



17 August 2018

Office of the Company Secretary

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2018 Financial Results – analyst briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2018 Financial Results analyst briefing, for release to the market.

Yours faithfully

A handwritten signature in black ink, appearing to read "Sue Laver".

Sue Laver
Company Secretary

Telstra Full Year Results Presentation, 16 August 2018 – Transcript

MR R. MOFFAT: Good morning and welcome. My name is Ross Moffat, Telstra's Head of Investor Relations. On behalf of Telstra, I welcome you to our 2018 full year results presentation. As an important symbol of respect, it is our custom at significant events of Telstra to acknowledge Australia's first people. On behalf of Telstra, I would like to acknowledge and pay my respects to our Wurundjeri and Bunurong people of the Kulin nation, the traditional custodians of this land we are meeting on, and I pay my respects to their elders past and present. After presentations from our CEO, Andy Penn, and CFO, Warwick Bray, we will take questions from the investors and analysts both here in Melbourne and on the phone. With that, I will hand over to you, Andy.

MR A. PENN: Well, thanks very much, Ross, and good morning and welcome to Telstra's results announcement for the year ending 30 June 2018. A year in which our results were in line with guidance. We achieved strong subscriber growth in both fixed and mobiles and we made good progress on our productivity program. I'm particularly pleased with the continued increase in our customer numbers.

During the year, we added 342,000 retail mobile customers, bringing total mobile services for Telstra to 17.7 million. Postpaid handheld retail customer services were up 304,000, including 67,000 from Belong, where we launched our mobile business last year. In fixed, we added 88,000 retail broadband customers, including 48,000 from Belong. And that brings our total fixed broadband customers to more than 3.6 million.

As I highlighted at our strategy update in June, we continue to face challenging trading conditions in mobiles and fixed, from increased competition, which has been leading to lower prices and increased data allowances. And, of course, both of those factors have an impact on ARPU. And this was, of course, also at the same time with the further rollout of the nbn. To meet these challenges head on, we announced our Telstra2022 strategy, or T22 as we've shortened it to, in June. This will see us take a bolder stance in the market by simplifying our operations and products, improving the customer experience, and reducing our cost base.

We've already made strong early progress. We've launched new mobile plans with no excess data charges and announced a new organisation structure, leadership team and operating model. Telstra InfraCo has been established as a standalone business unit with its own CEO appointed and pro forma financials are provided with these financial results. I will talk more about T22 later in my presentation.

Firstly, though, I will take you through the key financial results and highlights of our achievements for the year. Warwick will then take you through the detailed financials before we open up for Q and A. Total income increased by three per cent to \$29 billion on a reported basis. On a guidance basis, total income adjusted for the gain on the sale of our interest in Foxtel increased 1.6 per cent, to \$28.6 billion.

EBITDA decreased by 5.2 per cent on a reported basis and 5.9 per cent on a guidance basis to \$10.1 billion. Net profit after tax decreased by 8.9 per cent, to \$3.5 billion. Basic earnings per share decreased by 7.7 per cent, to 30 cents per share, and we declared a final dividend of 11 cents per share. This took the total dividend for the year for FY18 to 22 cents per share, comprising 15 cents ordinary and seven cents special.

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Let me now comment on some of the operational highlights for the year. However, in so doing, I do recognise the very challenging market dynamics and what that has meant for returns for shareholders. I'm acutely aware the impact the pressure on financials is having for you. It is, therefore, even more important in this context that we continue to focus on the business levers that we can control. In this regard, we have again delivered strong subscriber growth, particularly in the second half of the year.

In Q4, as an example, we estimate that our market share of net adds in the important mobile postpaid handheld segment was almost 70 per cent of the total market. These results clearly demonstrate the success of our multi-brand strategy, as we saw contribution from Telstra's main brand, Belong, as well as Wholesale. We also continued to deliver leading industry churn rates in both fixed and mobile. We saw good top and bottom line NAS performance with revenue increasing 8.6 per cent to \$3.6 billion and margins improving up one percentage point to 10 per cent. Second half NAS margins were even stronger, at 13 per cent.

While strategic NPS was flat, we saw improvements in episode NPS which was up five points during the year. Episode NPS measures our customers' interactions and their assessment of that with Telstra, and they have benefitted from a number of the quick wins that we have been achieving, particularly through our digitisation program. Machine to machine, which is our emerging IoT business, also had a strong year with revenues up 13 per cent. In fact, 18 per cent in the second half. We're very excited about the prospects for IoT, and as just one example, we saw solid performance and new customer wins from MTData.

MTData which we acquired during the year is a leading provider of GPS and telematics fleet management solutions, and has state of the art technical capabilities and software expertise to fast track our connected vehicle offering. Another acquisition during the year was VMtech. It is offering similar promise. VMtech is a leading Sydney-based professional managed service provider with expertise in enterprise grade hybrid cloud connectivity and security solutions.

Our health business reached a very significant milestone when we went live recently with the National Cancer Screening Register for cervical cancer. We have now embarked on a similar project for a national register for bowel cancer.

In terms of productivity, we've accelerated our program. To date, we have delivered total core fixed costs reductions of \$700 million against our target of \$2.5 billion by 2022. In '18 in particular, we delivered seven per cent or \$480 million of core fixed costs reduction, and Warwick is going to talk us through the details of this shortly.

Let me move to some of the customer highlights. I will talk about our digitisation program in more detail shortly, but the initial investments that we have made to fix pain points for customers and improve the way they interact with us has resulted in some significant improvements. For example, calls into our call centres fell 13 per cent during the year, while the number of active Telstra 24x7 app users increased by 22 per cent to four million.

On nbn we continue to focus on ensuring our customers receive the best possible experience. Our high level of CVC provisioning is giving our customers an average of more than 90 per cent of their maximum line speed during the busiest time.

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Overall, we continue to lead in nbn, adding 770,000 new nbn connections and our nbn market share, excluding satellite, is increasing, and ended the year at 51 per cent.

More broadly in fixed, we launched Telstra Smart Modem. This ensures the customers are connected to the mobile network in the event that they are not connected via fixed, either because the connection hasn't yet occurred or they have a service interruption. It's now being used by 12 per cent of Telstra's fixed customers – that's more than 300,000 – with an accompanying eight to 10 point improvement in episode NPS. We're currently working on the next version of the Smart Modem, which we will launch and it will have more features and advanced capabilities.

In mobiles, we launched Peace of Mind data in May, and followed this up with new Consumer plans in July, making excess data charges a thing of the past for select customers. Our media portfolio continues to offer unique experiences and differentiated services to our mobile and fixed customers. In '18 another one million customers started using our Sports Live Pass across AFL, NRL and the netball. We now have 2.3 million sports fans accessing this service.

As an aside, two weeks ago we saw the highest level of sports streaming ever, with more than 1.2 million devices over only one weekend being used by our customers to access our sports apps. We've recently added soccer; we're live streaming now available through the FFA app, including the Matilda games. In the home, over 50 per cent of our Telstra's fixed broadband customers that are active are active entertainment users with either Telstra TV or Foxtel from Telstra.

We have 1.3 million Telstra TV devices in the market, and those customers active on Telstra TV2 in particular, on average, watch 67 hours of streamed content with an additional 53 hours of free-to-air TV viewing a month, through their Telstra TV2 device. We're also very excited by the recently announced improvements to Foxtel, with the introduced of IQ4, 4K and, of course, the cricket rights. There's no doubt that media inclusions are increasingly important to our customers. There is similarly no doubt that the media offerings from Telstra are head and shoulders above those available from our competitors. And our leadership in this area is increasing.

Turning to Enterprise, more of our Enterprise customers are now using the Telstra Programmable Network. This allows them to virtualise their network loads, particularly into data centre and major public cloud providers. Since launch in May, around 2000 new Enterprise customers are also accessing Telstra Calling for Office 365. This is an Australian first in partnership with Microsoft, bringing enterprise-grade network calling together with Office 365 features. Our cyber security capability continues to grow in importance. And this year we launched new security operation centres in Sydney and Melbourne. These offer a managed cyber security service to our customers, to help protect their business, and demand for this service is increasing rapidly.

Let me now turn to our strategic program of investment of up to \$3 billion dollars in capital that we announced in 2016. This program, as you know, is centred on creating the Networks for the Future and digitising our business. The investments that we've been making under this program over the last two years are critical, because without them we would not have been able to launch our T22 strategy. So far we've invested around \$1.8 billion, including \$1.5 billion on networks and \$300

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million on digitisation. We have met our commitments in terms of EBITDA benefits, realising \$100 million to date.

In mobile, as announced yesterday, we're already rolling out 5G on our network, with more than 200 5G-compatible sites planned to be live around the country by the end of the calendar year. Commercial devices for 5G are obviously not yet available from the handset manufacturers, but having our network 5G ready enables us to trial and test them as they do become available. In July, in collaboration with our technology partners Ericsson and Intel, we successfully completed the world's first end-to-end 5G non-standalone data call on a commercial network. Other milestones during the year included the world's first millimetre wave data call, the world's first 5G-enabled Wi-Fi precinct, Australia's first 5G-connected car and the opening of our 5G Innovation Centre.

In September we will be hosting 3GPP at their conference on the Gold Coast. Of course, 3GPP is the global body responsible for setting 5G standards. And this is the first time that this group has met in Australia. And we anticipate it will be an important meeting. And it's no accident that Telstra has been chosen as the partner to host this meeting. Of course, there are other ongoing investments in our mobile network which are not 5G. During the year, for example, we launched LTE-Broadcast. This enables more efficient video streaming and more efficient use of our network assets. We have integrated LTE-B into our AFL Live app. And this cutting-edge technology was one of the major factors enabling us to deliver the sports app streaming records that I mentioned a moment ago. We will soon roll out LTE-B to our other media assets.

We also continue to prepare for significant new opportunities in relation to the Internet of Things, or “IoT”. And we have launched services in mining, logistics, agritech, smart metering and other sectors. Our Cat-M1 network for IoT has been enabled nationally, with around three million square kilometres of coverage. Telstra's narrowband IoT also covers major Australian cities and major regional towns. Telstra is one of the first carriers in the world to offer both IoT technologies, Category-M1 and narrowband. And that's enabling customers to deploy devices such as sensors, trackers, alarms to manage or monitor their machines, vehicles, livestock and other assets.

More broadly, we continue to focus on network superiority and coverage. During the year, we added 500 new mobile sites, including those within the Black Spot program. We added another 400 small cells. And we upgraded a further 1100 mobile sites. Service reliability and resilience, of course, remains a key factor for our customers, a key network differentiator for Telstra. Despite some incidents, since July 2016 we have reduced our mobile outage hours by more than 80 per cent as a result of the many investments that we have been making.

Telstra also continues to lead in the market in key benchmarks. In the Netflix Speed Index, we have been ranked number 1 since February. In the 2018 Speedtest Awards by Ookla, we were named the fastest broadband provider nationally in Australia on both mobile and fixed networks. And in the P3 Connect mobile test, we were awarded best in data for the fifth year in a row, with P3 Connect confirming Telstra as the fastest mobile network in the country and amongst the fastest in the world.

Let me now turn to the investments we're making to digitise the business. It is a critical part of the program. To date we've delivered a number of quick wins targeted at key customer pain points whilst simultaneously investing in and building the platforms that we need for the future. Quick wins during the year included Telstra Connect, an app for our Enterprise customers, which enables their businesses to essentially self-manage their services directly and digitally. It consolidates more than 50 existing applications into a single digital interface. We've seen a one-third reduction in the number of calls that those customers have had to make to Telstra from using this service.

On the Consumer side, we also completed our first end-to-end fully digital nbn order with an online customer being handled right the way through Telstra and all the way into the nbn co's systems without a single manual intervention. As we scale this capability, we expect to see further significant improvements in customer experience, both in the order process itself but also in the time taken to activate an nbn order. We introduced self-service tools on telstra.com that have helped our customers resolve common issues without making a call. This includes resolving internet billing questions, order status questions and troubleshooting faults, and it's one of the contributory factors as to why we saw the number of service calls to our call centres reduce by 13 per cent during the year.

Beyond these quick wins, though, we have been making significant progress in the development of the new core digital platforms which are critical for our products and services being launched as part of Telstra2022. And as I said before, without having launched these investments two years ago, we would not be in the position to embark on this strategy. Our Enterprise business already has a new IT stack in place, and that has enabled the products and services I've already mentioned, and it is in the process of moving customers onto the new platform, allowing us to offer even more compelling digital products. We also plan to have all new Consumer and Small Business customers on that new technology stack by 30 June 2021.

Let me now just turn and make a couple of comments specifically about our T22 strategy. There's no doubt, as I said in my introduction, that it is a critical time in telecommunications, not just for Telstra but for the whole industry locally and globally. As you know, our T22 strategy, launched in June, has four key pillars and two critical enablers: the Networks for the Future and Digitisation, which I've mentioned. But at its core, this is about leaving our legacy behind. It's about delivering simpler, more flexible products and services with a great digital service experience for our customers. It's about maximising the value of our infrastructure assets. It's about simplifying the business, changing the ways of working and reducing our cost base for the future.

We have made strong early progress on this strategy. Last month we launched new mobile plans with no excess data charges, and we relaunched an improved version of our 24x7 app. Our customers have told us they don't want to pay for things that they don't use. So in addition to eliminating excess data charges, we will also be launching more choice for customers, allowing them to add the services that they value to their base plan more flexibly. This next product milestone in our T22 product strategy will be launched in October and will give customers the freedom to create home and mobile packages with the features and devices and the services and the content that matter to them.

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Entertainment will headline very prominently with these new choices available, and we have some exciting new media offerings coming to build on Telstra's already superior offerings in sports and entertainment. Telstra InfraCo now operates as a standalone business unit, and we have provided pro forma financials in these results for transparency. Establishing [Telstra] InfraCo as a separate business unit allows us to drive greater efficiency in the operation of our key fixed asset infrastructure and provide investors with greater visibility and the value of those assets and the returns that they generate.

We've also focused on portfolio management with Telstra Ventures forming a new fund with capital investment from HarbourVest. This initiative has enabled us to continue to derive the benefits that we have had in the past from Telstra Ventures, but at the same time enhancing our Telstra Ventures capability with those from the leading HarbourVest investment capital. It has reduced our capital commitments in the future and in the meantime, it has realised \$75 million from the transaction.

Consistent with our T22 Strategy, last month I announced a new top line organisational structure and leadership team with three new, highly-experienced executives joining us from outside of the company. Earlier this week, we also announced the next layer of executive appointments. The whole new structure and operating model becomes effective from 1 October. In addition to Consumer, Small Business and Enterprise, the key new functions include Networks and IT, Global Business Services, Telstra InfraCo and a new Product and Technology team.

Through these structural changes, we will increase the average span of responsibility for these leaders by nearly 20 per cent, and this is a critical component to flattening the organisation and eliminating two to four layers of management as we cascade these changes throughout the organisation. Of course, though, it is a difficult time for our people and one during which we must demonstrate courageous and supportive leadership, and that is exactly what we are doing – supporting our teams as we move through this period of uncertainty for them. I am confident, though, that with these changes, we are bringing together a broad team at Telstra with the combined capabilities and experience to execute our T22 strategy effectively.

Before I close, I will take you through the scorecard that I presented on 20 June which we will use going forward to track our progress. We will deliver six key outcomes from T22, covering customer experience, simplification, network superiority, benefits for our employees, cost reduction and strengthening the balance sheet. We have established a dedicated transformation office to plan, track and report on execution against these specific outcomes. To ensure transparency, we will provide you with an update on each milestone through the lens of this scorecard every six months in conjunction with our half-year and full-year results presentations.

Whilst we have only recently launched the strategy, you will see that we are making some early progress. In customer experience, while we were below the metric in strategic NPS, we are on track in episode NPS which increased by five points in '18 which I am confident will ultimately lead to positive momentum in strategic NPS. In simplification, we have started to rationalise our Enterprise products and we have announced our new management structure, as I have mentioned a moment ago. Whilst FTEs were flat year on year, since the end of June, we have announced a further 700 FTE reduction.

We have also retired many smaller applications in our technology and environment and we now have on our roadmap the enterprise applications such as billing systems, provisioning and CRM which costs tens of millions of dollars to operate annually.

In networks, as I mentioned earlier, we're already leading in key industry performance surveys, and as yesterday announcement shows, our mobile network is 5G ready. We're also on track in relation to our productivity program, our portfolio management, and of course the establishment of Telstra InfraCo.

Let me summarise before handing back to Warwick: '18 was a year in which our results were in line with guidance, we achieved strong subscriber growth in both fixed and mobile and we made good early progress on our T22 Strategy. It was a year in which we faced challenging trading conditions in mobiles and fixed with increased competition, lower prices and increased data allowances all affecting ARPUs, as well, of course, as the accelerating impact of the nbn.

We anticipate these challenges will continue into 2019 and that is why we have launched our T22 strategy to take a bolder stance to lead the market by simplifying our operations and products, by improving the customer experience and by reducing our cost base. We are meeting these challenges head-on. Thank you, and I will now hand over to Warwick. But before I do, I did want to acknowledge that this will be Warwick's last results for Telstra and I just wanted to take a moment to thank him for his very significant leadership over the last decade that he has had at Telstra. During that time, Warwick has made very significant contributions to the company, initially as head of strategy, then as head of products leading our mobiles business through a very successful period, and I very much valued his partnership with me as the CFO. Thank you, Warwick.

MR W. BRAY: Thank you, Andy. I will now go through each of the sections on the agenda, beginning with the FY '18 group results. On a reported basis, income was up three per cent, EBITDA, EBIT and NPAT were down 5.2, 9.4 and 8.9 per cent respectively, and basic earnings per share were down 7.7 per cent to 30 cents. Our FY '18 results were in line with guidance. On a guidance basis, income was up 1.6 per cent and EBITDA was down 5.9 per cent. FY '18 reported and guidance EBITDA were approximately the same with the gain on sale of Foxtel and adjustments for M&A off-setting impairments.

Depreciation and amortisation increased by 0.7 per cent. D&A was influenced by continuing spend on short-lived assets off-set by a \$242 million reduction from the annual useful life review. In FY '19, the FY '18 service life adjustments that we have already made will reduce D&A by about \$125 million. We will continue to review the useful lives and residual values of our assets, particularly in light of product rationalisation. This may result in accelerated D&A or asset write offs, which will we adjust for on a guidance basis.

Net finance costs decreased by 7.1 per cent, including the benefits from refinancing debt at lower rates. The income tax expense was down 11.3 per cent, reflecting lower earnings. Our effective tax rate was approximately 30 per cent.

On dividend, the board has resolved to pay a final dividend for second-half '18 of 11 cents per share, fully franked. Consistent with our Capital Management Framework

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announced in August 2017, our final dividend comprises a final ordinary dividend of seven and a half cents per share and a final special dividend of three and a half cents per share. The total FY '18 interim and final ordinary dividend of 15 cents per share represents a 78 per cent payout ratio on underlying earnings. The total FY '18 interim and final special dividend of seven cents per share represents a 65 per cent payout ratio on net one-off nbn receipts.

Moving to free cash flow, which was \$4.9 billion in FY '18 on a guidance basis. The guidance basis excludes spectrum, M&A and the Foxtel transaction. Free cash flow on a reported basis of \$4.7 billion in FY '18 was up \$1.2 billion on FY '17 due to improved working capital, and lower tax and spectrum payments, partly offset by free cash flow from Autohome in the prior year. In FY '18, the change in working capital was positive and benefited from improved movement in receivables, including from nbn DA one-off receipts due to the nbn Co decision to cease sales on HFC; an improved movement in payables, which can vary significantly depending on financial period end dates versus payment cycles; an improved movement in inventories related to nbn network commercial works in the prior period; a change in payment terms to large suppliers and mobile leasing, albeit with a lower working capital benefit than in the prior year. The free cash flow of \$4.7 billion in FY '18 was used to pay dividends and finance costs, and to reduce debt.

Turning now to income performance by product. Reported income increased three per cent to \$29 billion. One-off nbn DA receipts and connection revenue increased by \$536 million, including growth from PSAA in line with the progress of the nbn network rollout. Underlying income decreased \$96 million or 0.4 per cent, and this was due to the following factors. Mobile was up \$294 million, including Go Mobile Swap lease income; fixed was down \$617 million; data and IP was down \$141 million; recurring nbn DA was up \$157 million in line with the nbn network rollout; NAS was up \$288 million or 8.6 per cent; global connectivity was up \$71 million; and other core was down \$161 million, including nbn-related asset sales and reduced media revenue; and new business was up \$13 million, including from Telstra Ventures.

Turning to expenses where we are delivering against our two and a half billion dollar net productivity target with a \$480 million, or seven per cent reduction in underlying core fixed costs in FY18. This means that the results of our cost productivity programmes more than offset inflation, increased energy costs and reinvestment. We continue to focus on productivity that improves customer outcomes, that improves internal processes and takes the cost out of our business. And Andy has, today, provided examples of how we are delivering that productivity, including through our digitisation strategic investment. Our company-wide productivity efforts have now delivered approximately \$700 million cumulatively since FY16.

Our FY '18 costs in total due to increased nbn costs, including growth in CVC/AVC costs of \$494 million and one-off DA and cost to connect of \$110 million; increased NAS sales and variable labour costs of \$216 million, which supported growth in NAS revenue of \$288 million; and increased mobile costs, including hardware costs and Go Mobile Swap lease costs, as a result of increased sales and device prices. The mobile hardware margin in dollar terms declined in the current period, including the one-off lease benefit in the prior period.

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Consistent with our T22 strategy, we expect total costs will be flat or decline in each year from FY18, excluding restructuring.

In FY19, we expect costs to be flat with reductions in underlying core fixed and NAS variable labour costs to offset increased nbn CVC/AVC and mobile hardware costs. The labour costs to underlying income ratio is 19 per cent in FY18, reducing by point two of a percentage point on FY17, excluding redundancy. We are committed to an approximate 30 per cent reduction in labour costs to income by FY22.

The average nbn net cost to connect per customer in FY '18 was broadly flat on PCP. In the current period, we had a higher proportion of smart modems and business connections, which are more expensive. We continue to focus on reducing the unit cost, including through the introduction of self-installed solutions, and simplified nbn products for our business customers and also further automation of provisioning.

At our half-year results, we stated that we would revise our nbn cost to connect to capture only the nbn migrations from legacy networks and exclude business-as-usual migrations. This will ensure that the one-off nbn cost to connect is zero at the end of migration to nbn. We have now done this and business-as-usual nbn migrations are included in underlying core fixed and sales costs and excluded from one-off nbn cost to connect. This has resulted in restatements to one-off nbn cost to connect and associated EBITDA, and details of this restatement are included in the slide footnotes.

Turning to product EBITDA performance. Overall, we saw a decrease in EBITDA on a guidance basis, down 5.9 per cent to \$10.125 billion. Underlying EBITDA was down \$1.1 billion. The negative recurring influence of the nbn in FY '18 was approximately \$800 million. When added to prior year recurring nbn impacts, we have absorbed \$1.4 billion of the estimated \$3 billion recurring nbn impact to date. The impact of the nbn on underlying EBITDA includes: increased CVC/AVC payments; increased recurring nbn receipts, for example, ISA; and some of the reductions in fixed voice and data and IP revenues, including wholesale; and the cost savings on our legacy networks.

In FY '18, the identified proxy nbn impact of approximately \$800 million included around \$500 million in increased network payments to nbn co and around \$500 million in other reduction in fixed EBITDA including wholesale, offset by \$161 million in increased recurring nbn receipts. Outside recurring nbn impacts, underlying EBITDA was down approximately \$200 million, and I'll go through this on the next slide. One-off nbn DA EBITDA and nbn cost to connect were up \$426 million, in line with the nbn network rollout.

Turning to underlying product EBITDA performance, starting from the bottom, the difference between the reported EBITDA of \$10.121 billion and the underlying \$8.317 billion is the guidance adjustments and nbn one-offs. Our underlying EBITDA was down approximately \$200 million, excluding around \$800 million of recurring impact from the nbn. Mobile was down \$274 billion. Data and IP was down \$69 million, mostly due to legacy migration. NAS was up \$72 million, and offset the data and IP decline.

In the second half, NAS EBITDA margin was 13 per cent. Global connectivity was down \$14 million, albeit with a three per cent improvement in the second half '18

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EBITDA on PCP, and Other core was up \$92 million, including lower restructuring costs in FY18, partly offset by lower nbn commercial works sale of assets, and direct contribution from media. And new businesses were down \$34 million. This included one-off milestone costs associated with the National Cancer Screening Registry. And EBITDA from new businesses is expected to improve in FY19.

Turning now to our performance by product, this slide shows the year-on-year mobile performance. The following slide shows halves. Mobile revenue grew 0.4 of a percent on the prior corresponding period, including strong net postpaid SIO adds, supporting revenue growth across hardware, wholesale and machine to machine. Machine to machine is the foundation of our Internet of Things business.

In FY18 we added 342,000 retail mobile services, including 304,000 postpaid handheld services, of which 67,000 were Belong Mobile. Plus we added 229,000 wholesale mobile services as we continue to successfully execute on our multi-brand strategy. Postpaid handheld revenue declined 3.4 per cent, with minimum monthly commitment or MMC growth in mass market being offset by MMC declines in business, and lower out of bundle revenue.

Prepaid handheld revenue declined due to reduced unique users from increased competition and migration of customers to retail postpaid, wholesale and Belong Mobile.

Mobile broadband revenue declined by 10.3 per cent. Now, after achieving quarterly sequential stability, postpaid mobile broadband revenue declined in the second half due to lower ARPU from growth in lower-tier plans and reduced out of bundle revenue. Mobile broadband prepaid revenue and unique users continued to decline as the product category faces a structural shift, with customers substituting prepaid mobile broadband for fixed line and mobile handset tethering.

Machine to machine or M2M revenue grew 13 per cent on PCP, with 383,000 SIOs added in the year. We continue to see growth in M2M with the acquisition of MTData and new solutions being implemented in verticals such as logistics, utilities, health and financial services. MTData is a leading provider of GPS and telematics fleet management solutions.

Hardware revenue grew due to both higher device volumes and unit rate, and in media, 2.3 million customers have now activated our Live Pass sports app up by almost one million customers from last year. The mobile EBITDA margin decreased three points to 40 per cent, including services revenue reduction, hardware mix and one-off lease benefit in the prior period that wasn't repeated. Postpaid mobile handheld churn improved, and at 10.9 per cent continues to be low by international standards.

Now, turning to our half on half performance for mobile, mobile revenue in second half '18 grew 0.1 of a percent on PCP and was down 0.4 of a percent sequentially on first half '18. Second half '18 we had good net add momentum, with 174,000 postpaid handheld services versus 82,000 in PCP and 130,000 in first half '18. In the last quarter of FY18, we almost doubled net adds sequentially, adding 114,000 postpaid handheld services versus 60,000 in the third quarter. Postpaid handheld ARPU declined 3.6 per cent in second half '18 on PCP, with a consistent decline in both third and fourth quarter on PCP.

By segments, sequential postpaid handheld ARPU growth was achieved in small business in second half '18 after a decline in first half '18. Consumer and Enterprise ARPU declined sequentially in first half '18 and second half '18 due to reduced out of bundle revenue and MMC declines in Enterprise. Our smaller segment, Premier Business, had the largest sequential ARPU decline, including from international roaming. We expect ARPU declines to continue into FY19, including from ongoing competition and the impact of T22 mobile initiatives.

Turning to fixed line, where we added 135,000 retail bundle customers during the year, including improved second half '18 momentum. 91 per cent of our retail broadband customer base is now on a bundled plan. We have almost 1.3 million Telstra TV devices in market, and approximately 50 per cent of our Consumer customers are enjoying entertainment offers, including Foxtel, from Telstra. With growth in media differentiation and smart modem penetration, churn on fixed products is industry leading and improved in FY18. Demand for our nbn services continues, through focus on delivering a great customer experience. During the year, we added 770,000 nbn connections, bringing our total nbn connections to almost two million and a 51 per cent share ex-satellite.

Smart modems are now across 12 per cent of our fixed data consumer base, delivering a better experience on nbn. The smart modem allows our customers to connect sooner, switches to our mobile network if needed, and includes the fastest ratified Wi-Fi standard. Retail fixed data revenue increased with 88,000 net subscribers added, including through Belong. We added 67,000 retail fixed data subscribes in second half '18, with 31,000 in the last quarter. Total fixed data revenue, however, declined 0.2 of a per cent with increased nbn migration of wholesale services. Fixed voice revenue decline increased to 15.4 per cent, including wholesale and lower out of bundle retail usage and SIOs.

Across retail customers, we're continuing to focus on retention and benefits from bundling. Retail bundle minimum monthly commitment was challenged with FY18 down 3.1 per cent on PCP. We expect ongoing bundle ARPU pressure into FY19. Fixed voice margin fell by 13 points, and fixed data margin fell by 15 points. Fixed margins were negatively affected by the one-off costs of connecting customers to the nbn network and growing network payments to nbn co. Excluding nbn-related items and wholesale, the fixed data margin was flat on PCP.

Turning to data and IP, the revenue declined 5.2 per cent, reflecting IP customer wins including volume and connection growth in IPVPN, offset by legacy declines across ISDN, IPWAN and calling products. We've updated our disclosures to more accurately capture data and IP product trends. ISDN declined 13.5 per cent. We expect further acceleration in decline as migration to contemporary products continues. Our EBITDA margin of 59 per cent was maintained.

Turning to network applications and services, or NAS, which grew 8.6 per cent over \$3.6 billion in revenue for the year. This included double-digit Small Business growth and high single-digit Enterprise growth. We expect revenue from the nbn commercial works component of industry solutions to reduce in FY19. NAS EBITDA improved \$72 million to a 10 per cent margin. NAS EBITDA margin in second half '18 was 13 per cent. We aim for NAS EBITDA dollar growth to offset the data and IP decline, and this did occur in the year. We're pleased by this, and the

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margin achievement, and it's an important milestone on our commitment to a sustainable mid-teens EBITDA margin. Having said that, NAS revenue and costs are subject to timing variations associated with major contracts, and this half benefited from those timings.

Turning to global connectivity, which consists of our enterprise business outside Australia, revenue grew by 5.1 per cent in local currency, with customers continuing to respond well to the scale, reach and low latency of our products. Global EBITDA declined for the year but improved in second half '18 by 3 per cent on PCP from revenue growth and cost productivity.

Turning to our capital position, closing gross debt and net debt of \$15.4 billion and \$14.7 billion respectively reduced using free cash flow generated in FY '18. As a result, our gearing decreased to 49.5 per cent. Our financial parameters remain within our comfort zones and consistent with an A band credit rating. Our average gross borrowing costs reduced to 4.9 per cent, and average debt maturity was 4.3 years.

FY18 capex of \$4.7 billion was consistent with our guidance. FY18 capex to sales ratio was 18.4 per cent or 18.1 per cent, excluding around \$60 million of capex relating to data centres that we won't fund until 2023. We have invested approximately \$1.8 billion of our up to \$3 billion additional strategic investment. We are on track to achieve more than \$500 million in EBITDA benefits from this investment by the end of FY21. In FY18, our strategic investment has achieved more than \$100 million in EBITDA benefits, made up of around three quarters revenue and one quarter cost.

Turning now to ratios, our FY18 return on equity was 24.1 per cent and our return on invested capital was 13.1 per cent, well above our costs of capital. Our future ratios will continue to be influenced by the changing mix in our major products as well as reduced profitability in our fixed business. We manage our ROIC through capital allocation and through improving capital effectiveness and product returns. We are committed to a post-nbn ROIC of greater than 10 per cent.

Turning to Telstra Infrastructure Co, as outlined at our June 22 – T22 strategy announcement, as of 1 July we established a standalone infrastructure business unit to improve efficiency. Telstra InfraCo comprises our high quality fixed network infrastructure and internal access, Telstra Wholesale, commercial works for nbn co and recurring proceeds from nbn co. In June, we estimated Telstra InfraCo total assets of \$11 billion and revenues and EBITDA of about five and a half billion and 3 billion dollars respectively. We have now updated the FY18 Telstra InfraCo pro forma financials. FY18 assets and external income of \$11.1 billion and \$5.5 billion respectively were in line with our estimate.

EBITDA was \$3.4 billion including \$1.4 billion for internal access charges. Our EBITDA estimated increased with an update for FY18 actual performance and also refinements to internal asset access charges and cost allocations. FY18 EBITDA margins excluding Telstra InfraCo pro forma were lower by low single digits in mobile, lower by mid-single digits in NAS and lower by mid to high teen digits across fixed and data and IP. Additional detail on Telstra InfraCo is included in our full year results and operations review disclosures. Future segment disclosures will likely change over time as Telstra InfraCo is fully integrated into our business.

Before turning to guidance, the adoption of new accounting standards will have some impacts. AASB15 Revenue From Contracts With Customers is a new accounting standard that changes the way we recognise revenue and some types of associated contract costs. The new standard requires us to apply a prescriptive five-step model to each of our customer contracts to determine when and how much revenue we recognise.

The adoption will result in an expected reduction of our opening FY18 retained earnings of \$412 million after tax. This results from applying the standard retrospectively to those contracts that existed on 1 July 2017 which is our transition date and also to our balance sheet true up on that date.

For FY '18, adoption is expected to result in \$191 million decrease in total income, \$300 million decrease in operating expenses, \$109 million increase in EBITDA and a \$51 million increase in our net profit after tax. For FY19, we similarly expect EBITDA to increase about \$100 million, income to decrease by about \$100 million and operating costs to decrease by about \$200 million due to adoption. The income changes include how we account for our mobile plans with MRO contracts and customer contributions. Operating cost changes include how we account for sales commissions. We'll also provide an update on the impacts of the AASB16 leases standard in the next six months.

Our FY19 guidance has not changed from that provided on 20 June 2018 at our T22 announcement, except to adjust for the expected impact of the new accounting standard AASB15. The result of the adjustment is that FY19 income guidance has decreased by \$100 million and FY19 EBITDA guidance has increased by \$100 million. We also provide free cash flow guidance.

So in FY19, we expect total income of \$26.5 to \$28.4 billion. We expect FY19 EBITDA, excluding restructuring, of \$8.8 to \$9.5 billion. We expect FY19 additional restructuring costs of around \$600 million and FY19 net one-off nbn DA receipts, less nbn cost to connect, of \$1.8 to \$1.9 billion.

FY19 is a very material year in the migration to the nbn and its impact on Telstra. There is not a current nbn corporate plan and, therefore, the basis of our guidance is Telstra management's best estimates. Our guidance may be updated after taking account of the nbn Corporate Plan 2019 when it's published. We expect nbn co to publish on the 31 August.

In FY19, we expect capex of \$3.9 to \$4.4 billion. Our capex guidance in FY19 equates to 16 to 18 per cent capex to sales. As you know, we've elevated our capex by up to \$3 billion to support our strategic investment. We are on track to complete this investment in FY19 and possibly into FY20.

We expect free cash flow to be in the range of \$3.1 to \$3.6 billion. In FY19, the movement in working capital is expected to reduce free cash flow due to increased receivables relating to nbn DA one-off income and cash received for nbn DA one-off income is received quarterly in arrears.

Additionally, the working capital initiatives from FY17 and FY18 are expected to endure but not have the in-year benefits we saw in those years. As is usually the

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case, the basis on which we provide guidance is detailed in the slide footnote. As mentioned at our recent strategy day, the T22 strategy potentially brings forward write offs of some software assets and we will adjust for this on a guidance basis. Thank you, and I will now hand back to Ross to moderate Q and A.

MR MOFFAT: Thank you, Andy and Warwick. We'll just first take questions from the room and then we'll go to the call and I think our first question will be from Raymond Tong from Evans and Partners.

MR R. TONG: Good morning, Andy and Warwick. Just a first – I've got a few questions. Just the first one is, can you help us understand the second half mobile result? I think service revenues were down 1 per cent or around about 100 million and EBITDA declined 12 per cent, or around about 260 million. So there seems to be a fair difference between the two line items there. Can you maybe just talk through the drivers of that, please?

MR BRAY: Yeah, thanks, Raymond. So I've actually got mobile services revenue in the second half declining 2.6 per cent but, in any event, the – the paradox is still there. Look, there's about five reasons. The first one is that the mobile hardware margin in the second half '18 was not as good as the second half '17. Then there were two reasons for that. One was an economic reason, and so, with the activity of the base was higher in the second half of '18 than it was in the second half of '17, and there was a – a increase in handset subsidies over that time and I can decompose that later for you. So there was an economic reason why the hardware margin was lower. And then there was an accounting reason, because the second half of '17, we achieved that one off swap benefit that I talked about at the time. So that was the first reason.

The second – the second is, as we go on through mobile, we get more and more service fees, and so we're adding more into that services revenue, more value for our clients, which is great. And so that may be something around Stay Connected or it might be something around more media or more music. So the service fees went up in that time, which were involved in the journey from 2.6 per cent down on services revenue to get to EBITDA. The next reason is there is a bit of operational leverage working the other way as our – as the services revenues go down. So they're the reasons.

MR TONG: Right. And I suppose moving into FY19, the guidance there for – I think it declined around about a billion to a billion and a half in EBITDA. I know you talked through the drivers in June, but maybe can you give an update in terms of how you're thinking about the drivers like the nbn recurring impact. I think you mentioned at a time that you expect the market to decline two to three per cent, and then the cost-out.

MR BRAY: Yes, so in FY19, we do expect that to be an important transition year, and so the effects are we do expect it to be another very major year for the nbn impact, so we absorbed \$800 million of the nbn impact this year. And depending on the pace of the rollout next year, we would expect that to be a very big year as well. We would expect, as we indicated in June, that the overall market for mobile and fixed to be down two to three per cent, and we've updated our views on that and we remain of the belief that it's two or three per cent. A bit more negative in fixed and a bit less negative in mobile, but that was the average of both of those. And then

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we've increased our cost-out targets and so we've increased to two and a half billion dollars, and we've said that that will be at least linear, so it's going to be back-loaded, but we haven't given specific cost guidance yet for FY19. They're the major components of the difference in underlying EBITDA in '19 versus '18.

MR PENN: And I would say, Raymond, I mean, I think essentially nothing has changed, really, from our perspective since June. We've been pretty pleased with the very strong mobile ads we had, particularly in the fourth quarter. I think that's all going well, but we're seeing the competitive dynamics play through in ARPU. And as regards nbn, I think we understand they're due to update their plan at the end of August, so we'll be able to basically provide further update if that changed materially from what we actually already have in our outlook.

MR TONG: And just a final question. Andy, do you have any, I suppose, comments on the dividend outlook for FY19. I think the payout ratios are around about 78 per cent for ordinary and special were 65. Should we expect those ratios to move towards the high end of the guided ranges next year?

MR PENN: Well, look, I think, as I previously said, I mean, really, the dividends are going to be a matter for the Board. They'll make that declaration and decision in conjunction with half-year results and full-year results. I think we've provided the guidance in June. As Warwick said, there's no change to that other than the implications of AASB 15. The dividend policy is there, so, really, the Board will be guided by that. And as I say, we'll make those announcements in conjunction with results.

MR TONG: Okay. Thank you.

MR BRAY: Thanks, Raymond.

MR MOFFAT: So I'll just introduce you for the call. The next questions are from Andrew Levy from Macquarie.

MR A. LEVY: Thanks a lot. Maybe just to follow on to Raymond's question about FY19 mobile, can you give some colour on what you're expecting for some of those drivers to EBITDA? Like, we've obviously got our assessments of the service revenue line, but are we expecting that customer acquisition costs and the like are going to be greater, and so EBITDA declines next year in mobile are going to exceed revenue declines or service revenue declines, most likely, is the first question. The second one was could you give us a little bit of colour maybe on the new plans you put in the market and what you're seeing re take-up and what you're seeing in terms of the ARPU impact that they're having, albeit early days. Thanks.

MR BRAY: So look, it's difficult to give guidance down to that level of specificity. What I can say is that sequentially, handset subsidies on both MRO and lease have actually been stable sequentially, so for the last few months, and so that's a positive sign. The hardware margin depends on the activity of the base, which is how much the base re contracts. And FY18 was a very active year. The extent to which FY19 will match that activity slightly depends on how big the hit phones will be.

MR LEVY: All right. Your new plans would be driving recontracting, I assume?

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MR PENN: Look, I think it's early days on the new plans, Andrew. So I think the first thing to say is there's a lot of interest in the plans. I think we launched just over three weeks ago, so, as I say, it's fairly early days. And yeah, we're seeing absolute interest and take-up in them. The peace-of-mind data comes in at around – \$69, I think, is the base plan on which it becomes available, and there's a lot of activity in the market below 69. So it's not the whole market. And we've been performing at both ends of the market, both in terms of at the BYO end at the postpaid handheld with handsets included end as well, and, as I mentioned before, through Belong, through the Telstra main brand, and also through wholesale as well. So encouraging early signs, but a bit early to start quoting numbers and long-term what we think that is in terms of out-of-bundle revenues, etcetera.

MR LEVY: So far is it what you would expect to have seen?

MR PENN: Yes, I mean, it's always hard to predict what you would expect to have seen, but, yes, we are absolutely encouraged by what – sorry, so far what we are seeing reaffirms our decision to basically launch the plans.

MR LEVY: Great. Thank you.

MR MOFFAT: Okay. I think that exhausts our questions, and now we will go to the call. The first question is from Kane Hannan at Goldman Sachs.

MR K. HANNAN: Morning Andy and Warwick. Two for me, please. Just on the NAS business, just talk about the margin improvement into the second half, and, I suppose, a sense of how the margins compare across small business and enterprise, and the impact on the nbn commercial works on the second half. And then just on the fixed line and subgrowth, just talk through the driver for that strong second half performance and what you think is driving that, and then the impact on margins from the nbn 50 product?

MR PENN: Yes, why don't I make a couple of comments on the second part of the question first, and then maybe hand to Warwick to talk specifically about NAS as well, and you can add, Warwick, whatever I've got on fixed, but I mean, on fixed, I think probably the significant thing for us in the second half of the year was we bestowed unlimited to probably close to a million customers. So we made some significant improvements to the value proposition to our customer base. We also launched our hybrid modem. We've now got that into about 12 per cent of the base. That's getting a really positive response and positive feedback, and, of course, we've had continued momentum in the impact of our media offering. So we've continued to expand it with the launch of Telstra TV 2. There's a broader range of applications and streaming services available on that service overall. So there's – and then there's a lot of the improvements we've made to the activation process as well.

So fixed is going really, really well from an operating metrics perspective. I mean, obviously in terms of reseller margins, that's still very, very tough, with wholesale prices from nbn more than doubling and continuing to increase. That's putting pressure on margins right away across the industry, but we saw our nbn market share increase in the last stats to 51 per cent, and we think it's really important that we continue to compete strongly for our customers. So that's the overall dynamic there, and, this year, as Warwick has said, is going to be another big year for nbn

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migrations. We'll see how big, when we see nbn's updated corporate plan in a couple of weeks, which we anticipate, but it will undoubtedly be an important year.

And then on NAS, I mean, the only thing I would just say before handing over to Warwick. I mean, we've made a commitment that we want to get our NAS margins to mid-digit EBITDA. I think we're well progressed on that journey. It's looking – the business is looking good. The top line growth, I think, was around about – just over eight per cent this year, but bear in mind – and we did flag this – that last year, we had 30 per cent growth in NAS. So that's eight per cent on top of 30 per cent. So strong momentum, and we're pleased of where the margins go, but Warwick can perhaps talk about that in a bit more detail and between first half, second half commercial works, non-commercial works

MR BRAY: Yeah, thanks Andy. And, look, overall, it's been a fantastic year for NAS. As Andy indicated, the growth was 8.6 per cent in terms of revenue, and that's at or around where we estimate the market is, but what is important is coming off a 30 per cent growth year last year. In terms of the margin, it did improve to 13 per cent in the second half, and we're thrilled with that, because you might remember three years ago, we talked about an aspiration to get to a mid-teens margin. And at a mid-teens margin, that's where NAS earns a return on capital about equal to its cost of capital. So it's great to see that 13 per cent.

Now, where did that come from? If we divide our business into commercial works versus not commercial works, so Cloud, for instance, Industry Solutions, Managed Network Services, all of the improvement came from not commercial works. So that's our enduring NAS business, which is great.

And then where did that come from? It's part of our progress into scalable standardised offerings. And so where we have great solutions for our customers that are more bespoke, at the upper end, as we turn bespoke solutions into standardised solutions and we sell them through our large business to medium business customers, that's more profitable to us because of that standardisation. And we saw that in action, with an eight per cent growth in Enterprise but a 14 and a half per cent growth in business for the year. Now, having said all of that, as I always say with NAS, it's a lumpy business, and the lumpiness hurt us in the first half and benefited us in the second half. And so there's still work to do to get to that mid-teens sustainable EBITDA margin.

MR HANNAN: Thanks, Warwick. Just quickly, has there been any impact on that mid-teens target given the expanded productivity targets you guys have been rolling out over the last couple of years?

MR BRAY: We haven't announced anything there. The productivity is really important to at least getting to that mid-teens margin, because this is an industry where, of course, there's a lot of pressure on price; and so we need to keep innovating, give great customer solutions and keep working on the costs lever to get to that mid-teens sustainable margin.

MR HANNAN: Okay. Thanks very much.

MR MOFFAT: Thank you. The next call is from Eric Choi at UBS.

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MR E. CHOI: Hey, guys. Thanks for the questions. Just had a couple on FY19 and one on InfraCo, if I could. Just on FY19 guidance again – I guess you've called out two to three per cent mobile market decline. But just wondering what you're assuming in terms of Telstra's mobile subscriber within that. I'm just wondering, I guess, if that 114,000 of postpaid net adds versus your budget. And then second question, just on your upcoming mobile product launches – I guess if I look at your Peace of Mind plans, they didn't look like they were very ARPU-destructive. I'm just wondering if you can comment on whether the five plans in conjunction are expected to be revenue-accretive or revenue-dilutive, obviously outside of those \$500 million of excess data impact.

And then just last question, on InfraCo – so very helpful today disclosure, down to EBITDA. But I guess if I look at the future comps for InfraCo, it looks like it'll be things like Netlink and other infrastructure companies which pay dividends out of underlying free cash flows rather than accounting EPS. And obviously we're going to have a gap between D&A and capex in future for Telstra. I'm just wondering to what extent will this D&A versus capex difference sit in InfraCo versus the rest of Telstra. Thanks.

MR PENN: Look, thanks very much, Eric. A couple of comments from me, and I'll invite Warwick to add as well. I mean, look, I think in relation to FY19 guidance on subs – we obviously don't forecast what our subs growth is going to be. But ultimately, we continue to remain very focused on ensuring that we acquire new customers and acquire our share of new customers. And if you look at this year, definitely in post-paid handheld mobile, we've performed very strongly; pre-paid not as strongly, and we need to do better there. On fixed, we're pretty pleased with where we're performing.

And so it's a fine balance between continuing to make sure we defend our market position and grow net new subscribers and respond to the competitive dynamics which are obviously having a headwind on the underlying economics. And we'll continue to do that in FY19. We're obviously just coming into a busy period, with handsets obviously expected to come out from – the major upgrades expected to come out over the coming few months, in the run-up to Christmas. And then Christmas will be an important period for pre-paid as well. So we need to continue to make sure we are in there, competing and fighting for every single customer and ensuring we are achieving our share.

In terms of the product implications in terms of out-of-bundle revenues, etcetera – I mean, just to clarify the point – so we currently have in the order of \$500 million – or we had briefed the market as at the end of June – that related to out-of-bundle types of revenues, including excess data charges. And we acknowledge that we're essentially putting those revenues at risk as we transition to a new world in terms of product design and structure. That's not the same as saying we expect not to be able to offset that, because we are seeing and we have seen over the years continued growth in MMC, "minimum monthly commitments".

So we would expect as customers transition out of old plans with higher out-of-bundle charges, we'll be able to capture some of that back through growth in MMC. Now, that's obviously dependent on competitive market dynamics. But that's absolutely what we're anticipating. In the upcoming product launches in October, one of the things I was committed to do was to – we've got five drops during 2019 in

terms of major pieces of our overall product changes. October is the next one. That's all about flexibility; it's about giving customers the flexibility to take the services they want and not the services that they don't want, and so, again, net net there is does that affect the overall minimum monthly commitment– I'm not entirely sure. I mean, I don't think so. The modelling that we do says this is about aligning customers – what customers want more specifically with what they're paying for.

On InfraCo, I think your question was – I mean, firstly, in terms of just the pro forma financials of that, we're going to be moving into segment reporting. We're in the process obviously of setting up all of the detailed SLAs, which I said that we would be, and that will continue to help us better inform precisely how this operates, so we do expect to be able to make some changes to that over time. In terms of the distinction with D&A – between D&A, which is the cash flow accounting difference, Warwick. I don't know if you have a comment on that.

MR BRAY: Yes. Look, firstly, over time, it's very important that we do report cash through Infrastructure Co over time. In terms of – we've been talking for a year or so about cash capex and D&A diverging, and that's because we've got some pretty significant spectrum coming up over the next few years and also we've got elevated capex, and so we would expect that to reverse. Now, as to how much of that sits in Telstra InfraCo¹, the Spectrum would sit in not Telstra InfraCo², but some of the elevated capex would be in Infrastructure Co. So the answer to your question is some of that difference would be seen in Telstra InfraCo³.

MR CHOI: Thanks, guys. That's helpful.

MR MOFFAT: Okay. Thank you. Next question is from Eric Pan at JP Morgan.

MR E. PAN: Good morning, guys. Thanks for taking questions. Three, if I could, on the mobile segment. Postpaid adds were much better than expected, but prepaid losses were also higher. How much of the postpaid adds came from internal migration from prepaid versus externally and, similarly, how many of the Belong adds came from the Telstra brand. And then, secondly, mobile revenues in SMB and Enterprise declined two and a half, three and a half per cent this year while Consumer only declined 1.6. How should we think about the pressure on mobile services in SMB and Enterprise in '19 versus the Consumer segment. And then, lastly, just to follow up on the mobile hardware margin, are you increasing your subsidies for customer retention, or is it a matter of more customers coming up for renewal and is that expected to continue this year?

MR PENN: Yes. Okay. Thanks, Eric. Look, just a couple of comments from me again, and then Warwick will have, obviously, some colour to add as well. On the postpaid growth, that was strong growth. Your question around Belong – so I think the net add-on postpaid was 304,000. That included 67,000 from Belong, if that answers that part of the question. In terms of prepaid to postpaid, I mean, I think there is a bit of prepaid to postpaid movement in postpaid handheld, but, to be honest, it's more so, I would say prepaid to wholesale, and you saw we had very

¹ Verbatim “Infrastructure Co”

² Verbatim “Infrastructure Co”

³ Verbatim “Infrastructure Co”

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strong growth in wholesale: I think that was up 220,000-odd net SIO adds, which has been very, very strong – positive.

And so, we do have this dynamic where we've been very deliberately moving towards a multi-brand strategy to make sure we bifurcate and we segment the market appropriately and we position ourselves in relation to that. I think we still need to do better, frankly, in the main brand of prepaid on Telstra. I think it's net-net – I think our decline bringing in wholesale was about 100,000 on prepaid and, as I say, 300,000 growth on postpaid. So, look, David, they would be my comments on the prepaid/postpaid thing and I will let Warwick add some comments in a second.

I mean, I think it is true to say that there's no doubt that we're seeing greater margin – we're seeing margin pressure or pricing pressure in Consumer for sure, but it is true to say that it's more significant in small/medium business and Enterprise. Premier as opposed to perhaps Enterprise, but that sort of mid-market; that is right. And I will let Warwick answer the question on mobile hardware margins. I think it's – it's a competitive dynamic, is the short answer, so – but, Warwick, you've probably got some comments you want to add too.

MR BRAY: Yeah. Just in terms of that pressure, by segment – well, there's pressure everywhere, but when we think about our revenues per segment in postpaid handheld, it's about 60 per cent from Consumer, 20 per cent from Small Business, a bit less from 10 from Premier and a bit more than 10 from Enterprise. And we – we felt the pressure, firstly, in Premier, secondly, in Small Business, thirdly, in Consumer, and, fourthly, in Enterprise – in the half that's just finished. In terms of the hardware margin – the reason that the hardware margin declined in rank order was, firstly, the activity in the base. So more of our base decided to recontract, which is a combination of some of our offers and also some of the phones that were out there. The second was that non-repeated – well, the one-off from this time last year. And the smallest of the three impacts was that handset subsidies are up a bit this year – on last year.

MR CHOI: Got it. Thank you very much.

MR MOFFAT: Thank you. The next question is from Fraser McLeish at MST Marquee.

MR F. McLEISH: Thanks very much. Just back on the mobile cost base again, I'm afraid. Just can you give us an idea how much of your – or to what degree your two and a-half billion productivity savings are coming – in the mobile business and if we can expect mobile cost base to, kind of, follow that overall group profile you've given of flat to down each year? Thanks.

MR BRAY: So in general, yes, the – the nuanced – in general, yes. When we look at the cost opportunities and when we segment them by product and also by customer segment, we do see the cost-saving opportunities to be very strong across all of that. The one nuance is the – of our legacy, fixed-line business, we would expect a lot more cost to come out of that. And, potentially, even out of our resale of fixed-line business, because there it's so important to get our cost to serve substantially down from where it is today. So general answer to your question is – is yes. The cost reductions we've announced – you can apply them to all of the businesses and segments, but special application to our fixed-line business.

MR PENN: Because I think, as well – I mean, just adding to Warwick's point – Fraser, I mean. There's a lot of – because Warwick – spot on, in the sense that there's some things that are unique to mobiles and things that are unique to fixed. And on – on the things that are unique to fixed, we think there is scope on the order to activate and just the whole digitisation process of activation on nbn. But then there's a lot of shared cost. So things like retail stores, a lot of our support teams; obviously, the core parts of the network, in a sense. We can allocate those between fixed and mobile, but, to be honest, they're essentially a shared cost across both product groups.

MR BRAY: And the – the strategy that we've announced is just so applicable to mobile costs. So the simplification of product allows calls to be handled much better, allows calls to be handled right first time. And, indeed, the huge simplification of product means that it's much more easy and interesting for us to digitise those products – both the sale and service – and to make that a much better experience for our customers. So when you go through the T22 material from June, a huge amount of it, really, is spot on aiming at mobile cost reduction.

MR McLEISH: Great. Thank you.

MR MOFFAT: Thank you. Next, we've got Roger Samuel, who's from CLSA.

MR R. SAMUEL: Good morning, guys. I've got two questions. First one – just back to the guidance of 8.8 to 9.5 billion in EBITDA, I'm just wondering what are the swing factors that will get you to the top end or to the bottom end of the range? If you could outline that by the major product line, that would be great. Secondly, just in terms of your dividend payout ratio of 70 to 90 per cent of the underlying earnings, do you include the restructuring costs in the calculation of that? Thanks.

MR PENN: I think – just on – on the guidance, Warwick – I'm pretty sure it'll be – ARPUs on mobiles will be a big driver of that. And to some extent, fixed as well. But why don't I let you fill in on that and then comment on how we treat restructuring for the purpose of dividend guidance.

MR BRAY: Yeah. So on the – on next year's guidance, we – the biggest factors – mobile is clearly important. And within mobile, it is ARPU. And then, to a lesser extent, hardware margin. But then the nbn impact will be very important. And we can see the nbn impact very much, depending on the nbn's corporate plan. And so – which – and that – a new one will come out on the 31st of this month, we understand, and so that will have an even bigger impact than mobile, I would expect. Then after the nbn and after mobile, the other effects I would expect to be smaller. The cost reduction targets we've got in there are – we've got absolute line of sight to get those cost reduction targets, and we've delivered according to our plan and budget over the last few years. We haven't been specific about those restructuring costs in the dividend policy. The board will make a decision at the time.

MR SAMUEL: Okay. Thank you.

MR MOFFAT: Thank you. So our current last question is from Brian Han at Morningstar.

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MR B. HAN: Good morning, Andy. I'm just interested in your views about Telstra's long-term plans for its stake in Foxtel. And with Foxtel planning to launch all these new streaming services, does that in any way restrict Telstra's ability to launch its own streaming services?

MR PENN: Look, I think – Brian, look, a couple of comments. I mean, firstly, media, as I said in my presentation this morning, media is increasing in importance for customers of telecommunications companies, and it's a – 50 per cent of our fixed broadband customers, as an example, are active users of media, either through Telstra TV or through Foxtel from Telstra. And if you look at telecommunication companies around the world, many of them have looked to buy media companies as a way to incorporate exclusive media into their offerings to customers. I think we have the best of all worlds in the sense that we have a very strong partnership with Foxtel.

We've reduced our investment to 35 per cent. So we have reduced our economic exposure to the – obviously, the disruption that the media sector is going through because it's going through its own challenges. But at the same time, we retained our partnership and retained access to very exciting and exclusive content right the way across the board, and I think that really does put us in the best of both worlds. So you can deduce from that that we're very committed to our long-term partnership with Foxtel. We have been prepared – and I've said quite publicly, we're prepared to dilute our investment down to support a potential listing of Foxtel if that becomes appropriate at some point in the future.

We think continuing to grow, give Foxtel access to capital – and we're really pleased with what Patrick and his team are doing at Foxtel to transition the business, because, like any traditional media company, it's obviously facing the challenges of over-the-top streaming services and other competitive dynamics. But remember, it has by far the blue-chip sporting content, all of the best rights, its TV shows, movies – it's got a very, very good stable of content assets, and it's continued to invest in delivering those both digitally but also through traditional broadcast services. As you saw, they just announced the launch of IQ4. And then IQ4 enables them on a big screen to deliver in 4K. Very difficult to do that, frankly, over an IP network just because of the volume of data.

And we work in partnership with our own – we work in partnership with Foxtel, and so we have our own rights as well. We have all of the AFL, the NRL, the netball mobile digital streaming rights, and we have Telstra TV and other arrangements as well. So we can continue to deliver and distribute more media services, but predominantly our focus is on our partnership with Foxtel, and they do have the best content.

MR HAN: Okay. Andy, thanks. Also, Andy, are you – is Telstra happy with the parameters set out for the 5G spectrum auction later this year? And do you still feel that you can get the spectrum at a price within your ordinary capex budget?

MR PENN: Look, Brian, I think probably on spectrum, we're coming into that period where it's quite close to the spectrum auction. It's probably a topic on which it would be inappropriate for me to make any comments, and I'm happy to talk about it after the event and once that auction process has concluded. But I don't think I

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should comment any further on it, just for obvious reasons. But look, so happy to talk about it afterwards.

MR BRAY: What we can say is that the – our capex guidance doesn't include spectrum.

MR HAN: Great. Thanks, Warwick.

MR PENN: Thanks, Brian.

MR BRAY: Thanks, Brian.

MR MOFFAT: Okay. Thank you. Well, that's our last question for the investor section, so that closes off our investor section, and we'll have a short break, and then my colleague Nicole McKechnie will come up and moderate the media. Thank you.

RECORDING SUSPENDED

RECORDING RESUMED

MRS N. McKECHNIE: Okay. Thank you very much for joining us in relation to the media portion of our results presentation today. We have no journalists in the room, but we do have a number of journalists on the call who would like to ask a number of questions of Andy. And we have Andy here, and some of our other GEs in the audience if there are specific questions. So we'll go to the phones. And the first question comes from Corinne Reichert from ZDNet. Corinne.

MS C. REICHERT: Hi, Andy. You mentioned earlier 200 areas of 5G. I know Ericsson's behind the Gold Coast deployment, but are you working with any other vendors? And can you say where any of those 200 areas are?

MR A. PENN: No. Look, thanks very much, Corinne, and good morning. So what we're really doing is we're starting to roll out 5G to make sure that our network is 5G-ready, as I said in my presentation. Ultimately, we need the handset manufacturers, the big companies obviously around the world, to be making compatible 5G devices. But our network is essentially ready. So we can start trialling and testing those as they come through. So we're basically rolling out a number of sites, and we'll expect to have 200 – and that, in answer to your question, is across the nation – by the end of the calendar year.

And absolutely we are working with Ericsson. They've obviously been a long-term partner with us. And I won't comment on whether we're working with other parties as well, as we're obviously in a pretty critically and strategically sensitive time for 5G competitively. But look, I'm really pleased with some of the things that we're doing in 5G. I talked about some of the world firsts, and I think this is going to be an exciting opportunity for Telstra and an exciting opportunity for telcos. And this is about getting the technology right, being in a leadership position. And that's exactly what we're doing.

MS REICHERT: And with those 200 areas – I know you've said across the nation, but are they likely to be metro areas, or also regional?

MR PENN: Well, as I say, they'll be across the nation. So that will pick up regional as well as metro.

MS REICHERT: Thanks, Andy.

MRS McKECHNIE: Thanks, Corinne. Next question comes from Petroc. Petroc, welcome.

MR WILTON: Thank you. Good morning, Andy. Congratulations on the results. It has been almost two months since you went out for T22 strategy. How has that been playing out in the market? What has the reception been like, your shareholders and investors? And how has it been playing out internally? I note on the slide deck you've got a listing, a snapshot of FY18, but, again, two months in are you out of the blocks as fast as you had hoped?

MR PENN: Yes. Looks, thanks very much, Petroc. So, I mean, in terms of how the strategy has been received externally, I think that there is a very strong acknowledgement that the initiatives that we're taking are the right initiatives. I mean, this is very, very much about us taking a bolder step leading into the future. I mean, there are questions as well, why now, why not before, and I think the reality is that we have seen growing intensity in competition and change in the market and that is what has precipitated us to take a bolder step now.

And the other reason is why now is that we announced two years ago that we would be making the foundational investments that have been necessary to enable us to launch this right now. And so we're getting a lot of what I would say – supportive endorsement of the strategic direction. I mean, candidly, obviously, shareholders and key stakeholders want to see progress in the delivery along the way.

And that's going to be important and that's why we've been very transparent with that scorecard that I've put up that we will be very explicit with the market. We've got some key metrics in terms of the number of products that we need to reduce when we deliver new systems, the activity within the business that we need to reduce as a consequence of errors and faults so that we can improve all of those to deliver a better customer experience and a better result. And, ultimately, we believe by taking a bolder leadership stance now and leaving the legacy behind we will – ultimately, that will put us in the right position for the long term.

MR WILTON: Thanks very much, Andy.

MR PENN: Thanks, Petroc.

MRS McKECHNIE: Thanks, Petroc. Next question comes from Ed Boyd from the Daily Telegraph. Hi, Ed.

MR E. BOYD: Hi. Good morning everyone. Yeah. Look, just another one on the T22 strategy. Obviously, I'm looking on the slide deck here and there has been 700 net reduction since June. When are the bigger restructuring changes going to start to hit your wider Telstra workforce?

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MR PENN: Well, look, firstly, what I would say is that we've been very open in acknowledging that these changes, the strategy does have an impact on the number of jobs at Telstra, and that's a very difficult message to convey, but it's important that we are open and authentic about it. We need to put this against the context of the rollout of the nbn impacts our EBITDA by round about 30 per cent and, in fact, when you flow it down to the bottom line that's more like 50 per cent of the profit, essentially, historically, that Telstra has received is impacted by the implementation of the nbn and that's why we're implementing initiatives and strategies to mitigate the impact of that.

But against the background of that – I use that context - the number of roles that get impacted, that is over a sort of a three to four year period, so it's not all immediately. But it is important that we make some significant changes in 2019. I've just announced three weeks ago my top structure, and then the next level of the structure was announced on Monday of this week. In the process of doing that, we've reduced the spans of responsibility across those groups by 20 per cent. That enabled us to flatten the structure further as we cascade that into the rest of the organisation, and we expect to have all of that up and operational so the whole organisation is operating in that new model and that new structure by 1 October.

And so, obviously, during that period of time you can expect that there will be, obviously, further jobs that are impacted. But over the longer term, for us to get to the sort of productivity we need to get to, we have to deliver on the products, the digitisation, to reduce the volume of activity in the business because that's what's going to ultimately lead to a lower headcount requirement.

MR BOYD: Okay. Thank you.

MRS McKECHNIE: Thanks, Ed. Next question comes from Tom Westbrook from Reuters.

MR WESTBROOK: Yes, good morning. Will profit ever recover to pre-nbn levels?

MR PENN: Well, look, I think that – I mean, ultimately, if you look forward in the telecommunications industry, I mean, one of the exciting things about telecommunications is that demand for data, the importance of telecommunications networks, has never been more significant. It sits at the core of pretty much every automation of every business and, if you look even further into the future, the world of driverless cars and drones and connected devices and business automation, what sits at the heart of all of that is the telecommunications network. And so the critical issue for the telcos, not necessarily just for Telstra, is can the telcos put themselves in a position in the future to capture some of the economic value that clearly gets generated from that long-term demand.

And, frankly, telecommunication companies in the past have had probably mixed and not been as successful at doing that in the migration from 2G to 3G to 4G because, whilst there has been growth at the same time in data, revenues in the global industry have broadly been flat, but capex requirements have been increasing. So the opportunity for the industry now is in this next migration to 5G with the internet of things, software defined networking, is can we put ourselves in a better position for that long-term growth.

And so that's absolutely what our strategy is and, ultimately, over the long term the success of that strategy will determine the long-term economics of the company. So we believe we've got the right strategy. We believe we're making the right investments. We're building the right capabilities. We're probably further down the path on this than virtually any other telco around the world and so, without making predictions, we will see what the future beholds. But I think we're on the right path.

MR WESTBROOK: Thanks, Andy. Do you think the nbn has helped in that regard by sort of bringing on a reckoning, that telcos around the world are kind of looking at bringing it on a little faster and a little more urgently in Australia?

MR PENN: I'm not sure how to answer that question, Tom, to be honest. I mean, I think the nbn has certainly been very disruptive on the industry and I think, ultimately, it's a government policy decision, so we have to respond and to adapt to it. I do think that there are major structural problems with nbn pricing. Wholesale prices have more than doubled. And they're set to triple if the current model continues. And I just think that is unsustainable and it's going to create the wrong sort of dynamics in the industry. And I think they have to structurally change, but that's not a new comment from me. And I think that - in the meantime, I think what is critically important is we support our customers, provide them the best possible experience on the nbn.

MR WESTBROOK: Thanks.

MRS McKECHNIE: Okay. Thanks very much, Tom, and that is the final question that we have, so we shall call it a wrap. Thanks for joining us today.

BRIEFING CONCLUDED

[10.58 am]