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Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 08 8308 1721
Facsimile 03 9632 3215

The Manager

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

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Mobile Update- transcript

In accordance with the Listing Rules, I attach a copy of the transcript of the analyst briefing and question and answer sessions held at the Telstra Mobile Update held on 26 May 2014, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

TELSTRA MOBILE UPDATE 26 MAY 2014 - TRANSCRIPT

MR A. KEYS: Okay. Good afternoon, everyone. I'm Andrew Keys, Telstra's head of Investor Relations. On behalf of Telstra, welcome to today's Mobile Update. On the bottom of the slide there in front of you is the web address to the material that the guys will be presenting this afternoon. If you don't already have that downloaded to your mobile device, please make note of the address through the Investor Relations website there. For those people who don't have a mobile device at hand, we do have a couple of hard copies floating around, so we might be able to help you there. Today is 26 May. Today is National Sorry Day in Australia; a day which remembers the mistreatment of the continent's indigenous population.

As an important symbol of respect, it is our custom at significant Telstra events to acknowledge Australia's first peoples. Today, therefore, I want to acknowledge that we meet on the traditional land of the Gadigal people of the Eora nation, and pay my respects to elders past and present. At the conclusion of presentations from Warwick Bray, Mike Wright, and Mark Buckman, we will have a Q and A session, where we will be taking questions from the floor here in Sydney, and also via the conference call. We do hope to conclude this event at 3.30 pm. Before Warwick starts in a moment, we would like to share a short video with you highlighting the evolution of our mobile business.

VIDEO SHOWN

MR W. BRAY: Thank you. And let me add my welcome to the mobile investor afternoon. Just start by placing mobile in the context of Telstra's overall corporate strategy, which is to, firstly, drive value from the core – of course, mobile in Australia is Telstra's overall largest business – to improve customer advocacy, and that's a big part of what we'll talk to you about today, is how we improve customer advocacy. And mobile customer advocacy we define as the proportion of customers who would recommend Telstra to their friends and colleagues. And also, within mobile, we believe there's some important new growth businesses close to the mobile business as well. I will start this afternoon by taking us back to the October investor day of last year. There were two big messages there. The first big message was that the revenue growth accelerated in the second half of the year over the first half of the year.

The reason for that is that ARPUs had stabilised, and so subscriber growth was translating, pretty much, into revenue growth. And that was the first time we had seen that. The underlying reason for that is that customers were consuming more data, they were coming to the end of their allowances, and they were choosing to upgrade their plans by data packs, etcetera. That was the first time we had seen that, and today's an update on that, and, pleasingly, we have seen a continuation of that trend. So that's the first point. The second point, going back to investor day, is we outlined four priorities for mobile. First was to maintain and promote our network advantage. The second, to improve our customer service. The third, to continue to work on our margin. And the fourth was to create the growth opportunity of providing connected tablets and machine-to-machine solutions to Australian business so they could reap the productivity benefits of those technologies.

Those priorities remain intact today. What we will do in the second half of the presentation is go through our plans to implement and bring them to life. But I will start with the financial side of things now, and just placing mobile growth in the overall context of Telstra's revenue growth: it was $294 million revenue in the half that has just finished, and it's about half of Telstra's overall revenue growth. Looking into that in a bit more detail, the revenue growth was 6.4 per cent in the half that has just finished. So two points about that: it was pleasing, the acceleration from the previous figure, and it's also reasonably pleasing when we benchmark that against the rest of the world. Just for subscriber growth, we added 1.388 million.

I would note that what we are seeing in the market is that subscriber growth continues to float, and that's the market. What we need to do about that is to continue to work on our ARPU. We need to continue to win within the market, and, as you will see, we also believe that there opportunities for us to grow the market as well. In terms of EBITDA, we achieved a 39 per cent EBITDA margin, or a 2 percentage point improvement. So 3 points about that. It's pleasing that it was a five point improvement over the years since 2010, and a 10 point improvement since the nadir of 2011. When the benchmark that against international comparisons, it's sort of there or thereabouts about where we would like to be.

And just the third point on the EBITDA margin: where did the improvement come from? There was two points there. The first is we considered the hardware margin as the difference between our hardware revenues and our hardware costs, and our hardware costs being higher than our hardware margin, and so the hardware costs being higher than our hardware revenue, so that's a negative number, and our hardware margin improved year on year as a result of a decrease in handset subsidies. So that was effect number 1. The second effect was simply operational leverage.

So we grew our gross margin in dollar terms on a fixed dish cost base, and that was the second way that we achieved that two points of EBITDA margin improvement. I won't go back and talk about the EBITDA margin too much now, but I will dig into that revenue growth a bit more. So this chart shows the progression of our revenue growth and I will start down the bottom, which is our services revenue and retail and the form that we talked about in last October. So we had a PPP growth of 3.7 per cent in the first half of 2013, at Investor Day in October we talked about the acceleration to 8.6 per cent, which is through the effects that I started off with talking about today. Pleasingly, that has continued in the high single digits at 7.6 per cent in the half that has just finished.

Just going through some of the products in more detail: in terms of post-paid handheld, which is about two thirds of our revenue, you can see that has grown from 0.3 per cent to 5.4 per cent in the half that we talked about at Investor Day, and that growth in mid-single digits has continued. Very pleased with the progression of our post-paid handheld business. We introduced products like the New Phone Feeling for customers who want a new handset every year. For customers who are rightly concerned about their devices, we've brought in Stay Connected for those instances where you lose your device or it's stolen or it breaks. We've also introduced – or continued to promote no lock-in plans. We've also refreshed our shared data plan.

So strong product introductions in post-paid handheld, and I will note that in achieving that five per cent revenue growth we've needed to absorb the decline in revenues from international roaming as a result of us decreasing our international roaming prices for data by 80 per cent and putting five times more data into data packs.

In terms of pre-paid handheld: a very strong story, with the revenue growth going from 7.7 per cent to 19 per cent. We continue to be encouraged by the success of the Pre-Paid Encore plan, which continues to work hard with our merchandising and third party channels and also in the precision of advertising. It might be worthwhile saying that over the years we've seen a swing from pre-paid to post-paid, from post-paid to pre-paid. This sort of goes in waves. What we're seeing at the moment is a pretty even balance of trade between pre-paid and post-paid. There's not sort of a swing either way there in handheld.

In terms of mobile broadband, it's growing at 11.6 per cent. We seeing from mobile broadband – there's lots going on there. We have cellular Wi-Fi dongles and tablets and we also have mobile broadband held within shared data plans. And we've discontinued this now, but in that period we also had mobile broadband as part of fixed broadband packages as well.

We're winning in the market in terms of mobile broadband, but we really believe there's a big opportunity for us to create the market. All those tablets out there that are Wi-Fi only – we've certainly got our eyes on those, both on the consumer side to encourage our customers to connect when they're out and about, and on the business side we do believe that there is this productivity benefit through customers carrying connected tablets.

In terms of machine to machine, it's growing at 6.8 per cent. This would be sort of the one number in the documents that we would be less than enthused about. We still remain incredibly positive on machine to machine in the long term. When we read about the productivity benefits that our customers get in logistics, transport, security, the customers who have installed machine to machine solutions get very fast payback so they're very positive about it. We believe our solutions are strong. We've got a great pipeline of opportunities. Look, the challenge for us is to close that pipeline a bit more quickly than we have been doing. I wouldn't expect that to change too much in the year. We're much more positive on that in the medium term. So that's a summary of revenue growth. I guess the summary of the summary is that acceleration we saw to high single digits has pretty much remained.

The biggest thing that's going on underneath that is the stabilisation of ARPUs. That's what I will go into now. So in terms of ARPUs, we saw the first half of 2013 a $3.42 decrease. Then that has gone to just 47 cents, and we're still down less than a dollar decline here of 94 cents. And if you look at sort of what's going on above that, that's actually pretty much all explained by mix effects and it's a very positive stories up here. In terms of post-paid handheld ARPU ex MRO, you can see that actually increased to – by $1.70 in the second half of 2013, and that was the first time we had seen that in many years. The pleasing thing is in the three quarters since then we've seen continued progression of that number.

And indeed – it's actually in the speaker notes that we released today – that number has now increased to – for the third quarter it's $66.10, or $1.42 increase. Now, post-paid handheld is a great example of this data issue, is that customers are coming to their ends of their gig or their one and a half gigs and they're making the choice to either upgrade to the next higher plan, to buy a data pack or, in some cases, go into excess usage, and that's great. The only reason that we have confidence they continue to do that is the network that we provide. Of those three choices, the one that we're least enthused about is the excess usage.

We really think it's better for customers to be on the plans and the data packs, and so we've reduced our excess usage charge from $2 per mb a few years ago to 25 cents to 10 cents, and it's now at three cents per mb on our latest plan – also introduced alerts there as well. Now, in the post-paid handheld, that's exactly where we absorb those international roaming price discounts as well. So that $1.34 and $1.42 increase is after we've absorbed the international roaming price decreases. On prepaid handheld we've seen a steady increase in that number as well, which is great. I would say that there is an effect that won't last forever in prepaid handheld ARPUs, and what we see is when customers move from older plans to our Cap Encore product, that's normally an ARPU-positive event and there's a limit to how much that can go on. I would note that prepaid handheld overall is an adequately profitable product for us, so there's no sense that prepaid handheld is a poor product. It's going strongly at an adequate level of profit.

In terms of mobile broadband, very complex mixed effects going on here, very different ARPUs depending on whether they're dongles, cellular Wi-Fi or tablets. We're seeing strong growth in terms of SIOs in terms of tablets. What will determine the outlook for mobile broadband will be predominantly the mix of how customers choose post-paid versus prepaid and which of those mobile broadband solutions. The big opportunity for us in mobile broadband is in the SIOs. It's about creating new uses for connected tablets. Onto machine to machine: as I indicated last October, this is probably the only ARPU that we don't care about. The reason for that is the ARPU of machine to machine will be pretty much entirely influenced by how successful we are in what vertical. When we sell a digital signage-type solution, which is predominantly video, it's a very heavy use of our network and the ARPU can be many tens of dollars.

Conversely, a big machine to machine solution for a utility could be low single digits. So huge swings there, and so where that will go will depend on which of the verticals that we're successful in. Again a quick summary: what we see is this overall stabilisation of ARPU continuing into the first half and, for post-paid handheld, into the third quarter of this year. So that's the summary of the financial outcomes, and I would say that there's not a single number that I've just talked about that isn't influenced by our network. So the value that we provide customers, which is through the outstanding network, allows us to provide the value to the customers which helps us with our ARPU.

It also – when we look at all of the millions of customers who have joined Telstra over the last few years, those millions of customers have joined predominantly because of the network. And that is why it is the first of our four priorities in mobile, and that is to maintain and promote our network advantage. The actual priority with that is to improve out customer service and to communicate the benefits of our customer service. We will continue to work on our margin and we will continue to achieve productivity benefits for Australian businesses through our connected tablets and through our M2M solutions.

I'm fortunate to be joined today by Mike Wright, who is our group managing director in charge of the network. Mike has been working with us for 30 years. He is the engineer that played a leading role in the record rollout of Next G around 2006/2007. He introduced LTE early to Australia. In fact, Mike had to coordinate a worldwide ecosystem of LTE1800 to get that early launch in Australia. So it's a great privilege to welcome Mike to talk about maintaining our network advantage. And after that Mark Buckman, who is our chief marketing officer, will talk to us about how we market the benefits of Telstra's mobile network. Mark has won the Marketer of the Year in Australia three times in the last five years over two different companies, and it has been a great privilege to watch how Mark has transformed our marketing effort. So over to you, Mike.

MR M. WRIGHT: Thank you. So everything we do from a network and technology point of view and everything we've always done is heavily anchored in what matters to customers. So from our point of view, customers will value the network if it does what they want and continues to do what they want, and that can be pretty well described in four quadrants. Firstly, largest coverage: as you know, 2.3 million square kilometres on land. We've actually optimised another million square kilometres to sea, which is used by boating traffic, and we have four times the 4G coverage of any other network. More reliable speeds are basically underpinned by the investment we make in the network and the technology choices we use.

And if you look at our technology roadmap over the years, you will notice we've been very, very aggressive on next generation technology: world first in HSPA+, world first in dual carrier HSPA, world's first 300 megabits per second call and, of course, that slide is now more than a week old. So last week we did the world's first 450 – what's called category 9 network trial tests, and I will talk some more about that later. Now, these speed advantages are done for a purpose. Basically, the more throughput a cell can put through in the network, the better the end user experience when lots of users are trying to use the network. That's what underpins our drive for those technology roadmap steps.

And when we look at the end to end cost of the network – and I don't know that it's universal around the world, but in this company the engineer talks to the guy who looks after the handset purchasing and the marketing to the customers. And when we blend the two and we look at the overall cost of a bit in the network with the different devices, the more modern devices with the latest technology standard with the best network means we get a lower unit cost. So over the years, we've been able to absorb this huge growth in data on the network by using the latest technology, and when we blend that with when the end customer has the latest device and gets a great user experience, you get network differentiation.

So that has been and will continue to be a key focus of why we drive technology roadmaps, and we don't see any slowing in growth in technology demand with tablets and machine to machine and media now playing an increasing role in our network. So we don't see any reason to slow down at all in wanting to pursue the best network technology. Customers value fewer dead spots. We've made huge investments – $5.5 billion – into our network since 2006 and we have over 7800 towers on our network. And every investment we make in the network, as I mentioned before, is underpinned by an understanding of what the customer needs.

So we've moved away over the years from a pure sort of engineering metrics to a set of engineering metrics that are tied to what a customer's experience will be, and we find that very powerful in making a decision on every dollar we invest in the network, making sure we put it somewhere that gets the best yield for Telstra and our customers. And fewer dropouts continues to be and underpin what customers want out of their network. They want to be able to make a call. They want to be able to hold a call and they want to have a good experience, whether that's a voice call or a data call. So fewer dropouts both in a data sense but also a voice sense remains important.

And to that end, even though we already have one of the world's leading networks in terms of the lowest dropout rates – and certainly the lowest in Australia – earlier this year we introduced a new network software which will detect when a dropout is about to occur. And if it can re-establish the signal, it will actually reconnect the call without the customer having to notice. So we've found that that's had 30 to 40 per cent improvement in perceived network call dropout. So the customer might hear a short break for a few seconds and they're reconnected, so don't have the inconvenience of having to redial, re-setup that call, because it's held at the radio level. As far as the network is concerned, the actual call continues.

So that focus on each of those areas underpins everything we do and everything we think about in the engineering organisation of Telstra that underpins what matters to customers. And it has to be enabled by technology and it will continue to be enabled by technology. We spend a lot of time thinking about technology and spectrum. Spectrum is the oxygen to our business and continues to be what we use as our strategic differentiator. And if you look at the history of how we've used it to make capacity available to our customers, enable faster speeds and get greater reliability, you can see how important we think about spectrum. And if you look at the recent spectrum options – and I will talk about that in a minute: how important it continues to be in our strategic roadmap.

So when we introduced the 850 megahertz network in 2006, we fundamentally changed the game in terms of 3G coverage and footprint of performance by taking it to a lower frequency band. As we introduce the 700, the APT 700-megahertz spectrum, for 4G it will do for 4G what the 850 did for 3G. And as we've thought about spectrum growth over the years, we've utilised our position of moving traffic off our 2G network into our 3G network to free up some spectrum that let us bring the 4G1800 network to life in 2011. If we hadn't been able to do that, essentially we would probably be waiting till late this year or early next year before Australia would have seen its first 4G call.

So we think that has made a huge difference to Australia, to our customers, and it shifted the market here. And as Warwick mentioned, shifting that type of a technology and that type of a spectrum in a country with 23 million people can't be just done by the size of our balance sheet. We do it by working with the rest of the world, and for us understanding what's going on in the world with technology, understanding what technology roadmaps, what vendors are doing, what chipsets are doing, it's fundamental to how we set our technology roadmap. And then we set about working with other operators around the world to build the scale we need so that we benefit.

And in the end, we think not only do we benefit, but Australia benefits and certainly our customers benefit from that technology roadmap. So recently we've seen – we acquired not only the 700 spectrum but also the 2500 spectrum in the spectrum options. Now, that again was the end result of two years worth of quite detailed engineering and strategic planning. So every megahertz we bought was carefully thought about. We bought as much capacity as we needed in the 700 band and we actually positioned ourselves in the band very, very strategically, based on a set of engineering parameters and analytics we've done. So we continue to rely on spectrum as a key differentiator and a key way that we drive our technology strategy.

And I mentioned before technology. I've pretty well run through the different technology standards, but we continue to drive through these technology standards. They are adding bandwidth and spectrum to give greater throughput. The greater the throughput of the cell or individual's device means more users can use the cell at the same time, which means they get a great user experience. We get more network capacity out of it. Also by bonding spectrums together, we actually make a bigger channel and statistically that improves the efficiency of the channel, so it drives down the cost of the bit. So in the end, we pursue these technology roadmaps for a purpose. And I know the slide says two to three years for category 9.

Based on our tests last week, maybe we will even see it a bit earlier than that. We will have to wait and see. We also look at things like small cell technology. Now, small cell technology to us is important for very dense areas of the network. This is about giving customers consistency of user experience where lots of people get together and use up cell capacity. One of the great advantages we do have, though, is the amount of spectrum ownership we've got. The more spectrum you own the more capacity you can put on an existing tower. So you've got two choices when demand grows up in your network: you can build more towers or you can put more capacity on the towers you own.

If you build more towers, you're exposing yourself to capex, operating costs, electricity, rent. So the more spectrum we own, the more capacity we get out of each tower. It makes the network more efficient once we get a minimum amount of coverage out there. The small cell technology will help us in the really hot spots, the dense locations, in the network. So we now have a tool in our toolbox as hetnet technology emerges where we will use that in the dense parts of the network. And indeed, we're even looking at some of that same technology in some of our bigger rural cells to manage high cells and low cells, because they're almost the same architecture.

And you would have seen earlier this year we did a trial of what's called LTE-Broadcast technology. We know that when lots of people get in one place and all want to consume the same data, we're replicating the same data repeatedly over the network. LTE-Broadcast technology allows a cell to reconfigure itself so the same information gets transmitted to all the users. So effectively, it turns it from multiple individual strands to one strand that, in theory, infinite users could listen to. So we think there's a lot of opportunity in LTE-Broadcast technology in both making our network more efficient, but also being able to deal with peak user big event times, whether it be breaking news or at a stadium.

And we think beyond those two core applications, which today are probably the most talked about, that we could also use this technology to do things like mass update the software when device software gets released or updating signage or for machine to machine applications. So we're continuing to probe technology roadmaps to try and understand not only how do we maintain the core of Telstra's business, but what are those edge cases that are going to make us differentiate or make the network more efficient.

And just to add to that, a couple of extra areas that we've been looking at: LANES technology, or LTE-Advanced Network for Enterprise Services, is a proposal we've been working on and actually demonstrated late last year to emergency services and enterprises, whereby we believe we can architect the network in such a way that we can give quality of service combined with some dedicated spectrums to effectively give a network with similar reliability to a dedicated emergency services network. Now, it's early days in demonstrating this in early discussions, but we think this is a great opportunity for Australia and for enterprises not only here but potentially around the world to deploy priority capability in a much larger footprint and a much more economic price.

So we're continuing to explore and probe these edge cases which we think are interesting. And similarly, you may have noticed recently we also have been testing aircraft-based LTE transmissions. We were able to use just four towers between Melbourne and Sydney with antennas pointed in the air, with special adjustments made to the LTE technology to allow for speed and distance and maintain 10 to 15 megabits per second continually at commercial aircraft speeds. So for us, not only are we looking at the core of the network, we're continuing to probe new technologies and ways that we can use them that can add data to the core or maybe even create new businesses.

So I can do as much of that as I like, but nobody will know about it unless somebody can get the message across, and one thing that has really emerged in recent time with the introduction of Mark Buckman into our team is the ability to communicate these complex engineering and technical messages to our customers so they understand the value we're building, and I will hand over to Mark now to see about how he does that. Thanks, Mark.

MR M. BUCKMAN: Thanks, Mike. Thank you. Good afternoon, everyone. I'm not going to wander around too much on the stage today; I haven't got much of a voice. So welcome and thanks for coming, and if it wasn't for Warwick and Mike I wouldn't have anything to say. So you know, Warwick has provided a great context, this afternoon in terms of establishing why the mobile business is actually, the most important of our core business. And Mike has just done a great job in establishing for us, the Why Telstra proposition and the points of difference that we have in the market. And I think, it's probably important and hopefully interesting for you to understand, how we go to market and how we differentiate the Telstra brand and message and mobility portfolio in the market.

Firstly, to continue to demonstrate our leadership in the mobile world and, it's a really important thing that we drive home this message because it's – having the network that is number one in the market is a real driver of choice in the mobile world. So, really, communicating that. Secondly, being able to communicate the differentiation that we have in terms of content, products and services and really show the difference that the Telstra portfolio has in the market. And, finally, showcasing to our customers the movements that we've started to communicate around advocacy and customer experience, that we provide a superior customer experience that will drive advocacy.

Sure we have these big campaigns, bold TV commercials and, hopefully, you've seen many of those over the last few years and, more recently, our new campaign including Jimmy Barnes and Magda Szubanski. Has anyone sees those? Yes. Lots of nodding. That's great to see. That's good. Because we have a leading share of voice in the category, so hopefully that investment is being well spent. But what goes behind those, also, are some really detailed sophisticated marketing strategies to target our consumers. A very detailed CRM strategy, a very detailed catalogue and direct marketing communication strategy. As an example, we've just – we publish – every quarter we publish 3.5 million catalogues to consumers to once again to point out the points of difference that we offer in the market.

We've had a big change in our media market – marketing media shift and, you know, over the last three years, we've seen a big movement where we would have had80, 90 per cent of our money being spent in what was traditionally called above the line communications. You know, television, outdoor, , mainstream media. Over the last three years we've made a 50 per cent shift to direct digital and that very direct communication. And that's made a massive difference in terms of improving our cross-sell, really getting into targeting marketing and driving a greater return on market investments. Which are all significant.

So what I wanted to talk about today are some of the campaigns that we have in the market. Now, our national campaigns, clearly are driving the network advantage that we're taking to market. As I said before, it's really important that we continue to do this. Network choice is – network selection is a key driver of choice in the market. And we know that this is working in terms of the last three years as we've been driving home this point of network differentiation. Warwick will talk a little bit more about it. But you will see that evidence in the growth that we have achieved in the marketplace in terms of subscribers versus our competitors.

So our national campaigns are supported very much by local area marketing. Not only in terms of direct marketing but also, as you can see here, we've done some very tactical, very local directed marketing towards particular suburbs as we upgrade the network, some of the areas that Mike has just talked about, so we can get very tactical and talk about the fact that 4G is now alive in the suburb of Cronulla. So we're getting very local and very specific in our marketing which is, really important in terms of driving that local marketing.
We've also gone to great lengths to make sure that we've got a consistency in the look and feel and tone of our marketing and, again, I think if you think about what we've been doing over the last three years, you've seen bringing together, coming together of the way that Telstra markets. And I think, from an investor point of view, that would be valuable for you to be thinking about in terms of the value creation that that brings. You know, the one Telstra brand that's in market – it just adds value to the Telstra brand overall which, Telstra has become the second most valuable brand in the country and we've seen a 300 million dollar up-tick in the value in the last year, as measured by Brand Finance so it's a really important measure for us to be thinking about – of how we actually go to market.

In addition to the sort of national campaigns and the local campaigns, we've been really focusing on how we communicate our network advantage through specific products and services marketing. And Warwick mentioned some of the platforms before. The Stay Connected campaign, the Data Share Plan and the New Phone Feeling. Now, all of these campaigns have been developed to specifically address pain points that we've picked up through talking to our customers. And I'm going to talk to you a little bit further about, you know, the way that we've been listening to our customers and how that's actually driving advocacy.

But those three plans have been very specifically designed to attack specific pain points with our customers. So for the Stay Connected, as Warwick mentioned, if you've lost or damaged your device then we will replace that device within the timeframe and with a similar device. Our Data Share Plans that's has been a great innovation in terms of what we've been taking to market. It really differentiates us in terms of our competitors but, also, gives people the opportunity to share data across multiple devices and we've been doing that under the line of 'make your data go the distance'. So we're giving people the opportunity to do that.

Finally, the New Phone Feeling, it has – has anyone seen the New Phone Feeling ad out in market? A few of our people. There we go. So, hopefully you've seen it because it has certainly got a lot of coverage and we've been getting some great response back from our customers in terms of just being a real innovation in the marketplace. A big success there. So it gives people the opportunity to pay $10 a month and every year they get to change their device on that basis. So it's really tapping into that insight that people want to have that new phone feeling, that experience of opening up new technology and being able to have the latest technology available to them. But, a terrific response from our customers.

And, also, the new device launches. These are a really important moments for us and I think it's fair to say that with the two examples that we've illustrated here, both the iPhone 5 launch and then the most recent Samsung S5 Galaxy launch, we've really used these opportunities of experiential marketing to drive home the difference that Telstra will actually bring. And while it might be cheeky to say, – it's real to say that we've actually had more people lining up outside of our stores than some of the people who have been manufacturing the devices. So some real opportunity there for us in launching both those devices.

But underlying all of that is our new approach to customer advocacy and Warwick is going to talk about this more in-depth shortly. But underlying this is under the theme of we're committed to caring about our customers and it really comes under these four categories: a personalised service, Australia's best network, peace of mind and world class products. So personal service, you've probably seen Magda Szubanski, out there promoting this and really talking about the fact that we will make it easy for you to get back to the same person that you have spoken to and that has been a real breakthrough in terms of customer complaints and customer pain points but they want to actually talk to the same agent that they have in the past and we're making it a lot easier for people to do that.

Australia's best network, we're going to continue to push home and drive home the advantages that Mike has just talked about in terms of the size of our 4G network. The square kilometre advantage that we have, the push that we will always drive in terms of reliability and coverage. Peace of mind, you know, the New Phone Feeling as well as the Data Share Plan is all about us giving our customers want they want in terms of having that peace of mind that they're not going to be – that they're going to be in the right plan. And, finally, world class products that we will continue to drive.

So hopefully you have seen some of the new ads with Jimmy Barnes and Magda. There's a new one coming out with Jessica Mauboy that, hopefully, you will also see pretty soon. And I'm just going to show you the Jimmy Barnes ad, just for those of you who haven't seen it. I think what this new series of marketing and ads are actually doing for us is really – you know, we're taking a couple of well-known celebrities in Australia and putting them in the position of working for Telstra. And they cheekily pretend to be a Telstra staff member going about their business and then that's juxtaposed against the actual staff member coming back in at the end of the ad to say, "We really care about customer service, we've been listening to you and we've taken on board the feedback that you've given us and we want to be famous for service". And that's really underpinning where we're going in terms of driving advocacy for our customers.

So with that, I will ask the guys to just roll the ad.

VIDEO PLAYED

MR BRAY: Thank you, Mark and Mike. So of our four priorities, I will now go on to talk about the next one which is about delivering customer service. So some of the initiatives that we have put in place over the last year and six months has been a big effort on device replacement. This is a big pain point for our customers as Smartphones and tablets become more and more important to us. What do you do if you lose your Smartphone or it's stolen or it's broken? So that's Stay Connected and for those customers who want a new phone every year a set of customers told us that's what they wanted, that's why we brought in the New Phone Feeling. And both of those we're getting very strong advocacy scores back from those customers who have taken up those plans.

We've also got a big push on at Telstra to make it even easier for our customers to deal with us through our digital channels. As examples of what we have done, we have reduced the load time on Android by 50 per cent of our 24/7 product. We've introduced 24/7 for – which is a self-care product - for business customers as well on both iPhone and Android. And we've also, for the important times when you want to buy a data pack, we've reduced the number of clicks to buy a data pack from nine clicks to three. There has been many more but that's just an example of – we have this continuous improvement on digital for thos customers who want to work that way.

Bill shock has been an area focused as well. So we've introduced a $130 voice cap. Our excess usage charges for domestic data have reduced over the last two years from $2 per mb to 25 cents to 10 cents and they are now three cents per mband both domestically and internationally we have SMS alerts for when, for instance, domestically it's when you're at 50, 85 and 100 per cent of your allowance and we're continuing to work on making those alerts even more timely and, of course, we've reduced the international roaming prices as well. Mark has just talked about some of the service initiatives and we're also very focused on improving our processes, as an example, on sales and activation. Bringing down the time at which it takes to activate one of our phones and bringing down the customer effort and, also, the assurance process which is when customers ring up and when we need to improve some experience that they're working on.

So that's an overview of the initiatives and our objectives are to increase our net promoter score for what we call advocacy to reduce the service calls per customer, to reduce the TIO complaints and also to increase our customer satisfaction and retention, and we actually released today in the speaker notes that our post-paid churn continues to be around 10 and a half per cent. Customer service, it's an area that all of us spend an enormous amount of our time and energy on at Telstra.

The next priority – I should – as part of setting a great advocacy outcome, we've introduced Wi-Fi. And so we – last Tuesday, we announced that we're going to create one of the world's largest Wi-Fi network. Two million hotspots over the next five years. For customers who choose to use the service can also take advantage of 12 million hotspots globally. The way we're going to do that is there's three or four parts to it, we're going to build our own initial 8000 plus Telstra hotspots, there's going to be a sharing system introduced for fixed broadband customers and, also, we're going to be partnering with enterprises and government bodies as well, to create this network. We've received very good feedback from the launch last week. And the – look, this is a mobile update today. The primary reason for doing this was for fixed broadband customers. So those fixed broadband customers can use their allowance instead of in one spot, they're going to be able to use it, eventually, in two million spots around Australia.

But as we said last Tuesday, we will be offering the Wi-Fi network to our mobile customers as well. We haven't announced yet the details of how we will be doing it. But, directionally, we will be doing that. And the evidence from overseas from companies that do do this is – has been very positive for customer retention and, also, for customer advocacy.

The third priority is our margin. Very pleased with the margin outcome that we just saw. In terms of the future, the biggest expenditure that we have in the mobile business – any mobile business is subscriber acquisition and retention costs. We will continue to work on our unit subsidies particularly the cost of handsets. We have been very pleased by our progress on offering bring your own device opportunities. So that's when a customer has already got a device or buys it at that time outright, then comes to us either on – well, for instance, on a no lock-in plan. And so that has gone well for us. We continue to work on the mix and then something that – at Analyst Day, we often get asked about is the number of events -the background to this question is we've been very successful in post-paid, handheld in the market three years and two years ago and those handsets, of course, come up for renewal and then we have what we call a handset recontracting event. We're often asked whether that will lead to sort of negative margins and our response, and it will remain our response, is that is a negative effect in an overall – in a large series of effects that affect our margin and it has been manageable. Of course, apart from our subscriber acquisition and retention costs, there are many other aspects of the margin.   We continue to work on our prepaid recharge. So the amount that we retain is quite different when a customer tops up online, for instance, versus within a third party channel. So swinging that mix is important.

We continue to work on our budget and rebates. The cost of what we call credits and rebates has come down markedly this year and, actually, that's a direct result of us improving our customer service. So as our customer service improves, you see credits and rebates come down. Cost of non-quality is quality is important. What we might by that is that, as an example, if we muck up an activation of a handset and the customer needs to call us a few times– it's a terrible thing for our customer – we're definitely aiming to get that number down as we do, but it also drives cost into our system. So making sure that all of our processes work right first time, as well as being great for our customer, drives costs out of our system and, of course, reduces the number of service calls. And then the other biggie with mobile margins is the extent to which we get continued operational leverage.

So coming to growth now, and it's our conviction that we can grow the market through helping Australian businesses be more productive through using some of our enterprise solutions around machine to machine and connected tablets. When I say "enterprise solutions", we're talking from the smallest business to the largest. Just starting with machine to machine. The verticals that we continue to target – and this is from largest to smallest – is transport and logistics and that has been very successful for us. That's where we might put a SIM card for one of our partners, like Navman, in a truck and the truck only can tell where the truck is, can direct the truck, and then you get reduced tyre costs, and increased fuel efficiency and servicing efficiency, public safety and security, energy and utilities, retail and financial services.

Digital signage is very important, because of the makeup of our economy agriculture is very important here as well. We're working around with a wide range of partners, so our SIM management is done by Jasper Wireless - we're very happy with that – and we have both applications partners and systems integration partners, examples of which are on this page. As one example of our machine to machine implementation, this is one with the Cairns City Council and we worked with the city council and Navman to put together a solution for the Cairns City Council. They have more than 600 vehicles; they have utilities, cars, tractors, mowers. And what they were after is solutions to improve their productivity, improve fuel efficiency, power efficiency. They're actually – there has been many and varied improvements in their productivity we weren't expecting.

So, for instance, they're actually getting a lot of service improvements, because they found some vehicles were being over serviced and some being under serviced. One of the great – when we sort of read through these implementations of machine to machine, one of the most rewarding aspects of it is the benefit that our customers receive when we put this in. As you can image in a place like Cairns, one of the things that was most important in us winning the solution, apart from our SIM management and our partner abilities, was the cutback to the superiority of the Telstra mobile network so Cairns City Council could have some confidence they would be in contact with their vehicles.

Possibly even bigger than machine to machine is the opportunity in businesses for businesses to improve their productivity through carrying connected tablets. So, for instance, sales forces having access to their CRM tools, their leads, etcetera, trades people having access to job dispatch. Digital forms is a big one there and then field forces for rich data. Field forces having video conferencing to experts. And more and more what we're seeing is field forces justifying a connected tablet implementation for occupational, health and safety reasons. So some of our solution partners are ARIS, which is about sales force solutions; CANVAS which is about pre-populated and make your own forms; GeoOPs which is about field forces, and KONY which is about write your own solutions.

We also have systems integration partners and we will also be having many more business solutions coming out over the next six months. A good example here is an implementation that we did with ARIS and they are a third party sales and merchandising company. What they have done through implementing connected tablets and ARIS, is they have reduced printing a million pieces of paper every year and it has been much more effective in terms of their merchandising, because their merchandisers can get the instructions in real time over their tablets. They reported a 40 per cent productivity benefit through implementing this solution. What's also pleasing is that our MDM solution, Airwatch, was an important part of this one as well.

And so, look, we believe that we have got the right solutions in place in machine to machine and also in business connected tablets. The opportunity for us is to now talk to more customers and sell those solutions. I will just conclude now by saying that we have continued to invest, and will continue to invest, in our network; we will continue to invest in promoting the benefits of our network and our customer service improvements. We are passionate about continuing to improve our customer service and believe that there is a big opportunity in the new business I've just talked about. Providing we do that, the outcomes we're aiming for are growth and customer advocacy.

I shall conclude there and ask my three colleagues to come up – four colleagues to come up and talk – and ask any questions. I would note that the questions that we invite today are about the Australian mobile business. They're the questions that we will take today, so other questions are for other forums. I would also like to introduce John Chambers who is the executive director of our mobiles business.

MR KEYS: All right. We have two – Hamish and Nicola have got the microphones, so, please, we will be taking questions from investors and analysts. We will have an opportunity for media questions a little bit later on. Nicola, if we could start with Sameer, and then Fraser in the front row and Richard in the front row.

MR S. CHOPRA: Good afternoon. Sameer Chopra here. I have two questions. The first one, Warwick, you know as you cycle these international roaming charges that you had previously and excess data also coming out, do you see scope for a big step up in ARPUs, I'm just wondering. ARPUs currently are trending up, even though you've got excess data charges coming out of the system and international roaming coming out. As you start cycling this over the next couple of years, do you expect that the underlying trends are rosey enough that you could see a material step up? The second one is just one for you, Mark, and that is there's 15 million Australians there that are not on Telstra's network, and so I was wondering, you know, could you describe who these people are, what sort of segments, and what are you doing to get them across?

MR BRAY: Yes. Thanks Sameer. On the first one, look, we're not giving specific ARPU guidance, but just talking about post-paid handheld, what I would say is that in the areas that that are bad – so post-paid handheld is a combination of some aspects are coming down and some aspects are going up. The aspects that are going down, you can sort of see an end to.

MR BUCKMAN: Thanks, Warwick. Sameer, thanks for the question. I think the growth that you've seen over the last six halves in the mobility portfolio is a good example of how serious we are about acquisition where we put on over 100 per cent of the market in every one of those halves. So, you know, we've been pretty focused on not only, you know, retention and reducing churn , but also going after, you know, significant new customers in acquisition. And just to dimensionalise some of those markets, if you look at the youth market, it was probably one of our most under-indexed markets in the past and we've seen significant growth as we put some focus into the university market, as an example.

We've also focused after the ethnic markets, specifically after the Indian and Chinese markets in Australia and, again, seen some really good growth over the last 12 to 24 months in that space; and the travel market. So we're really focusing in on very specific markets that we've under-indexed in, and have strategies specifically to go after those and I think, you know, the results, in and of themselves, are a demonstration that we've been, achieving growth in that.

MR J. CHAMBERS: And I might just add to that as well. Just in terms of we're really positive on what Boost has been able to do for us, and Boost does play quite nicely in some of those areas that we do know are under-indexed. So we expect some positive outcomes from the Boost business.

MR KEYS: Thanks. Fraser.

MR F. McLEISH: Fraser McLeish from Credit Suisse. Just on the Wi-Fi rollout and strategy. How are you thinking about potential cannibalisation impact on mobile, I guess particularly on, you know, where people have got dongles, or SIM cards and tablets where they might think, "I don't need that anymore, because I'm going to be able to get connected by Wi-Fi", and just, you know, on the work you've done from overseas – what you've seen the impact overseas of that. Thanks.

MR BRAY: Mike and I will answer that one, so I will start by saying the first thing is, this is the right thing for our customers. So our customers have asked for a Wi-Fi network, so we're – we're doing that. And we believe that it will be great for them. The second thing is we did, of course, look into that cannibalisation question. We thought about that cannibalisation question in a number of ways. The first is we modelled it. So we looked at where people use their cellular data today and we looked at where Wi-Fi hotspots are likely to be. So we looked at it that way. The second way we looked at it is we spoke extensively to cellular operators overseas who have extensive Wi-Fi networks and we – we, sort of, triangulated it using those pieces of data as well.

And so, in, like, our business case – our business case does have – we recognise that there is that possibility. I would also encourage you to think about the reverse, though. Is that, there are so many tablets out there that have no cellular capability. The act of having a Wi-Fi network will encourage those people to take their tablets out when they're out and about. Get a taste of using it on the move and potentially move to cellular as well. And we have seen that from overseas, as well. Well, I will handover to Mike to expand on that.

MR WRIGHT: Yeah, sure, Warwick. There's a few dimensions you can look at this as well. What this is offering is customers a new place to use their home broadband. It's normally the place that they're dwelling at. They're sitting, maybe, near a library or somewhere where maybe they wouldn't have otherwise used their cellular allowance. And now they have the ability to stop and do something they wouldn't have done before. But you've only got to do the maths for the size of Australia with 2.3 million square kilometres of cellular coverage and do the maths on, maybe, if you're optimistic, a 50 metre radius out of a public hotspot and do πr^2. You'll pretty soon calculate you're looking at .1 of a per cent of the network coverage that you could get out of Wi-Fi. It's about the value it adds to people contextually. They take it from their home. They could use it in another home. Or they could use it in a place they're dwelling. And we think that adds a lot of value. But we don't necessarily think that it makes a big difference to the cellular network.

MR McLEISH: The speeds you're able to get will be faster than LTE, I'm guessing, or 4G, than they will be on Wi-Fi. Is that fair?

MR WRIGHT: Pretty well over a much larger area. If you think of it on Wi-Fi you're set by – in the home, the speed of the broadband service. Which will improve with NBN, by the way. And in public hotspots, you know, the back haul will be reasonable. But when you look at what we can do with cellular technology over the time if you look at the distance and the speed, the cellular network will continue to deliver a, you know, a very, very reliable throughput over a huge area.

MR EARY: Richard here is from UBS. Just, just, sort of, three more direct questions. Mike, you talked about cost per bit in your presentation, can you actually put some numbers around it in terms of where it's gone to, where it's coming, and where you think it's going in the future? That's the first question. The second thing, Warwick, in terms of actual traffic usage now on the network on a per subscriber basis, can you give us some framework and how we should think about. Where it is now and where you think it's going? And then the last question is more on a traffic today. You know, we obviously talk about subscriber numbers but if you actually look at bit loadage on the 4G network just give us a feel in terms of actually what the traffic loading is like.

MR BRAY: So, you want to answer 1 and 3?

MR WRIGHT: Yeah, sure. We haven't got an update on the actual cost per bit reduction but we have talked about that and in fact shared some graphs over a number of years, back since 2G. And I actually would have to come back to you and – and re-look at those graphs. But if I stand corrected, but I know over the years we've done better than over 80 per cent reduction in a cost per bit. And the way we look at bits, and that's going back to 2G, maybe in another update we – we'll put a later graph out. Each technology step gets more through both the amount of spectrum we use, but also more out of the hardware. So that's quite significant in terms of when you look at the growth we've had in our network, our ability to maintain network performance and work for the demand on the network.

In terms of network data for 4G, again we're not releasing any details today. Suffice to say we have seen a very, very strong in the 4G network data and the real great outcome of that has been because we penetrated devices early, we very, very quickly started to see ourselves investing in capacity in the networking, not in 3G and 4G, but instead in 4G and by doing that, we've actually driven the 4G footprint out further really with the same type of investment. It's almost self-fed its own growth and footprint.

MR BRAY: So on the second question, I think that was about, as I say, the way you can think of the economics of the distribution is we have a number of buckets out there. We have one gig, one and a half gig, two gig, up to 10 gig buckets. And the way that translates into more revenue is when customers get to the end of their allowance and they do something. Now, what you can see from the numbers, is more customers are closer to the end of their allowance which has been positive for the economics that you saw up there in ARPU. We're not releasing any more detail about the distribution. What we do need to do is to make it a great experience when customers get to the end of their allowance. That's why we've reduced the excess usage charges and we've made it much easier for customers to make a choice of what they want to do when they get to the end of their allowances.

MR N. BUCKLEY: Nathan Burley from CBA. Warwick, I was wondering if you could just talk about where the MRO impact is up to. I think we're fully 100 per cent through the base in terms of the wash of that. And also, it would be interesting just to get an update on your wholesale strategy.

MR BRAY: So, could we go back to the ARPU slide please. Yes, you can see the difference in the change in ARPU in H1 2013 versus H1 2014. We're most of the way through that MRO impact. You can tell that from there. So I wouldn't expect again large MRO impacts, which is what you would expect because you get the large MRO impacts as MRO is populating the base when you replace a subsidy customer by an MRO customer, and now we're replacing MRO customers by MRO customers.

MR KEYS: Warwick, and the wholesale component…

MR BRAY: Yes. And so on wholesale, we make good, selective decisions. Did you have a more specific question about that?

MR BUCKLEY: I suppose not really. We're seeing some considerable changes in the market. There has been a lot of consolidation. It seemed a year ago or so you added a number of reseller customers. I was wondering if you're still out there in the market looking for new partners in that area.

MR BRAY: Yes, so we are open to new partners as we have been in the past. And as I said, we stand for choice and we think that wholesale businesses have a valid place in the mobile sector.

MR J. DIDDAMS: I'm Justin Diddams from Citi. I was wondering if we could go back to that ARPU table. So the bottom line says blended ARPU and the second half is down 47 cents and then in the first half down 94 cents. Yet post paid ARPU seem to be sort of stabilising yet the blended ARPU trends got worse. And you made a comment that you through ARPUs were getting better. So I'm wondering what I'm missing.

MR BRAY: That's just about the next – so if you go back to – actually forward to – one more – that's it. So look, the comment is, if you look at each of the individual ARPUs there, that is a pretty strong story. Now, I was actually referring to H1 2013 and backwards, and so H1 2014 and H2 2013 are strong stories compared to H1 2013 and backwards. As the difference – so then each of those individual ARPUs is a continually strong story. Then the difference between 94 cents down and 47 cents down is purely due to mix effects. So it's how many subscribers you put on with each.

MR DIDDAMS: Okay.

MR BRAY: So – and I guess, just to continue that, my reference was actually if you go back a few halves, you were seeing, for instance, mobile broadband going down $15 a year and you can – and there are much steeper declines post paid handheld. So I wasn't drawing any particular conclusion between the 47 cents and 94 cents but over a longer period of history, they're both pretty stable was my point.

MR DIDDAMS: Okay. The second question was on the international calling. I think I read somewhere that to receive calls now overseas costs quite a bit more but the actual making calls overseas has come down. There seems to be - some of the industry press suggests that there was a bit of smoke and mirrors between what's actually going on in international, what's being advertised in international. So I wondered as a total revenue bucket, you know, is it getting cheaper for consumers or is it – are we just hearing about one part and not all parts.

MR BRAY: So the total revenue bucket, it has got much cheaper for consumers. What we – so the – the international roaming came down – data came down 80 per cent and there's five times more data in data packs. On voice, there wasn't much of a price change. All we did is we took 80 odd prices and changed them into six prices on voice calls. And so what – what it's meant is it is much simpler to understand the cost of making and receiving calls. But they're the sum – the total sum of international roaming revenue voice and data has come down considerably.

MR DIDDAMS: So data cheaper; voice is the same.

MR BRAY: About the same.

MR DIDDAMS: Okay. And then just lastly on the Wi-Fi networks, is it fair to say that's just more of a marketing campaign rather than actually anything more than that because this technology on the 4G is so good, why would you bother rolling out all these Wi-Fi networks when 4G is so good?

MR BRAY: So what was found from overseas is that customers who do take up – fixed broadband customers who do take up the opportunity to use a network such as this – a Wi-Fi network such as this, universally you get a much better advocacy outcome. We're also seeing very big churn benefits as well. So we believe that both in terms of customer advocacy and hard customer numbers, we believe that this will be a very good experience for customers and a good outcome for us as well. And like, we wouldn't invest $100 million just for a marketing outcome.

MR KEYS: All right. Thank you. Next question, I think, will be Raymond Tong and then we will go up the back.

MR R. TONG: Yes. Raymond Tong from Goldman Sachs. Just another question on the roaming side of things. Can you give a sense for how much that contributed to your service revenues and I suppose how far they've declined. I think it's around about seven to eight per cent probably the last time you disclosed it.

MR BRAY: Yes. So we're not going to give an update on that today, Raymond.

MR TONG: Okay. And I suppose secondly, just on the new mobile plans that you put through I think in March, could you give a sense about how we should be thinking about the impact on ARPU going forward and the mix shift that's happening there with the new plans, please.

MR BRAY: Yes. So one of you put our a – one of the investment analysts put out a report saying pay a little more, get a little more, feel a little happier, and I think that's actually a really good summary in that – so as example, when the $60 plan went to $70 but you got a half a gig extra data and that was about pay a little more, get a little more, and then be happier was around the 10 cents – just 10 cents a megabyte excess usage went down to three cents a megabyte. And that's the heart of those changes of the plans. Now, I saw there was a whole bunch of different view on that. But certainly the way we modelled it and what it appears in terms of outcomes, that would be the best summary.

MR TONG: And just the final question, just on subsidies. I know a few competitors have cut subsidies throughout this year. Do you see, I suppose, much scope going forward from a Telstra point of view to move subsidies down a bit more down the track?

MR BRAY: Yes, but not going to give guidance on that one.

MR KEYS: Thanks, Ian. Up the back.

MR I. MARTIN: Ian Martin, CIMB. Some time ago, David Thodey made a highlight about the rate of growth and expectation for mobile search and mobile advertising and I noticed that area was kind of carved out of the Sensis sale – I believe it was, recently. Is that still an area of ambition for you and I wonder how that's going, is the first question. Secondly, at the last result, you highlighted the desire to leverage the expertise and experience of Telstra in mobile into some partnership arrangements or advisory work in the region. Has anything come of that?

MR BRAY: So on the – on mobile outside Australia, we're not going to comment on that today. There will be another opportunity to discuss that at the full year results. On mobile search and advertising, Mark, do you want to - - -

MR BUCKMAN: We have a fairly robust mobile advertising platform that we work with MCN on selling and so continues to be an important part of what we do. It doesn't include the search side of things which you, as you rightly said, was carved out with the Sensis agreement.

MR KEYS: All right. Next questions, please. Can we have a mic go to Andrew Levy then Paul Brunker and we will get to you Richard. Thank you.

MR A. LEVY: Andrew Levy, Macquarie. Warwick, can you just elaborate a little bit on what's happening with the subscriber numbers for the quarter. Is that just the normal seasonal March quarter slow down or is there something structural that's causing the slower subscribers ads at the moment?

MR BRAY: So we are seeing the market for subscribers slow and so what we need to do is to continue our efforts, we need to continue to grow the market through some of the initiatives that I talked about and we need to continue to work on our ARPU. But we are seeing a slow down in the subscribers in the market.

MR LEVY: What do you attribute that to?

MR BRAY: Look, there is growth but you can – there is growth but as you can imagine, like, a lot of people who have got a mobile phone have a mobile phone. There is more growth to come but that would be it.

MR P. BRUNKER: Paul Brunker, JP Morgan. Warwick, probably one for you on BYO profitability. I think you've said in the past that BYO customers are a little bit more profitable than handset customers. Is that correct? And also what proportion of customers are on BYO and is that growing faster than average?

MR BRAY: Yes. Just coming back to the subscriber one. The challenge for us, as we said in one of the slides, is to make the market. And so we believe there's an enormous opportunity to have more mobile subscribers which is about more connected tablets and machine to machine. We need to grasp that opportunity. But the facts are at the moment, the market for subscribers has slowed. In terms of BYOD, I believe my comments from a few years ago, whenever it was, is they are a little bit more profitable and that remains the case. The proportion of customers that come to us on bring your own device is about stable at the moment. We, sort of, haven't released how much that is but it's not increasing.

MR BRUNKER: Also a quick follow up for Mike on M2M. Would you just talk quickly about the spectrum demands that M2M makes, because I guess – I mean, there are differences obviously between the upper end with mobile advertising for example, the perception is a lot of the M2M applications are quite low in terms of spectrum core and therefore might be very competitive in terms of, you know, operators just trying to load their spectrum with M2M subs.

MR WRIGHT: Well, there are two dimensions to M2M. I think, as Warwick said, it's very hard to categorise one. You could have one device using a very high bandwidth or lots of devices using a very low bandwidth. So there's the dimension of the spectrum bandwidth – of frequency, if you like, in terms of how much capacity. So for us, I think the secret sauce is actually about the low frequency spectrum because machines, like Coke machines, can't move around the room looking for a good signal. So the importance is to, you know, make sure you've got enough of the low frequency as well to both support the coverage you need and the depth as well as the bandwidth for the growth.

MR KEYS: We will go to Richard. Thanks.

MR R. EARY: Thanks. Just two questions. Just the first one is on OTT and what you think are the impacts on voice – I mean, obviously we've had an impact in other markets in terms of what's on texts. Here we have unlimited texts so there obviously hasn't been the impact. Clearly there's probably quite a lot of revenues and profits on voice on mobile networks today. So if you can just outline your impact or thoughts around that. That's the first question. The second question is that on mobile termination, we're coming to the end of obviously the regulatory framework and we're just going to try and – I'm just interested to see your thoughts in terms of were you likely to go post the next reduction of whether we go to actually a completely no termination rate market.

MR BRAY: Yes. As you point out, we've aimed to – in response to the OTT threat, which is very valid, what we've aimed to do is firstly to get most of our texts into very large or infinite buckets and so that's done. And then actually voice is – most of our voice is inside those large buckets as well, so it's a $70 plan and above in post paid handheld. And so excess voice isn't an enormous amount of our economics. And then I think the other aspect of the threat from OTT is that – I think as a cellular industry, we need to make the calling and messaging experience even better, and that's certainly a direction that we are following. Because the threat from OTT isn't just the fact that it's free. Some of their – their services have got quite innovative. And as an industry, we need to make sure that we respond to that through having a great calling and messaging experience, and that's another part of what we're doing.

MR KEYS: Okay. We will go to Raymond, then Sameer. Thank you.

MR EARY: So on mobile termination rates…?

MR BRAY: Yes, so – yes, so on the mobile termination rate, yes, we don't have a – I would say I don't have a point of view to share with you about our expectations for that.

MR TONG: Yes, Raymond Tong from Goldman Sachs again. Just, can you maybe just talk a bit about the trends in the enterprise at the moment. I think there's – it has been reasonably weak in terms of the revenue growth side of things for a couple of parts, and so what's going on there and so how you see I suppose BYOD going forward, impacting enterprise revenues.

MR CHAMBERS: I've got that one, Raymond. So in – certainly in our enterprise base, the changes to the international roaming rates, as well as – specially a shift away from BlackBerrys has been part of the challenge in the enterprise base. We definitely see that turning around. Bring your own device type solution is certainly becoming more and more prevalent in the market, and we have – working more and more with our enterprise guys to build that in a profitable way for Telstra. So we see that being important going forward, as well as, as Warwick talked about, the whole connected tablet space and shifting to a much more productivity focused tablet based environment with our key customers is a huge focus for us. So don't forget, we really see the enterprise base turning around.

MR BRAY: And just to add to that, we've got some great enterprise solutions in BYOD. So we've got our Airwatch MDM locally hosted and managed solution for enterprises to look after their – or to manage their devices. We've also got portals for online ordering of BYOD. So we're very much addressing that in enterprise.

MR CHOPRA: Two questions: one, you know, from just from the competitive standpoint, with Vodafone not having access to that 700 megahertz spectrum, how do you see the market shifting over the next year or so as 700 comes on stream? Because you've got a big network break in the system. The second one is just in terms of the churn trends between BYOD and post-paid. Do you expect the post-paid churn, hand held post-paid churn to be lower than BYOD? Could you give us a sense about how big that delta is? Thanks.

MR BRAY: On the churn question, did you mean the difference between post-paid hand held when you have a handset as part of the contract versus a BYOD, or did you mean post-paid hand held versus pre-paid?

MR CHOPRA: The first one.

MR BRAY: The first, okay. Yes. Well, so we're – we haven't released that split. What we would say is that we're very happy with our churn figures throughout post-paid hand held and that the – that the numbers that we've released today, we're really thrilled with that number. As I indicated at the investor day, it's difficult to believe they can go much lower than that because there's a lot of aspects underneath that 10 and a half per cent that will always be there. So, for instance, just as a small example, people move away from Australia. When families form, that can be actually within Telstra but churn of that. And then there's when you go to work and get a work phone, or you leave a work and you leave a work phone, all of those can be recognised as churn events for customers who still stay with Telstra. And so that – so people often ask can the 10 and a half per cent go much lower. It's difficult for us to see that one.

And then I think there was a spectrum question as well. So if that was about sort of what competitors do with 700 spectrum, like, all we would say – all we're going to say is that we're aiming to provide a great network experience for our customers through rolling out the 700 spectrum but, I mean, I can't comment on what the competitors do there. What we would say is that there's something very special about the 700 spectrum. In my 25-odd years in cellular, this is the first time we have had devices way before the launch of spectrum.

MR CHAMBERS: So we've already got the HTCM8 and the GS5, we've got those already, over 700 compatible and our three mobile hot spots and we've got half a dozen more handsets ready by the end of the year with the 700 compatibles. So by the time we're rolling that network out we will be – we will be really well populated with handsets ready to go.

MR BRAY: And that's going to be fantastic for our customers. So what that means is that when we turn it on, the benefits for the 700, so getting that sort of even better, in-building coverage and wider coverage area is going to work, you know, instantaneously when you turn it off because we will have so many devices out there. We've never seen that before with a network launch.

MR WRIGHT: And that has been very important to us, you know. It's really the culmination of probably a couple of years of work, because the APT 700 band is relatively new to the world, and we will be one of the first countries to line it up. So we have put a lot of work into dealing with vendors, handset manufacturers, and basically talking to other operators around the world to provide the interest and get some scale in that spectrum band. And we're actually very pleased with where we are.

MR CHOPRA: Just on, like, a personal note as people that are trialling the 700, would you say that the differential is quite significant compare with when you're trialling an 1800?

MR WRIGHT: Yes. I would say that 700 will do for 4G what 850 did for 3 G. So in terms of being a lower frequency, more square kilometres out of a tower, better into buildings. That's the whole objective and the whole interest in that low spectrum band.

MR KEYS: All right. We will go back up to Ian Martin at the back.

MR MARTIN: The ACMA said recently, and I think the Department of Communications are going to start another review of spectrum management. I guess looking out – I mean, 700 is coming along, but the rate of growth and the rate of usage is going up. Where do you see the next constraints, particularly, I guess, given, you know, the – what you're doing is multi-band technologies. Where do you see the – is there a bottleneck coming up?

MR WRIGHT: I think the industry for the last few years has talked a lot about this. And, effectively, what the industry has done is – and it depends on where you are in the world. So I would have to say in Australia that the spectrum position for all operators is actually quite good relative to some other markets. But ultimately the industry has developed a tool box of solutions, and that includes everything from working with regulators to get more spectrum. And, generally speaking, in some markets that's going down in frequency a little bit, but there's a lot more to be farmed up higher in frequency. So we will see more of that happening. Things like small cells and het nets are another solution. So there's actually quite a number of solutions in the tool box. What we're looking for is the most economic way of doing it now because we need to make sure we don't drive the cost of a bit up, we've got to keep driving the cost down.

And it will be a combination of those, you know, spectrum aggregation, more spectrum, and using small cells which ultimately will let us continue to manage the capacity on the network. And certainly our models – you know, and we model out five to ten years in network design. I'm not saying that there's any sort of cliff in that sort of timeframe that we're seeing, provided the industry keeps making the progress it has been in the last few years.

MR KEYS: Okay. More questions, Hamish, at the front here. Thank you.

QUESTION: I was wondering if I could ask this. How do you think about monetising this parent network and you're better consumer advocacy? Over how many years and what are the buttons and leavers you can pull?

MR BRAY: Thank you. So, look, the first thing is if you take the customers who have come to us over the last three years, those millions of customers, they're mainly come to us because of the benefits of maintaining and increasing a network advantage, and promoting it; and then also, increasingly, our improved customer service. So that would be an area. The second area is in churn. So if you compare those churn figures that we released, for post-paid hand held, they're lower churn than you will see in many parts of the world. So they would be sort of two good examples of how we turn the network advantage into a financial outcome.

MR BUCKMAN: A third would be multi-product holdings. So the happier customers they are with us, the more likely they are to recommend and also are more likely to buy more product and services from us across our portfolio of product and services.

MR BRAY: And the virtue of – certainly we – you know, we're aiming to get into is through getting those financial outcomes. That allows us to reinvest in a continuous, great network experience. If you look at our pattern of investing in mobiles since we built Next G, it has been a strong, continuous investment in the network.

MR KEYS: We've got a question here from Richard Eary. Are there any other analyst or investor questions, just so I can get them queued up? Anyone? Over to you, Richard.

MR EARY: You've mentioned a lot about customer advocacy today. Can you just talk about where the NPS score has gone, and what it is today? That's the first question. The second question is, if you look at how you're acquiring customers, you know, how much of those are now coming through sort of lower cost of acquisition channels, such as online, and how has that shifted through time, and where do you want that to go?

MR BRAY: Yes. On the advocacy, we haven't – we haven't released specific advocacy figures yet. And part of the reason for that is that there's not an industry standard definition. But we have not released, and we're not going to release on that. The whole – internally, we're very focused on that number. But it's not something we're releasing externally. And, then, John, do you want to talk about channels?

MR CHAMBERS: So, what was the channel question?

MR BRAY: The question was are we getting more of our acquisitions through low cost channels.

MR CHAMBERS: Right. So, absolutely, yes. And that's where through both our digital leadership – and you might have just seen we just won some awards for our digital leadership globally over the last week. But our focus on the digital channels will continue to improve. As well as Boost which is a great channel for us in terms of low cost acquisition. But we are getting more and more through the low cost channels, and we expect to see that continue that to ramp up.

MR EARY: What percentage would be coming through low cost channels?

MR CHAMBERS: We don't release those.

MR BRAY: Yes prepaid handhelds is another one just mentioned that we are – the prepaid handheld margin has gone up considerably. We don't release that individually. But part of the reason for the prepaid handheld margin is actually a mix – is a change in recharge from higher cost recharge channels to lower cost recharge channels.

MR KEYS: All right. There are some – I think there are some media representatives in the room as well. Welcome to take questions from media too now. I know we have one caller on the conference call. Happy to take that question now too, please.

OPERATOR: Thank you. Our next question is from Josh Taylor from ZDNet. Thank you, Josh. Please go ahead.

MR J. TAYLOR: Thanks, guys. Thanks for your time. Just a question regarding one of the slides that you've used. So, you talk about 2.3 million square kilometres of coverage across Australia. And you've used a map of Australia for that. But don't you think that's misrepresentative because that's not the entire land mass of Australia, as you so helpfully pointed out in your lawsuit against Optus?

MR WRIGHT: Well, given this is a session with investment analysts, and this isn't for public consumption, it was more pictorial. So, no, I don't think so.

MR KEYS: I think the point on the slide was that the coverage was 2.3 million square kilometres.

MR WRIGHT: Exactly.

MR KEYS: Which is ninety – which - - -

MR KEYS: 99 per cent of the population.

MR WRIGHT: It was a factual slide.

MR KEYS: Any more questions in the room, please?

MR D. RAMLI: Hi. Thanks. David Ramli, from the Australian Financial Review. Can I just get a little idea on trends going forward for subscribers? I think we're seeing a bit of a slowdown. Is that slowdown going to continue? And what are the key drivers of that?

MR BRAY: Yes. So, we have mentioned that, look, the market is shifting, and we're seeing that, as mentioned, the stabilisation of ARPU. But we are seeing – at the moment we are seeing subscriber growth in the market slowing. And the – I guess the gauntlet, or the opportunity, for us is to get that moving again through some of the initiatives that I've talked about.

MR KEYS: All right. We might be – sorry. Another question from David.

MR RAMLI: Sorry. If I could – if I could just reiterate – there's another question on 700 megahertz. If I could just press that point a little bit more. Do we see the introduction of 700 megahertz having a big impact on subscriber numbers when it kicks off from 2015 onwards, and the changes in market share etcetera?

MR BRAY: That's not something we would – that's not something that we're going to project or guide on. It's going to be a great outcome for our customers.

MR KEYS: All right. I don't think we have any questions on the call. So, last call for questions in the room, otherwise we will be concluding. Yes. Richard.

MR EARY: Just on cost out opportunities, in terms of the mobile business. I mean, you talked about, obviously, advocacy, retention, changing to low cost channels. What other things should we think about, in terms of driving efficiency?

MR CHAMBERS: Service and advocacy- there's a wonderful virtuous circle between advocacy and cost when we get it right. So, obviously value demand, as we think of the calls that come into Telstra that aren't adding value to a customer .but they're fixing – there's something wrong that we've contributed to. So removing that value demand is a wonderful opportunity for both better advocacy, lower effort for the customer and, ultimately, lower cost. And there's an incredible focus – incredible focus in Telstra on removing that demand. That would be the main one. And obviously, online digital channels. So digital service for us is a huge focus, and one that we really hope to lead the world in. We do in many respects already. Just some won awards around our online forums and what we call crowd support. But we see that leadership becoming much more visible and prevalent over the next 12 to 18 months, as we really focus on that area.

MR KEYS: We do have another question here in the front.

MR WILSON: Hi, it's Petroc from Communications Day. Warwick, any idea of the scale of the opportunity in M2M and in enterprise tablets. compared to the existing consumer market?

MR BRAY: Look, what I would say is M2M, our expectation is that if the growth were to return to where it was a year or so ago, and so we see no reason why it shouldn't be of a mid-single, mid-double digit grower, ie teens. And then, I won't put a number on the connected to tablet, but what I will say is that the industry numbers that we see are probably the same as the industry numbers that you see, is that around – look, we see various figures. So let's say 20 per cent of the tablets that are out there in Australia regularly connect with the cellular network. Well, that strikes us as being a very big opportunity for the other 80 per cent to regularly connect to the cellular network. And then, on top of that, if you sort of think of the whole - the installed base of personal computers out there, there's a bit opportunity to move those to connect to tablets. So we see it as a big opportunity, but we haven't got a number on it.

MR WILSON: And obviously competition in consumer mobile is quite heated. Is there less competition in those two newer markets, or is it just that they are newer markets with more room to grow?

MR BRAY: Yes, like, we like competition. There's competition in all those markets. But the biggest competition at M2M and connect to tablets, however, is for us to work with our solutions partners to provide a compelling proposition to our customer to adopt the service. So that's about service adoption. But it's competitive. Of course it's competitive.

MR KEYS: Thank you. We have one question on the conference call, please.

OPERATOR: Thank you. Clare Riley from Cnet, thank you, Clare. Please go ahead.

MS C. RILEY: Hi, guys. Thanks for your time today. Look, I have a question about the Wi-Fi network, the hundred million dollar project that was announced last week. Since writing up about that, we've had a few questions raised about security concerns with the new network. If Telstra doesn't read particular packets of information, what's to stop people from using a defence, if there's illegal activity like piracy or worse, using a defence that they weren't actually using their own access when they were accessing this information, that they could say that someone else is using my Wi-Fi network to access this information or to download things illegally and so on?

MR WRIGHT: I will have a go. I think you're talking about in the home, when they share their home hotspot. In reality, what happens is, the hotspot, in effect, gets split into two. There is a hotspot that is used in the home by the customer, that remains just as secure, with the latest security protocols, and as long as customers continue to use those, they're absolutely isolated from the public access hotspot that somebody else might come in and use, and, of course, those individual users are anchored on their own home broadband plan anyway. So individuals should feel quite comfortable.

MR KEYS: All right, that's the end of the question session. Thank you very much for attending today's mobile update. For those wanting more information we have a plug for..... a Twitter session that's going on tomorrow. John Chambers is doing our very first Twitter session with investors, and that includes our retail investor base, it's tomorrow morning at 8.30 am, Australian eastern standard time, and the feed there is @telstra_news with the hashtag #tls. So John will be on Twitter tomorrow morning, engaged with investors. Thanks for attending today.

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