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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2011 Financial Results – Analyst Briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2011 Financial Results Analyst briefing, for release to the market.

Regards



Carmel Mulhern
Company Secretary

Telstra FY 2011 results analyst briefing transcript 11 August 2011

BEN SPINCER: Good morning, everyone. I'd like to welcome you to Telstra's results for the full year, 2011. My name's Ben Spincer, Director of Investor Relations at Telstra. In a moment, I'll hand you over to David and John to run you through the results. After David and John have said some words to you, we'll obviously take some questions from the microphone here in Melbourne and also from the phone lines. I'll hand over to Telstra's CEO, David Thodey. Thank you.

DAVID THODEY: Thanks, Ben. Let me add my welcome to the full-year results. It's great to have you here. I should quickly welcome a number of other people who are on the webcast, because we now are a multimedia company. Those who are watching on T-Box channel 409 and, of course, on BigPond news, welcome to you as well.

I should quickly say this is an auspicious day for two reasons. Firstly, it is John's final results presentation. And, John, I was just sort of saying before I think this is your 28th results briefing. 43 years in the company – so be kind to him when he gets up here.

The second thing is it is an auspicious day too, because Tuesday was the 30th anniversary of when we introduced mobile phones into Australia. We did a bit of a press release, but what an incredibly story that's been. And we'll talk a little about that this morning. Of course, John was there when mobiles were introduced into Australia, so it's great.

OK, so, we're going to follow pretty much the same format we normally do. I'm going to give you some of the highlights of the business and then really focus in on looking how strategy is starting to deliver results. Because at the end of the day, strategy without results doesn't mean a whole lot. Then John is going to come up and take us through all the financial details. There's quite a bit in them for this result. Then I'd like to come back at the end and give you a bit of a sense where we're at with the NBN. I'm hoping next year I don't have to talk about NBN, but this year I still do.

Let's get on to the results. Let me say from the very beginning, look, we're very pleased with the results, especially the second half. The momentum in the business is strong. Revenue grew 0.7% for the full year, which is good. But in the second half we grew 1.8%. That's just been very gratifying for the whole company.

Still, as we forecast, EBITDA declined by 6.4% for the year. However, our second half, up 0.7%. So what we're seeing is the revenue flow as we're managing our costs, a strong second-half performance.

And, of course, we've generated \$5.5 billion of free cash. We'll take you through the detail of that – that's ahead of guidance, in fact guidance on all those metrics. So a really solid set of results.

I do want to pause for just a moment. It's not normal in our results, but I want to thank all the Telstra staff, the senior team. As you know, we've had a lot of work to do and we've still got a lot of work ahead of us. But it's starting to pay results and we're really pleased with that. So to my colleagues and to all Telstra staff, thank you.

As I said, John's going to take you through the results in more detail because always there's a lot of detail on what's going on beneath the business and what's going on there. But let me now just turn to some of the highlights of the business.

You know, it was a year ago when we came here and we said, "We are going to invest a significant amount of money to get momentum back in the business, to grow our customer base, increase market share, and very importantly, to simplify the business. That was a big call.

And the second thing we said, "We're really going to try to focus on our customers." Again, it's the beginning of a journey but we think we've really made some progress on it.

So the key highlights, as I sit back from the business, that I'm very pleased about.

Firstly, our price points are simpler. I think we are becoming easier to do business with. I didn't say "easy", but "easier" to do business with. And that's very important in dealing with our customers. And I think the way we're constructing our offers, there's good value for our customers while we still manage the core financials.

We're seeing very strong customer growth. In the end, it even exceeded our own expectations. I'll come on to that in a moment. But two million mobile subscribers across our domestic and our Hong Kong businesses are a truly outstanding result. So we're very pleased with that.

Also, in terms of the productivity, we've realised \$622 million of productivity improvement from all the work that Robert Nason and the team, and in fact, the whole of the company's done in terms of the first year of the simplification process. And, of course, what we've seen is some of those benefits have flown through into the second-half results.

Customer service – fourth one. I'd say, you know, some more of our customers are starting to see the results. We want more of them to see a real difference. But our customers are starting to say, "Hey, things are improving.". I'll take you through some of that in a moment.

Then, of course, we did finalise our NBN definitive agreements. And we're now really looking forward to getting that to shareholders and getting them an opportunity to vote on that in October. More about that later on.

So, I think you can see from the top-line results that the strategy is starting to take traction. It's starting to deliver results. So our focus on customer satisfaction, customers one, two and three are always critically important. It's secondly about growing our customer base – really important. Simplifying the business so we can do things better, faster, in a more responsible way for our customers. And then also looking at where we can find new areas of growth.

So what I'm going to do now is just give you a quick update on each of those areas. So to get a sense, at least from my perspective, of about what we're seeing in the business.

So let's talk about customer satisfaction. Now, the two years we've started on this journey really changed Telstra. And that's both culturally – it's about process-redesign, it's about our focus. And you've got to do them all together. And it's about making this company faster and easier to do business with.

As I said, I think we are seeing some signs of these changes starting to work.

Obviously, you look at that and you say, "Well, one thing is how your customers think about you, but what are the actual results?". The deactivation rates are a tremendous result. We're seeing some of the lowest deactivation rates that I can remember in the business since I've been here.

And when we survey our customers, and we do survey over 2,500 every month, they are saying things are improving – and that's gratifying – in every segment of the market.

And we made a number of, what I would call, significant customer-focussed changes in the organisation last year. You know, we set up the new Telstra digital division, which is really very important. Because this is all about interacting with our customers differently.

A very interesting statistic, that even though we've grown our customer base significantly this year, interesting, the number of calls into our call centres has actually gone down. That means our customers are interacting differently, they're still coming in for sales but we're reducing the number of services calls per customer and that's very, very important. And we think more of them are going online.

We launched these Freedom Connect mobile plans. Now, we launched many plans during the year but these were a great testament of a simpler model business plan

and also it had paperless bill and direct debit. Really important changes. We've sold 320,000 of those new plans. That means the market's really picking those up.

Also as you would have seen, we announced during the year the LTE mobile network launch, we would roll it out this year. On Monday, we put out 2,000 of the dongles to business customers and will have a commercial launch later this month. So that's been really gratifying. The engineering guys are working hard to make that one of the world's best.

Also, as you know, we've changed the way we're serving our customers. There are 24x7 call centres. We've done that. We're doing field calls in the weekend and that's growing. Customers are saying, "Yeah, come and see us on the weekend."

And very interestingly, we've gone to a 24-hour support on social networking sites. We're seeing a lot of customers going to social networking sites and now we've got people 24 hours a day, seven days a week just monitoring those sites so we can respond to customers. These are real changes in how the whole business is operating.

So we're very committed to improving customer satisfaction. And while we're very pleased with the progress we're making we do know – and I want to stress – there is still a lot of opportunity to do even better as we go forward.

As I said, customer growth is critically important to the business. I show this chart every quarter. The real message here is that the fourth-quarter growth continues. And that was very important as we came through the year, that we didn't see the fourth quarter drop off.

As you'll see there – 378,000 new mobile customers in the fourth quarter, which brought us to just on 1.7 million for the year, domestically. 92,000 new bundles were sold in the fourth quarter. That's over 650,000 for the full year. And remember, bundles are really important because customers sign up for a two-year contract. And then 203,000 new mobile broadband customers in the quarter and 914,000 for the full year. They are remarkably impressive numbers.

But also, you're starting to see a change in the way people are using broadband services. And we see a great future for this business.

But that growth has got to translate into growth and revenue profit because it's not sustainable to keep just growing the customer base, you've got to get real results coming out.

So, as you would have seen, mobile growth 10.7% and fixed broadband at 1.4%. You've got to compare that to last year where it was far less.

So, really encouraging. Good customer growth and now starting to see in the

second half flowing through into good top-line growth. John will take you through the margins as well, which are really important.

OK, simplification efforts. Really, really important because this is where we're trying to drive a different way of running the businesses. And this is all about driving out real sustainable net reductions in terms of our operating costs over time. We're redesigning over 300 processes, there's 27 projects and as you can imagine, that takes a lot of effort to get going.

Importantly, simplifying the business has resulted in a very important decline. When we look at labour and productivity we look at labour and labour substitution, when we do outsourcing.

When you look at the results for the full year, and you'll see that labour has gone up but if you look at it by quarter, you'll see a progressive decline as we move through the year, as we're trying to simplify the processes and we're able to get real productivity improvement.

So what we're doing with those improvements, some goes to the bottom line, some of it we're reinvesting in parts of the business. As you know, we're looking at reinvesting in the Network Application Services business, which is a very, very people-intensive business. So we've been able to invest there. We've also been able to support the Sensis strategy which is very important for our transformation. And then we've set up Telstra Digital. Now we've got the new Telstra Application and Ventures Group which we're setting up which is going to be a whole new way to be competing in an NBN world.

So the program of work is very simple: simplify process that allows us to take cost out of the business to serve our customers better. You've got to do all three. We're going to continue with this focus. I think it's every day, every week, every year for the future because that's the way we want to do our business. Great progress in that area but a lot more to be done. We see great opportunities in the future as we move forward.

In terms of the growth of business, let me turn to them. Remember, there are three of them: Network Applications and Services, media and international. I just want to briefly touch on how each one of these is going.

Now, network applications and services. I just want to restate: what is it? Well, it is about outsourcing of networks from large customers, where we take over the whole of the operation. It's about cloud computing – so when we take over the computing capability in the business and we put it on a shared infrastructure. It's about things like systems integration, you roll out unified communications or video conferencing solution, you need someone to come and wrap everything together and integrate it to a solution. That's a very different business to just selling carriage. But it's very related. So that's Network Application Services.

It's quite simple but a very different business model. Because you need methodology and you need experienced people and you need to manage every project for profitability as well.

We're seeing great progress there now. It's a billion-dollar business and it grew revenue at 10.7% and the profitability improved.

The NAS sales pipeline, we come into the year and that sets us up well. Because many of these big contracts are very large. And they are 10-year contracts, 8-year contracts and if you get those you get good sustainable revenues moving forward.

And we also made a number of significant announcements during the year. Remember, we said \$800 million in cloud computing? That's a significant investment. That is over a five-year period but we're already well on the way and I think we've been recognised as one of the best cloud computing suppliers in Australia and even throughout Asia.

We launched a very important product in the small and medium business, which is called Digital Business. Now, it hasn't got a lot of headlines but it's very, very different. Because it works off the IP network and it gives an integrated voice and broadband integrated solution for the small and medium business that is easy to use, easy to implement and we saw it's a different pricing model. This is all about being ready for an NBN world. We can offer the product now, and it's NBN ready as soon as you put it in. Very important.

So we're already on the way to being ready to compete in an NBN world.

And then later in the year we did the acquisition of iVision, which is a video conferencing business. It was pretty small because it's really buying capability that will allow us to integrate high-definition video conferencing both in business but that will also move into the consumer market. Then you're going to get the integration between the business and the home in terms of how education, health service is delivered. So this was a very strategic capability acquisition.

So, all that and now we're looking at the application ventures group that Deena is going to lead which is going to look at investing in new applications that will enable us to really compete in this NBN world with a differentiated offering across industry verticals and horizontals. So, some really good progress there.

Now, in terms of international, I've been – well, I've tried to be very clear on this. We want to drive value from Asia. We've got presence across Europe and in the United States but it's really in Asia we really believe our strength is. And as I keep saying, we've been in Asia for 65 years. It's not like this is new. We do about \$1.5 billion in International. It's not like this is just a new add-on to the business. But I'm very pleased with the progress we've had.

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This transcript should be read in conjunction with the recording of the briefing, which is available at: <http://www.telstra.com.au/abouttelstra/investor/financial-information/webcasts/>

We've bought the Reach asset, remember, that was old OTC, back into Telstra. And it was a good, good way of bringing it back in. And it now gives us great access into Malaysia, Indonesia, Korea, the Philippines and that's where we need to go – where there's real growth economies and population growth is going well. So that's very important for us as we go forward.

But remember, it's not just about cable networks. It's about adding value around those communication networks.

Also, CSL, I'm delighted to say returned to a very strong growth profile. They had, in local currency 19% growth, which is tremendous. Their services growth was running at 7%. So I'm very pleased about the CSL result and that's been a business we've really had to work hard at over the last few years.

In terms of the China digital media assets, as you know the SouFun sale in the year, I do just want to say that we are reviewing all these assets. I want to make sure we really deliver value. So we have that portfolio under review at the moment.

So last area is the media portfolio. Remember, in the media portfolio we put in there Sensis, BigPond, Foxtel and, of course, the T-Box IPTV. So let me just give you a quick update on how we're travelling there.

So firstly, IPTV, we've been pleasantly surprised about the response to IPTV and T-Box. 190,000 were sold during the year. It's been very interesting looking at the video-on-demand or the download of those movies. We've now got a library of around about 2,400-2,500. But there's been 1.8 million movies downloaded since we've had the product.

It's a very interesting change in the way people are watching movies. And we think like Netflix in the US, it will grow as we go forward.

Also, we've entered into strategic partnerships with all the major movie studios. So we think we're well positioned there.

We also now offering services on the T-Box. So we've got 30 FOXTEL channels and within the first few weeks we had 1,000 people sign up on FOXTEL channels on the T-Box. Of course, FOXTEL's had a strong year. They continue to do very well. Revenue growth of 6%. EBITDA is up 15%.

I should quickly mention Austar. As you know, we're going through the process with the ACCC and we're working closely with FOXTEL and we really do want to exercise this to its final conclusion and we really support FOXTEL in its acquisition.

In terms of BigPond, we've had a strong year in BigPond. The number of actual visitors to the BigPond online and mobile site has gone up. It's all about getting eyeballs to those sites.

Our content deal with the AFL will also allow us to provide AFL matches live on mobiles and tablets connected to the Next G network and also on FOXTEL by T-Box.

So you can see getting content, being able to put it through multiple channels is very important in terms of our ongoing strategy.

Then lastly we talk about Sensis which is really important. I know at the half, we announced a change in that business and then Bruce did a very fullsome explanation of our strategy. As you know, we're transitioning this business to a digital media, sort of a local digital media company. And we're on the way. For the full year, as we did guide to you, revenue decline was 6.4% and EBITDA was 9.4%. And this is really the shift from print to online.

However, it is a three-year transformation and we've tried to lay out to you how we think that's going to go. And we're really only a few months into the sales cycle. Remember, we run a sales cycle, Bruce and the guys. But we are seeing some very positive indicators as we're seeing the market reaction to the product.

Firstly, the new packages have been really received well. The small and medium business, they want to be educated and they want to know someone who can help them move into an online world. So it's very strong there. The sign-up rate, revenue per customer on what we call the "value packages", which is a mixture of print and digital have been very well received and the revenue per customer has been higher than we had anticipated.

But, of course, that's offset by the print decline. So we've just got to work that different business model as it goes forward.

In the second half of fiscal 2011, digital revenues grew by 12.8%. Remember, it was only 0.2% the first half, really strong result in the second half. So still early days, a lot of work to be done and if Bruce was up here he'd say, "Look, some early signs. Not declaring victory but we've got some really positive indicators here as we move forward." And I'm really confident as the board and I went through and spent some time with the whole of the Sensis team in the last few days, we're seeing good strategy, the product offering's good and now it's about execution. And that's going to take time because it's a real different business model as we move forward.

So, so far, so good but more work to be done.

I want to put this chart up very briefly. It was a chart I showed you last year to

try to give you some sense about what would be the lead indicators in terms of how our strategy is playing out.

As you'll see up there on the chart, all of them are going pretty well except for customer service. Where we've still got, in terms of our aspirations, while it's improving we're not quite where we want to be. The number of complaints coming through is still a little bit higher than we want. We want to manage those. Not me. I have a different view. A complaint is good because I see it as an opportunity – an opportunity to fix and win the customer's heart in some way. However, we don't want the same level of complaints. Also, I think there's more work we can do in terms of getting this net promoter's score and net satisfaction score up where we really need to get it.

But all the other areas are going well. As you can see the revenues from new business growth areas is already at 19%. We may have to review that target. We may be pushed a bit harder.

Let me finish up before I hand over to John on guidance for next year.

So for 2012 fiscal year we see momentum continuing through. So our forecast, despite the market uncertainties, is that we will have low single-digit growth in both revenue and EBITDA flowing through. Capex will continue to be around 14% of sales because we've still got investments to do in terms of building out our capability, especially as we get ready for NBN.

Cash, and John will take you through, still 4.5 to 5. John will just give you an explanation of that because even though we are just a bit over 5 there's just some puts and takes in that line.

I will say again, as we've said before, we are committed to pay a dividend of 28c per share, fully franked as we go into the year.

And in terms of capital management, I want to say again, the board is committed to reviewing our capital management strategy but we said we have to get through NBN and then see how that plays out and then we'll come talk to you about what we are doing. But I do want to add just one more proviso there – obviously it is subject to what the global financial conditions will be, as you'd expect. And they're going through a bit of change at the moment.

Couple of last points: NBN is not expected to have a material impact on Telstra's financial results in fiscal year 12 but it will contribute to sustainable cash-flow generation for Telstra in the medium term.

So, with that, John, let me get you up for your last set of financial results. I'll just shake your hand.

JOHN STANHOPE: Good on you. Thanks, David. And good morning everyone. It's great to be here today to take you through a strong set of results. And particularly because they are the last one I'll be doing. First, I'll take you through the key reported numbers. You've seen some already from David. But on the top line, sales revenue grew 0.7% to \$25 billion in fiscal year 2011, including 1.8% in the second half as the strong growth in our customer base started to come through in the revenue line.

Following the strategic Opex initiatives in this financial year, operating expenses did increase by 6.8%, or \$970 million to \$15.2 billion.

EBITDA was down 6.4% or \$696 million to \$10.15 billion with margins contracting by three percentage points to 40.6%. Importantly, in the second half EBITDA was positive, growing 0.7% as we translated our strategic initiatives into the bottom-line benefits. EBIT fell 12.4% or \$809 million to \$5.7 billion with the decline in the second half just 1.6%. Profit after tax and minorities fell 16.8% or \$652 million to \$3.2 billion.

Free cash flow was \$5.5 billion and declined due to lower EBITDA following the strategic initiatives and excluding the proceeds of the sale of SouFun and other small assets, free cash flow was \$5.2 billion.

We have maintained our final fully franked ordinary dividend at 14 cents per share, bringing the total for the fiscal year to 28 cents. Our dividend continues to be, importantly, covered by free cash flow.

On a guidance basis, so that's adjusting for some ACCC fixed line pricing changes and the impact of natural disasters, sales revenue actually grew by 1%. So real underlying performance there.

Adjusting for the impairments of Octave and LMobile and the cost of natural disasters and the impact of the Reach change, Opex was up 6.4%, and so on a guidance basis EBITDA declined 6%.

We've not adjusted the results for FX impacts, but if we did sales this year would increase by \$161 million or another 0.6% on the revenue growth line.

So, let's just take a look at product revenues. In terms of the product revenues, this slide gives you of an overview of the puts and takes that have occurred during the year.

The growth in mobiles has, as you can see from the slide, more than offset the PSTN headwind, or decline. Mobile revenues increased by \$783 million or 10.7% to \$8.1 billion. As our strategy of retaining and growing our customer base lead to the addition, as you heard David say, of 1.66 million new customers in Australia this year.

The PSTN revenues, as you can see from the slide, declined by 7.9% or \$462 million. As the usage levels continue to fall in line with global trends and the continuing trend to move to social networks and the mobiles of course.

The retail fixed broadband revenue has increased 1.4% though declines in wholesale broadband offset this. IP access and data revenues were flattish with a 16.2% increase importantly in new technology in the IP access. But it was offset by the declines in our old legacy data products.

And Network Applications and Services, as David said, grew 10.7% or \$111 million, while Sensis revenue did decline by \$122 million or 6.4%.

I'm delighted, actually, to be able to talk about how well the strategic initiatives have delivered on the financial outcomes. And this slide highlights some of those key outcomes.

Firstly, solid sales revenue growth in each of our three retail business units. A 6 percentage point increase in mobile phone EBITDA margins from the first half to the second half. I remember many of you remarking about the 29% that we had at the half. Well, now we're back up to the 35% EBITDA margins.

Continued growth in the mobile revenue with growth in the second half of the fiscal year at 11.4%, so that momentum and the revenue coming from the higher customer base starting to flow through.

Market share gains of three percentage points in mobile and one percentage point in fixed retail broadband.

So all that performance in the areas I've just discussed really does bode well for the future and the momentum into the fiscal year 12.

I just want to visit the past a bit here – not all 44 years of my career, but last year. We told you – I told you we intended to invest around \$1 billion as a sort of approximation that we were talking about this time last year, to improve customer service and to grow and to retain our customers and simplify our business and core processes and invest in new revenue streams. Fundamentally, that's our strategy and that's where we're investing money.

Let me just close the loop on those investments. You can see during the financial year our Opex increased by \$970 million. So, close to the approximate \$1 billion that I was talking about. And this included a \$670 million increase in mobile directly variable costs and network payments and \$159 million increase in the new products areas. So investing in our new product growth.

Goods and services totalled an increase of \$823 million. And I said that that would be around \$650 million. But as I told you in February, so as we moved through the fiscal year 11, the DVCs came in a bit above our initial expectations. However, the benefits in terms of customer retention and growth is clear. We did add 1.66 million domestic mobile customers, 365,000 T-Boxes and T-Hubs and 659,000 bundled customers. Much more than we expected and as I said at the half-year announcement we kept the momentum going and we said we would absorb that around \$1 billion investment, and we did, and remained within our guidance. So I think that's very important. We said we would do back at the half and we did it.

Let me just move on to ARPU trends because these are important as well, to the top line. I want to just update you on these. As I said in February at the results briefing, we have seen a modest decline in ARPUs across mobile and fixed broadband as our customers do move to our more competitively priced offerings.

This is in line with our expectations and is more than offset by our customer growth. In mobile hand-held post pay, the impact on capped plans was partly offset by the growth in smart phone penetration. And there is also an impact from MRO plans on these ARPUs. But that's more, obviously, a non-cash accounting impact.

In pre-paid, ARPUs slides have also been driven by the capped plans. While in mobile broadband the trend of ARPU decline is driven by price competition but also the increase in pre-paid penetration in mobile broadband, tablets, etc.

I want to again highlight that the mix in bundles, so the net mix in bundles, is revenue accrued. This is due to the new customers acquired and existing customers taking an additional product and, of course, reduced churn as existing customers accept multi-product discounts.

On churn, the deactivation rate for post-paid hand-held mobiles, as you saw from David's slide, has fallen from 12.4% to 8.8%.

Now let me talk about some of the margins. I've already alerted to the mobile margin. But this, of course, is a critical measure for us to track our progress with our strategy. It's not just about revenue growth, it's also about EBITDA improvement. You can see mobile's EBITDA's margins declined in the first half, because we invested quite heavily in the first half to retain and grow the customer base.

However, that level of spending tailed off and so the mobile EBITDA margins returned in the second half to last year's levels of 35%. You can see for the full year there, mobile EBITDA margins were 32% which is a solid result given the investment we made in the customer base.

The fixed internet margins remained subdued due to the impact of some of the regulatory changes on pricing. But also the ARPU reduced because of our own competitive retail offerings in the market. The cost base went up as we had more data allowances and it does introduce more costs into the company, of course.

The PSTN margins remained relatively stable with the decline in revenue in ARPU continued to be offset by tight cost control.

In IP, access and data, margins were also stable as customers continued to migrate to IP access products from the old data legacy networks.

Sensis margins bounced back in the second half, albeit on a reduced revenue base.

Let me just touch on the retail segments here because this is also important. All three retail segments had solid top-line growth this financial year, and that's a great performance. Telstra consumer and country-wide sales revenue grew 3.6% as the strategic initiatives delivered strong growth in the customer base, including adding 500,000 post-paid mobile customers and 160,000 fixed retail broadband customers.

The consumer total mobile revenue grew by 12.9% while pre-paid mobile revenue share grew by several percentage points.

From a profitability perspective, as I said last August, operating contribution margins bounced back in the second half to 56% as the growth in the customer base in the first half translated into revenues in the second half.

Telstra Business revenue increased by 1.8% with a growth in mobile offsetting the headwinds from PSTN declines. And during the year, mobile ARPUs have held up well in spite of some price rebalancing that took place for business customers.

Telstra's business revenue from IP access and network applications and services reached \$300 million this year. And in recent months the digital products suites were launched to give small-to-medium enterprises access to unified communications.

In addition to being a great set of products, the digital products suite makes us NBN-ready in the SME space.

Lastly, Telstra enterprise and government sales revenue also increased by 1.8% with mobile services growth revenue in that segment growing 11.8% and IP access growth of 14.8%.

We've increased our focus in enterprise and government on network applications and services and we announced we would invest more than \$800 million in cloud

computing over the next five years to support the growing demand for cloud services.

So now let's get into OPEX. It's important to explain the 6.8% operational expense increase in the year. Some of it I've already talked about in terms of DVCs but the – it did increase \$970 million to \$15.2 billion. So in terms of the way we traditionally report expenses – labour, goods and services – I'll take you through those categories in a moment – but firstly I want to explain the increase in the context of expenses incurred as a result of some of the one-off things that have happened in the year and the costs related to growth, which have been offset by productivity benefits. You'll recognise the \$622 million that David spoke about there.

I just want to say that doesn't include avoided costs, by the way, these are net costs. So we've also, in our productivity programs, we've avoided some costs that may have otherwise occurred as well.

You'll recall the productivity dividend would come in the second half of FY11 and then flow through into FY12. You'll recall I said mostly the first half of the fiscal year just gone was about getting the initiatives into place and then the second half has been about implementation with more implementation to go.

During the year, we generated productivity benefits of \$622 million as the simplification program delivered tangible results. And these benefits have been reinvested into the business to actually retain and grow our customer base and improve the things we do to increase customer satisfaction. And, as well, invest in our long-term growth in the business. As you've heard today, these investments are delivering.

So let me get to the traditional view of expenses. Labour expenses increased by 5.9%, or \$217 million to \$3.9 billion. Among factors contributing to the increases were some one-offs, including incremental staff incentive payments of \$93 million. That's on the far left of the chart there, which accrued after targets were hit. So as you heard, David said we've had increased improvements from staff with customer satisfaction and so on.

We had some additional labour costs associated with natural disasters – Queensland and in New Zealand as well.

We also incurred an increasing cost due to wage inflation and other cost-related factors of \$123 million, you can see on the slide. But we have reduced our staff numbers.

As you saw in David's slide pack regarding simplification, our domestic labour and labour substitution expenses fell through the year on a normalised basis.

So at the start of the year, we had to put some staff in to do some things, particularly with relation to customer satisfaction. And as the productivity program and simplification cut in they've started to decline and that's what's reflected in David's slide on a quarter-by-quarter basis.

With respect to goods and services costs, they increased by 15.4% or \$823 million. Primarily, due to our strategy to grow and retain the customer base. So mostly directly variable costs.

Costs of goods sold increased \$568 million to \$2.6 billion including \$426 million of mobile cost of goods sold and \$71 million in other costs to goods sold such as T-Boxes and T-Hubs.

An increasing penetration of smart phones lifted the blended subscriber acquisition and recontracting costs by 34.7% to \$212 from \$157. And this investment in COGS generated more than two million new mobile customers in Australia and Hong Kong and the 365,000 T-Boxes and T-Hub customers.

Part of the COGS costs was offset by an increase of more than \$300 million in mobile hardware revenue. So, obviously, as we sell the handsets the revenue comes through.

We also expect ongoing additional revenues from the larger mobile base in terms of service revenue as we go forward.

While talking about mobile variable costs let me, perhaps, pre-empt a question that may come later. We did introduce zero MRO plans, so zero mobile repayment option plans, in December and we've calculated that the EBITDA benefit in the half as being less than \$100 million. The zero MRO has improved mobile EBITDA margins in the second half by around 1%.

Network payments increased by \$135 million, or 7.5% to \$1.9 billion as our larger mobile customer base incurred terminating volumes as traffic moved – was terminated on other networks.

Service fees increased by nearly \$100 million with the primary driver being the corresponding increase in pay TV revenue growth. FOXTEL in our bundles is an important offer and it is very much a churn mitigant.

So our other expense category, service contracts and other agreements sort of dominates this category. It did increase 3.7% due to the investments in some of our strategic initiatives early in the year, as I alluded to. For example, amongst the key initiatives to improve customer satisfaction were improvements to the Telstra online portal and more after-hours service options for our customers with 24/7 service and weekend visits by technicians.

General administration costs fell by 3% or \$28 million. And a key driver was \$50 million reduction in IT costs due to renegotiated licences and lower leasing arrangements.

And bad and doubtful debts declined 7.9% which is a great result. We invested heavily in credit management and implemented a series of initiatives to minimise bad debt. These have included some early intervention of overdue accounts by proactively engaging with our customers and some more sophisticated credit assessment at our front-of-house.

So, cash. Cash and accrued Capex. Free cash flow was \$5.5 billion this year which included \$324 million cash proceeds from the sale of assets, of which SouFun was the largest.

And as I indicated to you at the half, the free cash flow was weighted towards the second half as you can see by the colouring on the bars in the slide. The timing is because of our Capex cycle, our incentive payments to staff and some other cyclical matters.

Importantly for investors, free cash flow levels continue to comfortably cover the dividend and interest commitments.

In respect of Capex, accrued operating Capex, was \$3.4 billion, down 1.8% and \$61 million. The biggest driver of the decline was a 25% or \$146 million decline in what we call the "business improvement Capex" driven by a lower spend on IT projects as we still come down off our transformation program.

Just the impact on NBN. Just quickly, as we said, the impact of NBN on our financials won't be significant in FY12. But I want to help you start thinking about the impact of NBN on our financials in coming years.

In addition to our usual reporting, we intend to provide extra information to help you model and track the progress of our agreements with NBN. So as NBN's rolled out there will be additional reporting lines for physicals, revenues and expenses. On a revenues side, we plan to report separately for items including disconnection to NBN and infrastructure payments. And on the expenses side there will be NBN access costs and some additional remediation and ongoing maintenance costs that we'll report. We also plan to update you on key physicals such as the number of PSTN lines disconnected and the NBN access lines taken by Telstra customers. Of course, we will continue to report the legacy fiscals such as PSTN and ULL lines and LSS and so on.

In our results announcements next February, we hope to give you more detail on the additional reporting we plan to have going forward.

So back to the guidance and David had up before and a bit of an explanation. Over the next fiscal year we expect the positive momentum from the strategy we're on to continue. We expect both revenue growth and EBITDA growth to be in the low single digits. Capex to sales will continue to be around 14% of sales and the reason for that is that we do have to make some investments in being NBN ready in terms of our interface with the NBN but also taking some good product to market to encourage people to stay with us, or come over to us in terms of our NBN offerings. And free cash flow guidance is for between \$4.5 and \$5 billion.

As always, and this is an important point, this free cash flow guidance does anticipate \$500 million of investing capital spend. In FY11, we only spent \$40 million, which clearly did contribute to our strong free cash flow result in FY11.

As announced last November, it is also the board's intention to maintain a 28 cent fully frank dividend for fiscal year 2012 subject to the normal processes of declaration and no unexpected material events.

The NBN, as I said, is not expected to impact this guidance at all. But I do want you to note that we have moved to a total revenue guidance measure. It has previously been sales revenue.

There's nothing sinister in this but given that going forward, much of the income from the NBN arrangements will be booked as other revenue and not sales revenue – so the decommissioning part of the revenue received – we have made the change this year so that in future years we can capture that up in our guidance and you can understand what's going on.

So, thank you for that and I'll just hand back to David to wrap up.

DAVID THODEY: Thanks John. Great results.

DAVID THODEY: What I'd like to do just at the end here is to give you a bit of a sense of where we're at with NBN, then we'll take your questions. As you know, we've signed the definitive agreements both with the Government and NBN Co and that was done in June and we have submitted the structural separation undertaking with the ACCC. These have been really important milestones to get behind us and they have taken a lot of work right across the company to get that done. We are now working on the explanatory memorandum to get shareholders so they can understand the transaction and the basis for the board's recommendation to our shareholders. It has really been - I can't stress - a critical few months for us. It is a lot of work to get this thing done and submitting the structural separation undertaking, working with the ACCC in that process was really important. We did it really differently to the way we have done it before. Now we are currently focused on working with the ACCC to get the approval and get these EM's out so that we hopefully can get to it to shareholders on 18 October at the AGM.

What I thought I'd do is just focus on what we think the three high level real benefits are to this transaction. There's three. Firstly the agreements should provide a better financial outcome as compared to alternatives for the company and it will really contribute to sustainable free cash flow over that medium term and that is a very important consideration. Secondly, getting to a more stable regulatory environment is very important. If we can get to a more stable regulatory environment it allows us to get on and focus on the business and our customers and that is a very important thing for Telstra. Then looking at it from my perspective, having more strategic flexibility in what we do with that cash and where we go to is a real positive for us. It allows us, as I've said before, to focus on growth opportunities and how we simplify the business. I do want to also stress that we've had to be conscious about what protections we've got in the future. I've mentioned these before. It's important just to mention them again. Remember we get this long-term contractual commitment from the NBN Co for infrastructure and remember, at any point should there be any changes, we have protection for that going forward. That is the first one. We've talked about the roll out termination payment of up to \$500 million. That is in the event that NBN ceases its roll out after it's got to 20% of the 93% of premises of Australia. That only kicks in at that 20% level. Also, it was a very important right that John negotiated that we can continue to operate the copper network, the fixed line business, in areas where the NBN fibre access network does not go to. We call the natural hedge because it is important to us and you have to factor that into your consideration.

So it's important to remember as you think about this transaction that at the moment this is legislated Government policy and NBN Co is now an operating business. It's commenced its roll out of NBN and has already started to provide services in a small number of areas, trial areas. We are obliged to assess our options against a presumption of alternative policies. We have to look at what's in front of us today or we can't assume that the NBN is not going to be billed as plan. We can only look at the alternatives in light of the current legislation and provide maximum flexibility in light of any potential changes in the future. That is the way we have looked at this transaction.

What I do want to also touch on is we are already doing a lot of on our preparedness in terms of each of our market segments. We will take you through more of this at investor day but let me touch on each of the four key areas and give you some sense about what we think the implications will be.

In Telstra Consumer and Countrywide the NBN represents a major change in how we provide fixed services to our customers but we offer a lot more to our customers than fixed broadband services with our world-leading mobile networks also NBN will help us to further build product innovation into our offering and that is what you would expect we are working on at the moment. The bundling services will be very important around content and things like that.

In Telstra Business - we've already talked about the wonderful Digital Business product and we will start to build up that product now because that is the way of the world to move to IP networks and an integrated service and that will have happened with NBN or without NBN. It is just a matter of the timing of when it happened and how you get there financially.

In terms of enterprise and Government the truth is that many of our enterprise and government customers today already use fibre so the impact on the Enterprise and Government sector is probably more upside than downside. We see great opportunities going forward.

Of course, Telstra Wholesale will have a significant impact on those revenues because we have provided wholesale services across the copper access network. They will be disconnected over time. However, the infrastructure payments from NBN will also flow into Wholesale so there is a balancing effect as we move forward. So that is just an important set of considerations. We will take you through more of this at investor day but I want you to know we are already working diligently in each of those market segments.

Let's briefly touch on the structural separation undertaking and the migration plan we submitted to the ACCC. In our undertakings we have tried to make a genuine attempt to take notice of the concerns raised by industry in the ACCC. So our SSU is really an attempt to address some of these concerns and the points raised in the ministerial instruments. This is a substantive proposal and we have really spent a lot of time trying to think through how we can put something that would be acceptable to the ACCC and the industry but also not drive a lot of change within the company except in how we are really more transparent and provide more equivalence.

A few points to note. This is a very important point. We have not been asked to functionally separate. But we are committed to providing equivalence in transparency. They are very different things. In terms of that interim equivalence and transparency there are seven key areas you can see on the chart behind me that we think really do make a substantive difference. They are not window dressing. They are real - real offerings of change. So we're working closely with the ACCC with a view of obtaining acceptance to the structural separation undertaking before the AGM. However, I have to be clear, if the ACCC has not given approval for the SSU, which as you know is a condition precedent, we may still take the decision for this transaction to our shareholders at the AGM but the commencement of the agreement will still be subject to gaining the necessary approvals from the ACCC. So we're trying to balance this as we go through because there is still a lot of work to be done.

Okay, so let's try to wrap up now. I want to leave you with what I think are the key messages from both John and my presentation. It is great to have exceeded guidance. It is a pleasing result for us. We basically have done what we said we would do. The customer growth achieved through the year is now translating into

financial benefits and we will return to EBITDA growth in the second half. We see that momentum continuing through into next year.

With that let me now ask John to come and join me on the stage and we will be pleased to take your questions.

BEN SPINCER: Thanks David and John. We will take some questions from here in Melbourne and then will go to the phones.

IAN MARTIN: Congratulations on your contribution after 43 years and it is good to see you going out on a positive note. I have two questions. First relating to the guidance. It seems to be based on an extrapolation and recovery in the second half, consumer confidence was improving through that period and it has more or less evaporated in the months since then. I wonder whether you've taken that consumer situation into account and to what extent if the wider economic situation deteriorates further does that become an unexpected event that might lead to a decline in the guidance and particularly the board's view about the dividend for next year? First question. Second question, John has indicated the financial impact at the EBITDA level in wholesale prices comes out in \$40 million in EBITDA in the second half. Presumably that will grow as contracts unwind or are completed - several hundred million dollars in value. When you look at the way the ACCC did it, it looks like an arbitrary assessment about the value of the network so almost a welfare transfer from Telstra shareholders to other companies, some of whom have returns on invested capital several times higher than Telstra. Given that and the fact that you are a long way apart in value and that issue affects the value of the natural hedge, haven't you got an obligation to challenge that?

DAVID THODEY: Let me try to take the first one. In terms of the guidance, we are very conscious of consumer confidence at the moment. It has definitely taken a bit of a battering. When you look at our business and the customer volume going through and the increased percentage of cap plans and the way data - our dependence on usage is getting less. There is a natural protection. Of course there is bad debt at the other end and there are something we would have to consider there. But we feel pretty comfortable with the guidance as it is. It is prudent. I don't think we've overstretched ourselves and that is probably the right place to be in. So yes, it has picked up. Usage on the fixed line network is down but it's been going down. Mobile usage continues to be pretty strong, even the last few weeks. So it's interesting, is the use of mobile a discretionary expense item anymore? That is another interesting question. The use of the internet is still very strong and enterprise and business are pretty strong. Small and medium business - we have seen a little bit of pain in the small and medium business market so we have to watch that as we go forward. Overall, I think the guidance is prudent and okay, so we feel pretty comfortable. John, do you want to talk about the Wholesale valuation. I will give a few general comments.

JOHN STANHOPE: Just on the economy and the economic outlook, we have assumed a fairly conservative consumer outlook and GDP outlook, but obviously we haven't assumed a catastrophic event so we have been, as David is calling it, prudent - I would say it was conservative. With respect to the wholesale and the impact this year and flow through, we've already factored in how the price reductions for fixed line will flow through into the area and you are right, it is much bigger than 40 in this fiscal year but we have factored that through into our guidance, but not factored any further change that the ACCC may deliver. Your talk about their consideration now is based on a return on asset model. We believe that that will deliver us a lot more copper price stability going forward.

IAN MARTIN: Will you get in a situation where you have to rely on the natural hedge that copper is in use for longer and that approach will be robust?

JOHN STANHOPE: Yes, it will still be the same asset base. I can't predict a change of mind by the ACCC but can only deal with the facts. That asset base calculation will continue and that is the basis of our assumption going forward. It will bring us copper price stability.

DAVID THODEY: That is where I was going to go to. This model at the ACCC, we spend a lot of time with them on that and we seem to have got to a point of agreement of how they approach it. We understand it. That is important. The only other one sitting out there is the mobile terminating rates. Up, down - so we still have work to do there but that will not be for a while so the copper base actually probably has a little more stability in it than we have had in previous years but we need to watch it carefully.

IAN MARTIN: Just to be clear, has the company decided not to challenge that final pricing decision?

DAVID THODEY: The FAD. No, we are not challenging it. We have accepted that.

RICHARD EARY: It's Richard Eary from UBS. Just looking at the return to growth in the second half and stepping back to the investor day last year when you put a slide up there with a trajectory to EDITDA where you were in FY10, does this result still give you comfort around hitting those targets in FY13 or have those targets moved? That is the first question. The second question is in terms of actually looking at the mobile subscriber base, 1.6 million, if you look at the post paid, it is nearly 10% new growth of the base. Can you give us a feel in terms of how much of the base has been recontracted through the last 12 months and a view in terms of gross additions not just in terms of net additions. You mentioned a \$500 million in investing CAPEX within the guidance, will you expand on that and whether that includes any pension top ups that may be necessary given current market conditions.

DAVID THODEY: Let me go to the first one. We have given no guidance in full year

13 as you know but, yes, we see the recovery is what we want it to be. But we've given no guidance in 13. Obviously the investment was to get a return not to do anything but that. In terms of the CAPEX, that's just straight investing CAPEX, the top up is handled separately. So that is what we assign in terms of our M&A activity. Again, we are not - just like this year we will acquire new capability where appropriate. We will put through all our M&A activities through a lot of sieves in terms of what would it mean to buy back shares or what the return on equity will be, we do all that and so we are pretty disciplined in that area but we have to keep putting aside because we have to keep building the business.

RICHARD EARLY: Is that just related to M&A domestically or internationally?

DAVID THODEY: Just M&A domestically and internationally.

JOHN STANHOPE: Any capital we make allowance for M&A. Any excess cash after that we will decide what we will do with it. Back to the pension top up point. It is not CAPEX anyway. It is an expense that we, it is a cash payment and we expect it to be about \$423 million or so in this year and it is in the cash calculation of the company and the guidance therefore. We'll spend about that much.

DAVID THODEY: The contract. Do you want to answer that one?

GORDON BALLANTYNE: We have a 35% reduction in post paid churn in the year. That is a lot to reshape pure net acquisition and recontracting which is a positive statement. If we started the year - we were properly acquiring one new customer to every five recontracts. That is now 1:1.5. We have not seen the need to aggressively recontract customers. It has afforded us the right to grow new customers at a higher rate than we would normally do.

DAVID THODEY: Just within that, if you look at the DVC growth of share if the recontracting has started to come in DVC growth depending on what the customer growth - regrow to the level we have seen this year or has an opportunity to retract.

GORDON BALLANTYNE: There is an element of rebalancing the portfolio. We had a very aggressive acquisition year this year. We won't have the same level of aggression in FY12 and we need to take care of the 2 million customers we just acquired. That is the strategy going forward.

CHRISTIAN GUERRA: Christian Guerra from Goldman Sachs. Firstly congratulations on the result and I have three questions for you. Firstly on that change in accounting policy mobiles the benefit you said was about 100 at the EBITDA line, which is more than I was expecting. Can you tell us what that means for FY12 EBITDA? On the mobiles business a phenomenal result in the second half? You did better net adds in the second half versus the first half and the COGS were lower in the second half. I would like to understand what you are thinking in

terms of the competitive environment over the next 12 months and my third question is on your expectations for labour cost growth in FY12.

DAVID THODEY: MRO I will give to John but the only comment on the MRO - MRO is not just a financial way of handling mobile acquisition and recontracting. Customers have different needs so we will have to continue with a mix of subsidy and MRO and balance it out going forward. It is not one or the other. We will continue with a mix. John will take you through the MRO numbers. In terms of the outlook for mobiles, I think it will be pretty competitive going forward. But so far it's been a pretty rational environment. It is no secret Vodafone has had a tough time for it and therefore will be conscious in time to try to get back some of the customers they have missed but a lot of them have gone on to post paid plans so it will take a while for that to work through. We have a great network and we are well positioned and it will be competitive but I don't think it is going to be an all out price war. I would be disappointed if that is the case. In terms of labour going through next year I will let John give you more colour on the actual numbers - but we have managed that very tightly, labour and labour substitution, that is what we have to look at going forward. It is really about how we can drive the simplification programs out but we've also got normal CPI increases in there so John you can maybe take them through that.

JOHN STANHOPE: On the MRO, so we all know what we're talking about here, there is zero MRO is where the subsidy of the handset is taken to the revenue line and spread over hardware and services revenue and over the life of the contract. So that's what zero MRO does. We still have many MRO plans where the customer does repay the cost of the handset. But we've restricted the MRO zero plans to iPhone and on \$59 plan - so on the \$59 plan. In this year it started off on a lower plan, we have moved it up to a higher plan and it is only restricted to iPhone. So to answer your question, the impact will be slightly higher because you've got a bit of a flow through of the whole year, fiscal year '11, but remember, as Gordon just said, we will have fewer net adds in fiscal year '12 than this year. So slightly higher but...

CHRISTIAN GUERRA: Higher on EBITDA or...

JOHN STANHOPE: As an impact on EBITDA. In the first half of this year we had just subsidies. The second half from December we have zero MRO that took it up to the revenue line and what you're really doing is you're spreading the subsidy over two years instead of one. So that's the effect of it because you - somebody has taken in the revenue line but instead of all in one year it is taken over two. It is not materially higher.

DAVID THODEY: Do you want to do labour?

JOHN STANHOPE: We will continue - redundancy will increase a little bit. Because as we continue our productivity program there will be still a number of staff leave

the company and - but we've got to also - in labour dollars, your total labour expense, there is redundancy so the increase is about 50 or 60 or so. And we have got to cope with a 4% labour increase. You will probably see a marginal increase in labour cost because of those two things - higher redundancy and a 4% wage increase.

CHRISTIAN GUERRA: Congrats on your career and thanks for your help over the last four years.

JOHN STANHOPE: Thanks. It's been a pleasure.

TONY WILSON: Tony Wilson, Evans and Partners. Can you take us through the revenue proposition at Sensis for a customer who is thinking about migrating from the print product to just the digital product. It might be that the print product will be around for many more decades but I think the reality is that that will not be the case, it will all migrate. I ask the question in the context of revenues declining \$110 million in the year and EBITDA declining \$140 million. I wonder if we are on that precipice at that point in time.

DAVID THODEY: I don't think anyone is under any illusions about the print product will continue to decline. We will try to keep it going as long as we possibly can. The reality in every other company around the world. Bruce has done an outstanding job to keep it going a little longer and get good cash for the company. As you move from print to digital it is a very different proposition and what we're - what is different to anyone else out there we can offer you print and digital at the same time which is this value pack. What we are trying to do is add digital into the pack, probably about the similar revenues, and then transition through to the digital world. But, we're under - we're not planning for print revenues to stabilise. We think declines will continue. We have to work on the new model. With digital you charge every month rather than on an annual basis and that is a real difference as well. So we've got a lot of work to do because it is a very different business model. Companies around the world have been through this transition and they have come out as a really online digital business, strong EBITDA and strong multiple. It is a different business model and we think we can get back to there. Why don't you make a few comments because it is better to come from Bruce because he is out there everyday talking to real customers about what is happening.

BRUCE ACKHURST: That sums it up really well. It is a process that I described in a February or March briefing where we are seeing the revenue change from just purely print into this digital world. It is a three-year transition. We are about three or four months into that and I've got to say the early signs are the existing customer base are moving more quickly into the digital packages. They are liking that proposition. So we are seeing early signs, the print revenue just continuing on that constant decline that we have seen for the last couple of years. It will be, as we've said, three years until we get that cross over point and we get the digital

revenue growth offsetting the print decline.

TONY WILSON: Does that mean effectively we should be assuming ongoing revenue decline similar to what we have seen in the last 12 months?

DAVID THODEY: Yes. Exactly. You should. If you want to look at where we want to get to look at PagesJaunes and they are probably a couple of years ahead of us. If we can stay as this local digital media advertising to small media business, if we can get the model right, the EBITDA margins remain the same and value situations are something different you can work on.

BEN SPINCER: We will now go to the phone lines. The first question is from Digby Gilmour.

DIGBY GILMOUR: If I can press on directories first, at the Sensis strategy day you indicated mid-sized revenue declines through FY 12-13. I wonder in the context of rapidly declining consumer confidence trends to what extent you are still comfortable with this? You said continuing the same run rate but this is difficult given consumer confidence. Then on mobile, competition increasing into FY12. Will we see mobile EBITDA margins expand or are you prepared to increase your marketing spend again there to defend your share? On tax, have you any update on the tax ruling from the ATO with regards to treatment of NBN cash flows? I'm assuming they are mainly coming through the P&L.

I will let John take the tax one. On the directories and consumer confidence, we are out there at the moment, it has changed a bit in the last week. We are feeling comfortable where we are at. I will let Bruce comment.

BRUCE ACKHURST: The customers we are servicing, they are not all discretionary suppliers. If you are having a wedding or want a marquee or want your plumbing fixed, a lot of these things have to happen irrespective of consumer confidence. We are also not seeing the small business sector as a whole decreasing its advertising budget. Yes, it's profitability has been going down for the last three years and so they have been very cautious and they're moving quite aggressively from traditional media, not just print but TV radio, all the digital media into the digital world that is where the opportunity is. We feel comfortable there will be ups and downs and spurts and so on through the three-year period but I think the guidance is about right.

DAVID THODEY: While consumer confidence is down, Australia is still a great country in terms of the businesses and the economy has lots going for it. I understand confidence is down, we have global markets mainly driven by Europe and that does impact but it is about what is discretionary and what is not. We are watching it closely but feel pretty comfortable in where we are at. In terms of mobile and competition, we are, as we've also had in our mobiles business - we are still driving differentiation on it. We are still building out, our coverage

proposition is second to none, we are moving through to LTE and that is giving great differentiation and it does take a long time for people to catch up when you have built that sort of enormous capital investment in a very large network. We have a very strong proposition. The feedback from customers who have come back to Telstra is very positive. We do a lot of surveying and they are saying, "I have forgotten how good it is to be on the Telstra network." Yes, we think we deserve a premium but we are very conscious of driving adequate returns from that investment as well. We do not plan to give up share but we are not going to lose share and let it get away from us and we will manage it carefully. We are all about EBITDA growth and we will manage that mix as we go forward. Always has been our strategy, will continue to be, we will continue to strive for excellence in that mobile network. Even as we have a lot of people coming across we have to do a lot in managing different cells as you have customers coming onto one cell and making sure the performance is right. Brendon and his team, we look at every cell and sometimes we are a month behind and catch up but we will not allow that differentiation to get away from us. Do you want to talk to tax?

JOHN STANHOPE: No, we do not have the tax ruling. Yes, we have had good conversation and discussion with the Tax Office. I am not concerned about it but we don't have the ruling yet.

ANDREW ANAGNOSTELLIS: Andrew Anagnostellis from Deutsche Bank. If I just understood what you were saying about the NBN agreement, are you suggesting that if the ACCC approvals have not come through you will go to the shareholder, the AGM, for approval with an independent expert report but it will be subject to ACCC? I just want to understand the process and timing behind that?

DAVID THODEY: The only difference from what you said is that we may. We've just got to - we have to work through this to see how far they get this period but what I'm really signalling to you is that we are considering that as we go through, because we think we have to keep the momentum going here otherwise it is just going to get too complicated. So what I said is we 'may' consider doing that. As we are going through the year-end process we are looking at the options there. The board has not made that final decision but I want you to know that that is that option. What we need to make sure is that if we sought shareholder approval that they have - you would have enough confidence that we would - whatever we negotiate with the ACCC subsequently is in line with what we put in. Obviously you can't guarantee that because there is a lot of back and forth but what - under what constraints we will be put. That is what we will be saying because we don't want to run an AGM and then we might be calling an EGM two weeks later. That would be crazy. We are trying to work this thing through. The ACCC have got to go through their process. We respect that but we want to help them come to a conclusion as quickly as possible.

SAMEER CHOPRA: Sameer Chopra from Merrill Lynch. I have two questions, first of all, looking at the NAS product line, half of the growth in that seems to be

coming from the NBN construction activity. I was wondering if you could talk about what sort of contracts you have in place to drive the top line for next year around the NBN? That is the first question. The second one is on mobile handset subsidies. The number for handset subsidies for the half year looks like it is about 175 million, that is well below what you have done historically. My understanding is that the MRO is contributing at the top level not the OPEX level. Can you just explain what is the expected trend in the handset costs?

DAVID THODEY: Let me take the NAS one. In NAS we recognise network construction business. Some of it is NBN but our confidence going forward is not based on any NBN construction work at all. It is more based around the contracts we have signed in the last four months. So, Sameer, we continue to do unique build for BHP, Rio, is all in there too, not just NBN. NBN we did Brunswick but that was really about it. It is not significant. More of our growth is coming from taking over the management of complex networks with our large customers, putting out IP telephony, managed services and small to medium businesses. That is where the growth will be in the future. On the MRO...

JOHN STANHOPE: I will explain a couple of things. There was 490 million increase year on year on subscriber acquisition and recontracting costs. 136 million of it came from volume and 354 million from rates. What I mean by rate is the mix change in Smartphones and a few are SIM only but you're asking a question about subsidies and MRO comparisons. The actual increase in subsidised volumes in fiscal year '10 was this 35% growth and in fiscal year '11, 25% growth. So the actual subsidised volume went down but MRO volume went up. MRO volume in fiscal year 10 was only 11% and in fiscal year '11, 31.7% so given the treatment of MRO zero and so on, that is why you are seeing subsidies change in volume and dollars. It is a mix change in what is subsidised and what is on MRO.

FRASER MCLEISH: Fraser McLeish, RBS. A couple from me on the mobile margins again. Is that 35% second half, is that a number you see as sustainable going forward? If you can talk about CAPEX for LTE, I guess you are starting to spend a bit now, what do you think that will be over the whole roll out and what timeframe will we see LTE CAPEX coming through?

DAVID THODEY: LTE CAPEX is in all the existing numbers. We have spent - we have already spent it in full year, in fiscal year '11 but we will build it out and move HSPA 2+ out and build out LTE. It is just within the envelope, no big lumpy amounts. What you should be aware of is we need to build spectrum. We do LTE on 1800, we have the spectrum stuff coming in.

JOHN STANHOPE: Fiscal year '13.

DAVID THODEY: That is the one, the lumpy one you need to be aware of. Have we said how much we think?

JOHN STANHOPE: No.

DAVID THODEY: You can work out how much you think that will cost. Do you want to handle the first one?

JOHN STANHOPE: Mobile EBITDA margins, we said that we expected to improve margins and you saw the full year is 32% and you are right, we finished with 35% in the quarter. We expect to be able to maintain that sort of margin level. The reason we do is that we are, you know, lower as people move to data, and there is a lot of data over the network now. It is one of the reasons we have gone to LTE early and quickly, to drive the cost of delivering data across mobile networks down in order that we can increase allowances and maintain those sorts of margins. Our expectation, if you look around the world mobile operators, are up around that sort of level and we think we can maintain that level of mobile margins.

LAURENT HORRUT: Laurent Horrut from JPMorgan. John, enjoy every minute of your well-deserved retirement. The first question, on the FY12 guidance, looking at your run rate on the course in the second half, it strikes me that just based on your FY12 guidance it still assumed about 6% OPEX growth in FY12 which is well ahead of your current run rate. You are doing better than that at the moment. Just wondering the degree of conservatism built into that guidance, particularly on the cost side. The second question, just on the capital management side, so you get \$2.6 billion of cash sitting on your balance sheet. You are probably generating about \$1 billion in excess free cash flow above your current dividend payment. Just trying to - without pre-empting the decision of the board but to get a sense of the quantum of the capital management, you'd be thinking about or a - or the range, how does franking comes into the picture and more broadly on capital management, do you also think about degearing the balance sheet ahead of the sort of migration to NBN? What are the sort of considerations on a two, three-year view that you'd be putting into this decision?

DAVID THODEY: Sameer, probably all of the above. I'm sorry, we - you're sort of pushing us in an area - very good questions, that plus many other questions are - are we trying to think through about how to really prudently and appropriately manage capital. Now, also now trying to look at what markets are going to do over the next two years and what debt we have to raise. We have a lot of considerations. We have to get through NBN first. You know that we've always had a policy around fully franked dividends, that is where we want to be. We know dividends are very important to our shareholder base but we think that we will have some options going forward. All of the above have been considered and we will, at the right time after we get through this, we will come and give you our thinking. I want you to know it is a very actively discussed item at the moment. Do you want to add anything more on that?

JOHN STANHOPE: Your first point about expense growth - I'm not too sure how you calculated your 6% but I can assure you that expense growth will not be that

high in this fiscal year. So let me just put that to rest. With respect to the dividend payment, the board has committed to the 28 cents in the fiscal year '11 and fiscal year '12 and that it will be fully franked. I've said on a number of occasions that in the year just gone, in the year we are now in, fiscal year '12, franking credits will be tight. That will be the case, I expect, the tax paid in this fiscal year to be a very similar level to the tax paid in the fiscal year just gone and tax paid generates the franking credits and therefore the 28 cents can be franked, again keeping a very tight watch over franking credits. Capital management, all your capital management questions are a matter for the board's consideration post NBN.

DAVID THODEY: Sameer you should be confident that we are looking at every possible dimension and factor in this whole capital management and if you have any ideas give them to Ben.

JUSTIN DIDDAMS: Just a couple of questions. First on the fixed internet business. I was wondering if you can talk about what happened in the fourth quarter. Obviously subs declined and whether that was you taking your foot off the accelerator in terms of pricing or what the dynamic is there and second to that in terms of the margin profile and what we should expect in FY12. Obviously EBITDA margins came down quite significantly. The second question is just where your priority lies with FOXTEL and getting a deal done? Would you prioritise owning FOXTEL and aggressively bundling it with your fixed line products over potentially supporting a FOXTEL-Austar deal that could inevitably see you creating your single biggest competitor if they are able to offer broadband and telephony products themselves?

DAVID THODEY: I will answer the second one. John do you want to take Justin through the anomaly we had in the fourth quarter?

JOHN STANHOPE: In the fourth quarter, in the physicals for fixed broadband or fixed internet, we did cancel 65,000 customer or SIOs due to - given to the fact they weren't paying customers. We tidied up our base and so you, if we hadn't have done that we would have - instead of the 158,000 we would have had a gain of 223,000 so it is a bit of an aberration in the data. So don't take the fourth quarter performance as the underlying performance in fixed broadband. You should look at the first three quarters.

JOHN STANHOPE: The margin profile, fixed broadband the margins come under pressure because of the amount of allowances and use and so on but again we're looking at the cost base of delivering data and video services over the fixed line network and, again, we're trying to maintain our margins.

DAVID THODEY: So FOXTEL, I think it's important you understand how we think about FOXTEL. FOXTEL is a premium content provider using a pay TV model. Primarily on cable and satellite. Therefore our 50% ownership on that is really important and the way we offer that to our customers to use a bundle. Bundles

have proven very helpful for us in reducing churn and now I think we've got how many - the number of FOXTEL customers on bundles? I think it is a little over 500,000 or so. Is it 1 million now?

JOHN STANHOPE: Over 500,000

DAVID THODEY: I'm thinking about the bundle. When you think about T-Box, what we have done is taking thirty of the FOXTEL channels and distributing them through an IP service so what you are doing is just using a different distribution technology to get that same content out and we use it - a subscription model. So both of them will co-exist. I do not see them as competitive. There are some other options with IP TV that you don't get in satellite and in cable because you can go interactive, IP is an interactive experience. As you use that technology you can do interactive advertisements and pop them up when you want to. You can do a pay TV model and advertising model. That is why FOXTEL has IP Junior. We source a lot of the movie content from FOXTEL. We see this as a collaborative partnership with different distribution technologies. We do FOXTEL on mobiles which is another distribution alternative. When we did the AFL rights FOXTEL led and we came along. I think that we see this as a complementary type approach and we will continue to do that as we go forward. You asked me the question would I do more with FOXTEL? I suppose the question is the price and what's the price? We look at all alternatives but today we are pleased with the partnerships we have. We work well with News and Consolidated and we will continue to do it on that model. We will look at all options as we go forward. Do you want to add anything as chairman? Great. Is that all, Justin? I shouldn't ask you that because you will ask another question.

BRAD CLIBBORN: Brad Clibborn from Credit Suisse.
Congratulations on the results. Two questions from me. Firstly in terms of guidance, looking at your second half EBITDA growth of 0.7%. Should we take that as a rough indication of momentum for FY '12 or do you think there's opportunity to increase that growth? If you could just give us your thoughts around the key risks and opportunities that will put you towards the upper and lower end of that guidance range. My second question is on mobile ARPU. Still seeing aggressive declines in wireless broadband's ARPU down 20% in the second half. I want to get your thoughts on where you see that ARPU stabilising and when?

DAVID THODEY: Guidance with a low single digit and you can interpret that how you want to. I think that is a good platform from which to launch for the next year. Is that right?

JOHN STANHOPE: That is right.

DAVID THODEY: We want to do as well as we possibly can but we are not giving specific guidance. In terms of the key risks for next year, as with all these things

we are concerned about the markets, consumer confidence we have talked about, though we are not seeing any real pull through on that at the moment. We are concerned about and thinking about competition and pricing, what's going to happen and pricing with our competitors. The early signs, the last three months, has been pretty reasonable. I think that the - I'm sure there will be some sharpening of pencils in certain areas but remember, this is all about targeting the right segments you want to go after and really being considered about how you can differentiate our offering. I see that as an ongoing challenge. I see - I think for the industry the bigger challenge is the expectation of customers on unlimited data plans. It is not sustainable and it is not good for the industry. As voice calling goes to IP, how you manage that transition to move from access to usage. They are the big challenges that the industry around the world is really focused on. You see the US go to unlimited plans but they are all coming back now to a more, I think, sensible approach. You saw in Holland, you know, a disruptive play on SMS - free SMS - it was only for a year before you have to start to pay for it. You have seen us respond with all included SMS to try to get ahead of those things. We look at disruptive plays where someone can come into the market and start to completely change the model. Obviously you have Microsoft going with Skype and Vonage and where will that play out and the true impact. We are starting to look at different pricing models to cover that off now. That is why access pricing or included usage is very important as we move forward. We see many challenges but we do think we are starting to see some options going forward to manage this and so we can hold our returns at acceptable levels. Wireless broadband ARPU's decline. That has been the challenge in the industry. What I think I bring you back to is what you've got to look at is actually the profitability of that revenue stream. John alluded to why we went to LTE. LTE was not just a price play, it was a unit cost play. LTE manages that data on the wireless network far more efficiently and therefore it allows and gives us options going forward. I would like to see ARPU's start to stabilise in the wireless broadband market but we need to remain to be competitive. We are not going to just let that sort of get away on us. I am not giving a prediction on that because it's really a matter of really now the - how the competition play out. It is a very important market for us. Do you want to add anything to that?

JOHN STANHOPE: No, just we have to be a little careful with this year because certainly there was a move to prepaid, that caused the ARPU to decline. We did stop charging for excess usage and that's also had an impact. So that won't flow into fiscal year 12 but nevertheless there is still pressure on prepaid ARPUs.

DAVID THODEY: That is all tied up with making sure bill shock and look at customer experience and we do some throttling back and then the customer says, "I want more. Give me a bigger plan." So we make it easier for the customer to upgrade. That is it.

DANIEL BLAIR: Daniel Blair from Bell Potter Securities. Thanks and thanks for your time this morning. Well done on a good result. A couple of questions from me.

Looking at prepaid handsets, it looks like you lost 22,000 sequentially. Obviously you talked in the past about that and it has been a focus area. If we could just get some comment on that. Secondly on DVCs, perhaps putting this one to bed, if you can talk about both volume and SAC expectations in terms of FY '12. I guess included in that is the mix of devices and in the third one, just on the infamous asterisk in the guidance, you talked about the FAD, but can you just clarify what you are assuming around the exempt exchanges review that's currently going on. Thanks guys.

DAVID THODEY: I will ask Gordon, because prepaid was one of the must-win battles and the story is very strong but I'll let Gordon take you through it.

GORDON BALLANTYNE: In terms of prepaid, looking at the consumer business there was 6.4% improvement in prepaid. Halfway through the year we had not launched cap plans into the market place. We launched cap plans and it was 50% of the addressable market. We have seen the ARPU grow. In the second half of the year we have seen a significant decline in the overall prepaid market as a whole as we have seen many customers shifting to a post paid and moving towards a higher end Smartphones and wanting to shift to a post paid offering. If you look across the industry and the number of results from our competitors you will see where we had a net positive development in our overall prepaid base across the board our other competitors had a significant decline in prepaid. That has driven about a 2.5% plus revenue share gain for us in prepaid. We're pretty happy with the overall performance in the year. There has been some softening in the second half as it relates to fraudulent activity and as an industry we are taking action around fraudulent activity that required us to remove a number of customers from our business second half. That is the theme across many of the competitors in Australia as well. That is why we have seen a slight softening as we have taken action to tighten controls across the base.

DAVID THODEY: ARPU's are up year to year. We are very diligent on - we talk about unique users on prepaid so we will disconnect customers if they are not - the handset is not being used and so I think - from what I have seen on the numbers in the market I think we are doing pretty well. We would have picked up share in the year and there is softness in the market as people moved across to post paid. I will let John handle DVCs. The FADs in the forward looking forecast, the exchanges and exempt review we have not put that but we feel pretty comfortable where things are at the moment so we'll wait and see what happens, I suppose. John do you want to look at the - answer Daniel on the DVCs?

JOHN STANHOPE: I think we're about 47% Smartphone penetration now. Certainly in consumer anyway. So Smartphone, there is still a lot of room to move in Smartphone increasing. DVCs will continue to be under pressure but I don't expect much growth in the whole category of DVCs in fiscal year 12.

DAVID THODEY: I think we should just mention that the costs of the handsets

obviously has gone up with the mix change and we're very conscious of that and we are very enthusiastic about having good competition in the Smartphone market going forward. We will be working hard to see that happen.

MARK McDONNELL: Mark McDonnell from BBY. Reiterating the congratulations on the good turn around in the second half gents. My question, David, is about the NBN and I'd like to go to your remarks where you talked about legislated government policy. Government policy typically goes some distance beyond the legislation and in the case of the NBN I think that is certainly the case. My question is this: has Telstra received any written legal advice or opinion around the range of options that could be considered by shareholders with respect to the forms of structural separation that could be implemented that would be consistent with the legislation? I ask this question in the context that again, as recently as last week, the Shadow Minister for Communication set out an alternate form of structural separation that does not involve a deal with the NBN. I therefore want to understand whether Telstra considers that it is under some legal constraint in offering that as an alternative to shareholders and if so, if you do have such advice, could you outline what the legal reasons are either now or in the proposed explanatory memorandum?

DAVID THODEY: There's quite a bit in there and I want to try to give you as strong a sense as I possibly can. Firstly, currently the NBN and also the legislative environment is law passed by the Senate and even should there be a change of government it would have to go through the Senate for a fundamental change which would have to be approved by the Senate and you know the Senate structure with the Greens, it will be what it is. It is very important to understand that scenario because that means that while there are options, should there be a change of government in two-years' time, actually a change of legislation would be quite a lot longer further forward. That's number one. In terms of different structural separation options, since I have been with the company - and I have been here over 10 years - I think I have seen more legal advice on options than I care to really recall. I understand that your question is specifically to the EM. We have had a lot of reviews done on different separation constructs that have all fed into all the modelling we have done. Now, in terms of the EM and the consideration of those alternatives, it is implied because it says that we've looked at the best next alternative. John, do you want to add anything else to that because we can talk some more offline but I don't - I think that's the scenario. I can only deal with the reality I have in front of me and I don't have any options and as shareholders - I have a deal - if the law changes I have to decide which way I go. In as much as the Shadow Minister may have options they are not really relevant to me until he is in power and has had the law passed. That is the problem. Do you want to comment?

JOHN STANHOPE: I just add that we have looked at various separation options, including functional separation, legal separation, but in the context of there being an NBN, because there is one, and it's legislated, it's not appropriate, we believe,

to look at separation options assuming a different outcome when we don't know if there will be one. We can only deal with the legislated and policy of this government today but we have looked at the various separation scenarios in the light of that legislation and that policy.

DAVID THODEY: And to try to retain as much flexibility for, you know, the company and our shareholders, should something change in the future. Therein lies the quandary because otherwise I am boxing at clouds. That is the problem. As you know we are available to talk but I think that sort of gives us the position.

BEN SPINCER: That is the last question we have this morning. We will take a short break before the media conference and any final words from David before we close the analyst briefing.

DAVID THODEY: Thank you very much for coming. As I said, it is nice to finish up the year, especially on a day like this when the markets are all over the place. We exceeded guidance, set a good platform and exceeded what we said we would do and lots of opportunity going forward to keep the momentum going and we are committed to doing that going forward. Thanks for your time. Good to see you.

END OF TRANSCRIPT