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Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 03 8647 4838
Facsimile 03 9650 0989
companysecretary@team.telstra.com

Investor Relations
Tel: 1800 880 679
investor.relations@team.telstra.com

The Manager

Market Announcements Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2020 Financial Results – analyst briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2020 Financial Results analyst briefing, for release to the market.

Authorised for lodgement

Sue Laver
Company Secretary

Introduction

Ross Moffat: Good morning everyone, and welcome to our 2020 full year results presentation. Before we commence, on behalf of Telstra I would like to acknowledge the traditional owners of the lands we are meeting on today. For me here in Sydney, it is the Gadigal people of the Eora Nation. I'd also like to pay respects to Elders past, present and emerging.

This morning after presentations from our CEO, Andy Penn, and CFO, Vicki Brady, we will be taking questions from investors and analysts, and then media. I will now hand over to Andy. Good morning Andy.

Presentation from Andy Penn

Andy Penn: Hi Ross, and good morning and welcome everybody to Telstra's results announcement for the year ended 30 June 2020. Our financial results this year were in line with guidance. This is notwithstanding the challenging times we're all in, and the financial implications of the continued migration to the NBN. We are also very well positioned as we pass the midway point of our T22 strategy.

This morning I will make some introductory remarks before Vicki will take you through the numbers in more detail. We will then go to Q&A.

Well, a lot has happened since we were together at our half year results in February. In fact, it's hard to conceive that that was only six months ago. 2020 is proving to be an enormously challenging year for everyone, for governments, for businesses, for communities, and for all of us as individuals. The emotional, mental and economic stresses as a result of the COVID pandemic, and the necessary restrictions that have been put in place, are profound. And I personally sincerely hope that you and your families are doing OK during this time.

I gave a speech at the beginning of the year on what doing business responsibly would mean in the 2020s. Little did I know what was around the corner. However, this philosophy of responsible business has guided us through the last few months. Through this period of extraordinary disruption, both COVID and the bushfires, we have been challenged to adapt to find new ways of supporting our customers, our people and the country at the time of need. I'm proud of the way our teams have responded, particularly given they are dealing with the impact of these crises on them personally at the same time.

In saying that, please do not think that we have lost sight of our shareholders. Quite the contrary. Our decisions were as much about doing the right thing for our communities as they are about commercially what is in the best interests of our shareholders, and in the best interests of long term shareholder value. Ultimately we will never be successful for our shareholders if our customers, people and communities in which we operate do not enjoy success too.

During COVID, supporting our customers has included temporary unlimited data allowances for home broadband customers, and additional data for mobile customers, as well as relief programs for small businesses and consumer customers. Supporting our people has included moving 25,000 office-based staff to working from home, new processes to protect our field and store teams, paid pandemic leave for our casual employees, and pausing our T22 productivity job reductions to give certainty and security to our people.

On the latter, we intend to extend this further until February next year for our permanent team members, because right now, giving our people further certainty will ensure that they are better positioned to serve our customers and drive value for our shareholders, and support their mental wellbeing.

Vicki will take you through the implications of this for our productivity program. However, please be assured we remain absolutely committed to our $2.5 billion T22 productivity target, and we will come back to these tough decisions in reducing headcount in February.

We have also brought forward $500 million worth of CapEx from the second half of FY21 into this calendar year. This is providing the economy with much needed investment at this time, and supporting the acceleration of our 5G rollout, which has already been extended to cover approximately one third of the population.

This is on top of the support we provided to Australians in the face of some of the most devastating bushfires this country has ever experienced. In total, our support for bushfire affected areas and for customers, free mobile services for the firefighters, and repairing damaged infrastructure amounted to around $44 million.

For our shareholders, the Board has declared a fully franked final dividend of $0.08 per share, $0.05 ordinary, and $0.03 special. This brings the total dividend for the year to $0.16 per share, and means we will be returning $1.9 billion to shareholders from our FY20 results.

Despite this focus on responsible business, I know we do not always get it right. As I had previously advised some years ago, we let down some customers in indigenous communities. Since 2018 we have been undertaking a comprehensive remediation program to address this, including waiving debts, providing refunds, improving our processes, and providing additional staff training in cultural awareness.

We are also cooperating with an ACCC investigation into our sales, complaint handling and debt collection practices to resolve their concerns about potential misleading or deceptive conduct, unconscionable conduct, or false or misleading representations at a small number of our partner stores, that are stores that are operated by licensees. We have made a provision of $50 million in our FY20 accounts for potential penalties related to this.

The Board has also reduced the variable remuneration outcome to certain Executives by 10%, not because they did anything wrong, but because they were accountable for the areas of the business where these failures happened. This includes me because ultimately as the CEO there is not a part of the business for which I am not accountable.

Responsible business is about understanding that the obligations that we have to our customers are not limited by the small print of our contracts, but are defined by our organisational purpose and values. And when we get it wrong, we must acknowledge it, fix it, and take accountability for the consequences.

Just before I turn to the results, a quick word on T22. I mentioned a moment ago that we are now past the midpoint of our T22 strategy. What has been cemented in my mind during the last few months during COVID is that the key principles behind our T22 strategy are more important than ever before, to radically simplify and digitise the business, remove customer pain points, remove legacy systems and processes. These have all been crucial in allowing us to successfully respond during the COVID restrictions.

It has also highlighted that connectivity has never been more important. We have witnessed a huge acceleration in the adoption of digital ways of working, and this is crucial to a fast economic recovery. Continuing to deliver on T22 therefore is fundamental to the transformation of Telstra, and also the success of our customers.

With that, let me now turn to our financial results. Our results are in line with guidance. This is notwithstanding the impacts of the bushfires, and estimated negative financial impact from COVID on underlying EBITDA of around $200 million, plus the $50 million provision for the ACCC investigation. The COVID impacts arise mostly from reduced international roaming and professional services revenue, increased financial support for our customers, and additional bad debt provisions.

In terms of financial headlines, total income for the year decreased 5.9% to $26.2 billion on a reported and guidance basis. EBITDA increased 11.5% to $8.9 billion on a reported basis. After adjusting for lease accounting on a like for like basis, EBITDA decreased 0.3% to $8.4 billion. Underlying EBITDA on a guidance basis, which excludes one-off NBN income and restructuring costs decreased 9.7% to $7.4 billion.

Excluding the in-year NBN headwind, underlying EBITDA grew by approximately $40 million. This growth was at the bottom end of the range we guided, but it is after the COVID, bushfire and ACCC impacts that I have already mentioned. NPAT decreased 14.4% to $1.8 billion on a reported basis. Capital expenditure reduced 22% to $3.2 billion. CapEx was towards the top end of guidance due to the decision to bring forward $500 million worth of investment into the calendar year 2020 that had previously been planned for the second half of financial year 2021.

As I mentioned earlier, the Board has resolved to pay a fully franked dividend of $0.08 per share, bringing the total dividend for the year to $0.16 per share in line with FY19.

Turning to our operating highlights. In mobile we had a very strong year, and we added 240,000 net retail postpaid mobile services, including 86,000 branded services, and 154,000 from Belong. The branded adds included a contribution from Enterprise customers in the second half of the year as they supported their employees in working from home.

One of the features of the year was increased activity in the price sensitive end of the market as demonstrated through the continued strong performance in Belong and wholesale. Wholesale added 347,000 services, while we added a further 652,000 IOT services, and 171,000 prepaid unique users. In fixed we added 80,000 net new retail bundle and data services, including 79,000 from Belong. Belong now has more than 730,000 services, making it one of the largest operators in Australia in addition to Telstra, with more than 400,000 mobile services, and more than 330,000 fixed services.

On costs, underlying fixed costs were down $615 million, or 9.2%, bringing our annualised cost reductions achieved under our productivity program to $1.8 billion. Vicki will provide more detail on ourproductivity program in a moment. Although we were slightly short of our $630 million target, due to the decisions that we made in relation to COVID, I am very pleased with the progress that we have been making.

One of the impacts of COVID has been on our workforce capacity, particularly in overseas locations such as India and the Philippines, which went offline due to extensive lockdowns. This has had an impact on customer experience. While we moved a large amount of this work online and to Australia, we are very conscious of the delays that some customers may have experienced in trying to contact us, and I wanted to apologise for those delays.

We are not completely out of the woods yet, but fortunately our T22 digitisation program enabled digital engagement with our customers to grow substantially. By the end of FY20, more than 71% of Telstra service transactions were via digital channels. This is up from 53% at the end of FY19. The new My Telstra app which replaced the Telstra 24/7 app was downloaded 3.7 million times within the space of just a few weeks.

This acceleration to digital channels and the workforce capacity challenge we have faced offshore have provoked our thinking on our customer service model for the future. As a result, we will be investing even more in digital including messaging. Under our T22 strategy, our aspiration had been to reduce the number of calls to our call centres by two thirds by FY22. That's a reduction of approximately 24 million calls on an annualised basis.

With the acceleration to digital, we are already very close to that run rate today, two years before the end of the program. And this means that over time we will need smaller call centres for our consumer and small business customers, and our aspiration is that by the end of our T22 program, all inbound calls from these customers will be answered in Australia. Today we are already answering more than 60% in Australia. This in turn will enable our teams in the Philippines and India to focus on supporting our digital experiences.

Not surprisingly the challenges during COVID were reflected in our Episode NPS results. Episode NPS has improved by two points in the first six months of the financial year, and we were on track to achieve our full year target. However the impact of COVID saw Episode NPS decline in the second half, and end up down two points over the last 12 months. We expect to turn this around in the coming period, and we have targeted a five point improvement in Episode NPS for FY21.

Despite the challenges with Episode NPS though, Strategic NPS improved five points during the year, exceeding our target across both mass market and Enterprise. This is consistent with increased results we have seen in our brand consideration and our corporate reputation measures, which are at all time highs.

In terms of other operational value drivers for the year, in mobile we saw our lead indicator transacting minimum monthly commitment, or TMMC as we call it, increasing by $2. In July we updated our mobile plans with more data and other inclusions. We made the decision to not charge separately for 5G, but to include it in our top three plans, and we adjusted other pricing. This should add further momentum to TMMC in FY21.

Across fixed and broadband and data and IP, we continue to face the economic headwinds from the migration of customers to the NBN as well as price competition. The in-year NBN headwind includes a $380 million increase in our network payments. NBN wholesale pricing remains the largest negative impact on our fixed business. As you know, I have for a long time advocated for lower wholesale prices and a change to the NBN pricing structure. Without some sort of long term change leading to improvement in RSP's economics, the risk of retail price increases or reduced customer experience, or customers moving to other networks such as 5G will increase. In Telstra's case, the profitability of reselling the NBN is negligible at best, and that is not sustainable.

Notwithstanding these comments, I do want to acknowledge and applaud NBN's response to COVID. NBN acted swiftly to increase capacity to RSPs during this time at no charge, enabling RSPs to support their customers as they moved quickly to work and study from home.

Despite these challenges, we remain focused on providing a differentiated customer experience on fixed. This includes through the Telstra smart modem, which we now have in more than two million Australian homes, over half our customer base. We also recently announced boosts to download speeds and a Wi-Fi guarantee. Strong Wi-Fi is a critical aspect to creating a positive internet experience. In pilot customer trials of the Wi-Fi guarantee, we did not find a Wi-Fi coverage problem that we could not solve with our smart modem and smart Wi-Fi booster combination.

Turning to Enterprise customers. We were particularly pleased with our NAS and global connectivity results for the year. NAS EBITDA grew $233 million, with an EBITDA margin of 18% driven by improved product mix and productivity. Global connectivity EBITDA grew by $90 million from improved product mix, productivity and one-off benefits including foreign exchange. Encouragingly, our health business also achieved strong growth with revenues up 12%, and delivering positive EBITDA for the first time in May.

COVID has reinforced the drive for digitisation in healthcare, and has dramatically accelerated newer technologies such as telehealth, in-home monitoring, and access to information directly by patients. It has also demonstrated the importance of high quality, real time health information, for both clinical and health policy.

Telstra Health is therefore strategically very well positioned in what is going to become an increasingly growing market.

Turning to our T22 strategy. As we pass the midpoint of T22, we have delivered or are on track to deliver three quarters of our T22 scorecard metrics. Against the first pillar of T22 we now have more than 4.8 million services on our 20 consumer and small business in-market plans. We have cut 35% of our Enterprise products as we unravel complexity in this part of our business, and we are on track to remove half by the end of FY21.

Consumer and small business customers as I mentioned earlier, digital channels now account for 71% of service transactions, including account management, prepaid product and billing related inquiries, digital sales interactions are up 30%. Our loyalty program, Telstra Plus, has more than two million members, and we are seeing strong engagement with reward redemption rates increasing more than fourfold between the first half of the year and the second half of the year.

Our consulting and professional services business, Telstra Purple, and extensive gaming offers have all been developed and are in market.

Telstra also continues to lead the market in the major mobile industry network performance benchmarks, and on 5G we're not just leading undoubtedly in Australia, we are also a global leader. Telstra's 5G network is now live in selected areas of 53 cities and regional towns across Australia. And more than 10 million Australians either live work or pass through our 5G coverage every day. In fact, our 5G network already covers one third of the population, and we intend to extend that to 75% of the population by June of next year.

While 5G capable handsets have not long been in the market, more than 210,000 5G devices are already connected to the Telstra network. This is before the launch of a 5G iPhone, which we hope will arrive soon.

On [Telstra] InfraCo, the new organisational structure and operating model which we outlined in our November Investor Day, has been implemented, and a Heads of Agreement between [Telstra] InfraCo and Telstra is in place for commercial, service level, and the operating arrangements.

We are also well advanced on asset base financials and reporting for [Telstra] InfraCo as we seek to drive more value from these assets. More broadly, we continue to simplify our structural ways of working. We removed hierarchies and silos on top of redesigning our organisation from the ground up, and removing on average more than four layers of management.

Since the launch of T22 in June of 2018, we have cumulatively announced almost 20,000 role reductions across our direct and indirect workforce. We have recruited 1,600 new roles with new skills in new areas such as software engineering and cyber security, and some temporary roles in response to some of the workforce capacity challenges presented by COVID.

As at the end of June 2020, our direct workforce was around 5,700 lower than two years ago, and our indirect workforce was 12,000 lower. Employee engagement is at an all time high, improving 16 points in the year to 83, reflecting a concerted leadership effort across the business.

In productivity we have so far delivered $1.8 billion worth of savings, and we are on track to reach our target of reducing annual underlying fixed costs by $2.5 billion by FY22. We expect to achieve around $400 million of productivity this financial year, which is about $100 million dollars less than we had previously planned, due to the decision we had made in responding to COVID to defer further permanent job reductions until February.

Finally, we continue to monitor asset monetisation opportunities that strengthen our balance sheet. Our announcement last week to sell our Clayton data centres for $417 million means we have announced over $1.5 billion of our T22 ambition to monetise up to $2 billion worth of assets. We will continue to pursue opportunities in FY21 with a view to getting closer to $2 billion.

Before I close I would like to quickly take you through our T22 scorecard. We have now delivered, or are on track to deliver, three quarters of our T22 scorecard metrics. Some measures are rated either amber or red, and I want to take a moment to explain why.

Firstly, underlying ROIC. We do not now expect to achieve our T22 target of greater than 10% in FY23. Since the launch of T22 we have seen the introduction of AASB 16, which has impacted our ROIC calculations by around one percentage point. We have also seen our weighted average cost of capital reduced by approximately 1.5 percentage points. We have revised our T22 ROIC target in FY23 to greater than 7%. Now, I know that this is a crucially important measure for investors, and so we're going to take some time to, and Vicki will, take you through the detail of this later.

Secondly, NPS. We are on track with strategic NPS, but as I explained earlier our Episode NPS results were impacted in the second half of the year. Thirdly, the building out of our new technology stacks is very well progressed. Like many large systems projects, and this one is large, having involved an investment of in excess of $1 billion, there are a few things that of course have right-shifted, mainly in some of the product builds. However, the Enterprise stack is live, and in consumer and small business agent facing components and mobile products are live with significant improvements to order and processing times. Product launches onto the new stack will accelerate in FY21, enabling us to accelerate migration.

Fourth, while active app users have grown by more than 300,000 in the last year to 4.3 million, it is below where we had planned to be. Having said that, the main reason for this is that customers are no longer needing to use the app to check their data allowances, because our new plans have no dates excess data charges, which is good news for them.

Fifth, we need to achieve momentum in average services per customer by targeting increased multi-product holdings, including through entertainment, mobile assurance, and gaming add-ons. We have had a strong take up of both Foxtel's new streaming services, Kayo and Binge, over the last few weeks, and this will make a difference.

Sixth, we continue to lead in the key industry network surveys, all except the ACCC Measuring Broadband Australia Report. Now, this Report ranked RSPs on performance, including lines, that are not capable of actually achieving the NBN speeds, due to NBN constraints. So it's clearly not a good reflection of RSP performance. In contrast, however, we have been ranked [number one] in the Netflix ISP speed index survey in every single month for the last two years.

Given we have now passed the midway point of T22, we have also added targets for FY21 and FY22 to the scorecard. These additional targets support our FY21 priorities including for digital sales transactions, Telstra Connect active users, Telstra Plus members, migration to in-market plans, Australia's largest 5G network, and the implementation of agile at scale. And they can be found in my supporting slides.

T22 is critically important for us, because it continues to position us well in this current period of uncertainty, and will create a platform for us to emerge strongly into whatever the new normal is. In that regard for FY21 our key priorities are; staying committed to simplification. Completing our digitisation program, because as you can see, this is making a real difference to customer experience and productivity.

Realising the value from our strategic shift in Telstra Enterprise with our adaptive networks and mobility products. Maturing our ways of working and further embedding our new operating model. Extending our leadership in 5G and realising the value from our strategic investments in networks. This is going to include launching targeted fixed wireless in the first half of this financial year.

Ensuring [Telstra] InfraCo is fully operational and driving increased value from passive assets. And finally in continuing to deliver our $2.5 billion productivity target, including another $400 million in FY21.

To summarise then before I hand over to Vicki. The 2020 financial year was uniquely challenging, but also one where once again, it highlighted the importance of connectivity in society. It was a year that saw a huge acceleration in the digital economy, now critical to a fast recovery to the broader economy, and where Telstra has a role to play. It was a year where we saw the value of our T22 investments to transform Telstra for the future as a simpler, more digital and more agile business, built around its purpose and values, and a firm commitment to responsible business. And it was a year in which we met guidance and maintained our dividend, despite the challenging environment.

We still have a lot of unfinished business to do to truly transform Telstra. But we look at the year ahead with growing confidence in our ability to deliver on these strategic ambitions.

Our progress this year was the result of a combined effort of many people, including many of our dedicated employees. Despite the disruptions and the impact on them personally from COVID, every day they have focused on serving our customers and keeping them connected. And for that, I want to sincerely thank them.

Thank you. And with that, I will hand over to Vicki to take you through the detailed financials before we open for questions.

Presentation from Vicki Brady

Vicki Brady: Thanks, Andy. I'm pleased to say that for FY20, Telstra has delivered financial results in line with the guidance we provided to the market. We have maintained our dividend, and also retained our balance sheet strength. This has been achieved despite ongoing financial headwinds from the NBN, and the operational and financial disruptions caused by both the COVID-19 pandemic, and Australia's summer of bushfires.

We continued our strong momentum on T22, which is delivering benefits for customers, while enabling us to simplify the business and reduce our costs. With the impacts from COVID continuing to be felt by many communities, and its ongoing effects on the global and local economy, we anticipate that we will continue to face disruption in FY21. However, with T22, we have the right strategy to deal with this.

Our conviction in our strategy and our proven ability to deliver on it enable us to look at the future with confidence. And I'm particularly pleased that today we are able to provide guidance on a range of financial measures for FY21.

Turning to the details of our financial performance for FY20, which you can see on slide 13. The numbers on the left of the slide are our reported statutory results. FY20 reported income was $26.2 billion, down 5.9% and reported NPAT was $1.8 billion, down 14.4%.

As discussed previously, the implementation and accounting standard AASB 16, meant that from the 1st of July 2019, operational lease costs moved onto the balance sheet, and below EBITDA in the income statement.

Given different accounting treatment of leases in FY20 and FY19, and our exit of mobile lease plans, the reported lease adjusted columns provide a like for like view of our results, and reflects the view we use when managing the business. A reconciliation is included in the appendix. The remainder of this presentation will focus on the reported lease adjusted results.

On a reported lease adjusted basis, EBITDA was broadly flat at $8.4 billion. EBITDA includes $1.5 billion of net one-off receipts, $246 million of restructuring costs, and $380 million impairment on our investment in Foxtel.

Underlying EBITDA was $7.4 billion down 9.7%. The largest reason for this decline was the NBN, where we absorbed around $830 million of in-year recurring headwind. We expect FY20 to have been the peak year.

The clearest view of the future financial performance of our business is underlying EBITDA, excluding the in-year NBN headwind. In FY20 this grew around $40 million. The underlying EBITDA decline also included a provision of $50 million related to an ACCC investigation into our sales, complaint handling, and debt collection practices, which Andy referred to earlier, and an estimated net negative impact from COVID-19 of approximately $200 million. This COVID impact was across international roaming, financial support for customers, delays in NAS professional services contracts, and additional bad debt provisions. Included in underlying EBITDA was a reduction in underlying fixed costs of $615 million, or 9%.

Turning to depreciation and amortisation, which on a reported lease adjusted basis increased 2.4% due to a mix shift to shorter asset lives. We expect D&A to decline by approximately $300 million in FY21, and by a similar amount again in FY22, predominantly due to assets associated with NBN completion, and legacy IT assets fully depreciating.

Net finance costs increased due to the adoption of AASB 16, capitalised interest and other non-cash items. Our interest on borrowing costs declined $93 million due to a reduction in our average borrowing cost and lower net debt on a like for like basis. We expect to see the decline in borrowing costs accelerate in FY21, thanks to recent refinancing at lower rates and lower net debt.

Looking now at income by product, which you can see on slide 14. Excluding one-offs, underlying income declined $1.6 billion or 6%. Half of this decline was due to net in-year NBN headwinds and lower hardware sales. There is detail in the appendix on each of our products, but I will touch on the most significant points.

Mobile income declined $461 million in FY20. This was largely due to handheld services decline, reflecting expected ARPU pressure, with international roaming and hardware revenue especially weak during the second half.

In postpaid handheld, SIO performance was strong, although weighted across our multi-brand offering with a strong contribution from Enterprise as many customers transitioned their teams to work from home. Our lead indicator of postpaid handheld ARPU, transacting minimum monthly commitment, or TMMC, continued to show positive momentum. During FY20, TMMC increased $2 versus FY19. We had anticipated an increase of $2 to $3, however, trading conditions in the second half were more challenging. Given recently announced plan changes, we expect a further increase in FY21.

Reported postpaid handheld ARPU declined 8.2% in FY20, largely due to five things. These were a declining international roaming of approximately $75 million, driven by restrictions imposed in response to COVID-19. The impact from a period of intense price competition in FY19 washing through our customer base, offset by improvement in plans sold in FY20.

Lower out of bundle access voice and data fees of approximately $120 million. Dilution from a higher mix of Belong customers, despite Belong being value accretive overall. And finally, accounting for new plans, which allocate more revenue to hardware.

Excluding the decline in international roaming, which we estimate will not recover in FY21, ARPU declined by 6.8%, which is in line with the expectations we gave the market at our first half result. We expect reported postpaid ARPU to return to growth in the second half of FY21.

Turning to other mobile categories. In prepaid handheld, despite a tough Q4, unique users were up 7.6%, and average voucher value increased, with revenue stabilising in second half 2020. Likewise, mobile broadband which saw increased demand in Q4, is seeing stabilisation in revenue sequentially after several years of decline. Our wholesale MVNO business, a crucial part of our multi-brand strategy, achieved revenue growth of 10%.

In our fixed business, revenue continued to be impacted by NBN migration, alongside legacy decline, customer initiatives in response to COVID-19 and operational disruptions. In FY20, we added 80,000 broadband subscribers, with Belong accounting for all of the growth.

We are still experiencing ARPU dilution as customers moved in-market plans, although the amount is narrowing. Around half of our customers are now on in-market plans, and we remain focused on maintaining our premium through differentiated experiences.

Turning to data and IP. Revenue was down 13%. This was due to sharp declines in legacy calling, including ISDN. In line with the 2022 shutdown of ISDN, we saw termination of legacy services and migration to unified communications within NAS. Core data and connectivity revenues declined 5% due to price competition and ongoing technology shift. ARPU declines moderated versus FY19, and we have seen growth in fibre and NBN services offset by legacy copper terminations. We have revised our data and IP split of revenue in the detailed product slide to provide improved clarity of trends.

Reported NAS revenue declined 2.8%, reflecting a continued focus on profitable revenue growth, lower NBN commercial works, and reduced discretionary spending in professional services in the second half. Revenue grew 3.8%, excluding low margin hardware sales and NBN commercial works.

Turning to our operating expenses, which you can see on slide 15. We have achieved a significant reduction in costs in FY20. Total costs declined 10%, and underlying costs declined 4.5%. An increase in NBN payments of $380 million was more than offset by productivity. Underlying fixed costs reduced $615 million. This was modestly below our target of $630 million due to impacts from our response to COVID-19, including additional bad debt provisions of $36 million.

We have now achieved a $1.8 billion net reduction in underlying fixed costs since 2016, and remain on track to achieve our $2.5 billion net productivity target. Cost out included a 12% reduction in indirect labour costs, which included the full year impact of FY19 reductions. We also reduced indirect labour and service contracts by 11%, which was due to digitisation, reducing customer support costs, and lower legacy network costs. Non-labour costs declined 2%, including reductions in energy and travel.

We are targeting a further $400 million of cost reduction in FY21. This target includes the impact of our decision to delay T22 productivity job reduction announcements until February 2021, as part of our COVID response. We do however, still anticipate some role reductions prior to this, for example, where projects end or work is no longer required. In FY21, there will therefore be an increasing focus on reducing indirect labour and other costs.

Moving to EBITDA on slide 16. Underlying EBITDA declined $794 million, whereas it grew around $40 million, excluding the in-year NBN headwind. We are pleased to have delivered growth in this figure, while also responding to the challenges of the COVID-19 pandemic in the second half.

Mobile EBITDA declined $250 million, largely due to lower services revenue, including lower international roaming, partly offset by improved hardware margin and lower costs.

FY20 was a big year of delivery. We extended our 5G leadership and network differentiation, moved around half of our mass market postpaid customers to in-market plans, scaled our loyalty program, continued our multi-brand execution, grew digital engagement substantially, and reshaped our pricing across brands and channels.

FY20 EBITDA does not reflect the positive impact of these achievements, however, in FY21, despite the continued impact we expect from international roaming, we anticipate gross margins will turn around at the end of this calendar year, as previously flagged, and mobile EBITDA will return to growth in the second half of FY21.

Fixed EBITDA excluding one off costs to connect declined $873 million. This includes a $630 million revenue decline, and $380 million increase in network payments to NBN Co. These were partially offset by cost reduction.

Our NBN resale EBITDA margin, excluding one-offs, is negligible. Legacy margins have also declined with diseconomies of scale. These headwinds to fixed EBITDA are likely to continue in FY21.

Greater than 80% of our mass market migrations to NBN are now complete, and going into FY21 our focus is on improving underlying economics through digitisation, advocating for lower NBN wholesale prices, improving plan mix and increasing add ons, and enhancing customer experience and differentiation.

Turning to data and IP, where EBITDA declined 17.5% due to reduced revenue on high margin products, and a moderate reduction in costs. In a challenging market that includes NBN impacts, we executed a strategy focused on maximising long term economics. This resulted in lower CapEx, offsetting some of the EBITDA weakness. We will continue to evolve our offerings over the coming months, however, the broad financial trends are expected to continue in FY21.

NAS had a strong EBITDA growth due to our focus on profitable revenue, unified communications and significant cost reduction. We do not expect the same level of cost reductions in FY21. EBITDA margins of 18% in FY20 were consistent with our mid-teens margin outlook.

In global connectivity, excluding one-offs and in constant currency, EBITDA grew 10%. This was as a result of the continued pivot towards higher margin products and delivery of cost reductions. We expect continued growth in global current activity in FY21, though not at the same rate as FY20, as the period has included one-off benefits.

Other growth in FY20 includes improvements from media and health, and some one-offs, including software losses dropping out after the sale of Ooyala. Given the one-offs included, we do not expect this level of other EBITDA growth in FY21, although we expect to see continued improvement in Health.

Turning to free cash flow, which you can see on slide 17. Free cash flow after operating lease payments increased 7.2%, largely due to lower CapEx more than offsetting lower underlying EBITDA. CapEx has reduced from FY19, despite us bringing forward some 5G spend as announced in March. As expected, we saw a working capital movement of negative $1 billion in FY20, largely due to increased handset receivables from the exit of mobile lease plans. This included a $500 million working capital improvement in the second half of FY20 through inventory management.

Moving to dividends. The Board has resolved to pay a final dividend for FY20 of $0.08 per share, fully franked, including an ordinary dividend of $0.05 per share, and a special dividend of $0.03 per share.

This brings total dividends for FY20 to $0.16 per share fully franked, including ordinary dividends of $0.10 per share, and special dividends of $0.06 cents per share.

FY20 ordinary dividends represent a 99% payout ratio of underlying earnings. In determining the final dividend, Board considerations included the importance of dividends to our shareholders, the objectives and principles of the Capital Management Framework, the estimated impacts resulting from the COVID-19 pandemic, and our free cash flow, which is higher than accounting earnings. A full reconciliation of reported to underlying earnings is available in the appendix.

The special dividend represents an in-year payout of net NBN one-off receipts of 66%, and we have returned 65% of cumulative net one-off receipts received to date.

I know dividends are important to our shareholders. Deciding the appropriate dividend is a matter for the Board, and we do not provide guidance on dividends. Our focus is on driving the underlying earnings of the business, and our ability to do this is critical to the dividend outcome. We remain clear that, adjusted for recent accounting changes, our EBITDA post the NBN needs to be in the order of $7.5 to $8.5 billion to pay a dividend around $0.16 cents under the 70 to 90% payout ratio in our Capital Management Framework.

Turning to a capital position as you can see on slide 19. Our balance sheet remains strong, as does our liquidity position. We remain within our comfort ranges for all our credit metrics. Net debt declined $900 million in FY20, excluding an additional $3 billion of lease liabilities recognised under AASB 16. Under our T22 strategy, we have now announced over $1.5 billion in asset monetisation, following the recent $417 million Clayton property sale.

Our reported and underlying return on invested capital was 7.6% and 5.4% respectively. We do not expect our FY21 ROIC to grow, and the anticipated COVID related impacts contribute to this outcome. Based on our current outlook, we have revised our T22 ROIC target to greater than 7% by FY23.

Several things have changed since we set our ROIC ambition as part of T22 in June 2018. We have experienced a deeper competition across products and a slower return to growth, especially in mobile. In addition, AASB 16 was implemented, resulting in a one percentage point reduction in ROIC, which previously caused us to push out our target by a year. In the same period, our weighted average cost of capital has also reduced by approximately 1.5 percentage points, bringing it to around 6%. Importantly, our revised FY23 ROIC target brings our ROIC back above this cost of capital.

Over the long term, our ambition is to grow ROIC, with the following considerations. An appropriate level of return above our cost of capital. Our Capital Management Framework, external benchmarks and competitiveness relative to peers, and delivering earnings that support our dividend aspirations. We will talk more about our longer term ROIC ambition as we approach the end of T22.

Turning now to FY21 guidance, which you can see, along with the assumptions and conditions upon which we have provided them, on slide 20.

We expect FY21 underlying EBITDA to be in the range of $6.5 billion to $7 billion. Within FY21 we expect underlying EBITDA to be stronger in the second half. We anticipate the first half to remain challenged, including by the ongoing COVID-19 pandemic and NBN headwinds. Our second half performance will be supported by stronger cost out and expected improvement in product margin trajectory, especially in mobile.

Underlying EBITDA guidance assumes an in-year NBN headwind of approximately $700 million. Details of the headwind can be found in the appendix.

At the end of FY20, we estimated we had absorbed around 75% of the total recurring financial headwind created by the NBN. Based on our guidance, at the end of FY21 we estimate we will have, we will be over 90%.

To achieve growth excluding the in-year NBN headwind in FY21, our underlying EBITDA will need to be around the midpoint of the guidance range. We estimate that in FY21 the negative impact from the COVID-19 pandemic will be approximately $400 million on underlying EBITDA, or approximately $200 million greater than our estimate for FY20. This impact is across the following factors. A decline in international roaming, where we have assumed no recovery in FY21, with an estimated $200 million impact. Our decision to delay productivity job reduction announcements under T22 to February 2021, which contributes $100 million. And a further $100 million of impact made up of delays and descoping of some customer contracts for NAS professional services in the first half, and customer support packages. We have not factored in additional COVID related bad debt provisions in FY21. We will continue to assess and monitor impacts.

CapEx guidance is consistent with our Capital Management Framework at a CapEx to sales ratio of approximately 14% excluding spectrum. This CapEx guidance includes investment in 5G, planned to reach 75% population coverage by June 2021. Free cash flow guidance excludes $417 million of financing cash flow from the recently announced Clayton property sale.

To conclude, we have delivered on our FY20 guidance and maintained our dividend. We retain balance sheet strength and have issued FY21 guidance. Finally, I would also like to take this opportunity to recognise and thank our dedicated teams right across Telstra. I'll hand back to Ross for Q&A.

Analyst Q&A

Ross Moffat: Thanks, Vicki and Andy. Chantelle, can we now move to questions please?

Moderator: Thank you, Ross. Your first question comes from Eric Choi, UBS. Go ahead please.

Question: Hi, team. Thanks very much for the questions, and well done on balancing customer support measures versus shareholder returns so far. My first question is on the long term ROIC. It sort of suggests EBITDA in the low to mid sevens by FY23. Can I just check if that maths is correct, and if that's the case, it also suggests we're not expecting all of the $400 million of coronavirus headwinds to reverse, is that the case?

Second question on the dividend. I wanted to test the hypothetical where we switched to a free cash flow based dividend policy rather than EPS. My question is, how do we think about the ability to fully frank dividends? And how does this impact your debt ratio comfort zones and other credit metrics if we were to go down that path?

And then my last question is just on your recent price increases. So well done again on trying to repair industry returns, but I guess Optus isn't following near term, and Vodafone's beginning to tactically discount a little bit more. So my question is, how long do we hold on to these prices if competitors don't follow, and have we affected these price uplifts in the 7% ROIC target? Thanks.

Andy Penn: Thanks very much, Eric. It's Andy, and I'll make a couple of comments and then respond.

On your first point about ROIC – sorry, EBITDA and needing to be $7 to $7.5 [billion] to achieve in excess of 7% [ROIC], I mean, essentially, we've previously said that to pay a $0.16 cents dividend, our EBITDA would need to be in the range of $7.5 to $8.5 billion dollars. We would say that that's a similar range that we would want to get into to deliver ROIC above 7% at the low end of that range, as well. So I think the two are sort of interrelated and consistent.

We've got some movement below the line on ROIC as well, so we obviously do not receive the one-off payments from NBN really post-2023, so that impacts below the line into NPAT and therefore ROIC. But on the flip side, we expect to bring D&A[down reasonably materially as a consequence of our reduced CapEx, we expect to get some savings on our interest costs as well, and also wouldn't expect to repeat some of the other things that have impacted the NPAT this year, such as restructuring costs and impairment of Foxtel. So there's a bit happening below the line as well.

On the point about dividend, there hasn't been a change of policy, but there is a bit of a structural shift happening for us, which we expect to sustain over a longer period of time between our cash earnings and our accounting earnings, where our cash earnings will be quite a bit lower – sorry, our cash earnings will be higher than our accounting earnings, and our DN&A will be [higher][1] than our cash CapEx, and so that actually assists us in that regard.

And that goes a bit to your other point about supporting the balance sheet and the strength to the balance sheet and liquidity to be able to support the dividend.

And then in terms of the price, and I'll get Vicki to add a bit of colour on these; in terms of the price increases, we believe, particularly against an environment where ARPUs have come down over the last three years, it's important to get value back into the mobile sector, particularly as we move into the 5G period and invest further into 5G. And so we're committed to our price increases.

I mean, to be honest, activity has been lower in the second half of FY20, and as you would have ordinarily expected to be the case, just as a consequence of, I guess, restrictions from COVID. Having said that, you saw our net postpaid handheld subscriber numbers are very, very strong I think for the year, when compared to the rest of the industry.

Look, so we are committed to continue to try and improve the overall profitability within the mobile industry, at the same time as putting more value into our plans through the rollout of 5G, the extra data we're providing, the media offers we're providing as well. I can't comment on obviously what competitors will do. But why don't I hand over to Vicki at that point?

Vicki Brady: Thanks Andy for that, and thanks Eric for your questions. I would just, as you look at that long term ROIC target, and thinking about where our EBITDA needs to be, I'd just reinforce what Andy said. There's quite a bit happening below EBITDA, so as I mentioned we do expect a significant step down of around $300 million dollars in D&A in 2021, and approximately the same amount again in

[1] Verbatim "lower"

2022. I would also say our finance costs we expect to reduce, given lower debt cost, and looking at our maturities. And then finally, yes, restructuring as well. As you look out to 2023, we wouldn't have the restructuring costs we've incurred in 2020, and as Andy said the impairment we took in 2020 as well.

Andy's covered off I think well on dividend. And just a final comment; yes, we've put our new pricing into market. At this point we're really pleased with how customers have reacted to that. As we've said before, we think this is an important point as 5G scales up, and we think it's really important, and customers know it's important, they really balance value, quality and price. And with our leadership position in 5G and our extending network differentiation, that's what we're really focused on and committed to, and our competitors will choose to react as they see fit.

Question: Thanks for the colour, Andy and Vicki.

Moderator: Thank you. Your next question comes from Kane Hannan at Goldman Sachs. Go ahead please.

Question: Morning guys. Just three from me as well please. Maybe just to start, I suppose just trying to understand what has changed to drive that ROIC target so much lower on a [FY]23 basis? I mean, if I think about your mobile EBITDA and your NBN infrastructure payments I think are $4.3 billion for the full year. Given those price changes, recovery in international roaming, the progression of the NBN rollout, that should drive some pretty healthy growth in the collective EBITDA of those two businesses. So it looks like the change in growth target is almost downgrading your non-mobile, non-NBN, Infra earnings by nearly 30%. So I suppose just trying to understand what's changed here in terms of you're thinking since February?

Secondly just following up on the targeted fixed wireless comments you made. Andy, just interested if you would give us a bit more colour around those plans, and then I suppose how we interpret the word 'targeted'? And then just in the impact, what sort of impact do you think they'll have on your ROIC for the Group?

And then finally just the recent Enterprise price changes. Just interested if you'd comment on what impact they've had on your FY21 guidance, and I suppose what that means for the longer term data and IP EBITDA. Cheers.

Andy Penn: Thanks very much Kane. Look, on the ROIC point, I think obviously we need to acknowledge that the 10% target that we were hoping to get to is not going to be deliverable. I mean I think there's a combination of factors. I mean, we're delivering against growing our business in terms of customer numbers, we're hitting our productivity numbers, we're on track in relation to our rollout of 5G, we're delivering 75% population coverage within the CapEx guidance.

But I think the bottom line is not just in the last few months but over a period of time, the outlook and the challenges got tougher. The overall estimated long term impact of the migration to the NBN has increased, not necessarily in the last six months but over time. Mobiles which we've been pushing to try and turn around as you see, that activity in relation to our price increases, that's taken longer. I mean we're optimistic that's going to happen.

And then we're seeing some accelerated disruption in Enterprise, which we spoke about at the half year as a consequence of SD-WAN, and that goes into the comment really around pricing in data and IP, and also some expected in UC, unified communications, as well, I guess slightly accelerated by the COVID experience of everybody going online, working and studying from home. So I wouldn't say it's any one point.

And then just contextually, yes, we had already called out the 1% impact from AASB, but that remains then, you know, our aspiration was to try and absorb that, but realistically we're not going to do that by FY23. And then as Vicki mentioned, the cost of capital has come down against the background of all of that.

So this target is for FY23. It's not necessarily our long term ROIC target. We will talk about that when we talk about what comes after T22. But that's probably as much as I would say on ROIC for the moment.

On fixed wireless, the reason 'targeted', the choice of that word is fundamentally to recognise that fixed wireless is not necessarily the right solution for every customer. It's definitely a very viable and particularly attractive option for customers whose experience may not be the best, either because they're in a, perhaps a fibre to the node area, where they've got a long lead line on their service and therefore they're not receiving the best experience, or where they're getting a fixed wireless service, but over an NBN network, whereas in fact a 5G fixed wireless solution could be more interesting. So we're launching on a targeted basis to (1) make sure we're targeting the right customers, and then (2) as we learn from that experience as well.

And then in terms of Enterprise pricing in relation to where FY 21 goes, to your point, obviously not a huge impact in relation to FY20. It will have an impact in a FY21, but I don't think we called that out separately. But with those comments I'll hand over to Vicki.

Vicki Brady: Thanks Andy for that. I'll just pick up that last point. So Kane, yes, your question about the recent Enterprise price changes, they are absolutely reflected in our outlook and our guidance. And I would just touch on the Enterprise data and IP space has been one of those areas that has faced increased disruption and technology shift and NBN impact, and so yes, it is one of the parts of our business undoubtedly from where we embarked on T22 it has faced greater disruption and price competition than we anticipated, and that's reflected in the FY21 guidance and our FY23 ROIC target as well.

Question: Thanks guys. I mean, just I suppose following the Investor Day comments late last year around the data and IP outlook on a longer term basis, I think it would mean we wouldn't be expecting the earnings to halve from that $1.5 billion dollars. I'm just interested if there's any change in that following the price changes and these ROIC comments?

Andy Penn: I'm not sure I have – I don't think – I mean, Vicki, you jump in, but I don't think that our strategic perspective has changed. There's no doubt there's some disruption happening in the Enterprise market, and there's a number of dynamics happening there, there's over-the-top technologies, SD-WAN on the one hand, we saw a more significant encroachment than we'd originally expected from NBN into Enterprise.

On the flip side, the importance of high quality and dedicated connectivity has only been heightened through COVID and NBN appear to be backing off a little bit in relation to Enterprise. And actually we're also finding that some of our Enterprise customers that might have chosen to go to an NBN service are now actually having second thoughts, at least in relation to part of their networks, given the criticality of the connectivity. So I don't know that it's changed that materially. But I don't think, candidly Kane, these things were obviously hard to predict, particularly in the current environment. But Vicki any further thoughts from you?

Vicki Brady: Yes, no, thanks for that Andy and Kane. Kane, obviously we don't provide longer run EBITDA outlook by the various divisions, and obviously all of those things that Andy's just talked about are factored into that overall change in our ROIC outlook for FY23. So that's the only thing I would add.

Question: Cheers. Thanks guys.

Moderator: Thank you. Your next question comes from Entcho Raykovski at Credit Suisse. Go ahead please.

Question: Hi Andy. Hi Vicki. I've got three as well. So firstly if I can dig in a little bit more on that $600 million COVID impact over the two years, maybe to ask it more directly. How do you expect that to play out in terms of coming back? So do you expect the majority to come back over time? Obviously the roaming is a bit uncertain in the current environment, but just interested about the various elements, if you think they are permanent or not?

And then secondly mobile churn has fallen significantly in the period. I think it's down to 11.2%. So sorry if I missed this, but can you talk about what you're seeing between Telstra and Belong, and whether that churn reduction is COVID related or whether you feel particularly strongly about your brand at the moment?

And then just finally, can you comment on where the bad debt provisions are coming from? So is it consumer, is it SME, Enterprise? And just looking through your accounts there's been an increase in trade receivables past 91 days due that's gone up from $125 million to $267 million. I presume you've seen this as appropriately captured?

Andy Penn: Yes, no, look, thanks for the questions. I mean, just a couple of high level comments from me, then I will let Vicki respond.

Of the $600 million, I mean, Vicki can take us through what that comprises. But given it covers bad debt, support arrangements, some deferral on some of the productivity elements, they're all in my mind – international roaming – they're all in my mind a pretty one-off. I guess the open question, and anyone can give me some advice on this I'd be grateful to receive it, is just the timing of when international travel recovers to the extent we've experienced in the past. And so that one's a bit hard to predict.

But on mobile, I think we have seen a lot of activity at the bottom end of the market, and in fact that was really the strategy of why we launched Belong into mobile in the first place, was to make sure that we didn't allow Telstra branded to get dragged into the bottom end of the market, or compete at the bottom end of the market. I think that strategy is working well. We've seen more activity at the bottom end than we probably want to see. But we are also lifting Belong TMMC, as well as branded TMMC, and we've made some further changes on pricing in Belong, lifting up the bottom end of their pricing plans as well.

And then on bad debt, it is across consumer Enterprise and it's small business, I think just in terms of the sector, but I think, I don't actually know whether this translates into bad debt, but clearly a sector which I think's been impacted significantly is small and medium business in particular I think is feeling the pressure from COVID. But Vicki, comments from you?

Vicki Brady: Yes, thanks for that Andy and thanks Entcho for your questions. Just to talk a little bit more about the COVID impact. So if I focus on 2021 and our estimated $400 million, as you as you said, the roaming piece is uncertain, and it is $200 million of that impact in 2021. Obviously I think we all hope to get back to international travel at some stage, but it is unclear when that will be, and until that happens obviously international roaming continues to be impacted.

On the $100 million of productivity impact from the delays in our T22 productivity job reductions, that is timing. Clearly that's something we will come back to in February 2021, and so that productivity is not a permanent change, that is just a timing change.

In terms of the customer related support packages and the impacts on our NAS professional services, again timing is uncertain, but we would certainly hope that they are temporary impacts, not permanent impacts. So that's the comments on COVID.

In terms of mobile, yes, it's a good reduction in mobile churn in the second half. We have seen lower activity levels across the market as you would expect, both activations and churn, and in fact we've seen churn improve in branded and in Belong in the second half, just linked obviously to lower activity in the market.

And then finally on bad debt; yes, we've taken an additional $36 million in bad debt provisions. It is across the portfolio. So we did a full review of the entire receivables portfolio to assess potential COVID impact. I would call out this is a slightly newer territory for us, because we haven't historically had a correlation between macroeconomic indicators and our bad debt for our receivables portfolio. But in light of how uncertain things are, and how significant the economic consequences, we did do that assessment, and that $36 million is across the portfolio. It does weight, just given the size of our business, it does weight more heavily to consumer and small business. And yes, you've picked up in the notes that increase in trade receivables 90 days plus, and yes, the provisioning we've done does factor that in.

Question: Okay great. Thank you. And just a quick follow up; Andy, you mentioned that TMMCs for Belong have increased as well. Is it a similar sort of increase to that $2 you've seen for the branded component?

Andy Penn: Vicki, are we able to comment on that? I know it's lifted.

Vicki Brady: It did lift. We haven't talked specifically about the increase in Belong.

Andy Penn: Yes, so look, it is lifted, and we have reduced the – we've taken out some of the lower end price plans as well, so I expect to lift further, but I won't make, I can't make a further comment on the proportion between Telstra branded and Belong.

Vicki Brady: And it's an important point Andy. The $10 price point has been removed from the market. So we do expect continued improvement.

Question: OK, that's great. Thank you.

Moderator: Thank you. Your next question comes from Craig Wong-Pan, CLSA. Go ahead please.

Question: Good morning. First question, just on your 103,000 postpaid subscriber net adds. How much of that was coming from Enterprises that transitioned staff to work from home? And then can you comment on whether that split was across your Telstra branded or Belong branded subs?

The next question on your postpaid ARPUs, just thinking around FY21, it sounds like you're going to see a decline in ARPU in the first half but then growing in the second half, as well as seeing improving margins. Could you just talk about what are the factors that drive that evolution?

And then the third question on InfraCo, there was growth in recurring EBITDA, but a decline in legacy earnings. I'm just wondering if you can say how much legacy earnings are still left in InfraCo that could roll off? Thanks.

Andy Penn: Thanks Craig. The Enterprise contribution, I'm pretty sure I'm right in saying it's not Belong, it's all in the branded sector, Vicki, and it was in the second half only that that made a contribution. So I think it was quite a bit of the net positive in the second half. But we also had net positive in the first half as well.

In postpaid decline again, Vicki will put a bit more colour into this. It's really a function of the flow through of the TMMC through into ARPU that ultimately is going to lead to that turnaround in conjunction with the additional headwind of roaming that will impact as well. I might go to Vicki on those two, and then I can come back on the [Telstra] InfraCo recurring EBITDA comment. But can you just restate the question, because [Telstra] InfraCo's obviously also impacted by the migration to the nbn by virtue of the wholesale revenues, where the service is declining. So what was your question?

Question: Yeah, I mean it was really around the legacy earnings. So there was a decline in legacy earnings in InfraCo. I was wondering if you can comment on how much legacy earnings are still left in InfraCo that might disappear over time?

Andy Penn: Yes. Yes, OK, let me come back to it. Vicki, why don't you just go and cover the first two?

Vicki Brady: Yes, thank you. And thanks Craig for those questions. So just starting with your question in terms of our net subscriber adds, so yes, in the second half, 103,000 postpaid handheld SIOs. 63,000 was Belong, 40,000 branded, and Enterprise was a strong contributor to that 40,000 in the second half. As Andy called out, for the full year however we did add 86,000 branded SIOs for postpaid handhelds, so hopefully that helps clarify that one.

In terms of mobile ARPU and closely related to that is mobile margins and EBITDA returning to growth. As I spoke about at the half, we had a lot of things pulling down on our ARPU. One of those at the half was the pricing flow through. So it's the big thing that we will see shift. So TMMC is our lead indicator, ARPU obviously the lag of that. And so the big change we see as we head into FY21 and particularly into the second half of the year is the flow through benefits of that higher TMMC into our ARPU. So that's the biggest contributor there.

We see those other trends that I spoke to around Belong dilution, the out of bundle voice and data, the accounting change for the new plans all being reasonably consistent, and yes, we're expecting the roaming impacts to all flow through. Even with all that in, as I said that change in terms of the TMMC flowing through is a big change, and that's what returns our ARPU, we expect to return our ARPU to growth in the second half, and that's the biggest contributor in terms of margin for the mobile business as well. Andy?

Andy Penn: Yes, just coming back on the [Telstra] InfraCo one, if you go to slide 32 in Vicki's presentation, you can see that the proportion of the legacy is effectively 20%. That's down from 27% in FY19.

Question: OK. And sorry, just to follow up on that. So that that 20% contribution from legacy, can that be transitioned to other earnings, or is that likely to be competed away?

Andy Penn: No, I mean effectively it does roll off over time. But at the same time setting up of [Telstra] InfraCo is what's creating us opportunities to monetise the assets in a different way, and so that's what Brendon's working on right now.

Question: Okay thank you.

Moderator: Thank you. As a reminder, it is star then one to register for a question today. Your next question comes from Sameer Chopra, Bank of America. Go ahead please.

Question: Morning. I hope everyone's safe. I just have two questions please. One is on franking, and I'm just wondering if you can give us some colour on how the franking position of the company will changed through FY21? I realise things like depreciation are coming down, which could see a higher tax paid. But if you could give us colour around franking and how the franking balance will move to next year, that would be helpful.

And then the second one is what's the outlook for the working capital in FY21? Are there any sort of puts and takes we should be thinking about on working capital as the NBN disconnection payments can come off? Thanks.

Andy Penn: Thanks Sameer. Thanks for your kind comment on everyone's safety. Vicki, are you able to take Sameer's questions on franking?

Vicki Brady: Yes, absolutely, thanks Andy, and thanks Sameer for those questions. So firstly Sameer, I would point you to note 4.1 in the accounts, I think it's page 54. You can see our franking balance there at June 2020. So we're in a good position at the moment in terms of franked dividends. Obviously longer run, to pay a fully franked $0.16 dividend we need earnings per share at $0.16, and that's where as I spoke to and Andy has spoken to before, we need underlying EBITDA greater than $7.5 billion post-NBN to support a $0.16 dividend. So I think we're clear on that.

In terms of working capital, we do still expect some overall net small negative working capital impact in 2021, and that's largely still due to our decision to exit mobile handset leases. And so it's the lease receivables, handset receivables that continue to have a smaller working capital, net negative movement for us. So on balance putting all of the pieces of working capital together, we will have a smaller net negative move in FY21.

Question: Thanks once again. Maybe if I can just ask one other question on CapEx. Andy, you mentioned that there's scope there for the company to try towards 12% CapEx to sales. I realise that currently you've brought forward a lot of CapEx. Do you think that's still an ambition to track towards that 12% target?

Andy Penn: Absolutely Sameer. I mean if anything, I'm increased in my confidence on that, because we've already got to one third population coverage with 5G. We brought forward $500 million, which in a sense it doesn't impact the FY21 year in a material way because it's bringing it forward from the second half to the first life plus also a bit into FY20. But that's enabling us to go hard to accelerate the rollout, so we'll be at 75% population coverage by the end of FY21 within our I think roughly 14% CapEx to sales ratio, and then we said post the NBN we would expect that number to trend closer to 12% than 14%, and I feel more emboldened on that than previously.

I think the only thing that remains is not so much a caveat to that, but just to be aware of is if fixed wireless was a very material rollout, which I'm not necessarily anticipating, and that means you would have to go very hard on small cells, then that's not necessarily factored in. But I'm talking about a very significant fixed wireless approach. So that's the only other comment I would make. And look, I'm confident we will be able to move much closer to 12% over the next two or three years.

Question: Thanks Andy, thanks Vicki.

Moderator: Thank you. Your next question comes from Andrew Levy, Macquarie. Go ahead please.

Question: Thanks for the questions. My first question is this. If you land around the midpoint of your guidance for this year, and you want to get north of $7.5 billion to sustain the dividend on the current policy, and assuming that dividend policy holds, but I'm sure that's your ambition anyway to get north of that, just wondering Andy if you could talk to the bigger buckets that you might be able to unlock over the next few years? It looks like corporate is going to continue to be a bit of a drag. So net of that you're probably going to have to do $700 to $1 billion of EBITDA growth. So between the unwind of the COVID impact, mobile opportunity, maybe it's more fixed cost savings. If you could just talk to how you're thinking about in large buckets, are you thinking about closing that gap medium term?

The next one is just on NBN profitability. The first one is on the NBN headwind. How much of that would sit within fixed, and how much would fit within data and IP in the coming year? And also on NBN profitability, I know it's not going to be profitable, but it looks like from the comments that you've made that it's potentially loss making and very, very marginal within Telstra. But if we look at least one of your competitors there is money that can be made on NBN, even if it's not great. So I'm just wondering why Telstra can't get more efficiency in NBN delivery given its scale and where it's going to land?

And the third one Andy is just a high level question for you on corporate responsibility. You're obviously committing a bit of money to protect your staff through this period, and have made a few actions in the national interest, so just wondering if you could make some comments Andy on balancing that against I guess direct shareholder interests, and how those two can align in your view? Thanks.

Andy Penn: Thanks Andrew. So firstly in terms of the first question, you were saying if we land at the midpoint of guidance, how do we get to around $7.5 billion of EBITDA. I mean, I think the first point, as Vicki's called out, there's about $400 million worth of COVID headwind in the guidance outlook. So that's a big component. We've got more of the NBN headwind to absorb on the one hand, but then we've got productivity built in that we believe will offset that, and so that gets us to around about $7.1, $7.2 [billion] number, if my maths is correct there.

And then we probably have some headwinds in the data and IP portfolio just in terms of market dynamics, and potentially fixed outside of the NBN, but then we've got NAS continuing to grow, international continuing to grow, and of course the big ticket item is the mobiles business. If we can get with a $10 billion revenue, of which there's obviously some hardware in there as well, but if we get some ARPU growth, that's going to be the material driver of that profitability. And then there's some things below the line which obviously are relevant ROIC and dividend paying capacity as well. So that would be my comments there.

In terms of NBN profitability, if you look at our reported ARPU on fixed broadband, I think it's around $71, $75 or something like that, it's probably slightly lower in relation to NBN as we are still partway through the migration to that, and we've got input costs there of around $45, $46 already that we pay to the

NBN.

Now, yes, granted, we need to bring down our cost to serve and cost to connect which we are doing. But I won't comment on the competitors' profitability, but even if we can improve the efficiency of that, which we will absolutely do, it still means that the margins are pretty small on reselling NBN.

And the fundamental problem is, is that if your wholesale price is two thirds of the retail price, which essentially it is, that's what makes it incredibly challenging, when as a retailer you've got to distribute and market the product, you've got to service it, you've got to manage billing, you've got to put in modems, deal with a lot of the complexities of the administration and the management and the service of NBN. So fundamentally that's the issue. But look we will absolutely improve the efficiency and profitability of it, but I'm just saying that there's a bigger structural problem there as well just given where wholesale prices are today, and where NBN's ARPUs are intended to get to.

And then on corporate responsibility, look, fundamentally the last thing I want shareholders to do is take away any type of message that we're not 100% focused on returns to shareholders. We absolutely are, very much so. It's just that I would make the point that we have to have a mind to the market and the environment in which we operate, and particularly for Telstra, because telecommunications is very much seen as an essential service. Many people feel it's a human right in terms of connectivity, in fact the UN does describe it as such.

We provide, we're the only provider for many regional and rural communities. We have many customers who are vulnerable, and during this period of time when being connected is more important than anything, particularly when vulnerable people need to be able to access welfare support and government, and where many of those services need digital capability to be able to so, it's critically important that we play that role. It will backfire for all of us if indeed we don't do that. And so this I'm convinced is the right thing for us to do over the longer term for shareholder value.

But please, please be assured we are committed to our T22 transformation and turnaround, we are committed to the productivity. We will make the productivity changes, we will complete the program and we will follow through on the headcount reduction that arises as a consequence of that. Ultimately what we will have done is made a decision to essentially defer that for somewhere in the realms of six to 10 months, which in the scheme of the broader program in the organisation and in the current environment we think is the right thing to do.

One of the important notable factors is our employee engagement has increased 16 points to 83, the highest level that has ever been at Telstra in the last 12 months. Our corporate reputation has never been higher. Our brand consideration is higher. Undoubtedly we are winning lion's share of net subscribers in the mobile market. We're able to make the price changes that we have. So they're all contextually important factors in how we think about ultimately our job, which is to provide an attractive return for our shareholders.

But as I said in my speech, I don't think we'll be able to do that in the long term if we put at risk our corporate reputation, our brand consideration, and our employee engagement. And that's the balance, and it's a tricky balance, Andrew, and I'm acutely sensitive to the audience today to which I'm speaking, which is our investors and they may or you may feel on their behalf that we're not giving them enough priority. I really want to assure you, we've had deep conversations about this at the Board. We fundamentally believe this is the right thing to do and in the best interests of shareholders. And the economic aspects of it are relatively minor and when you look at it in the context of the broader Telstra organisation.

Question: Yes, no, thank you for that answer, I think you've explained it well, and well done on where you landed. Can I just follow up, I don't know if you guys have the numbers on the NBN headwind. How much would fall into the fixed category and how much would be data and IP? Thank you.

Andy Penn: Yes, sorry Andrew, I missed that. Vicki, do you want to have a go at that one?

Vicki Brady: Yes, look I'll jump in and grab that one. Andrew, we haven't split it out in terms of fixed versus the Enterprise impact, but the comment I would make, if you look at our mass market fixed business, we've now transitioned around 80% of our broadband customers are on the NBN. So the mass market transition timing wise is ahead of the Enterprise impact in our view.

And the only other comment I'd make just going back to how we look at that NBN headwind, obviously when we put that and we do those estimates, we looked at the decline in the fixed and Enterprise businesses in the several years prior to the NBN, and then anything above that, so that was in the range of 3% to 5%, so any decline above that is part of the NBN headwind. So they are just the comments I would add.

Question: That's great, thanks for all the answers.

Moderator: Your next question comes from Brian Han, Morningstar. Go ahead please.

Question: Good morning. Has the strategic priority of the Belong brand changed at all? I would have thought the importance of Belong would take a backseat slightly in light of the TPG/Vodafone merger, but it looks like it's now playing an even more prominent role?

And also Vicki, on NAS, even after adjusting for the AASB impact, it looks like EBITDA margin is still around 16% or above the mid-teens target. Is your view on that long term mid-teens target, margin target changed at all?

Andy Penn: Thanks Brian. It's Andy. Look firstly in relation to Belong, it's a good question in the sense of – to your point. I mean we launched mobile in Belong at the time, and we made the decision to at the time of the move of TPG into the mobile market, and to your point the merger with Voda has changed the dynamics of that a little bit. Notwithstanding that, it's an important tool for us to participate in the sector of the market which we may not necessarily have been previously, the natural go-to and/or as well represented. And it's also been helpful for us to try and mitigate some of the competition and the lower end plans of our competitors, and also against some wholesale MVNO providers as well.

And so I think it's a careful balance to make sure that what Belong is doing is adding value overall to Telstra, and ensuring that we protect the Telstra main brand to maximise the growth of that, as well as I say manage the dynamics at the value end.

So the role of Belong, or our strategy on Belong, hasn't philosophically changed. How we manage that dynamic I think is a function of the external market dynamics, and notwithstanding your implicit point that the TPG and Voda merger is now gone ahead, the bottom line is we have seen very, very intense competition on mobiles and on pricing on mobiles, particularly down at the BYO end and the lower end over the last two to three years, and Belong has enabled us to protect the Telstra brand a little bit from that as well.

And also as I mentioned earlier in the call though, we have also taken lifting, taking some of the lower end plans out of the Belong portfolio at the moment and lifting TMMC on Belong as well.

On the second point about AASB and its impact on NAS, I mean the strategic point that I would make is yes, I mean our target is obviously to maximise our EBITDA and grow EBITDA in the NAS business. You're right though, I mean, over the longer term we would envisage the EBITDA margin on that business is in or around the mid-teens, that we've done a great job in getting a bit better than that and really getting to that point. And obviously we want to keep it there and maximise it to the extent possible. But that's roughly speaking the right margin when you think about the level of CapEx and what that business entails. But Vicki, comments from you?

Vicki Brady: Yes, thanks for that and thanks Brian for the question. Just on our NAS EBITDA margin, it is 17.5% for FY20, and as you point out, yes, we restated our margins given the AASB 16 impact. That was about a 1% impact. So if you think about mid-teens, even with that in we're pleased with the 17.5%. And as Andy just said that's the sort of level we think is the right return for this business.

Question: Thank you.

Moderator: Thank you. Your next question comes from Ian Martin, New Street Research. Go ahead please.

Question: Thanks. I've just got a couple of questions if I could. First Andy, you mentioned agreements now set up with InfraCo, Heads of Agreement, SLAs and so on. And the classic problem with this kind of separation issue is, do you start to get interests that move out of alignment with the overall Group interests? So I just wondered what you could say about those? In particular the management KPIs, to what extent are they based on say InfraCo's ROIC targets and so on versus the Group ROIC and EBITDA targets? That's the first question.

And then in relation to NBN pricing, you would have seen the NBN result this week. There's some pretty strong hints that we'll be looking at another upgrade program at NBN, possibly if they're upgrading fibre to the node that could be $6 or $8 billion. So cash flow is going to remain very important for NBN for the next few years, and that I think removes the possibility of price relief at NBN, particularly CVC price relief. So I just wonder just how sensitive those T22 targets, EBITDA targets and so on are to NBN pricing? I presume you're not expecting, well they haven't built in any price relief into those kind of targets, and particularly the business pricing environment seems to have taken a turn for the worse lately. If you can comment on those two things, thanks.

Andy Penn: Yes, no, look thanks Ian. Let me take the second one first. You're spot on. We have not assumed any sort of change to the wholesale pricing approach or levels from NBN in relation to any outlook comments we've made today or in our plans. And I did note the comments around the upgrades, and you've heard me say more strategically, I mean, fundamentally that's absolutely what has to happen, which is not a criticism in any way of NBN, but the telecommunications network is unlike other forms of infrastructure, you don't just build it and then you can all pack up and then just use it, it actually requires constant upgrading.

I mean even just since the announcement of the NBN and the decision of the policy, we've gone from 3G to 4G to 5G in mobile technology. 5G is actually 100 times faster than 3G and 100 times more capacity, and that is analogous. So they will have to upgrade the electronics on where they put fibre to the home, they will have to upgrade the HFC, upgrade DOCSIS 3, maybe have to do some of the cabling to build out further, and get in and replace some of the copper, upgrade VDSL. That's what the telecommunications industry is all about.

And so one of the things I've been advocating for is now an opportunity to reset a 10-year vision for the telecommunications sector for Australia, because it is going to be fundamentally important to the backbone of the digital economy. And therefore in that, what we need is a sector which has got attractive, or rather attracts investment, attracts innovation, provides reasonable returns on invested capital for the industry, and ultimately facilitates that successful environment. And that's going to include NBN obviously very, very materially. And yes, on the one hand NBN is going to need those cash flows to help support the upgrade. On the other hand if all it's going to do is push retail prices up, because that's what's going to ultimately have to happen, then that's a bad thing as well.

And I get Stephen's obviously working within the constraints that he's been given, so he can't necessarily change the economics without the government playing a role in that with him. And that's why I think, my encouragement is the government needs to look at the success of Australia's digital economy, not just simply through the lens of the economics of the NBN. But to the point, we have not assumed any relief there or changes there.

On the [Telstra] InfraCo point, so just to be clear, so essentially Brendon, who's the CEO of [Telstra] InfraCo, his remuneration is fundamentally a function of the Group's remuneration. So all of my GEs are rewarded in terms of their variable remuneration based on Telstra the corporation's returns and results, and then below their level then also the people within the organisation are similarly, they have an individual component as well, and they're heavily influenced to the overall total company results as well. So that addresses the KPI point.

The other thing I would say is that I'm acutely sensitive to the point that you've said, and in fact in setting up of the agreements we have as a steering committee that has overseen this, and we have had external independent advice in relation to the establishment of that. One of the things I was very keen to do early on was to agree the terms of reference and principles of that independent advice, and they report to me. They don't report to [Telstra] InfraCo, they don't report to anybody else in Telstra, they report to me. And their principles are to maximise the value of Telstra overall in setting up those arrangements, and to ensure that where we've got strategic competitive advantage for certain reasons by virtue of the infrastructure, we preserve that. Where there's opportunity to maximise the value of the infrastructure without compromising that, we should do that as well.

And so I completely understand your point, and you're right to raise it, and we have thought very deeply about that and put in place mechanisms to mitigate the risk of that happening.

Question: Thanks Andy.

Moderator: Thank you. Your next question comes from Roger Samuel, Jefferies. Go ahead please.

Question: Morning all. Thanks for the questions. I've got two. The first one just on InfraCo. What's your current thinking around potential sale of your tower assets now that they are part of InfraCo from the 1st of July? And also there have been some news articles around Optus tower sales as well.

Second question is on the 26 gigahertz spectrum auction which is in March next year. So the government has set the competitive limit to one gigahertz. I understand that your competitors were pushing for 800 megahertz, so with one gigahertz, do you think that that's positive or negative for Telstra?

Andy Penn: Thanks Roger. Look on the tower question, we don't have any plans or otherwise to sell our towers. Our network is critically important to our overall strategic differentiation. Not all towers are the same by the way, of course, and we currently share a number of towers within our network, and so we'll continue to look at ways in which we can optimise the value of our assets. But we're acutely sensitive to the strategic significance and importance of our mobile network, and the differentiation it gives us.

The point about setting up [Telstra] InfraCo and the way in which we've set it up, as you know, we've set out [Telstra] InfraCo as a standalone business unit within Telstra wholly owned. But also, and we did this deliberately when we had the Investor Day, I can't remember when it was, end of last year, but we presented that slide that said you should think about [Telstra] InfraCo, not just [Telstra] InfraCo and the rest of Telstra, but you should think about also the different asset classes within [Telstra] InfraCo, so towers and fibre and pits and ducts and exchanges, and we're structuring those each separately and individually as well.

Because what that does, it gives us maximum flexibility to either take investment, or manage each of those asset classes differently. And so we don't have any current communicated plans or otherwise to do anything further, other than to continue to set InfraCo up in this way to maximise our optionality, and to put ourselves in the position that were we to want to do something structurally that we could do, either at the individual asset class level, but also at the overall level which is really against the background of ultimately whatever the plans for the government are in the longer term, vis a vis the NBN. But no decisions have been made in that regard at all. It's to give us the optionality and the flexibility to do that.

And a bit to the last conversation with Ian, is that this is a non-trivial exercise. This is a major, major, major piece of work, and getting this right is crucially important, because if you ever were in that sort of situation, you want to make sure you understand it exactly, and structure it in exactly the right way.

On the 26 gigahertz competition limit, so obviously you saw that overnight, and we're very excited by 5G as you've heard me say. I think millimetre band wave is obviously an important differentiating element of 5G relative to previous mobile technologies, and one gigahertz is very much in line with what we were hoping would happen. And so we see it as a positive. Looking forward to seeing the further detail and the interplay of this with the apparatus licence, which is at the end of this year, and the length of the leases and the structuring of payments and that type of stuff.

But at that high level we see this as good news. And all credit to the Australian government and ACMA in really continuing to push forward with creating the environment for Australia to be a global leader in in 5G, because it's going to be a transformational technology.

Question: Okay great. Thank you.

Moderator: Thank you. Your next question comes from Fraser McLeish, MST. Go ahead please.

Question: Great thanks. Andy, just again on InfraCo, and I guess the kind of decision making process and potential timing around the decision to do something there, and split it out or sell down part or whatever. But if it's about creating shareholder value, that when your shares are this kind of level, there is a pretty strong case that you should be doing something, and sooner rather than later you would have thought. And if it's also about doing something with the NBN down the track, you're going to have to split it out one day formally anyway. So why don't we bring that whole process forward, particularly if you've got it in much better shape operationally now? Thanks.

Andy Penn: Thanks Fraser. Well because I would, I guess, point out that you describe it as a process. I describe it as optionality. And they're two slightly different things. I mean, a process implies inevitably that we would separate our infrastructure business from the rest of our business, and effectively ultimately not have control of it. And I'm not sure that necessarily is the right thing to do, and certainly we have not made a decision to do that.

Now, the point about NBN optionality is that if NBN privatises, and who knows when that might be, I think we're still right in saying it is the stated policy of both sides of government for that to occur, were that to occur, then we know that we would not be able to participate in that as a vertically integrated telco, that's very clear, Rod Sims has made that clear and the Minister has made that clear.

And so therefore to give us an optionality to do that we would need to as you say separate those assets. But whether that's the right thing to do right now I think is still not clear. And I think it partly depends on what the circumstances are regarding any privatisation of the NBN. I mean it may or may not be in Telstra's interest to participate in that. It's just hard to know until that situation arises and the detail of that becomes transparent.

But look I still think though that what we're doing gives us the optionality to maximise the value of these assets by setting up these structures. And the most important thing is setting up these structures in a way that were we to have external investors invested in them, that we've got the structures set up very carefully and thoughtfully, so that they don't compromise in any way our ability to run the business effectively.

And I've commented on this previously, that Telstra splitting off its infrastructure assets, it's not like for example Wesfarmers demerging Coles, or BHP demerging South32. This isn't – our infrastructure assets are part, an integral part of our business. It's within the core of our business, it touches every single part of our business. That's why it's such a complex exercise to set this up in a way. And Ian Martin pointed out that the risk of getting this wrong very much, and so that's why it's important we get it right.

It's doable, and it's and it's been done, and in fact if you look back at the history of Spark and Chorus in New Zealand, you will see that they effectively set up what became Chorus within New Zealand Telecom, which then became Spark I think internally for like a three or four year period before it was ultimately separated.

And so anyway, they're my comments. So no decisions at the moment. But just continuing to focus on giving us the optionality, and in that regard we're very well progressed.

Ross Moffat: Hello Chantelle, it's Ross here. I think we might take this opportunity to hand over to my colleague, Nicole McKechnie. Thanks to all the analysts for their questions, and we'll move to the media Q&A. Over to you Nic.

Media Q&A

Nicole McKechnie: Great, thanks very much Ross and thank you Chantelle, and welcome to the media Q&A for our results today. Chantelle, without further ado I think we'll just jump in, so over to you please.

Moderator: Thanks Nic. Our first question comes from James Fernyhough, Australian Financial Review. Go ahead please.

Question: Hi Andy. I've got two questions. Could you explain in layman's terms, i.e. avoiding analyst jargon if possible, why you will fail to meet the ROIC targets, and how retail shareholders should interpret that?

And then a related question on the $7.5 billion EBITDA targets. What are the chances you will fail to hit that?

Andy Penn: Thanks James. I should say that I mean firstly, $7.5 [billion], we have got to be careful. And sorry, the only reason I'm being careful, I don't want you to misinterpret this, is as you would appreciate as a company, there are very strict rules and provisions and things we have to observe in giving forward looking statements, and we have to be very careful to distinguish the difference between a forward looking statement and a factual comment. And so $7.5 billion is not a forward looking statement, or a target, or a forecast. I just need to be careful to do that, and I'm not doing it to try and be cute, I'm doing it because we have got obligations in that regard.

It is more just pointing out that to support a dividend in our dividend payout ratio at $0.16 cents, and we know how important the dividend is to our shareholders, and therefore we take it very, very seriously, to support that we would need EBITDA in the range of $7.5 to $8.5 billion.

Now, we can see what the NBN headwind is. We're committed to deliver on our productivity, and we have a high degree of confidence in that. We believe we're doing well in terms of gaining customer numbers and either maintaining or growing our share, and we can control all of those, or we can influence all of those leaders. What we can't necessarily influence is obviously any of the external factors, and conduct of our competitors or otherwise.

So that's why we try and lay it out in that way, so that investors and others can judge how well they think we're positioned to deliver against that. But I can assure you that every part of management is absolutely focused on doing our best to ensure that we can.

I mean, on the ROIC target, simply it is effectively a perspective of the market environment has been more challenging, and so therefore the ROIC target just really rolls out from the profitability, the bottom line NPAT that the company actually is ultimately able to achieve. And what I should say is that the ROIC target is in relation to FY23. We're not talking about the longer term, it's not necessarily a change of perspective on the longer term, and we will at some point need to come back and talk to the market about the beyond T22 period. But right now where we sit at the moment, it's hard to see how we would get to a 10% ROIC. And so we have a responsibility to ensure that the market's clear in terms of what that outlook is.

Nicole McKechnie: Thanks James. OK, Chantelle, next caller.

Moderator: Thank you. Your next question comes from David Swan, The Australian. Go ahead please.

Question: Thanks very much, and thanks Andy and congrats on the numbers. Telstra has kicked off a campaign into the 5G truth. Is there any material risk of I guess consumers either not taking up 5G services due to misinformation or destroying equipment? Can you kind of elaborate on the concern there?

And secondly I wanted to ask, Stephen Rue at NBN said there'll be negotiations imminently with the industry about how it sits going forward. What will your position be going into those negotiations? I know you've spoken publicly. How do you approach a private negotiation like that, what will you be aiming for?

Andy Penn: Was your first point in relation to concerns over EME and health concerns on 5G?

Question: Yeah, I noticed that you guys have kicked off that ad campaign.

Andy Penn: Oh, yep, yeah, sorry. Look, firstly what I would say is that I legitimately recognise that some people have concerns around new technologies, and concerns around radio activity. I mean those concerns have been around for many, many years, but also has the research that demonstrates that where the radio is used in mobile telecommunications, essentially there aren't risks to health, and the WHO and ARPANSA and many, many, many, many others, and in fact just candidly, 30 years of history with using mobile telecommunications has demonstrated that those concerns are not founded.

And of course every time we come to a new generation of technology such as 4G, and now 5G, some of those concerns are reignited. And I guess in the context of the current environment where the world is feeling pretty fragile with a very scary situation happening with a virus, it's understanding the concerns have even perhaps heightened in that environment.

So what we want to do is to reassure people that those concerns aren't founded, and that the research continues to show that mobile technology is safe, and that includes 5G as well as 4G. Because 5G is going to bring some really exciting opportunities and benefits for people. So I don't really think it's going to be a serious headwind to the adoption of 5G.

As I said earlier on the call with investors, a big inflection in I think the adoption of 5G will be the availability of a 5G iPhone, which so far has not yet been made available, as well as the rollout and the coverage of 5G. and so I mentioned we're already at a one third population coverage, we will get to 75% by the end of the year. And I'm confident therefore we'll continue to see an increasing take up, particularly when a 5G iPhone arrives. I don't know when that will be, because understandably Apple play their cards close to their chest on that one. But I'm optimistic it won't be too far away.

On the second point on NBN, look, I mean I understand that Stephen and his team are working under constraints which exist for him, which are ultimately dictated really by the government in terms of because it's a government enterprise and set up by the government for a particular purpose. I think we are at an important inflection point, because the rollout is completed. We're on the cusp of a new wave of technology innovation. We've got 5G coming around the corner. And what's crucially important for everyone is that we see an acceleration to the digital economy, and telecommunications underpins that.

So how I approach the conversation is to look at it through the lens of the bigger picture, of what's the right policy and regulatory settings for the telecommunications industry, whether it's Telstra, NBN, or anybody else for that matter, to establish to ensure that we encourage investment, we encourage innovation, and we encourage the rollout of the best technologies so that can underpin the digital economy for Australia. And so therefore that means that looking at pricing structures, economic structures that create disincentives or create biases for one technology over another.

And I generally think and I honestly think that Stephen is as open to that as I am, and I think we've got to lift the conversation to a strategic policy level, what's in the best interests of Australia, how do we maximise investment in telecommunications and telecommunications innovation, how do we become a global leader in that, where I think we already have the opportunity to be at the forefront, and then what are the inhibitants to get there?

Wholesale pricing is one of them, because RSPs, very difficult for them to invest if they're not making money. Other things are we've got regulation which buys us one technology over another, and if wholesale pricing continues to be a challenge that will lead to 5G starting to be an alternative to NBN, is that the right answer? So I just think there's probably a better way to optimise the regulatory and policy environment for telecommunications, so that's how I would approach those conversations.

Question: Thanks Andy.

Nicole McKechnie: Thanks very much David and thanks Chantelle. I understand we have John from News Corp, but I think you just wanted to give everyone a reminder about how to join, Chantelle?

Moderator: Thank you. So it is star then one to register a question. You do have another question here from John Dagge, Herald Sun.

Question: Hi Andy, hi Vicki. Just two ones, I'm pretty sure they'll be for you Andy. The first one was on the freeze to the job cuts, and I think you've answered it in your comments, but I guess the question was was there any chance that that freeze could be extended beyond February? And am I correct in reading that from your comments today on the call, that no, not really, that at February and you have to get back to the T22 push?

And the second question was just the state of the economy and Telstra, and can you reference it, how households are tracking in terms of late payments and disconnections, are they rising? And also consumer preferences for handsets. Is there any movement of people say downgrading from, or seeking out cheaper plans and downgrading from premium handsets to mid-range or cheaper ones? Thanks.

Andy Penn: Hey thanks John. Look you're right. We agonised over the, as you can imagine, over the decision on job reductions, because we do need to continue to transform Telstra, and move us to a much more agile simpler, flatter organisation. We've made a lot of progress, but coming into COVID we had probably about 75% through the job reductions aspect of that. And we agreed to put that all, we decided to put that on pause because that was the right thing to do for our people. But also as you heard me say for our shareholders as well.

We made a further call just given the continued impact of COVID to extend that through to February. But we really cannot extend it beyond February. We have to come back to these tough decisions, and we will come back to them, and we will make them, because we need to complete the T22 transformation journey.

On the broader economic questions, of course we are an essential service, so people need connectivity now more than they ever do. But we do see the impacts in the economy through the lens of our business. You talked about late payments, so I'll ask Vicki to make the comment on some of the bad debt types of experience et cetera. But I mean probably not most downgrading of handsets, we absolutely, we've seen handset sales in the last six months down about 20% on the previous six months. We sell about, just over two million handsets and mobile devices a year. And so we're down in the second half compared to second half last probably just over 200,000. So that's reasonably material.

I'm not sure we're seeing a massive change to the device, choice is one of the things that I was talking earlier about with 5G. I mean one of the important things with 5G, the other thing that will be an accelerant to 5G is that we see second generation chip handsets coming into the market now, and going forward that will bring down 5G handsets to potentially in the sub $1,000 level, so that will open up opportunities there for customers.

I mean we often look at the economy through the lens of the footfall into our stores. That's obviously very hard to make anything meaningful from that at the moment, just given the impact of COVID. But initially we saw footfall down 50% in the early stages, back in April, the early stage of lockdown. We saw it kick back up almost to pre-COVID levels shortly after that, but of course then with restrictions, particularly Victoria, that's down again as well.

So look that's probably some of the colour I can provide. Vicki, anything more from you on how we're seeing that through the lens of bad debts. late payments type of thing?

Vicki Brady: Yes, and I think Andy we've been very focused on helping support our customers through this period as you said, from a consumer customer all the way up to a large Enterprise customer connectivity is so important. So we have had measures in place to help our customers through from a hardship point of view, and from hibernating business services.

Our experience to date when you look at our receivables portfolio is really the greatest pressure is appearing in small business, not surprisingly, given the extent of the impact for small businesses of the pandemic. And we did take an additional provision in our 30 June accounts of around $36 million additional bad debt provision, not that we've experienced that bad debt yet, but as we did our assessment for the end of our financial year, we did take that into account and add that to our bad debt provision. They would be my comments.

Nicole McKechnie: Great, thanks John. Thanks Vicki and Andy. Chantelle, I think you next up have Zoe for us from The Age, SMH.

Moderator: That's right. Go ahead please Zoe.

Question: Thanks Andy and Nic, that was great. Just a couple of questions from me. The outlook looked quite optimistic, but what if the pandemic continues to grow? We've seen outbreaks that can happen in Victoria and New South Wales. How does that affect Telstra's overall agenda and outlook? And the second thing is just on, I think Andy you mentioned the launch of targeted fixed wireless services. Is that an indication that you're looking to take on NBN Co in some areas?

Andy Penn: Thanks very much Zoe. I think we're all very concerned obviously about the pandemic and how it will continue to impact us all in the society, and what second and third waves look like. I'm not an expert by any stretch of the imagination on that. And I want to acknowledge that I think our political and other leaders are responding decisively, as best they can to that. And so I think that we're all doing everything that we can.

Look ultimately though what it has done is it's just reinforced the importance of connectivity and the digital economy, because that's, for many businesses they've had to rely on that in response to the restrictions that have been put in place, and that's only going to continue. So whilst it will continue to affect the way in which we work and it will impact some of our workforce capacity things, I think fundamentally underlying it it's going to mean that our services are going to continue to be in demand.

Now obviously we're going to need to try and find ways to support customers who need different levels of service, because their businesses are impacted, but similarly others need more. And so I'm confident that we have had some economic impact, that Vicki's called out $600 million dollars over a two year period, but most of that's relatively one-off, and part of it is the productivity delays that we've put in place, which we will come back to as well.

So I think for Telstra, Telstra ultimately, to use an investor term, is very much seen as a defensive stock, and I think that's right, we are. Because we are a core service that's going to continue to be in demand, we play an essential service role for our customers. And I mean the other thing is, is that we're so far through our T22 program and digitisation of our business that we're very well equipped to provide services to customers. And in fact as you know, one of the things I've called out is that I believe by the end of the program we'll be able to effectively reorganise or redesign our customer call centres such that we will answer all of our Australian calls onshore.

Now sorry, and Zoe, what was the second part to your question?

Question: Just on the launch of the fixed wireless.

Andy Penn: Oh, fixed wireless, sorry, sorry. Yes, no look, I think this isn't a case of taking on NBN or not taking on the NBN, it is 5G technology is a really exciting technology. And the thing about 5G is that it's the first mobile telecommunications technology that will be operating in very high band spectrum, and so historically it has been the case that the best spectrum for mobile telecommunications is what we call low band. And the reason for that is that low band, the radio waves travel a long distance, which is good for mobile because you get better coverage per every mobile tower. But the limitation of low band is it doesn't have as much capacity to take as much data volumes as otherwise might be the case.

And historically it's nonetheless been the best spectrum for mobiles, because the size of data that you need on a mobile phone relative to fixed broadband at home is that much smaller. And I think I previously said the average consumer on NBN consumes about 250 gigs of data a month, whereas the average customer on a mobile handset might consume between five and 10, that's the order of difference.

What makes the difference with 5G, is that there's a much higher level of spectrum that's available. So if you put this in perspective, we've got 20 megahertz of spectrum at 700 band wave. In the 26 gigahertz spectrum there which has just been announced, the competition limit has been set at 1,000 megahertz per operator. So we've got 20 at 700, and we can bid for up to 1,000 up there. What that does is it gives you a lot more capacity. It's the first mobile technology, so you can increase the amount of data volumes that are going through, so you can actually provide a fixed wireless service in the home that matches the level of data volume that you might get over a fixed line service. And that's what brings 5G into play for that.

The flip side though is that what you gain in data volume you give up in propagation, i.e. the distance that it will cover. And so that the distance that the radio wave will go in that higher band is that much lower. Anyway what it does is it means that for certain targeted customers, fixed wireless served over 5G will be a very, very good alternative to say a fixed line that's over 4G, or a ADSL service, or VDSL service over copper, particularly if you're a long way from the exchange. And so that's why we're launching it, because we think it will deliver a really good alternative to customers.

Question: OK, Great. Thanks again Andy and Vicki.

Andy Penn: Thanks Zoe.

Nicole McKechnie: Thanks Zoe. OK, Chantelle, I think we have CommsDay up next.

Moderator: Thank you Rohan, go ahead please.

Question: Oh hi Andy. Just a quick one. Just the NBN CVC 40% uplift, uplift is ending soon. I'm just wondering if you can comment on the impact that's going to have on Telstra?

Andy Penn: Look, I mean, I think the first thing I should say is that NBN should be I think applauded and recognised for the fact that they did provide that CVC, additional CVCs available. I mean ultimately the impacts whenever that is removed will be a function of what the data volumes are at that time. So the reason that they provided that was because with everybody shifting to studying and working from home, data volumes obviously over the NBN network were going to increase quite considerably, which they did. And we would have had to have bought more CVCs to accommodate that increased demand.

As restrictions are lifted, when they lifted, if they lifted and people start to go back to study and work from school and back in the office, then the data volumes will come back down again, and the CVC won't be required. So it's a bit of a function of the interplay between those two things to be perfectly honest, Bryce.

Question: I guess have you seen data volumes start to taper off then? I mean, obviously the CVC's ending really in about a month now.

Andy Penn: Well, we had. Certainly – I'm trying to remember the timing of all of this now, but when we first went into lockdown and everybody moved to study and work from home, we definitely saw volumes increase 30, 40% plus for a period of weeks, but then as schools started to go back and people started to go back to work, then we saw those come down again to more normal levels. But then we have seen an increase again obviously particularly in Victoria as restrictions have been reimposed.

And you can see the NBN have already extended the relief a couple of times, and I'm sure NBN and the government will continue to keep an eye on what restrictions remain in place in making any further decisions on that. But that's for them obviously to decide.

Question: Thanks Andy.

Andy Penn: Thank you.

Nicole McKechnie: Thanks everyone.

Moderator: Thank you. I'm now going to close the question portion of the call. I'll hand back to Nicole McKechnie to close the call.

Nicole McKechnie: Great, thanks so much Chantelle. Thanks everybody for dialing in. Andy, anything final for you? Otherwise we will make it a wrap.

Andy Penn: No, look, thanks everybody for hooking in, a long session, but pleased with the results. We've met guidance, we've delivered our dividend. We're providing guidance for FY21. There's a few economic implications of COVID in the current situation for us, but we think we're balancing making the right decisions of being responsible, supporting our customers and our people and delivering returns for our shareholders. But more importantly setting us up for growth as we come out of COVID with the investment in digital that we've made, but also the acceleration of the rollout to 5G. So thank you everyone for hooking in, for your interest.