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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2012 Financial Results – analyst briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2012 Financial Results analyst briefing, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

Telstra

Full Year Results 2012

Analyst Briefing

9 August 2012

Ben Spincer: Good morning, everyone. My name's Ben Spincer and on behalf of Telstra I'd like to welcome you to our full year results for financial year 2012. I'd like to welcome those of you here in Melbourne, those of you listening on the phone and those on the webcast.

Without further ado, I'll hand over to the Chief Executive, David Thodey, to run you through the results. Thank you.

David Thodey: Thanks, Ben. Let me add my welcome to you all. Great to see you here this morning.

Well, the full year '12 results. What we thought we'd do today is three things. I'm going to give you a brief introduction, just on the highlights of the year. Then I'd like Andy Penn, our CFO here to take you through the numbers in more detail. Then I'll come back and give you a bit of an update on the big, strategic priorities we're working on and how I see those going.

So, the year in review - well, we've had a strong year, and I'm glad to say we delivered on our commitments. We met the guidance that we set 12 months ago and we delivered total revenue of $25.4 billion. On a guidance basis, total revenue increased by 1.3% and EBITDA was up 2.1%.

I'm very pleased to say the business has proved resilient in very mixed economic conditions. When you go through the results there's some real highlights. We had top and bottom line growth, which is so important in terms of profitable revenue growth. We've won share in all our major product categories. Also we grew profitability across all our key products, which is so important.

Very importantly, as you know, we had the declines in Sensis and in Telstra Business but the rest of the domestic telco business is now able to pick up those declines and offset them in the year. Also our balance sheet remains very strong, and we really do now have a very clear capital management strategy that Andy will talk to as well.

So our strategic priorities are really starting to deliver results - improving customer service, growing and retaining the number of our customers, simplifying the business, taking the complexity out of the business and also finding new growth portfolios that will be so important for us in the future.

What I thought I'd do before I throw to Andy is just reflect on what I think have been the four key highlights for me personally through the year. There's no question, that when I look back over the 12 months, it's been an eventful year. In fact, it's hard to imagine it was nine months ago when we went to shareholders on the NBN transaction. A lot has happened in the last 12 months.

Let me just give you my four highlights. Firstly, our focus on putting the customer at the centre of everything we do - as easy as that is to say - is starting to make a difference. I want to stress, this is as much a cultural change within a company like Telstra as it is about changing the way we really run the business.

There's been a lot of efforts, right across the business, to do that because it's not just an attitude. You've got to really get down into the core part of the business.

When you look at some of the internal and the external measures it's encouraging to see the changes - things like the number of TIO complaints, the activation in terms of activating services and also restoring them when we've got a problem - have all shown significant improvements.

The number of billing enquiries have gone down significantly. We've made shop and online improvements; a vast array of things we have done to actually change the way that customers talk about Telstra; and we are starting to make progress.

Then we've taken a significant step - that I probably would say is not as well understood by the market - is moving to this thing called Net Promoter System, where you're really driven by giving a customer an experience that they say hey, you should try it. That is a big change for a company like Telstra. We really want to turn customers into advocates for Telstra, not just to say well, it was an okay service. So that's been encouraging, but we still have a long way to go. I'm very clear that we've not delivered anywhere near where we'd like to be.

The second achievement is our mobile performance, both in terms of the growth and number of subscribers, the revenue growth and also, importantly, the quality of our network, that really reflects the outstanding engineering capability we have in this Company.

We added 1.6 million domestic mobile customers. That means we're now at 13.8 million customers. This includes 6.6 million postpaid handheld, and 3.1 million mobile broadband customers. That's outstanding results.

We also, very pleasingly, have 475,000 new mobile customers in Hong Kong, bringing the total number on our CSL network to 3.5 million customers.

Also, as I said, the quality of the network is really a differentiator in this game of mobility. As you know, we improved the performance of our network by rolling out LTE. We were the first operator to roll it out in Australia; one of the first in the world around the 1800 spectrum.

It's one thing for us to say that we think the network's good, but when you've got a company like JD Power, Frost & Sullivan, Gizmodo and Lifehacker all saying that your network's very strong, that's the endorsement that we look for, and customers speak. That's really who we look to. So a very strong result from our mobile's performance.

The third achievement is the work that we've done in relation to capital and portfolio management. For a company like Telstra this is very important. As you know, it was in April that Andy took you through our capital management strategy, and I think that that's giving us the discipline in the business to make the right decisions. This is very important across all our portfolios.

You would have seen, last month, that we made the decision to sell TelstraClear in New Zealand. This is a very active part of managing the portfolio that we have as Telstra.

Lastly - and I couldn't but mention - it's been the NBN negotiations. It's great to have those agreements done with the Commonwealth and NBN Co. Of course, the ACCC acceptance of the structural separation undertaking were enormous efforts, right across the business, and really have taken up a lot of time.

As I alluded to in my introductory comments, it was only just last October that we had the AGM where shareholders voted in favour of our participation of the rollout. That was an important milestone because, for us, giving greater certainty around our future - having that behind us - is so important so we can get on and do what we enjoy doing, and that's running the business.

Also with the NBN agreements now in place we really are committed to delivering on those agreements; and that's our focus, very much our focus. We are NBN ready because we've got to leverage the opportunities that it creates for us.

As you know, in March we received $321 million from the Government as part of the Information Campaign and Migration Deed. Then, in June, we received another $100 million from the Government for the Retraining Funding Arrangement. So these have been significant payments to us.

Also - and I'm very pleased to announce today that we have handed over stage 1 of the transit network build to NBN Co. Now, remember, that's the dark fibre build and getting all the rack spaces done for their POIs. That's been a lot of work. We don't often talk about it, but we have a very strong and very capable team working on that. We are going to continue to see opportunities to collaborate with NBN Co as they work their rollout schedule.

We think there are some opportunities - which we are going to allude today - to accelerate that transit build because we think that's important in terms of the overall relationship and structure of the NBN.

Also I'm pleased to say that we are now competing aggressively in the market with our NBN products. As these fibre service areas are rolled out we're really ramping up our marketing and sales efforts and our service efforts in competing. I'm very pleased with some of the early results.

So they were the four highlights for me from the year. Andy's going to take you through the financial highlights. I must say that I'm absolutely delighted to have Andy with us on the team. It's a great pleasure to work with him, and we think we've got some exciting days ahead of us. So, Andy, over to you.

Andrew Penn: Thank you very much, David, and good morning, everybody. I'm going to cover five topics in my presentation this morning. Firstly, I will take you through the Group results and comment on how we've tracked relative to guidance.

Secondly, I will take you through the performance of our key product groups - Fixed, Mobile, Data and IP - and, of course, our growth business, NAS, Media and International.

Thirdly, I will comment on our continued progress we are making in relation to productivity improvements and efficiencies and how these are being delivered through operating expense improvements.

Fourthly, I will provide you with an update, as David said, on our capital position against the background of the capital management framework that I announced in April.

Finally, I will conclude with some comments on the outlook for fiscal year 2013 and also guidance.

As David has already mentioned, we are pleased to have delivered another strong set of results in line with our commitments to the market and in line with guidance.

For the financial year ended 30 June 2012, on a reported basis, revenue was up 1.1% to $25.4 billion. EBITDA was up 0.8% to $10.2 billion. This included the $130 million impairment in relation to the sale of TelstraClear in New Zealand. Earnings per share were up 5.4% to 27.5 cents per share. On a guidance basis, this total revenue, as David mentioned, was up 1.3%. EBITDA was up 2.1%.

The guidance basis excludes the impact of impairments, regulated wholesale price changes and payments received from the government in relation to NBN. The reconciliation of these impacts is provided in the appendix to my presentation.

Accrued capital expenditure for the year was $3.6 billion or 14.2% of sales. During the year we generated $5.2 billion of free cash flow, further strengthening our capital position. The board has declared a final dividend of $0.14 per share and this brings the total dividend for the year to $0.28 per share, fully franked.

Looking across the businesses, reported revenue was up 1.1% to $25.4 billion. Fixed revenue has declined 6.1% as expected. Like most print businesses, Sensis experienced a significant decline in print revenues this year, which was the main cause of the 9.6% decline in media.

It is against this background, therefore, that our revenue growth was particularly pleasing, with Mobile revenue up $679 million or 8.5%, NAS revenue up $120 million or 10.5% and international revenue up $98 million or 7%, collectively adding almost a billion dollars' of extra revenue.

Let me now take you through the performance of our products in more detail, starting with fixed. Total fixed revenue declined 6.1%

to $7.5 billion. PSTN revenue decline 10%, due to a 281,000 reduction in retail PSTN lines and lower ARPU. Recent research has indicated that approximately 2% of households moved to mobile only households during the year, with the total amount standing at around 14% nationally.

Partly offsetting the decline in PSTN revenue was strong growth in our fixed retail broadband business. Revenue was up 8.5% to $1.6 billion, driven by strong customer growth up 203,000 to 1.6 million [sic - see slide 6, 2.6 million]. This strong result highlights the success of our bundle strategy in particular, with continued strong growth in existing customers taking multiple products for the first time. We now have more than 1.4 million customers on bundle plans, with 336,000 added in 2012. We also achieved a 6 percentage point improvement in our fixed retail broadband margin to 37%, following capital investments and productivity improvements.

Going forward, we expect the revenue mix to continue to shift from PSTN to fixed broadband, with increased penetration of bundle plans and of course the rollout of NBN.

There is no doubt that 2012 was a standout year for our Mobiles business. Revenues were up 8.5% to $8.7 billion and Mobiles now represent more than a third of our total revenue base. We continued to win market share during the year with the acquisition of a further 1.6 million mobile customers.

These results were supported by the superiority of our networks, including the launch of our 4G network in September 2011. We have sold more than 375,000 4G devices since the launch. In the postpaid handheld market, customer growth was up 8.8% and revenue was up 6% to $4.7 billion. ARPU declined 3.8%, mainly due to the impacts of mobile repayment options. Excluding this, postpaid handheld ARPUs were broadly flat over the year, whilst postpaid handheld deactivation rates improved to 12.2%. 2012 has therefore represented another very strong year for Mobiles with EBITDA up 21% to $3.1 billion.

Turning to data and IP. Overall, revenue declined 0.8%. However the portfolio continued to deliver strong EBITDA margins at 64%. IP access revenue grew 8.9% to $1.1 billion as we continued to grow market share. This was offset by declines in legacy data products down 14.9% and ISDN revenues down 5.8%.

IP access continues to act as a strong platform for our network application services business, NAS in Enterprise and Government sector in particular. NAS products such as cloud and IP telephony are also a platform for extending IP products into the small business sector.

In this regard, we have seen strong growth in NAS over the last couple of years. Revenue was up again in 2012, 10.5% to $1.26 billion. This was supported by strong growth in unified communications, up 14.4% and cloud's computing up 42.2%.

We saw growth in NAS across most market segments, particularly Enterprise and Government and the large business market. During the year, we signed up important contracts with the Department of Human Services, Australia Post, NAB and Origin. These long-term large contracts will underpin our growth in the coming years.

Looking at the core Australian telco business through the customer segment lens, total retail revenue grew by 2.6% to $19.3 billion. We saw strong growth in customer, up 3.6% to $10.3 billion - sorry, in Consumer - and also growth in Enterprise and Government, up 4.4% to $4.3 billion. Telstra Business declined slightly, down 0.9% to $4.7 billion, reflecting the challenging economic environment for small to medium sized businesses. Wholesale declined 4.4% to $2.1 billion, mainly due to regulatory pricing changes, migration from resale products to lower ARPU infrastructure products and declining PSTN usage.

Turning to media. There are 3 aspects to our Media portfolio – Media Marketing Services, which is Sensis; Media Entertainment Services and Content, which includes BigPond, content arrangements and the resale of FOXTEL via Telstra; and finally FOXTEL itself. David will talk a little later on Sensis, but it has clearly been a challenging year, as it has been for many print businesses as we transition from print to digital marketing services business.

Sensis revenue was down 17.7% to $1.5 billion with print revenue down 22.1% partly offset by growth in Digital, up 4.5%. Notwithstanding the challenging year, Sensis' margins remained attractive, albeit declined 9 percentage points to 47%. In Media Entertainment Services and Content, revenue was up 4.7%. This included FOXTEL sales via Telstra, up 3.1% to $602 million.

During the year we also saw a number of positive signs that point towards the continued growth of this business. We have now sold close to 400,000 T-Boxes. Over 5 million BigPond movies have been downloaded via the T-Box since its launch. There are now over 2.3 million billed transactions every month across the BigPond portfolio, including movies, music, games and shopping. There have been more than 600,000 downloads of the AFL app and 8.1 million online video streams.

Let me now turn to FOXTEL. On a stand alone basis, FOXTEL revenues were up 3.6% in 2012 to $2.2 billion. EBITDA was up strongly, 8.5% to $598 million. These numbers exclude AUSTAR which was acquired in late May. Customer numbers were up 24,000 to 1.7 million and FOXTEL also saw improvements in the take-up of a number of important products, including FOXTEL IQ, multi room and the high definition digital offerings. Penetration of FOXTEL's IQ HD service increased from 31% to 42%, while over 80% of subscribers now take up FOXTEL's sports package and more than 40% take up the Premium package.

Telstra's 50% economic interest in FOXTEL is not consolidated into our results. However the distribution of $108 million received during the year was included in our EBITDA line.

Finally turning to International. International had a positive year with revenue up 7% to $1.5 billion. For CSL New World, our Mobile business in Hong Kong, revenue was up 5.7% to $860 million. On a local currency basis revenue was up 10% following strong customer growth, as David has mentioned, with new customer adds of 475,000.

This performance supported strong growth in CSL's EBITDA margin, up 4 percentage points to 26%. While we saw a 27% decline in revenue in China, this largely followed the sale of SouFun in 2011, LMobile and China M in 2012 as we refocussed our portfolio on the successful Autohome business.

During the year we also completed the Reach integration. Following this, the global connectivity business grew 24.5% to $508 million. The reintegration of Reach and the further expansion of our regional cable business provides an excellent platform from which for us to grow our domestic NAS business into the region.

I will now make a few comments on our ongoing productivity and simplification programme. During the year direct variable costs increased approximately $300 million due to increased mobile sales. The impact of inflation was approximately $300 million and other business growth as a consequence of our growing portfolio and transaction volumes increased expenses by approximately $400 million. Expenses were also impacted by the fall in the Government Bond rate and impairments and regulatory changes to mobile termination rates.

Against this Project New delivered $1.1 billion in productivity benefits in 2012 with total operating expenses for the Group, including impairments, up only 0.8% to $15.3 billion. Excluding impairments, operating expenses, year-on-year, were broadly flat.

A few comments on Capital Management. In April we presented to the market our strategic framework for Capital Management. At that time we indicated our excess free cash flow at 30 June 2012 was expected to be between $0.5 billion to $1 billion. We ended the year with excess free cash flow of $1 billion, at the top end of this range. Against this we have a significant debt refinancing programme in 2013 and significant spectrum commitments.

Also, as you will hear from David shortly, we will be investing a further $500 million over the next two years to bring forward investments in our 4G Mobile Network and the NBN Transit Networks. This will extend our Mobile Network advantage and bring forward the benefits from the NBN Agreements. These investments will increase our CapEx to sales ratio to approximately 15% per annum in 2013 and 2014. This number is then expected to reduce below 14% in 2015.

We also indicated in April that we expected our excess free cash to grow to $2 billion to $3 billion over the next 3 years, subject to the timing of the NBN rollout. This did not include the proceeds from the sale of TelstraClear or the additional capital expenditure I have just mentioned. However, given our current capital position and based on the NBN revised roll out that was announced yesterday, I can nonetheless confirm that our outlook for the next 3 years is still $2 billion to $3 billion.

The other parameters of our capital management framework remain unchanged and Telstra is not contemplating capital management initiatives at this time.

Consistent with this framework we continue to target a Single A Credit Rating. All of the major rating agencies have recently confirmed this. We are currently operating at the conservative end of our balance sheet parameters with gearing at 53.2% and debt servicing at 1.3 times.

In addition, we are carrying almost $4 billion of liquidity at 30 June. This positions us well for the significant debt refinancing programme that I mentioned that we will be undertaking this year. We have debt maturities of $3.0 billion in 2013 in addition to the spectrum commitments.

We have also been active in relation to our portfolio management as part of our overall capital management strategy. Subject to the regulatory approval of TelstraClear, we will have raised approximately $660 million through the divestments of TelstraClear, LMobile and China M in 2012, with most of this being redirected into a range of investment opportunities. These included minority stakes in IPscape, Dimi, Mandoe and Oooyala, increasing our economic interest in Autohome and finally support FOXTEL in its acquisition of AUSTAR.

In summary, we finished the year in a strong capital position with a clear capital management framework and strategy and a better performing portfolio of businesses.

Before closing I would like to make a few comments on guidance for 2013.

As the decommissioning payments from the roll out of NBN will be treated as other income, we intend to guide based on total income in 2013 to capture these. We have also excluded the impact of the sale of TelstraClear on guidance and this includes the foreign exchange impairment expected to be released in 2013. On this basis, we expect to see continued low single digit growth in both total income and EBITDA. We expect our CapEx to sales ratio in 2013 to be approximately 15% as we support accelerated investments into our mobile network and the NBN transit network.

Free cash flow is expected to be between $4.75 and $5.25 billion, taking into account this additional capital expenditure.

Unlike previous years the free cash flow guidance does not make any provision for investing CapEx. We will update guidance on free cash flow for investments if and when appropriate.

Finally and subject to the Board's normal approval process for dividend declaration, and there being no unexpected material events, we expect to pay a fully franked dividend of $0.28 per share in fiscal year 2013.

Before handing back to David, let me summarise. 2012 was a year of strong performance delivering on our commitments and results in line with guidance. We achieved a standout performance in mobiles with EBITDA up 21% and 1.6 million new customers.

In fixed retail broadband we added 203,000 new customers and we grew revenues in NAS up 10.5% and international up 7%. Notwithstanding the continued decline in PSTN as expected and a very challenging year for Sensis, we delivered top line and bottom line growth in a relatively tough economic environment.

Project New delivered $1.1 billion of productivity benefits and made a significant impact on improving our customer experience.

We have put in place a clear capital management framework and have been actively managing our capital position, undertaking appropriate portfolio management.

We ended the year with excess free cash of $1 billion and confirmed our outlook of $2 to $3 billion over the next three years, notwithstanding the revised NBN roll out announced yesterday and we expect the momentum in our business to continue into 2013.

Thank you and I'll now hand back to David.

David Thodey: Okay. So thanks for that Andy. What I'm going to do now is just go back to our strategic priorities and just give you a bit of an update on how we're going and some of the things I think that are going to be important as we go forward.

I may repeat a few of the things Andy's touched on but I think it's important just to give you the perspective.

As you know, improving customer service, growing and retaining the number of our customers, really changing and simplifying the business and taking the complexity out and then finding new growth businesses is just what we focus on every day. So what I'm going to do is take you through each one of them and give you a little bit more colour on it.

Firstly improving customer satisfaction ell is so core to any strategy and we've got a lot to do, but as you look across all the things we've done as I mentioned, there are some real changes happening.

One area I'd like to highlight is the one step initiative which has really changed the way we actually activate services. So if you imagine how many of our engineers every day are out there doing work, getting greater efficiency in that and a better customer experience is very important. So this is a one-step process for activating a PSTN voice service and an ADSL service. For those that have moved house and had a different experience, this is actually really important and this means it's one truck roll and a better customer experience.

As simple as that may sound when you're doing literally hundreds of thousands of those every year, you get that right, great experience, it takes a lot of cost out and makes a great customer experience.

Also we've seen like many other industries, real change in customer behaviour about how they want to interact with us. Often people are contacting us between 10 and 12 o'clock at night so we now need to provide a 24 hour a day, seven days a week service. Interestingly, the use of social media is becoming a very popular way to interact with us and also things like use of Facebook and live chat are really starting to change the dynamics of the way we support our customers.

As I've mentioned before, we've got 60 people monitoring social media sites to find out where there's problems so we can be more proactive. This is a very different Telstra.

Also we're finding that people want to get real time information on how their mobile plan is performing, their accounts - where they are in the month and they often want to do it either from their mobile phone or from their tablet. So we now have 13 mobile apps available in the market. In fact, the last one we launched I think was the most popular mobile app for at least a month we put out there.

So these are real changes in the way we won the business and the way our customers want to interact with us and of course we've had enormous redesign of our webpages making them simpler, easier to use and also with our online shop.

So we are seeing the improvements as I mentioned before. Level 1 TIO complaints are now down 26% in the year and over the last three years it has been down by over 30%. So we are seeing significant changes in terms of how our customers are interacting with us.

Also as a result of all these improvements we've made, a very important statistic is actually the number of times our customers are calling us. Now of course we want customers to call us when they need to buy something, but we prefer them not to have to call us about a question on the bill. We've seen our consumer call volumes decline by 21%. We've never seen that sort of decline before and that could only happen by delivering a better service.

Also, as I said before, we're introducing the Net Promoter System and this is really another stage in really changing the culture at Telstra.

Now as I mentioned before too, we want to turn customers into advocates, not just give them a great customer experience.

What we now do is measure many transactions on a daily basis. I get a multimedia message every morning that talks about all the transactions we've been able to survey on the previous day and that's usually about 20,000 bits of information that we've garnered feedback from our customers and it also gives me a feel of whether they have been good experiences or bad experiences or whether the issue or the question has been resolved.

Interestingly I think this is probably the biggest change program we've ever put into Telstra. I can't stress just how transformational it is and it's not the things that you would see looking at it externally because it really touches every part of the business, whether in finance or legal, accounting or if you're in the frontline. Everybody's involved and it's a very simple principle that we adhere to. We ask every Telstra employee to treat our customers the same way that they would like to be treated. That's a big statement to make and to give them the authority to do that is a big cultural change for the company. So a lot of work still to be done in that area. For a company like Telstra with such a high market share, this is not a nice to have, it's really a mandate.

Secondly, we're currently growing the number of our customers and I do want to say we're very grateful for the many customers who choose Telstra each year. The quality of our mobile network is really helping to drive this growth and I do believe if you look right across the world the network is becoming a key differentiator.

As Andy took you through, 1.6 million new domestic mobile customers were added and that means over the last two years that's been 3 million new customers on our mobile network and that really is significant.

In September last year we were the first Australian company to roll out LTE, the 4G network. Also one of the first in the world to put it on the 1800 spectrum. Now our 4G network covers more than 40% of the Australian population. I think it's 16 major towns and another 20 odd rural towns. But we need to maintain that network advantage. Because we're seeing such a strong demand for it and very importantly, the LTE technology carries information about half the cost of previous technologies, we will be investing $1.2 billion in fiscal 2013 as part of this incremental capital investment that Andy mentioned before. That's very important. Mobility is a very critical part of our strategy.

Andy also mentioned we had very strong growth in fixed broadband. That particular portfolio was up 8.5% in revenue and we also had very strong growth in our subscriber growth. Also 336,000 customers signed up to a bundle. As you know that's very important because of the two year contract and very important we keep really having an aggressive set of products in the bundle area in the market. So the total number of bundle customers is now 1.4 million.

Also T-Box and T-Hub have done very well. We've put the T-Hub version two, an android operating system in the new T-Hub 2 and we saw very strong sales in '12. This year we sold 148,000 T-Hubs and 193,000 T-Boxes. So IPTV remains very important. I'll mention that a little bit more when I talk about the media portfolio.

So all these products are NBN ready and really start to give a differential experience in the home.

Moving over; simplifying the business. This remains and will always remain a critical part of what we need to do. Very importantly, we have seen this year a decline in our labour and labour substitution costs and this has been driven by all the simplification efforts, productivity improvements, we're driving right across the business.

Now I want to put this into context - to drive a 1.8% decline in our labour and labour substitution costs, while demand is growing and we're trying to improve customer satisfaction, is really a very strong result and it is testament to the incredible dedication of our staff right across the company. This is difficult to do because volumes are up and you've got to do things differently if you're going to be able to deliver that sort of productivity.

We delivered $1.1 billion in productivity benefits across the business and that gives us the freedom to reinvest in new growth areas, move our resources to the new growth areas, and this will continue to be a critical part of what we need to do as we go forward.

Some interesting statistics - 1.6 million customers access their bill digitally. That's whether they get a PDF one which is sent to them by email or they access it online. 1 million customers have registered for direct debit and we now receive over $100 million in online bill payments each month. These are really big changes and have shown really significant growth over the last 12 months. Even the new online shop, which if you haven't tried it you should; it's a really great experience. It's simple, easy to use and that's how people are wanting to purchase and I mentioned before some of the new ways we're interacting with customers around live chat, being on social media sites, it's really exciting to see the changes.

But we've only just begun. We see really quite significant change over the next five years as we rechange the way we won the business to really be a digitally-led company. Now that's hard for a big corporation like Telstra but we're making really good progress.

Of course the fourth area is around our growth businesses. Every element of that strategy is so important - Media, Asia and Network Apps and Services. They complement our core business, and, if you can get it right, you both grow into new areas while still pulling through a lot of your core offerings in the market.

So let me go through each one of those. Under the umbrella of our Media business, we recently announced some quite exciting new initiatives with a company like MOG, which is a next generation music company.

Now, it's a partnership and we think that this sort of partnership of innovation is going to be very important for us in the future. Now that particular one delivers really good music services on smartphones, tablets and wireless hi-fi systems. Again, a great example of using innovation to really differentiate our offerings.

We think that partnering will be a critical part of the way we go forward.

Also, the acquisition by FOXTEL of AUSTAR was a key part of this growth strategy. Also the IPTV business is going well, and as you know, we announced a new executive to run that business who's had deep media experience and has worked with Rick previously before, and we think that IPTV does play a very important part of the media landscape in the future. I'm not saying it's everything, but it's a very critical part of where we're going in the future.

I'll come back to Sensis because I've got a separate chart on Sensis and I want to give you a little bit of colour about how that's going. But before I do that, let me just turn to Asia and the Network Applications and Services business.

We're seeing some quite significant changes there and it's good to see the collaboration from the area that Deena is working in, which is investing in new innovative technologies and fitting into our growth businesses. Just last month we announced the investment in a New South Wales based company, a very innovative company, called IPscape.

Now they provide cloud based call centre solutions. Not a lot of you picked up on it. But what is so strong about that product is it can be altered throughout Asia, so Deena and Tarek are working strongly together to take that product into the international market, specifically Asia.

Also, Telstra Global - now Telstra Global is where we provide international services and managed network services - is going very well. That's international data and voice, satellite across Asia Pacific, China, India, Europe and Africa. You may not know it, but we have fourteen carrier licences throughout Asia [sic, worldwide]. Now, I'm not saying we're going to set up an operation in each of those countries, but it's very important in terms of managing both Australian companies going offshore, but also servicing regional customers.

So, we're very pleased with how the international portfolio is going. They had 7% growth in product revenue last year. CSL, in local currency terms, grew 10%, and as you know, CSL has had some years of being better and some years not so good. But very strong results in Hong Kong. The global connectivity NAS products I was just referring to grew by 24.5% to a little bit over $0.5 billion.

Within the NAS business, I'm very pleased to say we've got a new leader in that group. Brendon's come in to run the whole operations area, but David Burns is now heading up the NAS business. He comes with a lot of experience in this area, working in Europe, worked here in Australia. But this is a services business. It has different characteristics to the core telco business, but has adjacency, and it's great to have David on the team.

We had a very strong sales result last year. When you're talking about these big contracts, it's really the sales you do in the previous year that flow through in terms of revenue and profit in the subsequent years. It was the very strong bookings of an enterprise group led by Paul Geason did very well.

We have a very strong ambition to grow this throughout Asia, so Paul McManus, who was running that business, is now moving into Hong Kong to extend our capability throughout Asia with the NAS business. So what you're seeing is these key growth portfolios working off each other to really drive differentiation.

So, now let me come back to Sensis, because that has been a challenging business over the last couple of years. I think we're getting through it. We're absolutely confident the strategy's right. When I talk to customers they see the print to digital online world happening, but they want leadership. They want somebody to take them through that. I think that as we move from being, what we've called it, yellow print to become a digital media marketing services company, that's a very big transition.

However, the relationship we have with the vast majority of small and medium businesses in Australia gives us a unique position, that we need to now really prove to them that we can take them into the online world.

We're now into the second year of our digital sales and we have these canvasses - we're starting to see some really good response. They like the product and, really importantly, the sales cycle has shortened significantly.

When we started nearly eight - well, it would have been nearly 12 months ago, the sales cycle was quite long because they were used to buying a print product and now we had to explain to them how AdWords works with Google, how we go to render them across various search engines. But now they're getting more familiar with that we're starting to get a better response rate.

Also, we've got to retool that business. To get a 47% EBITDA was a very strong result and great testament to the very hard work that's going on in that business. We now have John Allan, who has joined us to lead Sensis, and John has rich media experience, and you really do need media experience to run that business now.

No longer could we take a traditional Telstra executive and put them in there. We really need to build our online and digital experience in our executive ranks. I'm pleased to say he's just arrived, got a lot ahead of him, but I think we're confident we can really make a difference as we go forward.

So we're now a year into the three transition. We still expect - as I said, it's a three year transition - there will be double-digit decline in revenues next year, and then by '14 and '15 we think we'll start to see some stabilisation, but we're not through it yet. So we've still got a lot of work to do.

So let me now summarise before we can take questions.

First thing I want to say is that we've delivered on our commitments and that's so important for us in terms of credibility. We've met guidance. Our business is proving resilient, because it's a big portfolio, and, of course, the balance sheet remains very strong, so it does give us flexibility as we look to the future.

Our strategic priorities are delivering. Top and bottom line growth is very important to us and we expect the business to continue to grow at the top and bottom line in fiscal year '13. Of course, consistency of strategy is important and we're not changing our strategy at this time.

So, thank you for your time this morning. We'd be very happy to take any questions. I'll ask Ben to come up and to host. So thanks very much.

Ben Spincer: Great. Thank you David and Andy. We've got plenty of time for questions this morning.

First question from Ian Martin. Go ahead Ian.

Question: (Ian Martin, RBS, Analyst) Thank you. Mobile was very strong. If you break it down into the different segments, Enterprise and Governments double-digits, Consumers double-digit, but Business Services lagging well behind, about 2.8% growth. I wonder what's going on there because you'd think with what's going on generally in mobile and the capabilities of mobile broadband, that would be an ideal set of products in the business segment.

You said, back in February at the results, that you were seeing difficulties in monetising data. I think you were talking more generally, not necessarily mobiles. But I wonder, is that still the case? Is there some turnaround there? What have you done? What can you do to achieve that?

If I might, also just one question for Andy. With your guidance, you qualified the guidance to say it's subject to stable regulatory prices - I think you had a footnote to that effect. But the key access prices are set in concrete as I understand, for three years, ULL, wholesale DSL, wholesale line rental. So I wonder why you feel the need to qualify that and is there something else on the horizon we should be aware of?

David Thodey: Yeah. Look, I - your observation is absolutely right. In the business sector the Mobiles growth wasn't as strong, primarily driven by ARPU decline. We had very high ARPUs in that market and it was pretty competitive. I know Will and the team have been working hard there.

We've seen good momentum coming out of the year, as we've sort of rebalanced the pricing.

Of course, to your point around data, they are related. Because the consumption of mobile data plans, as a lot of small businesses are using it to interact with mail, etcetera, is a mix we've got to get right. We've had a bit of competition in that part of the market. So, as we've pulled ARPU down we're starting to see the momentum or the prices down then we come back.

We think there's opportunity for '13. But, yeah, it's been a more challenged segment. But I think that some of the strategies around bundling, around the digital business product in the way we're interacting mobility with the IP service, will give us some nice differentiation going forward.

But your point's right. We've got more work to do. It was not the highlight of the year, but I truly recognise it.

The data question on mobility is a bigger question. As you've seen, there's quite a bit of change around the world as people are moving to data plans and how you manage that in terms of the structure of your plans. Luckily we've been pretty good at managing that transition. Remember SMS declines globally - we've not seen that because we always had included SMS. So

Kate and the team are doing a good job at managing through that. But we can give you more detail later. So I'll let you maybe respond on the guidance side.

Andrew Penn: Thanks Ian. No, look, there's nothing sort of specific in that exclusion on guidance. It's just basically the same guidance we've always given, which is, that to the extent that there are regulatory determinations which we're not aware of today, i.e. those that we are of today are included in our guidance, but if there are regulatory determinations during the course of the year that we're not aware of today we will adjust for those when we actually come to our final result.

David Thodey: Ian, there is a little bit more on that. We have the IAD on the wholesale DSL pricing. We're still waiting for the FAD, and that's probably - Tony - end of the year. So that's - that is one that has still not completely got a bow around it.

Question: (Alice Bennett, CBA) Hi. Hello. Okay, a couple of questions. First one on operating costs. You did flat underlying costs this year. Just wondering if you can talk a little bit about productivity savings into FY13 and the potential for cost growth or decline in that year.

The second one is just around LTE. I know it's early days, but just wondering if you could give us a little of the sense of usage patterns, ARPU, and maybe cost savings on those customers relative to your 3G breed of customers?

Just thirdly, FOXTEL, Richard Freudenstein's been talking about offering broadband as a triple play into the future. Just wanting to get your thoughts around how you view that? It's obviously something that hasn't really been discussed too much in the past, how you look at that going forward.

David Thodey: Okay. Let me - I'll try and cover all three and I'll also ask Andy to give a few comments on productivity.

Yeah, look, our productivity aspirations are about the same as full year '12. We need to keep driving that, both capital efficiency as well as underlying simplification of the business to get - some are in legacy areas - our operating costs down and Robert and the team continue to run a very strong cross-Company program and working with Gordon and Brendon about how we can really drive greater efficiency.

So the scale is about the same. Always the question is about reinvesting in the growth businesses and that's the trade-off we make. But it will be about the same scale we think, as '12. That's what you should probably look to plan for.

LTE - look, the ARPUs are a little bit higher. But the costs are a lot lower. See, the thing about LTE is a far greater, far better efficient technology. So, as I say, it's about 50% less than what we would get on the 3G network and we tend - it's very early days, because the people who adopt early, tend to be the higher ARPU customers anyway. So we've not seen - we're into the millions - we are just on 400,000 odd. So actually 375,000. So, it's early days and, of course, some of the people are taking dongles as well, or the WiFi device, where you've got and that's a higher ARPU.

So, we are a little bit reticent to put out too much data until we get to about 1 million subs or so. But it's encouraging. It's encouraging is the best way to say it.

Yeah, look FOXTEL have always had the ability to do the triple play. People ask me this question often and it's purely a financial issue for FOXTEL. We have always said that when you need to do it, you can do it. Obviously, we would have to put a competitive tender into them, if they hopefully use our services. But that's not a given. They run independently in that sense. But yeah, I think that just like BSkyB has done it in the UK.

I think there's an opportunity for FOXTEL to do that and we'll continue to look at what's the right thing for FOXTEL, because that's our responsibility to get the best returns on that asset. So, that's where we're at with that one.

Question: Just as a follow up question, you talked about IPTV as being important. How important is selling FOXTEL services through the T-Box as part of your vision there? It sounds like it's been relatively slow and you don't seem to push it very hard?

David Thodey: Yeah. Well, it has been slow. We are really trying to get the experience as good as we can, putting a - you know, all of those services through our ADSL2+ services. It's pretty good on HFC and depending where you are, on the copper.

No. It's very important. Remember, we think that pay TV, paying for content, is a critical part of any media strategy. Within IPTV, you can do some things differently. You know, interactivity, how you structure the screen and that's what we're going to be doing a lot of work on. But we're also partnering very closely with FOXTEL on that and we'll work through the product offerings. But no, it’s very important. Remember, pay TV in Australia is only at what - 28%, 29% of homes have a pay TV service. There's still a lot of growth.

The issue has been it's quite a high ARPU product, but we're trying to - I think you'll see some changes and Richard has already alluded to that in terms of improving penetration this year.

Question: (Mark McDonnell, BBY) Yes, good morning, Mark McDonnell from BBY. Two areas I'd like to ask you about. The first is mobiles and the second is on your revenue guidance. Firstly, with regards to mobiles, I was wondering if you could split out the 375,000 4G sales into those that are mobile broadband verses those that are handsets and if you can't give us exact numbers, if you could give us perhaps an indication of trend, i.e. does the higher speed of 4G translate to a higher proportion of broadband wireless connects, relative to your underlying base?

But the broader issues associated with your reinvestment strategy in mobiles, to support the growth that you're enjoying, relates to your views now about the adequacy of your spectrum, particularly in the light of Bill Morrow's comments that Vodafone may well not pursue the digital dividend spectrum, Optus' acquisition of vivid wireless and considerable enhancement of their spectrum assets and whether in the light of that, you believe that you have sufficient spectrum, given the share that you have, the growth that you're enjoying and your relative position vis-à-vis your competitors and therefore, what impact that might have on your funding expectations with respect to the spectrum.

The last component of that first question is then with respect to the debt funding that's proposed on that. I know that's been said a number of times. But what we haven't heard is in respect o a 15 year licence, whether you would pay back that debt at the rate of amortisation or whether you see this as a permanent change to your gearing.

David Thodey: Okay Mark. So let me handle the first ones and then I'll get Andy to talk to the debt funding on the spectrum. So, we did break out on the trend of 375,000 4G devices, 113,000 were handsets and so the rest will be dongles or the MiFi device. So - and that's meant we've only got two handsets in the market, the HTC and the Samsung. So - but over - but we're pretty pleased with that result, a lot better than we had actually anticipated. I think that answers that one.

Now, in terms of broadband wireless connectivity and is that having - I think your question is, is it having impact on the fixed environment? Well, we did see a 2% growth in the number of wireless only households this year. I don't really know yet Mark. It's sort of early days. If you looked at those numbers you'd say of the 375,000, there is more - obviously, more wireless broadband users on the LTE. But I don't think that - at least at the moment - I'm ready to extrapolate that out further. But that 2% growth is higher than we've seen. Usually, we got about 1% and so that has accelerated.

Now, spectrum. That's a complex question. Is spectrum important to us? Absolutely. Are we comfortable where we are with spectrum? Well, absolutely we are. I've - our engineers were the first to look at re-farming the 1800. I know that digital dividends are coming up and we'll talk about them in a moment. I'm also - we had an opportunity to do 2300 TD-LTE. But no, we're comfortable where we are, because it's not just spectrum. You need spectrum, the mobile network and you need devices in the market.

Now, the Chinese are unquestionably pushing TD-LTE and they're becoming a big market, as you know. However, you've got to have the whole ecosystem right and that's what we look to and pick the timing of when you are bringing that product to market.

Now, we also have some access to those higher end spectrum if we wanted to. But we're pretty comfortable where we are. But that's not to belie the point. It is very important for us managing that spectrum. It is going to be very important as we go forward.

Also now, the digital dividend isn't available still for a couple of years. So we've got to really free up the spectrum input. But at the moment we're pretty comfortable where we are. I'm aware of many comments made. But I'm focussed on what - where we're seeing growth and where we can get good returns. That's what we do. Okay. Does that sort of give you a bit of a sense? We can pick it up later. It's a many passage to the discussion.

Andrew Penn: Just on the financing point. So what we've said in the context of capital management is that we will basically fund the spectrum out of debt. What that - that doesn't though necessarily go as far as to say that we will then also amortise that debt in line with the spectrum lifetime. It's just from the point of view of setting a framework for excess free cash that we have in the short to medium term.

Question: (Mark McDonnell, BBY) So just to be clear on that Andy, you're saying that there is no plans to reduce that debt over the 15 year period?

Andrew Penn: No. Sorry. To be clear Mark, so there is no plan to increase that gearing. Just in the short to medium term, we will fund the spectrum acquisitions out of debt and we will obviously maintain our gearing levels within our balance sheet settings, which is 50% to 70%. But essentially, it's not a permanent increase to debt.

Question: (Mark McDonnell, BBY) Okay.

Ben Spincer: Mark, I've got about 10 more people to ask questions. So, can you make your second question one question please?

Question: (Mark McDonnell, BBY) The question will be brief. I'm hoping you can help decompose your revenue guidance, particularly the proportion of uplift associated with the recent price rises, particularly taking demand, price elasticity of demand effects into account and the degree to which the slower rollout of the NBN is a decrement to your revenue outlook.

David Thodey: I think I'll ask my modeller to comment on that one.

Andrew Penn: I think the short answer is no, sorry Mark. We won't provide a breakdown. I mean, obviously, we're providing guidance at the total level of low single digits. So - but I can say that on our first cursory look at the NBN rollout, there is no material impact.

Ben Spincer: We've got three more questions here in Melbourne. Then we'll go to the phone lines. Raymond.

Question: (Raymond Tong, Goldman Sachs) Good morning David. Good morning Andy, Raymond Tong from Goldman Sachs, just three questions. Firstly, just in terms of your mobile margins. You got up to about 39% in the second half. I'm just wondering where you see that trending in the next year or so and can you maybe just discuss the trends that you see happening in terms of recontracting new customer mix going forward?

	Secondly, can you maybe discuss, have you seen any economic slowdown across your consumer business and enterprise segments?
David Thodey:	Okay.
Question:	(Raymond Tong, Goldman Sachs) And just the last one. Just in terms of your FY13 guidance, now I just want to confirm whether that includes or excludes the TelstraClear impairment.
Andrew Penn:	Shall I just knock off that last one first? So, to be clear, we're excluding all of TelstraClear from guidance. So assume - take it out of 2011 - sorry 2012. Take it out of 2013 and that goes both for the operating numbers, as well as the impairment.
Question:	(Raymond Tong, Goldman Sachs) Great, thanks.
David Thodey:	Okay. Do you want your number one on the mobile margin as well?
Andrew Penn:	Well I think that David, you've been on the record in the past as saying that, you know, over the sort of medium term, we expect to see mobile margins in the high 30%. So, 39% in the second half of the year is what we would sort of aim to be seeing over the medium term.
David Thodey:	So we think that's where we should be and that's where our plans are at the moment. So, let me go through. So recontracting, look, there's a little bubble coming our way, as we know and we've done a lot of work in this area, as you'd expect. Obviously, it's a bit dependent on the bit of an overhang in the market around when the iPhone 5 is going to arrive. So, like any good operator, we're very diligently getting ready for that. But I'm confident that we're well placed in the recontracting. It is a little bit higher this year. But remember, it is all about how you recontract and there are new ways that Gordon and the team are looking at and I think that we've got some good approaches there. I think that's what I'll leave with today, because it gets a bit sensitive.

Now, in terms of the economy, look, if you look at our results, while there is some puts and takes on some accounting on the mobile results, the second half was a little bit slower. I think that's just reflecting the pretty choppy different sectors across the retail set. We're seeing continued performance in the last couple of months. But it is down from where it was seven months ago.

But I don't think it's of any great significance. We're watching it very closely. Our churn level's still very low and the take up of bundles is strong. And as you know we have put the price increases into the market but we think that you know if those who want to take a bundle, saw a really good offer, but if you're still on an old PSTN service then you get a bit of an increase.

So, so far so good, but it is definitely a little slow. Then the last one was…

Andrew Penn: Guidance.

David Thodey: Guidance and we covered - okay, good thank you.

Question: (Andrew Anagnostellis, Deutsche Bank) Just two questions, following on from the mobile discussion you saw a slowdown, 2.8% growth in the postpaid mobile markets, just wondering if that's tough comps or anything else happening? And obviously offset by the prepaids, perhaps if you can talk to the mix there?

And just a second question and I take on board your comments on Sensis having another difficult year but it looks a Herculean task when you've got 4% growth in digital and 20% price decline in print you know what gives you confidence you can stabilise the business? And just in the bigger picture I mean why's Telstra a group committed to this business when it's clearly a tough industry for everyone.

David Thodey: Yep. Well I'll cover that one while it's sort of at the top of the mind. Do you have an offer? No. Look--

Question: (Andrew Anagnostellis, Deutsche Bank) AT&T might.

David Thodey: AT&T might. Look that's the reality. We have to. If - and actually the more we look at it and recognise we've spent a lot of time on it we think there's some real opportunity. But it is going to be difficult and I don't want to leave you with the impression that we've got it all covered. But the strategy that we're on is unique and we do know all the other yellow operators around the world, some have done well, some have been more challenged and some people have decided to get out.

Two and a half times EBITDA doesn't sound very good to us and as we restructure the business we looked at the three year plan where we get to and if it truly an online business it actually has more value than it does today. That's the strategy. The execution is going to be difficult. But the signs we've had in the last three to four months have been encouraging but not victory encouraging. If we can hold the customer base, move them to the digital product then we think there is a future for that business. But look it is what it is so it's - so that's that one.

Now in terms of the mobile business itself, yeah look the growth was slower in the second half. There's some you know a number of factors for that but we are still seeing good growth. Remember the half - you know it's a half to half comparison - end of full year '11 was a very strong half as well so we've got that comparison. But we're still seeing that we'll you know grow faster than market as we go forward and we think that momentum will continue.

It is going to be dependent on you know when this iPhone5 will be a bit of a jab in the arm I think for the industry and so we've got to be well prepared for that, which we think we are.

And you know it's then very gratifying to see the growth in prepaid. I remember Gordon standing up here and saying one of his must in battles was to be number one in prepaid and I think we now are and that's a - we've never been there in all my years at Telstra. And we're still seeing good profitability coming out of that sector so while it's actually declined we're actually doing very well. So I've been very pleased with the performance in that area.

And then as we continue to drive LTE and the 4G we see a strong year ahead of us. But I don't think it's going to be as good as '12 okay. Do you want to make a comment Gordon? Gordon's twitching at the front here and that always worries me when he does.

Gordon Ballantyne: It's fair to say that I think all of the analysts would predict that the market is slowing next year and the challenge will not be the underlying growth in the market overall, it's around the value you create from the slowing of the mobiles market. If you look at any global market you'll see the same trend occurring.

No, our aim is to continue to win market share and we're well positioned to continue to win market share. We've taken market share across all of our mobile categories this year. We've also seen a three point improvement over all mobile profitability and we know there's still some upside and underlying mobile profitability if we look at many of the global benchmarks around the world as well.

So I think next year's all about value creation and underlying profitability and growth and those particular attributes of our overall mobile product set and that's what we're aiming to achieve.

Ben Spincer: Thanks. Richard, last question from Melbourne at the moment.

Question: (Richard Eary, UBS) Hi it's Richard Eary from UBS. Just two questions. The first one was on M&A; I think the first half results you sort of identified a number of areas that you were looking at. Publically you've come out and obviously knocked a couple of those over.

Could you give us a feel in terms of whether there's anything material or sizable that you're looking at on a sort of 18 months' view or you know whether you have update us in terms of how you're looking at the M&A space? That's the first one.

The second for Andy in terms of guidance. The cash rate guidance for '13, can you just give us an update in terms of pension contributions within that guidance and also the NBN proceeds? I think in April you said you expected $1 billion of NBN cash proceeds to come through in '13 and 14. I just wondered whether you could give us an update on the split?

And then on guidance for your $2 billion to $3 billion of excess cash flow which you've maintained despite the increase in CapEx. Could you just give us a feel in terms of where you think - you know obviously that's a slight upgrade – where you're a bit more comfortable or where you're a bit more positive within the underlying business?

Andrew Penn: So the $2 billion to $3 billion - so I guess since April what's occurred is that firstly we've finished 2012 at the top end of our range that we indicated for 2012 which was a half a billion to a billion. So we're at the top end of the range there that's a billion. And also of course we've announced the sale of TelstraClear which, assuming that it completes as we fully expect it to do, will add another $640 million in cash proceeds against which we will be investing half a billion dollars.

So they're the sorts of upsides, if you like, Richard, which give us the comfort to be able to reconfirm that. I mean it's obviously - we've only just seen the new NBN plan so we've only had a quick look at that but as David indicated we don't see significant variance of that over the whole sort of transaction.

To the guidance point in relation to 2013 - in relation to updating pension contributions all I would say is that there is no sort of expectation that they will either be more or less in 2013 relative to 2012. So there's no significant change there.

As regards the NBN proceeds, I'm not going to sort of break it down, but suffice to say that of the $1 billion that I spoke to the market about in April as you can imagine the majority of that - or the large proportion of that was in 2014, not 2013 at that time.

In any event just because what we were expecting in relation to the roll out.

David Thodey: In relation to M&A, Richard, our strategy's the same. We're already focused on acquiring capability where we need it, bolt-ons around the core and new innovative technologies like the investments in Oooyala which was in the west coast. That's our focus for now and I think pretty much that will be going forward.

We scan the markets pretty aggressively these days because we do need to stay abreast of the changes in the industry and as the convergence continues to take place. But there's nothing on the horizon at this time. But look if we do change that position we will let you know. But that's our position today.

Ben Spincer: We'll now go to the telephones. I think the first question is Justin Diddams.

Question: (Justin Diddams, Citi) Sorry I couldn't be down in Melbourne today. Just a couple of questions from me, firstly just on mobiles. So that 39% margin in the second half, cracking result. I was wondering if you could give us some colour about where the cost - what happened in the cost space there? Obviously there's not much detail in the notes and I just want more specifically around the cost of goods sold and the cost of handsets and really what drove the margin beat there first.

Second question just on CapEx of 15%. You know if we look at global telco players, 15% to 16% seems to be the norm at the moment. I was wondering why you think CapEx will drop back to 14% in FY15?

And then thirdly a bit of a dorky question just around interest expense. I was wondering if you could give us sort of a read on what you think the interest charge will be for FY13? You know obviously there was quite a step down in FY12. That'll do it.

David Thodey: Great. I'm going to let Andy handle all three and then I'll make one comment on the CapEx to sales at the end.

Andrew Penn: I think just firstly in relation to the margin on mobiles, as I said previously in response to another question that David was given, I think our view or aspiration is to be at the high 30% so as you say 39% in the second half was a cracking result and I wouldn't say that we'd be predicting that completely into the future but that's our aspiration to be at or around that level.

I mean I think what underlies that is obviously the strong growth in mobiles that we have achieved on the one hand in conjunction with the productivity benefits that we've achieved on the other through the Project New, through moving a lot of transactions online, a lot of service aspects online as well. So that's been - I think it's been on both sides, if you like, of the P&L account.

On the CapEx to sales ratio why do we think it will reduce below 14% in 2015 is because that's what we're planning to make it do. So that maybe needs a bit more sort of colour but I mean the point is that we've maintained our CapEx to sales ratio in the context of our capital management strategy and framework is around 14% CapEx to sales. We believe that we are - it is a sensible thing for us to do to take advantage of our strong capital position at the moment to invest in the acceleration of the roll out of LTE to continue to invest in our mobile network.

By the way I don't know if you picked up from what David said, that will bring our total investment into the mobile network in 2013 to $1.2 billion just in 2013. As well as enable us to accelerate our investment in the NBN network. That therefore means that's expense or CapEx that is accelerated and therefore by definition if it's accelerated it should enable us to reduce what we would have otherwise spent in 2015. So I think that's the answer.

As regards our interest cost, where that's likely to go? I guess if you could tell me what's going to happen with global interest rates I'll give you that answer. But maybe to put a bit more colour into that look I think - I mean our net interest cost this year was 7%, you know global interest rates don't look as though there's a lot of pressure on the upside at the moment. So I'm not expecting anything radically different next year.

David Thodey: I'd like just to add a couple of small comments. One of the things that I think I would also attribute to the strong performance in mobiles is Warwick Bray and the team have done an outstanding job in really managing the clarity you need around SARCs around just how we are managing that mix.

That does have a big impact and also we're doing a lot of work around reducing the cost, both at activation of mobiles, how to do that differently, that is allowing us to get some cost out but also some very active management, I think right across the portfolio. And - but actually no, that's a complicated business when you get underneath it so that's that.

Yeah, the 14%, it is a tough call. I think you're right, Justin. Because in our industry you've got to keep investing. You've got to keep ahead of the technology curve. But also, I think Andy and our senior team, also believe that we can be more efficient in the capital we spend. That's a difficult one because you've got multi-year projects. We're going to trial some really different ways to the way we manage our big projects and our capital spend. So that's what we're going for. We've started a big body of work. That's what we're going to manage to. But I'm not saying that also it's going to be easy. But I think it's the right thing to do.

Question: (Daniel Blair, Bell Potter Securities). Thanks everyone. Thanks David. Thanks Andy for your time. Three questions from me.

Just firstly on the sales trends. If we look at the second half, 0.8% sales revenue growth versus the first half with about 1.2%. Within that second half there was $60 million related to the NBN residual agreement. So that accounts for half of the growth. As we run into FY13, can you just talk about some of the things that you're positive about, some of the risks to those sales trends within FY13? I think there's a further $110 million related to that NBN residual agreement.

Secondly, just on Sensis, I think David you said double-digit revenue growth in '13. Just your expectations around what that translates into EBITDA. Through the end of the three-year transition in FY15, what are your expectations for revenue and bottom-line or EBITDA growth or otherwise? Thank you.

David Thodey: Okay. So let me handle the sales one. Yeah, look, the second half was slower. But remember it was compared to that very strong second half the previous year. Interesting, the momentum in the Enterprise business and in Consumer was still very strong coming out of the year and also the business had some very strong set of sales results coming out of the fourth-quarter, which we don't usually talk about. So that sets us up, I think, better as we come into this year.

The NAS portfolio has signed a number of deals. Andy mentioned those as well. There's a number of very large transactions that will be decided in the next 6 months that give us some high degree of confidence in terms of that trajectory.

It's interesting. We are seeing in the Enterprise space a strong push to use technology to drive costs out and that's across a number of sectors. So the focus on technology being a product innovator is really something to bear real fruit. So mobility, as we alluded to, grows faster than market. There's no question, as Gordon said, and I said, it's slow, but it's still going well. Fixed broadband is very strong coming out of the year. So when you put them all together, we have a good degree of confidence about our growth trajectories.

Now in terms of Sensis - and I hope I've got the questions correct - I think firstly the revenue decline, EBITDA decline, yeah, roughly about the same in terms of their scale for the full year '13 year [refer clarification in next question]. I've made a very conscious decision in working it through with Rick. We've got to give enough life and breath into that business to reform itself. If we cut it back too hard, we're worried that it could be a self-fulfilling prophecy. We don't think that's the right strategy.

So we're slowing it hard in the year. But we're looking after customers. Customer retention and growth is probably a critical, critical component, because if you can hold a relationship with a customer and prove to them that you can take them into the digital world, then I think we've got a stronger future ahead of us.

I'm sorry, Daniel, the third part of your question, was it '14, '15 Sensis?

Question: (Daniel Blair, Bell Potter Securities) Yes, David. You were just saying that, in 3-year transitions, so in FY15 what are the expectations in terms of revenue and EBITDA?

David Thodey: Look, our expectations in '13 - the rate of decline will slow, as it will in '14, and hopefully by '15 will be starting to flatten out. That's the plan of record as much as we can give to you. We're going to try and - as you do. You've got to set your targets and manage to it. Do you want to make any other comments on that?

Andrew Penn: I think that's probably enough.

David Thodey: Yes, okay. Yeah. So that's it, Daniel. I hope that gives you some flavour.

Question: (Daniel Blair, Bell Potter Securities). That's great. Thanks again, guys.

Question: (Sameer Chopra, Merrill Lynch). Morning. I had three quick questions, all on cost. First one, David, you know, Project New is now about 70% complete and you were talking about the 20% fall in customer volumes. I was just wondering if you can comment on are you sort of right-sized in terms of your headcount? Or do you see potential for more chunky cost-out coming through in FY13?

The second one was just on COGS. COGS as a percentage of sales, your expectations for next year, would you see this ratio going up or down? The last one is just a quick comment on depreciation, if you can guide us to a depreciation number for next year.

David Thodey: Okay. I'll get Andy to get to answer the last two. I'm not sure. I don't think I've said that Project New is 70% complete. I look at Rob and I say it's 30%. I still think we've got a lot of work to do. It's just the size of this business and the opportunity, be it in the operations area, in activation, the complexity of the hand-offs we have created, even in the new IP products. Look, we were spending, I think it was nearly 4, 5 months to do an IP telephony. The end-to-end process, we've got a lot of opportunity to take cost out and improve going forward. So there is a lot of opportunity there.

In terms of productivity and headcount, I have been on record. We will continue to manage that aggressively and, where there are more opportunities, to do - you know, drive the business more efficiently. But it's really a rebalancing of moving from - the very large legacy part of the business had a lot of headcount - and moving them into the new growth areas. But there's still more to do as we go forward. So let me throw to Andy and he can talk to you COGS in terms of sales and also depreciation.

Andrew Penn: Yeah, no, sure. Well I do but I won't necessarily disclose it.

David Thodey: Oh, okay.

Andrew Penn: But I mean in terms of COGS, we do expect COGS in terms of sales to go up a bit next year. In the end, it's really going to be a function of the extensive re-contracting and how that plays out. As regard to depreciation and amortisation, I think you can assume that there's no major change to sort of current profile of DNA at about $4.4 billion. That's the sort of trend that we would expect. Our CapEx spend over the last couple of years was up 5% this year relative to last year. It will be up a little bit, as we've just talked about, because of the additional investments we're making next year. But that's not going to have a material impact to the DNA line.

Question: (Sameer Chopra, Merrill Lynch). Thank you.

David Thodey: I think the other key point on the COGS sales is that with these very large contracts you sign, you do have a little bit of cost upfront over a 10-year period. That's probably pushing out COGS up a little bit higher. But overall it's still a good business to be in.

Ben Spincer: Thanks, David. We'll take the next question. I think it's Digby.

Question: (Digby Gilmour, CLSA) Thanks very much. Just one quick one from me. Andy, you've indicated that the PSTN declines are in line with your expectations. So if we look at revenue there, second half '12, it's declined by 11%, which is I think the worst decline on record that I can see. So what exactly are your expectations for fiscal '13 in terms of PSTN product revenues? Thank you.

Andrew Penn: Yeah, sure. Well there's a couple of things, just sort of breaking that down a bit. So the number of services declined to 181,000. That's around 4%. ARPU was down around 6.5%, I think 6.7%. There was a bit of an impact there from bundles, where in bundles we attribute slightly more service revenue to fixed broadband than we do to the PSTN aspect. That's probably what's sort of coming through in terms of what appears to be a slight increase in the rate of decline.

But look, I think the more generic comment I would make, absent the impact of NBN because obviously the rate and pace of the rollout of the NBN will influence. But putting that to one side for a second, we don't expect - you know, we expect to see the rate of decline to be sort of similar to that which it was in 2012.

Question: (Digby Gilmour, CLSA) Okay, thank you.

David Thodey: Next question, please.

Question: Vikas Gour (Deutsche Bank) Oh thanks. Just a couple of follow-ups to the questions asked earlier. Just wanted to get a handle on the percentage of contribution that's driving the CapEx to sales ratio to increase to 15%. What proportion is 4G versus NBN? Also just focusing on NAS, the rate of growth has been slowing over the last few halves. Is double digit organic growth going to be difficult to come by? Is this one of the areas that you're focusing on, for organic growth to compete against the larger players? Is there plans for margin expansion in this area?

David Thodey: Oh, I'll let Andy answer the first one and I'll do the NAS one.

Andrew Penn: So I think if I interpret the question correctly, it is of the additional $500 million, how much are we investing in the LTE as distinct from how much are we investing in the transit network for NBN. So I think the short answer is we haven't actually disclosed that, David, and I'd be disinclined to. But it's the majority would be into the LTE network and into the Mobile network. Just to repeat that comment that I made earlier, that would bring the total investment in 2013 into our Mobile network to $1.2 billion.

David Thodey: So I think that's probably the best way we can give it to you. Yeah, look, the NAS business, the rate of growth did decline in the second half. But again there was quite a large one-off transaction in the previous 6-month period. So the underlying growth was actually very strong.

Also the number of sales - big sales - we had NAB, the Human Services, Australia Post, Origin, they are very big contracts that sort of really kicked through in to '13. I mean obviously as the business grows double digit growth gets harder. But we still see double digit growth going forward. We remain enthusiastic about that business.

Now in terms of margin, you're right to point that out because margin is what is critical in a services business. It's less capital intensive, more labour intensive. Therefore methodology and efficiency is really important. Now the reason that we don't often talk about NAS is that the margin, it actually is spread right across the ops area. We actually leverage a lot of our existing capability. So it becomes an allocation effort.

But over the next 12, 18 months we'll give you more and more clarity as we just sort of really focus in on that business. Remember it is about how you put the services and the carriage together to deliver the service to the customer and we look at the margin across both. So that's the critical nature of that.

We think we've got opportunity, good opportunity. The plan is to improve our margin year-to-year as we go forward, as we bring on these contracts, drive very strong what we call delivery towers, driving efficiency and better solutioning at the front end of the business. But we can fix that up with you separately. We've come a long way in that business, which is good.

Andrew Penn: Maybe to add as well, looking at Paul Geason here, without sort of putting Paul under too much pressure, I mean the other point to make is that, as we sit here today, the proportion of our outlook and target for 2013 that is incumbent in existing contracts which have been signed, because of those big contracts being signed, is a bigger proportion than it was this time last year, which I think augers well for next year.

Ben Spincer: We have just two more questions from the phones.

Operator: Brad Clibborn from Credit Suisse. Please go ahead.

Question: (Brad Clibborn, Credit Suisse). Good morning, gents. Thanks for your time. Just two quick ones from me. Firstly in terms of the tax-rate, effective tax-rate was up to 30.6% from 28.6% in the prior year. Was there any tax impacts from the TelstraClear sale and just what's driving that, and where you're at from the franking perspective as well. Just following on on the point around that, those contract wins and the ongoing gross in that, can we expect to see any pull through in terms of the data and IT side of the business? Thank you.

Andrew Penn: On the tax one, no. There's no real impact from the sale of Telstra Clear. Our franking position is currently negative $54 million, you can see that from the statutory accounts. We do have, as you'll see from the balance sheet, a number of tax adjustments to be lodged which is already just about making sure we've got the right franking situation. So there's no sort of systemic change from our tax position. It's just about making sure that franking right is the negative $54 million balance. Our outlook is in a position to fully frank the dividend for 2013.

David Thodey: On the next question, yes, you do see pull through on the IT core access products so we'll see good growth in that area as we go forward. That's the whole value proposition of that business as you pull through. Good Next Generation carriage revenues.

Ben Spincer: Can we have the last question please?

Operator: Last question is from Paul Brunker, JPMorgan, please go ahead.

Question: (Paul Brunker, JPMorgan) Morning all. Just on mobile margins, there was some degree of slowdown in the second half, albeit from the high base. Has that somewhat helped margins through lower subscriber acquisition costs and would you expect SACs to be rising in FY13 with the iPhone 5?

If I can just sneak another one in on CapEx. Your guidance I think refers to the accrued number, that's about $350 million less than the cash CapEx this year. Can you just clarify why that is and are we right to assume that that gap reverse is next year?

David Thodey: Right. In terms of your first question on the mobiles, no it's not significantly attributable to the increase in margin. Besides, we are managing it better, I think, and therefore what subsequently putting on what phones at what time, when we do it, recontract rates, all those things are really important. But it's not significant in terms of the margin. I think it's just been a strong performance across a number of areas.

In terms of going forward with the iPhone 5, look we do expect a slight increase but over the full year I think we can manage it pretty well. It's still early days on that. We need to get all the details but as I said, we don't intend to take a step backwards through this process and I think we've had good experience with the interaction of new phones from Apple now and there's no question with demand and where there's demand, that's good business. Gordon, did you want to comment on anything more?

Gordon Ballantyne: The only thing I'd say is one of the great shifts we've achieved this financial year is the quality of the mix of customers we're bringing on board, given the quality of the network and the introduction of LTE where we see, if you look a year ago we would have had a price plan below $59, we would have had in FY11 with over 34% of our customers above the $59 price point and above. If we look at FY12 we're now at 71%.

What we see is an improvement in the quality of customers. What we see is an improvement in the quality of the mix and the plan mix, we're seeing an improvement in the usage and customers wanting more inclusions because they're using data more and we're beginning to monetising. That actually is reaping greater marginal improvement. We don't see that abating.

That's why the margin improvement is sustainable, notwithstanding as we shift to a year of recontracting with the launch of iPhone 5. So that's a positive churn that we want.

Question: (Paul Brunker, JPMorgan) Thanks, Gordon. My other question?

Andrew Penn: Yeah, I might just get Mark Hall to answer the question.

Mark Hall: On CapEx, I mentioned it at the half but in the past we've had a program that ramps up during the course of the year so obviously the cash impact of that spills over into the following year. What we've had this year is a program managed on a far more [unclear] i.e. on an even keel across the year, so we don't have that same impact and we'd expect that to continue going forward.

Ben Spincer: Thanks, Mark. I'll just hand over to David for any closing words then we'll close. Thank you.

David Thodey: Thanks Ben. I don't have a whole lot to say. It's been a strong year's result. We're looking forward to this year, the full year '13. I think we've got good momentum across all the key things and thankfully, there's still great demand for our products and services which makes it fun to be in this business.

So thanks for your time and we look forward to talking to you over the next few weeks. Thank you.

End of Transcript