IT'S HOW WE CONNECT

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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited - Transcript from Analyst Briefing – Financial results for the half-year ended 31 December 2015

I attach a copy of the transcript from the analyst briefing held on Thursday 18 February 2016, in relation to Telstra's results for the half–year ended 31 December 2015, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

MR P. KOPANIDIS: Good morning everyone and welcome. My name is Peter Kopanidis and I'm Telstra's Head of Investor Relations. On behalf of Telstra, I welcome you all to webcast of our 2016 Half-Year Results presentation. As an important symbol of respect, it is our custom at significant Telstra events to acknowledge Australia's First People. Today, therefore, I would like to acknowledge the traditional owners of the land on which we meet, the Wurundjeri people of the Kulin nation, and pay my respects to their elders, both past and present. After presentations from our CEO Andrew Penn and our CFO Warwick Bray, we will be taking questions from investors and analysts. With that, I will hand over to our first speaker for this morning, our CEO Andrew Penn. Good morning, Andy.

MR A. PENN: Well, thanks very much Peter and good morning everybody and welcome to Telstra's financial results for the half year ended 31 December 2015. This morning, we will cover three things in our presentation. Firstly, I will provide you with a brief overview of the highlights of the half. I will then hand over to Warwick Bray, our Chief Financial Officer, who will take you through the numbers in a little more detail and finally, I will make some comments on our progress towards delivering our strategy and meeting our priorities for 2016. Warwick and I will then be very happy to take any questions that you may have.

Before I turn to the highlights though, I would like to briefly comment on our mobile network. Last Sunday was the biggest day in history for Telstra on our mobile network as many customers took up our offer for a free data day. This was part of our apology for the network outage earlier in the week. The outage impacted voice and data services for approximately 15 per cent of our mobile customers for around two hours with some flow on effects for others. Firstly, let me say we place the highest priority on the quality of our networks and we invest heavily to give our customers the best and most reliable mobile network in the country and that is why we were incredibly disappointed that this outage occurred and we sincerely apologise for the inconvenience that it will have caused. Ultimately, the cause of the event was more in the nature of a human error rather than technical performance of the network, however that does not make it any less significant.

Customer advocacy is our number one priority as a company. It is my number one priority and that means our customers are at the heart of everything that we do. I personally spend time every day reviewing customer feedback and whilst I am encouraged that the number of complaints that we receive is reducing and I do believe we are making progress, I also know that we have more to do. On behalf of Telstra, therefore, I want to apologise again and thank everyone for their patience while the services were restored and whilst I realise it does not alter the inconvenience caused, the network was thoroughly tested on Sunday and acquitted itself very well. Many customers took full advantage of the free data and consumed the largest single data day ever on our network with almost 2,000 terabytes of data transacted.

So let me now turn to the highlights for the results for the half-year. In the first half of the financial year for 2016, we grew fixed broadband, bundle and mobile customer numbers. We saw strong income growth with more modest growth in EBITDA and net profit after tax. On a reported basis, total income, excluding finance income, for the half-year increased 9.1 per cent to $14.2 billion. EBITDA was up 1.7 per cent to $5.4 billion. Net profit after tax was up 0.8 per cent to $2.1 billion. These results are the first full six month operating period with Pacnet, which we acquired in April of 2015. Looking at the financial performance on a guidance basis and excluding Pacnet, total income, excluding finance income, for the half-year increased 7.3 per cent to $14 billion and EBITDA was up 1.4 per cent to $5.4 billion.

Turning now to the other highlights for the half, earnings per share increased 1.8 per cent to 17.2 cents per share and the Board has declared an interim dividend of 15.5 cents per share, up 3.3 per cent compared to the previous corresponding period. We added 235,000

domestic retail mobile services, including 80,000 postpaid handheld customers, to bring our total mobile subscriber base to 16.9 million. We added 121,000 retail fixed broadband customers and 163,000 customers on a bundle. We now have more than 500,000 customers registered to use Telstra Air, including more than 120,000 mobile customers.

Turning to the NBN, Telstra received $636 million under the NBN Definitive Agreements. We also announced that we had signed a Memorandum of Understanding to negotiate significant contracts to support the NBN build in the HFC footprint. Separately, we won two contracts to complete work as the network operations and maintenance services provider to NBN. These two contracts, both expected to start in March of this year, have an estimated combined first year revenue of approximately $80 million and cover a variety of fault fixing and connection work services.

Our customers continue to embrace technology and connected mobility. The amount of data that was carried over our mobile network was 42 per cent higher in the month of December 2015 when compared to the month of December 2014. The Telstra Thanks reward programs continues to grow in popularity with special deals and offers for movies, live music, sporting events and now includes some of Australia's best galleries and performing arts. Our customers accessed 1.6 million tickets in the half, an increase of over 20 per cent compared to the prior year, driving increased customer loyalty.

In GES, we continued to launch innovative products to meet the changing needs of businesses, governments and multinational operations around the world. NAS income increased 32.7 per cent to $1.3 billion with strong underlying performance across all offerings and the achievement of some very significant contractual milestones on some of our most major accounts. With Pacnet, we are tracking ahead of our targeted integration synergies and the teams of the two companies have been successfully combined across branding, products, pricing and customer relationships. We remain confident we will realise our acquisition criteria and our run rate synergies. Most importantly – and whilst we still have more to do to improve customer advocacy – our NPS improved by three points compared to 2014.

With those introductory comments, let me now hand over to Warwick, who will take you through the financial results in detail. Thank you.

MR W. BRAY: Thank you Andy and good morning everyone. The presentation this morning breaks down as: firstly, the overall results and comments on performance against guidance in the prior period; secondly, the business unit and product performance; thirdly, our expenses and productivity; fourth, an update on our main balance sheet movements and our capital position and finally, some comments on guidance for FY16.

Firstly, the overall performance of the business. On a reported basis, sales revenue for the half was up 7.8 per cent to $13.6 billion, total income was up 9.1 per cent to $14.2 billion, and EBITDA was up 1.7 per cent to $5.4 billion. We have reported an increase in depreciation and amortisation of two and a half per cent, mostly due to our acquisition of 700-megahertz spectrum in the first half of FY15. Excluding amortisation, depreciation of PP&E decreased by one per cent.

Net finance costs were down 3.7 per cent to $340 million due to an economic benefit from lower average growth borrowing costs, from 5.9 per cent to 5.6 per cent, partly offset by increased average gross debt. We also had a small non cash benefit from the adoption of AASB 9. AASB 9 has enabled us to significantly reduce volatility associated with the fair value movement of our derivatives. Net finance costs paid in cash were down 4.7 per cent to $382 million.

Income tax was up 3.3 per cent to $905 million. We paid over $1.7 billion for the 2014 income year and we're the seventh largest company taxpayer, paying around 2.6 per cent of total company tax based on large public company tax data published by the ATO in December 2015.

Net profit after tax was up 0.8 per cent to $2.1 billion and basic earnings per share was up 1.8 per cent. On a guidance basis, our growth was broadly in line with reported growth. On a guidance basis, we have excluded a $16 million impact from the implementation of the ACCC Final Access Determination for fixed line services from 1 November 2015 and a small amount of M&A. On a guidance basis, total income was up 9.2 per cent and EBITDA was up 2.1 per cent. Income growth at 9.2 per cent was influenced by the lower Australian dollar and that has pushed us to the very upper end of guidance.

This is our first full six months operating with Pacnet, which was acquired in April 2015. As a result, our current numbers are impacted on a comparative basis. Our income and EBITDA on a guidance basis and excluding Pacnet for the first half most closely represents our underlying performance on a comparative basis as shown in the last column. On a guidance basis and excluding Pacnet operating results, income growth was 7.3 per cent and EBITDA growth was 1.4 per cent.

We will now move to our other main financial measures. Capex was up 20 per cent to $2.1 billion, including increased investment in our mobile network. Our capex to sales ratio of 15.2 per cent was consistent with our full-year guidance of approximately 15 per cent. On a reported basis, free cash flow increased from $262 million in the first half of FY15 to $1.9 billion. A large part of the increase was due to the prior period, including outflows for $1.3 billion invested in spectrum and $508 million related to M&A and associated transaction. In the current period, capex was $345 million higher and proceeds from the sale of PP&E have increased by $214 million, mainly due to the transfer of assets to NBN Co under the NBN Definitive Agreements.

As Andy mentioned, the board has declared a fully franked interim dividend for the first half of FY16 of 15.5 cents per share, up half a cent on the first half of FY15 interim dividend and the same level compared to the FY15 final dividend. Our dividend policy remains unchanged and future dividends will be subject to the board's normal semi annual approval process and in line with our capital management framework that sets out our goal to seek to increase the dividend over time based on growth in earnings per share on a sustainable basis.

Return on Equity and Return on Invested Capital both fell due to increased net debt and equity, including investment in growth businesses, down 1.3 percentage points and 1.5 percentage points respectively. Gearing fell 0.3 of a percentage point to 48.7 per cent. Our credit metrics and balance sheet settings remain at the conservative end of our target zones and we retain our sound liquidity position.

Turning to income performance across our business units. We've seen income growth across all of our business units. Total Retail income was up 2.1 per cent to $8.7 billion. Consumer was up 2.8 per cent to $6.2 billion with growth in mobile subscriber additions, mobile hardware and fixed data. Business was up half a per cent due to NAS organic growth and acquisitions including: Telstra SNP Monitoring, which includes home and business security; AFN solutions, which provides intelligent security monitoring; and NETO and e-commerce enabler. Business growth was partially offset by fixed voice and ISDN subscriber declines.

Global Enterprise and Services, or GES, income grew 21.2 per cent, including the acquisitions of Pacnet and our software businesses. GES domestic grew 7.3 per cent,

mostly organically, due to strong NAS growth and continued mobile services revenue growth. Within NAS, growth was across offerings and included the achievement of significant delivery milestones on some major accounts. GES global grew 81.7 per cent to $0.8 billion. Including Pacnet, we've expanded our geographical presence and base of enterprise and wholesale customers.

Finally, Telstra Wholesale income was up 5.3 per cent to $1.3 billion, largely due to increase in ISA ownership receipts in line with the NBN rollout. Telstra Wholesale income was reduced by the implementation of the ACCC Final Access Determination for fixed line services from the 1st of November 2015.

Turning now to our sales revenue performance by product. We are reporting our product sales revenue on a different basis to previous periods. We've now incorporated our International business as it relates to our fixed, data and IP and mobiles categories into these respective product numbers. This had the largest impact on data and IP.

Overall, we saw continued growth in the first half of FY16, with sales revenue up 7.8 per cent to $13.6 billion on a reported basis and up 7.9 per cent on a guidance basis. There's been a significant contribution made by our mobile, data and IP and NAS businesses during the period. Fixed was down 1.5 per cent, including a domestic decline of 2.5 per cent. We'll turn to our fixed products performance on the next slide, but we do continue to be encouraged by our fixed line performance. Mobile was up $198 million or 3.7 per cent, a slower rate of growth than previous years. Data and IP was up $250 million or 15 per cent, including Pacnet. Domestically, data and IP declined 1.6 per cent, broadly in line with previous halves.

NAS continued its rate of growth, up $329 million or 32.7 per cent. NAS revenue has achieved more than 20 per cent growth for five of the last seven halves and now has annualised revenues of around $2.5 billion. We'll comment more on NAS growth in a moment. Autohome, in particular, contributed to the $253 million growth in Other. Other also includes NBN ISA access receipts, Health and Software. Our investments in Telstra Health and Telstra Software Group form part of our growth agenda. We continue to invest in our new businesses to allow them to grow in scale, capability and reputation.

Turning to the product performance in detail, starting with our fixed portfolio. Overall, fixed product revenue was down 1.5 per cent for the half. The fixed voice revenue decline was contained to 7.6 per cent, broadly in line with the prior corresponding period. Retail fixed voice customer line loss slowed to 129,000 or 2.2 per cent in the first half of FY16 due to continued focus on retention through our save cells and good momentum from bundling. Our ARPU decline of 4.8 per cent was in line with the prior corresponding period.

Fixed data revenues grew 6.7 per cent. Retail fixed broadband subscriptions grew by 129,000 in the first half of FY16, our best half of net subscriber additions in over three years. Average fixed data ARPU increased 0.1 of a per cent despite data inclusions increasing. Our Belong offering was an important part of our fixed data performance. Fixed voice margin fell by two points due to lower revenues, whilst the fixed data margin also fell by one point. Both fixed voice and data margins were negatively affected by the cost of connecting customers to the NBN and the ongoing NBN network costs. Excluding NBN, underlying fixed data margins increased on the prior period and on the second half of FY15.

During the half, we added 118,000 NBN connections. As at the 31st of December 2015, we had 329,000 NBN connections, made up of 259,000 voice and data bundles, 18,000 data only services and 52,000 voice only services. Our NBN market share remains above our legacy data market share and was stable in the half. We differentiate our NBN services

based on network quality and unique content experiences that are better with Telstra, such as Telstra TV and Telstra Air. In June, we launched Telstra Air, our WiFi offering, with over 320,000 customers joining by the end of H1. Telstra Air membership is now over 500,000, including more than 120,000 mobile customers.

Finally, we continue to see strong growth in retail business bundles, with consumer and business bundle customers up 163,000 to 2.4 million. 73 per cent of our retail customer base is on a bundled plan, including our entertainment offers.

Turning to our mobile performance. During the half, we added 235,000 domestic retail mobile services, including 80,000 postpaid handheld customers, to bring our total subscriber base to 16.9 million. Overall, mobile revenue grew 3.7 per cent, with services revenue up 0.5 a per cent. Postpaid handheld revenue was up 0.2 of a per cent due to 1.5 per cent customer growth and continued migration to higher minimum monthly commitment plans.

Growth was offset by lower excess data and voice charges from Extra Data and higher level plans with unlimited voice. Extra Data gives customers the option to receive additional data in 1GB blocks when they reach their monthly data limit for a flat rate of $10 per block.

Postpaid handheld ARPU, excluding MRO, was down 68 cents to $69.03; however, postpaid ARPU was similar to the second half of FY15 at $69.08. There were two key positives for postpaid handheld ARPU in the half: firstly, more than two thirds of our consumer postpaid handheld base are now on Extra Data plans; secondly, on aggregate for consumer stayers, leavers and joiners, we're seeing positive trends, in particular recontracting customers are migrating to a higher total minimum monthly commitment.

Prepaid handheld revenues grew – fell 0.6 of a per cent due to 4.5 per cent unique user growth offset by lower ARPU from increased allowances leading to fewer recharges. We remain focused on improving the quality of our prepaid customer base, as reflected in the growth of prepaid unique users. Mobile Broadband revenue fell 1.5 per cent; however, we continue to see opportunity in consumer shared plans and growth in connected tablets to help our business customers further improve their productivity, in particular with field force and sales force solutions.

Machine to machine revenue grew 9.1 per cent. In the half, we've implemented multiple M2M solutions. These solutions have addressed productivity, driver safety, asset utilisation, long haul vehicle tracking and fleet management for our customers. We added 167,000 M2M SIOs in the half. This level of net adds excludes – exceeds recent trends, having added 124,000 in the first half of last year and 162,000 in the second half of last year.

The EBITDA went up in dollar terms, but the margin reduced one point to 39 per cent due to the relative mix of mobile hardware revenue versus services revenue and a lower services margin, though we improved our hardware margin in the half in dollar terms, our increased hardware sales were dilutive on our overall mobile margin expressed in percentage terms.

Our postpaid handheld churn was steady at 10.7 per cent. We've restated prior period churn numbers downwards to correct for some internal customer transfers that were previously stated as churn.

Turning now to data and IP. Data and IP – we saw revenue growth due to more global connectivity offerings, including from our Pacnet acquisition. Domestic data and IP revenue declined at 1.6 per cent, in line with recent trends; however, we performed well against market, with customers embracing our complementary NAS products and our Next IP network flexibility, scalability and security. While we're achieving volume growth in IP access, we are still seeing some price competition. IP access declined 0.7 a per cent,

reflecting those yield trends, offset by growth in IP customer connections. IP MAN revenue, which represents 68 per cent of IP access, was up 4.7 per cent, with connections up 8.8 per cent, reflecting customer wins and demand for IP value added services. ISDN declined 8.2 per cent due to continued steady migration to IP access, unified communications and fixed data products. The ISDN revenue decline reflected a slowing access line reduction of 6.7 per cent and a 1.4 per cent decline in ARPU.

A domestic EBITDA margin of 62 per cent was impacted by yield pressures in the IP market and a domestic revenue decline. Turning to Pacnet. Pacnet is no longer standalone. It's fully integrated into our business. We're on track to meet our acquisition criteria and also deliver on our previously announced synergies of A$65 million per annum. When comparing our disclosed Pacnet results to pre acquisition performance, of around US$110 million[1] for a full year, our reported Pacnet EBITDA contribution was $33 million for the half, after adjusting for exchange rates, and recognises the non cash fair value adjustments in the first half of FY16 and synergy benefits, offset by one off integration costs.

Now, turning to Network Applications and Services, or NAS. In NAS, we saw strong revenue growth of 32.7 per cent to $1.3 billion. NAS revenue has achieved more than 20 per cent growth for five of the last seven halves, now has annualised revenues of around $2.5 billion. During the half, there was acceleration in NAS revenue growth, with strong underlying performance across all offerings and the achievement of significant delivery milestones on some of our major accounts. Our NAS growth complements our data and IP portfolio. We expect single digit NAS revenue growth in the second half of FY16 due to the timing of milestones across FY16.

Across managed network services and unified communications, our enterprise customers are continuing to adopt standardised offerings to a much higher degree. This improves our speed of implementation and lowers our unit costs and provides improved quality and reliability for our customers. Managed network services revenue grew by 28.9 per cent due to increased professional service and security activity, including growth from our Bridgepoint acquisition. We are pleased with the progress of this acquisition, as it has brought greater capability in our managed network and security portfolio. Unified communications revenue was up 15.5 per cent as a result of increased IP telephony customer connections.

Cloud revenue grew by 50.8 per cent due to infrastructure and data services, Software as a Service and professional services. Within cloud, as an example, we're working with a large supermarket to implement a world class hybrid cloud solution to deliver to our customer speed to market, cost reductions and the ability to consume cloud services on demand.

Industry solutions revenue growth of 44.2 per cent was principally due to increased NBN commercial works and wireless network deployments. Integrated services revenue was up 66 per cent due to the achievement of transition and transformation milestones on major accounts and growth from annuity managed services.

We've been recognised externally with a number of industry awards for service excellence and innovation. These include the Asia-Pacific and Japan Collaboration Partner of the Year by Cisco, and Asia-Pacific Data Centre Transformation of the Year by Data Centre Dynamics.

From a segment perspective, we achieved particularly strong growth in the global sector, with revenue more than doubling to $86 billion. Our telkomtelstra JV in Indonesia has had early customer wins and is achieving strong delivery and a healthy pipeline across managed

[1] Verbatim $110 million

network services, cloud and Software as a Service. GES domestic revenue was up 31 per cent to $937 million, including the achievement of significant delivery milestones in the current half.

Finally, as outlined at our Investor Day in October last year, NAS is still in the growth phase. We are continuing to build momentum in terms of enhancing scale and capability and evolving the business mix for profitable growth. That said, margins will vary within a range both within a financial year and on a year-to-year basis. This is due to a mix of major contracts both existing and new and contract milestones. Our domestic Direct Contribution Margin, or DCM, excludes corporate overheads allocated to this service's business. DCM improved 2 points to 11 per cent through operational leverage, scalable standardised offerings and a lower cost delivery model. We also achieved further improvements in EBITDA due to scale and the improvement in the Direct Contribution Margin.

Turning now to media and firstly, Foxtel. As reported by News Corp, Foxtel's revenue growth was up 5.5 per cent due to subscriber growth. Total subscribers were up $2.9 million due to cable and satellite subscribers increasing 7.4 per cent and higher Presto subscribers, despite increased competition from SVOD participants. Foxtel's first half net subscriber growth of 152,000 was underpinned by the pricing initiative and package changes from November-14 and lower churn. Churn for Foxtel hit a record low – new record low in a half of just over 10 per cent.

ARPU is down mid-single digits compared to the prior corresponding period. EBITDA decreased 7.7 per cent in the half due to, firstly, planned increases in programming costs, particularly across sport, drama and local productions, and, secondly, expected increases in costs associated with higher sales volumes, the launch of Triple Play and continued marketing investment in Presto. Sport is a critical offering in the local media market. Foxtel has now extended their rights to the NRL, which together with the AFL are the leading sports in Australia. Fox Sports will have specialist channels for both sports with rights secured until 2022.

Foxtel also completed the acquisition of an approximately 14 per cent equity stake in the Ten Network during the last quarter. The half a per cent decline in EBIT reflects the EBITDA decline and lower depreciation and amortisation. In Telstra's books, the distribution received from Foxtel was down 26 per cent to $37 million, and cable access revenue was down 3.3 per cent to $58 million.

Now moving to our other media assets. Telstra media continued to deliver "Better with Telstra" content experiences to create value from our core business through Media in the Home, and Media on the Go.

In Media in the Home we continued our strategy to bundle with core fixed products, including the launch of Telstra TV in October. Foxtel from Telstra revenue grew by 8.7 per cent to $350 million, and subscribers grew 17.9 per cent, to 660,000. This growth was due to the increased take up of the Telstra Entertainer bundles.

The shift in focus towards Foxtel from Telstra in our bundle offers has impacted IPTV revenues, which were down 19 per cent, reflecting the transition from T-Box sales to Telstra TV sales. Excluding revenue from T-Box sales and Foxtel on T-Box, IPTV revenues grew 12.3 per cent due to net IPTV subscriber growth. IPTV subscriber growth of 17.9 per cent included 92,000 new SVOD subscribers across T-Box and Telstra TV. SVOD growth was partially offset by a decline in Foxtel on T-Box subscribers, down from 190,000 subscribers in the first half of FY15 to 132,000 in this half.

As of 31 December we had 43,000 Telstra TVs in the market. The Telstra TV represents an opportunity to provide a media experience for customers who aren't traditional Pay TV customers, but also capitalises on the rapidly changing media landscape. We know that customers who bundle media services are happier, and stay with us for longer.

Media on the Go revenue decreased by 17.1 per cent due to declining legacy mobile download services. This reflects a shift in strategy from direct media revenues towards differentiation and data usage across Telstra's core products. We achieved 41 per cent revenue growth from our AFL and NRL subscribers. The decline in movie downloads reflects a transition from T-Box to the Telstra TV platform.

Turning now to Autohome. Autohome, our e-commerce controlled entity in China, has continued to perform very strongly, with revenue growth in local currency up 53.9 per cent, while EBITDA grew at 24.7 per cent. In Australian dollar terms, revenue was $392 million, and EBITDA was $137 million. Revenue growth was due to increased advertising services revenue, up 55 per cent, and from increased dealer subscriber revenue.

Dealer subscriber revenue growth came from expansion into new cities and provinces, and included 16.4 per cent growth in the number of subscribers, as well as increases in growth in average revenue per paying subscriber. Autohome EBITDA growth was achieved despite additional labour and advertising costs supporting business expansion.

Our two key leading indicators of business activities are average daily unique visitors who accessed Autohome's mobile websites, and mobile applications. These leading indicators were both up 79 per cent, with average daily unique visitors up in total to 13.8 million[2].

Turning now to income from the NBN Definitive Agreements, or DA. As disclosed at our investor day, we've separated our infrastructure services agreement income between ducts, racks and backhaul, and ownership receipts; you can think of the former as payments reflecting ongoing use of our assets, with the latter linked to the NBN rollout.

During the half we recognised NBN DA related income of $636 million, up 65.2 per cent. This included strong growth in income from the ISA ownership receipts, and PSAA, which were up 119.6, and 203.9 per cent respectively, in line with the progress of the NBN rollout. Whilst the ownership receipts and PSAA will be influenced by the timing of the NBN rollout, the timing of related cash flows will vary between periods.

Revenue from the Commonwealth Agreements increased 31 per cent, due to the timing of income recognition from the Telstra Universal Service Obligation Performance Agreement. Within the Commonwealth Agreements retraining deed revenues of around $10 million per annum will continue to be recognised over the next two to three years.

The NBN DA income represented on this slide was recognised across sales revenue and other income categories in our financial statements. Sales revenue included NBN ISA revenue related to access to our infrastructure. Other income included the remainder of the NBN DA income, including all income from the PSAA. NBN DA income does not represent all of the income we receive from NBN Co. Outside the NBN DA we also receive industry solutions revenue within NAS, through the two commercial agreements – the Planning Design Services Agreement, and the Joint Deployment Works Contract, and we received additional data and IP sales revenue for wholesale ethernet transmission and facilities access.

[2] Verbatim $13.8 million

Let me turn now to our expenses. Total operating expenses increased 14.2 per cent to $8.78 billion on a reported basis. On an ex-Pacnet basis, costs grew at 11.4 per cent. This 11.4 per cent costs growth breaks down as: 5.3 points from the core sales costs, or directly variable costs, associated with revenue and customer growth – the efficiency of these costs increased; 5.1 points from investment in new growth businesses; and an underlying 1.1 per cent, or around $40 million, decline from fixed costs in our core, excluding significant transactions and events.

Going through each of these three costs in turn – firstly, growth in core sales costs, or DVCs. These are the direct costs of funding growth in the core business. With these costs we're less concerned with their growth, but we're very concerned with their efficiency. This means that they should be directly matched with revenue, or there should be a strong link to business growth.

Our core sales costs grew at 13.1 per cent. The four biggest contributors to the increase in sales costs were: mobile, where we saw overall revenue growth of 3.7, and hardware revenue growth of 18.5 per cent – our hardware margin increased in the half as a result of fewer handset recontracting events and lower unit subsidy levels; NAS, where we saw revenue growth of 32.7 per cent, including margin expansion; NBN access payments, where we saw NBN connection growth in the half of 118,000; and Foxtel service fees, where we saw revenue growth of 8.7 per cent. So where we saw the largest increase in costs, this increase directly supported our growth categories across the core. Overall, we saw an increase in efficiency of our variable sales costs.

Second, growth in costs in our new growth businesses. Increase in these costs accounted for 5.1 points of the 11.4 per cent growth, and this category had the highest percentage increase of the three categories. These costs supported the 82.3 per cent growth in Autohome revenue, and growth in Health and the Telstra Software Group. Growth in these costs is an investment decision. We're continuing to invest in our new businesses to allow them to grow.

Thirdly, growth in our core fixed costs. Excluding significant deals and events, we're on track to meet our annual net cost reduction target with core fixed costs declining 1.1 per cent in the half. Significant transactions and events that had an impact on fixed costs include: increased NBN commercial works and Definitive Agreement costs; increased NAS labour on large new contracts; and increased NBN migration costs.

Achieving the underlying fixed cost decline in the first half of FY16, our productivity and simplification program delivered another $206 million of cost benefits. This level of productivity represents an increase on our first half FY15 productivity. In the future we'll report on underlying cost outcomes, rather than productivity. We continue to achieve cost benefits across our business units and in many cases, digitisation and simplification of our products and processes have led to better outcomes for our customers, as well as cost benefits.

Turning now to our capital management framework. Our capital management framework has been in place since 2012. This strategic framework remains that against which we make all capital decisions. It's underpinned by a clear focus on optimising for maximising returns to shareholders, maintaining financial strength, and retaining financial flexibility. These core objectives are supported by five principles that provide the structure and definition for what this means at a practical level. We went through these principles at our investor day in October last year, and these principles remain unchanged. Our cumulative excess free cash was $2.2 billion at the end of December 2015. Our cumulative excess free

cash represents the accumulation of free cash generated from operating activities net of capex since 2012.

Turning now to some of the more detailed capital and balance sheet movements in 2015. Overall, our balance sheet remains strong. On a reported basis, free cash flow increased from $262 million in first half 15 to $1.9 billion, as outlined in our financial measures. Capex was up 20 per cent to $2.1 billion, including increased investment in our mobile network. Our cash outflows associated with acquisitions and other investments decreased in the half. Acquisitions and other investments in the half included: Health IQ, a health resource optimisation and patient flow business; and EOS Technologies, a community healthcare software business. Liquidity increased in the first half to $2.2 billion. Net debt increased to $14.1 billion, and we've reduced our average borrowing costs and our gross debt to 5.6 per cent.

Our average debt maturity has reduced to 4.6 years in the half from 5 for the full year. We continue to refinance at much lower average rates as evidence by our seven year A$500 million issue in September 2015 with interest payable at 4 per cent per annum. Our gearing ratio has increased slightly to 48.7 per cent as at 31 December 2015 reflecting the increase in net debt. Importantly, all of our financial parameters remain at the conservative end of our target zones to meet our criteria of a long term single A credit rating. We maintain strong investment grade long and short term credit ratings with S&P of A and A1, and Moody's of A2 and P1.

Turning to guidance. I can confirm that our first half results put us on track to deliver against our full year guidance across income, EBITDA, CAPEX and free cash flow. This guidance assumes wholesale price stability from the beginning of the financial year, and no impairments to investments and excludes any proceeds on the sale of businesses, M&A and purchase of spectrum. Capex to sales guidance excludes externally funded CAPEX.

There are a number of ACCC decisions that will impact the wholesale prices and hence our FY16 reported results. The timing of spectrum payments will also impact future reported results. Regarding wholesale pricing there've been two decisions that have been two decisions that have been made by the ACCC since we announced our results in August last year, which I'll reiterate.

Firstly, the wholesale prices for Mobile Terminating Access Services, or MTAS, we estimate that the net effect of this in FY16 will not be material on reported EBITDA, but will result in a reduction in reported revenue of approximately $350 million. We have not factored this into our capex to sales guidance and we will not make this adjustment to sales revenue for the purpose of setting our capex spend in 2016. There is no impact on our first half results from MTAS.

Secondly, the Final Access Determination, or FAD, for the fixed line services. The estimated reduction in reported revenue and EBITDA in FY16 of the ACCCs FAD decision is expected to be up to $80 million. This covers the period from the 1st of November from which the new prices take effect. The impact on our first half results from the FAD was a $16 million reduction in EBITDA. We have made an application for judicial review of the ACCCs FAD decision which will be heard in early March.

Regarding spectrum payments, the timing of spectrum payments also impacts our free cash flow on a guidance basis. The payment date for our recently announced $190 million investments in 1800MHz band has not yet been finalised, but the auction guide indicates it will be first quarter 2017. The payment date for the renewal of the 2100MHz licence has

also not been finalised. These licences expire on 11th of October 2017 and payment will be prior to issue.

Going back to guidance. In FY16 we expect to deliver mid-single digit income growth and a low-single digit EBITDA growth. For the full year FY16 our income growth will influenced by the lower Australian dollar and second half single-digit NAS revenue growth. Also, Pacnet will have lower PCP growth in the second half since we didn't own Pacnet in H1 2015 and owned Pacnet for around two months of H2 2015. We expect to spend CAPEX at approximately 15 per cent of sales. Lastly, we expect FY16 free cash flow to be in the range of $4.6 billion to $5.1 billion. That is the end of the finance report. Thank you. And I will now hand back to Andy.

MR PENN: Well, thanks very much, Warwick. Let me now just provide some comments on how we're progressing our strategy, including some of our progress against key priorities in the first half of 2016. We have a very clear purpose at Telstra to create a brilliantly connected future for everyone. To achieve this, our vision is to become a world class technology company that empowers people to connect. A world class technology company with world class customer service, world class technology built on world class networks and with world class delivery. And I believe that today's results reinforce that our strategy is working. Customer advocacy continues to improve, we continue to invest in and drive value and growth from our core businesses, and we are laying the foundations for future growth.

In October, I shared with you the specific priorities that we had for 2016: consolidating our network leadership, accelerating our productivity program, winning in the NBN market and reducing our costs to migrate and acquire customers, continuing to invest in long term growth and bringing to life what it means to be a world class technology company. Let me now comment on each of these in sequence and the progress that we've made.

Our first priority is to continue to consolidate and invest in network leadership. We are approaching this on three fronts: our mobile network leadership, fixed services differentiation and our Asian data network presence.

Firstly, mobile. We're committed to the quality of services across our network, and we want to continue to offer customers superior experiences that includes greater coverage, call and speed reliability, fewer drop outs and, increasingly, the reliable delivery of video which now accounts for about half of all traffic on our mobile network. Mobile network investment in the half was $667 million, and as you know, we have committed to spending $5 billion on the mobile network in the three years to June 2017. Our 4G footprint now covers 96 per cent of the Australian population, and we are working towards extending this to 98 per cent of the population by the end of June 2016 and more than 99 per cent of the population by June 2017.

More than 1,200 sites have been upgraded to 4GX standard, and as I mentioned our network is carrying 42 per cent more data than it was a year ago. 4G now represents more than two thirds of the traffic on our network, which supports world leading peak device speeds of up to 600 megabits per second on compatible devices for more capacity and more reliable service. What this means for our customers is that there is more 4G coverage and faster mobile speeds in more places delivering quicker websites, file downloads and videos with less buffering. It also means that at major events or in densely populated areas our customers enjoy a more consistent connection experience.

Finally, after launching Australia's first Voice over LTE, or what we call VoLTE, in September of 2015 we now have 130,000 customers registered that have enabled their VoLTE service in their devices, and those customers made more than 9 million VoLTE calls in January.

They're enjoying superfast call setup times, HD voice calling to other fixed and mobile devices and lower dropout rates. The second element of our network leadership is focussed on fixed service differentiation. ADSL and HFC backhaul upgrades, port expansion and customer migration projects have all improved services and service experience for more than 1.2 million retail and wholesale customers. And that work goes on.

Fixed Broadband traffic was up 72 per cent in the month of December 2015 when compared with December 2014, which reflects higher data allowances and the penetration of SVOD among Australian homes. We have 4,000 Telstra Air public WiFi hotspots in service, and as of today the membership base has grown to more than 500,000 customers, including more than 120,000 mobile customers. Since launch, Telstra Air members have used over 207 terabytes of data; the equivalent of sharing or downloading 207,000 hours of high definition video. And since December, the usage per active member of Telstra Air has approximately doubled.

The third area of focus for networks is out Asian data network presence. We continue to launch new services and expand our network and data capacity in Asia. With Pacnet, Telstra now operates an extensive submarine cable network across the region, and in the half we added approximately 10 per cent of capacity to our submarine cable network across eight routes, which increases our overall capacity to 33 terabits[3] per second and further upgrades are planned over another three additional routes. We added new points of presence in Korea and the UAE as well as two virtual points of presence in India. This expands the depths or our coverage and provides our customers with access to more than 2,000 points of presence globally. This half we also launched three new network to network interconnections which complement our existing coverage in the Asia Pacific and Latin America and allows us to leverage the networks of our partners.

Our second priority for 2016 is to accelerate our productivity program. As Warwick said earlier, we are on track with our productivity program with a renewed focus on fixed costs and net benefits. There are still many opportunities to simplify our systems and processes within Telstra, because ultimately complexity drives bad experience for our customers, our people and adds cost for our business.

Our focus includes providing customers with improved options to self serve and better first call resolution rates. Of the customers that did need to contact us, first call resolution rates at the end of the first half were 83 per cent, a two per cent improvement on December 2014 and a six per cent on December 2013. Online self service assurance interactions increased from 150,000 in the first half of last financial year to more than a million this half.

This means we have become more proactive, driving volume reductions through detecting and resolving issues prior to customer calls. We have also simplified and redesigned our processes and policies to reduce the main causes of inbound calls and inbound call volumes to our Global Call Centres reduced by almost seven per cent, removing a significant pain point for our customers. Ultimately though, we need to move our productivity programme faster and harder, which is what we are committed to do and customer advocacy remains the main objective of the programme.

Our third priority is winning in NBN and reducing the cost of migrating customers across. As an access seeker, we are pleased to be Australia's leading provider of consumer and business services on the NBN. It is a position that we have fought hard to win and we will fight hard to maintain. The NBN rollout is not yet at scale, but it is scaling quickly. We

[3] Verbatim terabytes

already have a total of 329,000 customers' homes and businesses connected as at the end of December 2015, an increase of 118,000 over the last six months.

We continued to focus on ensuring our processes are effective and this is not just about lowering costs; it's about improving the customer experience, because we have seen a strong correlation between improving our processes, improving customer experience and reducing costs so everybody wins. Our customer NBN activation episode NPS score has increased 20 points over the last 12 months and at the same time, our cost to connect customers has improved 18 per cent compared to the same time last year.

Our strategy is to differentiate our services based on our network quality, unique product and content experiences. For example, we were pleased to see 71 per cent of our new Consumer NBN activations are subscribing to Telstra Air.

The transition to NBN is also particularly important to our business customers. Six in every 10 small business customers moving to the NBN with Telstra are taking up the Telstra Digital Office Technology product, which brings together fixed voice, internet and mobile into a single package. The technology bundle represents an important first step for many businesses that are moving their operations into a digital world and it gives our customers call routing, remote working and messaging technology, all configured in the cloud and then controlled by the customer from either a PC or a tablet or a smart phone screen.

The fourth priority is the acceleration of our long term growth agenda. In addition to investing in our core businesses, we continue to pursue new growth opportunities in areas that leverage our core strengths. This includes investments in Telstra Media, Telstra Health, Telstra Software and Telstra Ventures. We are focused on growing these businesses to scale sooner. Telstra Media continued to deliver content experiences that drive value into the core of our businesses, including content specifically tailored or to be consumed in the home and on the go. Telstra TV is the only Australian streaming device to offer the three major Subscription Video On Demand services, Presto, Netflix and Stan, and all free to air catch up services. To give you an idea of the demand for these services, in the three months since the launch of Telstra TV, customers have streamed over 2.5 million hours of content on our platform.

During the half, we secured a new five year naming and mobile digital rights agreement with the NRL, including mobile live broadcast rights out to 2022. Similarly, with the AFL, we were able to secure a new six year mobile digital rights agreement, including exclusive live streaming of all matches to mobile devices out to 2022. Live videos on AFL and NFL content over the last calendar year increased by 25 per cent and 74 per cent respectively so we believe this can only grow in the future. We also began a partnership with Apple Music and we are the only Australian provider to offer our customers Apple Music as an integrated plan inclusion.

In September, we expanded our media services division to include a new service, Telstra Broadcast Services, which services customers in the broadcasting industry, including direct to home satellite transmission and IPTV managed services. One of the first deals that we reached was with Network Ten and they've signed a multi-year contract for global delivery via fibre.

In Telstra Health, we are now offering connected solutions in primary, aged and residential care, hospitals, radiology, pharmacy, health analytics and telemedicine. Activities in the half included acquiring Health IQ, a company that supplies hospital resource optimisation and patient flow software and community care software firm, EOS Technologies.

MyCareManager, our integrated eHealth platform, is now servicing seven leading aged care agencies and ReadyCare also entered into an agreement with a travel insurance provider to enable travellers to talk to a doctor in Australia on a phone 24/7 to receive advice, diagnosis, prescriptions, care and treatment should they require it whilst travelling.

Turning to GES. PBS, which we acquired via Pacnet, is a very important part of our growth strategy and aligns with our aims to build new growth businesses that leverage the strengths of our NAS network and capabilities. Because PBS gives us a footprint in China with an IP-VPN license, multiple data centres and points of presence, and in the first half of 2016, we closed three major data centre deals which are expected to bring incremental revenue to PBS.

Our Telstra Software Group continues to play a key role in Telstra's strategy to take advantage of the growth in the role of software driven businesses, including applications and platforms and integrated services. Within that group, Ooyala is our intelligent video platform. It provides large scale knowledge of viewer patterns to help media companies offer personalised services to their customers for viewing experiences. The viewership of Ooyala's customers doubled and global served ad impressions grew 43 per cent year-on-year from January 2015 to January 2016 and by the end of the half-year, Ooyala was delivering video programming of content to 450 million unique viewers worldwide.

We use Ooyala's technology to increase subscriber satisfaction across our own properties and our own platforms as well, as well as those of our partners, including the NRL, AFL and Foxtel, and it also has a rapidly growing business doing the same for media companies, including New Corporation, ITV, Disney and Sky.

Telstra Ventures has also continued to invest in emerging technology companies globally and in the last six months, this included Enepath, a Singapore based company based on innovative voice solutions for global financial trading customers, and more recently, Qiniu, which is a leading cloud storage services provider that offers data hosting and processing for enterprises in China. And finally, our telkomtelstra joint venture in Indonesia is fully operational and servicing its early customers as well as showcasing business offerings through Indonesia's first Customer Experience Centre.

Our fifth and final priority is to bring to life what it means to be a world class technology company. Being able to provide our customers with a window into what is possible with technology today means staying ahead of the technology curve. Telstra has a long history of innovation and we continue to invest in initiatives such as our incubator program, muru-D, which identifies and supports start-ups to create valuable digital technology platforms and products and services. The program is working with some of Australia's best digital talent and is now expanded to do the same in South East Asia through its Singapore office and then more recently, we established a partnership in Israel.

The Gurrowa Innovation Lab opened in Melbourne in July is the centrepiece of our innovation and technology research capabilities. Gurrowa is part of a network of facilities aimed at creating within Telstra a global and virtual centre of excellence for innovation. It includes our Sydney Customer Insights Centre and the Customer Experience Centre that I mentioned in Jakarta, which are both equipped to demonstrate state-of-the-art connectivity and technology solutions. We have also recently launched a global cloud collaboration platform across 20 countries. This is a market leading capability in Asia and has already been recognised externally with a number of industry awards for excellence.

And during the year, we announced plans to invest $10 million plus further in-kind support over the next five years to help develop a silicon quantum computing technology in Australia.

It's very exciting to be involved in such a dynamic and world leading program with the government. Our support will help fund the development of silicon quantum integrated circuits, the first step in developing the world's first silicon based quantum computing. The possibilities of this are very real for us and we want to help these innovative possibilities become a reality for our customers as well as for ourselves.

In the half, we achieved several network engineering world firsts, including the world's first 200 gigabits per second optical encryption, which was successfully demonstrated between Melbourne, Canberra and Sydney. This is a high speed encryption solution which will be a key differentiator in the market, because data can now be secured as it leaves the private cloud and be protected as it traverses across the network across any distance without sacrificing end user experience.

We also trialled the world's first fully programmable optical layer which is called liquid spectrum and this enables adjustments within the optical network to adapt to network conditions and it's a capability that could be used to provide emergency restoration links in natural disasters, increase the capacity of busy links at any time or also provide temporary bandwidth.

Other achievements during the half-year included the world's first commercial peak speed offerings in our mobile network of 600 megabits per second using category-11 devices and 450 megabits per second using category-9 devices as well as the world's first[4] demonstration of a one-gigabit-per-second download speed in a live commercial network. This all augers well for faster speeds for customers and enhanced consumer experiences into the future.

As a consequence of our work, we were fortunate to receive a number of awards for the work we have done, including Gartner's 2015 Critical Capabilities for Network Services in Asia Pacific, which recognised our world class submarine cable infrastructure, our optical networks and the reliability and performance of those in the region. We also received the 2015 Queensland iAward for innovation for our work on a project to provide specialist radio voice and narrowband data communication networks to public safety and emergency response agencies. And finally, Telstra Air was recognised in the IDC Telecom Service Provider Innovation Awards for the Most Innovative Consumer Offering for the use of new technologies to enhance customer experience in telecommunications.

Let me summarise before opening up for questions. Today's results reinforce our strategy. Customer advocacy has improved. We continue to invest in and drive value and growth from our core businesses and we have continued to lay the foundation for growth in our new businesses. On a reported basis, total income, excluding finance income, for the half-year increased 9.1 per cent to $14.2 billion. EBITDA was up 1.7 per cent to $5.4 billion and net PAT was up 0.8 per cent to $2.1 billion. We declared an interim dividend of 15.5 cents per share, up 3.3 per cent compared with the previous corresponding period.

We have very clear priorities for the year and we're making progress: consolidating on our network leadership; accelerating our productivity programme; winning in the NBN market and reducing our cost to connect; continuing to invest in long term growth and bringing to life what it means to be a world class technology company.

Looking ahead, our guidance for the 2016 financial year remains unchanged. As you heard from Warwick, we expect to deliver mid-single digit growth in income and low-single digit growth in EBITDA. We expect free cash flow to be in the range of $4.6 to $5.1 billion and

[4] Verbatim first worlds

capital expenditure to be around 15 per cent of sales to fund increased investments into our mobile network. That concludes the formal presentations. I will now hand back to Peter, who will chair a question and answer session and Warwick and I will be very happy to take your questions.

MR KOPANIDIS: Thanks, Andy. First question comes from Raymond Tong. Raymond.

MR R. TONG: Morning, Andy. Morning, Warwick. Raymond Tong from Goldman Sachs. Just firstly just on the costs, a lot of the costs growth was driven by the investments in new businesses like Pacnet, Ooyala, Health and can you talk through maybe just the revenue and earnings contribution from those businesses and sort of give a sense of how much of the investments in those businesses are dragging down sort of earnings growth in the period?

MR PENN: Well, look, there's no doubt that we are investing for the growth, and that has an impact on EBITDA, but that's absolutely consistent with our strategy. We have a very clear strategy and the priorities that I outlined to achieve that, and, ultimately, the longer term aim is to achieve that earnings growth and sustainable earnings growth.

We need to recognise that strategy reflects the fact that we're going through a migration of becoming a provider of fixed line services to an access seeker with the NBN, and that has a material impact on EBITDA, and it's really encouraging that our other businesses are growing and adding value, that we're still growing EBITDA during that period, but Pacnet – I think Warwick gave the numbers in terms of its contribution. Health – we've talked about, Telstra Software Group. They are investments in growth in the future, which are negatively affecting EBITDA in the aggregate at the moment, but we're confident that they're going to be strong contributors going forward.

MR TONG: And just a sort of question on mobile – on just the postpaid ARPU trends, you talked about how there are sort of some headwinds, like lower excess data, international roaming, but also talked about some positive underlying trends about people moving up to higher access points. Can you maybe talk through the headwinds in excess data and international roaming, how those have progressed from the second half of last year into the first half and also whether you're probably seeing a bit of a subsiding in that impact into the second half of this year?

MR PENN: Look, what – let me – I'll just make one comment, and I'll let sort of Warwick go to the sort of – the ARPUs, etcetera. I mean, what I said at the Investor Day was that we're committed to maintain leadership in mobile, and we'll continue to invest and do what we need to do to achieve that leadership in mobile. We think we've got the best network.

We're very pleased where we acquired a further 235,000 customers in the half, and we will continue to invest, but in doing that, in investing and doing what we need to do to maintain leadership in a competitive environment does mean – that has some impact on some aspects of the economics of the business, whether it be ARPU or EBITDA or EBITDA margins, and if that's the case, well, that's the case, and, obviously, it's not for us to predict what the competitive dynamics will be going forward, but why don't I get Warwick to talk specifically about some of the ARPU trends.

MR BRAY: Yes. Thanks, Andy. Yes. So in postpaid handheld – and I'll talk about consumer here. Right. Look, one of the things that we did last year is we really wanted to take a leadership position on when customers come out of their data bundle what happens next, and we really wanted to give them worry free use of data, and that's why we introduced

Extra Data, which is the $10 for a gigabyte across our base as well as for our new customers, so in doing that, which is great for our customers, that did have an effect on the excess data charges that we were previously charging.

An important point there, as indicated in the speech, is that two thirds of our customers now are on those Extra Data charges, meaning that we're two thirds of the way through that migration, and that's great, and that revenue is going up, and, look, the other thing that's very encouraging is that as our customers are coming out of their existing contracts and recontracting, their minimal monthly commitment, which is the most important annuity revenue – that's going up.

MR KOPANIDIS: We'll take a question from the conferlink line. The first question comes from Sameer Chopra from Bank of America Merrills.

MR S. CHOPRA: Morning. I have two questions. One is in Telstra Retail – I was just wondering if you could talk about the trends within that. I have your revenue up at two per cent and then EBITDA was down, so I was wondering if you could explain what's going on in Telstra Retail, and the second one is excess free cashflow and franking credits, if you could walk us through – excess free cash is now sitting at about $2.2 billion. You'll have an excess or a surplus franking credit balance at the end of this year. How should we think about those things? Thanks.

MR PENN: Look, thanks, Sameer. Just a couple of comments from me, and I will get Warwick to add his comments too. Look, in Retail – I mean, I think the key trends are strong performance in fixed broadband, which offset declines – continuing declines in voice services. EBITDA growth – or, EBITDA, rather, in mobile was sort of broadly flat, but we continued to win customers in the market, which was encouraging, and that sort of was a consequence of some of the ARPU decline that Warwick has sort of touched on, and, of course, the cost to migrate customers to NBN and the high proportion of customers we now have on NBN is just a manifestation of what I mentioned a moment ago, which is essentially where we're moving to a lower margin environment for that proportion of the business, so they're some of the key trends.

Elsewhere in the business, obviously, we saw very strong growth in NAS and some further margin improvements there, good growth in International as well. So they would be some of the key points. On excess free cashflow and franking, I mean, the first thing I should say is that I do, of course, appreciate and understand that capital management is something that's really important to the market, and so that's therefore why we do spend a lot of time and try and provide the framework for which we make capital management decisions.

You wouldn't expect me to ruminate on those sort of until we've actually made those decisions and we're in a position to announce them, but cumulative excess free cashflow is definitely one measure that's really important to us. We take that into account as well as obviously the free cashflow we generate in the period and our franking balance as well, and we think about the full spectrum of capital management initiatives, which are available, whether they be buybacks on market, off market dividends, etcetera, but, I mean, obviously I can't say further than that until and unless and when we make the appropriate capital management decisions. Warwick, is there anything that you wanted to add?

MR BRAY: Just to add on the free cashflow point, we've reported $1.9 billion in the half. When looking to the full year, I'd encourage you to look at the balance of free cashflow between the first half and the second half. I believe in the last three years it's been around 58 to 70 per cent of the free cashflow has been generated in the second half.

MR S. CHOPRA: And, Andy, just on this NBN activation cost, which is weighing on the margins right now, could you give us a sense around how much does it cost to activate a customer on the NBN versus what you've historically spent on the copper products?

MR PENN: Well, there's two impacts, really, from, obviously, the migration to the NBN. The first is we now have 329,000 of our own customers that are basically on an NBN service, and as a consequence of that and us being an access seeker, the ongoing margin from those customers is lower than it would have previously been. In addition to that, we have slightly less than that, because we have more than 50 per cent market share in terms of NBN from our records, so slightly less than that same number again, obviously we no longer receive, effectively, the wholesale margin from, and then there's the cost of activation, which is the migration costs, which are sort of once off costs of switching customers across.

Now, we haven't disclosed that specific number, but I think we have previously said it is in the good numbers of hundreds of dollars. We believe we can bring that down quite considerably. It's not surprising in the early days of the NBN the sort of experience, whether it be within NBN and ourselves and retail access seekers working with NBN, that, that whole process and system will benefit from the experience over time, and, as I mentioned, in this period, that cost to connect came down 18 per cent. It's one of our key priorities to continue to make improvements there, but, look, it's in the good number of hundreds of dollars per customer, but we haven't actually disclosed the specific number.

MR CHOPRA: Andy, any chance you may be willing to talk about the Philippines and the timelines around that?

MR PENN: Well, look, the Philippines, as you know – I mean, it's a very interesting opportunity for us. It's a very attractive market, with only two operators currently. The quality of network experience the customers get in the Philippines is pretty poor if you ever actually go there. If you actually look at the sort of published speeds, it's one of the lowest around the Asia region and, in fact, globally, so if we are able to conclude a transaction there, we think we can make a big difference. But it's a large complex transaction, probably taking longer than we would like or had anticipated to sort of bring it to a conclusion and as I have learnt from experience in all transactions, you never assume they're done until they're done, but we're still in discussions.

MR KOPANIDIS: Thanks, Sameer. Next question comes from Andrew Levy, Macquarie.

MR A. LEVY: Thank you. Just one question from me. Andy, I was wondering if you could just talk to sort of the definition of maintaining leadership with respect to mobiles. Like clearly, you're 20 per cent ahead on share versus your competitors in the market and I think you got more than twice their EBITDA. So I'm just trying to get some concept about how you're approaching it in terms of that tagline of maintaining leadership as your competitors creep up on you and how you think about the trade off between holding share and maintaining price stability in the market more broadly.

MR PENN: Yes. Look, thanks, Andrew. I mean, look, I think the most important point is that I think our focus on network leadership and network importance has actually stimulated activity in the market for others to invest in their networks as well and we continue to invest and, if you like, double down on that investment and the fantastic thing about that is it actually is driving a much better experience for all customers, whether they're our customers or somebody else's. So I think that's a – it's a win-win across all sort of sectors. But our differentiation point is we believe we have the best network in Australia and that's going to become increasingly important.

As I mentioned in my comments, we saw a 42 per cent increase in data downloads literally December to December, year-on-year, and we don't see any abatement in that trend with further video and content with higher quality content, HD, 3D and you know augmented and virtual reality sort of technology is really under development now and around the corner. We think that's really important.

So how do we think about it? I mean, first and foremost, it's about the customer experience. We want the customers to have a better experience on a Telstra network. That's less buffering, faster downloads, accessing websites more quickly, fewer dropouts, fewer black spots. That's what's crucial. The VoLTE – Voice over LTE – that's a great example of that. That's a first that gives customers much quicker call setup speed.

So a lot of the leadership, Andrew, is around the metrics of the performance in the network and then it's also about the experiences that we can bundle into our plans as well so the Apple Music streaming experience is really important as well. Now, we believe that, because of that level of investment we make, because of the better quality, that commands a degree of premium and that helps us fund actually those investments.

So we need to make those trade-off decisions between maintaining our leadership both from a network perspective, but also from a customer and share perspective, as well as making sure that we are getting the right returns for our shareholders because we do put in a high level of investment and we get a great experience for customers and then, of course, the rest of it really is a function of the competitive dynamics in the market and how we respond to those, but they're the sorts of trade-offs we make.

MR KOPANIDIS: Next question comes from Eric Choi of UBS.

MR E. CHOI: Hey, Andy and Warwick. Thanks very much for the questions. The first question was just on guidance. So how do we think about the shape of the second-half revenues, given you did 9 per cent growth in the first half and you have reconfirmed mid-single digit growth. So it is just basically NAS slowing and FX that causes that second-half growth to slow and if that's the case, could you please tell what the first-half revenue growth rate would have been on constant FX and whether the EBITDA growth rate would have changed much from constant FX as well. So that's sort of the first question.

The second one was just on fixed data. So your net additions accelerated to 121,000. I know you did 101 last half. Just wondering how much of that is coming from an improvement in your customer retention rate as you implement things such as Telstra Air or if it's more of a case of NBN creating more churn opportunities because obviously you guys get 118,000 NBN versus – I think the market was 218 so clearly you're over-indexing. And then just the last one is a bit of housekeeping on NAS. Given it's a fairly material revenue contributor now, just wondering if you can give us an update on where those margins stood at this period. Thanks very much.

MR PENN: Why don't I give my voice a rest and let Warwick take those?

MR BRAY: Yes. So the two biggest differences we expect between the first half and the second half are exactly the factors that you set out, which is foreign exchange and the foreign exchange on constant foreign exchange in the first half, the revenue growth would have been about 100 – a bit north of $100 million less. So that's the foreign exchange impact. And I should note, it has a much smaller impact at the EBITDA level. And then the NAS is the second biggest factor. And as we indicated, we expect NAS growth in single digits in the second half as opposed to 32.7 per cent in the first Half.

In terms of our fixed data both on the NBN and on our traditional fixed data what our customers tell us about what they appreciated was the continued focus on the experience in the home. And that's important through our Gateway Max router to get connectivity in the home and our extenders. They also tell us that they enjoyed the experience of using Telstra Air, and so we have now got 500,000 customers on Telstra Air of which over 100,000 are mobile. And then also our entertainment packages. And so customers have now got a choice between the ever improving Foxtel offerings – Foxtel from Telstra, and also the entry level offerings through Telstra TV. Look, that's on the residential side, and on the business side there's business services that we offer as well.

MR KOPANIDIS: The next question comes from Craig Wong-Pan from Deutsche.

MR C. WONG-PAN: Hi. Three questions from me. Just – the first one on free cash flows and the weighting between first half second half. Warwick mentioned that there is a greater weighting to the second half. Could you just explain some of the drivers why that is the case and whether those will hold true in this financial year?

The second one: just on the mobile equipment sales. Quite a strong number, although you mentioned there's a lower number of recontracting events. I just wanted to understand some of the trends and reasons why equipment sales were so high for mobiles.

And then last one: on the point made around two thirds of postpaid customers are now onto those excess data plans. Just sort of curious why it's sort of taken this time to only get two thirds. I would have thought you could kind of get all your customer base onto those new plans. And then could you also elaborate on – so the – what proportion of business customers are now on those new plans?

MR BRAY: Yeah. So on the first half versus second half cash, look, one of the biggest issues is the Christmas trading period, in mobile in particular, and so that of course occurs in the first half of the year. And then, look, the other area on cash I point to is that that – some of the big growth in NAS in the first half of the year as well, which we said won't be replicated in the second half of the year. In terms of equipment and mobile hardware, look, there are a number of trends there. The first is: we think about a mobile hardware margin, which is the difference between what we sell the mobile hardware to our customers and what it costs us – and as you know, that's a negative number – but that number improved half on half, and that was a combination of a fewer number of mobile handset recontracting events and a lower unit subsidy.

Now, the 18.5 per cent increase in mobile hardware sales also shows a third effect which isn't an economic effect to us, which is that the unit cost of the handsets went up as a result of the foreign exchange movement and we passed that on to our customers, which you seen in our revenue line but is perfectly matched in our costs line. In terms of our, look, excess data charges, that is – I guess it just depends on your perspective. I actually think getting two thirds of our customers on excess data within a year is actually a pretty rapid rollout.

It's – a part of the issue is that some of our customers don't go into excess data, in which case they're not alerted to the opportunity through the SMS, which is the typical way – which is typically the way that they get onto the excess data. And, look, excess data is much more of an issue for the consumer segment than it is for the business, or GES segment. Hey, on the free cash flow – the first answer – I should also mention that inventory is higher at the half affecting the seasonality, particularly Christmas as well.

MR KOPANIDIS: Next question comes from Roger Samuel from CLSA.

MR R. SAMUEL: Hi. Morning, guys. Just a couple of questions from me. First one is on fixed broadband net adds, which were really strong in the half, but if we exclude the NBN, the net adds is around 3,000 subs, which was a slowdown from prior periods. I'm just wondering why that's the case. I thought Telstra would benefit from the declining on net customers at Optus, or are you seeing the bulk of your customer base is now migrating from copper to the NBN? That's my first question. The second question is on the ACCC. They have proposed a price reduction for backhaul as part of the domestic transmission capacity service. I'm just wondering what will be the impact on earnings if the proposed price reduction goes ahead.

MR PENN: Thanks, Roger. Hey, Andy. Sorry – who – can you just repeat that last question? I didn't quite catch it.

MR SAMUEL: Oh, yeah. It's just that the proposal from the ACCC to reduce the price for backhaul as part of the domestic transmission capacity service, or DTCS.

MR PENN: Right. Okay. Cool. Well, look, on the first one – on fixed broadband net adds your question was so – well, the bottom line is that we're winning in fixed broadband and we're growing market share across the board and we're growing market share in NBN as well. I mean, I think it's fair to say obviously as NBN increases its rollout and – or rather, that rollout accelerates then many customers are potentially waiting for that rollout to come before they perhaps make changes, but, I mean, I think that is the biggest driver. I mean, they're the dynamics, but the point is we're winning share there. On the ACCC – the backhaul pricing, I'm not expecting it – I mean, Warwick, you might comment.

MR BRAY: So we haven't quantified that one externally, but, look, what we can say it's much smaller than the FAD decision.

MR PENN: Yeah. It's not hugely material, Roger.

MR KOPANIDIS: Next question comes from Ian Martin.

MR I. MARTIN: Good morning, guys. Well done. Two questions, if I may. You've already explored this question of what's going on in mobile with the average revenues and margin, but I just wonder: the MTAS effect is mutual overall at group level, but you've got all of the revenue impact in mobiles and only half of the offsetting cost reduction; is that – is that right? So the – is that one of the reasons why you're getting that slight margin dilution on service revenue – mobile service revenue?

And secondly, Andy, as CFO you outlined that capital management framework, and particularly that second principle to seek to increase the dividend. On Friday last week there was an interview published in one of the local newspapers where you're asking shareholders to back you with new investment and so on. I just wanted some – just to make sure that between that desire to invest for growth and invest offshore that the capital management framework is still a priority for the company in dealing with shareholders.

MR PENN: Thanks, Ian. I will get Warwick to comment on the MTAS point in a minute, but can I reassure you that, yes, you're absolutely right. I was the author of the capital management framework in April of 2012 and it is important and is valid and is driving our decision making today. I think that the comment about asking shareholders to trust me as we invest in growth was the newspaper description of the interview as opposed to necessarily what I precisely said.

That's not a criticism at all, that's just – it's important to read the words that I said. But, look, the point is I think at a macro level as I mentioned earlier fundamentally the strategic – or the

context for our strategy is that over the next four to five years we do migrate from being a full fixed service provider to being an access seeker, and that has an impact on our fixed line business and we – and that reduces and has a significant impact on EBITDA of that business.

Ultimately, once there's a full – during that period, and once there is a full transfer to NBN, or rather, once that migration is completed. And that is why we are receiving, quite rightly, compensatory payments for shareholders in recognition of that. So our objective, our strategy and Warwick and the whole management team's number one sort of focus is: how do we continue to grow our business and continue to look for new areas of opportunity where we can leverage our strengths and invest in growth to ultimately offset that impact and achieve long term earnings growth for our shareholders, because that's ultimately the thing that will be able to drive our capacity to pay dividends. And the capital management framework is crucially important in the mix of all of that.

It forces us to maintain appropriate disciplines around dividend payouts and payout ratios, it forces important disciplines around making sure that over the longer term we're not borrowing to pay our dividends or borrowing to make capital – to undertake capital management initiatives, but rather to use the free cash flow that's either generated from the business today or has previously been generated, which is why we also provide the cumulative excess free cash flow number as a reference point to all of that.

So I can reassure you that I'm as committed to the capital management framework as I was when I – when we wrote it back in 2012. Warwick, I'm not sure if there's more to add on capital management. Probably – probably can't think of anything, but if there is, please, add it. And then on – do you want to cover off Ian's question on the MTAS impact?

MR BRAY: Yes, so on MTAS: that applies from the 1st of January, and it barracks – it applies mostly to mobile, and so it will be a reduction in our mobile revenue offset almost exactly by a reduction in the costs.

MR KOPANIDIS: Next question comes from Andrew Levy from Macquarie.

MR A. LEVY: Thanks. Just to follow up on the discussion before. I appreciate your answer on, sort of, how you're investing to maintain the network leadership. I just want to follow up on sort of how Telstra sees its role within the market in terms of the trade off between defending it's shares, because it looks like your competitors are coming back at you versus, I guess, trying to maintain a broader price stability in the market. The view a few years back was always, "We've got to be winning in all these segments", but I just want to get a feel for where the Telstra strategy is on that at the moment. Thank you.

MR PENN: Look, thanks, Andrew. And there's not an algorithmic sort of answer to this. I mean, I think the key point for me: how I think about our business is that first and foremost – the single most important priority for us is customer advocacy. We need to deliver a great experience for our customers, that's a network experience as a product and services experience. If we can do that, then what we continue to do is to continue to attract new customers. And ultimately over the longer term for the business to be successful we believe we need to continue to attract new customers and grow customers. In the context of that, obviously competitive dynamics is – that's – competition is good for customers, so that's the market in which we operate and we will respond to the competitive dynamics.

And Warwick sort of talked a little bit about how we're really encouraged that we're seeing underlying growth in the minimum monthly contribution as customers are moving to higher plans and - or moving them off of excess data charges, etcetera. So they're all important trends. I mean, obviously each individual pricing decision is made very thoughtfully and very

carefully at the segment level and at the product level and at the plan level, but they're – I'm not sure I can add any more sort of precision to it, Andrew, than that. It's about ultimately the longer term. We think it's important that we continue to attract customers, and also we will continue to see a premium for our services because we are ultimately committed to invest more to give a great network experience as well, and we just have to make the tactical decisions based on the competitive dynamics we see. Warwick, do you want to add anything?

MR BRAY: Yeah. Andrew, we see the opportunity for differentiation in mobile to be increasing, not decreasing. Look, the first is: our customers quite rightly are demanding more and more from the network. So it's not just the difference in the square kilometres. They want websites to snap back at them, quite rightly. They want videos to load faster and they want outstanding video experiences. So we see the network as being more important in the future, not less important, and we need to keep delivering for our customers. And that's our customers who are both residential customers and business customers.

I mean, you think about our mobile economics. More than half of our economics come from business customers. What our business customers are asking us for is integration with their universal communication, integration with their NAS. They're asking for new security. They're asking for MDM, MAM – all those types of applications are opportunities for us to differentiate, and we're in active conversations and we have great customer reference sites for that. And then on the residential side of things above the network our customers are very much appreciating the opportunity to participate in Telstra Air and more and more some of the content experiences that we're offering.

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

MR E. CHOI: Hi. Sorry. Just a follow up on your customer advocacy point, Andy, and the NPS score, which, I guess, is probably the best leading indicator we have for market share. You guys have said it's up three points overall, but I was just wondering if you could disclose how your mobile NPS has tracked versus competitors in the past few periods. And then just a follow up on the NAS, if you could give us a sphere on where the margins for that business were this period, that would be great. Thanks.

MR PENN: Let me get Warwick just to comment on NAS. I mean, the reason, Eric, we don't, sort of, publish the actual NPS score, and rather just the sort of increment, is because there's not really a common standard across the industry. Basically, sort of, just publishing the actual number really isn't very helpful, because then people are, sort of, comparing apples and – or, rather, they're not comparing apples with apples. So that's why we've got the, sort of, three point improvement. Overall the NPS in our mobiles business is good, and there's – it's a contributor to that three point – well, sorry it's a contributor to that three point improvement in the sense that it's – we've got a good result on our mobile NPS, but actually it's not algorithmically connected to the strategic NPS, if that makes sense. The strategic NPS is just a measure – if you just interview customers more broadly. It's not specific to products, but we do have NPS at the individual product level, at the individual episode level, at the individual process level as well, and NPS for our mobiles business is good. Do you want to comment on margins.

MR BRAY: Certainly. Look, on the margins in our network applications and services businesses, at the investor day we made the point that at maturity we see the opportunity for the EBITDA margin of NAS to be in the teens, and have a return on investor capital greater than our cost of capital. We're still in the growth phase of NAS. As you can see, it's a two and a half billion dollar business growing at 30 odd per cent in the half, and – and so we're in the stage of growing into those margins.

So our direct contribution margin – which doesn't take into account all corporate overheads – was 11 per cent in the half, up two points on the prior corresponding period. We're not – we haven't released the EBITDA, but we did say that the EBITDA is positive at the investor day, and it improved in the half as a result of the direct contribution margin improving, and operational leverage.

MR KOPANIDIS: Next question comes from Sameer Chopra, at Bank of America Merrills.

MR CHOPRA: Hi. Warwick, just had a question around costs, and then one, Andy, just around investment time horizon. So on costs, Warwick despite the fixed costs – the other fixed costs declining by, sort of, 1.1 per cent, the reported costs were up, sort of, 14 per cent. How are you thinking about this 14 per cent costs growth? It's quite a bit number, and I just want to get a sense around, is there any way to bring that back under control. You're doing the productivity initiatives, which are bringing the other fixed costs down, but the total cost is still quite high in the business, and I just wanted to get a sense around a strategy there.

And then the second one, Andy, is around what's the time horizon for this opex investment that the business is seeing? So you're investing quite significantly in the Ventures group. You're investing in Ooyala, Autohome, etcetera. What's, kind of, the time horizon when we should say, okay, after the next 12 months this investment will start to tail off, and we should be looking out for returns from these investments?

MR BRAY: So in terms of the costs, 3 points of the cost increase was due to the Pacnet acquisition, so that wasn't an organic growth in costs, and so we wouldn't expect that to be replicated. Then of the 11 points of costs, 5 points is absolutely as a result of our strategy, which is to invest in new growth businesses, and we expect – we absolutely expect a return on those investments which is 5 points of the cost increase. I just want to talk about the 1.1 per cent decline in our fixed costs. That's a result of our productivity initiatives, which are more than offsetting the inflation and wage growth in our fixed cost base.

The type of productivity initiatives that have delivered that, in particular, we were pleased to see they were ones that were better for our customer as well, and we would point to increased use of our digital properties. As an example, more and more of our customers are doing the assurance, which is when they're checking how their service is performing, they're doing that through digital means, as opposed to calling us, which is great for our customers, and also led to that cost improvement in our fixed costs.

MR PENN: And just going to your second question, Sameer, if I sort of think about the various different areas of growth investments, I mean, there's obviously growth out of the core, which we will continue to focus on and invest in, and that's obviously a more immediate impact. Then there's growth that we're achieving out of our network application and services businesses Warwick has, sort of, spoken about, and the focus there is both continued growth and margin expansion, but that's – already making a contribution. And then if I think about some of the other businesses, the Media business, that's adding value to the core business. It's helping us improving churn. It's helping us improve the attractiveness of the product by bundling in media propositions.

And so how we think about the economics of that is really – obviously it's not just about the direct revenue that we might receive from mobile AFL rights, as an example; it's also the impact that it has on our underlying business, which we achieve through, as I say, bundling through the AFL app, and also through Telstra TV. On some of the others – on Health, Health is already EBITDA positive, in terms of the aggregate of the businesses that we've bought in Health. We're investing some more money on top of that, which is really about

integration and technology build, and platform build. But it's in the tens of millions of dollars, not, sort of, hundreds of millions of dollars.

Software is EBITDA negative. That's a business which is a start-up, and so we would expect that needs to go through quite a full cycle of three, four years to get to being EBITDA positive, but it's sort of a function of how quickly you grow. Because the faster the business grows, in terms of acquiring new customers, that tends to – that's a good thing, but it can actually sort of delay the point at which you get EBITDA positive.

And Telstra ventures, because of the nature of the investments we make, are largely speaking don't impact EBITDA, because they're in the nature of minority investments, so they're not - equity accounted typically, or not consolidated. And then even when we sell them – which we have made a number of liquidations at a profit – that doesn't necessarily come through the EBITDA line either; it goes straight to the balance sheet.

But, look, I think the more strategic point is, is that we are looking to invest over all horizons, as we, sort of, go through this transition that I mentioned before, in terms of the impact of the NBN migration on EBITDA, but we're looking at making investments both in the immediate term, in the next couple – to drive growth in the next couple of years, plus in the, sort of, the three to five year timeframe, and five years beyond.

MR KOPANIDIS: If there's no more questions in the room we'll take our last question from the conferlink line. Andrew Levy is back for the last question.

MR LEVY: Thank you, and I greatly appreciate a third question. Just looking at the mobile trends, they've deteriorated pretty aggressively from 2H15 into 1H16, and, I guess, from mobile trends that we've observed previously, those trends, sort of, don't seem to bounce around too much. They tend to continue on once they start. Is there anything we should be thinking of, going to them, that specifically impacted this half in, kind of, a one-off nature, or coming up that would give us confidence that those numbers aren't turning negative in the coming half? Thank you.

MR BRAY: Yeah, look, Andrew, I think I've talked about some of what we see as the underlying strength, which is – in particular, it's the recontracting onto the higher minimum monthly commitment. Look, I think if you do look over the time period where you said, we actually have had waves of mobile growth. In particular, there was an acceleration two or three years ago over the previous period then, and so – yeah, so we do have waves in mobile EBITDA growth, and we see some positive underlying trends.

MR LEVY: Thank you.

MR KOPANIDIS: Thank you. That concludes the presentation this morning. Thank you for your attendance by joining our webcast, and have a good day. Thank you.

BRIEFING CONCLUDED [10.59 am]