And going forward, we plan to drive business synergies between Ooyala and TBS.

Let me now turn briefly to the progress we are making in relation to our strategic investment program.

We announced in August of 2016 that we would invest up to $3 billion to achieve a material step change in our strategic position recognising the significant growth and demand in network capacity and innovation. We formally launched the program in November of 2016. Approximately halfway into the program from an investment perspective, we have so far invested an incremental $1.4 billion of capex through two major streams – digitisation and networks of the future.

Whilst these two streams are the destination of most of the investment, the program also incorporates our productivity efforts and our customer experience and culture and capability improvements. We expect to achieve the full run rate of $500 million of EBITDA benefit that we committed from the investments by 2021 with a $100 million being delivered from this financial year. We're on track in relation to delivering the benefits in our productivity program, having already delivered almost $500 million out of the total $1.5 billion committed to date.

We're also on track in relation to the three to six point improvement in our episode NPS, but not strategic NPS which is being impacted by the migration of customers to nbn. However, the underlying trends are heading in the right direction and we are confident of our ability to deliver this over time.

I will briefly make some comments on the key foundational investments and deliverables we have so far made before handing over to Warwick.

As I mentioned earlier, the digitisation program is at an early stage, but with some significant quick wins in capabilities already being implemented across the business.

A significant part of our initial focus of the program has been building people capability to support the program with more than 100 data scientists and 30 to 40 per cent of IT projects now being delivered using the agile methodology. In fact, we're on track to have 100 agile teams by the end of the year. The results of what these teams are delivering can be felt in three important areas. In customer experience, in productivity for our employees and enabling new revenue streams.

In customer experience and employee productivity, we have seen improvements through our digital self-service channels with the introduction of Codi, our artificial intelligence based virtual assistant. This allows us to respond more quickly to customer queries and supports a big shift of interactions with customers to digital and self-service tools. Codi now handles pre-paid, post-paid, entertainment applications and general Telstra enquiries and will be extended as it continues to develop. It is engaged with almost 300,000 customers since its launch in October. In addition, around 35,000 nbn customers per month are now using our online order status tracker tool that enables them to review progress of their nbn order and modem delivery digitally. We've also launched a new service which enables customers to directly schedule our field service workforce through digital channels.

These are just some of the examples of the early quick win digital capabilities that we have delivered and overall, in consumer we have seen a 13 per cent reduction in call volumes and a 24 per cent increase in the number of active Telstra 24/7 app users in the last six months alone. This means that we took almost two million fewer inbound calls this half compared to the last half and that's even after taking into account the increased number of calls that have come from the acceleration of the roll-out of the nbn.

In Enterprise, we launched Telstra Connect to enable self-service capabilities for our customers, as well as Expert Finder, a new online capability that enables our customers to connect directly with experts within Telstra to work together on their issues. In relation to creating new revenue streams, in our Enterprise business we're shifting to a new IP enable digital enterprise product set. So far we have launched Liberate, our new digitally enabled unified communication suite which merges fixed and mobile connectivity seamlessly, and the Telstra Programmable Network, which now has more than 150 customers signed up in the last six months alone.

As the digitisation program gains momentum, we have a number of important platform and foundational changes due to be implemented in the coming period that will deliver significant benefits, both in terms of customer experience and productivity. They include transferring all of our customer relationship management

systems to a single cloud enabled Salesforce platform delivering better outcomes for customers and enabling us to shut down five legacy systems. This also includes revamping our eCommerce experience for retail customers, in particular, and significantly improving their online shopping experience and also the delivery of a new unified identity of authentication system for customers.

Turning now to networks. As we have past the halfway point on the network for the future program, I wanted to reflect on some of the achievements to date from the strategic incremental investments that we have made.

We continue to enhance our mobile leadership of our rolling out an extensive small cell program both to support the mobile Black Spot Program, as well as metro densification for coverage and capacity. We have already activated more than 400 small cells with a further 850 planned. In addition, in 2018 we plan to complete more than 1600 macro mobile bills inclusive of new sites, upgrades to existing sites and including under the mobile Black Spot Program.

We have a long history of investing in regional Australia and over the last three years we have invested more than $2.2 billion in our regional network. Last month I was in Wellington Mill in Western Australia switching on the 300th base station under the Government's mobile Black Spot Program. We are building 577 of the 765 mobile towers under this program which represents more than 75 per cent.

I've previously mentioned our Next Gen OSS platform, which is a key element of our network transformation build and we're continuing to invest in this important capability. It delivers real time customer experience, monitoring and impact assessment and recovery capability.

We have substantially progressed with the roll-out of NextGen optical transmission network, which has now deployed the five routes across Australia in five capital cities and we are upgrading our backbone infrastructure to support five times today's capacity on the network.

We're building the platforms we need for the future, including software defined networking and network function virtualisation and of course, importantly, the Internet of Things. During the half we switched on our Cat M1 IOT platform, which is the biggest IOT platform in the country with coverage of around three million square kilometres. We followed this in January with the launch of our Narrowband IOT platform, which is now available over our mobile network in major Australian cities and regional towns. These investments continue to support industry leading mobile differentiation, coverage, speed and resiliency.

We are also well advanced in relation to our progress for the plans for 5G and last week we announced a suite of activities over the next six months on the Gold Coast on what we are calling the Festival of 5G. A key initiative last week was the launch of the 5G Innovation Centre in Southport. Indeed, we made the first call in the world using 5G on a 26 gigahertz spectrum last year and having broken through one gigabit per second speed barrier on 4G, overnight you will have seen in the US we participated in the world's first lab demonstration of a two gigabit speed on 4G together with Qualcomm, Ericsson and Netgear.

We are gearing up for even greater speed milestones in the lead-up to 5G and we will continue to work with our partners on this technology as part of delivering the best network in Australia for our customers. Because we have always led network differentiation, we have always led global transitions to new Gs, to 3G, to 4G, to 5G and that's what we will continue to do.

And the additional spectrum that we acquired in December means we can continue to deliver the best experience for our customers and meet the every-growing demand of data. Some of this spectrum will also support the early evolution of 5G technology beyond the trials that we have planned for 2018. And, finally, we are committed to not only deepen and extend our network leadership but also move the whole platform to be IP-enabled and SDN and NFV operated. And, finally, in the coming months we will also be focused on dramatically simplifying our post nbn fixed network infrastructure to reduce the number of our exchange sites and to simplify our whole network topology. So let me summarise before handing back to Warwick.

As I set out earlier, our results are in line with guidance and we are pleased with the strong performance we achieved in the half, particularly in terms of mobile net customer adds, churn and nbn and all delivered in a highly competitive market for both mobiles and fixed. We have made good progress on our productivity program with a cost reduction of 7.2 per cent in underlying core fixed costs and we are confident that we can continue to deliver against our commitments here. Our productivity program is critical against the background of the acceleration of the roll-out of the nbn which has a material impact on Telstra including $870 million impact on EBITDA which we have absorbed to date.

The impact of the nbn along with increased competition also highlights the importance of our up to $3 billion strategic investment program and we are on track to deliver economic benefits of more than $500 million of EBITDA by 2021. Through the networks program we have implemented significant foundation platform capabilities which are critical not only to supporting data growth but developing a further step change in our strategic differentiation and, critically importantly, supporting long term growth in ARPU. The digitisation program is at an early stage but we have already delivered some quick wins with new capabilities implemented across the business which are already having a positive impact on customer experience.

In our Enterprise business revenue in Network Applications and Services once again saw a strong growth and we believe value will continue to grow particularly as we leverage new areas of opportunity such as cybersecurity and the Internet of Things. As I said in my introduction, we are operating in one of the most dynamic periods the company has ever faced and we need to increase our intensity even further. We're absolutely committed to increasing our focus on continuing to reduce costs, accelerating the strategic program and focusing on future growth. Let me now hand back over to Warwick. Thank you.

MR BRAY: Thank you, Andy. I'll now go through each of the sections on the screen beginning with first half '18 group results. On a reported basis income was up 5.9 per cent, EBITDA, EBIT and NPAT were down 2.5, 3.4 and 5.8 per cent respectively and basic earnings per share were down 3.4 per cent to 14.3 cents. On a guidance basis income was up 5.4 per cent and EBITDA was up 2.4 per cent. NPAT

was up 9.5 per cent to $2 billion and basic earnings per share was up 12.2 per cent to 16.6 cents excluding the Ooyala impairment of $273 million. Depreciation and amortisation decreased by 1.3 per cent and net finance costs decreased by 3.2 per cent basically due to refinancing debt at lower rates, partly offset by lower average cash balances. Income tax was up 1.5 per cent reflecting higher earnings.

On dividend the board has resolved to pay a total interim dividend for the first half '18 of 11 cents per share fully franked. Consistent with our capital management framework announced in August 2017 our first half '18 interim dividend comprises an interim ordinary dividend of 7.5 cents per share and an interim special dividend of 3.5 cents per share. The interim ordinary dividends represents a 71 per cent payout ratio on underlying earnings excluding impairments and the interim special dividend represents a 58 per cent payout ratio on the net one-off nbn receipts in the half.

We expect the FY18 total dividend to be 22 cents per share fully franked including ordinary and special dividend in accordance with our dividend policy announced in August 2017. The basis upon which we provide this guidance is detailed in the slide footnotes.

Moving now to free cash flow which was $1.8 billion in the first half '18 on a guidance basis. Guidance basis excludes M&A and restructuring costs from the prior year. Free cash flow on a reported basis was up $338 million including improved movement and working capital partly offset by increased cash capex associated with our strategic investments.

The change in working capital reduced cash in both first half '17 and '18. First half working capital benefited from: improved movement in payables which can vary significantly depending on financial period end dates versus payment cycles; improved movement in inventories related to nbn network commercial works for the prior period and improved movement from mobile leasing partly offset by higher first half '18 mobile hardware sales; and improved movement in nbns DA one-off receipts. Turning now to income performance by product. Reported income increased 5.9 per cent to $14.5 billion.

One-off nbn DA receipts and connection revenues increased $612 million including growth from PSAA and ISA ownership receipts in line with the progress of the nbn network roll-out. Underlying income increased $126 million or 1 per cent. Mobile was up $165 million including Go Mobile swapped lease income. Fixed was down $276 million, data and IP was down $76 million, recurring nbn DA was up $84 million reflecting nbn co ongoing use of our infrastructure. NAS continued its double digit rate of growth up $207 million or 14.1 per cent and global connectivity was up $30 million.

Turning to expenses where we're delivering against our $1.5 billion net productivity target for the $249 million or 7.2 per cent reduction in underlying core fixed costs in the first half '18. This means that the results of our costs productivity programs more than offset inflation, increased power costs and reinvestment. We continue to focus on productivity that improves customer advocacy, improves internal processes and takes cost out of our business. Our company wide productivity efforts have now delivered almost $500 million cumulatively from the project to date.

Looking across our first half costs in total, there were three main factors that marked the underlying core fixed cost decline. Firstly, increased nbn costs including CVC AVC costs of $248 million and one-off DA and cost to connect of $97 million. Secondly, increased NAS costs of $218 million which support growth in NAS revenue and, thirdly, increased mobile hardware costs as a result of increased sales and device prices. Mobile hardware margins in dollar terms was broadly flat on PCP.

The average nbn net cost to connect per customer in first half ’18 was broadly flat on PCP. On this path we had a prior proportion of business connections which are more expensive. We continue to focus on reducing that unit cost. Currently our reported nbn cost to connect includes some cost for the business as usual nbn connections. The amount that is business as usual has fallen and will contribute to tens of millions of dollars of additional cost to connect in FY18. In FY19 we plan on revising our nbn cost to connect to capture only nbn migrations from legacy networks and ensure that the one-off nbn cost to connect is there at the end of the migration to nbn.

Turning to product EBITDA performance, overall we saw an increase in EBITDA on a guidance basis up 2.4 per cent to $5.315 billion. Underlying EBITDA was down $389 million. A negative recurring influence of the nbn for this half was approximately $370 million. This means we’ve absorbed $870 million of the nbn impact to date.

The impact of the nbn on our recurring EBITDA includes increased CVC AVC payments for nbn co, increased recurring nbn receipts, for example, ISA, some of the reductions in fixed, voice and data and IP revenues including wholesale and cost savings on our legacy networks. First half ’18 nbn impact of approximately $370 million included $248 million increased network payments to nbn co and around $200 million other reduction in fixed EBITDA, including wholesale offset by $81 million increase in recurring nbn receipts. Outside recurring nbn impacts remaining core was down approximately $15 million. We will go through this on the next slide. New business EBITDA was down $4 million, excluding impairment and one-off nbn EBITDA and nbn cost to connect were up $515 million in line with the nbn network roll-out. This included $612 million of increased income, including re-training, partly offset by $97 million of increased costs.

Turning to recurring core product EBITDA performance. Starting from the bottom, the difference between the reported EBITDA of $5.061 billion and the recurring core of $4.372 billion is the guidance adjustments, nbn one-off and new businesses. Our recurring core EBITDA was down approximately $15 million, excluding the $370 million recurring impact from the nbn. Mobile was down $13 million. Data and IP was down $47 million mostly due to legacy migration. NAS was down $11 million impacted by timing of major contract milestones and global connectivity was down $22 million. Other core was up $74 million increased nbn commercial works sale of assets, and lower restructuring costs in first half ’18, partly offset by a lower direct contribution from media.

Turning now to our performance by product. Mobile revenue was up 0.8 of a per cent on the prior corresponding period, including net SIO ads momentum and hardware growth. During the half we added 235,000 retail mobile services, including 130,000 to post-paid handheld services. We added 21,000 Belong mobile

and 118,000 wholesale mobile services in the half as we successfully execute on our multi-brand strategy. Post-paid handheld revenue declined 1.1 per cent with Q2 SIO momentum offset by ARPU ex MRO decline of 2.9 per cent.

Post-paid handheld ARPU was influenced by competition and some one-off impacts. We're continuing to see customer migration to higher minimum monthly commitment plans in consumer. However, this has been offset by lower out of bundle revenue. By segment, sequential post-paid handheld ARPU growth was achieved in consumer in second half '17. This reversed in '18. Business and enterprise ARPU also declined sequentially in first half '18 due to reduced out of bundle revenue including from roaming. Post-paid mobile handheld churn of 10.9 per cent continues to be low by international standards.

Rate of mobile broadband revenue declined in first half '18 improved from 8.6 per cent on PCP to 1.7 per cent sequentially. This includes revenue growth from post-paid services sequentially offset by continued decline in pre-paid. We had 34,000 mobile broadband services in the half with post-paid SIO growth from tablet and entertainment offers in consumer and continued demand for the productivity benefits of tablets and the Nighthawk device in business and enterprise. Post-paid mobile broadband ARPU declined only slightly in first half '18 on '17 with the introduction of new offers and Foxtel Now content inclusions. The decline in pre-paid unit users and ARPU continued as customers substitute pre-paid mobile broadband with mobile handset tethering.

And in media, over the last year we've seen more than a three-fold increase to over one and a half million customers who have activated our Sports Live pass. Machine to machine revenue grew 7.4 per cent on PCP with 158,000 SIOs added in the half. We continue to see growth in machine to machine with new solutions being implemented in verticals, such as logistics, utilities, health and financial services.

The mobile EBITDA margin decreased one point to 40 per cent, including the impact from post-paid handheld ARPU reduction and some one-offs.

Turning now to fixed line, where we added 57,000 retail bundle customers during the half. 90 per cent of our retail broadband customer base are now on a bundle plan, many of which are on our entertainment offers, including Foxtel from Telstra. We launched Telstra TV 2 on 31 October and now have almost 1.1 million devices in market. Total fixed data revenue declined 1.5 per cent with retail growth offset by increased nbn migration of wholesale services. Retail fixed data revenue increased with 21,000 net subscribers added in the half, including through Belong. Fixed voice revenue decline increased to 12.7 per cent, including wholesale. Across retail customers we're continuing to focus on retention and benefits from bundling.

Demand for our nbn services continues as we focus on delivering a greater customer experience. During the half we added 454,000 nbn connections bringing the total nbn connections to 1.63 million and a 51 per cent share ex-satellite. Fixed voice margins fell by 12 points and fixed data margins fell by 17 points. Fixed margins were negatively affected by one-off costs of connecting customer to the nbn network and growing nbn payments to nbn co. In the half, we've reduced the unit cost for our nbn customers by 17 per cent on PCP. Excluding nbn related items, the fixed data margin was down approximately one point on PCP, including the impact from mixed

shift to retail. Across fixed, as you heard from Andy, we've taken bold steps to win customers, including the launch of unlimited data on higher end plans and doubling data on all other plans.

Turning now to data and IP, where revenue declined 5.5 per cent reflecting IP customer wins, including volume in connection growth in IP, VPN and MAN, offset by legacy declines across ISDN, IP WAN and calling products. ISDN declined 12.9 per cent. We expect further acceleration and decline as migration to contemporary products, including nbn continues. Our EBITDA margin of 59 per cent was maintained.

Turning to network applications and services or NAS, which grew double digit or 14.1 per cent to almost $1.7 billion in revenue for the half. NAS EBITDA decline due to the timing of major contract milestones and timing of some costs. Our NAS business is subject to short-term variations due to these major contracts and their associated milestones. Exclusive of those milestones and one-offs, our underlying NAS EBITDA performance continues to improve and supports our commitment to mid teen NAS margin at maturity through increased scale of standardised offerings and lower unit costs.

Turning to global connectivity, which consists of our enterprise business outside Australia. Revenue grew by 6.7 per cent in local currency with customers continuing to respond well to the scale reach and low latency of our products. Global EBITDA declined in the half due to the revenue mixed shift towards lower margin products and yield pressure. In first half '18 these impacts were more experienced in the first quarter. Our second quarter performance was more encouraging. We focused on returning to growth.

Turning to Foxtel. Foxtel revenue decreased 2 per cent with broadcast and now subscribers growing 3 per cent on the prior corresponding period. Foxtel EBITDA decreased 16.7 per cent due to lower revenue and continued investment in programming. In Telstra's books we commenced equity accounting for Foxtel from the end of September 2017 following the capitalisation of our Foxtel loan.

Turning to our capital position. Gross debt remains largely flat due to first half '18 of term debt being offset by debt issue and short-term funding. Net debt increased by half a billion dollars as a result of funding the strategic capex and working capital. As a result, our gearing increased to 52.5 per cent, including impairment.

Our financial parameters remain within our comfort zones and consistent with an A band credit rating. Our average gross borrowing costs reduced to 4.8 per cent and debt maturity was 4.4 years. Capex to sales was 18 per cent and we remain on track for FY18 capex guidance. Our capex numbers include around $60 million of non-cash capex relating to data centres that we won't fund until 2023. Excluding impairment, first half of '18, return on equity was 27 per cent and return on investor capital was 14.2 per cent, well above our costs of capital. Our future ratios will continue to be influenced by the challenging mix in our major products as well as reduced profitability in our fixed business.

Turning now to guidance. Consistent with our announcement on 1 December '17, in FY18 we expect income of the range of $27.6 to $29.5 billion and EBITDA of $10.1

to $10.6 billion. Guidance for EBITDA is after absorbing incremental restructuring costs for $200 to $300 million to support productivity. We expect net one-off nbn DA receipts less nbn net cost to connect of $1.4 to $1.9 billion and we expect to spend capex of $4.4 to $4.8 billion dollars or approximately 18 per cent capex to sales. We expect free cash flow to be in the range of $4.2 to $4.7 billion. As is usually the case, the basis on which we provided guidance is detailed in the slide footnote.

Thank you. I will now hand back to Nathan to moderate Q and A.

MR BURLEY: Thank you, Warwick. We will now move to questions. We will start with questions here in the room and then I will move to the phone line. But first up, Andrew Levy from Macquarie.

MR A. LEVY: Thank you. Just three questions from me. The first one, just if we could get some colour on the trajectories of the mobile business exiting the period. There's obviously a lot of competition in November and December months, just interested in the trends as you're exiting the half because it looks like the ARPU declines are a little bit worse than what you were talking to at the strategic update. Related to that, just wondering if you had a view on when we might see the excess data headwinds stabilise – just to get some colour on that. And then the third one is just an update on the Foxtel deal and how that's progressing and when we might expect to see some announcements around that. Thank you.

MR PENN: Well, thanks, Andrew. I just might make a couple of comments on mobiles and then also ask Warwick to add and then I will come back and deal with the Foxtel question. The way I would describe the half is we did better in the second quarter on net adds than in the first quarter and certainly, had a very strong Christmas period – did really well in iPhone. But the ARPU decline was greater in the second quarter than was in the first quarter which was partly behind your question and Warwick will give you a breakdown of that. But one of the dynamics that we're seeing at a macro trend in the market is this increasing shift to BYO and certainly ARPUs on BYO plans overall are lower and it's the mix of that that has an impact obviously at a headline, and that's just a trend that has continued. Warwick, do you want to add any further comments including the extra data component which was your other question.

MR BRAY: Yes. So if we stay with post-paid handheld. What happened in the half was consumer ARPU which had been a positive in quarters before then, turned to a slight negative. So consumer ARPU was doing the work up and then the business ARPU was a slight decline. What happened in the half is that consumer ARPU turned from a positive to also a slight negative. What was going on there is firstly, MMC continues to do well, so joiner/leaver/stayer ARPU was still positive in Swap and MRO. But what's happening is there was a few more additions at the BYO level which is a bit lower.

But the second thing that went on in consumer is that there's three types of data out of bundle revenue. There's the older per megabit plans, there's data packs and then there's excess data which is the $10 of gig that we charge. Excess data went from a positive to a negative and the reason for that is the larger inclusions in the plans which are great for customers but had some effect. What happens in the business

ARPUs is that they were broadly consistent except for Premier which is the middle size of mobile business and that was a bit more competitive.

Look, the other thing that I would draw your attention to is it was a very successful Christmas quarter in terms of SIO additions. So if we look relative to where we were before SIO additions were a bit stronger, ARPU was a bit weaker. And the other thing on mobile in general, I would continue to point to the mobile broadband business which is a business that we've been aiming to stabilise for a number of years now and I won't declare victory there, but it was much more stable than it has been in the last few years. And that's fantastic because it's customers in business taking up the productivity benefits of tablets and the Nighthawk device, and it's consumer customers carrying around connected tablets. And what has happened there is that the drag from dongles has been a bit less.

MR PENN: Thanks, Warwick. And look, just finally, a couple of other points on mobile from me and then we will go to Foxtel. The Nighthawk device, by the way, was the one which we did the overnight speeds for two gigabits per second on, so that was pretty exciting. The other thing I would say, and this is something that we've been seeing is that there's definitely more of a bifurcation in the market towards premium, price sensitive and a middle market and that's absolutely what has been behind our shift to a multi-brand strategy. That multi-brand strategy is having very significant success. You've heard some of the numbers from Warwick, but we launched mobile Belong in September. That has been fantastic. We've got 21,000 net new adds since launch and, of course, for our wholesale mobile business which we launched two or three years ago we took in another 118,000, so we've really been very successful in that sector. And I think in wholesale, I know we probably account for two to three per cent of the market overall. So that has been very positive.

On Foxtel , I don't have a great deal more to add to that which was added by Robert Thomson, the CEO, when they gave their announcement last week or – I think it was last week. Essentially, the critical regulatory approvals such as FIRB and the ACCC have been approved. It's quite a complex transaction. I can't remember how many definitive agreements there are, but there's probably about 10 or 11 just because of the nature of all of the inter-relationships and the complexities of that. And so the thing that's still not yet fully complete is the detailed – drafting - detailed definitive agreements which give effect to all of that, but hopefully we will be able to complete that soon.

MR BRAY: The next question is from Raymond Tong from Evans and Partners.

MR R. TONG: Good morning, Andy, and morning, Warwick.

MR PENN: Hi Raymond.

MR TONG: Just a follow-up question on the mobile business. Warwick, you mentioned in the presentation, there was some one-off impacts on ARPU and also in the EBITDA margins in this half, can you maybe elaborate on what they are and what impact they had on ARPU during the half.

MR BRAY: Yes. So ARPU is an annuity line in our account, but even in an annuity line, there is some volatility, partly associated with the timing of some of the

revenues that we expect to receive. In terms of the one-off impacts in total, what we would describe as one-off impacts would be in the mid-twenties, so $40 – 60 million.

MR TONG: Thank you. And just on the Belong launch, can you talk about maybe what kind of ARPUs you've seen on that at the moment, are customers skewing towards one particular plan where there's, $25 or $40 plan and can you may be give an update on the cannibalisation of the retail brand. I think at the Investor Day you were saying that it's less than 10 per cent.

MR PENN: Well, I think there's two different things. One is mobile Belong and the other is Belong obviously in fixed. And in fixed, definitely, the cannibalisation has been around 10 percent. It's a bit higher in mobile and I think that's a function of bifurcation of the market. We haven't disclosed that number, but it's actually below what our business case assumption is and so it definitely supports the strategy. On the Belong ARPUs we haven't separately disclosed them. I don't actually have any colour to provide on that, do you, Warwick?

MR BRAY: They're in line with the business case but we haven't separately disclosed.

MR PENN: Yes. So – the point is we're definitely seeing a market which is separating. And, of course, as new competitors come in, what's critically important is that we're positioned very strongly, that we're competing appropriately in the market. And Telstra brand is a very premium product; we've got the best network, the fastest network, the greatest coverage – a lot of really valuable content in there from a media point of view and services point of view and it's important that we reflect that in the ARPUs for that. And then similarly Belong is a much more digital model. It doesn't have the full access to the same network and so they're positioned differently in the market.

MR TONG: And just a final question. Andy you mentioned you're halfway through the $3 billion investment capex program and you said that you're going to get around $100 million of benefits this year out of that $500 million. Can you talk to what you're seeing, whether that's revenue, costs and what areas of business you're benefiting from.

MR PENN: Sure. And I said we're almost halfway through from an investment perspective and the bulk of the program initially has been putting in a lot of what I would call foundational capabilities around the network. The sort of things that they will support in the long-term is, for example, taking us to a much lower cost base, in terms of ongoing capex into the network, so that's going to be critically important. We're going to deliver greater volumes, greater capacity at lower cost or lower capital investment. That's also going to be accelerated through the roll-out of 5G.

The whole shifting to an IP based NFV/SDN will actually improve the operational efficiency of the network as well, as well as provide better resiliency, overall self-correction, and so that will improve on the operating cost side.

But then also some of the platforms that we're seeing that we want to build capability for, such as IoT. They're going to drive new use cases in revenues. And one of the things – there's no doubt that the mobile market and the fixed market is very

competitive at the moment. I mean, overall from consumers it's a fantastic thing because prices are coming down per gigabit of data and more data allowances, but having said that, what we have seen in 3G and in 4G is actually a big benefit to the industry and we move to these new technology platforms and they drive new use cases and drive further revenue.

And then on the digitisation side, it's obviously at a much earlier stage and most of the investments to date have been in what I call the category of quick wins, but they're providing a better customer experience which helps retention and ultimately, sales, but also a significant reduction in costs and I've quoted the call numbers down two million in the half year on half year. So I would say that overall the cost benefit is going to come earlier than the revenue benefit and that's probably where the run rate is initially going to come from, but I'm optimistic that over time it's going to provide new scope with revenue opportunities on the network side and better customer experience all round.

MR TONG: Thanks, Andy.

MR BURLEY: Thanks Raymond. We will go to the phone lines now, and our first question on the phone is from Kane Hannan from Goldman Sachs.

MR HANNAN: Good morning, Andy and Warwick. Just two from me to start things. Just on the productivity program again. Given the acceleration in the fixed costs declined in the half, given you haven't changed your longer term targets, just how we should be thinking about that run rate from here. And then on the fixed line business the big step down in margins on the data business. Just talk about the impact of that from the upfront cost of connecting versus the network payments to nbn, so how we should be thinking around the underlying margin in that business. And then just on the sub growth there, just whether the underlying core brand for ex-Belong whether that actually grew in the second quarter.

MR PENN: Sure. Sorry. Just making a note. So let me make a couple of comments and again, I will ask Warwick to comment as well. I mean, in terms of the productivity program, as you know, we increased our long-term productivity target from $1 $1 to $1.5 billion in the second half. I think as we continue to see competition intensity in the market and also we continue to see some of the emerging opportunities as a consequence of the strategic investments we make, we're not putting out a new target, but I am sending a message that says we're conscious that we need to do more and we think we can do more.

If we're in a position to provide a new target, we will do that in due course. And it goes to the point around fixed, because obviously, at the moment the trajectory for the industry on fixed margins is obviously quite negative in the transition to the nbn, predominately as a consequence of very significant wholesale broadband prices, where notwithstanding the new pricing constructs that have come through, we saw the average cost of our access go up reasonably materially in the half in unit terms, as well as obviously in absolute terms. In absolute terms is was up a quarter of a billion dollars, but in unit terms it was also up as well, so that's going to put a headwind in, but I will hand over to Warwick.

I don't think we provide separate disclosure in relation to again, Belong and the main brand on net subscriber adds. He will be able to clarify that for me, but I might pass that over to you, as well as any further comments on the underlying margins and productivity.

MR BRAY: Yes. Thanks, Andy. So I will just speak to fixed data. So excluding the nbn impacts, our fixed data EBITDA margin was down one percentage point and in terms of within fixed, the nbn cost effects, they were CVC/AVCs increased by $248 million and one-off nbn DA and cost to connect increased by $97 million, so that was that breakdown.

MR HANNAN: Okay. Thanks. And sorry, just one other question. So Bill Morrow, earlier in the week, talking about the nbn ARPU, and backing away from that $52 ARPU target. Does that have any impacts on your $3 billion forecast impact from the nbn all in?

MR PENN: Well, I think Kane, in the long-term, it really just depends on how that plays out in the market and my comments have always been that what's critical for customers in the long-term is that wholesale prices are set at a level which is affordable to customers. And clearly the significant increases in the migration of the nbn of wholesale prices isn't going to lead to affordability for customers. So it's great that nbn are taking a step in the right direction. Whether that ultimately changes our $3 billion outlook, look, I mean, I think, to be honest, it's relatively marginal and, of course, it also depends in terms of how the market responds and how much of the benefit of that goes to the customer, which I think is more likely in the short-term.

But I think if we can move to a better wholesale pricing level over the longer term, it's going to be much healthier for both the customers in the long-term, because it means their RSPs will be able to invest in great product and it will also be better for the operators as well. But I think it would be too – I mean, it's a step in the right direction, but it's too on the margin to force us to change our estimate of the $3 billion.

MR HANNAN: Thanks very much.

MR BRAY: Yes. And just mathematically on that question. Part of what the $3 billion turns on is our estimate of future profitability on the nbn and that is some function of our ARPU, the nbns ARPU, so the difference between those two and our costs to serve., And so to the extent that that margin widens, yes, that would reduce the $3 billion, but we're not changing that estimate at this stage.

MR BURLEY: Thanks, Kane. Our next question comes from Sameer Chopra from Bank of America Merrill Lynch.

MR S. CHOPRA: Morning. I had two questions. One is on net debt and the other one is on – it's just looking at mobile broadband. Just on net debt. Warwick, net debt increased in the half to $15.8 billion. I was wondering what are your thoughts around how this will track over time, particularly given now the nbn one-offs help with debt servicing, but they come off over time, so we were looking for net debt to keep tracking down, but if you could give us a sense around what's going on with net

debt. And then the second question was mobile broadband, there are signs that things are stabilising, like sequentially the revenues are stabilising. Your sense around is this a new stable position or could you grow mobile broadband towards the back end of this year? Thanks.

MR BRAY: Yes. Thanks, Sameer. Look, I will refer you to my comments at the investor day in November, where I said that over the next two to three years we would expect that the cash equivalent of the accounting earnings per share to be lower for a number of reasons. One of those reasons is build-up of working capital as the nbn accelerates. The second of those reasons was the difference between our strategic capex and depreciation. Strategic capex being higher. And the third of those reasons being spectrum. So what has happened in this half is two of those reasons have influenced the increase in net debt. There hasn't been a significant spectrum increase. What has happened is working capital has increased $420 million and an important part of that was the nbns acceleration and, of course, we received – in cash terms - we received the receipt quarterly in arrears. So that's $420 million.

The second thing that went on is that our capex with the strategic capex was higher than our depreciation by $363 million. And then the last thing that went on is that in the half that just finished we declared the dividend at 11 cents but we paid the equivalent dividend of 15.5 cents and the difference between those two is $534 million. So they were the three effects on our debt. And, as I mentioned at the investor day, we would expect that our cash earnings to be lower than our accounting earnings for the next couple of years.

In terms of mobile broadband we're optimists about mobile broadband in the long term so I do see a future where every sales force, every field force is carrying connected tablets. We've had great reception from our Nighthawk device and people get a lot more out of a tablet in a consumer sense when they're carrying it around and it's a connected tablet. So that's in the long term. We've been working hard to stabilise the category and so I would use the word "encouraged" but I won't make any predictions for the next year or so.

MR CHOPRA: Just a quick follow up, Warwick, just on – so in the second half of '18 – and that's financial '18 – we will have slower nbn migrations so does that mean that the working capital will be reversing itself? Is it likely that I can see that – the positive impact that you're talking about that's cash increases as the nbn comes to an end, that that will be evident later on this year?

MR BRAY: Yes. Look, that will be one of the effects. There are more effects than that in working capital and I would note that the equivalent increase in working capital last year was $900 million and this year $420[2] million and so it has improved. I won't get down to guidance on that individual level but that effect would be a positive towards lower working capital.

MR CHOPRA: Thank you.

[2] Verbatim $460m

MR BURLEY: Thank you, Sameer. Our next question is from Eric Choi from UBS.

MR E. CHOI: Hey guys, thanks for the questions. I just have three, if I could. The first one is just on the mobile margins and I was just wondering if you can comment if the shift from MROs to mobile leasing actually helped the margin during the period and by how much. And you've also told us that the leasing comes in at $165 million; we're just wondering if you can tell us what the offsetting, recurring recurring lease expense is. So that's the first question. The second one is just on NAS and you've called out that revenues are up but EBITDA is down and you've called out contract milestones; I'm just wondering if we can get some more colour on that. Is that, like, credit that you're paying to suppliers or is that, like, a step up in the underlying cost base. And then just the last question is on nbn data ARPUs. I think you disclosed these at FY17 but I couldn't find it in the current release so I'm just wondering if we can get an update on what's happening to those nbn ARPUs and also whether your existing $3 billion gap assumes stability in that nbn ARPU. That would be great. Thank you.

MR PENN: Thanks, Eric. It sounds like most of those are at a detailed level. I might get Warwick to comment on them and just a couple of things from me though. I mean, I think on NAS, as Warwick said in his presentation we're very pleased - strong growth in NAS, up 14 per cent, strong performance in cloud, integrated services, commercial worth. We have no concerns in terms of the underlying trajectory of our path towards mid-teens EBITDA margins on NAS. The way in which these contracts work is that the accounting for the contract is basically linked to milestones.

A number of the contracts are very large, they're with big government departments as well as very large enterprise companies – enterprises in Australia, rather, and that does create some lumpiness particularly around the end of the fiscal year. So you might be signing some contracts just before 30 June which is quite a – in fact, I think, as you know, you get that lumpiness coming through. So it does shift the margins around and so to confirm, there's nothing underlying there. We're very pleased with how NAS is continuing to perform.

I commented a second ago on the nbn data ARPUs. As I say, I don't think any – either the recent price changes and the CEO of the nbns comments last week which I think were referenced by Kane, or our own ARPU experience at the moment is causing us to go back and re-look at the $3 billion. It is obviously an estimate over time and I think it's – certainly wouldn't be revising it down where the markets dynamics are and we don't have any cause to change it at the moment. But I don't know, Warwick, if you can provide if we have actually disclosed what we're paying nbn per customers in the accounts. I can't remember, to be honest. Now we're obviously tackling the leasing and MRO point on mobiles.

MR BRAY: Yes. So on the mobile margins the swap –the change to swap has flattened the mobile EBITDA by $10 to $20 million so not significant. In terms of the highest level our mobile hardware margin – in an economic sense cutting through any change in accounting it's broadly flat year on year. What I would say is that the unit subsidies have gone up and so that will have some effect in the future. In terms of the lease – the lease cost and the lease expense they don't quite offset and the

difference is the subsidy and we can point out where in the accounts they are. And I don't believe we've just declared our nbn ARPUs this half.

MR PENN: But I did comment a moment ago just on the record, I mean, so they are up. I didn't quote by how much but I think in line with the rest of the industry and, as you see, notwithstanding the fact nbn have said that they don't expect to get to $52 by 2021 the trend is still up, not down.

MR CHOI: That's helpful. Thank you very much.

MR PENN: Thank you.

MR BURLEY: Thank you. Our next question comes from Ian Martin from New Street Research.

MR I. MARTIN: Good morning. Just three questions, if you wouldn't mind. In the mobile performance I just wonder to what extent MVNOs were a factor either in the improvement in subscribers in the second quarter, or the dilution in average revenue. Secondly, we're into our third month now of the HFC delay. I just wonder if there's any update on the expectations you announced back in early December and what your thoughts are on that HFC impact going forward – how you see that playing out.

And, thirdly, Andy, you mentioned expectations of increased competition in mobile networks, also a bifurcation in the market between high value and low value and at the same time, of course, we're getting investment in 5G networks now and discussions about launch of service and so on. I just wonder if you can perhaps share some thoughts on how you see that 5G market playing out. It seems hard to believe that we could have three or four successful 5G network operators. Thanks.

MR PENN: Sure. Thanks very much, Ian, and great to hear from you. A couple of things – so, firstly, in relation to mobiles, just to clarify. So we added 235,000 net new retail subscribers. That doesn't include our wholesale subscribers. That was an incremental or an additional 118,000 subscribers from our wholesale business through our MVNOs which have performed very very strongly in the market relative absolutely to other MVNOs. And neither does that number – or, rather, does the MVNO business and the wholesale business in any way impacts the ARPU that we quote. The ARPU that we quote is postpaid handheld so it's not – doesn't affect that.

In relation to the HFC delay I don't have any further update, I'm afraid. I don't have any more news as to either where nbn are at in terms of the investigation of the underlying root issues or when they will further update the market in relation to their expectation of when they would recommence sale of HFC. As I recall, they quoted a six to nine month delay when they announced it at the final quarter – the beginning of the final quarter of last year so if you assume it's the nine month period and then one would expect it not really to have any – we wouldn't expect any recommencement of that. That's what we're planning for in the current financial year and then we will obviously have to take into account the impact in our financial 2019 year if and when we hear further, presumably in the coming weeks and months.

On increased competition and your point about 5G, I mean, there's no doubt 2018 is going to be a very important year for 5G from a global perspective. I mean, first and

foremost there's obviously a lot of excitement about 5G, but the first thing that has to happen is actually all of the various different participants in the industry have to agree a set of standards around the technology before anyone can launch anything, so one needs to put that in perspective. And so that means the chip set manufacturers, the radio access equipment manufacturers, such as the Ericsson's and the Samsung's and Nokia's of the world.

The handset manufacturers, Apple and Samsung again and Google and then, of course, the operators around the world. The regulators have a point of view as well, and so there is a global industry standards body which we are actively involved in, and, in fact, we're hosting called 3G PP that will be meeting on the Gold Coast in September of this year. It's not guaranteed that they're going to agree what the global standards of 5G are, but just given where we are in the overall cycle, our point of view is that's going to be quite a pivotal meeting. And so once global standards are established, then all the various different equipment and participants can actually start building the equipment in accordance with whatever those standards are.

And it's not until you get to that point, operators like us can actually buy equipment and roll it out and commercialise it, and so that's what I think is influencing the talk around timetables as being commercialisation from about 2019. I think, in terms of your point there about the use cases and where we see that technology going, I think there's two or three aspects to it. Firstly, the technology will just be another progression in the efficiency with which we can both deliver speed and capacity across mobiles and that's critically important to continue to deal with increasing data speeds. Sorry, data demand. Data demand continues to grow and as streaming services continue to grow and if they move from high def to 4K type movies, you're going to need that more capacity in bandwidth and speed and 5G will be able to deliver per megabit of data transmitted, the capex will be relatively more efficient, and so that's going to be important. So that's one important angle.

Related to that is the extent to which more customers go to mobile as opposed to fixed. There's no doubt that there will be a trend in customers that only want a mobile connectivity from internet, and so that's going to likely proportionately push up the amount of traffic that's on mobile networks relative to fixed, and so again, that's a capacity speed issue.

And then, of course, the third area is really around the new revenue opportunities, particularly in the enterprise space around the Internet of Things and connected devices and sensors, rather than just connected phones and tablets, etcetera, and we've rolled out our Cat-M1 network and also our Narrowband IoT network on 4G and 5G will be a platform that we can leverage to further extend those. As to whether each of the operators can afford the level of capex that will be required to continue to upgrade their networks and meet that capacity. I mean, obviously you monitor the industry very closely, and so you would have a very good sense of that, but obviously it's going to require continued investment and that's what we're committed to do.

Which is why we're making a lot of foundation investments we are making now, and by the way, it's not just about at the access layer at the 5G boxes on the tower and the spectrum. It's also actually in the backhaul. We have more than – I think it's 93, 94 per cent of our towers have fibre to them. We've upgraded our optical

transmission network to provide for more capacity, so it’s critical that you’ve got the capacity and the speed at the access layer, but you’ve also got to have in the core as well, and that’s where we’re making material investments as well.

MR MARTIN: All right. Thanks, Andy.

MR PENN: Thank you.

MR BURLEY: Our next question is from Eric Pan from JP Morgan.

MR E. PAN: Good morning, guys. Thanks for taking my questions. First one. Just to follow on the productivity effort. You stated that you achieved about $500 million of cost out so far, but on paper costs were up again over the year and sequentially. It seems to me that you’re in a position where you’re pedalling harder but still falling behind. Can we actually expect total costs to come down eventually and when? And then the second question is on capital management. Now, that the securitisation is off the table, what do you plan on doing with the excess cash on the nbn payments as they come in? Would you consider regular share re-purchases once you accumulate enough franking credits?

And lastly, on Foxtel, can you elaborate on your media strategy in light of the merger and a subsequent planned IPO, as Optus has demonstrated it has had success with the media bundle strategy. Do you plan on moving deeper into content ownership or the other direction? Thank you.

MR PENN: All right. No, look, Eric, thank you for those questions. I mean, firstly on the cost point obviously Telstra is a very broad business, but I mean, the big fundamental things we need to be aware of is that as a consequence of the government’s decision to shift to a national broadband network, we essentially moved from being the wholesale provider of fixed networks in Australia to being a re-seller, and like everybody else, we have to acquire those services from nbn. The total expected costs that we will have to pay nbn over the longer term once we get to the full roll-out, per annum, in terms of CVC/AVC charges, it’s somewhere in the region of two and a half to three billion dollars per annum, so we have a big underlying cost driver which is fundamentally just a shift of the industry model which is driving costs into our business.

The second big area that drives costs up in an absolute level in our business is, of course, our very successful network applications and services business. So that is now – we just reported $1.7 billion worth of revenue, so roughly on an annualised basis that’s a three and half billion dollar business growing at double digits, and so for every – if we’re aiming for mid-teens EBITDA, it means for every $100 million worth of revenue, we add $85 million worth of costs, which is a good thing because it’s driving profitability and value into the business. So we’ve got a couple of really big drivers of costs at an aggregate level and then what Warwick is doing is driving a productivity program across the company that makes sure that we drive efficiency into the rest of our business and that’s where we’re measuring our cost out, where we deliver the quarter billion in the period down seven per cent.

So you are going to see this dynamic where we’re delivering real meaningful productivity, and I should say against the background, that 7.2 per cent is net after

taking account of inflation, taking account of a very significant increase in our energy costs, taking account of increase in customer numbers, so, on the one hand, we're going hard on productivity, but there is also a structural change happening in our business as we shift to the nbn and as we shift more services, but that would be the first point.

On the capital management, I think just on the franking credit point, I think philosophically we have a point of view that there's – that we should endeavour to give franking credits to our shareholders as efficiently and as quickly as we possibly can, and that's what we will do. There's more than one mechanism to do that. Obviously, we do it by virtue of the dividend that we pay, but also we've done it previously by virtue of market buy-backs and we've done off market buy-backs which is another mechanism to do that. At the moment, as I think Warwick has said, is our free cashflow capex is higher than our depreciation just because we're at an elevated level of investment, so where a lot of the investment is going at the moment is supporting our strategic investment program. We've done some acquisitions in the period relatively small in the scheme of things, but over the longer term, we will definitely keep an open mind to capital management opportunities.

On the last point on Foxtel, our strategy on media is very, very clear. We see media as a critically important overall component of the value proposition for telecommunication customers. We're a telecommunications company and media is very important. It helps enhance sales. It helps improve retention. It's what customers want. So our strategy is to be able to provide differentiating media offerings to our customers as part of our overall telecommunications services. We do that either by virtue of the fact that we own content directly ourselves. We own all of the mobile rights on the major sports in Australia; AFL, NRL, netball.

We do it also by virtue of our very close relationship with Foxtel and Fox Sports, where we essentially are the main distributor of all of their products from a telecommunications perspective and we do it also by virtue of other relationships. For example, we distribute Apple music in Australia on an exclusive basis as well from a telecommunications perspective. So we will continue to look at ways in which we can differentiate our telecommunications offers and services using media but we're not seeking to become a media company; we're not about to go into production. Will we buy more content directly – possibly but I think the important point is – the point about the Foxtel and Fox Sports relationship and the importance of the merger of these two companies is we don't necessarily need to buy content because we can access the content from the best media company with the best content in Australia and so we will continue to do that as well. And so that's very much what our media strategy is all about.
MR BRAY: I might add some extra numbers on the first answer which is about the costs that have come into our business. As far as the first bucket of costs – so the costs caused by – to us by the nbn, in terms of recurring costs that was $248 million of extra CVC /AVCs and $97 million is one-off costs so in total there's $340 million of extra cost associated with the nbn of which the $97 million will go away.

The second bucket of costs that Andy mentioned was costs brought in by network applications and services that are profitable costs but they are costs nevertheless so that was a $200 million increase in our costs.

The third area I would point to is mobile hardware. So mobile hardware revenue went up $100 million in the half and that was a combination of we sold more phones and it was a higher unit cost per phone. And if you just take the hardware line itself it was net - broadly economically neutral relative to the previous half. However, it brings SIOs that we get ARPU from. And so they're three examples of costs that come in. We control each of them as much as we can but they add to the overall cost number.

I just also just point out on my previous answer on cash, the other thing I should have added is if you look at our cash flow through the years it's broadly 40 in the first half, 60 in the second half and that's because of the seasonality of mobile and so we would expect better free cash flow in the second half than the first.

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MR BURLEY: Our next question is from Roger Samuel from CLSA.

MR R. SAMUEL: Hi. Morning, guys. I've got two questions. The first one is just on USO reform and what do you think is the most likely outcome of the review and what's the potential impact on your future earnings. The second question I have is on Foxtel so I notice that you started to recognise the share of net profit in its results from September onwards so how should we be thinking about this line item? Is it ongoing and we should start including this into our forecast in light of – just conscious of the potential merger of Foxtel and Fox Sports as well. Thank you.

MR PENN: Sure. I will get Warwick to talk on the Foxtel accounting a little bit in a second as well, Roger, so thank you. Look, on the USO, I mean, as I said in my opening address, the bottom line is that we provide – we have an obligation to provide a basic telephony service to every home in Australia and we have done that for a long period of time and we will continue to do that and we have a contract to do that with the government for at least another 10 or 15 years.

The government has recently announced it would like to review how that works and that's entirely appropriate because as technology changes there may be ways to provide that service more efficiently and over the longer term in a more effective way. But the reality is at the moment it's provided through effectively a copper telecommunications service and basic telephony services. And whilst Telstra's network – we cover 99.3 per cent of the population in Australia, far more than anybody else in terms of coverage, the reality is there is still 0.7 per cent of the population that are in very remote areas that don't have connectivity and it's critical that those homes remain connected so – in the case of emergency or otherwise and that's what the USO is all about.

Now, in the long term when the nbn rolls out, arguably the nbn could actually take over that responsibility and that would be an entirely reasonable thing for the Government to look at and we would happily support the government doing that. In the meantime, what we're not prepared to do is actually to change what's currently being provided such that Australians don't remain connected because it's a lifeline and it's crucial that they remain connected. There are other people in the industry who are moaning about the fact they have to make a very small contribution, frankly, to this service; we actually pay more than half of it ourselves anyway and then the

government pays about a hundred million and then the industry pays a relatively small amount which is about providing this basic service.

In the long term we have contracts with the Government and were we to change it we would seek to ensure that our economic interests would not in any way be negatively impacted, both in terms of the long term value of that contract to Telstra but also in the cost of actually migrating to a new technology. But the bottom line is at the moment there is not an alternative technology that basically ensures that all Australians remain connected through the USO and until that is actually in place then it's not fair, it's not reasonable and we shouldn't actually put those Australians at risk by trying to push something through that may suit some people for their own reasons but it won't suit Australians.

On Foxtel, so the change in accounting really arose as a consequence of the fact that we've shifted the debt we have with Foxtel ahead of the merger to equity which really just then changes the basis on which we, from an accounting point of view, have to account for that asset on our balance sheets and I guess that will also happen - should the merger ultimately complete, I assume that will be how it's treated going forward.

MR BRAY: Yes. So there was a fair value gain that offset - that broadly offset some offline losses and I can go through the accounting of those elsewhere if you want. So there was a $38 million fair value gain offset by $44 million crystallising an old offline losses so broadly similar. So we're equity accounting now and should the deal go ahead we would continue to equity account.

MR SAMUEL: Thank you.

MR BURLEY: Our next question is from Brian Han from Morningstar.

MR B. HAN: Hi. Two questions, if I may. Firstly, can you please provide some more colour on the cost cutting? For example, in which segments – business segments are these cost cuts mostly coming through or is it mostly from corporate overheads? And, secondly, you mentioned somewhere that Telstra now generates around $200 million in IOT revenue. I'm just wondering whether there's much margin attached to that revenue. Thank you.

MR PENN: Thanks very much, Brian. I might comment just quickly on the IOT question and then Warwick can talk about the productivity program. So on IOT we're very excited by the long term opportunity provided by IOT. It is very early days. As I mentioned in my comments, our revenue in this area is approaching $200 million. We've had – long had a very big machine to machine, in a relative sense compared to the rest of the market, a machine to machine business and that's connected devices; this is actually taking it to the next level of intelligence and I gave a couple of examples and it sits within essentially our network applications services portfolio.

We haven't disclosed the separate margin and, frankly, I think it's probably a bit early to comment on how the whole IOT market will play out but we're seeing a lot of interest from a lot of customers and it's not just about buying complete solutions from Telstra as a network application service but also the actual platform, the

narrowband IOT platform, and the CAT-M1 platform will be again really interesting capabilities for other players in the whole IOT space so we obviously provide end solutions.

So there's other organisations that want to provide end solutions as part of industry solutions as well, so I think it's an exciting market. But we haven't disclosed separately yet the margin and, to be honest, I think it's too early to be able to be too sophisticated about what it looks like. And then I might hand to Warwick on the productivity question.

MR BRAY: Yes and just additionally on the Internet of Things, today our machine to machine business, as Andy said, is just under $200 million. It grew at 7 per cent and we have more than a million connections. Broadly half of those are in logistics and transport and then we're also strong in retail; also in payments and also in security and then there's a long tail of other – other verticals including agriculture. Whilst we haven't disclosed the Internet of Things margin, in terms of machine to machine that business is within our overall mobile business.

It's very positive in terms of its return on invested capital and it has got a slightly lower EBITDA margin than the average EBITDA margin for mobile, recognising that some of the ARPUs in machine to machine can be in the single digits. In terms of productivity – in terms of the corporate units, we are going even harder there. But the productivity is broad across the organisation. The types of productivity that we most like to see is productivity where our customers benefit and our processes improved and then we get the cost improvement as a by-product.

I will give you one example from this half is that one of our strong parts of our network application of services business is Cloud of Clouds. And that can be where our customers have got Clouds from many suppliers. When we upgrade that, that used to be a manual process. It used to mean that the customers Cloud configuration could be down for many hours on a weekend and we would have do those upgrades on the weekend. We've written an automated tool, so that can be done in minutes, not hours, which is fantastic for our customers' productivity. It's fantastic for the end customers of our customers and it means that we don't need to send a tech out there on the weekend.
Look, that's one small example of thousands of examples that is – that we've got in there for our productivity program.

MR BURLEY: Thanks, Warwick. Now, our last question on the line is from Zik Qian from JCP.

MR Z. QIAN: Hi Andy, hi Warwick. Look, I just firstly wanted to better understand, I guess, the investment and the opportunity in offering cyber security services. Perhaps, you could highlight, for example, how you plan to monetise these offerings. Is it something you separately charge your customers for or is it something that you throw in as part of your connectivity service offerings that, effectively, make the customer a bit more sticky? And what is the competitive advantage of a telco offering these services versus cyber security firms historically that may not own the network layer? My second question has to do with, I guess, more so the Ooyala impairment. I was wondering whether the lack of success there

provides any opportunities to perhaps re-assess and redefine Telstra's sphere of competency when it comes to pursuing these new business investment opportunities?

MR PENN: Thanks very much, Zik. Look, on the first question. So in terms of how do we commercialise the cyber security capability, yes, we absolutely provide it as a service and we charge incrementally for it or we can actually bundle it into a managed network service or we can charge incrementally for it as well and we do both. Why is the telco in a great position from a cyber security perspective because we are probably the organisation in the country which has got the deepest capability for cyber security. We have more than 500 cyber security experts in the company and we are deeply monitoring every aspect of traffic on our network because ultimately that touches everybody else in the country.

We work very, very closely with all of the significant agencies that you could imagine, both domestically and internationally in relation to this. So we have deep skills and capabilities. And we've stood up these cyber security operation centres and so what these do is actually they enable either us, or us in partnership with our customers, to monitor an enterprise's networks. So if I were a bank, as an example, my network would comprise all of my branches, access to all of my team that might be using mobile application devices like data centres, my overseas offices, my head office, and so if you imagine all of the destinations that a bank might be connected to, my ATMs, etcetera, I obviously want to monitor that network from the perspective of the performance of that network, making sure everything is connected. But I'm also wanting to monitor it from the perspective of is there any abhorrent behaviour or is there anything odd going on from a cyber-security point of view that would indicate a risk, and that's what our managed security offering is doing.

It's ingesting information from both the customer, ingesting information from what we see looking at it through our lens, and ingesting information from many of the global partners that we have and we're able to identify, monitor, track abhorrent behaviour and actually provide customers with the ability to either identify, protect, intervene in relation to cyber security internet, so that's how the model works. And as I mentioned, we're to extend that further across our international network as well and I think it is going to be an area of significant growth, given the obvious interest of companies and boards as well.

In terms of your question in relation to the Ooyala intent. I think it's a very good challenge. There's no doubt that in our journey to become a world class technology company that empowers people to connect, we need to build new capabilities and I want to make the point I've made before. This isn't about moving away from being a telecommunications company. It's about recognising what a telecommunication company needs to be in the future, and if I just talk about cyber for a second, or if I talk about the network for a second software engineering, artificial intelligence, data science, these are all capabilities that are playing a critically important incremental role to our core capabilities in electrical and network engineering, in terms of how we continue to have the best networks in the country.

And so investing in new capabilities, finding ways to develop those skills and attract that talent is crucial. The Ooyala investment, which was first commenced in 2012 is unfortunate in the sense of obviously it has not worked as planned. It's negative to shareholders. We obviously have to take accountability for that; the current and

previous management team, but these are learnings that you have along the way. In the meantime, we've made more than 15 or so acquisitions in enterprise and services that have gone very, very well and we're ingesting new capabilities. So there's absolutely learnings from it and we have to hold ourselves accountable for those, but without shying away from we do need to build new capabilities to be professional in the future.

MR QIAN: Okay. Thanks.

MR BURLEY: Thanks, Andy. We're going to close the investor section of the presentation today, so thank you for your continued support and interest in Telstra. I'm going to hand over to my colleague, Jason, who will moderate questions for the media. Thank you.

MR LAIRD: Good morning. We'll now turn to the media portion of the half-year results briefing. I'm Head of Communications. I will hand straight over to Andy Penn and will start here in the room – and Supratim Adhikari from the Australian.

MR ADHIKARI: Hi, Andy. We're good to go? Look, Andy, just on the results and the results sort – the graphs and the material that was being shown, I didn't see anything on Telstra Health, and I was just wondering – I mean, you mentioned before there's some learnings to be taken from Ooyala. What's happening with the Telstra Health unit? I mean, are you still committed to it? Is it still working to your – the way you saw it, or what you expected from it.

MR PENN: Sure. Sure. No. Thanks, Supratim. So, last year, we basically went through a strategic review of the Telstra Health business, and, as a consequence of that, we narrowed down the overall product suite of the companies that we had invested in to, really, four key platforms in the area of pharmaceutical administration, medical registers, medical messaging and hospital records, and so there's four key platforms, and we've sold a couple of the assets, and wound down one of the other ones, and half-year on half-year, we saw revenues decline, but, encouragingly, actually, it is now – we're getting organic growth from the underlying business.

I think, in the period – it was – in the period – coming out of the period, I think it was plus eight per cent or plus seven per cent. So that's positive. As you know, we're deeply involved with the Government at the moment in terms of the delivery of the National Cancer Screening Registry. That sort of project is sort of mid-flight right now. So, you know, right now, the focus is to continue to achieve organic growth in those businesses, continue to consolidate the underlying acquisitions that were made over a four or five-year period, to sort of integrated solutions and to ensure the business travels towards profitability.

MR ADHIKARI: Right. Now, I just want to clarify as well, on the nbn front – I mean, did you say now that the 50/20 is likely to become the default speed tier provided to Telstra nbn customers.

MR PENN: Yeah. Well, we've certainly rolled it out to new customers and to existing customers who are upgrading – pretty much most of our customers to the 50/20 plan.

MR ADHIKARI: So is that a tick of approval for – to the pricing tweaks made by nbn co, the discounting that they've put in?

MR PENN: Well, as I said, I think it's a step in the right direction. It would be disappointing if they sort of suddenly changed.

MR ADHIKARI: But it is a temporary discount, isn't it?

MR PENN: Well, that's right, but I would be hopeful that they wouldn't then go and sort of increase the price again, because I think that would be a bad outcome for customers, because customers have obviously got into these plans and on these speeds at a particular price point, and all that would do is it would cause the industry….. nbn. The customers a price increase, which I don't think they can either afford or would be palatable.

MR ADHIKARI: Right. I mean, nbn co contends that this whole temporary discounting mechanism is meant to be a bridging measure. It allows you to work out the economics around the – how can you provide effective services. Is that how it has worked out for Telstra?

MR PENN: Well, I know how the economics work. I don't need changes to the pricing structure to understand the economics. No. I think – my point has always been that I think, in the long term, what's most important for customers is affordability, and, as a consequence of the rollout to the nbn, wholesale prices in Australia have more than doubled, or they certainly will have more than doubled by the time the nbn is completely rolled out, and I think, therefore, changes like this that reduce the impact of that are going to be a good step in the right direction.

MR ADHIKARI: Just one more, if I may, just on the 5G. Now, you've got – obviously got a $3 billion investment, strategic investment, that's going on. How much of that is earmarked for 5G spectrum auctions, because the value of the spectrum itself seems to be moving. It seems to be increasing. How – have you – do you need to allocate any extra for that upcoming auction, or do you think you've got it within the overall envelope?

MR PENN: Well, it's not included in our $3 billion worth of spend, to be clear, and neither do we actually include spectrum in our normal capex spend. We buy spectrum in addition to what we invest in physical assets. You know, the last big auction was – there were some auctions late last year where we extended our 5G spectrum, particularly into Brisbane, from those auctions, but the last big one was the digital dividend spectrum back in August of – sorry, in 2014, which I think we made an investment of about $1.3 billion.

So you do get these big lumpy investments, but then they tend to be amortised over a 15-year licence period, but it's not included in the $3 billion, and the $3 billion absolutely does include preparation from a physical asset perspective for 5G: so things like enhancing our optical transmission network, investing in small cells,

macro cells, but the actual capital equipment is unlikely to come commercially to the market until 2019 anyway. So it's not actually – the actual rollout, in that sense, is not included in the $3 billion.

MR ADHIKARI: Right. So you're going to have to dip into the coffers to pay for the spectrum, because it looks like it's going to be a very competitive auction.

MR PENN: Yeah. I think the importance of mobile telecommunications is only increasing. Having the best network is critically important, and that spectrum is an important asset in that equation.

MR ADHIKARI: Thank you.

MR LAIRD: Okay. Thanks, Supratim. We'll now go to the phones. Peter Ryan from the ABC.

MR RYAN: Yeah. Right. Thanks. Thanks, Andy. Look, I just wanted – wondering if you could maybe speak to what was mentioned this morning about the material economic impact of the nbn on Telstra. Could you just speak a little bit to that and just exactly how the nbn rollout will be changing the numbers and dynamics for Telstra.

MR PENN: Yeah. Of course, Peter. Happy to, and good morning. Look, I think – obviously, the nbn migration affects all – everyone in Australia as a retail customer of nbn services, and it affects the whole of the industry, but it affects Telstra in a unique way, and the reason for that is is that, historically, Telstra has been the wholesale provider of all fixed services in Australia.

In other words, what that means is that our fixed infrastructure, whether it be through our exchanges, our pits and our ducts and the fibre and the copper and the HFC that goes to everybody's home, which is the infrastructure that supports the access to the internet and especially people's fixed broadband services at home – Telstra owns that today, and the rollout of the nbn – the agreements mean that, actually, all of those assets and that responsibility is transferring to a new company called nbn co, which is owned by the government, and we will then become a reseller of those assets, rather than a wholesale provider, which is what we are today, and the negative impact of that, which is essentially a renationalisation, if you like, of part of Telstra's business – the negative impacts of that - we have been quite clear with the market - by the time it's fully rolled out, will be, on an annualised basis, $3 billion lower EBITDA than we had when we went into – or before the nbn rolls out, and, as I reported this morning, in terms of that negative profit headwind, if I can put it that way, we're now cumulatively about $870 million into it.

So our EBITDA today is around, on an annualised basis – around $870 million less than it was previously, as a consequence of where the rollout of the nbn is now, and it is – it's about 30 per cent of homes today connected to the nbn.

MR RYAN: And so the rollout of the nbn is a significant factor in the otherwise turbulent times that you're dealing with with that digital change.

MR PENN: Yeah. I mean, it's – I think we are investing – making the investments that we're making because, regardless of the nbn, they're the right things to do for the future for our customers and for our shareholders and recognising growth in traffic, technology innovation, move to 5G. So we'd be doing them anyway, but it's also critically important because we need to find ways to mitigate and offset the negative economic impact of the rollout of nbn. We – the two are not connected, but we have to find ways to drive shareholder value for the future for our customers and shareholders.

MR RYAN: Okay. Thanks very much, Andy.

MR LAIRD: Thanks, Peter. Thanks. And we will now go to Max Mason from the Financial Review. We've got Max? Max may have got over-excited. Jeff Whalley, Herald Sun.

MR J. WHALLEY: Hi Andy. There's a lot of talk about reducing cost pressures today and I was just interested, as you seek to reduce those cost pressures, could you be forced to cut more jobs on a larger scale this year or next in – like, is that an option you are considering as things get tighter? I know we're seeing lots of activity at the banks in this regard and do you think – but do you think you've been through the worst of that aspect?

MR PENN: Look, Jeff, I mean, I think we're always very sensitive to anything that we're doing that has an impact on jobs and on employment; that is absolutely primary and really important, but at the same time we do need to increase the efficiency of the business, the productivity of the business, because, ultimately that's what's going to make it successful, and what we're also doing is we're investing in new areas which is actually creating new jobs, whether it be in network application services, I've mentioned cybersecurity, the internet of things, and our Health business, we have more than a thousand people, so at the same time, obviously, as some roles are reducing and disappearing, including, as a consequence of the migration to the nbn, some of the role we play in the industry is moving to the nbn, so not only are we creating new roles, we're also investing heavily in new skills for our existing teams so that they can make those transitions as well.

So our workforce will change over time; that is undoubted, but I want to make the point that we will be creating new work as well as obviously changing old roles.

MR WHALLEY: I remember you saying last year, you were saying you were losing sleep over deciding the dividend cut – it was obviously an important one for your shareholders – how are you finding the dialogue with retail investors now, who you've telegraphed what you were going to do, but when you talk one-on-one, how are those discussions going?

MR PENN: Look, I mean, I think my comment about losing sleep is just a measure of how seriously I've taken – how much I feel the weight of the responsibility of the role that I have. It – Telstra is a unique company; it touches everybody in Australia. We are the backbone for the connectivity of the country and, fundamentally, for the security of the country and for the economy of the country, many – most Australians, either directly or indirectly, have their superannuation invested in Australia and we have many, many millions of customers, so I feel that weight of responsibility very

greatly and, for me, we need to make sure that we continue to balance demanding and driving the right level of short-term performance and the intensity – given the intensity of competition.

But also be brave and bold about making the right long-term decision about making the investments for the company be successful in the future, and that's what the dividend and its capital management change was all about, was to creating the capacity to do that. So I think that, ultimately, our shareholders have accepted that.

Obviously, there's some adjustment for a lower dividend, what it means in an absolute sense, but I think, ultimately, shareholders understand and accept that it was the right decision.

MR WHALLEY: Great, thanks.

MR LAIRD: Thanks, Jeff. We will try Max Mason again. Max?

MR MASON: Thank you for taking my question, guys. I just have a couple. First of all, are you at all concerned about the EBITDA margins? I think all but one category, data and IP, had gone down, particularly around mobiles, since that's meant to be, I guess, obviously is high margin, but is meant to be an important part of your EBITDA make-up moving forward with the changes in fixed and also on the Ooyala write-down, is that making Telstra a bit more cautious moving forward? I know that you're moving to become a tech company and this is – it's obviously not the outcome that you wanted from the investment, but you've kind of got to make those decisions, when you do – you've got to make a bet on something, but does it make you a bit wary about those sorts of things?

MR PENN: Thanks, Max. Look, firstly, on EBITDA margins, you know, obviously I'm acutely focused on our short-term performance as well as our long-term trajectory, and there's no doubt that we're going through a period at the moment, as I mentioned in my opening comments, so it's a very dynamic market; we're seeing increased competition which is having an impact on margins. We're seeing acceleration of the roll-out of the nbn, which is having an impact on margins, and so they're some of the drivers, that's why we're responding hard in terms of what we do in relation to cost. We're responding to the competitive pressures. We're putting more data, more value, more entertainment, more services into our plans, so that impacts margins, but it's paying off in terms of, well, we continue to have relatively strong customer performance with 235,000 new net mobile subscribers, so that is – it's a competitive market and ultimately EBITDA margins are critically important, but what we've got to do is not the suboptimal in the short-term and compromise our success in the long-term.

On the comment on Ooyala, I mean, we are always cautious. I am always cautious with the investment that we make, so I wouldn't want anyone to think that we in any way don't look at these very thoroughly. It is disappointing that, ultimately, an investment we initially made, I think, in 2012 initially, has not played out as we thought the markets changed dramatically, that there are other learnings as well, but at the same time, we've probably done 15 to 20 other acquisitions over that period of time that have actually turned out very well, and so we will take out learnings from this. We are accountable for that loss to shareholders, and we will have to take that

into account and make sure that those learnings are fed into acquisitions we make in the future.

MR MASON: Thank you.

MR LAIRD: Thanks, Max. We now go to Corinne Reichert from ZDNet. Corinne?

MS REICHERT: Can you tell us more about the security operations that's opening in London later this year, and do you have any plans to open additional centres?

MR PENN: Yes, sure. Well, Corinne, I'm not sure if you've had a chance to visit our security operations centres in Melbourne and Sydney. If not, we can facilitate that for people with a bit of notice, because they are uber secure and so they take a bit of preparation, but we can help people better understand what we're doing there, and the centres that we're building are virtual, so they're a physical centre, but they operate as one virtual centre, so every time – so in other words what that means is that we have actually very sophisticated live video conferencing, such that the room in Sydney and the room in Melbourne are actually operating as one room with interaction between all of the operators within the room, and we have somewhere in the region of 50 people between the two.

And then when we open in London, there will be the same dynamic as well, and all it does is it builds up, if you like, the ecosystem of the security capability that we have, and as I was saying earlier, I mean, what it enables us to do is either directly for our customers, particularly the large enterprise customers and/or in partnership with their customers, monitor all of their own in-house networks to make sure that we can identify any aberrant behaviour, any aberrant traffic, any malware and also effectively intervene quickly, and the security operations centres also have crisis management centres in conjunction with them, and that enables us to actually caucus quickly with the customer with the teams, wherever they are in the world, to really manage an incident if and when one occurs.

In terms of a further extension of that, I mean, we don't – haven't announced any formal plans other than what I've mentioned in relation to London. The only thing I would say is that undoubtedly that cybersecurity is becoming an increasingly critical and important issue for large companies, and small companies for that matter, for boards, for chairmen of companies, for CEOs, and so we are only likely to see this demand increase and, of course, it's a global risk and so whilst obviously much of our focus is on Australian companies and also in the Asia-Pacific, we also have to protect our customers wherever they may be doing business.

MS REICHERT: So how many employees have you got in the London centre?

MR PENN: We've got somewhere in the region of 500 cybersecurity experts within the business that actually help focus on internally as well as externally. The security operations centres each have capacity for about 25 people at any one time, monitoring 24/7 the networks of our customers, and we have two at the moment and we would have, sort of, similar sorts of capacity in London. So they're the sort of numbers.

MS REICHERT: Thanks, Andy.

MR LAIRD: Thanks, Corinne. We will now go to John Durie from The Australian.

MR J. DURIE: Yes. Hi there, Andy. Two questions, if I could: the first one, just following up from Peter Ryan's question. I missed the, in the presentation, what was the total nbn payments you received in the last half and how they compared with the previous period?

MR PENN: I think it was – in total, it was about one point – I'm just looking at Warwick while you're asking the question John. I'm pretty sure it was about $1.2 billion, which was up about $600 million. $1.1, $1.2 billion.

MR DURIE: Yeah. And just to clarify again, your $3 billion EBITDA figures, that's net of those payments. Right?

MR PENN: No. It's not net of those payments. So to separate the two points. The rollout of nbn, when it's fully rolled out, will have an annualised negative impact of $3 billion per annum forevermore – for ever into the future, negatively on Telstra, and, as I said this morning, we – we're already sort of about $870 million into that headwind.

Separately, Telstra is being paid, essentially, PSAA payments, which are the one-off payments that you mentioned, John, which are essentially compensatory, if you like, in nature for the giving up of that $3 billion, and so the one-off payments that we're receiving we receive basically during the rollout period of the nbn. Once the rollout's finished, we won't get any more of those, but we will continue to have a negative $3 billion impact per annum forevermore.

MR DURIE: You will get some rental income, won't you, on ducts and so forth?

MR PENN: No. We do get some rental income, and the rental income is factored into the $3 billion. So the $3 billion is after receiving the rental income, and, of course the rental income is for a very extensive asset network, where we've got hundreds of thousands of kilometres of ducts and 5000 exchanges and a lot of – our core transmission backbone network, where we're spending, you know, hundreds of millions of dollars as well.

MR DURIE: Right. But, anyway, $1.2 billion in the last half. Great. Okay. Thank you. Now, you were asked a question in the analyst's conference about – I think I got the right expressions: $200 million revenue from internet of things revenue. Five – just as a guide to that business, like, five, 10 years out, how much do you think that'll total?

MR PENN: I'll resist the temptation to make a forecast. Otherwise, I'll get myself into trouble, but, no, look, I think the point is we're very excited by the opportunity for the internet of things. To be honest, it's hard to predict what the growth's going to be.

I mean, we have said that our network applications and services growth, we think, over the medium term is going to be double digits, and, indeed, we got 14 per cent in the period, and you'd have to say, looking forward, that the internet of things type of

business is going to be at the higher end, if not higher than that – the sort of – the average of the overall NAS business, I would have said, and it really just depends on the various different use cases and how quickly they come to the market, but, I mean, we've just done a – as I say, an exciting deal with LinFox, who are very progressive in how they're thinking about how they use IoT to manage their sophisticated logistics fleet.

So this is about, you know, monitoring trucks and – or – and also not just the trucks themselves but also what the trucks may be carrying from an efficiency point of view, from a location point of view, monitoring the actual haulage and ensuring, if it's refrigerated, what temperature it's refrigerated at, all that sort of stuff, and that's just one use case. Another use case would be in mining and resources it's very significant. Agritech is another area. So I think I – and I don't – these aren't my numbers, but, I mean, I think others have quoted very, very significant economic growth from the internet of things globally. I'm sure, offline, we can probably point to some independently published reports on that.

MR DURIE: Yeah. Great. Thanks, Andy. How much was that LinFox contract worth?

MR PENN: We haven't quoted that one separately, John.

MR DURIE: Thank you. Thanks.

MR LAIRD: Thanks, John. Last question on the phone. James Thomson at the Fin.

MR THOMSON: Hi, Andy. Just a little bit – I'm just again following on from the analysts call can you talk a little bit about the separation of the mobile market and how that's playing into your multi-brand strategy a bit more and how are customers acting in those two bits and also, just on the mobile market, I sort of get the need to be competitive and keep adding data and adjusting prices, but is there a danger that there's a bit of a race to the bottom there, that there's just so much competition that everybody ends up making very little bits of money and you're not sort of adequately rewarded for your market dominance?

MR PENN: Look, well, a couple of things firstly: I mean, I think, in terms of the market dynamics, really what we're seeing is partly customer-driven, but also competitor-driven, is we're seeing a more, if you like, more definitive bifurcation in the market between the premium end of the market and, perhaps, the price-sensitive end of the market, and we put a lot of value – and, really, this goes to your second question – to be honest, we put a lot of value into supporting the premium in our product: we've got better content than anyone else; we've got a better network than anybody else; we think we provide a better service than anybody else; and there is definitely a very significant proportion of the population that wants that, but it costs more to provide it, and what we want to make sure is that what we don't try and do is then go and compete for more price-sensitive customers, that perhaps don't value those premium aspects as much, with that premium brand; that would make no sense, because all we do is drag down the price of the premium brand and into a different segment of the market, and so that's why we've launched Telstra Wholesale two or three years ago; that's why we launched Belong, so we can actually match our offerings to those customer segments and make sure that we optimise the best

customer experience, the best customer value, with the right returns for us as a shareholder, and that's proving successful. In the period, we added 235,000 new retail customers. Of that, 21,000 were Belong, but bear in mind, we only launched Belong in September and, in addition to that, 118,000 for our wholesale brand as well, so that's very much the strategy.

The other thing to think about in relation to mobile is that there's no doubt that, in the migration to nbn and, in any event, we are seeing a high number of customers that were previously fixed broadband customers, had their fixed network, broadband, at home, choosing to go mobile only. That was happening anyway and I think in the transition to nbn, that's probably likely to accelerate, so we will see a higher proportion of homes that go to mobile only and so, therefore, we have offerings in the market that support that sector of customers, but the thing to bear in mind is that the average mobile customer today, compared to the average fixed broadband customer, downloads about one-fiftieth of what an average fixed broadband customer downloads.

So one needs to be very thoughtful about making sure, firstly, that, if a customer is looking for a mobile solution as a replacement to fixed, that it's in their best interests, and make sure that they've got a sort of usage pattern that we can support adequately with a mobile offering. And we're very thoughtful about making – to do that and, on the flipside, what we've also got to do is make sure that we have the adequate capacity in the mobile network to deal with that sort of volume, because in the country – put Telstra aside for a second – if you shifted everybody from fixed onto mobile, none of the mobile networks would work, because they're just not built for that sort of capacity, and so that's why we're investing heavily in more capacity, more speed; that's why we're doing our small cell densification work in cities to make sure that, as more customers choose to go to mobile only, that we can actually support them with the capacity, and we think that that's probably likely – that is likely to increase as customers are forced to make a choice, I guess, as the nbn continues to roll out.

MR THOMSON: But just on that idea of sort of a race to the bottom, well, you're clearly throwing a lot at customers and it's working to keep your churn down and it's working to get your, sort of, net adds up, but is there a point where it sort of you start judging whether it's worth it? Or you just can't – you can't leave that race?

MR PENN: No, look, I think the market – if you stand back for a second to look at the global total communications market, not just in Australia, but if you look at it globally, there's no doubt that the market globally follows a degree of cyclicality and one of the things that has absolutely been the case is that, when there's been a new G – as in 3G, 4G and potentially 5G – when there's been a new G, that has been followed by a surge in, if you like, or a growth in – maybe I will rephrase it and not use "surge", but certainly a growth in industry revenues as customers have taken advantage of more capacity and more speeds and I think that there's a – it's not unreasonable to expect that that would be the case with 5G – I'm not forecasting it, but it's not unreasonable to expect it – and also I think, in 5G, there's a whole bunch of new use cases as well, which will, I think, overall expand the market.

So, yes, the market is – and this is no different internationally, by the way, it's exactly the same as is happening in the US and Europe is sort of slightly further

through a cycle, if you like, but, I mean, definitely price per gigabyte of data for customers is coming down. Margins are, therefore, globally under more pressure, but I do believe that we continue to make the right investments. Ultimately, connectivity is only becoming more important for customers, not less important and I'm confident we will be able to deliver attractive returns for our shareholders.

MR THOMSON: Terrific. Thanks Andy.

MR LAIRD: Thanks James. That concludes the media portion of the conference today and, in fact, the presentation for the half year results, so thank you everybody for joining us today and have a good day.

BRIEFING CONCLUDED [11.35 am]