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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Analyst briefing - Half year financial results

I attach a copy of the transcript from yesterday's Analyst briefing – Half year financial results, for release to the market.

Yours faithfully



Damien Coleman
Company Secretary

Ben SPINCER: Good morning everyone. My name's Ben Spincer, the Director of Investor Relations at Telstra. On behalf of the company I'd like to welcome you to this, our half year results for the fiscal year 2012.

In a moment I'll hand over to the management to run you through the results in more detail. First I'd like to welcome you not only here in Melbourne but those on the phone, those on the webcast and those watching on T-Box channel 919.

Without further ado I'll hand over to the Chief Executive, David Thodey. Thank you.

David THODEY: Thanks Ben. Morning everybody and welcome to our first half results for fiscal 2012. We're going to cover three things this morning. I'm going to give you just a quick introduction on the highlights. Now I'd like to say Mark Hall, our acting CFO, is going to come up and take you through the details of the financials and then I'm going to come back up and just give you a little bit more colour about our strategic priorities that we've been working on so diligently for the last 18 months.

But before I begin, I do want to cover two things that are very important. Firstly NBN and secondly capital management. Firstly on NBN, I just want to say again that we're working constructively with the ACCC and we're making progress and we're hoping that we can bring these negotiations to a successful conclusion in the near future. But we've just got to work through all the details and get this thing right. So that's the first thing on NBN.

On capital management, I just want to reaffirm the Board's decision that we said we would consider capital management after the SSU has been signed and then we would give you an indication on that. So we've got to get those agreements done and then the Board will consider capital management, which is what we've always said.

So now let's get to the results. The first big message is our strategy has moved from strategy to results and that's very important. So the momentum in our business has continued into the first half. So we had a strong half at the end of last year and that's come through into the first half. Revenue increased 1.1% which included a very gratifying 3.5% growth in our retail business and that was very strong. EBITDA is up 3.7%.

So the strategic investments that we've made across all the products, but especially mobiles, are really starting to pay dividends. We added another 958,000 new domestic mobile customers and that translated into a growth of 10.9% in our mobile business.

We've also seen good customer growth in our fixed broadband business with another 106,000 new customers added in the first half. And of course a key area of our growth portfolio has been the network applications and services

business and that had a growth profile of 19.7% [sic] in the first half, and I'm pleased to say the international business also had double digit growth in the first half. So they were very gratifying results.

Also, the program to simplify the business continues to deliver results. We have another \$456 million of incremental benefits in the first half. Now that's at a gross level and I'm pleased to say that Robert Nason and the whole team continue to look at how we can simplify the business, do things better and it's gratifying to see that those results are starting to come through.

This has been a strong team effort. In running a big business like Telstra you need a strong team and I'd glad to say I've got a very strong team around me, but also the whole of Telstra has really sort of gone to a new unified purpose in serving our customers and really driving growth and it's really pleasing to see.

So in conclusion around the highlights, I'm very pleased to confirm guidance for fiscal 2012.

So our strategy is working and we're really just continuing very simply to focus on the four priorities. I'm going to discuss specifically what we've done in the last six months, but let me just give you an 18 month view, because it's good just to sit back and see how the journey has gone. So let me just quickly go through each of the areas.

In terms of customer satisfaction we are seeing improvements. We've seen a seven percentage point increase from 18 months ago in terms of our internal surveys about what customers are saying about us in terms of improvement. However we still have a long way to go.

We touch nearly half a million Australians every day, and you don't get it right every day so there's always examples where we don't do it well. But I can tell you when we get the problem, we do fix it, and there's a whole new momentum in the business.

As I said very strong growth in customer numbers. If you look out over the 18 month period, it's been two and a half million new mobile customers on our mobile network, and I'll say a little bit more about that later on.

In terms of simplifying the business, it's nearly \$1.4 billion in productivity benefits we've actioned over the 18 month period. And of course, we've got to keep finding new business growth, like those four areas of network apps and services, international and the digital media area. And look, NAS and Asia are going well. We've still got more work to do in the digital media area, but it is encouraging to see the focus and the results.

So lots more to do, which I find encouraging, lots more to do. But probably the two areas that are not quite performing where we want them to be are Sensis and Telstra Business. We've been open about that, we've got more work to do there. But the momentum is growing and I'll talk specifically about Sensis later on.

So I think our strategy's working, and we're working really diligently on the NBN side. We've got to be ready as we move into an NBN world, and I'm very pleased with the preparation work that the company has done.

But even as we go into the NBN world, our four priorities will be the same - customer service, growing, retaining customers and continuing to find simple ways to run our business, because that's so important for us as we go

forward.

So that's sort of the big messages. I'll let Mark take you through the details now and then I'll come back and talk a little bit more about what we've specifically done in six months.

So Mark, welcome, come on up.

Mark HALL: Thanks David and good morning. As David said, our momentum in customer growth is translating into top and importantly bottom line financial performance.

Let's take a look at the key reported numbers. These are in line with the expectations we shared with you in November at our Investor Day. Total revenue has grown 1.1% to \$12.4 billion. This reflects the benefits that come from growing our customer base and investing in strategic opportunities like network applications and services.

EBITDA grew 3.7% to \$4.8 billion. This is a result of top line growth and a reduction in operating expenses. Productivity initiatives and reduced impairment charges are the main drivers for the reduction in OPEX.

EBIT growth is strong at 7.9%. Accrued CAPEX was \$1.7 billion in the half, or 13.8% of sales and free cash flow was \$1.8 billion. I'll come back to these numbers and the drivers of half on half growth shortly.

We have announced another 14 cents interim fully franked dividend. Finally, we have provided half year growth rates for total revenue and EBITDA on a reported and guidance basis. The guidance basis has been adjusted for the impairment of LMobile and the impact of the ACCC Final Determination. There is a reconciliation of these adjustments at the back of the financial highlights document.

On a guidance basis, revenue is up 1.2% and EBITDA increased 4.5%.

Let's move on and have a look at the product revenues.

This chart gives you an overview of the product revenue movements in the half. It highlights the trends we spoke about at Investor Day last November. Mobiles growth is particularly strong. In the first half we saw \$430 million of incremental mobile revenue. This more than offsets the declines in Sensis and PSTN.

The Sensis decline is exaggerated by the timing of the distribution of the Perth Yellow Pages book. Revenue from this book will be recognised in the second half of this fiscal year. Last fiscal year it was recognised in the first half. We expect this change will boost our second half revenue by \$53 million.

We have also seen strong results from NAS and retail fixed broadband. As David will discuss, both of these are strategically important.

Let's look at the customer growth momentum. This chart shows the trends in terms of customer growth for our key domestic products. Mobile revenue is driven by customer growth across all mobile products. As David said, we added a total of 958,000 mobile customers this half.

Within the post-paid handheld category, we've seen consistent growth with 338,000 customers added. And for the first time we have split out what we call machine to machine services. We're seeing very good growth in this category with 86,000 services added across the half.

Retail fixed broadband customers are also growing well. This is largely due to the success of our T-Box, T-Hub and bundled fixed broadband offers. Another 206,000 bundles were added in the first half. Retail fixed broadband growth of 106,000 is also very pleasing given we were losing customers in this category a couple of years ago.

PSTN line loss continues to be managed well. We have not seen an acceleration of line loss in recent halves. Again a vindication of our bundle strategy.

Let's look at domestic performance. Today's results show our domestic performance is improving. Our Customer Sales and Service group is the cornerstone of our domestic business. It includes our Consumer, Business and Enterprise and Government segments. As you will see, this group is driving profitable mobiles growth across all segments.

Telstra Consumer and Countrywide is showing strong mobiles growth across post-paid, pre-paid and mobile broadband. Mobile services revenue is up 14.4% in this segment, and customer satisfaction is up 7%.

The current economic environment is impacting the SME market. Although Telstra Business has reported a revenue decline in the first half, we do expect improvement in the second half. Telstra Business is also seeing improvement in customer satisfaction.

Strong mobiles performance is also reflected in Telstra Enterprise and Government. Mobile services grew 13.5% in this segment to \$513 million. Both Telstra Business and Telstra Enterprise and Government are reporting strong growth in network applications and services. For example this revenue increased 12.6% in Enterprise and Government and 38.8% in Business.

Let's look at productivity. Before we take a deeper dive into our expenses, I note our productivity program delivered benefits of \$456 million this half, leading to an overall decline in reported OPEX. As Robert Nason highlighted at Investor Day, there are 27 major programs contributing to simplifying our business and improving customer satisfaction. Last August we said we expected productivity benefits to exceed the 2011 figure of \$622 million. And with \$456 million achieved so far, we are making excellent progress.

These productivity benefits provide us with the opportunity to invest in customer growth and growth businesses. Business growth of \$233 million shown on this chart covers these opportunities. This includes investments in NAS with the iVision acquisition last year and also in International. We now manage the restructured Reach business.

Let's take a closer look at reported expenses, with total OPEX declining by 1% in the half. Fixed costs across the combined labour and other expense categories are down. Variable costs have increased slightly as a result of customer growth.

Turning to labour, the adjusted growth rate for labour expenses is just 1%. This adjusts for three items. Firstly the significantly lower 10 year government bond rate has resulted in an increase in long service leave and workers compensation provisions. This impact is \$126 million increase in labour expenses in the half. Secondly, conversions of service contracts to labour expenses add another \$43 million, and offsetting this is a reduction in redundancy expenses of \$78 million.

As for directly variable costs, there has been a slight increase in the first half as a result of customer growth. This category increased by 0.4% or just \$13 million, on a base of \$3.1 billion. Other OPEX declined by 7.5% or \$202 million. This includes lower service contracts and agreements which decreased by 11.8% or \$141 million, and lower impairment charges.

While we are looking at group level expenses, I do want to point out that we have not disclosed any NBN related expenses or revenues in our reporting. We will commence this once the agreements are completed.

Looking further at labour expenses, we manage our labour workforce costs using direct labour and labour substitution. Labour substitution expense is in the other category and is down. In aggregate, labour and labour substitution expenses have decreased by 1%.

This is a solid outcome, given rate pressures inherent in labour and the investments we are making to grow new businesses. Investments to support growth in NAS, which includes last year's iVision acquisition as I mentioned earlier, and the restructure of Reach in Asia, a cost we have incurred this half that was not in the first half of last year.

However, we do believe there is room for further improvement. We are targeting future declines in labour and labour substitution expense as we further simplify the business.

Moving on to product profitability. In the last 18 months we have seen strong revenue growth and customer growth in mobiles, which is translating into margin recovery and profit increases. EBITDA margin was 34% this half compared to 29% this time last year. Mobile EBITDA has increased by almost \$350 million year on year.

Our go to market strategy is now heavily skewed to MRO offers. This skew has aided margin improvement, but the improved churn and steady post-paid handheld ARPUs are key drivers.

Fixed broadband EBITDA margin increased from 33% to 37%. This is largely due to customer growth translating into financial benefits. IP and Data and PSTN product EBITDA margins remain consistent with prior periods.

Looking at Sensis, Sensis margins have declined as expected as we invest in the digital transition for this business. Margins are impacted by the following: Yellow print revenues have declined more than expected; digital demand is taking longer to monetise; and the initial costs of transition have been higher than we expected.

Also contributing to the EBITDA margin decline is the deferral of the revenue attributed to the Perth Yellow Pages book I mentioned earlier on. The EBITDA impact from this is \$47 million. If we adjust for this timing difference, the Sensis EBITDA margin would be around about 30%.

Looking more closely at mobile profitability. We're seeing a very efficient management of this business. EBITDA margin has improved by five percentage points in the half. There are several major drivers of this.

Firstly, ARPU trends remain stable. In the critical post-paid handheld category, ARPUs remain steady at just under \$64.

Secondly, we are managing churn effectively as shown in the middle box. Post-paid handheld churn has fallen to 13.2%, a significant improvement on fiscal 2010 when it was about 16%. This does result in lower cost of goods sold, lower customer retention activity and fewer mobile customers leaving Telstra.

Thirdly, we are seeing less subsidy and more mobile repayment offers.

As I said previously, we are now more skewed towards mobile MRO contracts. Across all mobile activity in the first half, 23% of that activity was MRO sales. This is up from just 11% a year ago.

The \$0 MRO volumes continue to account for a very small part of our mobile business, just 3% of total mobile activity in the half.

In summary, the settings of steady ARPUs, lower customer churn and more MRO at a time of customer growth is a good business outcome.

Turning now to cash flow and CAPEX which are being closely managed. Cash flow is down half on half by 11.1%. This is due primarily to the proceeds from the sale of SouFun in the first half of last year which boosted the previous corresponding period by net \$288 million. If we exclude this, cash flow was up 3.6%.

Accrued CAPEX of \$1.7 billion in the first half is 18% above this time last year. However, we have invested CAPEX to support wireless demand and cloud computing capability in the first half.

CAPEX is also being closely managed and process improvements have led to a smoother yearly profile, which eliminates the costs associated with peaks and troughs in the program.

Before I move onto the next slide, I wish to mention depreciation and amortisation which decreased by 0.8% to \$2.2 billion.

Looking at our financial settings, our debt and financial parameters are in very good shape. This half there was a \$20 million decrease in net borrowing costs arising largely from a reduction in average net debt.

Over the period we remained well inside the comfort zones of our key prudent financial parameters set by our Board. Whilst there was a small increase in gearing, the parameters continue to reflect the strong balance sheet. This should be reassuring to shareholders during these times of volatility and the financial market pressures.

Telstra continues to generate substantial free cash flow which comfortably covers our dividend and interest commitments.

Now turning to guidance which is re-confirmed. We're guiding for growth across top and bottom lines, with low single digit growth for total revenue and EBITDA. Given the performance of the business in the first half, we're tracking well towards these outcomes.

In regards to the impact of regulatory price changes, the fixed Access Determination, Mobile Terminating Rate changes and the removal of PSTN exemptions that have occurred since issuing guidance, will be normalised. The estimated wholesale impact of these changes is a reduction in revenue of approximately \$116 million. The EBITDA line will decrease by approximately \$25 million as a result of these changes.

We are guiding for CAPEX to sales of around 14% and free cash flow of between \$4.5 billion and \$5 billion. The 28 cents dividend noted at the bottom of the table will be a fully franked dividend.

I will now hand back to David.

David THODEY: Thanks Mark, and I just want to recognise Mark's doing a great job as acting CFO. Andy Penn starts on the 1st of March, but Mark has stood into the breach and doing a great job with John's final retirement at the end of December.

So, what I'd like to do now is just to go and look at a little bit more detail about our priorities and give you a bit of a sense of how we've gone over the last six months.

As I said, what's so important about strategy is you can actually see results, and actually relate what we're doing to real financial outcomes. So let me just go through each of the four priorities and then I'll wrap up at the end.

So as you know, our first priority is about customer satisfaction and we are seeing an improvement. But as I did indicate, we still have a long way to go in terms of getting where we want to be. We continue to do a lot of work in this area as you can see on the chart, just the large number of areas that are just right across the business about changing the way we do things.

But let me just pick up on three: Telstra bill, that important moment in your life when you move house, and also a little bit about social media.

So we launched the new Telstra bill in the last half and that was for consumer customers. Such an important moment when you actually get your bill. Clarity on the bill, how it looks, how it feels. And the response has been very positive in terms of how people are reacting to that. That was an enormous amount of work to actually get the new bill out. A lot of IT work, a lot of work in the front of house to get that done. These are big changes.

In terms of moving house, as you know that's one of those moments of truth in terms of your relationship to your Telco provider. How moving house experience goes. We've changed that process a lot.

We now are proactive in making outbound calls to see how people are going on the day they're going to move, try to coordinate all the bits and pieces from your voice service to your fixed broadband and including hopefully your cable TV/Foxtel service.

Have we got it right completely? No, but it's a lot better than what it was before. So that's been very gratifying to see.

But these are the sort of things that people really can see tangible changes around.

And as you know, we put in 24x7 sales and service support call centres which was what, nearly a year and a bit ago. But now we've moved onto social media. So we have people monitoring 24x7 what's on Twitter, what's on Facebook, and we engage in the conversation so we can get ahead of concerns or commentary that is going on in the online world. These are big changes, they change the way we're perceived.

But the real question is, are they making a difference? Because you can do all these things and if it doesn't make a difference you really say well what's the return to shareholders.

Well I'm pleased to say at the end of the half call volumes were down 28%. We went through a little bit of that in October. That makes a big change in terms of grade of service, in terms of the front of house, costs etc.

TIO complaints reduced 24%. I've said repeatedly, TIO complaints are right at the end of the process, but they are an indicator about how we're going.

What probably is more a tangible result is our churn rates are probably at one of the lowest in the world across mobiles and PSTN.

However, we want to get to a point where customers are not just satisfied, but they become promoters or they recommend Telstra to other people. We want them to become advocates for Telstra, that's a big change.

So we're moving now to implement the Net Promoter score, or the Net Promoter system, and that will become a measure of advocacy. Now this is a big change for this company because it really means every metric, every part of the company has got to change the way they measure. So it's about a customer outcome, not necessarily an internal metric.

So we have a lot of work to do that. We've just begun that, and Robert Nason's team's driving that. And this will probably take a couple of years to drive out, but this is a big change for this company. So that's customer satisfaction.

The second area has been as you know around customer growth and as I said, really good to see the continuing growth because customers are what you want. Lose your customers, you lose the revenue. So we're seeing some really strong results.

It's been great to see the new customer sales organisation led by Gordon come together. That's been a big change, a very focused sales team who are really there to look after the customer, represent the customer, and we're seeing some good synergies across the enterprise segment, across the small business - what we call Telstra Business - and the consumer segment. And that has resulted in really strong results - 3.5% growth, really strong. And that's driven by strong mobile revenue and the customer growth we talked about.

Also as you know, we did roll out the LTE handset, the new HTC device and it is just selling like hot cakes. It's going

very well. We've sold 100,000 dongles already and it's become the third most successful handset in our range within just a few weeks. So I mean we put the dongles into the market and then we put the handset. So that's been very strong.

In fixed broadband, ARPUs are now at a similar level as they were in 2008. That's a big change. And that's in the midst of very strong competition. So this has helped to drive a 5.8% increase in our retail fixed broadband business.

To the very important area of PSTN, that slower decline is so important as you're offsetting the growth you've got in mobiles and broadband. So managing the PSTN revenues is very, very important. And that's been really well addressed by our focus on bundles, and our customers like the bundles, and therefore that's really helping avert the line loss we had traditionally seen in the PSTN business.

So the other important thing to remember is that bundled customers sign up for a longer period as well, so that helps in the churn area.

And in the IP space, IP access revenue continues to grow and this will be a billion dollar business this financial year. So very strong customer demand is driving this growth and that's a very good position to be in as you go into the NBN world.

So that's the second area, let me now turn to the third area around simplification. As you know in the simplification area, it's all about three things. Customer experience, process improvement and productivity. I've already mentioned the customer experience, let me talk about the other two, process and productivity.

We have an enormous internal program to work to simplify and improve processes right across this business. We want to break down the company from the silos which often customers see to look at it as an end to end process so the customer just sees Telstra. Very important. We want to look at it from the customer's perspective.

So we've now got people looking at billing, service assurance, customer management, product development and many more areas to look at that customer-centric view of process.

But of course, the key thing is, does that drive through to productivity. Well I'm pleased to say we're seeing some good results coming out from our key metrics.

As I said, fewer customers are calling our contact centres. More of our customers are transacting with us online, in fact that's going very well. Bad debts as a percentage of sales revenue have come down and we've increased our marketing efficiency through pulling all the marketing team together, and it's great to see how the marketing team under Kate McKenzie is really making a difference.

So, we have seen good improvement in labour and labour substitution productivity. As Mark mentioned, we believe that labour and labour substitution costs will continue to fall in absolute terms, and that's our objective. This will further improve the outlook for productivity as we go forward.

Our focus has got to be on continuous improvement and operational excellence in running such a big company like

Telstra.

So now let me turn to the fourth area around our growth portfolios. And I want to talk to each of Network Applications and Services, International and also the media portfolio.

As you know, NAS is all about Managed Networks, outsourcing of networks and also what we call Professional Network Services. These things like implementing Unified Communications and Security services. And as I mentioned earlier on, we're starting to see some really good growth in this area.

Half year revenue was up 19.4%, but what's more gratifying is that the sales pipeline is very strong. So whenever we talk about pipeline, we're talking about the number of opportunities that we're engaged in, in the market at the moment. And we see about a billion dollars of contract value currently being decided in the market. So that's a very good sign.

Over the last six months we have won some really good business at South Australia Health and Origin Energy, and these are big contracts that sort of have long terms associated with them.

So Brendon Riley and the team are doing a great job in this area, but in this area you've got to focus on revenue growth and profitability. Margin is very important, and the team are doing a great job at looking at that. So that's the NAS portfolio.

In terms of Telstra International, we had double digit growth in the International portfolio in the half. CSL New World had an encouraging six months. Revenue in local currency grew at 12% and they added 167,000 new customers. So CSL are doing well.

In terms of the Reach de-merger, or when we bought the Reach assets back into Telstra, we've had a lot of work going on in that area and it's going well.

We now have new carrier licenses in India, Singapore and Japan, but I do want to stress they are for international POPs carrying international carriage. They're not about becoming a carrier in those countries, just to give clarity on that point.

And in China, as I've said before, we will continue to actively manage our media assets and re-balance this portfolio over time which we continue to do as we move through each of those properties in that market.

So now lastly, let me turn to the new digital media business. I'd like to have Rick Ellis, who's now been in the job now for three weeks. And he's now pulling this new unit together. As I said at Investor Day, this is responsible for the end to end media capabilities in Telstra.

Let me just run through what they are: the Pay TV business in Foxtel, the IPTV business with T-Box, the small and medium business, the advertising business in Sensis, our online business in Trading Post, our ISP in BigPond and then also our advertising business in MediaSmart. So it's quite a large, or a very large portfolio and it is a very strong mix of assets.

Rick and his team have already embarked on a strategic review of all these important assets. But let me just stress, what the digital media team is focused on is integrating all our digital products together to make them available through multiple platforms or on multiple platforms and through multiple channels so that you can include mobiles, tablets, home entertainment systems and the internet. Because that's the new world that we've moved into.

So Rick and the team are working through that now and we're excited about the possibilities as we move forward.

But as I mentioned at Investor Day, we are still going through this transition at Sensis to become a digital media advertising business within the small and medium business market. Since that update we gave you in October, we're coming to the end of the non-metro campus [sic]. Remember we do the metro campus [sic] and then we go to the non-metro area.

We're very pleased to say that we're seeing stabilisation in the sales results. So our sales team is now more familiar with the products they're selling and how to represent them to our customers, so the sales process is a lot better than it was six months ago.

But as I said and as Mark mentioned, there's still a long way to go in this transformation. It's this big shift to digital marketing and it's really moved a lot faster than we had expected in this year. Thankfully over the top level we'll be able to cater for that faster decline. But it is having a significant impact on Sensis.

And also our sales mix is shifting. You know Yellow print revenues are declining, more than expected, so we're having to really address that digital media opportunity and I'm pleased to say that the value packages we're offering to our businesses are being well received. So they like them, we've just got to get better at how we sell them.

So demand for our digital product is growing, but we've just got to be vigilant as we go through this transition. And it's good to see that we're seeing growth in the digital Yellow and digital White as well.

So as you go through the transition you've got to really drive productivity. And so we've taken a lot of action to get costs out of that business, and we've come a long way in transforming our products, the customer experience and of course the back office which is where you process each ad, be it the Yellow Pages ad, the print ad or the digital media ad.

So while we still expect high teens revenue decline and around a 30% EBITDA decline this year, we think that we've got the parameters right as we look forward in this business.

Now remember, because there's a three year transition, each period we do a really deep dive on how the business is going. And we're about to head off into the second year, which is really driven by the metro campaign that starts at the end of this month, early March. And as you go back into the metro market, we'll get a better sense of how we're going, and so I'll be able to come back to you at the full year results to give you more colour on how the business is travelling.

So just in summary, while there's some puts and takes, we think we're on target and know what we're doing in this

portfolio. Across the three growth areas, two going well and one which we have more work to do in. So, that's the four key priorities.

Now let me just talk about an area that's very important to us and we've not talked about before, which is sustainability.

As you know, over the last two years we've been on a journey to change Telstra, really from the inside out. You know how to make it faster, easy to do business with and just simpler. Now that's a big job and we're not declaring victory but we're very encouraged about where we're at.

So our corporate sustainability activities are also a key part of this story, because we know that corporate sustainability helps drive value in many different ways. For our customers, for our staff, our people, our investors and the many stakeholders that we do business with, and we do business with a large number of companies right across Australia.

So the last six months we've deepened our focus on sustainability and I'm glad to say that we've appointed a new Chief Sustainability Officer, Tim O'Leary, and he's really driving this program right across the company and pulling together a greater focus around four key areas. Firstly around business responsibility, secondly around the environmental impact the business has. Also around being a good employer which is very important, and also how we participate in the communities in which we do business.

It is important that it's real and sustainability really comes to life when we think about you know, the efforts of our people when there is disasters. Now I've talked about this before, you just think about what's going on in the NSW floods up in northern NSW now or in southern Queensland, and you really see what sustainability means to a company. Because it's enormously challenging, because you have these disasters and you've got to get access to infrastructure, and you've got to keep your people safe at the same time. And there's a great tendency for people to want to jump in and fix things, and yet we have a great responsibility to our people.

So the field techs really do extraordinary work. I mean they really are in many ways the heart and soul of this company, you know where they're dealing with water, mud, flooded or non-existent roads, submerged electrical wires. It's incredible what they have to deal with just to keep those services going. But year after year they prove what a great contributor to the community Telstra is.

So we have this sort of unique dual role in sustainability. Firstly as one of Australia's largest companies we play an important role, but also our services play such a critical role in these moments of great importance to the nation. So sustainability is very important to all the people in Telstra. It's very important to the board and also to me personally.

So, let me just summarise the four key messages for today. Firstly our strategy is delivering value for customers and for our shareholders. Results are on plan, we're doing what we said we would do and we're delivering value as I said for customers and investors and probably most exciting, we still have a lot more to do and that gives me great hope about what we can even do better in the future.

Secondly, we're making good progress on the four priorities and specifically around changing the customer experience. So important for us. And of course we need to keep doing this every day, every interaction with our customers.

Thirdly, our strategy is proving to be resilient. It's a difficult global market environment. But we're travelling well through that. This is reflected in our guidance which remains unchanged.

And then lastly, we are working to conclude the SSU negotiations before we come back and discuss capital management with you hopefully in the next quarter.

So with that, thank you very much. Very happy to take Q&A, Mark if you'd like to come up and Ben you're in charge. Thank you.

Ben SPINCER: Thanks David and Mark. We will be taking questions both here in Melbourne and also on the phone. We will start here in Melbourne - I think we have three questions so far, so over to you Richard.

RICHARD EARY, UBS: Hi, it's Richard Eary from UBS, just three questions. The first one is could you give us an update on your thoughts in terms of spectrum. Obviously there have been some discussions with the department behind closed doors. I just wondered if you can give us some sort of thoughts in terms of that.

The second one was you talked about obviously the growth in NAS and you talked about profitability. I don't know if you can give us a feel in terms of how profitable that business is, given that's become a key revenue driver.

And the last one in terms of Sensis, obviously 30% margins full year is obviously a lot lower than probably what was guided previously. Can you give us a sense of where you think the sustainable margins are in that business?

David THODEY: Okay Richard. Let me take one and three, and I'll get Mark to just give you a view of that NAS profitability.

Firstly on spectrum, look the renewal should be concluded very shortly. Nothing surprising in there that we hadn't planned for. Of course you've got the digital spectrum coming up which won't be until early next calendar year because that will start the process, but there's nothing in the renewal that you should be concerned about. We're just waiting for the government to just finalise the last little bit, so that's where we're at with that one.

In terms of Sensis, I'm surprised to hear you say that's it's not - well, we guided - it's pretty much where John said at Investor Day, we've had, you know the book of Perth, the recognition of that just for the first half and the costs are coming up in the second half. So we think that we're travelling pretty much as we thought we would in October. The big question is for next year and just at the moment, I just don't think we can give you a sense until we've gone through the metro area because that's such a big area, to really get a sense of it. So the full year will give you a greater picture on it, but it would be I think too early to start forecasting too far ahead, okay. Do you want to talk NAS profitability?

Mark HALL: Yeah sure. Just on NAS profitability, the margins in NAS are lower than traditional business obviously. We are improving our margins in that business as we get critical mass. So we're building up that revenue pipeline and getting the efficiencies around critical mass. Importantly to note though, is that in that business, it's low capital intensity, so return on invested capital is a lot higher than traditional business. So there's that balance between EBITDA margin and return on capital.

Richard EARY: Just with regard to the spectrum payments, presuming that they get finalised, are we still of the view that that's debt funded rather than cash funded?

Mark HALL: It will be funded out of debt, so we will borrow for the spectrum requirements. And we have plenty of capacity on the balance sheet to do so.

Ben SPINCER And let me just, Richard, just clarify on the Sensis. I think you may have misheard David earlier on when he read the slide, we're talking about 30% decline on EBITDA, not 30% margins approximately for the year. So it's an important point when you run the maths.

Ian MARTIN, RBS: Ian Martin, RBS. Just a question on the revenue trend. It's holding up quite well because of the growth in subscribers. Very well done there. But average revenue is a bit of a problem, aren't they? Particularly PSTN, subscribers declined only 3.5% but average revenue down 6% which you largely attributed part of that to the Final Access Determination. Does that wash through in the half year or the next full year? And therefore, do we get back to a bit more stable average revenue in the PSTN side.

Secondly, is there a risk that you might see something similar with fixed broadband, because that average revenue has held up quite well, but you're going through this discussion with the ACCC about how you ensure equivalence and there is a question over what basis those wholesale prices might or might not be regulated at. So is there a risk there.

And thirdly in mobile which also the average revenues have held up reasonably well, but isn't that going to dilute quite significantly with that growth in machine to machine?

David THODEY: Well look, let me have a bit of an answer and I'll get Mark to add a little bit more colour as well. We're very pleased with the mobiles ARPU, but yes there is a continuing category mix within the mobile portfolio and some of the new machine to machine have a lower ARPU but are still very profitable. So I think we have to make sure that while ARPU is very important, we look at the profitability and you saw the profitability half to half improve, which has been very good.

The ARPUs in the mobiles business are pretty good right across. We're obviously seeing the decline in the mobile broadband area, but remember you've got pre and post-paid mix in there as well, and also you've got the tablets mix in there as well. So we're pretty pleased, we're pretty much on where we wanted to be.

Fixed broadband; yes, look you're right Ian in the sense that great result but until we work through the declaration on DSL - which we're hoping will be reasonable - you know, there's always that risk. But we're feeling as we go into that reasonably comfortable. We've already got the LLU prices out there, we know what the spectrum sharing is and we've

always had the wholesale DSL prices out there, so we know the parameters we're working with in that area.

Remember in DSL it's also about what products you're adding on all the time. It's not just a straight data usage and the access fee.

PSTN - look, yes, there is a bit of a wash through there, but not losing as many customers is really important. Getting them onto the bundle has been our really important focus and being reasonably competitive in the market as well, and of course you've got different operators in the market at different prices. Do you want to comment on that?

Mark HALL: Yes, so the Access Determination and the exemptions, so the PSTN exemption change that has come through recently, that will wash through this year largely, so that should wash through on a ...

Ian MARTIN: In a reasonably stable environment as far as the traditional fixed line pricing goes?

Mark HALL: Yeah. So retail access is rather constant. It's the calling that's dropping off. We have got about 1.5 million on what we call subscription plans that sort of protects that base, and there is about 1.2 million on bundles, so we move more to a subscription type offer.

David THODEY: So all include calls etc, so...

Mark HALL: Yeah.

Christian GUERRA, Goldman Sachs: Morning, it's Christian Guerra from Goldman Sachs. Three questions for you. Firstly on Telstra Business, you talked about the fact that I think you said revenues went backwards in the half, and I'd just like to understand whether that was cyclical or usage related. And if it is cyclical, where are you actually seeing it, which sort of products are you seeing hit.

Secondly on mobile margins, in recent history your peak has been around 35% in terms of mobile margins. I'm just wondering what the outlook is for mobile margins into FY13 and FY14, given that the recontracting issue that you're going to face sort of at the end of this calendar year and into calendar 2013.

And thirdly on NBN, I'd like to better understand the profile of the OPEX and CAPEX and also the revenues through the course of calendar 12 and calendar 13. I just want to understand whether or not there is a mismatch there. Thanks.

David THODEY:

So yeah, look we've had a 0.5% decline in revenues in TB, but actually competitiveness has been very strong. We think we're at least holding our own through that period, but we have seen a decline in the mobile ARPU primarily.

We've had to live with the decline in PSTN, but it's been really in mobile ARPU just as it's washed through the pricing we had in the market.

We think that it's poised for renewal as we go forward, but on the half, it's definitely been - as far as we came out of last year, we saw a slowing growth mainly in that mobiles area and then we're now sort of hopefully wash through.

So that's sort of the key area in the TB business. The number of customers is still very strong, good customer growth. Will, do you want to add anything else on it? I think that's pretty much it in terms of how we're going. Gordon, would you like to add something?

Gordon BALLANTYNE: Yeah it's important to know that we're actually taking share in TB, both in the fixed and Mobile space, particularly on points of share on the mobile side, in terms of revenue share and that's important.

Secondly, in terms of the re-contracting mix I mean our ratio is, particularly in Consumer, we've now managed quite aggressive in terms of a 1:1 ratio from re-contract acquisitions. So you talk about the storm next year on re-contracting, well we're already living that storm this year given some of the growth in prior halves as well.

So I think we're going to see some of that discipline within Telstra Business as we look at underlying profitability and mobile and as we return to growth and a more aggressive growth in mobile in Telstra Business over the next half.

David THODEY: So lots of work going on in that area. In terms of NBN, the OPEX and CAPEX profiles, we've said that NBN will be within 14% CAPEX to sales. And we're doing work now and it's all within that profile.

We will be giving you a briefing then - after the SSU, we just want to get that behind us Christian before we come and give you too much more detail. But it's within the profile of everything, all our planning. So it's included and we'll give you some more colour on that. We obviously know it intimately and Brendon and the team who are building.

Also we're getting our systems ready for an NBN world because we're now buying, we're a wholesaler, so doing all those changes as being, we got that underway so we're ready to hit the market at the right time. But we'll give you that colour in a separate briefing, okay? Good.

Mark HALL: Mobile margins, so what we've done in the last 12 months is recover margin back to more traditional levels, mid 30's. There are examples around the world where there's high 30's but we've settled it back to our longer term trends and we do see room for some further improvement.

Christian GUERRA: When you say further improvement are we talking, what?

Mark HALL: Well our objective is to always do slightly better so I'll leave it at that.

Ben SPINCER: Do better. Thanks Christian. We'll go to questions from the phone lines now. I think first up we have Laurent, are you there?

Laurent HORRUT, JP Morgan: Thank you. I have three questions as well. Just on the mobile side, an area of focus has been sort of the pre-paid side and I was just looking at the trends there. There's some customer growth but

ARPU remains or in fact was actually down 5% year on year, and still 10% below that of your main competitors. So what's happening in the prepaid market, what are you seeing?

The second question is on the cost side, I notice employee costs are up 6% year on year. There is an element of cost transfer with service contracts but still even if you normalise for that it would still be up. So I would like to understand your picture on the productivity gains if that's supposed to transfer into employee cost savings at some point.

And lastly, on the PSTN side, we're seeing a decline of 9% half on half. So that's at the rather high end of the historical range. Just a thought on Ian's questions, if you're seeing sort of a bit of a tipping point as well in PSTN usage if there's anything that's a bit unusual than what we've seen the past.

David THODEY: Okay Laurent - so I'll handle prepaid. We'll put the chart back up on the costs because you do understand the costs. There's a couple of one-offs in there and then between Mark and I, we'll handle PSTN.

So firstly on mobile prepaid, I thought you were going to say only a 10% difference between us and our competitors which we actually think that we've done very well in the prepaid market. However the prepaid market has declined which is what you're really alluding to.

However we've performed very well in the prepaid market and we're seeing good performance in that business. We've refocused the business, we've got a dedicated group now in that area and really tidied up the channels, so we're pleased about the growth we've seen but it is a tough market, but we continue to do very well. Do you want to add anything else on that Gordon? But I think that's pretty much the key things because Gordon's been driving that work too.

Gordon BALLANTYNE: The overall prepaid market I think we're just waiting to see the final numbers. It's probably declined on a year on year basis by about 7%. We believe we're growing in a declining market, probably taking the lion's share of volume.

I think if we look at the month of December we probably have moved to position where we're now in number two where we were past number three by a distance of 10 points in revenue market share. So we really have seen some very positive revenue growth in a declining market.

I think we'll see the pull through of revenue in the second half and a strong pre-paid overall performance in a declining market. We have seen positive net SIO base growth in the half and as you recall in the prior half, we were the only operator to actually grow our net SIO base and all other competitors declined and we think that trend will continue. Well we're waiting for the final numbers, but we believe that trend will continue for each one as well.

David THODEY: Great, thanks Gordon. So let me just quickly redress the PSTN position, look 9% down in terms of revenue. But remember SIO decline is really nowhere near pronounced as it has been.

As Mark said, we are seeing this rebalance. Usage is really the key determinate in terms of that driving down but as

we put these bundled products into the market we're seeing some good stabilisation there.

But, no, look, that's sort of in line with what we anticipated Laurent. I think you're probably going to see that sort of decline going on just as usage changes but the bundles, churn levels lower, keeping the customers must be our priority as we go through into an NBN world. Do you want to add anything else to that Mark?

Mark HALL: Not on PSTN other than the Final Access Determinations have had a slower impact as well.

David THODEY: Yes, that's right, but it's not too bad. Yes, so do you want to pick up on the cost? Yeah do you want that chart back up or are you okay?

Mark HALL: So Laurent it's important to understand the employee costs have \$126 million hit as a result of lower government bond rates. I won't bore you with the accounting but basically we discount our forward liabilities for long service leave and worker's comp by the 10 year bond rate. The 10 year bond rate dropped from about 5.21% to 3.67% over the half, so a substantial drop. And so that means we have to restate our provisions which goes to the expense line.

It's non-cash, its simply balance sheet to P&L, but that did have a significant impact of \$126 million. There was also \$43 million associated with conversions that were previously in the service contract line now up in the labour line.

So they're the two major elements and it's really important to understand that because the underlying trend is actually quite good.

David THODEY: Right, and Laurent I'll just give you a little bit more flavour on this because as we bring consultants in which is all about a very intentional strategy to really build our IT capability, we did not want it external to the company so you get that sort of move.

Over the period - and we've brought Reach in, iVision in, so we've actually had an increase of 400 people. So when you look at that less the salary increase and you get to a negative 1%, its actually a very strong result just taking those anomalies out, because we do look at this every week looking at what the dynamics are - and of course the NAS business is pulling through some other people as well, but we've got to keep driving this. So, yeah, headline you say gee what's going on, I asked the same question but underneath it, it's actually a pretty strong story. But if you need more detail on that, we can just take you through it later on.

Vikas GOUR: Thanks, just three questions for me as well. Firstly, the Wholesale Broadband Agreement, just wanted to know what the key issues are from your end and is that likely to have a major impact on the NBN payments?

From a Sensis perspective, I was also just trying to get an understanding from the slide, it said it's a three year transition program. Just wanted to know whether you can expect to see revenue and potentially earnings growth from FY15 onwards?

And also lastly on capital management, is it likely to be dependent on current broadband policy and is political certainty a big caveat on capital management?

David THODEY: Okay Vikas, right the Wholesale Broadband Agreement - yeah, look we're making good progress on this and remember it's just a 12 month short term contract that we're just working through at the moment. So we're just tidying up a couple of points there. Stuart Lee is doing a great job, so it's imminent I think but we just need to work through the final little bits, so no big drama there. It has no impact at all on the SSU at all, it's just we've just got to do it. It's just like any other contract we negotiate and we think it's important just to get the ceilings right as we go forward.

Sensis - yeah, three year transition, and yes, look I mean our hope as we go through this - but it's a big change and if you look at every Yellow Pages business in the world, they've gone through a similar transition and then they get to a flattening of revenues and then they work through their margin improvement.

We've just got to look at the dynamics in the Australian market as we move through to digital and that's why the metro campaign is so important to us just to see how we're tracking. But if the signs of the non-metro campaign are an indication, we think that the three year period is about the right period to start planning for.

Now, in terms of the last question, could you repeat it? I just didn't get all the detail.

Ben SPINCER: Capital management and any caveats around political certainty or otherwise?

David THODEY: Well, no first of all SSU, get that nailed and done and then we can talk about capital management. And remember, we've always said that when we went to the market with the Explanatory Memorandum, we said look, there's this natural hedge we have. And so we're pretty comfortable should there be a change of policy, change of government, change of technology. We're pretty comfortable as we go forward. But we obviously look at it, but let's get the SSU done, then the Board will decide on the capital management and then we'll come forward.

Brad CLIBBORN, Credit Suisse: Good morning guys. Three questions from me. Just back on Sensis, even adjusting for the first timing issues, the EBITDA decline is quite aggressive. So if you could just identify where you expect to be able to continue to pull costs out of the business in terms of whether it's labour or other costs and specifically within labour, which areas?

On NAS, can you just give us some colour as to which products and segments are actually driving the growth there and what you really see as the key opportunity.

On CSL, you spoke about solid growth in terms of subscribers for the half, how does that fit into the portfolio? Would you consider divesting it given the strong results you've seen there? Thanks.

David THODEY: Okay, so maybe bring the Sensis chart up for me? I'll just give you some colour on the Sensis.

So, in terms of the costs out, remember the first half, we had a bubble go from the end of last year to this year, just as we settled a digital process or the digital media ads and also the new print ads into the new system. So we've had a big bubble of cost that came through the end of last year, first half of this year. And you can already see the action we've taken, both at the end of last year and the first month of this half and you can see that we're working the labour side there very hard.

We've also taken a lot of the corporate services back into Telstra, so that's been a big part of our change and we're just driving greater efficiencies, and now the productivity is back to the levels before we changed to the digital product.

So we're pretty clear on the cost profile for the half and by this stage, you know your revenue profile and you know your cost profile in this business. So you've got a pretty clear run through the half. The big question is, if you go to metro for next year.

So as I said on the chart here, which is about the 30% EBITDA decline which is less than what you've seen in the first half because of timing of revenue recognition.

So that's the first one. I'll get Mark to talk about the NAS colour. CSL - wonderful, has it doing very well. When you ask me are we a seller, it always depends at what price. But no, we've got no intention to sell it at this point. It's performing strongly and we'll continue to look at options as we go forward and we want to see if we can grow the portfolio.

But again, so you don't in any way misunderstand what I'm saying, we're not about to go and buy big properties throughout Asia. We're looking at organic growth, how we can leverage our assets in Asia to go forward and we're very clear about that because sometimes people write things that we're about to do things that we're not. So I hope that gives you some colour there.

NAS, in terms of the areas that are growing ...

Mark HALL: I'll throw that to Brendon for some more colour, but at a headline product level, Managed Data Networks is growing strongly. Unified Comms, another area of growth, hosting, so Cloud and Hosting is another area of growth. We've got a bit of a kick up with iVision, so iVision has brought some more capability in, but I will throw to Brendon who manages that group to give some more colour.

Brendon RILEY: Yes, so just adding to what Mark said, so very strong growth in Intelligent Networks, Cloud and Unified Communications. They're all up very strongly and taking share in those segments. And then we continued to see very strong growth in working with our major corporate clients on taking their internal spend around networks and services and externalising that to us and working on sort of major integration initiatives. So, looking forward in the pipeline, the pipeline is strong in all of those areas as well.

Tony WILSON, Evand and Partners: A couple of questions. Mark, one for you. Just the shift to MRO plans - the big push on those plans has had an accounting impact in terms of profit benefit in the current period and last period. Could you give us an indication of exactly what that benefit is. You made reference to \$0 plans, but I think that accounting benefit extends to all MRO plans. And what proportion of phones that are now sold or plans that are now

sold are actually MRO plans?

A second question, just in relation to the Foxtel/Austar merger, if that is to go through, there'll be undertakings or certain undertakings placed on the two groups. I'm just wondering what undertakings or what impact those undertakings could have in terms of your participation in Foxtel and just how you deal with that in relation to bundling product?

David THODEY: I'll let Mark handle the MRO I think, but just at top level, MRO is a mix. A lot of people think there is some accounting, you know, we're doing it for accounting reasons, but it's not. It's actually about a getting more balanced portfolio, but let me get Mark to take you through that.

Mark HALL: Sure, so first of all, MRO we've had for ten years, so David and I actually bought MRO into the market 10 years ago at mobile, but what is new is the \$0 MRO. So there's \$0 MRO. It's about low tens of millions impact, that's the order of magnitude, so relatively immaterial.

In terms of the benefits of MRO, it does allow customers to choose higher end handsets and make a contribution, so it's an important part of our go to market offers. So the way we look at it, it's a \$0 which is new, it accounts for as I said, 3% of total activity. MRO in total was 23% of the total mobile activity, so once again, we have a balance of offers in the market and MRO is just one of those.

David THODEY: Great. Any undertakings we make, we take very seriously. Look, we are obviously wanting Foxtel to be successful and we think the Austar transaction is in the interests of the Foxtel business. At times, the Commission looks at flow-on impacts around market dynamics and tries to consider the impact of what our position could or could not be. But no, we're very conscious of that and there is nothing there at the moment that we would think constrains either the Telstra side or would constrain the Foxtel business.

So it's a fine balance, but yes we do discuss it a lot as you would imagine and Rick's learning all about it already. So but no, at the moment, we think that we can hopefully meet the Commissioner's requirements and get on with the deal, because we think it's in the interests of Foxtel, the industry and we can work forward.

Tony WILSON: Where do you think the ACCC are at, at the moment in terms of the types of questions they're asking you?

David THODEY: Well I know intimately the types of questions they're asking and at the moment, we feel comfortable is the answer, because it's not really appropriate for me to share.

Sachin GUPTA, Nomura: Thanks very much. I've just got two questions. Firstly on this 4G LTE discussion, any indication on how much could it cost for the upgrade or what you think is a fair price for the spectrum. And also if the 700 MHz pricing is not compelling, can you guys extend the rollout on the 1800? I just want to clarify that.

And thirdly, just going back to the ARPU trends, your wireless broadband ARPUs are down to \$32 at the moment, I

was wondering any reason why these can't continue to drop further? Thanks.

David THODEY: Okay, Sachin right. I'll see if I got all those questions. Firstly the price of the digital dividend spectrum, we hope as low as possible but it is an auction, so look, we can't comment on that today. You can look at global trends, what you've seen in Europe, which you guys are very good at managing that, so we'll work that one through.

Your question around if it was too expensive or say we didn't get access to it, do we have other options? I'm delighted to say, I think Mike Wright is probably one of the best mobile engineers in the world and I think he always has options, so we will continue to look at that. So one of the things in this industry, you never want to be dependent on any one technology or one outcome.

And in terms of ARPU on mobile broadband, as I said before, Sachin, there's a whole lot of factors in there. You've got post-paid dongles, you've got prepaid dongles and you've got the tablets. The tablets are running about what an \$18-20 ARPU around about because a lot of people offload to Wi-Fi. Prepaid is obviously a lot less than what you get on post-paid. Post-paid ARPU's are you know going pretty well. But there is pricing pressure in that market.

However, what we're more interested in is actually the profitability per megabyte we carry. -why we went to LTE and we're very pleased about how that is performing because one of the things that is more important than anything else - you've got Moore's Law working about being able to carry more data at lower cost, it's all about the profitability of that business. And that's what we focus on more than any particular ARPU number. And I'm pleased to say with Warwick Bray, with Mike we manage this very closely.

Now to give you some colour here, I mean it's a big job, we've got with the amount of data I think doubled again in the last twelve months on the network. We're managing every cell very tightly within the - so we get good performance right across the network. And the network continues to perform exceptionally well relative to any other network. So we're very pleased about how that's going.

But as we talk through this we can give you some more detail later on. Do you want to add anything Mark?

Mark HALL: Just a couple of comments thanks David. We exited the full year at 30% odd ARPU decline on that product so it's actually better than that now. And also what's important to me and the company is, as David said, continued growth both revenue and contributions. So that's how we manage that business.

Fraser MCLEISH, RBS: Thanks very much too from me. Just firstly on mobile pricing, mobile pricing environment I guess. You've seen Vodafone obviously raised the price of one of its low end plans. You guys have pulled back a bit on your iPhone subsidies. Is that a signal, you think there's a more rational pricing environment out there? That's my first one.

The second one is around Project New and just where you are in realising the cost savings from that. You know the \$456 million in the half is obviously a very strong result. Is that the high water mark because you've done the easier stuff. Or can we see savings maybe in that region for a few periods to come.

David THODEY: Okay, I'll take those two then. Look on mobile pricing we watch it very closely. And we think it's important and we want it to be a rational market. A three player market usually that's what you find. However, we've always said that we will remain competitive. We already, and always have, said our coverage and our reliability and the latency on the network is best so we sell at a premium.

But at the moment we feel like it's steady as you go, but every month and every week is a different week. So you have to be very vigilant. But the signs at the moment are reasonable, reasonable. Do you want to add something to that Gordon? Gordon is sort of close to the day to day.

Gordon BALLANTYNE: Yes just in terms of mobile and growth but also the profitability of mobile. One of the big changes over the last six months or 12 months is how we've managed our mix. I think we've seen a shift to higher value plans. We talked about significant to half on half at Investor Day where we now see over 71% of our plans that we sell in market are about the \$59 price plan and above. That's a really dramatic shift in the mix which drives good profitability, a good overall investment.

I think you'll see a trend to managing the mix more aggressively by our competitors as well, then we can price adjustments at the lower price points. They're driving less inclusions at the higher price points. So I think we're well positioned to continue some of the momentum we've seen in the first half that we're encouraged by.

David THODEY: And look the other thing for the first time we've split out our machine to machine. It's starting to become not significant but the early signs, we did what, \$40 million so it would be about \$80-90 million for the full year. Very low ARPU's but very high profit. So we think the growth in terms of the number of ends or services on the network we will continue to grow very quickly. Gordon rightly said every product category have got slightly different characteristics.

So I'm not sure that any of the team would say to us that there was an easy low hanging fruit within Project New, but it has been a lot of hard work. But yes we've got to continue down this track. Now Robert do you want to comment at all about you know about the next 12 months? I think that we obviously have a lot more to do and we would hope that we just keep moving at around this rate. We've got too really because that's part of the nature of our industry as we go forward. Do you want to add anything else to that? Mark might want to comment, then Robert?

Mark HALL: There is plenty of opportunity we see the same momentum going through the second half. So it's not a matter of lower hanging fruit there is still plenty of opportunity and we see a continuing momentum at a similar rate in the second half.

David THODEY: Yes, I think that's the big message Fraser, you know I think if you talk to anyone inside Telstra they feel it every day. Simplifying the business, changing processes, doing it differently is a real focus of ours going forward. So more to come.

Mark MCDONNELL, BBY: Good morning, thanks very much for the call. I have three questions about the P&L. Firstly in the revenue area there was a handy increase in the other sales category and there is a footnote there that says that includes \$58 million from HFC Cable Usage \$38 million PCP. I'm just wondering if you could clarify if

that's in relation to your broadband investment or for some other factor and whether that's sustainable.

Secondly in respect of the OPEX, I note the comments David where you said labour costs would be able to be reduced but I note that your employee headcount has increased. Domestic fulltime has increased in each of the last six month period and total workforce has increased in the last six months. So are we looking at a decrease in the total number of employees or a change in job function and a reduction in average salaries? Or what are the other factors that would lead to a lower labour cost in the context of a higher work force.

And my third question is in respect of the tax rate. You had an effective tax rate of 31.8% this time compared with 33.1% last time. I'm just wondering if that is due to any one off factors or is that sustainable or are we going to see the tax rate revert back to something close to 33%?

David THODEY: Right thanks Mark. Let me take number two and then I'll get Mark to look at the other revenue and also the tax rate because NPAT's up a lot and obviously so we didn't highlight that because there are some factors there.

What I said and I thought I scripted it was labour and labour substitution would reduce in absolute terms, I didn't say labour. Because there are too many moving parts in our business. Because we bring - sometimes we in-source, which goes into the labour line and sometimes we push more out in terms of you know partners.

So the only way to really look at look at productivity and absolute labour is too look at labour and labour substitution. Because I could come in here and show you a 10% reduction in labour just because I outsourced everything and that's not true. Just like the other way sometimes the labour, internal labour goes up and yet our labour substitution has gone down. So it's labour, labour substitution that we are seeing a decline in and is our focus to get absolute decline in year to year.

So I hope that sort of tidies that one up because we had another 400 people join the business in the last half, and there's a whole lot of reasons why and that will be a very different you know scenario in the second half.

Now in terms of other revenue and tax rate I'll let my CFO handle that one.

Mark HALL: So I'll start with tax, the tax was primarily driven by an under provision in a prior period, so simply an under provision which gets reflected in this period.

And in terms of the revenue that's a long term agreement we've had in terms of the use of our HFC cable with Foxtel. It has certain triggers around the revenue share we get from that. And there's nothing more than that in it. So it's basically the existing agreement we have with Foxtel re the use of our HFC cable.

David THODEY: And that's been in prior years too.

Mark HALL: Yes.

Ben SPINCER: Just to be clear Mark we've reported that number consistently over probably

the last three or four years. So you'll be able to get a history of it if you want.

David THODEY: Thanks Mark.

Justin DIDDAMS, Citigroup: Morning guys, just a couple of questions from me. One on the free cash flow, so first half free cash flow 1.7 and you've reiterated the guidance so I just want to know how you're going to get to the 4.5 to 5 in the second half? Whether we're going to see CAPEX pull back or there's something else we should expect in the second half is question one.

And then question two, I think I remember David saying that that 1.6 million mobile net adds last year would be very difficult to achieve again, but it does seem you're on track to do that again this. And I just wondered if you could give us your view on the second half and how you see the mobile market progressing.

And then just on the mobile market, I was wondering if you could give us a first quarter second quarter split so we can dissect the impact of the iPhone 4S in that contribution.

David THODEY: Okay, I'll give a brief comment on cash flow then I'll pass to Mark and I'll get Mark to do number three too, the splits over the quarter.

But just an overall comment on cash flow, yeah look we are very confident about the full year. There are some one-offs in there in our CAPEX profile and it's quite consistent with other profiles we've had in the half to half. But I'll get Mark to take you through the detail there.

Yes I do stand corrected, I didn't necessarily say think we could do 1.6 million in the year, not that I'm forecasting that.

Look the thing that we've decided is that if the market opportunity is there we'll go after it when we're driving good profitable growth. So that's really the key determiner. At the moment we think the business is performing well, customers appreciate the value of the network and we've got a great product portfolio in terms of the handsets so there's many things that are going well for us. So if the opportunity is there we'll go after it - 950,000 odd to 1.6 so I don't think we're making any forecasts, but if you look at it I think we're tracking pretty well for the second half. The January trading has been pretty strong which has been good.

So let me get Mark to talk about cash in more detail and the profiling and also the mobile numbers, 4S impact obviously.

Mark HALL: Sure. CAPEX so we'll look at last year's profile it was similar, so last year we - in fact we were up higher CAPEX, so higher cash flow this year once you strip out SouFun as I mentioned earlier. So the sort of things at play, we generally have a run up in our CAPEX program in June which flows into cash in the first few months of the physical year.

We also run up our inventories and debtors in the channel. So as we distribute inventory into our channel in the lead up to Christmas, that does impact cash in the first half. And also traditionally collections have always been stronger in the second half. So as David said we're very confident of the second half profile and you just have to look back at last

year to see how that works.

David THODEY: And you were going to look at first and second quarter splits on sub growth. Did you have that, or do you want to come back to that?

Mark HALL: We'll come back to that one yeah.

David THODEY: Can we come back to you Justin, I don't think we have the numbers here on the split. We'll pick that right up. But the 4S we did very well, I mean there is no question it stimulated the market. If you know when the iPhone 5 is let us know and we'd like that too.

Digby GILMOUR, CLSA: Thanks very much guys. Firstly on Sensis can you give us an indication of what percentage of Sensis revenues are now online in total. And just to confirm six weeks trading post year end has the revenue run rate improved or maintained?

Secondly on EBITDA guidance from a high level, low single digit FY12 EBITDA growth for fiscal '12 based on what you've just reported implies the second half EBITDA flat or even slightly down. Just wondering in your minds what would drive this, is this revenue falling away, perhaps the mobile revenue growth falling away or cost benefit starting to slow? Or is guidance basically an easy feat.

And then finally on direct COGS, should we expect this to fall away in the second half given the lower termination rates and maybe mobile commission subsidies etcetera, just any colour there around the COGS line would be great. Thank you.

David THODEY: Firstly in terms of the digital Yellow and digital White, we would now be - let me just think - we're probably getting up to 25% of our revenues thereabouts and growing just on double digit. So you know moving along pretty well.

As I said the better question for trading on Sensis because it's such a backend skewed business with the way you put the books out, is not so much about the revenue flows its more about how your non-metro area sales went because that's a better indicator and it's right on our forecast for the year. So the good thing there is it's travelling as well as we had expected it too. We've still got probably another week just before we close out non-metro then we go into metro. So trading is as expected. So that's where we're at with that. So do you want to take EBITDA and COGS.

Mark HALL: Yeah, so in terms of the growth profile for EBITDA it's more about last year than this year. So last year in the first half we had a write down of our Octave investment. Second half we recognised again on the Reach integration. And we also had a stronger second half of performance last year. So we're obviously coming off a stronger second half of last year.

And as I said there was an accounting gain booked in terms of that Reach integration. So that's what really tempers the second half looking at the full year impact.

David THODEY: But we're doing as best as we can.

Mark HALL: Yeah.

David THODEY: COGS and the question around mobile terminating rates, I mean the COGS question is actually, Mark do you want to take mobile terminating rates and I can talk about COGS, because COGS is really driven by what opportunities there are in the market. And as we said before if the market opportunity is there we'll spend the money. If it's not we'll pull back. But mobile terminating rates change because that is a difference in the second half.

Mark HALL: It is yeah. So second half it's around about \$78 million impact in terms of the revenue impact. We get slightly positive on the EBITDA line because we're a net out payer. So that all is a second half impact. So obviously the revenue line will be tempered and we'll have a slight kick on the EBITDA line. And that is excluded for guidance purposes.

David THODEY: So that's why we're saying single digit on both. Low single digit.

Sameer CHOPRA, Merrill Lynch: I have three questions. First one David, there are some press reports through Jan talking about the dividend opportunity at Telstra. I was wondering has the Board already made up their mind on capital management? And is it just a question of announcing it in the market once you've completed the - once the ACCC has given you approval? So that's kind of the first question. So Board's already been decided and you're just waiting for the deal to get closed.

Second one is just on depreciation. Depreciation has been running at CAPEX. I think it's just starting to show some signs of maybe falling back towards CAPEX. I was just wondering if this is now a trend we should expect? Are we going to see D&A get towards three and half billion type level?

And the last one is just on mobiles if you can perhaps describe where you think your strongest demand. I was trying to figure out at which sort of price points where is the sweet spot for Telstra?

David THODEY: Sameer, on the dividend what the position is that we have confirmed the dividend for two years. There was a speculative piece written of special dividend. The word special was never mentioned in the interviews. So let me very clear about that.

The Board has reviewed capital management. They have made no decision on capital management. It is subject to the SSU, but it is a constant topic on the Board agenda, as you'd expect, but no decision has been made on that. That will be subject to getting the SSU done and then moving forward. But they are well across the detail. Let me - do you want to handle the depreciation?

Mark HALL: Yes just on D&A, we do expect the current level to remain in the short term. We are coming off the back of some significant CAPEX three or four years ago in the transformation. So in the short term we're seeing D&A at similar levels.

David THODEY: And then where is the sweet spot with mobiles, we'll that's a big question

Sameer. Look it's the network coverage and the capability of the network continues to be such a major differentiator for us and that's what we're continuing to invest in. So it sort of touches just about all the product offerings we have in the market.

We have, as Gordon talked about, we had a good performance in pre-paid, we've had a strong 4S performance, we're having strong performance right across the Smartphones.

I think I'm not sure, I'm just looking at Gordon, are we putting out anything on the plan types at all about where we're - the volume we're seeing? I think we've got very strong on 4S as we go forward. Mobile broadband going well, I think that sort of probably gives you enough indication there. Okay. But pretty much across the portfolio probably it's been good. So, I think that's it Sameer.

Laurent HORRUT, JP Morgan: Thank you very much for taking another one. I just wanted to touch on the capital structure, I've noticed in the half the net, the growth rate has increased is quite a bit. Not that I think you over geared by any standards, but it has gone up and your leverage ratio has gone up a bit.

Just a general question on how do you think about the level of debt in the migration to NBN? Would you want this overall sort of level of gearing to go down? Are you comfortable with that level of gearing through NBN?

And a subsequent question on that is where are you on franking? I think you've got a negative balance of \$89 million as of December. Are you still having to pre-pay tax to fully frank the dividend and if so how long? Thank you very much.

Mark HALL: Yeah so the debt profile basically follows our cash profile. So obviously the first half cash is not as strong as the second half cash so you'd expect some re-balance there.

In terms of our parameters they are set by the Board, but we're very comfortable by those parameters. They're very important in the current environment for us to maintain a credit rating. It does give us access to capital markets being such a strong balance sheet and a rating such as that. So we're comfortable with that and the board will continue to reassess as we move through the NBN phase.

And just on franking, our franking balance we manage closely and we are forecasting a fully franked dividend or guiding fully franked dividend this year and expect similar going forward.

David THODEY: Yeah, so franking very important. Okay so is that it?

Ben SPINCER: That's everything. So we'll hand over to you for any closing comments David.

David THODEY: No look I think I've said it all, thanks for coming. We've got a lot more work to do but its pleasing first half results and we'll keep at it. So thanks very much. All the best.

END OF TRANSCRIPT