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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2010 Financial Results – Analyst Briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2010 Financial Results Analyst briefing, for release to the market.

Regards

Carmel Mulhern
Company Secretary

TELSTRA 2010 FULL YEAR RESULTS

Thursday, 12 August 2010

MR BEN SPINCER: I welcome you to this our 2010 financial results presentation. I should also welcome all those people on the phone and also watching the web cast this morning. I will hand over now to the CEO, David Thodey, who will give a brief introduction, and then we will run through the results with David and John. Thank you.

MR DAVID THODEY: Thanks Ben, and let me also just add my welcome. Great to have you here and I also welcome everyone who is on the phone, right around the world I dare say. Now let me begin.

2010 definitely was a tough year and we faced many significant challenges. The NBN negotiations were long and protracted; we have seen quite a significant change in consumer behaviour, which we have seen happening for a while but which now has accelerated, and of course we have seen much tougher price competition. But despite those challenges, the company has emerged stronger.

We have seen renewed momentum in the last couple of months of the last half; we've seen improving customer service and of course we have the preliminary agreement on the NBN. In addition, and we will be talking about this in a moment, we have achieved our February operating guidance, including the key target of $6 billion of free cash flow, and we have seen really strong cost management right throughout the year. Of course, these challenges haven't gone away, and the whole industry faces many challenges that we are going to have to confront.

As Ben said, we are going to change the format a little bit this year. I am going to ask John to come up and go through all the financial results. I am going to come back later on and talk about the future. We think this might be a better structure for the morning.

Before we begin, I do want to address a very important strategic decision that we need to make for this company. Today, the greatest asset that Telstra has is our customer base, and we have been losing too many customers. We cannot allow it. In fact, I am not going to allow it to continue.

We have two strategic options in front of us. Firstly, we could maximise our cash returns in the short-term, cut costs and continue to lose market share, or we could take a longer term view by investing, and that's investing in customer service, simplifying the business and competing aggressively to retain and acquire customers, and of course to prepare for future opportunities.

We have looked at this in detail and we believe that it is in the best interests of shareholders to manage this business for the sustainable future growth of this company. Not for the short-term. So today we are going to announce some bold but necessary steps to drive profitable growth over the longer term. But I am going to come back and talk about that later on. Let me now pass across to John who is going to take you through the results for last year.

MR JOHN STANHOPE: Thank you and good morning to everyone here, and everyone wherever you may be.

Let me start by saying that back in November 2005 we set a target of achieving $6 billion free cash flow by 2010. This was obviously an extremely important target for us and our shareholders. How we achieved this target has evolved with the business and market over the last five years but I am pleased to say that five years down the track we are there.

Now let me move on to the rest of the results because that certainly is a highlight.

As David mentioned, I am pleased to report this morning that we met our February guidance for the Fiscal Year 2010, and as I just said we grew free cash flow by $1.9 billion to $6.2 billion this year.

We maintained or 28 cents per share dividend for the full year, and that is fully franked, all this despite the challenging market conditions we faced over the past year.

On our February guidance basis, so excluding the CSL impairment, we reported:

A sales revenue decline of 2.2 percent to $24.8 billion

Operating expenses continue to be tightly managed and fell by 4.5 percent. With this tight cost control, EBITDA grew by 0.6 percent with margins growing 1.2

percentage points to 44.4 percent. EBIT grew by 1.7 percent, in line with our guidance of low single digit growth.

Including the impairment of CSL, EBITDA declined by 0.9 percent, and EBIT also declined by 0.9 percent and profit after tax declined by 4.7 percent.

As always, there are some adjustments that need to be made to our reported financial results to get a better representation of the underlying business performance.

These adjustments are consistent with the adjustments we made at the half year so they take into account the sale of KAZ in the prior year, the significant strengthening of the Australian dollar through the year, fair value adjustments included in the finance costs plus of course, the CSL impairment. For the rest of this presentation therefore I will be discussing the adjusted numbers.

On an adjusted basis therefore the sales revenue declined by 0.2 percent, EBITDA grew by 1.3 percent and EBIT was up 2.4 percent and profit after tax up 7.6 percent.

You can also see the improved performance in the second half which was a key commitment we made at the half year, with sales revenue growing 0.3 percent, EBITDA 2.4 percent and EBIT up 2.7 percent.

While I am talking about high level numbers, I would just like to cover off the impairment charge at CSL.

Telstra’s investment in CSL is recorded in our financial statements in Australian dollars and a test of the investment’s carrying value is undertaken each half year using Australian dollars forecast cash flows for the business. The forecast cash flows of CSL have been lowered to reflect the softer margins the business is likely to experience, given the intensely competitive wireless market in Hong Kong and the lower ‘09-10 base given the recent performance of the business. As such, we booked a non-cash impairment against the goodwill on this investment of $168 million.

Looking forward, we remain upbeat about the Fiscal Year 11 performance of CSL and we expect the top line in local currency to return to growth as the Hong Kong economy improves and CSL takes advantage of the opportunity presented by the iPhone 4 and leveraging its network advantage. This will be the first time CSL has sold the iPhone and should assist the business to recapture the revenue market share.

In terms of performance from our products, it has been a challenging year. The PSTN revenue loss was significant. However, we are still seeing strong growth in the key areas of mobiles and IP products.

For this fiscal year, PSTN revenue declined by 8 percent to $5.8 billion and fixed internet declined by 0.7 percent to $2.1 billion.

Mobiles was again strong, with total mobile revenue increasing 6.4 percent, an increase of $439 million.

IP and data access was up 1.7 percent to $1.8 billion. However, within this category, IP access revenue grew 24 percent to $835 million, leveraging off our wireline transformation.

Of course the changing product mix means that margins also change, so before I discuss the product performance in more detail, I would like to look at the profitability of these products.

PSTN is clearly impacting our profitability given the decline in revenue from that product. What is encouraging is that fixed broadband margins have improved as the broadband market has slowed and we achieve lower network unit costs from economies of scale.

Mobiles, IP and data, fixed broadband and Sensis have driven the greatest value in absolute EBITDA terms however the contribution from these products has been offset by the dilution in PSTN where the revenue decline is faster than the decline in costs.

These pie charts provide a summary of how Telstra's revenue and EBITDA mix has changed over the past year as well as highlighting just how diversified our portfolio of products is.

Of particular note is a continued relative shift in the importance of mobiles and PSTN. PSTN's contribution to EBITDA has declined by 3 percentage points in the year, symptomatic of the structured decline in that product, while mobiles has increased by 2 percentage points. It is also worth noting the importance of Sensis to the business, which contributes 9 percent of revenue and 11 percent of total EBITDA.

Back to the performance of our products.

Fixed retail broadband revenue grew by 0.9 percent to $1.5 billion. However what is more pleasing is that our new pricing plans and bundles has seen the negative SIO trend experienced over the past two halves reverse in the second half of this fiscal year. 11,000 customers were added and we only saw a very minor reduction in ARPU in the six months to 30 June.

In terms of IP access, the growth in IP access revenue of 23.5 percent offsets the decline in legacy specialised data and global products such as leased lines. Furthermore, as the penetration of IP applications grow, customer value also increases.

Sensis also achieved a solid improvement during the second half. This was achieved as Sensis continued to use next generation digital media products such as the T-Hub and iPhone to complement the more standard directories channels of print and online. In terms of financial performance, Sensis domestic sales revenue declined by 2.3 percent in the second half, an improvement on the 3.6 percent decline in the first half.

In terms of mobiles, total mobile revenue grew by 6.4 percent to $7.3 billion with service revenue increasing 5.9 percent to $6.5 billion. Again, second half momentum has improved with mobile service revenue growing by 7.1 percent compared to 4.7 percent growth in the first half.

Where this growth is coming from is data - data really is the mobile growth story. Telstra now has over 1.6 million wireless broadband customers and revenue generated in this area increased by 34 percent to $787 million for the full year. The largest component of data revenue is still messaging, which grew by 14 percent.

You can also see here how we have provided additional reporting of prepaid unique users. We believe unique users is a more representative and less volatile measure of our revenue-generating prepaid customers.

Moving on to PSTN, on this chart we have attempted to deconstruct the half a billion dollar absolute decline in PSTN revenues in the past year, and look at the drivers of that decline. I would urge you to treat some of these numbers as indicative because we have made assumptions around average users and the retail/wholesale split to keep this on a single page, but there are some obvious conclusions.

The PSTN decline is driven by a combination of line loss and a usage decline. In terms of the line loss, about a third of the revenue has shifted to ULL with the rest lost to more than 200,000 net cancellations in the year.

On usage there has been a decline in all call categories in the last year. Overall PSTN customers made nearly six fewer calls a month in 2010 than in 2009, with the decline in fixed-to-mobile revenue being the biggest driver, but we probably claw back around a third of the ULL revenue decline in our wholesale division with ULL booked in our intercarrier access revenue line. That's where it appears in our financial statements that you have. We are also seeing strong growth in our IP telephony products with some revenue shifting from PSTN to IP access. Finally, there is clearly significant mobile substitution occurring, both in terms of traffic moving to mobile and also an increase in mobile-only households, which we now estimate to be around 12 per cent.

If we look at this in terms of PSTN and PSTN substitution there is still a decline, but it is perhaps overall when you take all of those movements into account, around 5-6 percent

Before I move on to expenses, I would like to discuss the performance of our retail business units.

Telstra Consumer faced a very challenging year due to the intensely competitive landscape. Sales revenue declined by 0.5 percent, however significant initiatives such as the T-Hub, new bundles and pricing were implemented in the second half to address this performance. Around 41 percent of our consumer customers have two or more Telstra products and around 300,000 customers have signed up for our new bundled offer.

Business returned to growth in the second half with sales revenue growing 2.3 percent after declining by 0.4 percent in the first half. In the second half, Telstra Business launched “mobile plus” pricing plans, which incorporated both voice and data, and as a result we have seen increased Smart phone penetration and higher data ARPUs.

In the enterprise and government segment, revenue growth accelerated in the second half to 2.9 percent, with 0.3 percent growth in the first half. For the full year, on an underlying basis, so excluding the sale of KAZ, sales revenue grew by 1.6 percent. Significant contract wins during the year including Suncorp and Komatsu all contributed to that outcome.

Now moving on to expenses which is a real positive to come out of these results. Excluding the CSL impairment, operating expenses declined by $653 million or 4.5 percent this fiscal year.

Variable costs as a percentage of sales has increased this year but this is an important trend as it does reflect the product mix shift that I spoke about earlier. Later you will hear more about how that is continuing

However we continue to maintain a very tight control over our fixed costs which declined by 7.5 percent this year. This excludes the CSL impairment.

Looking more closely at where the cost savings were realised this year, labour expense, adjusted for KAZ and FX movements declined by 6.2 percent. The decline has been driven by fewer headcount thus a lower salary and associated cost expense. Redundancy costs also declined due to the absence of a lot of redundancies which we had the prior year, redundancies associated with the marketing simplification program.

Subscriber acquisition and retention costs, or SARCs have increased but as I flagged at the half year, this has been a managed increase to support the popularity of Smart phones. While SARCs have increased, SARC as a percentage of mobile services revenue has increased by less than 1 percent.

One area of disappointment in our cost base has been our bad debts expense. Bad debts increased 44 percent to $364 million. Admittedly, much of the increase was self inflicted with what we call bad volumes. Bad volumes include misalignment between a customer’s choice of plan and the plan they are initially billed for. The difficult economic conditions this year also contributed to larger write offs. So we had two elements, confusion by customers of plans and charges on their bills, et cetera, but we also did experience some bad debts due to the economic conditions.

Pleasingly, we now have a detailed remediation plan in place to make sure we have lower bad debts moving forward.

On a positive note, there were large decreases in many categories of discretionary costs including travel and legal expenses.

Now let’s have a quick look at depreciation and finance and tax. D&A came in at $4.3 billion. Adjusting for KAZ and the impacts of FX again, D&A declined by 0.3 percent. While the depreciation charge was lower due to the absence of accelerated depreciation at CSL, amortisation expense increased due to a full year of amortisation of the Trading Post masthead, which we signalled we would do last time and that was $67 million.

Borrowing costs also reduced this year by 11.7 percent to just over $1 billion as the average volume of debt and the cost of servicing the debt is lower. Over the past 12 months net debt has reduced to $13.9 billion while our average borrowing costs on average debt was 6.4 percent.

Moving on to tax and the all important franking credit balance, at the full year, our franking account balance was in deficit to the tune of $138 million. However it is important to note that the tax payments we have made subsequent to 30 June will allow us to have sufficient franking credits to enable us to fully frank the final dividend of 14 cents per share

Looking forward, we expect the franking credit balance to remain tight for a number of years. While we do not believe this will constrain our ability to fully frank a dividend at current levels, it will constrain our ability to increase fully franked dividends should the Board resolve to increase returns to shareholders.

Moving on to capital expenditure, operating capital expenditure declined by $1.1 billion to $3.5 billion. This represents 14 percent of sales so right in line with our guidance.

What is on the slide here is how we look at capex internally, so on an activity view, rather than a technology view which is how we have disclosed capex in the past. You will find both views though in the documents that we have lodged and handed out today.

As you can see, the largest component of our capex spend this year was customer demand and customer experience, accounting for 45 percent of our total capex program. Customer demand and experience capex, which reduced by $404 million to $1.6 billion, is focused on meeting customer demand for existing products and services, such as mobile base stations and spending on our fixed access networks.

Whilst I am talking about fixed access capex, expenditure we would not have to bear with a fully rolled out NBN would be around $300 million per annum.

Moving on to free cash flow, as I said earlier we exceeded our target, generating $6.2 billion of free cash flow this fiscal year. The increase in free cash over the year came from reduced capital expenditure of $1.3 billion but also a one-off R&D tax refund of almost $250 million.

As you can see from the slide, free cash flow has more than doubled over the last three years, which has given us the headroom to make some investments to ensure future growth.

Before moving onto the last slide which is about guidance, I want to explain why we need to make an investment in the business in 2011 which results in the guidance that we are giving today.

The pressures on the business are quite different from five years ago. While margins increased in fiscal 2010, it is because we delivered on our fixed cost reductions from the transformation, as I went through earlier.

In 2005 the transformation was an enabler for ongoing product and service differentiation and improvements in operations.

Five years on the industry is at an inflection point, and Telstra in particular, with price competition being intense, fixed services being substituted by mobile services and product mix changes putting pressure on margins.

We must prepare for this by structurally changing the company which will require some investment, mainly in directly variable costs and an investment to deliver a lower cost operation and revenue growth in the longer-term.

David will tell you in his presentation what we are doing and how we are going about it.

So this leads me to guidance. We view 2011 as a transition year as we invest in operational excellence to prepare the company to compete in the future. We have made this decision to improve customer service and satisfaction, simplify our business and core processes and prepare the business for an NBN world by investing to grow new revenue streams that compensate for reductions in traditional fixed revenues.

For 2011, we expect an increase in the customer base with flattish revenue but because of our investments and the changing product mix the company expects a high single digit percentage decline in EBITDA. We also expect free cash flow of somewhere between $4.5 and $5 billion.

I do want to point out that at the half year, the first half of the year we will have some variation to it because we are expecting one of our Yellow Pages books, in fact the Melbourne book, which is around about $100 million, to be in the second half of this fiscal year, not the first half as it was last year, so I just want to alert you to that so as you try to figure out the half results or the expectations you need to know that.

The bottom line here is we must invest to grow, win customers and lower our cost base to make room for a lower margin product mix world and to grow our EBITDA going forward. The benefits of this necessary investment will become obvious from 2012.

Excluding any possible spectrum acquisition costs, we foresee capex to sales of 14 percent over the medium-term. It is important to note that the fiscal year 11 guidance is off our reported numbers, so sales revenue of $24.8 bilion and EBITDA of $10.8 billion. Our guidance also assumes wholesale product price stability, over which we don’t have a lot of control, no additional impairments to investments and excludes any proceeds from sale of businesses. You are aware we are in the middle of looking at the sale of Soufun for example.

I would like to thank you for listening to that and I would now like to hand back to David who will go through our future directions.

MR DAVID THODEY: Thanks, John. I think it was a very good summary.

Okay, as I said at the beginning, the industry and Telstra are really going through some significant changes, but what I want to try and focus on now is it creates this unique opportunity for Telstra to really invest for the future and I want to try and give you some colour about that this morning.

What we have got to do is put customers right at the centre of what this company does every day. Very importantly, John mentioned simplifying this business, taking all the complexity out of it, so we truly can get a lower cost base going forward, we need to continue to focus on retaining and acquiring new customers. Growing our customer base is very important, and, of course, we have got to find new revenue streams as we go forward.

You see, this company has got to move transform. It has got to move from being an engineering and a technology led company to being a truly sales and marketing led company. We need to keep our technology leadership but we must become truly sales and marketing led.

So I am going to touch on about four areas this morning. Firstly, just touch again on some of the key achievements from 2010; say a little bit more about the inflection point we see in the industry, what is happening and why we are responding the way we are here; a little bit about how we are going to respond; and then talk a little bit more about the guidance.

I am only going to have a few moments to touch on each area. We do have an investor day scheduled for late September where we will go into more detail. A number of the senior executives will be able to talk at that time exactly about some of the detail under each of these initiatives.

Okay, let me start by just mentioning some of the significant achievements that are quite remarkable really when you look at what the Telstra team has performed over the last six months.

When I gave the half year results, I said how disappointed I was that we weren't able to bring a number of initiatives to market quickly enough. Well, the second half was different. We really lifted the pace and we brought a large number of offers to market and we are seeing some of the early signs of momentum resulting from those initiatives.

On an adjusted basis, we returned to modest growth in the second half, and that was really driven by the mobile performance and of course IP performance, which offset this enormous deterioration in PSTN.

Our sales results are improving and interest in our new products is high. So let's just go through a few of the strong results. Obviously, Sensis, strong EBITDA growth; we sold more than 300,000 bundles; 300,000 new wireless broadband customers; mobile services revenue growth increased from 4.7 percent in the first half to 7.1 percent in the second half; and we are delighted that the new T-Hub and T-Box are experiencing strong interest and we have already sold 60,000 units - ahead of our plan, and that was as of last weekend; and of course we saw great sales results from the introduction of the iPhone 4 and we have also put new prepaid cap plans into the market just last week.

These results are encouraging. On top of this, the steps we began taking 15 months ago to improve customer satisfaction are starting to bite in the market.

When I began as CEO, I described myself as an agent of the customer and I said it would not be quick or simple to re-orient this company around our customers. However, I am pleased to report that throughout the year we began implementing a wide range of initiatives that are really starting to make a difference. Some of these included a new case management process for when people move home, a critical time when they make a decision on their telecommunication needs. We have introduced weekend appointments for our technicians. We have also put in new internal standards around responsiveness to queries, sales queries and complaints, which is starting to make this company more responsive, and of course, as I mentioned, we have put in new bundles and pricing plans across a large range of products over the last six months.

These changes are starting to make a difference. We are seeing TIO complaints come down by one-third. Although that is still too high, we have a very active program to manage all complaints, and I am pleased to say in the monthly customer satisfaction survey we run, which is the customers giving us feedback about how we are going, we have seen an increase of five percent in the last 12 months, which is very encouraging.

While we know there is still a lot more to do, we have started this journey and we are heading in the right direction.

Another significant achievement was the NBN financial heads of agreement that we signed last year. I do want to stress, as you would expect, we are non-partisan when it comes to politics and we will constructively work with either side of government. So we are making no comment about the policies of each party or the outcome of the federal election today. However, the non-binding financial head of agreement was a very important milestone. It really was a tremendous amount of work the team did to get to that point, and it delivers a post tax net present value of approximately $11 billion, which includes around $9 billion consideration from NBN for copper decommissioning and infrastructure leasing, and of course the $2 billion from the government in the form of other initiatives and avoided costs.

It is very important to understand, which we have said before, the board will only take a proposal to shareholders that they believe will be in the best interests of our shareholders.

I do want to clarify a few elements of this $9 billion. Between 40 and 50 percent will be for leasing our duct, exchange space, dark fibre and managed back haul. The arrangement will be for 30 years or possibly more. So it provides for long-term certainty, and we anticipate that the final decommissioning of copper will occur within 18 months of fibre being rolled out in any area.

We are currently working on all the details, financial, legal and regulatory, as we move forward towards definitive agreements. For instance, we have agreed to supply and install optic fibre network infrastructure in Brunswick in Victoria, which is a first release site for NBN Co. I do want to stress there is still a lot of work ahead of us to get the agreement finalised. We still need to get legislation passed. The ACCC approval must also be obtained. Once these things have been achieved, we will be submitting this to our shareholders for a vote, which we expect to do in the first half of next calendar year.

So we are pleased with the progress on NBN negotiations, but as the last point around NBN, whatever happens with NBN is irrelevant to what we need to do as a company. There are fundamental changes occurring in this industry which make it essential for Telstra to undergo significant change.

So what I would like to talk about now is a little bit about some of this change we are seeing in the market, what we call the inflection point and give you some colour on some of the comments John has already made.

We mentioned the accelerating decline in PSTN revenues. We have seen reduction of fixed calls due to mobile substitution and of course that has been driven by capped plans primarily. We have seen a significant change in our product mix. We have seen growth in mobile internet, growing faster than fixed internet. Also we have seen this explosive use of data and video, with little incremental revenue, and, of course, increasing price competition right across all the product categories, but especially fixed broadband, and then lastly we are seeing growing infrastructure based competition, partly due to government subsidised backhaul. All of these forces are shifting our revenue mix towards lower margin products. So we need to take action.

We have this strategic choice: Do we maximise short-term cash returns by reducing costs and losing market share or do we bite the bullet and invest for longer term growth? We have decided that we must invest to retain and acquire customers and to grow the business. We cannot continue to lose market share.

So we are going to take some bold steps. All of our actions will be consistent with the strategy that we outlined last October, to satisfy our customers, invest in innovation and differentiation and of course find and realise new growth opportunities. So this next year, 2011 will be a transition year and we are going to focus on four key initiatives.

Firstly, it is all going to be around customer satisfaction, serving our customers. We are going to simplify our business to reduce costs and of course to improve the customer experience. Also, we are going to compete fairly but very aggressively to retain and acquire customers, leveraging our significant investments in network leadership that began five years ago; and of course invest in the long-term business opportunities that we see.

Let me talk about each of these just a little bit briefly now to give you some colour on some of the things we are going to be investing in.

Firstly, customer satisfaction. We are going to continue to invest to improve customer service and satisfaction to our customers. This must become a key differentiator for Telstra. Over the next year we are going to do a number of things, and I am just going to mention a few quickly.

Firstly, we are going to choose 24 by 7 contact centre support. This is a new initiative that will commence on 14 September, making Telstra the first full service telco to offer such a service. We are going to build an improved on-line capability, so customers can deal with Telstra on-line more often. We are also going to remove process bottlenecks that lead to complaints, so we improve our responsiveness to customer inquiries, issues and sales opportunities. We will also increase the customer satisfaction component in management performance bonuses, so that we get the whole company focused on that.

Customer service is now a fundamental and unifying theme for every part of Telstra, every part of Telstra, and it will be the cornerstone of our strategy going forward.

Secondly, and very importantly, we are going to simplify this business. We are going to drive savings that will improve customer service and satisfaction. We have begun on a three year journey to simplify our business and to deliver a lower sustainable cost base. This is rather than an indiscriminate, short-term, cost cutting program. This was considered but we must drive simplification into this business.

As well as improving customer service, we will also improve productivity, change our channel mix and create a lower cost operating model. This program is going to touch every part of this business and we have already started with the appointment of Robert Nason and we have our teams working right across the business now.

For example, you would have seen that we have reduced the Telstra executive ranks by more than 300 people. This will simplify our business, improve accountability, reduce management layers and make life simpler and faster for the front line staff to serve customers.

You also would have seen another initiative. We have brought together Telstra Countrywide and Telstra Consumer to make a more streamlined organisation.

Simplifying our business will be a huge project and will redefine all the key processes in the company, and we will have much more to say about this at the investor day.

Thirdly, as I said in February, we must do what is necessary to stem market share decline and grow our base. This means competing more effectively and leveraging the incredible strengths we have in the Next G and Next IP networks. We need to acquire and retain customers, which will lead to growth in our customer base and overall revenue.

We are going to do this in a number of different ways. We must invest in sales and marketing capability in 2011. We need to continue innovative and segmented base pricing. Of course, you have seen over the last six months that we revised our prices on fixed and in mobile and broadband and post paid and prepaid. This will continue, and we will do what is necessary to acquire and retain the best customers.

This will require a significant investment in sales and marketing this year. So this is going to be a transition year. This is about competing and we are going to sell and market our differentiated products and services more aggressively. It is about leveraging the billions of dollars that we have invested for the benefit of our customers and our shareholders.

Let me give you a couple of examples. Our investment in Next G has delivered $787 million in wireless broadband over just four years. Wireless broadband penetration is approximately 17 percent and our customer base is now 1.65 million people, up 58 percent only a year ago.

Smart phones also represent a huge opportunity for us. For example, over the past year the number of Smart phone subscribers grew by 30 percent to 1.6 million and usage and ARPU grew as well. Thanks to our Next G network, Telstra is well positioned to take advantage of the accelerating migration to wireless communications.

In the next 12 months we will continue to drive our leadership and wireless speed and coverage. This will include introducing 42Mbps, network download speeds peak, which will be a world first, and we are already trialling LTE. We believe that mobile can continue to grow at mid single digit levels for the next few years. That means in just two more years the mobile business may generate around $8 billion.

Let me give you another example, our Next IP network, which we will continue to invest in for market leadership. Our Next IP network has enabled us to double our IP access revenues in just three years, and, as one of John's slides showed, the IP ARPU escalator, highlighting that about two thirds of our IP customers now buy managed WAN product from us and about 12 percent use IP telephony.

Next IP has also given us a large growth opportunity in markets adjacent to our traditional carriage business. One such market is network application services, which we are going to invest in as we go forward and we are very excited about Cloud Computing, both in terms of infrastructure as a service, but also software as a service, and this applies both to the business market and to the enterprise and government market. So we are moving up the value stack.

Let me now talk to the fourth initiative. We must make some significant investments to ensure our long-term growth. A good example is how the digital future will impact a number of our key market segments, and we need to make the right investments. Let me just briefly mention a few of them.

Firstly, the digital home, which will offer consumers a way of integrating entertainment, information and communication services with their broadband connection. The very successful T-Box and T-Hub, IP TV are positive steps towards the digital home. Media, content and advertising also present exciting opportunities for us in the future.

Secondly, the digital business will integrate all data, video, voice and computing requirements for our small business customers, boosting productivity and improving services. Prices are going to be simple, easy to understand and services will be charged on a per seat basis. We are very excited about this offer.

In the enterprise market we are going to continue to build on our strategic offers, offers around application services, all at a lower cost, to improve productivity for those large customers.

Then in the digital media space, Sensis is already undergoing significant investment in an exciting new set of on-line products for our Yellow Pages customers, which we think will really take us to a new level. You are going to hear more about this at investor day, including the digital media opportunity at Sensis and we will take you through it then.

Let me turn to guidance and the investments necessary to achieve our strategic objectives.

As John and I have already discussed, these investments will increase our cost base in 2011, because we are investing to grow our customer base. This will be a transition year, but these investments will be selective, they will be carefully targeted and they are going to be rigorously monitored to ensure they serve the long-term interests of customers and shareholders. Let me remind you once more why these investments are so essential at this time.

The challenges we face are real. Either we ignore those challenges, and, as I said, maximise cash in the short-term and continue to lose market share, or we make this investment now to allow us to return to revenue and profit growth in the future.

So in terms of guidance, as John went through, we expect an increase in the customer base, with flattish revenues in 2011, our investments will lead to a high single digit percentage decline in EBITDA, free cash flow of between $4.5 and $5 billion and from 2012 the benefits of our investments will become obvious.

Let me now conclude. There is no question that Telstra faces a unique set of challenges but as I introduced this session, it is also will a tremendous opportunity to do something that is required for this business. We have got to take some bold and concerted action now to ensure that Telstra continues to grow profitably and lead in the market. We must focus on retaining and acquiring customers, because this is our greatest asset. At the heart of this strategy as a commitment to improve customer service and satisfaction, we must simplify this business. We must compete more effectively, both in the market and as we build our new products for future growth.

We have a lot of work to do, but we are confident we have got the right team, we are confident we are going to deliver real sustainable value for our shareholders.

Thanks very much. I am sure you have got a number of questions. John and I will come up here and we will be happy to take your questions now. Thank you.

BEN SPINCER: We will be taking questions both from here in Sydney and from the phones. There might be 14 of 15 of you trying to ask questions so could you limit yourselves to just a couple of questions and maybe come back later. We will take the first three questions from here in Sydney and then go to the phone lines.

QUESTION: (Richard Eary UBS) In terms of the guidance you have given of high single EBITDA declines, if you look at a five to 10 percent range it is $1.1 billion to $550 million increase in your cost base. Can you outline how much of that is attributable to the mix in terms of revenue to margin as you pointed out and if you can give us a bit more detail as to what the remaining portion will be spent on. That's the first one. The second question is if you look at that new guidance, the back of the envelope suggests maybe an EPS range of 25 to 28 cents for the 11 year, which obviously puts a question about the ability to pay the 28 cents of dividend for 11. John, you made a comment about the ability to pay. Can you add to that comment first?

MR DAVID THODEY: Why don't I take the first one and John you take the second one. The increase in operating expense is very targeted at acquiring customers. We are going to be taking a lot of what we call the fixed cost out of the business and that is what project simplify is and Rob and the team are working on that. That is very important to allow us to compete more aggressively in the market and we must do that to maintain our customers and to grow share. As you know, that pulled through a lot of DVCs, especially in the mobiles where you have the product mix as well. A large proportion of that will be in terms of growing and competing in the market. That's where that is going, but we also have to invest to get this simplification into the business. You can't throw money at it. You have to rework things and drive significant change in all of our processes. That's really where that increase is going. John, do you want to handle the EPS side?

QUESTION: Can I ask a follow up question before John answers? You talked about project simplify. Can you elaborate in terms of what costs you expect to save in terms of project simplify and what happens to any of the transformation costs that were supposed to flow into 11 because clearly if you add those cost savings on the gross band is obviously higher than the reported number.

MR DAVID THODEY: The transformation has delivered some significant savings, as John went through. This is a different time to what we had five years ago. It is a product mix change. Your whole structure of the business changes, so we have to invest more in DVCs as we go forward. In terms of project simplify, it is a three year program. We are very clear about what savings we are going to get. There is 27-odd projects that we are working through now and we will be able to take you through more of that at investor day. John, do you want to go through the EPS.

MR JOHN STANHOPE: Yes, sure, simply to say Richard there is sufficient cash in that number to pay a dividend at the current level and yes, it is a lot finer than this year that has just gone by, but we wouldn't have to borrow to pay dividend on these free cash outcomes at the current level.

QUESTION: So the franking and the 28 cents is safe for FY11?

MR JOHN STANHOPE: If the board so decides to have that level of dividend, yes.

QUESTION: You talked about reinvesting for growth in the future. I know that you probably don't want to be dragged in terms of outlook statements beyond FY11 but what sort of pay back are you looking at? Is this a 24 or 36 month payback or are we expecting a big reflection in 12 13 or it is going to be delayed depending on what happens with regulation and NBN?

MR DAVID THODEY: Why don't I take that one and then we need to move to the next question. We have very specific product development plans which all have to meet the normal criteria we set in terms of returns budget wise. Even without NBN as it goes to an IP based world we have to build a large new range of products to allow us to compete aggressively in the market. They will all be rigorously tested against normal investment criteria. For example, we talked about what we are doing in Sensis and digital media. That is a very important program in terms of moving on line. We talked about digital business with Deena. She is doing a tremendous amount of work in building a new product portfolio. All must meet the normal investment criteria.

It is a new world as you move from PSTN to an IP based world. That is the criteria we are using.

QUESTION: (Sameer Chopra Merrill Lynch) I had one question on clarification. In terms of your guidance, is that off reported numbers the EBITDA for 10, which was $10.85bn? I wanted to make sure of the guidance you are giving for next year of reported numbers.

MR JOHN STANHOPE: Yes it is.

QUESTION: The second question is on the NBN deal itself, do you get paid regardless of whether a line is active or not? We have in Australia 10 percent of homes wireless. In the NBN implementation study they think it can rise to 20. Do you still get paid the one off compensation regardless of whether there is an active line?

MR JOHN STANHOPE: That is a very good question and it is part of continuing discussion.

QUESTION: My third question is you now have 300,000 customers on the new bundled plans. Can you talk about what you are seeing in terms of absolute revenue for those 300,000 customers. You are probably retaining customers and prices are coming down. What does it mean for absolute revenues for those customers?

MR DAVID THODEY: Of course that is a good question because we look at whether the ARPU goes up, down or sideways. We are very pleased with the early results in terms of bundles. We are seeing ARPU staying pretty much flat and we are also seeing an uptake the extra product as well, so early signs are very encouraging and we are trying to monitor that because the first 300,000, whether they are early adopters and what the next lot will be like, but so far very encouraging and of course you get the longer term contracts you alluded to.

QUESTION: ARPUs are holding up?

MR DAVID THODEY: Yes.

MR JOHN STANHOPE: We are seeing there are some discounts involved with bundles of course but we are seeing new services taken by a customer in the bundle offsetting.

QUESTION: (Daniel Blair, Southern Cross Equities) I have two questions, firstly on operating performance by the business unit. If you look at the consumer business it is still at the top line tracking backward in the second half whereas I think Telstra business and E&G had turned that corner. Can you give us a sense of what is happening there? It obviously leads into the some of the plans in FY11 and also what you are seeing perhaps through July as you brought some of new price plans out.

The second question is a follow up to Richard's. If 11 is a transition year, can you give us a sense of beyond that in terms of revenue growth, margins, perhaps free cash, what is the prize we should expect?

MR DAVID THODEY: Let me answer the consumer one. Where is Gordon Ballantyne? Can you please stand up, Gordon? We have a new head of consumer, so Gordon who has just arrived, that's great. The team are all coming together. Consumer is a challenging segment of the three at the moment. We continue to see revenue decline. However, as you mentioned, the June and July, we are seeing some early improvement in physicals but it is a challenging market with such strong price movement. We have seen enormous price movement of fixed broadband, mobiles, prepaid and we need to continue to be competitive.

We have got bundles, T-Box, T-Hub, so good products and they have some early momentum going through. It is going to be a tough year. PSTN is still declining so quickly and you have calling rates coming off, six calls per month, it is significant. We have aggressive mobile plans in the market which offsets but also encourages people to move from fixed to mobile. We are encouraged by our competitiveness but we think it is going to be a tough year and we have hit this inflection point around PSTN revenues so we have a product mix change, we have to invest, we have to compete and that is what Gordon is here to do.

QUESTION: Just a follow-up to that, June-July improving, does that mean this PCP you have seen revenue growth?

MR DAVID THODEY: We are talking about just physicals at the moment and because we had such big price movements we are still waiting to see how the revenues flow through. They are very considered in that. The second one was forecasts. Do you want to do forecasts? No, let me handle that. We are making these investments and we know that it is a bit of a surprise but we have really gone through this. We must hold our customer base and increase it. We are doing this for future growth. The market is very volatile but we are saying it is future growth but we are not giving you any specific numbers at this time, but it is a very much a growth strategy.

MR JOHN STANHOPE: It is a volatile market. We have got NBN coming so there is a fair bit of uncertainty and so we are deliberately not giving any guidance beyond 2011 for that reason, but this is a reset of the business and obviously you can work out from the numbers, and Richard has done the $500 million to $1 billion sum, it is resetting our EBITDA margins as the product mix changes and we do expect, as we said, improvement from 2012.

The simplification and how we service the customer will save us costs and, as I said in my presentation, we have to make room for this different product mix and that's what this transition year is all about. We do expect, as I said, improvement from 2012 and 2013 but we are just not quantifying it at this stage.

QUESTION: (Christian Guerra J B Were) Good morning and thanks for your time this morning. Firstly, congratulations for biting the bullet. I think it certainly is the right strategy for the company going forward.

I would just like to talk about the guidance for FY 11. You are saying that EBITDA is going to be down because of higher costs in terms of sales and marketing and retention and acquisition and that sort of thing, but to me the flat sales number looks pretty optimistic given the price reset you flowed through over the last six months across your three big sort of product areas, your fixed line, mobiles and wireless broadband. So if you could talk about that please.

Secondly, just on the strategy, you have talked about the challenges facing the company in terms of the PSTN decline, the fixed to mobile migration, the product exchange, et cetera. I remember that we pretty much heard the same thing back in September 2005. Since then, you have invested over $20 billion of capital in the business, EBITDA has gone from 10.6 billion in 05 to 10.8 in FY10, dividends have declined. I am just wondering if you could talk about what message you have for shareholders there in terms of was the investment misdirected or is it just basically the tough industry dynamics which are facing you as the incumbent.

Thirdly, just a question on July trading, which I think you've touched on briefly, but in terms of subscriber performance, if you could talk about maybe the improvement in particular in mobiles and wireless broadband and what you are seeing on the physical side, thanks.

MR DAVID THODEY: Okay. The first question was around the guidance on revenue for the full year 11 being flattish. We have been trying to take a pretty considered view on revenue. Yes, the PSTN decline, if you look at the numbers for full year 10 PSTN declines were higher in the second half, but we did see some SIO reduction in decline in the latter part of the second half.

Mobiles for the year, firstly post paid stronger, wireless broadband was strong. We still have a lot of work to do in prepaid, and if you look at our numbers, our prepaid mobile performance is not where we need to do it, and that is why we have put new product into the market. The first time we have put cap plans into the market.

So yes, we are not overly, we are not being too optimistic in terms of top line growth, we are saying flattish but we think that is about right at the moment. So we think that is a fair assessment we are at and we have done a lot of work to try to get that right.

The second thing about the strategy and past investments, it is important to understand is we have got to respond to the market as we see it. You look back and you can say - I personally look at the investments we have made. They positioned us incredibly well, with a great IP network and a great wireless network. Now, we have got to take advantage of that, but prices have moved enormously, behaviours have moved far faster than we expected. You are right, these trends are not new but they have accelerated in the last 12 months. That is why we had to reset things through the year.

These things happen. You have got to face them, take decisions and that is what we are doing. It is not always easy, but if you don't do it, you can get to a worse position. So we are very clear on this strategy: We must go after new customers and an improvement in the business.

In terms of July, John - do you want to handle this?

MR JOHN STANHOPE: In July we have seen the continuation of May/June. May/June has seen increasing fixed broadband customers, the continuation of strong wireless broadband, better performance in mobile, PSTN sort of about the same trajectory, just slightly better with a small impact of T-Hub and so on. So that is May/June, and July is similar to the May/June era.

I might just say something about the flattish as well. When you have got the continuation of the product exchange, and we are not assuming a huge turn around in PSTN here, that does continue to put pressure on your top line and it is the reason that I said before we need to take other costs out of the company through the simplification program that Robert is leading.

So the mix change will continue and it does put the pressure on the top line, and we are not assuming that there won't be a response from the competition during the year. So if we are going out after market share, we don't expect the competition to sit there and say, "Go ahead, its fine". So there will be some more price pressure. That is also built into the go forward plan.

Last year we lost share. This is about stemming the loss and winning some share. It is an investment in that. It is an investment in variable costs in particular and it's the dominant part of the cost increase.

QUESTION: (Ian Martin RBS) I also have a question on the guidance in the sense that you have described this additional cost coming through next year as an investment, perhaps in the order of $800 million, taking EBITDA margin down to 40 percent, but you don't seem to be willing to share that if there's an investment there has got to be a return there and what the substance of that return might be.

John, you at least said that you expect an improvement from 2012. Can we take that that if the EBITDA margin resets at say 40 percent, that you will be able to grow that margin again from then, or, again, is it an improvement against what an unspecified case might be if we are in this IP environment where margins keep sliding? That is my first question.

Secondly, David, going to the heads of agreement with NBN Co, you have mentioned the leasing payments comprise 40 to 50 percent of the $9 billion consideration from NBN, but two of the three components you have mentioned there, the exchange space and the back haul aren't access network items. Are they a substantial part of that 40 to 50 percent or is it predominantly the duct space?

MR JOHN STANHOPE: I will take the attempt to get us to say more about guidance. Ian, I have said, as you played back to me, we expect improvement from 2012. Improvement means across the board, including EBITDA margins.

MR DAVID THODEY: Ian, let me just add a little bit on guidance.

MR JOHN STANHOPE: I should say from the reset base.

MR DAVID THODEY: Ian, we are very conscious about driving improved results and we think that if you can drive customer acquisition share, that that is going to flow through, but you have got to spend to get that increase and we would expect that to improve. But those costs, those variable costs are based on us being successful in the market anyway. That is the balance we have got at the moment.

I am just trying to think of the split between the ducts, exchanges and back haul. John, do you roughly - it is primarily ducts.

MR JOHN STANHOPE: I just can't remember off the top of my head.

MR DAVID THODEY: We can get that and give you a rough indication on that.

MR JOHN STANHOPE: I will get back to you in a minute. I will consult with a colleague here.

MR DAVID THODEY: I will take the seat for the moment, John. We will come back to you in a moment.

QUESTION: (Fraser McLeish RBS). Just a couple of questions. First one on mobile margins. I am just wondering within your guidance whether you are seeing mobile margins being able to be maintained, given everything that has gone on in that space? That is the first one.

The second one is just on Sensis. If you can just give us a bit of idea of how you are looking in terms of sales on the book for next year and maybe an update on how much of Sensis revenues are now on line versus the print.

MR DAVID THODEY: I am going to ask Bruce to respond to the second one because he is here and it is always good to get him to talk.

On mobile margins, we have been pretty pleased with the margins, but, yes, we think there is going to be increased price competition there and of course with the capped plans. You may see some slight abatement of margins, but the first thing is we have got to get the customers. I don't want to leave you with the impression that - we are not going to continue to differentiate. We are going to continue to be investing in faster, greater coverage, so we can differentiate our product, but we are going to be competitive in terms of pricing. So there might be some slight abatement of margins.

MR JOHN STANHOPE: The mobile margins have gone 30, 34, 35 over the last three years, so it is slowing, but we will still work on the cost base.

MR DAVID THODEY: Absolutely.

MR JOHN STANHOPE: Of mobile services and the unit cost of wireless broadband and data over mobiles is very important. Again, going back to the earlier question about what the transformation gave us, Next G is a far more efficient, lower unit cost delivery mechanism than we had before and it was worth the investment.

MR DAVID THODEY: 42Mbps we will be fourth quarter this year. We are increasing coverage. We are now 2.1 million square kilometres. It is a very compelling product.

I do want to just stress on cost as well, we are really focused on cost. Robert, John and I and the whole team, we are going through every bit, because we have got to get the cost base down, but we have got to change the way we do it, run the business, because if you don't, it just comes back in another way. So we have got to re-engineer every process to get that cost out so we can invest in the market and growing.

We are in this transition as we go through the next year to get that, but I don't know how stronger to say it: We are looking at every bit; there is no stone will be left unturned in this company. So that is a big focus.

Bruce on Sensis.

MR BRUCE AKHURST: On Sensis we had about a five percent decline in the print product last year. Our print market declined by about 18 percent. We get about 25 million uses of our print products every week. It is a very well used product and we have kept our customer base in tact there. So we are looking, as the market improves for the print product and we sell that value proposition to our customers, to refer recover somewhat.

Our digital product, we get about 20 million users a month. 25 a week for print; 20 million a month for digital. And the mobile print has been an amazing area. We are getting about three million a month and that is growing at about 80 percent. So the mobile side is really taking off.

So we are seeing obviously a transition or proportion from print to digital increase. It is about 20 percent at the moment.

QUESTION: Digital 20 percent of revenues?

MR BRUCE AKHURST: Print is about 80.

QUESTION: You say it can grow next year?

BRUCE: The market conditions are still pretty choppy out there in the small business area so I am not expecting any dramatic changes from what we have seen, no, not at this stage.

MR DAVID THODEY: We can answer Ian's question.

MR JOHN STANHOPE: About two thirds is from duct use and the other third is from backhaul and exchange access.

QUESTION: (Bradley Clibborn Credit Suisse) I have three questions this morning. Firstly you have talked about investing for growth but when we look at all of your product lines across entire business and what is happening in the industry as a whole revenue growth is generally slowing so you are spending $500 million to $1 billion to invest in what is a more slowly growing pie. Can you give us an indication of how you expect to get the return on the investment? You have given us product margins which is good to see. You pointed out before you really didn't expect mobile to change that much. In which of those divisions can we expect to see margin decline in FY 11 in line with the guidance reduction? Thirdly, implicit in those increasing costs for FY 11 what head count reduction and redundancy costs are in there?

MR DAVID THODEY: I will take industry growth and John can take margins so we can give you a bit more colour and we will talk about productivity initiatives as we go forward.

Firstly, I have been very specific in saying we are about customer growth, customer growth, customer growth, because that is the futures of this business. We did see a pick up in mobiles revenue growth in the second half. Fixed broadband was back. PSTN obviously declined. IP is growing. It is a mixed story across all products.

Our focus is on retaining and growing customers because that gives us an opportunity in the future to do other things. That's the growth we are talking about, that's the improvement we must do now. If you lose them the cost of acquisition is too high. That's the fundamental strategic issue that we have. Remember we have been losing market share. We have to get it back up to retain and then we are going to get some more. That's what we are doing. You can see the numbers there. You look at Optus's results. They are still picking up share in mobiles and I don't like it. I don't like it. That's the action we are taking.

Do you want to talk to margins?

MR JOHN STANHOPE: Obviously PSTN margins will be under pressure as the revenue comes down and it doesn't have a lot of associated directly variable costs with it. As you see margins and PSTN come down from in the high sixties over time down to now 58 percent, so they will continue because there is not a lot of variable costs in PSTN.

In terms of the DVCs that we will spend next year, a lot of it is in the mobile space. You just heard David say we are not travelling all that well against our competition in mobiles so that's where we have to focus a lot of attention and a lot of variable costs will be associated with that and with the price pressure there will be some pressure on mobile margins. IP and data there will not too much change. Fixed broadband we will continue to leverage unit cost decreases and again I will repeat simplification of the business is about making room for that sort of margin decrease.

MR DAVID THODEY: The third one was around productivity, head count reductions. We are not talking about head count numbers but we are working through every part of the business, as we have done, we have started to look at spans and layers and Andrea and the team went through that to simplify the management structure. We are now working through every part of the business to see how we can simplify the process to do it more productively. We are going to work through this systematically. Everything is going to be looked at. We are not making head count numbers because it is artificial. We will do what is necessary to get this cost base down to make us competitive faster to market, supporting the people who really look after customers. That's what we have to do. We are on a journey and we are not to stop until it is done.

QUESTION: There is an allowance for redundancy costs?

MR DAVID THODEY: Yes, redundancy costs are specific.

JOHN STANHOPE: It will be higher than this year. I won't say how much. Across our labour lines redundancy will go up. There will be some volume reduction. We are not saying how much.

QUESTION: (Mark McDonnell BBY) It is quite right that you are taking some costs out but overall this guidance is about an increased cost base and I would like to try to get a little bit more clarity around that. The overarching question is what proportion of the cost increase that we will see in FY 11 is one off and will disappear in FY 12 onwards, but then more specifically, there are a couple of things that you have identified this morning that are new initiatives. One is the 24/7 call centre. I am wondering if any of those call centres will be offshore and what sort of cost impacts you are looking at associated with that considerable expansion in personnel and whether you are paying any penalty rates associated with the additional hours of operation, and particularly in respect of that last point, the other initiative that you have highlighted this morning, which is weekend callout by technicians, whether there are any agreements in place with the employees or their representatives relating to additional payments associated with those out of normal business hour working?

MR DAVID THODEY: John, do you want to take the mix of one time next year and recurring? Once you do that I will come back and talk about call centres.

MR JOHN STANHOPE: I have just done a quick sum. I can say you need to take it for what it is. About 30 to 35 percent of it is one-off and the rest will be ongoing DVCs provided we actually win that market share. The good news is if we don't then those costs won't be incurred but that's not really good news because we want to win the market share.

MR DAVID THODEY: Do you want to talk about the labour market change year to year because that is quite an important point.

MR JOHN STANHOPE: You mean in the coming year?

MR DAVID THODEY: Yes.

MR JOHN STANHOPE: The labour increase has got a couple of elements to it next year. One is redundancy increase but there is a wage increase built in that is 4 percent. That is approaching $200 million for this company. There are a couple of elements that will drive the labour costs in our increase for the year but, as I said, if you were to say it was a $1 billion increase, the DVCs element of it is close to 60 percent.

MR DAVID THODEY: Mark, both those things you talked about are very important to us. Firstly, the weekend callout rate is pretty much we have covered off over all our contract negotiations, so that's pretty much in place. There is no penalty rates there at all and that has been built into our plan for that part of the business. The 24/7 is quite significant. In that situation we continue to look at a mixture of on and offshore, mainly with our partners but, as you know, or some of you may not know, if you have a mobile technical problem you ring us today and we say ring us back on Monday morning. I don't think that is very customer-centric. We are going to invest in that.

Obviously you have to look at how many people you need at any time of the day and we know pretty much what those call rates are and we are going to direct the traffic accordingly. It is some tens of million of dollars to do this and it is very important in terms of serving our customers.

QUESTION: (Digby Gilmour CLSA) I will keep it to one question on basic access. Compensation under the heads of agreement with the NBN Co rests on the number of access lines you have connected. I am trying to get a handle on whether this NBN Co heads of agreement is connected, to what extent will you consider cutting access pricing and/or call charges to try to hang on to those lines? Will the extent of the pricing cuts accelerate from here to maximise the compensation from NBN Co?

MR JOHN STANHOPE: It is not something that we are actively considering. Obviously we get paid for each decommissioned line. There are considerations of the relativity of ULL and all those sorts of things and wholesale line rental prices and so we have to consider all of that in the basic access pricing regime. It is not something we are actively considering. Obviously we want to keep as many as possible.

MR DAVID THODEY: A lot of our strategy on the PSTN is bundling and you will see in our bundles we have included local calls, national calls and very attractive packages on international dialling. That's where we are going and creating more value for customers. That's the best way, with broadband, with the T-Hub, with the T-Box and that gives customers certainty around their spend too. That is a very important part of our strategy. We will just keep moving that as we go forward.

QUESTION (Laurent Horrut JP Morgan): On the sustainability of the 28 cents, you referred to free cash flow but obviously your free cash flow is pre interest costs so the net distributable cash flow in FY

11 is going to be anything between 3.5 and 4 assuming an interest cost, so basically you are distributing everything you are generating. Is that a safe distribution policy?

MR JOHN STANHOPE: I don't know about safe. By the way, let's not be pre-emptive of the board's decision on dividends, but I will repeat what I said. If it was at its current level we can do it within franking credit and so it would be fully franked and within our cash flows. Safety, look, you know, if you look at our financial parameters in any event, so if you mean safety does it allow you to make other investments, we are well below our financial parameters criteria, the 55 to 75 net debt and greater than seven times interest cover and the 1.7 to 2.1 debt servicing parameters, we are below the low end, so to borrow to invest wouldn't create a problem for us.

If that's what you mean by safety and being able to take an acquisitive direction if that was what was necessary for the company, it wouldn't be an issue.

MR DAVID THODEY: I think it is fair to say the board, it is obviously a board decision, but they are very conscious of our dividend policy. I think that says it all.

QUESTION (Sachin Gupta Nomura): You talked a lot of about customer growth. Why aren't you more optimistic on the revenue outlook for 2011? The reason I ask is because back in '06, '07, '08 when Telstra was going after customers, you did get 4 percent or 5 percent revenue growth and you did find ways to slow down PSTN declines as well.

MR DAVID THODEY: Just the one question?

QUESTION: I will ask another one if that's okay.

MR DAVID THODEY: I shouldn't have given you that opportunity should I?

QUESTION: I thought we were running out of time. David, on this transformation once again, given we have just completed a five year process, isn't there going to be a period of one to two years where you can actually extract some benefits of the previous transformation or are we going to come back to 2012 again and start rolling another transformation?

DAVID THODEY: Let me see if I can answer the customer growth one. Yes, we want more customers. It is purely around cost of acquisition as well as when does the revenue flow and at what price. You have to offset against your base, seeing you are retaining customers at a possibly lower yield. It is the balance there. If we could drive faster revenue growth we would be delighted. At the moment we are saying flatish makes sense for now.

The second one about the transformation and are we going to be back in two years, the five year transformation has been great. It has given us a great platform from which to go forward. There are different issues we are facing now. From what we can see over the next two or three years we think we have pretty much characterised what we need to do. I think we have a good feel for what costs we need to take out, how to drive the productivity and how to compete. You can never say never but we think this is a pretty well considered set of plans and outlook at the moment.

MR JOHN STANHOPE: Tranformations never end really, and one thing we haven't talked about, we have talked about an investment that you will see in an expense line that is EBITDA impacting. Part of what Robert is doing in the simplification of the company is actually some capital investment too. It just so happens that we are doing a similar thing that we did in 2005, we are prioritising capital. Simplifying the business requires some capital but it is still within the 14 percent capex to sales range.

QUESTION: (Chris Vagg from Citigroup). Good morning. A question around the mobile market dynamics, both wireless broadband and the rest of the market then. Obviously in wireless broadband you are doing very well. I just wondered if you had any comments about any capacity, what are customers doing in terms of average download, has anything changed there?

And just in looking at in the remainder of the market you've lost probably about 150,000 in the half. You have made comments about prepaid. Has that all been driven by prepaid or would you just comment on some of the dynamics of your kind of traditional voice mobile market at the moment?

MR DAVID THODEY: Let me give you the numbers. Firstly, total mobiles up 175,000 in the half; prepaid was negative, 103,000 there, but as John said, we have a very strict policy about disconnecting or not counting prepaid, as he said, so we are negative 103,000; post paid was up 278,000; wireless broadband total was 329,000 up; wireless broadband prepaid up 106,000; wireless broadband up 223,000.

We actually think that it is improving from where it was in the first half and definitely a lot of that flowed in the fourth quarter of the financial year. So that's pretty encouraging.

What are we seeing in the mobiles market? Obviously iPhone 4 came in; supply constrained; lots went. We were there; midnight Thursday we were all out there selling them and cleaned out straight away.

In terms of user behaviour, definitely strong movement in terms of movement to mobiles.

Minutes of use were up what, John? Okay, sorry. I thought you might have that off the top of your head.

MR JOHN STANHOPE: I will tell you in a minute.

MR DAVID THODEY: So we are seeing strong growth there. In terms of wireless data usage, interestingly, the average use on an iPhone is around 200 to 400 megabytes per month, nowhere near what people are actually acquiring on their cap. That is an iPhone.

Also we have got very good efficiencies in the network. Remember we've got the back haul. When you are looking at wireless performance, it is the base stations, it is the spectrum, it is the back haul and how your RANs are performing and of course speed, but in terms of cost and how much head room, we are pretty comfortable about the Next G network we have got good efficiencies, we look at unit cost on the network a lot and the guys are engineering it very well. So at the moment we are feeling comfortable that we have got plenty of head room.

MR JOHN STANHOPE: Voice minutes went up or 4.7 percent or 519 million.

MR DAVID THODEY: Okay, so quite a big minutes use. Remember, when you look at the wireless network, 10 percent of the traffic is or actually less than 10 percent now is voice, 90 percent is all IP packets of data. So that is where the growth is, and if you are profiling any network, it is definitely around the data.

Hope that gives you a bit of colour.

QUESTION: (Alice Bennett from CBA). I just have a question around the T-Hub. You mentioned that you have

60,000 subscribers on that. When you are looking at investing into the digital home, I am just wondering if one of the options you are look at is more heavily subsidising those boxes and the T-Box to get them into as many homes as possible. I just wonder how you are looking at that strategy. Is it at all for any revenue enhancement or is it pure churn reduction?

Following on from that, the PSTN revenue decline of nine percent in the second half, I am first of all wondering what you are assuming in your guidance for FY11, whether we assume that that run rate is maintained, and also how much of the critical mass do you think you need to see with products like the T-Hub before you can see that churn reduction have an effect on your PSTN revenues?

MR DAVID THODEY: Let me just take you through. The 60,000 was T-Hub and T-Box units sold and it is roughly 42,000 T-Hub, 17,000 T-Box. Why are we doing it? It is definitely about customer retention; it is definitely also about acquisition of new customers. Would we use subsidy? Well, I think you have seen from our willingness to invest in DVCs, we will be considering anything that is going to drive a good return for us. We are not announcing that but we will look at all options as we go forward.

In terms of the PSTN decline, second half negative nine percent, we can't give you the exact numbers, but we are assuming similar-ish. John, what would you--

MR JOHN STANHOPE: Over a whole year we are expecting some improvement, but not a huge improvement.

MR DAVID THODEY: Remember, a lot of this, as John showed you, it is a mixture of the changing access SIOs and usage, and that is the big one. Usage has been high, but I think we have got some good strategies there as we bundle up the plans and just early signs of improvement, but it is just too early to declare too much on that.

QUESTION: (Sameer Chopra Merrill Lynch) Two questions. One on dividends. So the franking credit balance is running at about minus 138 million. I wanted to understand what is more important for the company, a fully franked dividend or would you be happy to cut the dividend because the franking credit balance is running negative and likely to accelerate into next year? That is kind of one.

The second one is capex and D and A, capex now appears to have stabilised at about 14 percent of sales. D and A is higher. I am wondering at what stage do you expect the D and A to match with capex?

MR JOHN STANHOPE: On the dividend, the 28 cents, we are all making assumptions about 28 cents, again I want to not be pre-emptive about the board. The franking credit, to answer your question, we would prefer to fully frank dividend, and this is a board that is not inclined to drop dividends, right, but sometimes you have to make those decisions. I am trying not to be too pre-emptive here, but fundamentally, what David said before is the board is very focused on that return to shareholders and it is not quite right to assume that the franking credit will get worse. The facts of life is we are balancing it at a level where we don't incur any taxation penalties and we pay sufficient tax to fully frank. That is the balancing act that occurs and so that really reflects in my first statement: Our objective is to fully frank.

The second question was about capex to sales and the 14 percent. I said in the medium term and excluding any spectrum payments. Spectrum can come up at any time, depending when governments decide to go for auctions and so on. Depreciation will go up in this year again slightly. So in the medium term we are expecting capex to sales to remain about 14 percent. We are expecting some growth in the future years. So the absolute capex will go up a bit.

D and A is going to stay pretty close to where it is over the next few years. Capex is what, three and a half. It will be a fair while before there is a cross-over of capex and D and A.

QUESTION: (Andrew Levy Macquarie) There is a lot in the structure of the business now that revolves around customer service. Obviously the executive level is getting measured quite critically by it and it looks like it is going to run a lot deeper through the company.

MR DAVID THODEY: All the way through the company.

QUESTION: I was just wondering if you could talk to (a) how it is being measured at Telstra, but (b) how the company is looking at what has happened historically perhaps has linked that to performance going forward for shareholders obviously.

MR DAVID THODEY: Yes, and a really good question, because does improved customer service really deliver bottom line results? We have looked at it and we are absolutely convinced that there is a very strong correlation, especially for an incumbent. If you are an attacker, a challenger, there would be a different set of parameters.

It is very interesting what happens. If you give better customer service, besides you get less complaints and driving costs and a whole lot of things into the business, so that is one side of it, customers propensity to change does drop, and that is a very important thing.

The second thing is if you have a good customer experience with a provider, your propensity to buy other products goes up enormously, because if you are happy with the service you get, you say, well, look if they are offering an IP TV or they are offer other products, your propensity to take three and four products is enormously high. They are the things that we are driving through and very important.

So we see a direct correlation between customer satisfaction and improved results. It is not just to make us feel good, okay. That is number one.

Number two, in terms of how we measure customer satisfaction, unlike the financial services industry where there is external surveys, we run a very strict survey internally, independent of the business units, so it is run within corporate, and it is a survey that covers consumer, business and enterprise, including wholesale customers and we run it every month and it is an overall customer satisfaction score for the service you received from Telstra in the prior three months and we measure this.

It is in the short-term incentive for every executive. I have just got to say except me, but that doesn't change because I am very passionate about it, and every person who is full-time staff across the business. Of course, the staff don't get it as part of their incentive. It is actually just an accelerator for them.

It is run every month. The guys look at every customer that comes in who we follow-up. It is a very rigorous process.

We do also look at net promoter score, but that is early days on that. We are just slowly starting to move through that. The enterprise market is probably more sophisticated in that area and we are just starting to move that through the consumer business, but it is a very rigorous program.

QUESTION: So the reason that it is if the STIs is because it is a leading indicator to performance--

MR DAVID THODEY: Absolutely, and it is a very big strategic decision. It is a significant part of the STI, not a small part. It is not just 10 percent or so. It is a big part, and that is because we have said this is our number one objective and we are really going to go after it and our success will be dependent on how well we do it and then hopefully the business revenue and profit flows from there.

QUESTION: (Mark McDonnell BBY) Thank you. I would like to come back to the carve-out on your capex guidance relating to the non-inclusion of future radio frequency acquisitions. I shouldn't just say future; actually a lot of it is rollover, and given that on past experience the magnitude of those outlays can be an upfront cash consideration of $1 to $2 billion and that that can then recur, the different tranches of spectrum over different years, its implications for your dividend policy and your free cash flow position are of course quite material.

Given all that, I am wondering if you could outline your attitude to the funding of that very considerable carve-out from your capex guidance and in particular whether you would debt fund the payment to the government for additional spectrum and if you did debt fund it, would you repay that debt within the term of the licence?

MR JOHN STANHOPE: Some of those licences are per annum payments. So new spectrum, for example, which may come on the market will likely be, I am not sure yet, but likely be option. Some of it we pay per annum now. It is embedded in the expense base of the company to pay an annual fee for spectrum licences.

Depending on how much it is, of course, we would more than likely debt fund it if we didn't have sufficient cash flow. It depends a little bit on when it occurs, so you see our cash guidance for this year but, as I have said, we expect all parameters to improve from 2012 onwards, so it depends on how much it is. If it requires some debt funding it is unlikely we would put the dividend at risk to fund spectrum, so we would debt fund it.

The period of time would depend on the whole debt maturity profile. I aim for a four to six year average maturity profile, so I would fit it into that maturity profile target.

MR BEN SPINCER: We will bring this briefing to a close now. I will hand back to David for any final words.

MR DAVID THODEY: Thanks Ben. Thank you for your time this morning. As you can see, we have tidied up 2010 but we are going forward in terms of looking at how we can move this business forward in terms of growth, in terms of improving response, but 2011 is going to be an investment year, a transition year. I want to stress the importance of the cost focus. We have a lot of work to do there. It is off and running and we feel comfortable about that. We are about customer growth, acquiring customers and retaining customers and we are off and doing it. Thanks very much for your time and we look forward to catching up with some of you.

END OF BRIEFING