27 August 2014

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 08 8308 1721
Facsimile 03 9632 3215

The Manager

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

ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2014 Financial results – correction of typographical error

I attach for release to the market, a copy of the revised transcript from the Full Year Financial Results analyst briefing (held on 14 August 2014). This lodgement corrects a typographical error that appeared on page 16 in the original transcript released to the market on 15 August 2014.

Yours faithfully

Damien Coleman
Company Secretary

Telstra Full Year Results Presentation, 14 August 2014 - Transcript

MR A. KEYS: Okay. Good morning, everyone. I'm Andrew Keys, Telstra's Head of Equity Investor Relations and on behalf of Telstra, I welcome you to our 2014 financial results presentation. As an important symbol of respect, it is our custom at significant Telstra events to acknowledge Australia's first peoples. Today, therefore, I want to acknowledge that we meet on the traditional lands of the Gadigal People of the Eora Nation and pay my respect to elders past and present. After the presentations from CEO, David Thodey, and CFO, Andy Penn, we will be taking questions from investors and analysts here in Sydney and through our conference call service. At the end of the analysts presentation, we will be having a media conference as well. Good morning and over to you, David.

MR D. THODEY: Thanks, Andrew. And let me just add my good morning and thank you very much for coming. It's great to have you here at our full year results for 2014. Now, the format for today will be similar to what we do nearly every year. I'm going to give a quick overview of the results and some of the highlights. Andy is going to come up and take you through the details then I will come back and just give you a bit of an update on how we're going in our strategic priorities and then we will look forward to taking your questions. So let's get right into the results.

Well, I'm delighted to say we've delivered a strong set of financial results and we've seen consistent earnings growth and increase shareholder returns. What's so pleasing is that we're really starting to see results coming from our consistent execution of our strategy. So to the results, on a reported basis, total income increased by 6.1 per cent to $26.3 billion. EBITDA grew by 9.5 per cent to $11.1 billion. NPAT, net profit after tax increased by 14.6 per cent to $4.3 billion and earnings per share increased by 14.3 per cent to 33.4 cents per share with good underlying growth. So the underlying demand for our products and services remain strong and you've heard me talk many times before about the rapid growth and connectivity and data usage and these trends have continued over the last year. Our product results are reflecting this.

Revenue in our mobile business grew by 5.1 per cent. Wireless business really does remain a benchmark across developed markets for service revenue growth and I think network innovation as well which is a great credit to the engineers at Telstra. Revenue and fixed voice, pleasingly, only declined by 7.5 per cent and fixed data revenue increased by 6.3 per cent. These are the strongest fixed results we've had for five years. And then in our network apps and services business, that's what we call NAS, it was up 27.8 per cent which is a great credit to the team. Also, our focus on customer service has seen our customer base grow with an improvement in our customer advocacy across all segments.

The aggregated improvement in this measure we call NPS, Net Promoter Score, was plus three points which is pleasing. We're seeing good growth and customer numbers. We now have 16 million [domestic retail] mobile customers and we saw a growth of 937,000 across the 2014 year. We've now got 3 million fixed retail data customers after growth of another 183,000 customers. And what's really pleasing about that is that 63 per cent of that 3 million or about 1.9 million of those customers are now on a bundled plan which is so important for us. And churn is at record [low] levels.

While we've been doing that, we've also invested in establishing new platforms for future growth. We continue to invest in innovation, networks and as – you will often hear me talk about customer service and experience. Last year, we spent $1.1 billion of capital in the wireless network and retaining and growing out network leadership. We now have 5.2 million 4G customers connected to our 4G network. Now, I just want to remind you, that's covering 87 per cent of the population. That 4G network is four times the geographic coverage of any other 4G network in Australia. So we continue to really invest in that network leadership. Our network leadership position will be further enhanced by our announcement to create one of the world's largest Wi-Fi networks and I will talk a little more about that later on.

We also established, which was – is very significant for us, this Global Enterprise and Services business and we're already building capability in that group as we look to service our enterprise customers here in Australia and across the region. We've continued to expand and extend our NAS business into Asia and we're seeing our resources really being focused into these new areas. We've continued to invest our longer term grown opportunities which I've talked about. EHealth and our Global Applications and Platforms group, I will talk more about that and that includes the acquisition we announced just the other day of Ooyala. We have been disciplined in our approach to capital and portfolio management and this is a really key part of what we're doing over the last 12 months.

This has included the sale of CSL, the sale of a 70 per cent stake in Sensis - that was the directories business and - as I said, the increase in the stake in Ooyala. Pleasingly, our reported free cashflow is $7.5 billion which has provided us this flexibility to really engage in portfolio capital management. So I think a strong set of results.

But now let me turn to the very important subject of shareholder returns. After increasing our interim dividend by half a cent in February 2014, I'm pleased to announce that the board has declared a final dividend of 15 cents, bringing the full year dividend to 29.5 cents. This is an increase of 5.4 per cent or one and a half cents for the 2014 year.

I just want to stress this is our second consecutive dividend increase. Pleasingly, EPS generated from our underlying businesses also continue to grow. After you take into account the moves from portfolio management, we have delivered EPS growth of 14.3 per cent. This is the third consecutive year of EPS growth and the fourth consecutive year of revenue growth. I'm also pleased to announce today a $1 billion off market buy-back. Now, Andy is going to take you through the details of that in a moment. We've spent a significant amount of time analysing what was the best thing to do and the board considers this the most effective way to return additional value to shareholders at this time. With our increased dividend and the $1 billion buy-back, we will return $4.7 billion to shareholders this year from our full year 2014 operations.

So I think we've got a clear strategy that we are very focused on implementing. We've delivered strong financial performance. We continue to take a very disciplined approach to portfolio and capital management and we are carefully investing to provide long term sustainable growth. So with that introduction, let me now throw it over to Andy who is going to come and take you through the detail of the financial results. So, Andy, over to you.

MR A. PENN: Thanks very much, David, and good morning everybody. In my presentation this morning, firstly, I will take you through the overall results and comment on how we tracked against guidance. Secondly, I will take you through our product and business lines performance. Thirdly, I will comment on our expenses and productivity. Fourthly, I will provide you an update in relation to our key balance sheet movements, capital position and portfolio management which you heard from David has been significant during 2014. And, finally, I will conclude with some comments in relation to guidance for 2015. Before I do take you through the results, just a couple of clarifying points in terms of accounting treatments.

As you know, during the year, we sold 70 per cent of our interest in Sensis and we're required to treat this business as a discontinued operation. The effect of this is that it will be deconsolidated in the current and prior periods and also from the operating results as well as the loss on sale of $150 million. In the case of CSL we completed the sale of CSL, our 76.4 per cent interest in May, and we have included the consolidated result both revenue and EBITDA for the 10 months to the end of April as well as the profit on the sale of $561 million which is in EBITDA result. Also finally following the liquidation of Sharp Point in China we've recognised a negative foreign currency translation reserve related to that aspect of $98 million. That's also in EBITDA this year.

With those clarifying points let me now just take you through the results in a bit more detail. Firstly, sales revenue was up for the year by 3.4 per cent to $25.1 billion. Total income was up 6.1 per cent to $26.3 billion. EBITDA was up 9.5 per cent to $11.1 billion. On a guidance basis excluding the impact of M&A activity total income and EBITDA were up 3.5 per cent and 4.7 per cent respectively. We've reported a small decrease in depreciation and amortisation of 3.1 per cent which relates to some minor changes to asset lives. EBIT was up 18 per cent to $7.2 billion, and net profit after tax was up 14.6 per cent to $4.3 billion.

Earnings per share grew strongly up 14.3 per cent to 34.4 cents per share as you've just heard from David. Commenting on some of our key financial measures accrued capex for the year was flat at $3.7 billion, and the capex to sales ratio was 14.6 per cent, a little under our guidance of 15 per cent.

Free cash flow grew very strongly up 48.9 per cent to $7.5 billion including the proceeds from the sales of Sensis and CSL, and as David has mentioned the board has declared a fully franked final dividend of 15 cents which is up 7.1 per cent on the 2013 final dividend, and this brings the total dividend for the year to 29.5 cents per share on a fully franked basis, up 5.4 per cent. Return on equity and return on invested capital both grew in line with our operating performance up 1.3 percentage points and 2.3 percentage points respectively. Gearing fell seven and half percentage points to 43 per cent recognising the very strong liquidity position that we held at the end of the year. Turning to sales, we saw continued growth in 2014 with sales revenue up 3.4 per cent to $25.1 billion.

We saw small declines in fixed media, data and IP which I will comment on in a moment. These were more than offset by continued strong growth in mobiles which was up 5.1 per cent, in NAS which was up 27.8 per cent, and in international[(1)] which was up 15.1 per cent. Sales revenue was supported by foreign currency translation gains of $179 million, and acquisitions of approximately $100 million. I will now walk you through our product and business line performance.

Our fixed products performed particularly well as you heard from David with revenues down less than one per cent for the year. Overall fixed voice revenue was down only 7.5 per cent, the lowest rate of decline in over five years. Retail fixed voice customer line loss slowed to 278,000 compared to 353,000 in FY13 and PSTN and ARPU declined at only 4.1 per cent.

This was assisted by improved marketing activity and loyalty offers aimed at retaining customers. We saw strong growth in fixed data. Revenue was up 6.3 per cent in total with retail fixed data up 7.5 per cent. Retail fixed data customers increased by 183,000 to three million, and ARPU was up just under one per cent to $55. The fixed voice margin fell two points due to lower revenues whilst the fixed data margin improved three points due to the continued revenue growth and productivity initiatives. Finally, we continue to see strong growth in bundles with customers up 259,000 to 1.9 billion representing 63 per cent of a fixed data customer based. Our entertainer bundle which continues to attract high customer demand during the year was a key driver.

Our mobiles business also had a very strong year. Overall revenue was up 5.1 per cent with mobile services revenue up 6.1 per cent. Post-paid handheld revenue grew up 4.2 per cent due to customer growth, low churn and strong ARPU. Pre-paid handheld revenue grew strongly up 20.9 per cent driven by the popularity of our "Cap Encore plans", and growth in data usage driven by the increase in smart phone penetration. During the year we added a further 937,000 domestic retail mobile services to bring our total subscriber base to 16 million. This included 5.2 million mobile devices on our 4G network, 3.8 million handsets and 1.4 million mobile broadband services. Our continued growth in mobiles led to a further two point increase in our margin to 40 per cent. Post paid handheld ARPU excluding MRO was up 0.7 per cent to 65 point – sorry, $65.80 driven by increases in domestic usage which more than offset price reductions in international roaming.

In Data and IP we saw a decline of 2.4 per cent as customer migration from legacy products on to IP solutions continued. Whilst we are achieving volume growth in IP access we are still seeing some price competition. IP access revenue nonetheless grew 3.3 per cent driven by IP MAN sales up 6.8 per cent. We also continued to increase our market share in IP access due to strong network differentiation including our market leading network intelligence services, and continued investment in IP value-added services. The ISDN decline of 8.4 per cent was due to a line loss of 4.7 per cent and a decrease in call revenues of 15 per cent. This was a result of customer migration to unified communications which as you will see when I talk about NAS in just a moment grew strongly. Finally, across the portfolio we maintained our EBITDA margins of 65 per cent as a consequence of strong productivity initiatives.

(1) Includes revenue from CSL, China digital media and Global Connectivity & NAS

In NAS we saw growth with revenue up 27.8 per cent to $1.9 billion. We have seen further new business signings and pull-through revenue from existing large contract including the Department of Defence. During the year we also acquired North Shore Connections and O2 Networks which added to our capabilities. Within NAS we grew revenue across all major product categories with cloud up 32 per cent, unified communications up 21 per cent and Managed Network Services up 56 per cent.

We also continued to grow the NAS portfolio. We have also been focusing on profitability. As we bring on new customers there are certain start up costs which are associated with this business, but as they mature we are able to strengthen the profitability of these contracts. We've also focused on customer management across the portfolio, and as a consequence we improved the profitability in the second half of the year.

Turning now to Media and firstly Foxtel. Foxtel's revenue was up 1.4 per cent whilst EBITDA was up five percent both driven by customer growth, ARPU growth and strong cost control. Total subscribers were up 5.6 per cent to 2.6 million. This was strongly supported by sales from Telstra.

Customer growth also assisted by further improvements in churn which was down 1.7 percentage points to 12.5 per cent. EBIT growth to 15.9 per cent was driven by lower amortisation of intangibles recognised for the Austar acquisition. Foxtel management has had a very busy year during 2014 building further IP-based offerings. These have included the further enhancements to the Foxtel play product which offers Foxtel's premium and cable and satellite service over IP and in March we launched Presto, the subscription video on demand service. Plans are also well developed for the launch of a new set top box IQ3, and also a triple play offering in financial year 2015. In terms of financial results that are consolidated into Telstra's books the distribution received was up 6.5 per cent to $165 million whilst cable access revenue was flat at $120 million.

We have seen a strong turnaround in the performance of our other media assets. Overall revenue was up 3.3 per cent, paid TV revenue and customer growth was driven by pay light services which included Foxtel on T-Box. Digital content services continue to decline driven by decline in legacy mobile products although this was partly offset by growth in subscription for sport and music services. In fact MOG, AFL and NRL apps all grew strongly up 76 per cent to 155,000 subscribers. Foxtel on T-Box customers grew 111,000 driven by the strong continued demand for the entertainer bundle, and finally we saw a 14.9 per cent increase in the number of movie downloads from Bigpond.

Turning now to international. International revenue grew 15.1 including $179 million of foreign exchange gains. We divested our 76.4 per cent interest in CSL in May for US$1.99 billion and CSL revenue in EBITDA has been recognised for the 10 months till the end of April. China Digital Media growth was driven by Autohome which I will comment on separately in a moment. GES International revenues grew 19.8 per cent or 14.5 per cent on a local currently basis to $678 million. This includes global connectivity and NAS revenue and was driven by customer growth from both enterprise and carrier customer business. We have broadened our product portfolio including IP exchange and Managed Network Services.

We listed our China-based online car market service operator, Autohome, on the New York Stock Exchange in December last year and whilst we did not sell any of our shares into the offering our post listing shareholding reduced to 63.2 per cent as a consequence of the dilution effect of the new shareholders we brought on. Autohome has continued to perform very strongly with revenues for the year in local currency up 65.1 per cent while EBITDA grew 60.3 per cent in local currency. In Australian dollar terms revenue was $250 million and EBITDA $129 million. Two of the key leading indicators of business activity for Autohome include dealer subscription services and the number of monthly unique users that use the site.

These were both up strongly with dealer subs up 86.3 per cent to approximately 14,000 and average daily unique users were up 14.4 per cent to 6.75 million. We also saw an increase in the average amount of time that our customers spend on the site, which is also a key measure, up from 15.4 million – sorry, 15.4 minutes to 16.3 minutes per visit.

Looking at the results now from a channel perspective Telstra Retail was up 3.6 per cent to $16.4 billion. Customer growth was driven by strong performance in mobile up 13.6 per cent and fixed data up 7.2 per cent offsetting the decline in fixed voice. Business was up 0.8 per cent driven by strong growth in NAS up 44 per cent also offsetting declines in fixed voice.

Revenues in the newly formed Global Enterprise and Services group were up 4.1 per cent. Enterprise and Government was up 1.9 per cent and we saw growth in NAS up 23.4 per cent offsetting weaker mobile service revenue from the lower international roaming rates. Telstra Global was up 17.9 per cent. Finally, Telstra Wholesale performed very strongly up 10.1 per cent as a result of NBN service revenues and growing pre-paid mobile Wholesale services.

During the year we recognised NBN related income of $640 million. This revenue has increased as we have completed the transit network build bill and in line with the NBN rollout. Income from Commonwealth Government agreements reduces the payments from the Information Campaign and Migration Deed were fully amortised during the year.

The Retraining Deed revenues of approximately $14 million will continue to be amortised over the next four to five years. Income from the infrastructure services agreement increased to $316 million. This was driven by the completion of the transit network and included exchange or acting dark fibre services and revenues from duct rental as well as from income from the sale of leading conduits which all increased in line with the NBN rollout. Similarly, the PSAA payments also increased in line with the NBN rollout.

Let me turn to expenses. Total expenses grew four per cent to $15.2 billion. In the period our additional investments in DVCs and business growth were $250 million and $350 million respectively. We also invested $110 million in new business initiatives and another $100 million in new businesses that were acquired through M&A activity. Against these increases our productivity and simplification program delivered a further $550 million in expense benefits for the full year.

Turning now to capital and portfolio management where, as I mentioned before, we have had a busy year. First I would like to take you back to the strategic framework for capital management which we presented to the market more than two years ago. This remains the key benchmark against which we will make all capital decisions. The framework has the joint objectives of maximising returns for shareholders, maintaining financial strength and retaining financial flexibility, particularly for investment in the future.

And these have all guided the decisions that we have made in the lead-up to these results. In this regard we continue to manage that balance sheet consistent with a single A credit rating. As we have just announced the board have declared a further increase to our dividend to bring the total dividend for the year to 29.5 cents per share fully franked, up 5.4 per cent. As I previously mentioned our capex to sales ratio was 14.6 per cent as we applied additional investments to the rolling out of our LTE network. We had very strong operating performance in the proceeds of the sales from CSL and Sensis. We ended the year with cumulative excess free cash flow of $4.7 billion.

Consistent with the last principle of the framework this clearly provides us with the flexibility for continued portfolio management and strategic investments. In addition we're strongly positioned to support the off market buy-back of $1 billion announced today and about which I will speak more in a moment. Before I do, though, let me just first comment on a number of the important strategic investments we have made this year to support longer term growth. This is in addition to the significant activity on portfolio management including the sale of the 70 per cent of Sensis and our interest in CSL and the listing of Autohome. In terms of new investments I have already mentioned NSC group and 02 Networks in our NAS business.

We also acquired 51 per cent of SNP Security in May which will be particularly important in the business sector, and in January we announced the entering into of an MOU to establish a NAS business with Telkom Indonesia. On Tuesday we announced the acquisition of Ooyala, as David has mentioned, which will be the foundation of our intelligent video platform. We also made a number of investments in our eHealth business including Fred IT and DCA eHealth Solutions. And finally we have made a number of smaller minority investments through our Telstra Venture activities which is where our initial investment in Ooyala originated from.

Let me now make some specific comments in relation to the buy-back. We continue to take a very disciplined and considered approach to capital management consistent with the framework I have just referred to. The Government's decision to move to a monthly payment system for company tax resulted in an additional one-off increase in 2014 to our franking balance of $258 million. We are very conscious of these franking credits and the value of them and the off market buy-back provides the mechanism to distribute them quickly particularly ahead of the proposed reduction next year in the company tax rate and associated franking rate to 28.5 per cent.

We have received a ruling from the tax office that for Australian tax purposes the buyback price will be treated as having a $2.33 per share capital component with the balance being a fully franked dividend. We will be issuing the booklet on the buyback in a fortnight to eligible shareholders. The buy-back is not being made directly or indirectly to any person located or resident in the United States, in accordance with the requirements of the law. Eligible shareholders will be invited to offer their shares to Telstra at a discount between six per cent and 14 per cent [to the market price]. The offer will be open until 3 October with the buyback price being set on 6 October. And we believe that this is an appropriate and valuating management initiative to further enhance returns to shareholders.

Finally, on capital management and our financial management just a couple of comments on some of our more detailed balance sheet and capital movements. I mentioned before our accrued capex for the year was $3.7 billion, broadly flat on 2013; free cash flow was up 48.9 per cent to $7.5 billion and this flowed through to the increased liquidity position at the end of the year with cash on hand of $5.5 billion. Net debt reduced 20 per cent to $10.5 billion and we've reduced our average borrowing costs to 6.2 per cent. The impact of the high liquidity is reflected in the reduction of our net debt and gearing ratio which reduced from 50.5 per cent to 43 per cent. Liquidity will reduce in the first quarter of 2015 to fund planned cash outflows.

These include the spectrum licence investments of $1.3 billion, the buy-back of a billion and of course the increased dividend of 1.8 billion. We also have debt repayments in FY15 of $2.2 billion. Of this amount we have already repaid two bonds totalling approximately $1.5 billion with a balance of $700 million due over the balance of the year. Finally, our average debt maturity reduced to 4.7 years at the year-end although that has increased again with the repayments that I've just mentioned.

Before handing back to David let me make just a couple of comments on guidance for 2015. We expect to continue to deliver low single digit growth in EBITDA and income, although, of course, in 2015 this will be offset by the loss of revenue and EBITDA from CSL.

In FY14 the EBITDA and revenue from CSL was just under $300 million and just over $1 billion respectively. As a consequence, therefore, for guidance purposes income and EBITDA both in FY15 on a reported basis will be broadly flat when one excludes the impact of the profit on the sale of CSL last year of $561 million. We expect the capex to sales ratio to be approximately 14 per cent and free cash flow to be in the range of $4.6 to $5.1 billion. That concludes my presentation so thank you and I will now hand back to David and join David for some questions once David has presented. Thank you.

MR THODEY: Thanks, Andy. And I think you can see from Andy's presentation the amount of activity that we've had over the last 12 months just in terms of capital management and driving the business. So what I would like to do now is just to spend a few moments giving you a sense of the activity we've achieved over the last 12 months around our strategic priorities. As you know, they are very simple. Firstly, about improving customer advocacy, driving value from our core business and, of course, growing and building new businesses or building new growth business. So what I thought I would do is just give you a brief update on each of these. Just give you a bit of colour around some of the things we're doing.

So let's go to customer advocacy. You know, it was nearly five years ago that we said customer service, customer advocacy is going to be our number one priority. To put the customer at the centre of everything we do and that does remain our number one strategic imperative. But when you think about customer advocacy you've got to think about, well, what does that mean? And to us it's about three things: improving customer service; it's about delivering better products to our customers; and, of course, making it easier to do business with us. So let me just briefly go through each of these three.

Customer service. Well, last year we have really been trying to focus on how we can improve the customer experience and there have been a few things we've done. You know, how – the big question is how do you provide personalised services scale? You know, so that when customers come and talk to us in our contact centres or come into our shops that they really feel like they're getting a personalised experience. So we made a big change. We said, "Look, whenever you talk to someone at Telstra, we're going to give you our name and our contact details." That has been a big change. Also, whenever you buy a new post paid service when you come into the shop, you know, we ring you back within 48 hours and say, "Hey, how is it going?" And, of course, this is all about providing a more personalised service and has been really well received.

All our people in our shops now have a business card and they can say, "This is who I am and please give me a call." Pleasingly, we have seen significant improvement in the NPS score across all those interactions we have with our customers, also what we call an episode. That's when you activate a service or you've had a problem. And we're going to continue focus in on that area because, see, if we don't, we can't really move forward. So we've seen in terms of our contact centres, an improvement of nearly 12 points in terms of the score our customer gives us in terms of NPS and in our field engineering area an increase of 13 points. So really great results. But also we've been doing some other things.

We've introduced the Telstra Platinum Service which now our consumer customer can access and end to end technical support from a Telstra technician in your home or over the phone or online. That has been a really successful service. Also in the small and medium business, we've enhanced that digital office technology product which really is world class. We've enabled it with telephony, mobile, fixed data services and this really is an innovative product. And in the enterprise customer area, we've extended our consulting capabilities. So now we can provide early consulting in terms of our enterprise customers in terms of understanding what they want to do but it's across cloud security, collaboration and customer contact centres and, of course, the managed network and integrated services.

And then our Thanks program continues to go really well. This is the first loyalty program Telstra has really ever run out in a consistent way. It's now a year old. This year, we had 1.6 million customers purchase a ticket with two million discounted movie tickets which has been sold and music and sporting events tickets and we're very grateful to the loyalty of our customers. So really great results there.

But that's not enough. You've got to deliver better products and we've got to keep focused on how do we deliver better products for our customers. And I just want to touch on this area because this is what we do every day. Our IP network truly is world class.

In fact, I saw just last night we were awarded an Asian first for unified communications and that is an Asian award which is just tremendous. So we're really, you know, delivering what we think is a world class service and in this area – not to get into too many of the technical details – but we are really pushing the limits in terms of providing functionality in that IP core network that allows our Enterprise customers to manage their applications and deliver better services to their constituents in their own enterprise organisations. In mobiles, we've introduced a large range of new plan types. You know, that New Phone Feeling which allows our customers a new phone after 12 months which is on the basis that they return their old phone if it's still in good working condition.

And, of course, the Stay Connected program that provides backup and device exchange and replacement service. We've got to keep innovating around innovative product solutions to keep our differentiation. In fixed network area we refreshed our entertainment bundle services and the take up has been very encouraging. As I said, 1.9 million customers on a bundle which represents 63 per cent of our fixed data customer base. Also, our fixed broadband customers can access a new mobile app that helps them resolve common connection issues without having to call our contact centres or have field technician and this degree of automation is really important as you basically enable the service you provide your customers and we've already got 20,000 using this app.

And we've also launched the free Telstra Wi-Fi Maximiser app. This is not the Wi-Fi network build but this enables customers to better understand the performance of their wireless network in their home and measure the signal strength of devices connected to the gateway. This is really important as it becomes more and more – as people become more and more dependent on their Wi-Fi connectivity. So product innovation leadership is really fundamental to our strategy.

Then being easier to do business with. The never ending task and we must continue to strive to be easier to do business with. And so we're taking lots of actions. We now have a dedicated moves team for consumer and small business customers which is improving the experiences at critical points. When you move business or you move home, it's sort of like a moment of truth and it's really critical we get it right. We aim for 100 per cent of our consumer moves to be handled by this team by the end of full year 2015.

We're also continuing to experience the of that critical moment when you get a bill and we've now got a great new video bill capability which explains the elements of a customer's bill by providing this personalised experience when you're wanting to understand how your bill has been laid out and this has proved to be very, very successful.

Also, we continue to invest in our digital platform so that our customers can interact with us online. Our industry leading app, the 24x7 app is now used by 1.7 million customers and it really is, to many people, the way that they can manage their use of their mobile phone. Also, other digital channels including Crowdsupport, Twitter and our Facebook 24x7 app. Also, many of our stores who are using Facebook continue to be rolled out. But we must continue to become a truly digital and a social company and, therefore, we need to be where our customers want us to be, 24 hours a day, seven days a week, 12 months of the year. So, now, 3 million of our customers receive an email bill and over 70 per cent of the payments are made online. 46 per cent of our services are now digital. That is a tremendous result from when you think where we were three years ago, we were probably about 10 per cent. So a great result there.

But what are these results really delivering? Well, let me take you through them. We're seeing improved customer advocacy across all segments, I said, and with an overall plus three point improvement. Most of our core products recorded improved NPS scores. Churn is at world leading levels, post paid handheld mobile churn improved by .5 of a per cent to 10.3 and, pleasingly, multi product holdings increased. As I said, 259,000 new bundled customers so this is all about customers buying more products from Telstra.

We will continue to put the customer at the centre of everything we do. We want to provide the best customer service and products over the best networks. Improving customer advocacy will drive better shareholder returns through a reduced churn, more customers, higher multi product holdings, resulting in increased revenue and profits. So really important. So customer advocacy, number one.

Secondly, it's how do we derive more value from our core business. This priority focuses on three things: customer and revenue growth; network leadership; and productivity. So let's talk about customer and revenue growth. We've already mentioned some of these numbers but let me just go through them.

During the year, we saw revenue growth across all key segments. With consumer growing by 4.6 per cent. Business up nearly one per cent and enterprise services growing by 4.1 per cent. Within the enterprise services group, our enterprise business grew here in Australia at 1.9 per cent, and the global connectivity and NAS business was up by 19.8 per cent. Mobile revenue increased by 5.1 and fixed data revenue by 6.3 per cent. These are great results as Andy has already taken you through, and we've also had very strong growth in customers so more people are choosing to do business with Telstra which is very gratifying, but that's not enough. We've got to continue to invest in network leadership. This is very, very important because the expectation of our customers is going up. They expect our networks to perform, perform well, and we must be committed to maintaining our network leadership position.

As I mentioned earlier we invested about $1.1 billion in capital in our 4G rollout which now reaches 87 per cent of the population. So now our customers can access 4G from Bunbury to Bondi and over 3,000 towns and suburbs in between. What's so important here is that we maintain our leadership. The 4G network must maintain its geographical supremacy. So it's four times larger as I said before than any other 4G network in Australia and the 3G network has over 1 million square kilometres greater coverage than what is claimed by the next largest Australian mobile network, but this is also about ensuring a quality experience for our customers so there are few call dropouts and more reliable data speeds so we are going to invest around about another $1 billion of capex in the mobile network for this year 2015 as we extend our mobile leadership.

We also believe in Wi-Fi so as you know we announced the $100 million Wi-Fi investment that will allow all Australians irrespective of whether they are a Telstra customer or not, access to potentially 2 million hot spots here in Australia across the country, and 13 million international hotspots within a five year period. We're really accelerating our rollout. We expect by Christmas to have switched on around 1,000 hotspots in metro and holiday areas so that's great. Our IP call network continues to be the largest IP network in Australia. It carries over a terabyte of data every second, and it really is world class. We've now invested nearly $1.5 billion to date in building that network, and our investment in the fixed network which is enabling us to grow our fixed broadband experience, and the number of customers continues to progress.

We have 600,000 new ASDL2+ ports. Roughly there's about 700,000 new ports we've built out over the year which allows customers to connect, and we're using top hat, and that great innovation about how we roll out and you continue to use the copper where we think it's commercially viable to do so. We also upgraded the cable broadband network in Sydney, Brisbane and the Gold Coast and Adelaide and a few parts of Melbourne so we continue to do more work on the HFC network as well. What the big message here is we believe networks make a difference, and we're going to continue to invest in network leadership both here in Australia and internationally.

The third area in terms of driving value from the core is around productivity, and I've got to stress productivity improvement is critically important to us, and will continue to be a focus for us every year for the – well, for the long term.

You know, as Andy said simplification is critically important. We saw expense benefits of around $550 million last year, but the gross value from the productivity programme was about $1 billion, but that's when you include revenue, capex reduction and avoided costs so we're still on track in terms of the billion dollars. Some of the productivity processes and improvements we've implemented over the past year are really important, and they're right down in the heart of the business, you know, a new approach to credit and rebates. In the past when things have gone wrong we have sometimes simply offered customers a short term win with a credit or rebate, and that's just not acceptable. You've got to get right down and fix whatever the root cause was in terms of the customer problem.

So resolving the customer issue continues to be our first priority, but we've got to get better at getting to the root cause of why there was a problem in the first place, and that's been a big focus for us. We have also launched new call matching initiatives which aims to ensure service calls are directed to the best agent so we can serve customers in a more timely manner. So first call resolution is really important, and we have seen significant improvements in how our contact centres are operating with reduced number of calls coming in and really great efficiency benefits, but we, you know, still have a lot of opportunity to improve in that area.

In the Network Applications and Services space the team have launched a new tool that allows customers to see the status of their order, you know, automating that process so they don't have to ring us, and also reducing the cycle in terms from the time they order a product to the time they actually get it. These are the sorts of things that really drive real value into the business. So we've improved the capital efficiency process as well, you know, capex to sales as Andy said was at 14.6 per cent in line with our guidance, but it's all about how you are effectively spending your capital so you're getting the returns.

Productivity must be a focus for our entire business. You know, last year we had 1600 redundancies over the businesses. We rebalanced different parts of the business, however, when you look at our total head count here in Australia it was, you know, actually increased here in Australia, and overall it was roughly flat. It is worth noting there that there were 400 people who joined us, an increase over the year, and if you exclude the impact of CSL that's where you see the head count was really about that. There were some few hundreds who joined us. So that's really important as we go forward as we rebalance the business. Productivity affords us the right to reinvest in new business opportunities, and we believe there is further scope to drive costs out of the business through process improvement and simplification. So driving value from the core is really important. The results to date are encouraging with strong customer growth and world class networks both mobile and data, and pleasingly our return on investment capital has almost improved by 100 basis points to 17.2 per cent with the core business contributing strongly to this improvement so a great result from our core business.

Now, let me turn to the last strategic priority of building new growth businesses, and this includes a focus on opportunity and Network Applications and Services, Asia, and other emerging opportunities. So let me briefly go through some of the results we saw in the full year 2014. Firstly, network apps and services. We saw strong organic revenue growth, and also we saw growth from acquisitions such as O2 Networks and NSC Group. We are very pleased with the rate of growth here, and when you get underneath it our cloud business, areas like our cloud business grew by 32 per cent. We also continued to focus on improving NAS profitability. As Andy said we saw an improvement in our profitability in the second half of the NAS business.

We're also expanding NAS into Asia, and we've invested into data centres and increased our focus on building our executive and senior management capability in the Asian region. Andy now has the expanded role to lead and co-ordinate the activity outside Australia, and I am delighted to reconfirm that Tim Chen is International President and Tim has a real focus on China and is doing a great job. We are realising value from our international assets as we mentioned with a successful listing of Autohome on the New York Stock Exchange, and as Andy said the 63.2 per cent share is valued at just under $3 billion. In the domestic market we continue to be leaders in IPTV. The number of customers using Foxtel through T-Box grew by 111,000 to 185,000 subscribers in total, and we've now sold 761,000 T-Boxes to date. Our domestic sporting codes are driving increased downloads, and subscription revenues with AFL app downloads growing by 51 per cent to 2.3 million and NRL app downloads increasing 76 per cent to 1.3 million in 2014.

Now, finally to emerging opportunities. Now, this includes areas such as Digital Media, eHealth and Global Applications and Platforms Group, our software division. GAP strategy is to build new growth businesses and take advantage of the considerable growth in the software driven business, and that includes applications and integrated services, and I am very pleased with the dedicated team that we've got there. In October 2013 we launched our start up incubator muru-D to foster Australian technology and innovation, and this week we announced the purchase of the leading global video streaming company, Ooyala, which is very exciting. We think this business has good growth prospects ahead of it. I should stress software is, by definition, a global business. Finally, in eHealth growth to-date has been through strategic acquisition and investments, partnerships and commercial relationships.

Key events were the acquisition of DCA Health Solutions, Medinexus and a fifty per cent investment in Fred IT Group and further minority investment in Health Engine. So we're very pleased with how that business is starting to shape up. These investments make Telstra a significant provider of eHealth Solutions through connectivity of health services, electronic health records and electronic prescriptions and will continue to be a focus for us as we go forward. These long-term growth opportunities are very important as we lay the foundations for future growth. We are already seeing early results of a strong revenue growth in NAS and International. As we said NAS revenue was up 28 per cent, International revenues were up 15 per cent. As I mentioned, there has also been strong results in our digital media business, with IPTV, and of course the movie downloads, so overall an encouraging report card. So in summary we are making good progress.

We are executing on the three – you know, the strategic priorities; improving customer advocacy, driving value from the core and building new growth businesses and these will continue to be our focus areas as we move forward. So before I conclude let me just give you an update on the National Broadband Network. And I just want to make a few comments in this area. Firstly, we share the Government's objective to finalise the agreements as soon as possible but no date has been set for completion. As you know, the current agreements are complex. Therefore the shift to a multi-technology model requires careful consideration as to how these agreements need to be modified.

The teams are working to get the material commercial issues resolved. To that end we have agreed the non-binding commercial framework around which revised agreements will be built and we are now working out the detail. The renegotiations are progressing well and the parties are working constructively towards a common goal. This is important as we will be NBN Co's largest customer and also one of their biggest suppliers. It's in our mutual interest to achieve clarity on exactly how the transition to a multi-technology mode will occur. We are committed as always to acting in the best interests of our shareholders and we are focused on maintaining the value of the current agreements, achieving certainty of outcome as soon as reasonably possible, and also minimising any additional regulatory risk. We are going to continue to keep our shareholders informed as the renegotiation process proceeds.

So, before I finish I just want to take a moment to thank all of our staff for their dedication and hard work. They are committed to delivering great customer service every day and I really do appreciate their dedication and their contribution to the business. My thanks also to the senior management team who have been tireless in their work to improve the business, always willing to try new things, to change and innovate so that we don't stand still, and also to create a culture where people enjoy working. It really is a pleasure to work with such a capable group of executives and I personally thank them.

So just to summarise 2014. We have delivered consistent earnings growth and increased returns to our shareholders with $4.7 billion returned this year from our full year 14 operations. We expect operating momentum to continue into 2015. Our focus on innovation, networks and improving the customer experience is positioning us well for long-term growth. Thank you for your time this morning and now we look forward to taking your questions. Thank you.

MR KEYS: I will take questions here in Sydney first from the floor and then we will go to the phones in a little while. Are you ready to go, David and Andy?

MR THODEY: Yes. Ready to go. Let's go.

MR KEYS: Good morning Sameer.

MR CHOPRA: Good morning. We have seen something with Telstra in the last couple of half years with some pretty solid operating leverage, how sales gets converted into profitability.

MR THODEY: Yes.

MR CHOPRA: And I was wondering, you know, as you look forward into 15 and 16 can you talk about the productivity initiatives a little bit more. I'm trying to understand what are the puts and takes that will keep labour costs perhaps under control and maybe put some downward pressure on the COGS ratio. That's my first question.

MR THODEY: Right. Okay. So labour and the COGS.

MR THODEY: Well, look, Sameer, the business is changing, as you know. You've got the core capital intensive network side. And that's where we are really trying to drive the real productivity improvements as we get more efficient and get rid of what we would consider failure related work and that's where you get really the labour savings. And that's a continued focus. We still think there's a really good opportunity to take more cost out there. However you've got to balance that, and I will get Andy to mention a little bit about the expense growth and how that breaks out in a moment.

But you've got to balance that as we are buying these new businesses and building the service related business which are very labour focused but less capital. So we think that roughly what you've seen this year is where we will be in the future but we've really got to be focused in on that area. So that's the first thing around labour and I will get Andy just to give you a little bit of the numbers underneath that four and a bit per cent growth in opex and really what the effect of underlying growth is.

In terms of COGS in general COGS used to be driven primarily from the mobiles business. But as you drive into the network services business you are starting to get into managing the complexity of equipment in the large enterprise area and even in some of the business area here in Australia and then also in the International network. So COGS is really important that we manage tightly and we only use it when we're driving our network carriage business. But in general, while we see some increase in that we think, it's manageable going forward. We've got a lot of focus on that in terms of driving good supply contracts when we buy and provide to customers. But it is a very, very important part of our business. But it's a good lever to use if you get the network traffic coming through. Andy, did you want to talk a little bit about that expense side?

MR PENN: Sure. Sure. Well, just simply costs increased around four per cent to $15.2 billion or increased around $578 million. There are a number of M&A impacts, foreign exchange impacts, impacts of the bond rate movement and the impairment of the foreign currency translation reserve which I mentioned before. That all adds up to about $250 million also taking account of the removal of the expenses from TelstraClear in the year. So they sort of take all of that. That's basically accounts for $250 million of the movement. The other just over 2 per cent is the underlying cost growth in the business which really is a consequence of partly the shifting business mix.

As you know we saw 28 per cent growth in the NAS business in this year. And, of course, at the corporate level – at the aggregate level the EBITDA margin improved a few basis points to 42.1 per cent. So overall we are still getting that operating leverage but there is a slight change in the mix of the business and about $250 million worth of various different costs which are sort of, as I say, FX and other related.

MR CHOPRA: That should continue into next year as well. You would expect that that sort of momentum in terms of productivity savings and what it does to your cost base and your margin should continue on a like for like basis.

MR PENN: Yes. Well, the mix will continue to change. I mean, our focus is obviously to grow EBITDA in the absolute level. And so I'm not making a prediction on the sort of the group EBITDA; that will be a function of how quickly things like NAS grow relative to mobiles relative to fixed broadband but we think there is continued productivity available in the business.

MR THODEY: And, Sameer, our aspiration is still, as I said before, is about a billion a year. The mix is the issue about how much is opex, how much is, sort of, avoided costs but that's our objective. And there's no question in my mind that there's still an enormous amount of failure related work and bad process in the company. I mean, we've made a lot of progress but there's still a lot we can tidy up and fix and so it's there for the taking. It's up to us to execute against it.

MR CHOPRA: Thank you.

MR KEYS: Good morning, Paul.

MR BRUNKER: Morning all. Paul Brunker from JP Morgan. A question on mobile, if I may. So the market's growth this half has been quite disappointing again for the second half running. Obviously, you guys have done well by taking some share but just any thoughts about whether we're seeing a pause in mobile market growth or is it the peak? But also have you seen any change in the half so far? I'm just thinking about JB Hi-Fi's sales in July being sharply down. I'm wondering whether you're seeing any inflection points happening? Any comments either on mobile, on take up of the data sharing product and the New Phone Feeling? Do you have any numbers or just indications on how they're going? And, finally, how you feel you're positioned on roaming and overage charges relative to the markets since there have been some moves by competitors in that respect?

MR THODEY: Right. Right. Okay. There were a few questions in there. Okay. Well, let me give you my view on the mobiles market because I'm sort of – I think I'm becoming an old campaigner, not maybe as old as some of the people in the room here, but look there's no question that post paid mobile subs were a bit slower in the last half. By the way, usually the second half is slower than the first. That's always been the way it is. However, yes, I've lived through these transitions. I can remember – you know, they keep saying 2G to 3G, "Oh, the world has fallen in. You know, mobile's gone ex-growth. It's not going to happen."

I just don't believe it and I will tell you why. So we keep on talking about mobile penetration being based on the population of Australia. It's totally fallacious because when you think about the connectivity to mobiles, you've now got increased – you know, think about every PC in the country which would become a tablet. You've got to think about every car. You've got to think about every bit of machinery. And suddenly the address book base goes out to probably 80, 90 million devices. Also, the assumption is that we only have one mobile device. Now, I know that not everybody has two or three or five, like me, but the truth is that you will have more than one device.

So when I look at the incredible capability of these 4G LTE networks and the rate of use of these devices, I see incredible opportunities. Now, is there pricing pressure, competitive dynamics for the market? Yes, there is but what's new? We've been here before and we will continue to be focused on network innovation, network leadership and I remain very positive about the long term prospects of the business. Now, in any quarter, in any half, we're going to get ups and downs but I don't manage the business for a quarter and a half. I manage it out over the next three, four, five years. We're already planning what we need to do by 2020.

And I just can't see why mobiles isn't going to continue to be a great business going forward. Now, I may be wrong but I don't think so because every time we think that we've sort of got to some point we then realise that there's another growth spurt. So that's where I'm at. So that was sort of the big picture stuff. Then I think you then went to data sharing. I don't have that data. Do you have that data?

MR PENN: I mean, I've got anecdotal on Stay Connected.

MR THODEY: Okay. Yes.

MR PENN: I mean, the attachment rates are pretty good – I think it's early days on data sharing plans.

MR THODEY: Yes. Yes. Look, we were pretty early in putting data sharing plans into Australia following the US experience. It didn't take off as fast as we expected maybe because you've got to get to that inflection moment when you're buying a mobile phone and maybe a tablet or, you know, when the mobile plan is terminating and how you do that. And so we've got to probably make it easier for customers but I think the long term prospect is that will be good. In terms of roaming, I just want to say no change to our strategy. We will continue to be competitive. We believe that we have a justifiable value differentiation because of the size, the network and the speed and the quality of the network but we will continue to be competitive.

And as the market moves, we will move with it and that's just the way it has been for three or four years. We're not going to let the market get away from us and that's just the way it is. So there will be movement and various elements of pricing and mobile phones as there has been for the last 16, 20 years and we will be there. So I don't really have much else to say on the roaming. It's – you know, I don't know that we need to get into the details. Does that give you a bit of a sense of where we are?

MR BRUNKER: It does, thank you. Yes. And any trends this half to date in terms of activity and customer activity?

MR THODEY: Look, it's early days. I mean, July was fine. I think there's some – I hear a rumour that there's some things happening in the future. I don't know the dates or anything but that sometimes has an impact about people's buying behaviours, too. I think. Is that right? I don't – it's only rumour, I think.

MR PENN: You might well say that. I couldn't possibly comment.

MR THODEY: Right.

MR KEYS: Right, James. We will take your question and then we will go to the phone.

MR JAMES FREEMAN: James Freeman from Deutsche Bank. You've been quite acquisitive over the last couple of periods and particularly with your partnerships as well. I'm just trying to get an idea of the return on investment that you're achieving or aiming for these acquisitions and how we should think about that going forward. Whether it's strategic or whether it is actually financial, the return you're looking for.

MR THODEY: Right. Yes, look, we – I think the first thing to be very clear about, we're very focused about where we are doing acquisitions. It's, you know, and we made this a bit of a long presentation but I wanted to be clear in terms of our strategic priorities. We're investing where we want to. We have strict investment criteria that we follow in mature businesses and so that will continue. However, there are some early stage businesses – like Ooyala, for example – that do not meet our traditional investment criteria but we think that within the total scheme of things that that's okay and we will do select investments in that area.

So I will let Andy comment a little bit more on the numbers but we still have strong aspirations. We aren't doing things to not get a return on our investment and we would not be doing that if it's not good for shareholders. So that's where – but it may take a few years to flow through but that's the nature of our business. Just like we're going to invest another billion in the mobile network this year, that's about future profits. The same with these acquisitions. Andy, do you want to comment any more on that?

MR PENN: Yes, I think all I would add is that we're looking across multiple horizons to growth. So I think in the short near term, we continue to see strong growth opportunity in the core business into the future. Mobiles was up five per cent and fixed broadband was up six per cent. NAS was up 28 per cent so strong growth there. But we're also investing obviously for some longer – in some longer term areas as well. As David mentioned, Ooyala is growing very, very fast. It's reinvesting in that growth so, therefore, it's not profitable at the moment so, therefore, it can't it can't meet the acquisition criteria because our acquisition criteria is being on the basis of earnings accretive but we believe the whole digital platform is both in television and video distribution and advertising is going to be an enormously attractive market and very fragmented at the moment. But other than Ooyala and our Ventures type investments, all of the acquisitions which we made this year did meet our acquisition investment criteria.

MR THODEY: And I was just thinking, Andy, I mean, go back to when we invested in Autohome and SouFun back four or five years ago. They didn't meet our investment criteria then but they,– and, look, they've done pretty well. Let's hope that we've – our instincts are good on this one too. We will wait and see.

MR JAMES FREEMAN: Is the time horizon about that, four to five years to meet the returns?

MR THODEY: Yes, we think three to five years, yes. Look, a lot of our thinking now is out to 2020 and, as you know over that period the NBN will roll out and so we've got to be thinking about, you know, how the business structure changes and the board and we spend a lot of time thinking about that while still running the business for today as well. Yes.

MR KEYS: Thank you. We will now take a question over the phone, please operator.

MR THODEY: Yes.

FACILITATOR: Thank you. Your first question comes from Fraser McLeish, Credit Suisse. Go ahead please.

MR FRASER McLEISH: Great. Thank you. Just two for me, please. One for David and one for Andy. David, just first on the comment on NBN that we have agreed the non-binding commercial framework. Can you just give us a bit of a better idea of what that encompasses? I mean, is that – have you agreed the broad value of the deal, would be my first question. And then just for Andy, on the buy-back. How should we think about buy backs going forward? Is this a sort of one off because of the franking credits really add – add a bit of excess free cash flow? Going forward, if you've got excess free cash flow, should we think that you're going to distribute it by a combination of buy back and dividend like you have done this year or is this year really a bit of a one off?

MR THODEY: Why don't I let Andy take the last one and then I will do the NBN?

MR PENN: Yes, sure. Look, I think what I would say is that we are taking a very considered and very thoughtful approach to capital management, and I think what the results have shown is that we have the capacity to both invest in the longer term, and also enhance returns to shareholders in the short term, and that – that balance is really important. As you know over the longer term we do believe that the best way to enhance shareholder returns is through increasing the dividend, to do that we need to invest and look for growth opportunities. As you say the change in government policy enabled us to – or basically brought the benefit of an additional $260 million worth of franking credits in 2014, and we felt that the best and most effective way to optimise the shareholder returns was to basically return that to shareholders quickly through the off-market buy-back so we haven't made any further decisions regarding future capital management initiatives.

We will obviously brief the market as and when we do, but I think what I would say is that we will continue to look for ways to optimise between those three priorities in our capital management framework which is returns to shareholders, financial strength and financial flexibility.

MR THODEY: Great. Fraser, look, there's not a lot I can say, but within the NBN manifesto or document there's a little bit of, you know, content there that I can just take you – refer you to, but look, let me just re-stress in these renegotiations our objective is that we must be kept whole, and that means that it should not be materially worse – we should not be materially worse off under any renegotiated arrangements than under the current definitive agreements. So the commercial framework within which the parties are negotiating acknowledges this objective, but final agreement is yet to be reached so there is no guarantee that this objective will be realised. The commercial framework anticipates a change in approach taken in respect of the copper and HFC network assets from staged decommission to NBN Co owning some or all of such assets. So look, that's really all we can say. That's really under the document that we put out, and we remain committed to looking after our shareholders.

MR McLEISH: Thanks, that's helpful.

MR KEYS: Thanks Fraser. Operator, next question off the phone, please.

FACILITATOR: Thank you. The next question comes from Richard Eary from UBS. Go ahead, please.

MR R. EARY: Morning guys. Just one main question, if you look at – you've obviously identified margin profiles for some of the core businesses, but given that we have got a significant amount of growth coming from the other businesses coming through which is probably now up to about $5 billion, on my calculations that the EBITDA we are still getting from those is still very low in this – in the sort of mid-single digits. I know Andy you talked about obviously improving NAS profitability, but when can we start to see that profitability lift, and I presume that is obviously key to the growth of the business as we go over the next two to three years? I am just conscious to try and get a bit of understanding or better understanding of that sort of EBITDA profile in that business, and when we can start to see a step change?

MR PENN: Richard. Andy. Look, I do expect that our profitability on our NAS business will continue to improve from here as we take advantage of operating leverage, and as I mentioned we did improve profitability in the second half of the year. On the other hand I wouldn't – I mean, we're growing very fast. I mean the performance in NAS last year was very, very strong. In cloud we were up 32 per cent. Overall we're up nearly 28 per cent, and what was encouraging in all of that as well was the annuity revenue in the NAS business grew 30 per cent, actually a little bit more than the total NAS business so we're not going to hold back on the growth of that business, and, of course, as we grow, and as I mentioned in my presentation when you bring on new contracts there is an element of transitional start up costs as you are bringing on major new customers which are about investing for the longer term for those. And as we mentioned, we will need to consolidate Ooyala so that's going to – that's making start up losses at the moment so there's going to be sort of those impacts as well. So I don't want to sort of be – I don't want to give a specific forecast as such, but, you know, I think specifically on the NAS business we would expect to continue to improve profitability from here as we – I mean, we're nearly at $2 billion worth of revenues.--

MR THODEY: And maybe Richard, let me add on what Andy said when we model the business, you know, you've got these new revenue streams, and as Andy said they are at the early stage. They are in a fast growth sort of period, but also they have a very different profile, you know, they're not as capital intensive therefore, you know, your EBITDA, EBIT mix is quite different so, you know, you're not going to get the same EBITDA margins you get off a network that has been around for 100 years, but also you're not investing as much capital so therefore your profitability looks pretty good, and the metrics.

So I think that's the other dynamic, but if you start to model out a software business, and this is one of the things I think we're thinking through how best to communicate, because when you aggregate the business you just see it at the top level, but a software business has very different characteristics to a capital intensive more utility like infrastructure business. So we're – we're going to continue to talk about how we can best sort of pull this apart for you, and so you can do some estimates because that's what we do as we look at the changing nature of the business going forward. But overall the return on investment we think looks really attractive on the basis you execute well and you pick the right areas, and therein lies the challenge for us which I think we're up for so I hope that gives you a little bit more sense.

MR EARY: Can I just ask two follow up questions?

MR THODEY: Yes.

MR EARY: The first one is just on capital intensity. I mean, you know, you're correct as we move to more software related parts of the business then capital intensity should drop.

MR THODEY: Yes.

MR R. EARY: You know, if you look in to guidelines of 15, is there any reason why that hasn't dropped particularly when the metro rings out of the NBN payment should probably now come out of the mix, so that's the first question. The second question just to go back to NAS, I mean, on a medium term basis once we get through this sort of step change in initial growth, is there a sort of margin target that you could share that you think is achievable within that business on a medium long term basis?

MR PENN: Just on the capital intensity, Richard, I mean, yes, it is absolutely correct to say that the capital intensity on a software business and some of the NAS businesses are different orders of magnitude to the – our core infrastructure and mobile's businesses and network businesses. I think the one thing though that I would say is that I think the extent to which our network assets reduce through the process of the NBN is something which is sort of overestimated or over-exaggerated in the sense that we still have very, very significant and strategically differentiated networks.

The core transient network for the NBN, our core mobile's networks, all of the back haul, our fixed networks, our IP access networks so whilst it is true to say that to some extent the roll out of the NBN does see us move some of the infrastructure we will continue to be, and have, very significant network and network investments. So at the organisation level, at the total level, you know, when you add it all up it doesn't move the capital expense, the capex to sales ratio at a very – at a material level, or perhaps, at the sort of level that you might otherwise anticipate if you hadn't looked through that in quite a bit of detail.

MR THODEY: And just to add on to Andy's comment there, when you – I mean, I can only work from my experience and Brendon's experience working in a services business. Look, if – and by the way these are indicative non-committed – please don't take this as a forecast. That's not what it is, but you would expect to get, you know, margins in the 25, 30 per cent level, but capex to sales is sort of sub-five. I mean capex becomes sort of like gold, and you would never spend a lot of capital so it's a very different mix going forward in terms of the services business, but that's sort of the rough sort of figures we would, you know, sort of model out, but please don't take that as a – as a forecast. That's sort of just indicative of what that – these sort of businesses drive out, but still, hey, very, very nice businesses to have, and you've got to manage your risk profile on the contracts very carefully too. Okay.

MR EARY: Thank you.

MR KEYS: Next caller, please.

FACILITATOR: Thank you. Your next question comes from Raymond Tong, Goldman Sachs. Go ahead, please.

MR R. TONG: Good morning, David. Morning, Andy. I just had a couple of questions. Just firstly on capex again. Can you maybe talk about the key drivers of capex next year. I think the mobile capex of $1 billion sort of implies that capex to sales for the rest of the business is running pretty high, and can you maybe just talk about what investments are going on there? Secondly, just in terms of the mobile's business we saw a bit of a slow down in ARPU growth in post-paid the second half following peak of growth in the past half. Can you maybe talk about what the trends you are seeing there?

MR THODEY: Yes, I will get Andy to take you through those, Raymond.

MR PENN: So, look, just on the capex side, I mean, there's – obviously, the mobile network is a key feature of where we're investing capex, but, you know, right the way across our portfolios is the – our IP access networks, in submarine cable networks throughout Asia in the fixed network. There will be some ongoing capex associated with NBN. I mean, obviously, in our IT systems as well. So there's not a material change in any of that. But as I said in answer to Richard's question, we still have very, very significant infrastructure assets which we will continue to invest in.

On the point about mobile ARPU, we did make a provision in the last quarter essentially for some early termination charges which we needed to catch up some provisions on which actually had a one off impact on that underlying ARPU. So, actually, if you took that aside, the ARPU, post paid handheld ARPU excluding MRO is, in fact, continuing the trend that Warwick shared with the market when we had our investor briefing a while ago which is around the two per cent. So it was just a one-off impact as a consequence of that provision.

MR TONG: Okay. Thanks. And just another question just in terms of the Sensis contribution or the voice contribution. You talked about in January that you expect about $70 million during FY14 and you may get another $100 million or so of EBITDA ongoing if Sensis operates as a – sort of a separate business. Can we expect that $100 million to fall, you know, largely into FY15?

MR PENN: Sorry, Raymond. What was the last – was it associated with – I missed the last point.

MR TONG: I think you mentioned in January that if Sensis sort of operates as a separate business, you're going to charge additional revenues and there will be some costs that you might have to bear going forward. Are you expecting to get most of those benefits in from fiscal 15 onwards?

MR PENN: Yes, that is correct. There's no change in our estimates there. The Sensis voice business we effectively retained, as you rightly out, was $70 million of EBITDA. That was – that business was declining and we would expect it to continue to decline, but nonetheless that's been retained and then the other benefits which, arose which were some of the services that we used to provide to Sensis, we didn't charge for. There are commercial terms on which we are charging them therefore, so for their normal telephony services etcetera. And the cost savings that we expected to achieve, which are associated with some of the central services and shared services that we provided from Telstra but didn't charge, we are in the process of working those through, so they will all flow through into FY15.

MR TONG: Okay. Thanks, Andy. Thanks, David.

MR KEYS: Okay. Do we have any other questions from the floor here in Sydney, Sameer?

MR CHOPRA: All right. Thanks for taking a couple of follow ups. First one, David, could you give us the sense around how ARPUs are tracking on some of the new 4G customers. I'm just trying to see, if, you know, we're now at about five million customers. You will get a pretty good handle, given that these are not early adopters any more what's going on with ARPUs there. And the second one was just in terms of your international business, the NAS business, I was wondering, you know, if you could give us a sense of the geographies you're operating in and what sort of services you're offering because I think in the last half year result, you had mentioned that you were making headway into Korea. I was just wondering if you can give us an update on how you're going in a different market. Thanks.

MR THODEY: Look, why don't I take the first one and then Andy has got the breakdown of – will give you an idea on the 4G and the mobiles. Look, on the international side, as I said, we've actually been building up quite a bit of capability. I mean, right across from – I mean, you go through south east Asia – I mean, strong, Singapore, Malaysia, you know, starting to build a little bit out in Thailand and Vietnam, but, you know, they are sort of more nascent markets, and remember we've been in these markets for many, many years, and this is what people forget. You know, in terms of – we're not rushing Myanmar. India is sort of a bit nascent. We've just hired a new country general manager there, but we think India does present good opportunities, but we've got to see how, you know, the political situation sort of rolls out there. We've been there for a long time and had good and bad experiences. We're starting to make good progress in China in the telco side. We've always been, you know, strong in that online business, but in China it's a more regulated industry in terms of POPs. So we're just setting up our new POPs there. We've built our cloud capability in Singapore, Hong Kong – that's going well. The Hong Kong market is well. We've opened the office in South Korea. That's going well. Japan is, you know, a pretty tightly held market, but the office there seems to be starting to go along. Again, these are sort of million, $2 million deals initially. And then, of course, we come down to the Philippines and – where we've sort of got a really strong presence. So that's sort of the landscape.

And, remember, that a lot of the business we also sign is from multinationals from Europe and US coming into Asia, and also working with the other big operators. We carry their traffic through the region. So that's been how we're going and we think there's good opportunity. As we build our enhanced unified comms services – I said we just got this Quadrant one, you know, top Quadrant rating which was really great. We will be able to offer more services to those international customers as well. So we had, what 1200 of our best Enterprise people all in Singapore for their, you know, kick-off meeting and getting them going and – because it's just getting that sort of business. So that's where we're going. Let me now throw to you on the 4G ARPUs.

MR PENN: 4G ARPUs. We haven't separately published our 4G ARPUs but it is – as you know, we don't price differently on 4G at all, but it is true to say, obviously, 4G customers tend to take higher data packs, higher service packs in their mobile offerings and tend to be those that are, you know, more smartphone penetrated, albeit smartphone penetration across the market is now north of 70 per cent. So we expect – and as you know, as I just mentioned, post paid handheld ARPU was up about two per cent across the year, so we expect that 4G dynamic to continue to be a supporter of ARPU growth going forward.

MR CHOPRA: Thanks. Thank you.

MR THODEY: And – yes. So I am told that it's strong from the front, but we can get some details for you soon.

MR CHOPRA: Thank you.

MR KEYS: Okay. I think Catherine is back on the phone, so we will try her again.

MR PENN: Okay. Hi, Catherine.

FACILITATOR: Thank you. We do have Catherine [Catherine Allfrey, Wavestone Capital]. Go ahead, please.

MS ALLFREY: Thanks. Sorry about that before. My question relates to what's happening with the average borrowing costs. I'm just interested that, you know, you're at 6.2 per cent. Most corporates seem to be refinancing at four. You've done some more refinances of – sorry, repayments and obviously you've got, with the buyback etcetera some new finance coming on in this quarter. Can you give us a feel for what you're doing that new debt at, please, and what we should expect in terms of FY15, that level? And there's one other question, sorry, on the interest charges. Something like $100 million of other in that interest income loan in FY14. Could you explain what that is, please.

MR PENN: Sure, Catherine. Well, look, I think for the – overall, we – our borrowing strategy tends to be around five years in terms of term, which we sort of manifests itself as a consequence of we tend to get ten year money, roughly. We try and diversify the portfolio as well in terms of sources. Being a large Australian corporate and large borrower, we have to go offshore for a very significant proportion of our borrowing and therefore we have to swap back a lot of that borrowing costs into Aussie dollars to make sure it's appropriately hedged, and that is what sort of drives the cost to some extent. In terms of margin, the last few deals that we've been issuing – you know, we've been issuing around 80 basis points over reference rates, so pretty strong. We just signed a revolver for – a syndicated revolver for one and a half billion at pretty attractive rates as well. So subject to what interest rates obviously do, we would expect that borrowing cost to continue to reduce as we roll over – as I mentioned, we've already just repaid one and a half billion dollars of longer term corporates, and we've got another $700,000,000 this year. But our strategy will remain broadly the same. The revolver gives us a little bit more flexibility compared to corporate bonds, but we will need to still source quite a bit of money from offshore just because of the depth of the markets. We did a $500,000,000 Aussie issue late last year, but it's difficult to get much more than five to seven year money, given the depth of the Australian bond market. So – in terms of the interest costs, there's quite a bit of movement in the interest cost mainly as a function of fair value of hedging which we should be able to eliminate moving forward with adopting a new accounting standard, but that's been one of the key drivers of the volatility. If you look at the actual underlying cash cost, you will see that that's reducing in line with the 6.2 per cent which is just – which we announced this morning.

MR KEYS: We will take one question and then we will close the briefing. Thank you, operator.

FACILITATOR: Thank you. I've got Sachin Gupta from Nomura. Go ahead, please.

MR GUPTA: Thank you, very much. I just had one more question on NAS in Asia, David, if that's okay. Just trying to understand what is your approach for expansion? Are you looking more for partnerships or outright investments? I guess I am just trying to understand why would Telstra be successful given we have a lot of the domestic telcos up here and they are all trying to do the same thing as well. Thank you.

MR THODEY: Yes. Well, it's a good question and one we have really looked into. Well, firstly you've got to remember that, you know, OTC really has one of the best core undersea cable and satellite networks, and now IP networks in Asia. And, you know, our points of presence are equal to any other operator in the world across the region. So that gives you this incredible base. So we still think there's good organic growth across the business. Now, the question is how do you grow – I mean, yes, there's the AT&Ts, the Oranges and the NTTs who are around the region – how do you find a way to grow your international carriage and your network services?

I think if you look at our capability, well, when we sit back and look at our capability, our leadership of creating value across the network, you know, in IP telephony, virtual contact centres, cloud computing, that you really provide a real leadership set of capabilities besides just the core carriage. That really differentiates you and there's not many people who are doing it. Now NTT, yes, or DiData and they have some capability. And that would probably be the only - what I would consider full service operator because the others really don't have that other capability. The other thing is that you, when you look at a market like Indonesia where we're taking, you know, Brendon is really leading this partnerships trade with Indonesia. You know, an enormous market, you know, not as mature as maybe some of a market like Australia or Hong Kong; just enormous growth. There's a lot of room for a lot of players. So you don't necessarily have to really be in arm to arm combat. There's just going to be big opportunities, so we're really trying to go where there's true market growth. I mean, the Philippines is the same, Indonesia, India is the same, even parts of Thailand, Vietnam, obviously China as well. Now you've got to be a little bit careful in China and, you know, finding, you know, the right way to participate in that market. So when, you know, 50 per cent of the world's GDP is going to be out of Asia by, you know, what, mid-2020s its sort of, well, you may not be successful but you would have to do pretty badly not to be successful.

So that's my rationale for that and we have just got to be really good at what we do. So good market growth prospects, good capability; I think Australians do do well in Asia. Now, that's not to say that you do do well but I'm saying that you play it well. We're not just coming in overnight. We've been here for a long time. Every market is different and we are going to take a long-term strategy so that's why I think that the NAS portfolio can do well in the region and I, for one, remain optimistic. But we will be disciplined about it, I'm sure. But, so to answer your question there will be some partnerships, there will be a lot of organic growth and we will do some acquisitions; all three. Okay.

MR GUPTA: Thank you.

MR KEYS: We have a media briefing commencing here at 11 o'clock which we will need to reset for. David, would you like to make some closing remarks?

MR THODEY: Yes. Well, look, we – firstly thanks for coming we appreciate your support. Look, there's really, I think the five big messages I would want to sort of leave you with; look, it's gratifying to see the strong financial results that has been a result of some really good work from the team. You know, great to return $4.7 billion to our shareholders so that's great, while still investing half a billion dollars in new growth businesses up to just last week. And we're going to continue to invest in our networks which is really, really important to us as we go forward. And we're going to continue to focus on customers, customer service and productivity. And they are the five big messages that, what we've got to do, and we remain – we like this industry. So thank you very much.