IT'S HOW WE CONNECT

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The Manager

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Dear Sir or Madam

Transcript from Full Year 2015 Financial Results – analyst briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2015 Financial Results analyst briefing, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

MR KOPANIDIS: Good morning, everyone, and welcome. My name is Peter Kopanidis and I'm Telstra's Head of Investor Relations. And on behalf of Telstra I welcome you all here today, both in Sydney and those joining via webcast to our 2015 full 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 that we meet on the traditional lands of the Gadigal People of the Eora Nation and pay my respects to elders both past and present.

After presentations from our CEO, Andrew Penn, and our CFO, Warwick Bray, we will be taking questions from investors, analysts, here in Sydney and on the phone. With that, I will hand over to Andy. Good morning, Andy.

MR PENN: Well, thanks very much, Peter. And good morning, everybody. Thanks very much for hooking in, for being here personally. Also for those that are hooked in via web live coverage of this event, and welcome to Telstra's annual results presentation for the year ending 30 June 2015.

In my presentation this morning, I'm going to cover three topics. Firstly, I will provide you with a brief overview of the highlights from this year's results, I will then hand over to Warwick Bray, our new Chief Financial Officer, who will take you through the financial result numbers in detail and, finally, I will then outline our progress against the implementation and execution of our strategy. Warwick and I will then conclude the session today by taking any questions that you may have in relation to results. So with that, let me turn now immediately to the highlights.

On a reported basis, total income excluding finance income for the year increased 1.2 per cent to $26.6 billion, EBITDA was down 3.5 per cent to $10.7 billion and Net Profit After Tax was down 5.8 per cent to $4.3 billion on a reported basis. On a comparative basis our results were of course affected by the sale of our Hong Kong mobiles business, CSL, in May 2014. And 2014 included the one off profit from that sale, as well as 11 months of operating revenues and profits.

So given that, and on a guidance basis, which excludes the one off profit on the sale of $561 million, total income excluding finance income increased 2.3 per cent to $26.3 billion, EBITDA increased 2 per cent to $10.8 billion and Net Profit After Tax increased 9.8 per cent to $4.4 billion. If we also exclude the 2014 operating results of CSL, total income grew 6.6 per cent to $26.3 billion and EBITDA grew by 4.5 per cent to $10.8 billion.

Let me turn to the other highlights. Earnings Per Share increased marginally 0.3 per cent to 34.5 cents per share. The board has declared a final dividend of 15.5 cents per share, taking the total dividend for the year to 30.5 cents per share up 3.3 per cent on 2014. Including the $1 billion buyback that we did in October of 2014, this year we returned $4.7 billion to shareholders.

Encouragingly, as we continue to focus on lifting customer advocacy, our NPS score improved by five points during the year. This built on improvements that we also achieved in 2014. Notwithstanding this, and whilst we have made progress, good progress, I know that we still have more to do. During the year, we continued to add new customers, with 664,000 retail mobile net new services and 189,000 retail fixed broadband net new services.

Our strategy remains unchanged and it is to improve customer advocacy, drive value from the core of our business and build new growth businesses. And I'm going to come back to this after Warwick has spoken about our financial results, and share with you how we have progressed against the delivery of this strategy during 2015.

However, I also wanted to take a moment to comment on how we're raising the bar at Telstra. Recently, I took the opportunity when speaking at CEDA as the new CEO to describe our vision, our vision to be a world class technology company that empowers people to connect, and if we're to achieve that vision we need to lift our aspiration levels further, to achieve world class customer

service, deliver world class technology supported by world class networks and delivery. It's not a change of strategy. It is an increase in the level of our aspiration.

And in this regard, we have already announced an increase in our level of investments into our networks to maintain our leadership. We will be increasing our capex to sales ratio in 2016 and 2017 to 15 per cent of sales, taking our total capex to over $4 billion a year. Our network is one of the biggest influences on preference and advocacy with our customers and that's why we have been investing billions of dollars for many years and why we will continue to do so. The increased capital expenditure investment will provide more than another half a billion dollars for mobiles. In conjunction with the $2.3 billion that we have invested in 2015, including spectrum, over the three years to June 2017 we expect to have invested more than $5 billion into Telstra's leading mobile network.

We will continue to expand 4G to 99 per cent of the population. We will increase our mobile footprint coverage to more than 2.5 million square kilometres, which we estimate is more than double that of our nearest competitor. We will build in excess of 750 new mobile base stations, increasing our total network to over 9,000 sites and bringing coverage to new communities in regional Australia. We will deploy in excess of 750 small cells, providing infill in areas of low signal strength. We will start rapidly deploying the next generation of LTE technology, including Voice over LTE, LTE-Broadcast and the next stage of LTE Advanced, which can deliver peak speeds, download speeds, of up to 600 megabits per second. And by fully leveraging our superior spectrum holdings, we will create new areas of coverage and new levels of coverage and performance leadership for 4GX.

And, of course, we're not just investing in our mobile network. Our extensive investment in our fixed and other networks will continue. Over the next two years, we will invest in our ADSL network, significantly increasing our exchange backhaul capacity and expanding our line quality across the country. We will also continue to build Australia's largest Wi-Fi network, which we commenced this year, Telstra Air, and I will talk about this more in later detail. To deliver world-class technology, though, we must have world-class networks and we are committed to having the best networks in Australia and ensuring that that's what our customers experience.

Let me now hand over to Warwick who will take you through the financial results in more detail, and I will come back and talk about how we're progressing against our strategy in a few moments. Thanks, Warwick.

MR BRAY: Thank you, Andy. And good morning to everyone who's joined us today either in person or via webcast.

The presentation this morning breaks down as: firstly the overall results and comments on how we've tracked against guidance and the prior period; secondly, the business unit and product performance; thirdly, our expenses and productivity; fourthly, an update on our main balance sheet movements, our capital position and portfolio management activity including acquisitions; and finally, some comments on guidance for FY16.

We now move to the overall performance of the business. Our FY15 results were consistent with our guidance across income, EBITDA, capex and free cash flow. On a reported basis, sales revenue for the year was up 2.9 per cent to $25.8 billion, total income was up 1.2 per cent to $26.6 billion and EBITDA was down 3.5 per cent to $10.7 billion.

We reported a small increase in depreciation and amortisation of 0.8 of a per cent. Our net finance costs fell 28 per cent or $268 million, $87 million of this was due to a combination of lower interest rates on reduced average gross debt and higher average cash balances, and the rest was due to a combination of lower debt market volatility and the implementation of accounting standard AASB 9.

Net Profit After Tax from continuing operations were down 5.8 per cent to $4.3 billion while basic Earnings Per Share was up 0.3 per cent to 34.5 cents. The reduction in EBITDA and Net Profit After

Tax on a reported basis was due to a rise in underlying performance offset by the effect of the CSL operating results and the one off gain on the sale, both in FY14.

On a guidance basis, we exclude the $561 million gain on sale of CSL in FY14 and exclude the impacts of M&A activity. On this basis, sales revenue for the year was up 1.9 per cent, total income was up 2.3 per cent, and EBITDA was up 2 per cent.

Our income on the EBITDA on a guidance basis and excluding CSL operating results in FY14, most closely represents our underlying performance. This is shown in the right-hand column. On a guidance basis and excluding CSL operating results, income growth was 6.6 per cent in FY15, and EBITDA growth was 4.5 per cent.

We will now move to other main financial measures. Here capex was down 2 per cent to $3.6 billion. It was slightly lower in FY15 due to the transit network build which was largely completed in FY14 as part of the infrastructure agreement with the NBN, and divestment of the Sensis and the CSL businesses in the prior year.

Our capex to sales ratio was consistent with our guidance at 13.9 per cent. On a reported basis, free cash flow was down from $7.5 billion in FY14 to $2.6 billion. FY14 included the one off gross proceeds associated with the sale of CSL and Sensis of $2.107 billion and $454 million respectively. Free cash flow in FY15 included the outflows of $1.3 billion invested in spectrum, and $1.1 billion related to M&A and associated transactions.

On a guidance basis our free cash flow was $5 billion. The difference between free cash flow on a reported and guidance basis in the current period was the $1.3 billion invested in spectrum, and the $1.1 billion related to M&A and associated transactions.

As Andy mentioned the Board has declared a fully franked final dividend for FY15 of 15.5 cents per share up 3.3 per cent on the FY14 final dividend. This brings the total dividend for the 2015 financial year to 30.5 cents per share which is 3.4 per cent higher than FY14 and the third dividend increase in two years. 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 in line with our lower reported Net Profit After Tax, down 2 percentage points and 0.8 of a percentage point respectfully. Gearing increased to 5.3 percentage points to 48.3 per cent principally as a result of our investments in spectrum, M&A and the off-market buy-back. Our credit metrics and balance sheet settings remain well within our target zones and we retain our sound liquidity position.

We will turn now to income performance across our business units. In summary we've seen strong growth across our business units. Total retail income was up 5.3 per cent to $17.3 billion. Consumer was up 6.5 per cent to $12 billion with growth in mobile and fixed data. Business was up 2.9 per cent to $4.9 billion due to strong mobile postpaid handheld ARPU and NAS sales, the latter benefiting from strategic acquisitions and strong performances across unified communications and cloud.

Global enterprise and services income grew 7.9 per cent, 3.3 per cent domestically and 24.2 per cent internationally. Overall we saw strong performance across key major business lines. Domestically, our enterprise mobility business returned to growth and our NAS business grew strongly. Internationally, we expanded our geographical presence and base of enterprise and wholesale customers.

Finally, Telstra Wholesale income was up 11.1 per cent to $2.6 billion largely due to an increase in NBN infrastructure receipts from completion of the transit network, and from the access stream in line with the NBN rollout.

I will turn now to our sales revenue performance by product. We saw continued growth in FY15 with sales revenue up 2.9 per cent to $25.8 billion on a reported basis. On an ex-CSL and ex-M&A basis, sales revenue grew at 6.3 per cent. The difference to reported sales revenue was the $1.045 billion of operating revenue from CSL in FY14, and the $255 million of sales revenue from controlled entities acquired in the current period. This slide shows the significant contribution made by our mobile, NAS and international businesses, all of which achieved double digit revenue growth in FY15.

I will turn now to the product performance in detail starting with the fixed line portfolio. Overall fixed product revenue was down 1.9 per cent for the year. Fixed voice revenue was down 7.1 per cent which is the lowest rate of decline in the last five years. Retail fixed voice customer line lost slowed marginally to 264,000 or 4.2 per cent compared to 279,000 or 4.3 per cent in FY14. This slowed line loss was assisted by marketing activity and loyalty offers aimed at customer retention. ARPU declined by 4.3 per cent, the same rate of decline as in the previous year.

Fixed data revenue grew 7.3 per cent with retail fixed data revenue up 6.8 per cent. Retail fixed broadband subscriptions grew by 189,000 to 3.1 million, and we also saw a 1.1 per cent improvement in ARPU.

Both fixed voice and fixed data had better first than second half revenue growth performance. The slowdown in the second half reflects the increased competition. The fixed voice margin fell by 4 points due to lower revenues while the fixed data margin was flat. Both fixed voice and data margins were negatively affected by the cost of connecting customers to the NBN and the ongoing NBN fees.

As at 30 June 2015, we had 211,000 NBN connections made up of 161,000 voice and data bundles, 9,000 data only services and 41,000 voice only services.

Finally, we continue to see strong growth in retail bundles with customers up 280,000 to 2.2 million. This represents 71 per cent of our retail fixed data customer base. Growth was partly due to the popularity of the new entertainer bundles released in May 2014 and further entertainment offers in the second half of the year.

Turning to our mobile's performance. Overall, mobile revenue grew 10.2 per cent with services revenue 7.2 per cent higher due to growth in handheld ARPU and subscriber growth. In postpaid handheld revenue was up 7.7 per cent due to customer and ARPU growth. Postpaid handheld ARPU excluding MRO was up $2.94 in FY14 to $69.51 in FY15. However, the second half postpaid ARPU was not as strong falling 63 cents on the first half as a result of higher data allowances, lower excess data rates, real time data alerts and reduced prices on international roaming.

Prepaid handheld revenues grew 13.1 per cent due to increased data usage and recharge values, and a 3.5 per cent increase in the number of unique users. Mobile broadband revenue was flat whilst machine to machine revenue grew at 11.9 per cent.

The EBITDA margin in 2015 was 40 per cent, the same as 2014. The positive influences on margin were ARPU and operational leverage. These were offset by increasing re-contracting costs. Looking at the half years, the first and second half EBITDA margins were both 40 per cent. One would normally expect some second half rise. The second half was influenced by the lower ARPU just mentioned.

During the year we added a further 664,000 domestic retail mobile subscribers including 113,000 post-paid handheld customers to bring our total subscriber base to 16.7 million. We saw an increase in churn year on year to 11.5 per cent, however, the second half churn was lower than the first.

I will turn now to data and IP. Here we saw a revenue decline 2.9 per cent as customer migration from legacy products onto IP solutions continued. While we're achieving volume growth in IP access, we're still seeing some price competition. IP access revenue, nonetheless, grew 1.2 per cent because of an increase in customer connections.

IP MAN revenue, which represents 67 per cent of IP access, was up 6.8 per cent with connections up 6.1 per cent reflecting customer wins and the demand for scalable high bandwidth. Slower ISDN declines were as a result of an access line reduction of 7.2 per cent, and a 1.2 per cent decline in ARPU. The line reduction was a result of customer migration to unified communications and fixed data products. Finally, across the portfolio our EBITDA margins of 64 per cent were modestly impacted by yield pressures in the IP market.

Turning now to network applications and services. In NAS we saw a third consecutive year of revenue growth in excess of 20 per cent. NAS revenue was up 23.2 per cent to $2.4 billion. We saw strong growth across all major NAS product categories due to existing and new contracts with pleasing contributions from recent acquisitions.

Managed network services grew by 21.8 per cent due to increased professional services and security activity, including growth from our recent acquisitions O2 and BridgePoint. Across managed network services and unified communications, our enterprise customers are adopting standardised offerings to a much higher degree influencing improved speed, quality and reliability for our customers, and lower costs.

Unified communications revenue was up 8.1 per cent as a result of increased IP telephony customer connections and cloud revenue grew 33 per cent due to infrastructure and data services, software as a service and professional services. Industry solutions revenue growth of 41.6 per cent was principally due to increased NBN commercial works and contributions from Telstra SNP Monitoring.

From a segment perspective we saw particularly strong growth in the business sector up 37.9 per cent to $553 million, and GES domestic up 18.4 per cent to $1.8 billion. As we start to build out our capabilities in Asia we are seeing strong growth, albeit off a low base, with International NAS revenues up 41.4 per cent benefiting from a weaker Australian dollar during the year.

As we continue to grow the NAS portfolio, we are also focussed on improving profitability. The NAS profitability margin continued its trend of improvement in FY15 influenced by the scalable standardised offerings, a lower cost delivery model and operational leverage. We remain confident that the NAS portfolio will generate a Return On Invested Capital above our cost of capital. On top of this, NAS plays a valuable role in complementing our carriage business. As indicated at our 1H15 results, we will take you through our NAS business and its profitability and returns at our October Investor Day.

Turning now to media and Foxtel. Starting with Foxtel where revenue growth was 1.9 per cent. Customer and subscriptions revenue growth was 2.4 per cent. This was partly offset by lower advertising revenue. EBITDA decreased 8.2 per cent due to higher programming, marketing and other support costs associated with new pricing and packages launched in November 2014, investment in Presto and Foxtel's launch of triple play bundles.

The 12.7 per cent decline in EBIT reflects the EBITDA decline and a steady level of depreciation and amortisation. Total subscribers were up 8.6 per cent or 227,000 to 2.8 million. This strong growth was underpinned by the new pricing and packages, lower churn and Telstra entertainment bundles. It is worth noting Foxtel's second half subscriber growth of 180,000 was particularly strong, which was also supported by Presto and the launch of the new set top box IQ3. Churn improved by a further 1.6 percentage points to 10.9 per cent. Churn has continued to reduce from 14.2 per cent in 2013 to 12.5 per cent in 2014 to 10.9 per cent in 2015.

In Telstra's books, the distribution received from Foxtel was down 24.2 per cent to $125 million reflecting our contribution to Foxtel's recently announced investment in Channel 10. Cable access revenue was relatively flat at $118 million.

Moving to our other media assets. This slide shows some improved performance in those media assets. Foxtel from Telstra grew by 9.4 per cent to $662 million and subscribers grew by 18.4 per cent year on year to 623,000. This growth was due to the increased take up of the Telstra entertainer bundles. The change in Foxtel pricing has had the following effects. The lower entry price has enabled us to deliver a more mass market Foxtel from Telstra proposition which has helped broadband and voice sales. Some customers elected lower cost packages. And more customers have appreciated the increase in content at every price point.

These changes, combined with marketing and channel efforts has helped to deliver both revenue and subscriber growth. The shift in focus towards Foxtel Premium in our bundle offers has impacted IPTV revenues which were down 23.4 per cent reflecting the lower T-Box sales in the period. Excluding revenue from T-Box sales, IPTV revenue grew 19.6 per cent reflecting the 19.5 per cent growth in Foxtel on T-Box and SVOD subscribers. Mobility and other content revenues were down 2.5 per cent because of a decline in legacy feature phone services, offset by increasing take up of NRL and AFL.

Turning now to International. We divested our interest in CSL in May 2014. When we exclude CSL, International revenue grew at 29.9 per cent in local currency terms. The China Digital Media growth is mainly due to Autohome, which I will comment on in the next slide. Global connectivity was up 14.8 per cent on a local currency basis as a result of the continued increase in wholesale carrier data and growth of retail IP solutions. Global connectivity includes most of the revenue from our recently acquired Pacnet business. International NAS revenue was up 38.9 per cent in local currency to $99 million.

In relation to Pacnet, we completed the acquisition in April 2015. Pacnet provides connectivity, managed services and data centre services to carriers, multinational corporations and governments in Asia, and will substantially extend our reach and asset base in the region. We are currently engaged in the integration process and we are on track to deliver previously announced cost synergies and use this asset to accelerate our growth in global connectivity and NAS.

Turning now to Autohome. This slide highlights the performance of our controlled entity Autohome. Our current shareholding in Autohome is 54.3 per cent. During the year we completed the sale of 6.4 per cent of our interest in Autohome for A$333 million at an average share price of US$42 bringing our net residual cost in this investment down to below zero.

Autohome has continued to perform very strongly with revenue growth in local currency up 79.3 per cent, while EBITDA grew at 48.4 per cent. In A$ terms, revenue was $495 million and EBITDA was $212 million. Revenue growth was because of deeper penetration into existing markets and expansion into more Chinese cities. This growth was supported by an exclusive 12 month partnership with leading Chinese search engine, Baidu, that commenced in July 2014.

Two key leading indicators of business activity include dealer subscription services and average daily unique visitors who accessed Autohome's mobile websites and mobile applications. These leading indicators were both up strongly with dealer subs up 37.1 per cent to approximately 19,000, and average daily unique visitors up in total 88.5 per cent to 9.8 million.

Turning to income from the NBN Definitive Agreements or DA. During the year we recognised NBN DA related income of $811 million, up 26.7 per cent. This included strong growth in income under the ISA and PSAA, which were up 63.3 per cent and 147 per cent respectively, due to the completion of the transit network build and increased progress of the NBN roll out. Revenue from the Commonwealth Agreements reduced 49 per cent following full recognition of the Information

Campaign and Migration Deed in the prior period. Within the Commonwealth Agreements, Retraining Deed revenues of approximately $10 million per annum will continue to be recognised over the next 3 to 4 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 DA revenue relating to the infrastructure access payments from the ISA, and in the prior period, sales revenue also included the Information Campaign and Migration Deed. Other income included the remainder of NBN DA income, including all income from the PSAA.

I will also highlight that NBN DA income doesn't represent all of the income that we receive from NBN Co. Outside the NBN Definitive Agreements, we also receive Industry Solutions revenue through the two commercial agreements, the Planning Design Services Agreement and the Joint Deployment Works Contract. And we receive additional sales revenue for wholesale ethernet transmission and facilities access.

Let me turn now to our expenses. Total expenses increased 4.6 per cent to $15.9 billion on a reported basis. This can be seen in the right-hand bar. On an ex-CSL and ex M&A basis, expenses grew at 8 per cent. This 8 per cent increase in expenses compares to 6.6 per cent income growth on the same basis. This can be seen in the grey bar on the right-hand side. Our productivity and simplification program for FY15 delivered another $525 million of expense benefits, broadly in line with the prior year of $550 million. Productivity is shown in the light blue bars under core and new business.

The expense benefits were achieved across all our business units and in many cases were the result of digitisation and simplification of our products and processes which led to better outcomes for our customers as well as cost benefits. Our productivity program has enabled us to re-invest in the business. We will now break down the 8 per cent expense growth in the following slide.

We think of operating expenses in the following way. Firstly, in the core our directly variable costs or DVCs. These are the direct costs of funding growth in the core business. With these costs, we are less concerned about their growth but we are very concerned with their efficiency. This means they should be directly matched with revenue or there should be a strong link to business growth, e.g. hardware or services revenue and costs. Growth in our DVC expense was the largest contributor to the overall increase in expenses, representing about 5 percentage points of the 8 per cent increase. Our DVCs grew at low teens per cent.

The three biggest contributors to the increase in DVCs were: mobile, where we saw revenue growth of 10.2 per cent and hardware revenue growth of 26.3 per cent; NAS, where we saw revenue growth of 23.2 per cent, including margin expansion; and Foxtel service fees, where we saw revenue growth of 9.4 per cent. So where we saw the largest increase in our expenses, this increase directly supported our fastest growth categories in the core.

Secondly, expenditure on our new growth businesses up the top. Increase in these expenses accounted for over 1.5 percentage points of the 8 per cent growth. This category had the highest percentage increase of the three categories. These expenses supported the 61.1 per cent growth in Chinese digital media revenue, including Autohome, and growth in Health and the Telstra Software Group.

So thirdly, our core business excluding DVCs. Our aim in these expenses is to use productivity approaches to offset underlying growth in inflation, wages and volumes. This category consists of less than 1.5 percentage points of the 8 per cent increase in expenses and its percentage growth was in the low single digits. This also includes the benefit in reduction in other costs relatable to favourable changes in applying AASB 119.

So summarising expenses, the largest contributor to the 8 per cent increase in our expenses was growth in DVCs which directly supported our fastest growing businesses in the core. We chose to invest in our growth businesses. And growth in our core non-DVC expenses was within our expectations with productivity dampening underlying growth.

Turning now to capital and portfolio management. The strategic framework that we use for capital management, which we presented to the market more than 3 years ago, remains that against which we make all capital decisions. The framework has the joint objectives of maximising returns for shareholders, maintaining our financial strength and retaining financial flexibility, particularly for investment in future growth. In this regard, we continue to manage the balance sheet consistent with a single A credit rating. With our solid operating performance we ended the year with cumulative excess free cash flow of $2.8 billion. This was after financing acquisitions which were in excess of $1.1 billion in FY15.

Before moving to some of our major acquisitions and investments, let me take the opportunity to highlight some of our key achievements that have contributed towards shareholder value creation in FY15. We raised US$1 billion in March providing us with additional debt funding diversification and an all-in fixed Australian dollars coupon of 4.27 per cent. Autohome also conducted a primary and secondary offering with the issuance and sale of shares, raising $116 million and $333 million respectively for Autohome and Telstra.

As we just announced, the board has declared a further increase to our dividend to bring the total dividend for the year to 30.5 cents, fully franked, up 3.4 per cent on the prior year. This represents $3.7 billion paid to shareholders in dividends in FY15.

We also completed the $1 billion buyback during the year, which was executed at a share price of $4.60. In addition, we've reactivated our dividend reinvestment program which will operate for the FY15 final dividend payment to be paid on 25 September. The election date for participation in the DRP is 28 August 2015. This reactivation follows continuing engagement with our shareholders, primarily our retail shareholders, whose feedback is important to us.

The DRP means that our shareholders can choose to reinvest their dividends directly into our shares, rather than receive a cash payment. We intend to purchase shares on market to satisfy the DRP in relation to the 2015 final dividend, although we have the discretion to issue new shares in the future. For regulatory reasons, participation in the DRP will be limited to shareholders with registered addresses in Australia and New Zealand.

Turning to some of our major acquisitions and investments in FY15. In our core we continue to invest to improve our capabilities and extending our capacity and presence in specific geographies. Pacnet is a good example of this. Other recent acquisitions in our core included: Globecast, a media-specific services and engineering provider; Neto, a digital commerce enabler; BridgePoint, an information, security and network integration provider.

Our JV with Telkom Indonesia, telkomtelstra, launched on 13 May 2015 with a suite of managed solutions aimed at domestic enterprises and multinationals operating in Indonesia. In our software division, Nativ was added in June to our Ooyala and Videoplaza acquisitions to build a leading global intelligent video platform.

In Telstra Health, over the last 18 months we've completed 15 acquisitions, investments and distribution agreements and built capabilities across the health system, including electronic prescription and dispensing, residential, aged and community care software, hospital information systems, telemedicine, health analytics and other solutions to help patients, providers and health professionals connect more efficiently. We're currently integrating these acquisitions and implementing new solutions to play our part in bringing the benefits of digital to health care.

Just as we've identified an investment in the technology trends in video and health, we continue to look for emerging trends in other areas. Through Telstra Ventures, we're continually searching for leading high growth emerging companies because that's where many innovations originate. As Telstra becomes a world class technology company, these investments in world class innovation are important to our future. Our Ventures team, based in Silicon Valley, Australia and China have made nine new investments this year in companies with technologies in mobile apps, cloud-based solutions, security, 5G mobile and a range of other innovations. Ventures includes companies whose products many of your businesses are using today, such as DocuSign, Box and Zimperium, for example.

Turning now to some of the more detailed capital and balance sheet movements in 2015. Overall our balance sheet remains strong. Our accrued capex for the year reduced 2 per cent to $3.6 billion. Free cash flow in 2015 was down from $7.5 billion in FY14 to $2.6 billion. Free cash flow in 2014 included the one off proceeds from the sale of CSL and Sensis.

Liquidity in FY15 was reduced to fund planned cash outflows, such as the spectrum licence payments of $1.3 billion, the buyback of $1 billion, the reduction in gross debt of $1 billion and an increased dividend of $3.7 billion, as well as to fund acquisitions.

Net debt increased to $13.6 billion. We reduced our average borrowing costs on our gross debt to 5.8 per cent with a closing yield of 5.7 per cent. We extended our average debt maturity from 4.7 to 5 years. The reduction in our yield will continue to be slow up until 2017 when our higher coupon debt borrowed post GFC starts to mature. We've been refinancing at much lower rates, as evidenced by our recent 10 year, US$1 billion issue in March which provides us with additional diversification of funding, and an all-in fixed Australian dollar coupon of 4.27 per cent.

Our gearing ratio at the start of FY15 was 43 per cent following the sale of CSL and the 70 per cent stake of our Sensis directories business in FY14. This was the below the low end of our target range in anticipation of significant planned outflows in the current year. Our gearing ratio has increased to 48.3 per cent at 30 June 2015, reflecting the increase in net debt. Importantly, all of our financial parameters remain at the conservative end of our target range to meet our criteria of a single A credit rating.

Finally, in relation to guidance. The guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds from the sale of businesses, mergers and acquisitions and purchase of spectrum. Capex to sales guidance excludes externally funded capex.

There are, however, a number of upcoming ACCC decisions that will potentially impact the wholesale prices, hence our FY16 reported results. The ACCC is consulting on new Access Determinations, including a draft determination on Fixed Line Services. The draft Fixed Line Services determination is of concern. We don't agree with the draft decision. We continue to make our position on this clear within the regulatory process. If the draft decision were implemented from October, the EBITDA reduction in FY16 would be up $90 million.

Coming back to guidance, in FY16 we expect to deliver mid-single digit income growth and low-single digit EBITDA growth. We expect to spend capex at approximately 15 per cent of sales. Lastly, we expect FY16 free cashflow to be in the range of $4.6 to $5.1 billion. Relative to FY15, FY16 free cashflow will be influenced by: an increased level of capex to sales of 15 per cent, and total capex in excess of $4 billion to fund increased mobile network investment; and higher working capital, partly due to increased receivables related to the timing of NBN amounts received under the Definitive Agreements, including the ISA and PSAA.

This is now the end of the finance section. Thank you, and I will now hand back to Andy.

MR PENN: Well, thanks very much, Warwick, for taking us through the results and I think that, very much, today's results demonstrate that our strategy is working. Customer advocacy has improved.

We continued to invest in, and drive value from the core of our business. And we have laid the foundations for growth in the future.

Now, at our October 2014 Investor Day, we shared with you our key objectives for 2015 in line with the three pillars of our strategy. And what I would like to do now is just take a couple of moments to spend some time looking at what we have achieved in 2015 in line with the strategy and I will address each of these in turn.

Now, one of the key areas of focus in improving customer advocacy is, of course, getting service right the first time. There's nothing more frustrating as a customer than not experiencing that. And where you can get it right first time for the customer, they obviously have a much better experience but we also see productivity improvements as well. So it really is a win win. And I am pleased to say that we are getting it right first time more often than ever before. In fact, our first call resolution rate, which is a key indicator because it measures the proportion of calls that are resolved in the first instance, without there being a need for a subsequent call to the same customer within a seven day period. First call resolution in our consumer and small business contact centres is now around 84 per cent and that's a steady improvement from 73 per cent three years ago.

Another initiative we introduced is designed to address a source of frustration for many customers, not just customers of Telstra, and that is being able to be reconnected to the person that you first spoke with if you have a follow up. And under an initiative at Telstra which we call "You Have My Name", every day thousands of our customers receive the contact details of the customer service agent that they spoke with and they can be reconnected with that service agent. It's a significant capability when you bear in mind that we receive more than 100,000 calls a day to our call centres. And since the launch of this initiative, we've had over one million customers use this service.

Of course, we know being more responsive to our customers also helps build advocacy. And in 2015, we re-engineered the speed and quality of our response to consumer and small business customers. And as a result of that, we have seen a 32 per cent improvement in contact centre response times, and the average time it takes to resolve a complaint has improved by 54 per cent.

Responsiveness, though, is more about just dealing with today. It's also about anticipating the needs and innovating solutions for the future. And we have begun working with our enterprise and government customers, to co-create technology solutions in a new model that best meets their needs.

Our new Customer Insights Centre in Sydney, and the existing one in Melbourne, provides an ideal setting for these sessions. They include workshop spaces, partner pop up installations, hands on technology demonstrations and customer collaboration areas, all with state of the art technology connectivity and business technology solutions.

Innovation is also important and we also run our start up incubator muru-D here in Sydney, which you've heard about. And in addition to that, we launched Gurrowa, our innovation lab in Melbourne just recently and that will facilitate co-collaboration and house the technology to solve real customer challenges.

Turning to initiatives to innovate in pricing and billing.

In November, we were the first to introduce data alerts for our mobile customers on a real time basis. Typically, across the industry, data alerts are delayed by up a couple of days, which is not very helpful if you're a customer that's actively using your service. We remain the only company in Australia to provide real time alerts in the important post-paid sector. Real time alerts that allow customers to better monitor their data usage. And in April, we also made it possible for our mobile customers to reduce excess data charges with the simplicity of data top ups when we introduced our Extra Data feature. Customers now have the option to acquire additional data in 1 gigabyte blocks when they reach their monthly data limit. And over 1.2 million customers are now using this service. Because,

ultimately, customers value peace of mind and these measures significantly reduce the risk of unexpectedly high bills.

Let me now turn to the second limb of our strategy: driving value from the core. Innovation in network engineering remains a key skill at Telstra and a key innovation and it's a key priority for us and has continued in 2015.

During the year, we started to roll out small cell technology to around 40 mobile sites. And as you heard me say earlier, we plan to extend this to another 750 during 2016. And it provides coverage in areas where it was not previously commercial to do so. So communities such as Yangan in Queensland and Blackwood in Victoria are now enjoying the mobile coverage that they didn't have before.

Our 4G coverage now reaches 94 per cent of the Australian population and, as I mentioned, it's set to reach 99 per cent this year. Our 4GX service is available in over 1,200 suburbs and towns.

In March, we also launched Telstra Mobile Protect, providing customers with parental control of their child's mobile browsing, calling and messaging.

And at our Investor Day in April this year, Mike Wright, who leads our network businesses, spoke to you about LANES, LTE Advanced Network for Emergency and Enterprise Services, a technology that we have developed on our LTE Network. This year, we carried really critical services on LTE for the first time at the G20 in Queensland, providing dedicated performance and bandwidth with wireless connectivity. We think this particular technology has huge potential.

In broadband, we have created Australia's largest Wi-Fi network. We launched Telstra Air on 30 June following trials earlier in the year. It provides access to thousands of Wi-Fi hotspots in Australia and more than 16 million hotspots overseas as part of an Australian exclusive arrangement with the global Wi-Fi provider, Fon. Telstra Air gives our fixed broadband customers the ability to access their home fixed broadband allowance at any of our hot spots.

The Telstra Air network already has over 3500 public hot spots and over 65,000 broadband customers have signed up to the service, to enable their home as a Wi-Fi [hotspot] on the Telstra Wi-Fi network. We have also signed nine councils across the country to our Public Wi-Fi partner programme, including regional and metro councils. So the Wi-Fi network will extend and expand significantly during 2016 and we believe this is a key value add to our broadband customers.

But in addition to the Wi-Fi network, we also during the year introduced Free Data Top Ups to our consumer fixed broadband customers. And all customers have now received at least double their previous data allowance.

We continued to upgrade the backhaul capacity of our cable and ADSL networks to mitigate against network congestion. And over the last two years, we've improved service to more than 1.5 million ADSL customers and 250,000 cable services. In addition, by the end of August 2015, we will have improved line stability for 2.2 million retail and wholesale ADSL customers.

Let me now add my comments to the productivity agenda which you heard from Warwick. As he has already outlined, we delivered $525 million in expense benefits during the year. These predominantly included expense benefits in the areas of increase in the efficiency of our customer service delivery operations, across field and non-field, particularly for ADSL installations; efficiencies in NAS to scale, standardise and delivery services and meet demand more quickly; a reduction in call volumes through improvements and simplification of our products, processes and systems; and the introduction of NBN self-install kits which have reduced the number of truck rolls.

We remain committed to our productivity program and, in fact, I want to increase the intensity of our focus on productivity and, in particular, looking at how we drive productivity into the bottom line results of Telstra.

Now, in addition to driving value from the core of our business model, the core of our business is also and does also remain an important source of growth. In particular, I'm pleased to announce we're actually accelerating growth in our business sector in our domestic business. For example, small medium sized businesses are now embracing connected tablets, and the Telstra apps marketplace leverages this development and includes cloud and security apps. We've introduced new apps to help customers mobilise their sales and field forces including apps such as Deputy, DocuSign, Box and Shoeboxed. So this is a really important area of potential growth – further growth for us in the future.

Turning to the third limb of our strategy, and in terms of building new growth businesses we have focused really on four key areas in the past 12 months.

The first of these is continuing to grow our NAS business as you've heard from Warwick. We will have more to say about the economic model on NAS at the Investor Day in October, but during the year we grew NAS business in Australia and offshore and enabled new cloud partnerships with some of the world's largest cloud suppliers, companies such as Cisco, VMware, Softlayer which is a subsidiary of IBM. Our cloud revenue has increased in 2015 by 33 per cent to $286 million. We also introduced a global delivery model into our NAS business and this allows us to offer repeatable customer solutions and scale and more efficiently. These initiatives mean we have been able to expand the range of NAS services, delivering innovative solutions for customers and providing greater proximity to our international customers.

The many awards we have won in our NAS business are a testament to the breadth and quality of our service. Just to mention a few over the past year we received the Global Cisco Award for Collaboration Partner of the Year. We received the Polycom Award for the Global Cloud Provider of the Year, and Frost & Sullivan awarded us its Asia Pacific Managed Services Provider of the Year award in recognition of our expanded services and capabilities in the region.

Turning then to our investments in Asia. During the year we substantially expanded our network services, and as you've heard from Warwick in April we completed the acquisition of Pacnet which owns and operates one of the largest submarine cable networks across the region with 113 points of presence across 70 cities globally, as well 29 interconnected data centres in 16 cities across Asia Pacific. Pacnet has substantially increased our scale and scope of international connectivity assets and has doubled the number of customers that we have in the region.

The Pacnet Business Services joint venture in China is particularly exciting because it offers IP VPN connectivity together with state of the art data centres in Tianjin and Chongqing. It enables us to provide seamless service offering to our customers in and out of China, and I'm pleased to announce we've already signed up our first two major global customers.

And in May, of course, we formally announced operations of our joint venture with Telkom Indonesia, telkomtelstra. It provides a suite of managed services aimed at the domestic enterprises and multinationals doing business in Indonesia. These include managed networks, software as a service, products such as Whisper, Ipscape, and Mandoe which is providing digital media advertising.

There's no doubt that our Asian business is growing in scale, in size and revenue and reputation and, in fact, in the recent Gartner report we were ranked number 1 for best submarine and cable infrastructure in the region and a leader in Ethernet WAN services.

We will continue to look at investment opportunities that enable us to expand our services to customers in the Asia Pacific region, and we will maintain a disciplined approach to portfolio management of our assets.

Turning then to media.

We're committed to providing the best entertainment products, including subscription TV, streaming video, leading sport and news content. We see content as an important driver of growth as seen in the continued take up of IPTV and PayTV, particularly through our entertainment bundles.

In July we announced the launch of Telstra TV, the next generation of T-Box with a combination of free-to-air, catch up TV and SVOD. It will offer customers the three leading SVOD services - Presto, Stan and Netflix, alongside a significant selection of TV catch up services, and the latest release movies from BigPond Movies. Telstra TV will add to Telstra's existing entertainment services which already include the T-Box and Foxtel from Telstra.

This year we also saw good growth in the number of weekly and annual subscriptions to our NRL and AFL apps. The total number of NRL subscribers increased 51 per cent and the total number of AFL subscribers increased by 14 per cent.

And finally, of course, as you will have just heard we have also announced that we will give Australian music fans a great music experience as the only telco in Australia to offer Apple Music.

The last 12 months has seen considerable activity to support future growth, and let me, therefore, turn to some of the longer term investments and the longer term initiatives that we're investing in.

The first, of course is Telstra Health. During the year, as I mentioned before, we formally launched Telstra Health which is aimed at supporting the technological transformation of the health industry in Australia. Health technologies now offer and include prescriptions, remote diagnostics, hospital information systems and health informatics.

We now support up to 750,000 electronic scripts per day through Fred IT's script exchange service. Health Engine, Australia's largest online directory has seen an increase of 738,000 bookings in the last 12 months.

Our recent joint venture with ReadyCare which is a GP telemedicine service that allows you to connect with a doctor through the phone or video and receive advice, treatment, diagnoses and prescriptions for many conditions that you would normally see a GP for.

The second longer term initiative is in intelligent video where we are building a significant platform using software and data analytics. Our investment in Ooyala and its acquisition of Videoplaza and Nativ during the year will enable us to build out these video capabilities. It means Ooyala's technology stack now extends to video production, post-production, digital content services, broadcast planning and media management for both OTT and on-air content. Ooyala has more than 550 customers worldwide including top broadcasters and media companies on every continent and those customers stream video and ads to more than 220 million unique users.

Because innovation is an important part of our growth agenda, and our Application Programming Interface or our API platform was also launched in June, and this enables developers to innovate off our systems and networks by using our APIs to create their own products. We already have more than 4,000 developers signed up.

So 2015 has been a significant year for delivering against the three strategic pillars. Some of the examples that I have provided demonstrate how our strategy of improving customer advocacy, driving value from the core, and building new growth businesses have helped deliver today's results.

Let me summarise, therefore, before I open for questions. We have a clear vision to be a world class technology company that empowers people to connect.

We have a clear strategy that has continued to deliver. Customer advocacy has been improved. We continue to drive value from the core of our business, and we have laid the foundations for growth in our new businesses.

On a guidance basis, which excludes the one-off profit on the sale of CSL, total income excluding finance income increased 2.3 per cent to 26.3 billion. EBITDA increased 2 per cent to 10.8 billion, and net profit after tax increased 9.8 per cent to 4.4 billion.

We also added as you heard from Warwick significant shareholder value through effective capital and portfolio management.

Looking ahead to 2016 we expect to deliver mid-single growth in income and low single digit growth in EBITDA, and we expect free cash flow to be in the range of 4.6 to 5.1 billon.

Thank you, very much for your time this morning. That concludes our presentations and Warwick and I will now be very pleased to take any questions you may have.

Thank you.

MR KOPANIDIS: So, if you could limit yourselves to two questions at a time, that would be great and introduce yourselves. So, Samir.

MR S. CHOPRA: Morning. Samir Chopra from Bank of America Merrill Lynch. Congratulations on a strong top line performance. I had two questions. One is you've articulated that your cumulative free cashflow is sitting at 2.8 billion and we can't see any sort of committed spend around the horizon, like spectrum payments, so I was wondering what are your intentions with the 2.8 billion and additional cashflow? If you could express a view there. And the second one is around operating leverage. So margin in the business came down by about two and a half per cent, you're only in the second half, and based on guidance for next year, it looks like there's a little bit more pressure on EBITDA margins in the business. I was wondering if you could talk about where you're seeing this vast expense growth, which products, which cost categories?

MR PENN: Thanks very much, Samir, and thanks for the acknowledgement of the strong top line performance. So, look, in relation to cumulative free cashflow and our investment program, well, as you know, I mean, our number 1 priority is to look for opportunities where we can continue to invest for growth in the future. We recently announced we will increase our capex to sales ratio, that's another $250 million, and there is, in fact, another spectrum auction later in the year with 1800 spectrum coming up but, look, more importantly, our focus is how do we invest for growth in the future. This year has demonstrated that there are significant opportunities to do so with the many acquisitions that we've executed and so that will continue to be our strong focus.

On the second one on operating leverage, I will make a couple of comments and then I will pass over to Warwick. I mean, I think the key point, the key point, is that we're focused on growing EBITDA at the aggregate level, one, and, two, we're focused on growing the margins at the individual product level as well. Of course, as time goes by and as our business continues to change and if we continue to expand, the profit margins on each individual products and the weighted averages does actually affect the overall company level margin and that's one of the dynamics that's occurring in 2015. But, importantly, we will continue to focus on growing EBITDA at the aggregate level and also the underlying product margins for each of the individual products that we're focused on. Warwick, would you like to add a couple of comments particularly also where we see productivity improvements in the future.

MR BRAY: Yes. So there are two things going on. The first is we're very pleased with the dollar value of EBITDA increase and then looking at the percentage EBITDA margin, there are two things going on. There's a mix effect where some of the faster growing businesses are lower margin than some of our traditional businesses and then there's margin changes in each of our businesses. And so, sort of, going through there, we've seen our mobile margin flat, year on year whereas we've seen NAS margin improve. Then, as I mentioned in the speech, if we sort of look at the overall corporation, we're really aimed – where we're aiming our productivity in particular is in the core business ex-DVCs.

MR CHOPRA: Just on the mix one, because you've got more NBN contribution coming in next year, that's why we had expected that perhaps margins would be more stable.

MR BRAY: Well, that would be one factor. We have more – I mean, obviously the rate and pace of the rollout of NBN is a function of how NBN go with that. But, obviously, as we migrate more business to NBN, that has an impact on the product margins as well.

MR BRAY: Okay. Thank you.

MR KOPANIDIS: Thanks, Samir. Ian.

MR I. MARTIN: Ian Martin, independent analyst. Well done on the results of a – so far, I guess, you've inherited a great business there and it's good to see you've got the company again to continue those key trends and the contributions in those different business areas. Just on the fixed line service, you say the underlying EBITDA margin on fixed was an improvement and, I guess, that would probably surprise a lot of people that you can improve that margin given the trends in our business and, I guess, the migration to NBN. But it was offset by upfront costs in connecting NBN customers. Now, are those costs, are they related to connecting your own customers, in which case should we expect that that will pick up quite significantly through the area head as the MTM strategy was played out by the NBN?

Or is that related to Telstra's broader responsibilities under the Definitive Agreements to help NBN connect customers, in which case there's a matching issue here because, of course, the revenue is elsewhere. And, secondly, just a question on guidance, qualify that for the, obviously, the access price issue and we will see how that plays out. Just a point to note, though. The ACCC is using a discount rate there of less than six per cent – applied leverage cost to capital, six per cent, a little bit under six per cent. And I note your gross cost of debt is actually about the same level so there doesn't seem to be anything there for shareholders in that access price regime.

But my question really is around – you've got that qualification there but we're also going to see quite a substantial change in the NBN model this year. We haven't seen the NBN corporate plan. It's due out fairly soon, I understand, but it's likely to have quite a significant change in the model we've seen previously from NBN. Have you factored that into guidance as best you can or is that potentially another change that might come up.

MR PENN: Sure. Well, look, thank you very much, Ian. And, firstly, thanks for your kind comments at the beginning. Look, on fixed line, I might get Warwick to add a comment as well. But to your point about NBN and activations and the cost of activation, it is more the – it's, I think – I can't remember what you said – I think it's the former not the latter in the sense it focused on activating our customers as we migrate customers, as we win customers in competing for NBN

MR MARTIN: It's a fairly substantial amount though, isn't it, for a relatively small number of customers so far.

MR PENN: Well, we have 221,000[1] NBN customers connected so it's starting to become more material and, of course, as everybody migrates to NBN, obviously, the initial costs of migration is we're still working through what's the most efficient to do that and NBN, obviously, have got their own plans to improve the efficiency of the rollout. And so I would be confident that over time, on a per unit basis, those costs will come down. But you're right, they're higher than we would like them to be at the moment. But, specifically, to your question, it relates to migrating to – migrating our customers or us winning customers – new NBN customers.

And to your question about is that factored into guidance - yes, that is factored into our considerations around guidance including the move to a multi technology model, specifically in relation to your question. I might just comment on the fixed access pricing determination that you just mentioned and then I will see if Warwick has something to add on the fixed line point. Look, on the fixed access price determination, I mean, firstly, it's a draft decision. We do agree – disagree with it quite strongly and we've made submissions in relation to that and we would be hopeful that those would be taken into account because the one thing that we feel very strongly and we believe is, in fact, a core principle, is that all the costs of providing this service is shared fairly across the industry and we don't believe that would occur if the decision was implemented as proposed. As regarding the weighted average cost of capital, I can only encourage you to go and speak to the ACCC about the weighted average cost of capital that they're using because we would have similar views to yourself.

MR MARTIN: I have done that anyway.

MR PENN: Any comment from you, Warwick…

MR BRAY: Just on the margins, just to clarify the numbers. So our fixed voice margin fell four points and the fixed data margin was flat.

MR MARTIN: Right.

MR BRAY: And then both of those – within both of those services, they were both negatively affected by the cost to connect customers to the NBN and the ongoing costs – servicing costs of those customers on the NBN. I would, however, mention that our unit costs are improving for that latter set of customers.

MR MARTIN: Okay. Thanks.

MR PENN: Thanks, Ian.

MR KOPANIDIS: Thanks, Ian.

MR C. WONG-PAN: Hi, it's Craig Wong-Pan here from Deutsche Bank. The first question just on your free cashflow guidance. The number or the range that you've guided was a little softer than what I was looking for and the point that you mentioned about, I guess, the drivers there, some of them would be your increased capex. But I was just sort of uncertain about the working capital that you mentioned around NBN. Could you just kind of explain that? And then the second question on the mobile churn. Good to see some sort of positive trends there with your annualised rates sort of coming down. Could you just explain, I guess, what you're seeing there and what you think is kind of driving that churn rate?

MR PENN: Sure. I might get Warwick to respond.

MR BRAY: On the free cash flow, the journey from EBITDA that sort of is important to get from our guidance EBITDA to our guidance free cash flow. The first is capex is higher this year than last year.

[1] Editorial note: Telstra has 211,000 NBN connections as at 30 June 2015

And then the next part of it is working capital, and there's two chunks of that. The first is, as we received money from the NBN paid quarterly in arrears, and so there's a working capital implication of that. Secondly, there's a growth in working capital implication from our business growing pretty fast, and that includes NAS and includes mobile, where we would expect more working capital there. It's just a timing thing.

MR WONG-PAN: So would that reverse of time, as you said, get more kind of stable growth rates, I guess, kind of get working capital relief, then?

MR BRAY: Yes, in theory one would expect that on the churn.

MR PENN: In theory, but in practice …

MR BRAY: Yes.

MR PENN: …as we keep growing, which is the whole reason why .....

MR BRAY: Yes. If we accelerate. So on the churn . Aabout our churn, it is low relative to the – to what we see in our international peers, and, yes, we're pleased to see that it came down in the second half. Look what's going on there is a tale of three different segments. So our churn is actually lowest in the mass market segment, and it's actually pretty rock-steady and has been pretty rock-steady. And so where we see a little bit more volatility in churn is in business customers. And to some extent it's what's going on, but to some extent there's some churn that isn't really churn – so for instance, employees leaving one company to another, sort of thing – and that's what leads to a bit of the volatility.

MR PENN: Thanks .....

MR KOPANIDIS: Roger.

MR SAMUEL: Roger Samuel from CSLA. Two questions for you. First one, just looking at 5G mobile, which is coming in 2020, I presume that you will need to – you have to spend some capex to prepare for 5G. How much of your mobile capex, which increased recently, is going to be allocated to 5G? How much should we expect in the next two to five years in sort of capex spending for 5G? And the second question is on data and IP and business segments. We have seen some small players such as Vocus, Amcom and TPG competing in that space, offering lower prices than Telstra. I'm just wondering how you see the competition and how would you respond.

MR PENN: Yes, no, look, thanks very much, Roger. Look, on 5G, I mean, as you just pointed out, I mean, most of the industry and the internet industry international bodies in the global board of mobile operators really predict 5G being rolled out around 2020. And so those of you that want to speak to Mike Wright, he's here. He leads our network business and is actively involved at a global level in some of these considerations and can certainly provide more colour on that. But essentially what 5G is trying to solve for is two things.

One is the very significant increase in demand for data as people use their services increasingly for content, and its content itself requires more data as we move to 4G definition, high definition downloads of content, gaming. That's driving enormous increase in the volume of data across the network. And I think globally it's something around 70 per cent per annum, which would not be inconsistent with what we experience. So that's one dynamic. The second dynamic is this whole world of the internet of things, which really just refers to the fact that increasingly we're seeing devices connected as well as just phones and tablets. So cars, sensors, pieces of aeronautical equipment, engines. In fact, you can imagine a world in 2020 where almost anything that could be connected will be connected. And the dynamic with the internet of things is you've got a very significant number of

devices connected, on the one hand, but perhaps many of them have actually got relatively low data use and actually a low number of or low times of connectivity.

And so 5G is trying to solve for those two things. There's a lot of technology, innovation and development that's going on around the world at the moment to design for that. So to your specific point about how much is it going to impact our capex, well, to be honest, it would be a little too early to predict that. But suffice it to say, we already invest very significantly in any cutting edge technology. That's why we're bringing LTE Advanced, why we're bringing LTE Broadcast, why we're bringing LTE aggregation. So we will – we are and we will continue to be at the leading edge of technology innovations in our network to basically support our aspiration to be a world-class technology company.

So I don't think I can provide you with any real colour in terms of the numbers. It's a long way away, but that's where 5G is heading, and I can assure you we are right at the centre of the innovation and the cutting edge of those discussions. On this data and IP question, the important point is that we are continuing to win customers in data and IP. You know, there is pricing – competitive pricing in the market, as there is in every aspect of our market.

But our strategy has been and will continue to be we provide network application services, and you've heard me talk about the number of apps that we had in the app marketplace that we've actually started to introduce to our business customers, and small and medium-sized businesses are starting to see and look to how they can leverage the cloud, how they can leverage technology to drive efficiencies in their business. And we see that as an important opportunity for us, and we can provide that in conjunction with our carriage and core network connectivity. Because all of this technology innovation fundamentally relies on high-quality, reliable networks, which is fundamentally the focus of our business. So we think we're well-placed in that regard. But, Warwick, I'm not sure if there's anything you want to add on data and IP.

MR BRAY: I was going to add something on the mobile.

MR PENN: Please do.

MR BRAY: So as we've gone through each of the evolutions, 1G to 2G, 2G to 3G, 3G to 4G, each of those evolutions has become simpler, and so 5G will be even simpler than 4G, with much of the upgrade being software. And also, many of the 5G advantages we're going to see along the way with the evolution to 4G, so it's more gradual, again, than 4G, which was more gradual than 3G, and that's true both for what we have to do and the capex implication. And just the other thing is that all the things that we've been talking about are within our medium-term aspiration target of 14 per cent capex to sales for overall Telstra.

MR PENN: Thanks, Roger.

If we could have the first question from the confalinkline, please.

MR KOPANIDIS: So we have five questions on the line.

MR PENN: We have?

MR KOPANIDIS: Yes, we do.

MR PENN: No, I'm sure we do.

FACILITATOR: We do have questions on the line. Your first question comes from Nathan Burley, CBA. Go ahead, please.

MR BURLEY: G'day, guys. I was wondering if I could just delve into this guidance a little bit more. You guys have low single digit EBITDA growth. Now, obviously, you should be getting a fair bit of impact from additional NBN revenues. So presumably you get three or four hundred million dollars of that. You're essentially saying the rest of the business will be flat. But obviously there's other drivers of growth in there in terms of what you're doing around Pacnet and M&A and so forth. So I was wondering if you would be able to give a little bit more colour on how you get to the low single digit EBITDA growth and why you shouldn't be able to do more than that.

MR PENN: Thanks, Nathan. I will get Warwick to add – well, as you say, I mean, we will obviously get more revenues from NBN as NBN rolls out, on the one hand. On the other hand, we lose, remember, the margins as we migrate to NBN; that's fundamentally the key economic dynamic with NBN. And as you rightly point, we're continuing to invest in new areas of growth in Pacnet, in international NAS, in our intelligent video platform, in our health business as well. So there's a number of areas where we're also continuing to invest. And overall we expect low single digit growth, as I mentioned, in EBITDA, which is pretty much the trend that we've seen over the last two, three, four years. And what I would also say, which is important over the last two, three, four years, is we've also met our guidance and delivered on our guidance in every reporting period. But, Warwick, is there any …

MR BRAY: No, thank you.

MR PENN: No. I think that probably covers it. Thanks, Nathan. Next question, please?

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

MR TONG: Good morning, Andy. Good morning, Warwick. Just a couple of questions. Just, firstly, on post-paid ARPU, can you sort of talk about the drivers of the, I suppose, the growth and the 1 per cent decline sequentially. And what are your, sort of, I suppose, your expectations for growth into FY16. And just secondly, on productivity, what are the key areas you see in the core business as opportunities to drive costs out in the next two to three years? Thank you.

MR PENN: Thanks Raymond. Look, why don't I – what I will do is I will take the productivity one first, and then I will make a quick comment on ARPU at a more sort of strategic level, and then what – I will ask – Warwick can actually talk to you to the specifics of what effected ARPU in the second half of 2015. I mean, look, on productivity, can I just re-affirm that I am more committed to productivity. I want to lift the bar on productivity not lower the bar. So it is very much front and centre for us. We've had a significant productivity program in place over the last three or four years. We're driving a lot more accountability into the line. In fact, some of the organisational changes that we are making is about actually taking the productivity program closer to the line executives so they have more control over it. In terms of the areas that we see for improvement, I mean, obviously there is multiple areas across the business, but fundamentally it is about process improvement. It's around digitisation. It's around streamlining delivery, audit, activations to customers.

We talked a little bit with Ian when asked before about NBN activations, so, I think there are a range of areas and opportunities for continued productivity and what's important is, is everywhere I look and see opportunities to improve our net promoter score and our service to customer is actually also where we see opportunities for productivity improvements. I mentioned before first time call resolution now 84 per cent is a good win for the customer, and it's a good win for us. So there's no shortage of opportunity. In relation to ARPU, as I say, Warwick can talk a little bit about the second half. I mean, fundamentally, I can't sort of predict where ARPUs will go in a market level in the second half. What I can say is that we have the best mobile's business in Australia, and we have mobile leadership, and we're absolutely determined to continue to invest to maintain that mobile leadership, and that's what we're focussed on doing.

I've announced that we're going to increase our level of capital investment in the network, and we're very prepared to increase it again, and do what we need to do to continue to ensure that we have mobile leadership, and if that impacts ARPU, if that impacts margins, well, that – that's what will happen, but we're very confident that's the right strategy for the longer term, but, Warwick, do you want to talk specifically about a couple of the ARPU points?

MR BRAY: Yes. Just to add to that. So sequentially second half ARPU had a decline on the first half ARPU, and the four factors that went into that were more generous data allowances. There were extra data plans. So when a customer gets to the end of their allowance they can get an extra gig of data for $10 and the real time alerts, and there was also a continued rollout of our international roaming travel pass. So they affected ARPU in the short term. I've noticed that the other side of that coin is that they're great for our customers and they're an important part of that 5 point increase in advocacy that we have reported. We're certainly not going to guide on ARPU, but sort of some of the challenges and influences and opportunities for us on ARPU, probably the biggest one is now that we really are in a situation where our customers have got worried free use of data the opportunity for us is to promote more heavily the use of extra data throughout both promotion and content.

Other opportunities are value-added services in mass market such as StayConnected help our customers when they lose or break a device, and also in our business segments there's great opportunities through value added services like mobile device management, mobile application management and some vertical solutions. All of those are ARPU opportunities for us and good for our customers.

MR KOPANIDIS: Thanks Raymond. Next question, please.

FACILIATOR: Thank you. Your next question comes from Eric Choi, UBS. Go ahead please.

MR CHOI: Hi Andy and Warwick. Well done on the FY15 result. The first question was just on NBN payment now that the PSAA payment is beginning to ramp up and begun what a more meaningful contributor, I was wondering if you could give us an idea of the underlying number of disconnections that the 163 million was booked against just – just to help with our forecasting, and the second question was just to guidance. I was just wondering if there's a degree of conservatism in that 90 million wholesale price impact which is based on your disclosure. It looks like the 90 is based on kind of flat 10 per cent reduction across the whole wholesale revenue base, and I was just wondering if the impact is slightly less once you take into account the commercially negotiated agreement?

MR PENN: Thanks. Thanks very much, Eric. Well, we haven't disclosed separately the NBN payment numbers, but I think that you can separately from NBN get their number of connections, which I think the last numbers I saw excluding satellite was around about 440,000, and you can from our reports get the number of 220,000 or just over 220,000, as the number of NBN connections that we have. And I will let you do your own sort of maths and triangulation, but if I – that information is all publicly disclosed. We haven't said more than that. But hopefully that's hopeful.

Look, on the – on the fixed access decision, I mean the first point to make, as I mentioned before, is it's a draft decision and not final yet. We don't agree with the decision and we will be making – have made submissions in relation to it, because our strong view is that the costs of the network – which is in fact exactly what the principles say, that the cost of providing the network should be shared equally amongst all providers, and this decision would lead that not to be the case. The estimate of 90 million is our estimate. It's up to 90 million is what we said. And that is our estimate. But we would be optimistic that the ACCC will see our submission and other submissions and the submission from government and make the appropriate adjustments so there's not that impact on Telstra's shareholders.

MR CHOI: Thanks. Can I just follow up on that NBN question. I mean, we've done that exercise where you compare the weekly rollout numbers. The difficulty is the implied payment for household numbers moves around quite a lot, and I assume the difference is due to, you know, accounting recognition differences depending on how you guys treat it, and, you know, how much of the brownfield versus greenfields connections that you guys [in audible] payment. So just wondering if that's the right way to think about it, or whether it is actually quite a good gauge of the PSAA?

MR PENN: Look, I'm not sure I can help you any more, Eric. I think I've sort of given you as much triangulation as I – as I could. So, you know, you're right. I mean obviously there's some accounting issues and there's some timing of payment issues, that sort of thing, but I don't think they're material in the scheme of things, but I'm sorry, I can't help you any further. Thanks, Eric. Next question.

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

MR McLEISH: Thanks very much. Two from me. Just firstly, Warwick, just on mobile margins, I think the investor day a few months ago you were talking about high 30s mobile margins was your expectations. You've just, I guess, delivered another 40. I'm just wondering if that high 30s kind of still stands. My second question, I guess – and, Andy, just strategically how you're thinking about managing the sort of customer growth, ARPU, within – within mobile. You're in a more competitive environment. You know, you've obviously had another great mobile revenue growth, but the postpaid subs adds was the slowest it's been for a while. I mean, are you willing to kind of see postpaid subs in particular backwards or even down if it – if it means, you know, protecting ARPU and protecting revenue? Thanks.

MR PENN: Thanks very much, Fraser. Well, look, I might sort of start with the second part of your question first and then Warwick can comment also on the margin because I think the strategic point is the right place to start. As I mentioned a moment ago, we feel – and we have the leading mobile business in Australia and we're determined to continue to invest in that position and ensure that that is the case. And, as I said, I announced an increase in the capex to ensure we've got network leadership, and if we need to invest more, we will, but we think that will deliver the sort of continued leadership that we currently experience. And then in the more competitive dynamics, we've been, as I mentioned before all of our fixed broadband customers have had more data allowances in the mobile sector, and we've been increasing data allowances – well, we've changed the way in which customers can acquire data and a data alert. So we are very active in that market.

Over the longer term, we've always had the view that given the nature of our business and the quality of our business, we should be targeting EBITDA margins in the high 30s. Nothing has changed in that regard, however, as I said a moment ago, we will continue to invest and do whatever we need to do to maintain our mobile leadership position if that impacts margins, if that impacts revenue or if that has impacts in the short to medium term, well, so be it, but we think the right strategic thing to do is to continue to invest in the mobiles business because we believe that the quality of the networking in conjunction with the quality of the product and the service enables us to continue to deliver what customers want most, which is a great mobile service.

But, Warwick, do you want to add any further comments?

MR BRAY: Yes. Two comments on the margin. Just the first one. It's important to look at the dollar contribution of the growth in the mobile EBITDA as well, as so mobiles EBITDA increased $371 million year-on-year, which was – and so it was the biggest contributor to Telstra Corporation's overall EBITDA growth. And also the EBITDA in percentage terms was up 9.6 per cent. So just putting that to one side, in terms of the percentage margin, the origin of that comment about high 30s was a couple of years ago, and we were asked that in the context that our EBITDA margin had risen from the low 30s to the high 30s and was asked – the question was asked in the context of would that still

keep going into the mid-40s. And ours was, no, it's more like the high 30s. It wasn't meant to distinguish between high 30s and 40.

MR PENN: But we do believe that's the right margin over the longer term.

MR McLEISH: Great. That's helpful. Thanks very much.

MR PENN: Thanks very much, Fraser.

MR KOPANIDIS: Next question, please.

FACILITATOR: Thank you. Our next question comes from Sachin Gupta, from Nomura. Go ahead, please.

MR GUPTA: thank you very much. And just on the guidance again. I was just wondering is it possible to talk about your expectations for the mobile business, given some of the competition issues and also NAS, NAS domestic and NAS offshore for 2016? And, Andy, just on the Asian aspirations, there has been a bit of discussion up there that Telstra may be looking to partner with SMC in the Philippines on their 4G rollout. Is that a market or a partner you think is compelling enough for Telstra and what will be the thought process there, please?

MR PENN: Thanks very much, Sachin. Well, look, on the last point about Asian aspirations, Asia is an important region of focus for us. We demonstrated that through our investment in Pacnet this year through the launch of the Telstra – telkomtelstra joint venture in Indonesia. I can't unfortunately comment on any particular or any specific speculation on particular markets, so I can't, sort of, add any more to your question there in relation to the Philippines, other than to say Asia is an important area of investment for us.

On the mobiles business and on NAS – and so we've discussed a little bit this morning our guidance for 2016, which takes into account the current dynamics as we know them in the market, but as I said before, we're very committed to continuing to grow our mobiles business. We think there's a great opportunity to do so. We saw very, very strong growth in revenue, almost 10 per cent or I think around 10 per cent growth in mobile revenue this year, including seven per cent plus in services revenue. So I'm not sure I can say much beyond that, and NAS also continues to be a very important source of growth for us. In fact, in the context of NAS our services revenues now almost equal our carriage revenues for our enterprise, government and business customers. So that business is now a $2.4 billion business, so we can talk a little bit more about the strategy for the business and the economic model for the business at our investor day in October, but as Warwick mentioned a moment ago, and he might want to comment again, in – we're also focusing on the profitability of that business and looking to improve margins as we, you know, continue to scale up and grow.

Warwick, anything else to add?

MR BRAY: Yes. I will add on the mobile business – and, Sachin, good morning. You mentioned about competition which is very important. We do think of the mobile business both in terms of competition and growing the market, and so we are very focused on both, so on growing the market. What you will see is a lot of work that we will be doing in encouraging usage in the mass market and also value added services. And also on the business side of things, we grow the market with connected tablets. We grow the market with enterprise applications and enterprise-managed services.

In terms of competition, the – what we're doing there is we have got the big new investment – or continued investment in the network, continued improvement in customer service and we're putting a lot of value into our mobile prices as well.

MR KOPANIDIS: We will take our last question from Justin Diddams from Citi.

MR DIDDAMS: Good morning, everybody. Sorry about that. So just a couple of questions from me. The first one, just on the mobile business. So I think, applying that margin to the revenue number, so there's a cost base of $6.4 billion, I was wondering if you could give us an indication of what percentage of that is actually mobile handsets, to give us an idea of how much you're already subsidising consumers in terms of that handset payments. The second question would just be on Foxtel. With the new set-top box that you're going to be running, is that going to take primary space in terms of marketing and bundling from Telstra and will Foxtel be taking a backwards seat in terms of that bundling position? And then, finally, just a follow up on that NAS question, I seem to recall you said before the key for NAS is, kind of, building those initial platforms and structures and then you're able to leverage those going forwards, so should we expect some fairly significant earnings contribution from NAS, given you've done all the – or, well, you've certainly done a lot of investment up-front? Thanks.

MR PENN: Thanks, Justin. Why don't I get Warwick to comment on mobiles and NAS, and then I will make a comment on Telstra TV which I'm very excited about.

MR BRAY: Yes. On the mobile hardware, here are some of the effects that have been going on. The first is you can see what's going on with hardware revenue in the mobile slides we put up there. Now, our hardware costs are higher than our hardware revenues, like all operators. In terms of what went on in FY15 there were three effects. The first is that we had price rises from our major suppliers and we pretty much passed those through to our customers. So hardware revenues and hardware costs went up exactly matched on that first effect. The second thing is there were more recontracting events in FY15 than in the previous year. And the third was that subsidy per event went up a bit as well.

MR PENN: So on – look, on Foxtel, Justin, the answer is simply no. Basically, what Telstra TV enables us to do is actually help expand the market and grow the market for content because, as you know, penetration – pay TV penetration of Australia is only around 30 per cent at the moment in Australia and we think there's a great opportunity to grow that. Foxtel is a very important partner to us and we work very closely with them in supporting them, in terms of growing their business as well, but Telstra TV enables us to bring a really simple to use set-top – it's not so much a set-top box as a device that you can bring into the home. Basically, you can get immediate access to all of the SVOD services in Australia, Presto, Stan and Netflix as – in conjunction with a lot of other catch up TV and other services. Easy to install, easy to use, only available to Telstra broadband customers and we think it's another initiative which will actually help add value to our overall broadband services, but – and, actually, in fact, grow the market overall and will complement what we're also doing with Foxtel as well, which is working very closely.

So, no, we're very excited about that initiative, so, thanks, Justin, as we are about the Apple Music launched a couple of weeks ago, too.

MR KOPANIDIS: And there was a question on NAS as well.

MR PENN: Sorry. Did we miss the question on NAS in all that – in my excitement about Foxtel?

MR KOPANIDIS: You did.

MR PENN: Do you want to – the question on NAS was when will we start to see some significant growth in earnings, so you might just want to comment on what we're doing on the economics.

MR BRAY: Yes. So we will be talking you through the economics in our October investor day. We continue to see a strong line of sight to the NAS business on a stand-alone basis, earning a return on invested capital above the cost of capital, as well – that's on a stand-alone basis. As well as that, it

does complement our carriage business as well, but we will be going through the details of that in October.

MR KOPANIDIS: Thanks, Justin. Thank you, everybody, for your attendance. Thanks for your questions. That closes today's session. Thanks very much.

MR PENN: Thank you.

BRIEFING CONCLUDED [10.56 am]