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The Manager

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

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 08 8308 1721
Facsimile 03 9632 3215

ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Analyst Briefing - Half Year Financial Results for the year ended 31 December 2012

I attach a copy of the transcript from the analyst briefing held on Thursday 7 February 2013 – Half Year Financial Results for the year ended 31 December 2012, for release to the market.

Yours faithfully



Damien Coleman
Company Secretary

Telstra Half Year Results 2013

ANDREW KEYS: Morning Everyone. My name is Andrew Keys. I'm the Director of Investor Relations at Telstra. On behalf of the company I'd like to welcome you to our half year result announcement today here in Melbourne and also those of you viewing the announcement via the webcast and also joining us on conferlink.

In Melbourne I'm joined by our CEO, David Thodey and our CFO, Andy Penn. At the end of their presentations we will be taking questions for analysis both here in Melbourne and also over the conferlink service.

I would like to now hand over to David Thodey.

DAVID THODEY: Thanks Andrew, and let me just add my good morning. Nice to see you all here.

Consistent with the previous years, what I'm going to do is just going to give you a brief introduction, give you a few of the highlights and then I'll pass over to Andy to give you a more detailed analysis of the numbers and some of the trends in the business and then I'll come back and talk about strategic priorities, how we're going against our big strategic initiatives.

So let's go straight into the highlights.

Well I'm pleased to report that the business momentum has continued in the last six months and very gratifying, we are achieving the objectives that we set ourselves. We've grown revenue and profits and we've also delivered strong customer growth in the half.

Andy's going to take you through the numbers, as I just mentioned, but let me just give you the headline. Total income increased by 1.7%, EBITDA grew by 5% and NPAT, Net Profit After Tax, up 8.8%. Very pleasingly also is we continue to gain share in key products and we added 607,000 new domestic mobile customers and the fixed broadband business continues to perform strongly with an additional 85,000 retail fixed broadband customers.

As you know what's incredibly important for us is keeping the growth as well as the simplification in costs management and our simplification program continues to drive productivity improvements with benefits of \$381 million that we recognised in the half at the gross level.

Now these results have been achieved through what I would say as a sustained and disciplined focus on our strategic priorities and very, very specifically on improving customer service which is such a key priority. While it's still a long way to go it's the heart of what we do.

Also we've been delivering and investing in real technology leadership, and that's so important for us as we bring new products to market. We invested \$1.9 billion in the half and this investment is contributing both in terms of improving the customer experience, innovative products and it is also allowing us to have

superior network performance. But as I did mention we still have a long way to go and we think there's still incredible opportunity to do better.

So let me just try to give you some sense of some of the activity we've had over the last six months.

It is always amazing to me as I look back over six months just how much gets done in this company, and it has been very focused around improving the ways we interact with customers, it's been about, as I mentioned, product innovation and around the networks. So let me just give you a few highlights.

Let's look at the customer side first. We now have eight ways that customers can interact with us, which is great, and you can either come into the 356 retail stores, come in live chat, by phone, through social media or online. We're trying to allow the customer to interact with us how they want to interact with us.

We've also made enhancements to our YouTube presence on social media where now people can go there to look at the "how to" videos on how to use new products and services. So we're trying to use technology to really change the way people interact and learn about our products and services; and on that particular site on YouTube we've already had six million visitors, which is quite astounding.

I won't go through all the areas on the chart but if you look at the products and innovation space, we've had the new digital business product in the business market, we've updated that, we've got new sets of bundles, new NBN offerings, and also in the wholesale area I'm very pleased to say new products we're introducing into the wholesale channel.

To meet the needs of our customers using mobile devices at events like the Spring Carnival, also at the MotoGP we've got using Hetnet cells now and also what we call the "Cell On Wheels" or the "COW" which we can bring in new capacity and actually service customers in that time.

These are all great innovations that help us deliver a better customer experience. Not to say that we get it right over the holiday period all the time but it is significantly better than it used to be.

Also we launched a new IPTV product, the "THub 2", we saw the expansion of the 4G device range and also you would have seen we got the NRL digital and sponsorship rights in the half.

But also we continue to invest in our networks. We're on track with our 4G network expansion to 66% of the population by the end of June this year. On the fixed side we completed an upgrade to almost 2,000 sites enabling around 480,000 customers to access ADSL2+. Now that was an enormous project and has been very well received in local communities right across Australia. And of course on the NBN side, we're continuing at a pace and building up the transit network and a very strong relationship with NBN Co. And of course on the next IP network, which is the one that is so key to many of our large customers, we've grown out into the Pilburra region and of course as well as that, as we move into cloud services, we've announced that we will be building four new data centres.

So you can see right across the product portfolio, the network and in customer experience, enormous number of initiatives, a lot of hard work going on right across the company.

But as I often say none of this is worth much unless you really have great people and in Telstra, it's at times like this when you've got so many disasters across the country that you really see the very best come out and you see the passion and the commitment of our people in terms of keeping customers connected and the extraordinary lengths that they go to, to really serve our customers, and I don't say this lightly, it really is something that's the very heart of this company.

You would be aware that we had the Warrnambool fire down in south west Victoria and the efforts in that restoration was just truly outstanding.

So let me just take you through a few of these. The [image of the] exchange you see there up on the chart. This was one of the once in a hundred year event. We've never really had an experience like this before.

I don't know if you, you probably don't know, but to build a new exchange usually it can take anything up to two years and what we had was a group of guys, now of course we didn't have to build the building again but we had these guys who went down there for two weeks, worked 24 hours a day, seven days a week, completely restored the services. Now it had an enormous impact on the community but the work of this cross company effort was just outstanding and they did really what would normally take six months in a restoration they did in two weeks, really outstanding.

Then in Tasmania, the Tasmanian fires actually had more of an impact on power supply and so we had to get our guys out there to get power back into the base stations, etc. But they were so much a part of the local community. On this particular one here, I think this says it all really. If you've ever been to a fire area and you go in, and our technicians go in first, I mean they don't go in, they go in, in with the emergency services guys. When you see the distressed animals there, I mean you normally wouldn't think about it, it's actually quite moving and the guys take in hay bales. I mean I know it sounds a bit unusual but it really is just something that the guys do of their own volition, and that's the sort of workforce we have.

Then when the floods up in Queensland and New South Wales, again incredible commitment, but we had some really severe impact on our network.

One of the local team managers, Warwick Foster, who is in Bundaberg, first he sandbagged the exchange and then he slept there overnight to make sure that if the floods came in that he'd keep the services going.

Then the other guys here who are working on a rim, when the rim gets water in it, you know it's technology, and of course most of the time you think you've got to replace it but they're very innovative, they just put it out in the sun and it dried within about two hours, put the cards back in and hey presto she was up and going. And that's something you don't realise that that's what keeps this company going every day. So real great credit to our field guys and then all the support guys back in the global operation centre as well. So it's a real privilege to

really feel the connection they have with the local community, I know there's high expectations on them as well, but they really do a great job.

So that's a little bit of the introduction. So I'm going to get Andy to take you through the numbers and then I'll come back and talk about our core strategic priorities.

So Andy, over to you.

ANDREW PENN: Thanks very much David, and good morning everybody.

So these are the results for Telstra for the half year ended 31 December 2012. I'm going to cover five topics in my presentation. Firstly I'm going to take you through the overall results and comment on how we tracked relative to guidance. Secondly I'll take you through the performance of our key product groups, Fixed Mobile, Data and IP as well as Media, NAS and International, and I'll also comment on some of the early revenues from NBN or relating to NBN. Thirdly I'll comment on the continued progress we're making in relation to our productivity program and the efficiencies we're delivering into operating expenses. Fourthly I'll provide an update on our capital position and finally I'll conclude with some comments on the outlook for the balance of 2013 including comments on guidance.

So sales revenue for the first half was up 1% to \$12.5 billion, and I'll take you through the key drivers of that in a moment. Total income was up 1.7% to \$12.7 billion. EBITDA was up 5% to \$5 billion. This included the \$130 million impairment for TelstraClear which was related to the loss on the foreign exchange over the period that we owned that asset. EBIT was up 10.8% to \$2.8 billion and earnings per share up 9.3% to 12.9 cents per share.

On a guidance basis, total income was up 2.5% and EBITDA up 8.7%. The guidance basis excludes the impacts of Telstra Clear.

Accrued CAPEX for the period was up 10.2% as we increased our CAPEX to sales ratio to 15%. Free cash flow was up 20.1% to \$2.2 billion including the sale proceeds from the sale of TelstraClear.

Excluding TelstraClear, free cash flow was down 17% as we invested to grow the business including in working capital.

Finally, the Board has declared an interim dividend of 14 cents per share in line with guidance.

Across the business we've maintained our sales growth which was up 1% to \$12.5 billion. Although Fixed revenues declined 4% and Media declined 7%, including a 12.6% reduction in Sensis, our strong performance in Mobiles continued with revenues up 4.6% of \$200 million.

Our other growth businesses also performed well with revenue up 10.6% or \$61 million for NAS and 10.8% of \$82 million in International.

The "other" bar on the chart includes revenues from NBN including infrastructure, the amortization of the Information Campaign and Migration Deed and other

miscellaneous free revenue. These revenues have been offset by the sale of TelstraClear.

In Fixed, growth in fixed broadband slowed the rate of decline in the overall portfolio and revenue was down 4% to \$3.7 billion. PSTN revenue declined 10.8% with a number of retail lines declining 178,000 to \$6.7 million. Fixed broadband was up 4.4% to just over \$1 billion. Retail fixed broadband revenue was up 10% driven by a customer growth which was up 85,000 to 2.7 million and a 2% improvement in ARPU.

The strong margin performance that we've seen in our Fixed portfolios continued in the first half of 2013. This was driven by our increasing scale and the benefit of sharing our networks over our growing customer base. It also reflects the benefits from our productivity program and the positive impact of higher bond rates.

Finally, our strategy to migrate customers to bundled plans continues to deliver and we added a further 117,000 bundled customers in the period. We now have 1.5 million or in other words 56% of our fixed broadband base is on a bundle.

We've continued to see profitable customer growth in our Mobiles business. This is not withstanding an overall slowdown in the market. Revenues were up 4.6% to \$4.6 billion, equating to a 7.7% compound growth rate over the last three first halves. Revenue is up 7.7% in prepaid handheld and 16.8% in mobile broadband. Revenues were also up marginally in post-paid handheld. This was notwithstanding a small reduction in ARPU excluding MRO which was caused by a lower contribution from international roaming and early termination charges. And of course whilst the latter impacted ARPU in the period it obviously leads to higher lifetime customer value as illustrated by the significantly improved customer churn in the period, which was of 10.3%.

The profitability of our Mobile portfolio continues to grow with EBITDA up 12.3% to \$1.7 billion, and this is a compound growth of more than 20% over the last three first half periods. The EBITDA margin for the half year was up 3 percentage points to 37% and during the half, as you heard from David, we added a further 607,000 domestic mobile customers to take our total mobile customer base numbers to 14.4 million.

In Data and IP we continue to see a transition from legacy data products to IP Access. Overall revenue was broadly flat at about \$1.5 billion. IP Access was up 8%, unpinned by migration to higher grader services including IP MAN where revenue was up 14%. Growth was also supported by success in Telstra Business which was up 17% and also our growth in NAS.

We saw strong profit performance from the portfolio in the first half with the EBITDA margin up 2 percentage points to 65%.

And finally growth in the IP Managed Networks customer numbers up 8.2% reflects our focus on selling a higher value network services.

Turning now to NAS. NAS revenue for the half year was up 10.6% to \$636 million. Over the last three first halves we have seen strong growth as we have continued to invest in this important area of our business. We continue to see

strong performance in both unified communications and in cloud computing. Cloud computing in particular, as you heard from David, is an important push at the moment and we saw revenues up 25% in this half year period on top of an increase of 33% in the prior comparative period.

Looking at our core Australian telecommunications business through the lens of the customer, total retail revenue grew by 1% to \$9.8 billion. In Consumer, revenue was up 2.1% to \$5.3 billion and this was underpinned by strong performance in mobiles, up 7%, and fixed broadband up 11%. In Telstra Business, revenue was down slightly by 0.4% to \$2.4 billion.

Encouragingly, the rates have declined in the business segment and has slowed from a decline of 1% for the full year of fiscal 2012 and 1.3% in the second half of fiscal 2012.

In Enterprise and Government, revenue was up 1.3% to \$2.1 billion supported by strong growth in NAS which was up 7%.

And finally in Wholesale, revenue were down slightly, 1.1% to \$1.1 billion. Wholesale NBN revenue partly offset the impact of lower usage in fixed, lower roaming volumes.

Sensis.

Sensis performance for the half year was in line with our expectations with revenues down 12.6% to \$479 million. Print revenue was down 27.9% to \$202 million. This comprises a revenue decline of 8% in White Pages and on an adjusted basis a revenue decline of 22% in Yellow Pages. The point of the adjustment is that revenue recognition aligns with the timing of the distribution of books in Sensis. In 2013 we have deferred the distribution of the Brisbane book into the second half of the year whereas it was included in the first half in 2012.

I should also remind the market that the timing of book distribution is such that approximately two thirds of the Sensis revenue and 80% of the EBITDA will arise in the second half of the year.

In Digital we've seen an acceleration in growth as clients transition their spend to Yellow Pages and White Pages digital assets, search engine marketing, customer websites and social media advertising. Overall Digital revenue is up 11% to \$201 million, 42% in White Pages and 9% in Yellow Pages.

The trend in the margin followed the same point that I mentioned in relation to book distribution and was therefore down 5 percentage points to 23%. Adjusting for the timing of the book distribution, the EBITDA margin was approximately 28% although we do expect the margin to decline year on year with the revenue reduction that we anticipate.

In Foxtel the first half of 2013 included a full six months contribution from the acquisition of AUSTAR. We have therefore provided here the prior comparative period on a pro forma basis. Revenue was up 7.2% to just under \$1.6 billion whilst EBITDA was up 12.1% to \$463 million. The AUSTAR integration is progressing well and this is driving significant cost synergies which is assisting

EBITDA growth. The growth in revenue is driven by a combination of higher average subscriber numbers and higher ARPU.

The key focus of Foxtel continues to be on the growth in its subscriber base which was up 1.7% in the period to just under 2.3 million. During the period we received a \$55 million distribution from our investment in Foxtel. There was no distribution in the prior comparative period because Foxtel has moved to a pattern of paying distributions biannually from historically paying them annually. The distribution is the only aspect to be clear of these numbers that is actually consolidated into Telstra's results.

In Telstra's other media assets revenue was broadly flat at \$430 million. Cable revenue, representing income from Foxtel, was up 5.2% due to a custom mix shift away from satellite to cable. In Pay TV and IPTV which includes IPTV content, Bigpond Movies, Foxtel resell and Foxtel on TBox, growth was just under 1% to \$333 million. The other digital content, which includes a number of feature phone services that predate the introduction of Smartphones declined 12.2% to \$36 million.

Turning finally to our International portfolio. Revenue was up 10.8% to \$844 million with strong performance across all of our businesses. CSL revenue was up 13.3% to \$494 million or 13.8% on a local currency basis. CSL, as you heard from David, added 321,000 new customers in the first half with EBITDA up 1 percentage point to 25%. In our China portfolio revenue for Autohome was up 63% albeit this was offset but the inclusion in last year of revenue from ChinaM and LMobile which were businesses that we exited in the second half of 2012. Autohome has established a very strong position in digital marketing in the Chinese auto market which is, you will appreciate, is growing rapidly.

Finally the global connectivity business was up 9.9% to \$277 million or 11.6% on a constant currency basis.

Before making a couple of comments on productivity I'll take you through the key revenue items relating to NBN which were accounted for in the period. NBN related revenue was \$176 million, of this \$4 million and \$90 million represented the proportional recognition from the cash receipts received last year for the Retraining and Information Campaign and Migration Deeds. The TUSMA Agreement became operative from 1 July 2012 and income accrued under this agreement for the first half was \$56 million which replaced the revenue received last year under the Universal Services Obligation.

Finally, \$26 million was received in relation to the early infrastructure build.

Let me now turn to productivity and our simplification program. During the half direct variable costs increased approximately \$200 million whilst underlying inflation added a further \$100 million to our costs base. Expenses also increased as a consequence of our growing portfolio of increasing customer numbers and transaction volumes and investment in new businesses. Expenses were also favourably impacted on a relative basis by bond rates which had a \$100 million impact.

Against these movements our productivity and simplification program delivered \$400 million of expense benefits enabling us to modestly reduce our operating expenses half year on half year to \$7.4 billion.

Let me turn now to capital management. Our approach to capital management and the strategic framework that we presented to you last year remains unchanged. Applying this, our accumulative excess free cash flow declined slightly from \$1 billion at 30 June 2012 to \$900 million as at 31 December 2012. Free cash flow from business operations of \$2.2 billion including proceeds from the sale of TelstraClear were offset by the full year 2012 dividend of \$1.7 billion and interests costs of \$534 million.

Our free cash flow profile is such that we expect to generate excess free cash flow in the second half of the year.

I also advised the market last year that when we presented this that we expect to generate \$2 to \$3 billion of cumulative excess free cash flow over the next three year period. That effectively takes us into the second half of 2015. Our position in relation to this remains unchanged subject of course to the rollout timetable of NBN. We will continue to communicate our cumulative excess free cash flow position in conjunction with our results. We will also obviously continue to advise you how we're tracking against the \$2 to \$3 billion that I quoted to you last year. Having said, that, to be clear, I don't propose to continue to update that outlook on a rolling basis.

Turning to some more detailed capital movements, as previously mentioned our CAPEX was up 10.2% to \$1.9 billion. The CAPEX to sales ratio of 15% is in line with our guidance and we're on track to accelerate our LTE mobile network expansion, as David mentioned, to two thirds of the population by 30 June 2013. During the half year we repaid approximately \$2.1 billion of debt. We issued new debt of \$750 million via a very successful Australian five year bond issue and a further \$50 million via private placement. We have run down our liquidity to \$2.6 billion bringing our net debt position at 31 December to \$13.6 billion. Average borrowing costs reduced in line with lower interest rates to 6.4% and through refinancing we extended our average debt maturity to 4.9 years.

A key aspect of our capital management framework is to operate with balance sheet settings consistent with a single A credit rating. We continue to operate at the conservative end of these parameters and enjoy a single A rating from all of the key agencies. You will see from the bar chart on the right hand side of this slide that we have a further \$1.2 billion of debt to repay in the second half of 2013. We also have a spectrum renewal to finance and subject to the outcome of the upcoming Digital Dividend Auction, further potential spectrum financing commitments.

As we have previously indicated as part of our overall capital management framework we will predominantly finance spectrum through debt in the first instance and hence we will have an active debt program in the second half of the year.

Before handing back to David let me just make a couple of comments on guidance for 2013.

Our guidance for 2013 remains unchanged. This includes low single digit growth for both total income and EBITDA and a CAPEX to sale ratio of 15%. Whilst we have delivered EBITDA growth on a guidance basis of 8.7% in the first half, for a number of reasons this growth will not all flow through to the second half, in particular the bond rate impact, some of the NBN impacts are both likely to be more significant in the first half than in the second, and in addition we also expect to see most of the year on year EBITDA decline in Sensis, as I mentioned before, occur in the second half of the year. Having said that, our outlook for the business does show that EBITDA growth is at the top end of our guidance.

In addition to the other guidance measures, we expect free cash flow to fall within the range of \$4.75 to \$5.25 billion, consistent with which we've previously advised.

And finally of course subject to the Board's normal approval process for dividend declaration and there being no unexpected material events, we expect to pay a full franked dividend of 28 cents per share in fiscal 2013.

So thank you very much. That concludes my comments and I'll hand back to David.

DAVID THODEY: What I'd like to do now is just to give you a bit of an update on our strategic priorities.

Now you'll understand all our operational delivery is really underpinned by our four strategic priorities around improving customer satisfaction, you know critically important, retaining and growing our number of customers, driving simplification into what is a very large and complex business and also finding new growth businesses, and these will remain our key focus items as we go forward. So let me take you through each one of these in turn.

Firstly, customer satisfaction. As I said it really is at the core of our strategy and we really have this ambition to change the way everybody talks about Telstra; and we have made progress but we have a long way to go.

In the past six months we've done a number of things. Firstly we've had a companywide rollout of the Net Promoter System. Now NPS is both a system but also a cultural change and this has been one of the largest change programs that we've really ever undertaken in the company. We've at this stage trained over 7,500 people, mainly managers, given them new tools, new skills, tried to change the mindset around how they approach their job no matter which part of the company they are in in terms of really thinking about the impact that it has on the customer, to create what we call a "culture of advocacy". And of course we need to get real feedback from our customers and we do welcome feedback.

So far this year we've conducted over five million customer surveys. That's a lot of data. So really important you get underneath it, analyse it and make real changes.

Also we continue to make process improvements to improve the customer experience. In terms of some of the back end side, provisioning times, especially for our bundles were reduced by 38%, meaning that our customers do get connected sooner. Not perfectly, but sooner; and also we've got new web

interfaces between front and back office and a number of other things to try to reduce bad volumes in the business.

We've also enhanced our online capabilities and enabled much of our customers to transact with us online as I mentioned before. We now have two million customers who take an electronic or digital bill. The new 24x7 app you can get on your mobile phone has been downloaded by over one million of our customers, in fact it's one million times because some people may have it on multiple devices. We've got now 150,000 Live Chats every month taking place where people can interact with us online rather than calling us in our call centres, and we've had two million visitors to our CrowdSupport site which just means we can get immediate feedback and it's great to see us using technology to really interact with our customers.

And then of course I think we mentioned last time, but in terms of our shops, trying to reduce wait time in the shops is so important so we've reduced the transaction time from 20 to 3 minutes to activate a new post-paid mobile service. You can see it's that sort of detail you need to get into.

Now I know it's not always perfect but really these are significant improvements.

So we've still got a lot of work to do to really improve the customer experience but I do think we're on the right track.

TIO complaints were down 10%. Now that's sort of a lagging indicator of how we're going but it's sort of a very good indicator. Call volumes were down in the last six months and that's really important because while we like talking to our customers often it's to try and fix a fault so we prefer not to have to talk to them often. And churn levels, as you saw from Andy's presentation, are very low so that means that customers are staying with us.

So we cannot deviate from our commitment to improve customer service and satisfaction and really, as I said, changing the way people talk about Telstra. Hopefully talking about the good stories, not the bad stories that it has often been. And of course you know that customer advocacy is more than just an altruistic objective. Customer advocates buy more products, recommend Telstra to their friends and family and stay with us longer and of course they have become more loyal. So really important and interestingly when you have a really customer centric culture it unifies the company around a single purpose, everybody in this company, everybody, whether you're in credit, your accounts management, in finance, is focused on serving the customer and I can't over stress how important that is. It is not just the sales guys or the guys in the call centres, it's every one of us who is involved in this.

So very important, second one was about retaining and growing the number of our customers, and as Andy has already gone through the numbers I'll just sort of try and touch on some of ones that really strike me.

In terms of the mobile base, it's over 3.8 million new customers since July 2010, close to four million. That support has been wonderful, put a lot of strains and stresses on the networks, we had to really have the engineers working hard, but it's gone very well.

We've invested \$800 million in our mobile network last year and we're investing \$1.2 billion this year. So really important. We are seeing a good return on this investment, as we've said 670,000 new domestic customers, 321,000 in new mobile customers in Hong Kong and 1.5 million 4G devices on the network now. The 4G network LTE network is going very well.

Mobile broadband continues to grow strongly. We sold 218,000 mobile broadband devices in the half taking the customer bases to over 3.3 million now and that includes 790,000 people who use the iPad and other tablets. So you're seeing this really big swing in terms of tablet technology. Wonderful how this industry invents new categories, we like it.

On the Fixed side we had 85,000 fixed retail broadband customers and that takes us to 2.7 million fixed retail broadband customers. Also on the Enterprise and Business side, really strong growth in terms of IP customer growth, and interesting, remember we've talked about cloud computing. I'm afraid the chart's wrong. We now have 16,000 cloud customers and we've had over 3,000 join us in the last six months. So cloud computing is no longer a gleam in our eye, it is actually a very critical part of our business.

In the Media space we have sold over 450,000 Tboxes and 456,000 T-Hubs, about the same. Our customers have downloaded now over 2.4 million movies in the last six months. So this whole video on demand is a wonderful growth opportunity which we think we're just touching the beginning of as we get to subscription model we think it will be very exciting and as I said before the take up of our digital products and Sensis is on track, even though we've got a lot of change to go on in Sensis, we now have 130,000 of our customers taking up a digital product, 130,000. That's been a very big focus of the Sensis team and they're doing it well. So it's encouraging to see this growth across the business and of course we take the last six months as the last six months. The next six months is all I'm worried about now. So we've still got a lot of work to do.

The third area is simplifying the business and as you know this is all about really delivering financial improvements to the company and approving customer service and it's challenging because we have a target of about \$1 billion a year to take out in terms of the gross level and each year it's continuous improvement, keep driving in terms of simplification and it's great to see that expenses are flat to slightly declining while we've got top line growth. As Andy said productivity benefits worth \$381 million at the gross level and this has been across a wide range of initiative that the whole team have been working on, coordinated by Robert, but the process improvement.

We've seen great improvements in credit management, our contact field service and a large range of corporate offices have continued to re-engineer how they provide service to the business which is so gratifying. And of course working with our partners, our suppliers, trying to really make sure that we're aligned in terms of what they can deliver for us and we're reworking key contracts across network, IT, International and the Sensis areas. So this remains a critical part of our strategy and we will never, never lose focus on productivity improvements. It's sort of in our DNA, it's about cost management, we are a frugal, focused company and that's what we'll always be. Because what we do, as we do that it allows us to reinvest in the business or to take it to the bottom line and that's what's so important.

But as I keep saying one of the things about productivity improvements as you peel back the orange you always find more and more and more opportunities to get at the bad volumes and really change the way we run the business. So that's the third area. The last area is about building new growth businesses and as you know it's around this Network Applications and Services area, it's around International and it's also around the Media portfolio.

So let me just talk a little bit about some of the highlights. In the Network Applications and Services area it's been very gratifying to see the growth. Cloud revenue is up by 25%, unified comms which is mainly in the enterprise and business space up 11% and as I said before we're building four new data centres which will house all our cloud computing capability. Obviously we've got a lot of capability already but we're building new capability right now.

Also last month we announced the new Global Applications and Platforms business unit and that's about taking advantage of the incredible growth we see in the future around software and new platforms. We've already got, you may not realise, when you have significant investment, be it in financial services networks through to health data solutions, even [unclear] which is in the media platform and now we really want to try to pull that together into a focused area and of course the software industry by definition is global. In media you've already heard as I think Andy took you through a very good explanation of what's going on in Sensis but it is performing as we expected. Remember a year ago it went a little bit faster than we had expected but it's right on target and the guys are performing well but I do want to say we are only what, a year and a half into a three year transition, we've got about three phases in this. We will continue to restructure that business, we must.

Moving from print to digital is a fundamentally different model. Anyone in the media industry understands that. So we've got a lot of work to do. We've only really just started on this journey so we'll be focusing on that as we really make this is a leading digital advertising company in Australia. And we of course will be reinvesting a lot of that into digital capability, selling digital media products is very different to print product.

As you will have seen we did the True Local acquisition and that's really given us a strong proposition for our Yellow property and it really increases the number of people coming to our site each month. This is still subject to the ACCC approval and we've still got to go through that but it is very important in terms of our competitiveness as we move forward.

Andy has already touched on the Foxtel numbers. The integration of AUSTAR has gone very well, I've been very pleased with how that's gone. Richard and the whole team are really driving that business well. You know he's already come out and said it's about growing market penetration in that market but getting that integration done ahead of the plan we'd set was very important.

We're going to discuss our Media strategy in April. We've got a date set or being set to give you a deeper insight into Media and NBN.

So finally our investments in Asia are also performing well. As you saw 11% up which was really very good. CSL is obviously the engine of growth there. They had 13.8% growth in local currency. That's very strong. Global connectivity and

NAS revenue was up to 10% and the Autohome business continues to rip along at a pace with 63% growth. Now very small admittedly but a very good little property. I'm also very pleased with the management team we've got up in Asia. Tim Chin settled in very well. He's got a great knowledge of Greater China / Asia, great to have a local executive there leading the business and I think we'll continue to see good prospects in the region as we go forward.

So in summary. We're delivering on our commitments with continued revenue profit and customer growth which is just great and it's been a solid strong first half. Our strategic priorities continue to deliver good results for our customers and most importantly our shareholders. We're focused on our key priorities for next year and we're on track for full year guidance. As Andy said low single digit in total income and EBIT but low single digit probably upper end of that. Free cash flow between \$4.75 and \$5.25 billion and the 28 cents per share dividend for the full year.

Thanks for your time. Andy and I are very pleased to take questions and Andrew is going to MC. Thank you.

ANDREW KEYS: Okay we will take questions first from analysts here in Melbourne. Good morning Richard.

RICHARD EARY, UBS.

Good morning guys, Richard Eary from UBS. Just three questions. Firstly just on 4G. We see some good numbers out there in terms of sub numbers. I don't know whether it's possible for yourselves or Gordon to share some stats in terms of actually traffic metrics to give us an indication in terms of actually differences between 4G and 3G as we go forward.

The second thing was just on PSTN. PSTN retail numbers have obviously accelerated in terms of losses. Can you give us a feel of why that's happened? It looks as though obviously, I don't know whether fixed and mobile substitution is accelerating, but a feel for where that is.

Lastly just on CAPEX as we think into 14. You've obviously said 66% 4G coverage by June. Obviously we're sitting in February, I mean clearly I would have thought we'd get some clues in terms of where that goes beyond that, but is that conditional on the 700 spectrum, would you look to use regional 1800 spectrum?

DAVID THODEY: Okay, so I'll take each one in order.

4G, look we do have some stats. I don't have them with me today but we can get them to you. We've been very pleased with the take up.

The first justification around getting LTE is that it's a far cheaper way of carrying data so we're actually trying to migrate as many people from 3 to 4G because it takes the pressure off the 3G. But I don't have the numbers off the top of my head and I don't have them in my briefing notes, but can we get them to you later on I think would probably be better because otherwise I may not get it all right.

PSTN, yeah look 170,000 loss, 70,000 about, we think 20 or 30,000, well we do know the exact number, went to Wholesale. Remember we put prices up in terms of rental and that's been, as we're trying to rebalance to move customers more to a bundle with included calls. It's pretty much in line with what we thought. There's still a lot of growth in wireless only homes, fixed to mobile substitution, calling is down and will continue to be like that. So it's managing the portfolio. Do you want to add much on that Andy?

ANDREW PENN: I think it would be too hard to conclude from a single six month period any trend on fixed to mobile. As David said, at the total level the numbers were down 151,000 so I think it's something we need to watch but you know.

DAVID THODEY: I think more to your question, is there a step change in behaviour? No, although mobility is still a very strong proposition. I think it's pretty much steady as we go however we continue to look at ways in the bundling of the offer to make it still an attractive offer.

CAPEX on the 66%, we're going to continue to keep building out the network but we're not giving any guidance in that in terms of next year. We fundamentally believe in network supremacy, both coverage and speed. We've done a lot of work in the first half getting the network ready for the roll out to 66% of the population and I think you'll see continuing us doing that.

The spectrum, if you remember a lot of the spectrum doesn't become available for a couple of years so it's the transition of managing, I mean we're at the 1,800, the guys are doing a lot work on how we can better utilise the spectrum, we're looking at a couple of trials and some different ways to do it, but we're going to keep investing, it's very important. Return on investment is really the big question and that's right at the top of my mind.

Ian Martin, CIMB.

Two questions from me. Firstly on mobile broadband, another period of very high growth, nearly 17%. In previous periods we've seen when you've broken it down by segment that has been very, very high in enterprise, quite good in consumer but a lag in business and I'm wondering whether that's still going on, I couldn't see any breakdown there, and whether you're any closer to addressing the issues in getting that business segment to pick up mobile broadband.

Secondly, in relation to the spectrum auction, we've now got the reserve price at \$1.36 per megahertz per pop. Quite a high price. The value of picking up that spectrum of the company to some extent depends on what the other carriers do and who gets what spectrum. We saw in the 3G auction back in 2000 a spectrum that wasn't sold at auction got picked up quite cheaply by Onetel after the auction. I don't think they used it as a carrier but they were quite disruptive for a while so I wonder is there any way to get some assurance on what will happen to the spectrum that isn't sold and how that affects the company's valuation of the spectrum that you might acquire at auction.

DAVID THODEY: I'm not sure how much I can answer the spectrum questions, I'm under such confidentiality agreements.

Let me go to the mobile broadband. The numbers are pretty much the same. I was just going to say I don't know if I've got the segment breakdown. Have you got the segment breakdown here?

ANDREW PENN: I don't have it with me but I mean Will's sitting in the audience. I think Will ...

DAVID THODEY: There's no question, there's been two things that have taken place. You've seen a higher growth in consumer because we count the tablets in there. So that's the rebalancing. We definitely led mobile broadband both in terms of the dongle but also these WIFI hot spots that are so prevalent in the business market and they are very, very successful, especially in the construction and manufacturing, just sort of come and throw it on the table.

TB's picked up enormously but then there's been a strong consumer growth with tablets as well. So I think we can get you the numbers. We don't have them today. Do you want to talk generally or have you got the numbers ...

GORDON BALLANTYNE: I've got the numbers David. Sales growth in TB 17% in the half year on year, 9% for all revenue growth in mobile broadband. So pretty strong growth in mobile broadband across all of the customer segments.

DAVID THODEY: So going well. In terms of the spectrum could I just say I'm acutely aware of that issue and that's about all I can really say. It is very important to the company and we think having a fair and equitable playing field is just what you'd expect.

IAN MARTIN: *Bearing in mind the confidentiality issue, is there any way to get an assurance on the use of that spectrum if it's not sold?*

DAVID THODEY: Could I just say I'm very conscious of that issue and we agree with the question.

RAYMOND TONG, GOLDMAN SACHS.

Morning David, morning Andy. Raymond Tong from Goldman Sachs. Just three questions. Just firstly on post-paid ARPU. Just wanted to see whether you can discuss the underlying trends there, I think it is down 2% underlying down 7% including MRO. How long do you think the impact of the MRO is going to last? Is it going to get better next half or in the next year?

Just secondly, just in terms of Sensis. Andy you were saying it's going to be 80% weighted to the second half now for EBITDA. Can you give a sense of what the pre-selling and for bookings are for the print books in the second half, how they're tracking?

Thirdly just in terms of the cash flows, excluding Telstra Clear down 17%, can you just maybe give a bit more details on some of the investments that you made to drive that cash flow down.

DAVID THODEY: I'm going to get Andy to answer all three, maybe a little comment on the cash. Yes, we're very conscious it was down at the underlying level. We had a lot of working capital to fund the business going through, but I'll

get Andy to give you a little bit more on that. But we're on target full year, but first half was a little bit lower.

ANDREW PENN: Sure, and David may want to add a comment to this in a second but let me go through.

In relation to post-paid mobile ARPU, the two key drivers were, excluding MRO, were international roaming and lower early termination charges. Obviously early termination charges being down is a consequence of churn being down which is an improvement to overall lifetime customer value which is a good thing. International roaming is what it is. I think absent those two factors, it was actually up slightly.

Having said all of that, which is the point David may want to come back to is I think as we move into the new world of mobiles ARPUs becoming the less relevant measure, but nonetheless we'll continue to report it.

Your other related question was MRO, how long will that have an impact? Well I still think it's going to be a couple of years before that washes through to a more normalised basis, not least of all because of the strong growth that we obviously had in the second half of this year and then also net, sorry recontracting was up this year relative to half year by more than 100,000 as well which sort of goes a little bit to the point around cash flows which I'll maybe sort of touch on now and just adding to David's comment.

So it really was just investment in working capital in a couple of areas, mobiles, we bought more than half a million, well rather we sold and bought more than half a million iPhone 5s for example in the first half obviously. So a lot of money going in to support, a lot of working capital going to supporting mobiles business and we also advanced purchased quite a lot of equipment in relation to some of our bigger NAS contracts which we've signed recently which you'll see an increase in inventory on the balance sheet sort of across the period.

I mean I think seasonally we'd look to cash flow being stronger in the second half, obviously in the first half and that's obviously a strong focus for us in the second half.

Just switching back to the point on Sensis, just to try and make sure I'm sort of crystal clear on that point the numbers that I quoted weren't a prediction of this year's sort of numbers, it was more trying to sort of generically indicate that what tends to be the trend is we see about two-thirds of the revenue and sort of about 80% of EBITDA in the second half of the year. That wasn't a forecast on Sensis, it was just a generic comment.

Notwithstanding that's sort of roughly what the dynamic is and sorry, I can't remember, there was last piece to that question. The forward sales, yeah. So in terms of the forward sales, I mean most of the forward selling in relation to those books is done. From our point of view, as David said in his comments the outlook for Sensis for us is as we expected. So we're not expecting any surprises, albeit it will be a decline year on year in both revenue and EBITDA terms.

DAVID THODEY: I think on terms of the books it's just now a matter of getting them printed and out the door and I can give you a bit of a feel. The regional side has been very strong and a little bit better than we expected actually as we went through.

Look the ARPU on postpaid, it has been primarily the focus on international roaming and of course, it's the changing dynamics in the mobile business. It's less about voice and now more about mobile data roaming and how we manage that going forward. I think that we've got some ways we want to, it's going to continue to decline but I think we're looking to stabilise it over the next six to 12 months but that's the big one from our focus is how do we really get our hands around that one.

I mean I think the expectations of people are enormous in terms of using of tablets when you travel now and then you come back and a lot of you would be aware of bill shock and so how do we get something that is reflecting the cost that we've got to incur when dealing with other operators when you're roaming but also allows us to give a good experience and a reasonable price for our consumers. So it's a tough one but I think we've got some ideas going forward that will address that but that's the biggie for me. Of course remember, I mean ARPU will always be important but it's yield on data that is the metric that we've all got to start looking at more per megabyte because the whole changing dynamics of our industry and voice over IP etc makes sense. We can talk more about it later on.

SAMEER CHOPRA, MERRILL LYNCH.

Morning. I have two questions to ask. The first one is on costs and the second one is on the NBN payment. On the cost of goods sold they were up 18% year on year. I was wondering if you could give us a sense of what's driving this and how we should be looking at trends into the second half of this year, just on the COGs.

The second question, just on the NBN, the receipts from the ISA were \$26 million. It's a little bit softer than perhaps where I was sitting and I was wondering if you can give us a sense for magnitude of numbers that we can expect on infrastructure payments in FY 13 and 14.

DAVID THODEY: I'll get Andy to add a little bit colour on each one but let me give you a couple of comments. Firstly on COGs, as you know and I think I can remember you saying Sameer, recontracting and Apple iPhone 5 has really been very strong within the half and that's been the key driver. There have been a little bit more in the enterprise space, we were doing this big network application services contracts but it's primarily the driver by the smartphones are coming through. In terms of the outlook I think pretty much as we go we've got a lot of focus on it at the moment. Andy, I don't know, do you want anything on the COGs.

ANDREW PENN: Well I think on a relative basis year on year we wouldn't expect them to be up to the same level in the second half or rather in the whole year compared to the half year but nonetheless your points are right.

DAVID THODEY: So that's been the big ones Sameer and something that gets our attention. In terms of the NBN and the ISA payments, I'm not sure what you had in your forecast but this is primarily driven by the rollout timetable of NBN Co more than by us. As I said we're very pleased with the working relationship. The guys are working hard, we're getting the transit build done, got the exchanges all ready and we continue to travel well on that and I think that obviously they want to ramp it and we'll be just following them. I don't think there's much more on that. So it's just timing but nothing untoward in there at all from our perspective.

VIKAS GOUR, DEUTSCHE BANK.

Thank you for the question. Good result from a cost perspective. I was hoping you could provide some colour around cost trends that you're seeing in the second half. Obviously favourable impact from the bond rate adjusting for which I think we got labour costs down only 2.1% but is labour cost tracking at a similar rate the first half and given the FY guidance would you expect the cost to creep up in the second half similar to last year.

The second question is just relating to NBN payments if there is a change of government in October/November. If the coalition does decide to look at feasibility of NBN would you expect the NBN payments to proceed as per plan and could you provide a bit more detail around the impact and lastly great result with mobile margins as well. Was LTE a key contributor to this and are you seeing a positive impact from customers moving onto Android and Windows operating systems.

DAVID THODEY: Because they're good questions. So I think I better to give them to Andy.

ANDREW PENN: Look in relation to costs you're right because the bond rate impacts, when one looks half year on half year it gave us a \$100 million benefit and the reality is we would expect our costs in the second half to be higher. So year on year the outlook is for a small increase. As David said the productivity challenge is a never ending one and we will continue to focus very, very hard on that but you're right we'd expect to see year on year costs up a little bit which is not the position of the half year, they're down ever so slightly.

In terms of mobile margin that was attributed by that cost impact and also the impact of the bond rate which you pointed out. So that added about a percentage point just the bond rate impacts of the mobile margin but nonetheless the mobile margin was 37% compared to 33% [sic: 34%] last year. 39% [sic: 38%] in the second half of last year, 36% for the year overall. So we still think that the trend is up and of course the other factor is that we've been growing our subscriber base fortunately very strongly which is a great performance from the team and including fixed broadband.

So basically with a higher number of customers a lot of the infrastructure costs, a lot of the costs are attributable to network costs are able to be shared over that bigger customer base. So that actually gives us a leveraging effect as well. You also see the dynamic of that occurring in our fixed portfolios margins which we're managing to maintain quite strongly notwithstanding the fact that revenues are coming down, that's because of growth in fixed broadband customer numbers and also mobile customers as well.

In terms of the transit build, that is basically going on plan or according to what we expected. We're a reasonable way through the build of that. I don't think there's anything, any sort of link to the previous question from () [inaudible] in relation to the infrastructure server access payments as well.

DAVID THODEY: Because I don't think there's anything more we can add. We're right on target for what we need to do. If anything slightly ahead, so we're just building out to the NBN schedule. No, it's all good on that side. Cost trends. Look if I could just make a couple of editorial comments. The second half, the critical thing for us is actually to get the volumes really under control because that's what really drives a lot of costs into the business across every part of the business and we had a good first half, we've seen the decline, not increase, decline flattening a bit in the second half, so we've got a lot of work under way and that's what we've really got to get to and that's the real changes in the business, helping people to have online bills, to do more online. Those things have enormous impact on our costs base as well and that's across TB, TEG and other consumer market as well.

Also there's just the normal pressures in the business, so it's going to be, I think there is a little bit of pressure there but we're going to manage it very tightly as we go through. So that's why we're able to say that the EBITDA single digits, the upper end of our guidance. So that's where we're at on that.

We do a lot of work and maybe we can pick this up maybe at some of the briefings but in terms of the costs base in the network, how efficiently the mobile network is running. If we can get people more across to 4G unquestionably it's a better return for us and so we're going to keep working that but we also have a big investment program on the mobile networks because we are very committed to really driving that technology leadership. But maybe we can pick that up because it's quite a long discussion that one.

VIKAS GOUR: Sorry, just one question that was unanswered. In terms of the Coalition and the change of government would you expect the payments to freeze.

DAVID THODEY: Well look I mean we are focused on working to the current legislation and the current contracts we have in place and that's all I can work to. The problem with any speculation around change of government is there's so many variables. I could think of about another 30 questions to ask about that and it just isn't of value because you just get into speculation.

You can look at it, there are contractual commitments that will stand. There are some variable ones in there that depend on the rollout of NBN. That's all that you can work and you have as much information as I have really. We have a contract, we have legislation and that's what we live by. Are we totally apolitical to what we do, absolutely but I don't have any more light to shed on it than that.

RICHARD EARY, UBS.

Just three housekeeping questions. First is on tax, second is on pension and the third one is just on Foxtel. Just on tax, I mean tax rate again is nearly 32% for the first half. Are we expecting that to unwind in the second half and looking at 30% for the full year.

On pensions, given obviously we've had a bit of a rally in equity markets, I can't see in the accounts in terms of where we were in terms of deficits and what we should expect for pension payments throughout the year and what was actually paid in the first half.

And then thirdly, obviously Foxtel we're now going to a bi-annual capital management distribution. Can you just update our thoughts in terms of sitting on the board, what the capital management strategy is inside Foxtel.

DAVID THODEY: All those questions sound like Andy's questions to me.

ANDREW PENN: Yes, the tax rate was about 32% in the first half so we would expect that to be closer to 30% for the year overall. You might recall in our franking position late last year it was mildly negative and we would expect that to be the case for the full year taking into account the guidance of dividend.

As regards pensions, I think there is in the accounts which Mark Hall was in the audience, he could probably point you to, but basically the improvement in the liability is about \$250 million from an accounting point of view. The improvement in the liability from an invested benefits points of view would be smaller but that would actually imply a much smaller deficit, in fact the deficit is quite small from an invested benefits point of view.

In terms of our current contribution rate to the fund, we haven't adjusted that and don't anticipate adjusting it this fiscal year and we'll decide that obviously on an ongoing basis. But the fund is in a healthy position.

In relation to Foxtel, I can't talk from the perspective of being a direct of Foxtel. I'm here in my capacity as a CFO of Telstra, but Foxtel have move to a, as I said before, paying a distribution twice per annum and yeah I'm not sure I can say much more than that to be honest.

JUSTIN DIDDAMS, CITIGROUP.

Morning guys. Just a couple of questions from me. I just wanted to run through the mobile business and so we're seeing the rate of subs growth slowing, we're seeing the rate of revenue growth slowing, you talked about recontracting, pushing out, big cash costs of iPhones in the first half, really depressing the cash costs and margin there. So I mean thinking about the second half mobile margin, should we be expecting above 40% for that business given all those factors culminating in the second half. That's my first question.

Second question is just on the really great result in the other revenue line, well ahead of my expectations and look some of it was NBN, some other things around Foxtel, so I was wondering if you could give us a guidance or some range for that other revenue number for the full year.

Then just thirdly around the NAS, what the trailing expectations for revenues are for that plus 10% for the first half, you know are we expecting at lift to sort of tail into the year two and year three so that revenues start to come in? It would be very useful.

DAVID THODEY: Okay Justin, let me give you some colour on probably the mobile side and the NAS side and then I'll get Andy to give us maybe some numbers behind it.

On the mobile side, it's pretty much consistent with everyone around the world except we're doing well. The subs growth was consistent with our expectations. As you know the market of new entrance has slowed but it's actually we think a very strong result and actually a little bit ahead of where we expect it.

The revenue is slowing is a whole mixture of things but remember the industry, I think that, I can't remember if you Justin, but the industry is in negative at an industry level so when you look at our performance you would say "gee, that's pretty good" in terms of share gain.

The question is the maintenance of that in terms of, and the cash costs on the iPhones, you know the gratifying thing about the iPhones is we've seen good take up of the higher end plans of the iPhone 5 and that's been what's been so gratifying because we look at that very closely. I mean if we were getting iPhone 5s on sub \$50 plans we'd say "hey this doesn't look attractive". But the actual returns on the plans, even though there's a bigger cash cost upfront, are actually very strong and I think that the last of our strategy decision, we did take you through some of those metrics in terms of the returns on per plan.

So overall we're feeling reasonably positive about all the variables we're managing the mobiles business.

I'm not sure where you got the 40% margin from but we are managing this thing from good returns and that's what we'll continue to do. Andy, do you want to add any more comment to that?

ANDREW PENN: No, I thought Justin was sounding quite negative and I think we've had a fantastic performance in our mobiles business again in the first half. I think the fact that the growth's not quite as strong as it was last year I think is just a reflection of just how good last year was. But to your point David, I think margins in the high 30s is what we're aiming at and there's a lot of factors that are going into play on that including the volume, the scale, the sharing of the network costs, the productivity, programs etc. But we're still looking at above 35%, obviously 36% last year so we'd expect to see an improvement on that but I don't think as far as 40.

DAVID THODEY: No, and the other thing I'd just say on the mobiles business, for those of you who have been around a while, I mean I can remember the end of the 2G era and revenues flattened and industry growth slowed and the 3G came along and everyone didn't think it was going to happen and whoosh, off she went; and now I think we're at the beginning of a whole new phase of growth but I think it's maybe a year away. So in terms of the overall dynamics of the business, I still remain incredibly positive, not for anything other than the compelling nature of mobility and the dependence of people on mobile phones and mobile data, it's just the way it is. So while there's always challenges within the portfolio, that portfolio I'm pretty pleased with the prospects, but we are in a period of slower growth.

I'll answer the NAS one next.

We're very pleased with the sales momentum in that part of the business that I think will flow through into the second half. We think there's some good upside there. Remember this is a business that you need to sign these big contracts, there's a period of bedding them in and then off you go with the revenue. So the sales cycle can be 6 months to 12 months and then you've got a period even after you've won the contract, another three to four months before you get the revenue going. We've got a couple of big ones that we're trying to wrestle to the ground at the moment so we think the second half of the year looks pretty strong.

The wonderful other revenue line that I like as well, Justin I'll let Andy just maybe say a few things on that.

ANDREW PENN: The key things that are in the other revenue line are the accounting for the Information Campaign and Migration Deed from NBN infrastructure access payments and then offset by the impact of the exclusion of TelstraClear which seems to be sort of, you can look at the receipts that we received in the half year from the amortisation of the revenues from those deeds and assume that they're going to be amortised on a linear basis. The infrastructure access payments were \$26 million in the first half, David has already responded on what the trend on those is, it's really subject to the rollout, and I think we provided you the numbers on TelstraClear. So that ought to be able to give you what you need to come up with the right number there.

BRAD CLIBBORN, CREDIT SUISSE:

Good morning gents. Two questions from me. I'm just hoping you can clarify the overall P and L impact from the lower bond rates, fair value hedge in the finance costs line related to lower bond rates so between the other expense line and the finance costs, the overall impact on the P and L.

Secondly David, just in terms of Sensis. You mentioned three phases and you're still in the early phases of the transition but I note the white pages print decline is starting to accelerate. Just whether you're confident that you can still stabilise the business in three years and what those second and third phases are.

ANDREW PENN: The first one is in relation to the bond rate insofar as how it impacted the expenses. The impact was predominantly last year so it's a relative basis, so it's \$103 million basically, the difference between the impact on the bond rate last year's expenses compared to this year's expenses.

In relation to financing, again the year to year movements, it's about \$120 million and its effectively valuation impacts of some of our interest rate hedges effectively which are a fallout of the fair value accounting basis on which you deal with them. So that's \$120 million and that's in the financing costs, that's increase financing costs.

DAVID THODEY: Sensis. Brad your points are well made and the White Pages is very much in focus, as is the Yellow.

What the overall strategy is, first of all in such a major shift in an industry like advertising and print to digital the first thing you've got to do is sure up your customer base and put a good product that they can see is going to serve their needs, and that's been a lot of what Rick and now John Allan have been doing.

Also in that process you also have to really find a different way of working with your customers. So we've had a lot of big training that we've done with the sales force and continuing on even now.

But then you're running your print business and your digital business, you've got to build all that digital capability and then you've got to start to really look at your cost structures on your print side so that you can pull that down in line with demand, and with both white and yellow you've got to keep innovating the product and making it attractive to the advertiser.

So we're really coming to the end of that phase when we put new product on the market, even on the White Pages side, we've got to now go and really restructure and get the costs base appropriate for the go forward and then the third phase is really about building new capability as an online digital business.

Now there will be continue declines, we've always said that, but we still do think that from what we can see at the moment, within 18 months a couple of years we think we will be able to see, we can see the potential to stabilise the business.

Now it's a lot of execution, it's not a forecast, but that's where we're at and that's where we've got the team focused and we think more than we were a year ago where there was some surprises in the business how quickly people moved from print to digital, it's sort of in line with our expectations.

So there's a lot of hard work still to go, no promises, but definitely we think that we've got our arms around it and the team are working really hard on it but a lot of work to do.

FRASER MCLEISH, CIMB

Thanks a lot. Just a quick question on mobile. We've seen the more rational pricing environment for probably a good 12 months or so now. Just wondering if you think you're getting close to the point where it can maybe be a little bit more aggressive in pushing prices up perhaps and be getting towards ARPU growth or do you think we're unlikely to see that any time soon?

DAVID THODEY: I think that we want to price for value Fraser. You've seen us move already in terms of data allowances so we will continue to try to differentiate our offer and if we can find that nice equilibrium in terms of the value we give our customers, and there's a number of ways you can do that, I think you'll see us move in that direction.

PAUL BRUNKER, JP MORGAN

Thank you. I want to ask about Data & IP since it's about 20% of the business. So you saw a bit of a marginal improvement in that segment. Perhaps you can just talk through that. Is that a mix shift from legacy products therefore you would expect it to continue or is competition is going to be, ie. essential cap out margins in that segment.

Second question on post-paid churn. You alluded to a 10.3% churn rate for post-paid. Can you give us a sense of where that's come from and therefore how

much it's contributed to subs growth and where you think in the longer term that is likely to settle?

DAVID THODEY: Okay IP, it is, that network and the demand for that product is very high and we're seeing IP products moving into the business segment with the product called "Connect IP" which basically allows small business operators to really have everything down one pipe. That investment has been very strong, we've got many points of presence. It's by far the most robust and resilient and expansive IP network in Australia and I think there's still enormous opportunity to continue to see that growth and I think the margins are sustainable.

Now there is some price pressure in the market, mainly from the lower end operators and we're looking at some options in that end of how we can really package and bundle the product appropriately, but in the digital business product it's very strong.

So yes I think it's sustainable and as you know we've taken out some of our legacy products but ISDN is still a wonderful product but it will have an end one day. It's a bit like many of some of our other products we keep on saying has got a finite life but it keeps going forever. Long may ISDN live for a long time but at the moment we're really focusing on IP.

ANDREW PENN: Maybe I can add as well, within the context of that as well we've seen a slight improvement to IP MAN, from IP WAN, so we're looking to build higher value services in our networks and so IP access was up 8% overall but up 14% in IP MAN, and then finally of course the IP, like all of the networks, benefits, as I've mentioned a couple of times this morning, from just the increasing scale of customer numbers we're able to spread the cost of our networks over a much broader base of businesses.

DAVID THODEY: Then on churn, I like low churn and it's definitely our objective to keep it as low as possible because it's such a waste when you have high churn.

But your question Paul, so is our objective to try to manage churn as low as possible? Yes, it is, but your question was more about why is churn low, is that where you were going?

PAUL BRUNKER: Well where it's come from and where you think it will go? So do you think it's as low as it can get or will it likely drift up from there?

DAVID THODEY: I think it's pretty world class today. If I can hold it around where we are today I'll be very pleased, and that is a whole range of things from customer service, the offering itself, performance of the network, the way we engage with our customers, the product, the handsets we provide, it's getting all that mix right together and doing recontracting, winning the new customers at the right time, it's a whole mix of things so Paul there's no one magic answer, I wish there was on churn, but you've got to get all the ingredients right and that's where we're focused. So I think at world class churn levels now I doubt whether you're going to see a significant improvement but if we can hold it where we are we'd be doing very well.

RAYMOND TONG, GOLDMAN SACHS

Just two questions related to NBN. Just firstly payments of about \$176 million in the first half. I think you've touched on it before Andy but how should we thinking about these levels of payments in the second half and for the full year, and secondly maybe if you could talk about some of the CAPEX and opex investments in NBN. To make the copper network ready I think you made some announcements in the last few months in terms of some contracts out there. Can you expect to pick up in the opex I suppose because of this in the next couple of years?

ANDREW PENN: In relation to the NBN payments and how to think about those, I'll just refer us to the page, I mean basically you really just need to go it by payment by payment. So as I mentioned at page 19, \$176 million. So if you go down that list, the \$4 million and the \$90 million is just pure amortization of cash payments that we received last year and you can assume that they will amortize broadly similarly than as to which they are for the first half of the year because both of those payments were received prior to 30 June.

The TUSMA, likewise that started with affect from 1 July, so again that's a full six months. The Infrastructure Services Agreement payments I think we touched on a couple of times. They're really over the longer term obviously on an annualised basis they are higher but that's really subject to obviously the rollout of the NBN network; and then finally of course what's not on here is the PSAA payments which are effectively the payments which are associated with disconnection of copper lines. There is obviously a time lag if you like from a connection to when those payments eventually flow through and are accounted in Telstra's accounts. The numbers are still quite low. I think NBN separately have quoted that their plan is to get to 54,000 homes connected by 30 June. If that were the case you would see disconnection payments in relation to that full 54,000 in the 30 June accounts. We wouldn't account for it until a little bit after that.

So you'd need to draw your own conclusions from there and base that on your perspective of the rollout.

Sorry, the other question was on CAPEX. I don't know if you want to touch on that.

DAVID THODEY: Yeah, no, can you go through. Was it in relation to NBN investment or was it ...

RAYMOND TONG: *It's more the Telstra investment to get your copper network ready I suppose. I think you know the contracts over the last three to four months.*

DAVID THODEY: Yes, it isn't anything new or, it was more an extension of what we already do today. But a lot of people read into that about where we're trying to do more in the copper network in the pits and ducts. There is a little bit of that in terms of NBN preparation but nothing significant. There's no forecast increase beyond what we normally had put into the plan. So no, there is nothing there at all.

DANIEL BLAIR, NOMURA

Thanks David, thanks Andy. I just want to come back to the mobile question. David, you mentioned that as we left 2G and moved to 3G there was obviously a pickup in ARPUs, I think about \$10 on a blended handset basis. I guess what's different this time is there's more threats from over the top. So can you give us a sense firstly of what you see in terms of LTE ARPUs versus 3G and then secondly are you seeing, in terms of that OTT risk, are you seeing any de-tiering across plans as a whole. So that the first question.

Secondly, I just want to clarify on Sensis, David you said from White that you expect the business to stabilise and 18 to 24 months, are you saying that revenue will stabilise or just that operationally the business stabilises, ie. you expect the current decline to stop in 18 to 24 months.

Then thirdly, on capital management, can you give us an update on the timetable where you'll update the market. Thanks guys.

DAVID THODEY: Let me just try and take both those questions for you.

On the mobile side, a lot of the LTE sales have been twofold. One has been the dongles and then there have been a lot of the iPhone 5s. As I said we've had a good take up of high end plans but the ARPUs not significantly different yet from what I can see, a little bit up, I'm just looking at Gordon, but it's not a \$10 up yet.

So I think there are some other factors playing. The over the top threat you allude to, it's an interesting one. Yes the structure of the industry is changing and that's why the return on your data, how much data you're carrying is becoming so important, and that's really the reorientation of the plans that we're putting into market now. That for all operators around the world will be what you've got to do.

So I think that that is what is going to really allow us to go through this period. I mean over the top players are really innovative and there are some really good products and if it gives the customer a good user experience we're not about to fight them because we don't think that's useful at all. What we're about is how we accommodate them within our current pricing regimes.

We haven't seen a lot of de-tiering, in terms of right sizing of plans and things. Still we're trying to manage the data allowances very tightly. There's not a big movement there. If anything people are saying "hey, I need more data and I want to have predictability in terms of what I'm going to spend". So there's not a big challenge there from what I have been able to see in the market.

So yes some differences from 2G to 3G, 3G to 4G but then you add in there the growing connectivity to machine to machine, you look at how wireless technologies are becoming ingrained and you know fleet management, manufacturing, supply chain. Even you look at what's happening at retail level in terms of the use of these devices. Now some of them are smaller bits of data, some big when you start looking at the incredible usage of mapping and geo positioning. You see these applications coming that just improve people's lives. Now mobile apps sort of come and go a bit but they still are changing the way you operate and that's what gives me the confidence about this industry having a future.

So our job is to find ways to create a strong enough value proposition for the customer to say this is worthwhile. So you'll always have different price tiers in the market but I think that's what we're focused on.

Now in terms of Sensis, my focus is on return on investment, so I'm talking about really EBITDA and that's where I focus. So when I talk about stabilisation, I think operationally we're reasonably stable now. There's still lots of work to do to reorient and restructure the business but when I talk about the next 18 to 24 months I'm talking about EBITDA.

MARK MCDONNEL, BBY

Good morning and thank you. I have three questions. Firstly in note 11 of the financial accounts there's reference made to the dividend payable creating a \$745 million franking debit. I'm just wondering if you could update us on the franking account balance.

Secondly, with regard to the NBN and the second release sites, there's been a lot of commentary in the press around the delays in particularly western Sydney and the Riverstone area relating to pit and pipe remediation work, and I'm wondering to what extent those reports are accurate and more generally if the delays in NBN rollout are in fact due to a reassessment of the degree of work that you need to undertake there and what the cost impacts of that would be.

Thirdly, I'd also like to ask about the upcoming spectrum auctions and the reserve pricings, particularly the high megahertz per pop unit price and I'm wondering to what extent you could reassure us that you may have some ability to offset particularly in terms of a return through an adjustment in mobile retail prices, but also on the CAPEX side, through a more intensive farming of spectrum where you can change your CAPEX profile and reduce the demand for spectrum.

DAVID THODEY: I'll let Andy cover the franking credits, which is obviously very important to us.

On the NBN of western Sydney, if there's a problem we're not aware of it. I think that's all I can say. We're not aware of any issues at all. We're delivering on everything we said we'd do and so I don't know what the press is saying now.

On spectrum, as you know it's just hard to comment at the moment, but I can assure you, let me talk about the mobiles business as a whole.

One of the great things in terms of Mike Wright and our engineers, is that they have always been some of the most innovative engineers in the mobile industry and we have always looked at refarming a spectrum, I mean look at LTE on 1800, look at 3G on 850, I mean they were first in the world really to drive the effect of an efficient use of spectrum. So we spent a lot of time on that, we look at the higher end spectrums and look at TD-LTE, FD-LTE we look at all the options and so refarming and maximising return from spectrum is a very high priority for us, and of course as you've seen our focus on EBITDA on the mobiles business is always front and centre.

So I think that that's all I can say in relation to the spectrum auctions themselves. That's the lens we look at it and we think that there are options within that. So I think that's really probably said more than enough on that subject. So Mark we'll have to leave it until after spectrum.

ANDREW PENN: So just quickly Mark on franking, the balance at the 30 June you might recall was about negative \$54 million. It was slightly positive at the end of December obviously with the payment of the final dividend and obviously tax payments in that period and we expect it to be mildly negative again at the end of the full year with this year's full confirmed 28 cent full franked dividend.

ANDREW KEYS: That concludes the questions David. Would you like to close.

DAVID THODEY: Thanks Andrew. Firstly thanks for coming. As you see I think a good first half and it's gratifying to see a number of the parts of the business performing well, never without challenges as we go forward and that's what we're focused on and we'll continue to do as we really are focused on those four strategic priorities.

So thanks for your time and we'll look forward to catching up with many of you over the next few weeks.

Thank you.