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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

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

Yours sincerely

A handwritten signature in black ink, appearing to be "C. Mulhern", with a long horizontal flourish extending to the right.

Carmel Mulhern
Company Secretary

TELSTRA HALF-YEAR RESULTS 2010

Thursday, 11 February 2010

ANALYST BRIEFING

MR SPINCER: Good morning, everyone. My name is Ben Spincer, Head of Investor Relations at Telstra. I would like to welcome you to this our results for the half year to December 2009. In a moment I will hand over to the CEO who will run you through the results.

I should also welcome those listening in on the phone and also the webcast. We are using the BigPond TV platform for the webcast this half year, which hopefully will provide a very good quality experience for those on the webcast.

After David and John have run through the results, we will be taking questions both from here in Sydney and also from the phone lines. Without further ado, I will hand over to the Telstra CEO, Mr David Thodey. Thank you.

MR THODEY: Good morning everybody and good morning especially to those people who are coming in on webcast, great to have you here, and thank you, Ben. It has been a challenging six months on many fronts for the company. However, as I give you the six-monthly results or the half year, we remain very optimistic about the business. The demand for our products and services does remain very strong. The key challenge we are facing is how we really drive value from that incredible demand.

As we finish the half, while we have not achieved our revenue targets, I am pleased to report a number of strong results. Free cash flow has been very strong. We have managed our expenses well, which is very important, as we have come out of the transformation. Margins are strong, which has been good, and EBIT has improved.

Also, while we still have a lot of work to do around customer service, which is so important for us, we are feeling that we are making progress, although it is still early days and we have a lot of work to do, but this is a multi-year project. This is not going to be something we can fix very quickly.

I am also pleased to announce today that we have been able to maintain our dividend of 14 cents per share fully franked and we are also confident of meeting our core objective - which I talked about as we came in to the year - of \$6 billion of free cash flow for the 2010 fiscal year.

What I thought I would do today is talk about our results, then give you a little bit of colour about the initiatives we are taking as we go into the second half and of course give you an update on NBN, but first to the results.

I know the release has already gone out, but let me just run you through these: sales revenue decline of 2.5 per cent, the topline, operating expenses declined by 4.8 per cent and EBITDA margins expanded as we moved from the transformation program. We are driving out the value from that initiative that we have done over the last few years.

On an adjusted basis - an "adjusted basis" means if you take out KAZ, also the currency movements which have impacted us, which I talked about on investor day, and also the fair-value adjustments which I think more accurately gives you some feel for the underlying performance of the business - we achieved a decline of 0.7 per cent on the sales revenue. We had good expense management at 2.1 because KAZ had a big expense base. EBITDA grew 0.2 per cent and profit after tax was 13 per cent. They were strong results. John is going to take you through more of the colour of that in a moment. I am going to give you the broad-brush feel for the business.

As I said, free cash flow is still very strong, \$2.6 billion generated this half, which is an increase of \$708 million compared to the first half of last fiscal year. We are on track for that \$6 billion target, but I do want to stress that we're generating this free cash not at the expense of investing in the business. Our capex to sales ratio is still running at 13 per cent for the half.

I want to stress this because we must continue to invest in this company and new products and services as we go forward. We are not generating free cash flow while stopping investment and that will be a very, very important part of our strategy as well.

Let me give you a little bit more insight into these results because at the topline I think it is very important that we can get down a level and say "Hey, what's really going on?"

There is no question that there are a lot of changes

going on in our market and if you look at our broadband and our mobile business, we have definitely lost share in broadband and in mobiles SIOs. That is a concern, but that has been done trying to manage profitability and this is the big strategic balance that we're trying to work through at the company.

If you look at the product performances, let's just quickly touch on them, firstly, PSTN: negative \$222 million year on year. This is unquestionably our immediate challenge because what we are seeing is an acceleration in our PSTN revenue decline and that's both from six months ago, but also in the last two months and this is the immediate burning platform for us.

Fixed retail broadband was up \$11 million. Mobiles was up \$145 million. Advertising directories was down \$53 million and I will talk a little bit more about that in a moment, because Sensis continues to perform well in a very tough market. In summary, our growth in mobiles and fixed broadband is not offsetting that PSTN decline and that's what we keep having to try to balance as we go forward.

Let's look at what we think are the key drivers of this change. As we talked about I think probably last October-November, there's still very strong competition, but mostly it's price led. If you look at what the average price movements have been over the last year, we have seen quite a lot of price reductions across a wide range of products. For example, in wireless broadband it has been a decline of about 30 per cent - this is on average, around about - ADSL has been down about 20 per cent and that's 15 per cent roughly for postpaid. These are market moves and so we have to remain competitive while truly differentiating our product and making sure we're selling value.

We will talk a little bit about PSTN later on, but there has been a significant decline in voice calling, and we want to take you through a little bit of colour on that, and of course we are seeing the broadband market maturing in terms of penetration. We will show you some statistics around that as well, as we're seeing the number of households that have fixed broadband are actually starting to peak up a bit and starting to flatten in terms of new people coming on.

What is important to us is how we respond to these changes. We have been putting new offers into the market over the last few months. We have put the bundled offers out there, which are going very well and I'll be talking some more about that, new wireless broadband pricing has been very well received and of course on fixed broadband we have put some pricing plans out there as well.

We are very pleased with the early response we have received from the market, but what we were concerned about it just took us too long to get to market with the new offers, it was December and January before we got out there, and that has probably stopped a little bit of the momentum we were expecting. We do believe that these offers will improve our competitiveness and it will allow us to see revenue growth, but that revenue growth may take a while to flow through.

Let's talk about how these changes have impacted the retail business units because what has happened is PSTN decline has flowed through to all the retail facing business units. Consumer is down 0.2 per cent, business is down 0.4 per cent, enterprise headline decline is 1.6, but if you take out the international portfolio, they're actually up 0.3. Wholesale was down 3.3. Sensis was down 7.3 on a reported basis, on an adjusted basis, it was roughly flat and was actually quite a strong result.

The retail business units are not happy with that and they have already taken a number of actions. TC and the consumer group have, as I said, put these bundles out there. Since we announced those new products, we have had 80,000 customers, which very encouraging. I should say 80,000 new bundles, not necessarily new customers: that would be misleading.

Telstra Business is running out with the Business Centre strategy which has been very successful and we're very pleased with that. We are also continuing with our aggressive rollout of the new T-life shops. We are now at 133 and we are very pleased with the response we're getting from the market from the T-life shops and they really do generate more sales and we are very pleased with how they are performing.

Enterprise and government have been focused on driving

value from these big contracts we've signed over the last two years - CBA, New South Wales Department of Education, Visy, Catholic Education and Tabcorp - but they really now have to focus on driving these. Once you've signed these contracts you've still got to drive the value out and get the revenue flowing, but we're making good progress there.

Sensis is doing well. They have focused on the online and mobile advertising business as a real growth engine for the future and I am pleased to say that the IT systems and the transformation there has gone well. We are through the tough bit we think and I am very pleased with the progress there. Sensis has been going through their own transformation.

We really do have a large number of actions going on in the market and we are quite excited about the next few quarters.

Let's now turn to the PSTN business which is, as I said, our immediate challenge and we really do need to address this. The decline has been more severe and pronounced than we had anticipated, as I said, six months ago and even two months ago. Traditionally, we have performed very well and you can see the historical performance there, but it has accelerated and I think there have been a number of reasons for that. I will take you through these now because it is important that you understand what's going on in the market. There are about four key reasons.

Firstly, voice traffic is down across all categories. Now, that's local, national, long distance, international and fixed mobile, all decreased, so that's straight calling volumes. That's a real change in terms of behaviour going on in the market. The majority of that decline was in the local call category. Local call revenue is down almost 13 per cent and our customers are now making five less local calls to what they did just a year ago. That is quite a change on a monthly basis, quite a change. Subscribers were also down 188,000 in retail, 22,000 in wholesale and that has been over the last six months.

As well as that, you've got the wholesale impacts with ULL and LSS subscribers. They have now grown to 72,000 ULL and 92,000 LSS subscribers over the past six months, so that continues to be pretty steady as we see our wholesale

customers moving across.

The movement in subscribers and the lower usage has translated to a retail PSTN decline of 5.9 per cent and wholesale is 14.2 per cent. You can see the dynamics going on in that business.

It is critically important for us to really address this. That was part of the reason we put Justin Milne in to run now what we call the Voice, Broadband and Media division and he is very focused on how we can drive that portfolio of products out to maintain momentum as we go forward. We are pleased with the early planning as we go forward and we think we can really make a difference. That is the PSTN.

Let me now turn to the broadband market. We believe there is some maturing going on in this market and it is having an impact on our business. As the chart shows, while broadband market share has declined, we think the entire broadband market growth has slowed as you've got to the 65 per cent penetration level for homes in Australia.

If you look at the numbers we've seen reported, it seems to confirm that there is this slowing. It has been seen right across the world and in some ways the wireless proposition has gone and we are starting to see some substitution in terms of the fixed broadband market.

The percentage of homes also who now have no fixed line at all is getting close to 10 per cent and we talked a bit about that in the investor day briefing and this is in line with overseas experience. We do expect this to increase over time.

The underlying demand for our product does remain strong and so we need to capitalise on that as we move forward. We remain very positive about the broadband business. We think that the media working with PSTN and bundling it together does create a very strong value proposition for our customers.

The big question is how are we going to return to growth because negative 2.5 per cent topline does not look good and that's not where we want to be, but we have taken a number of actions and we remain positive about the business going forward. I want to stress that firstly the real foundation

here that we must have is good customer service. Going out and acquiring customers and not giving a good customer service experience is not acceptable.

We are pleased to see the early signs of an improvement in that area, but we've got to keep going because without that it's really not worth driving too much growth because then we get a dissatisfied experience and we must be able to retain our customers. Now, secondly, as I mentioned, we are driving out a number of new initiatives that really should address some of these key factors.

In terms of PSTN, we have some great new and innovative products coming into the market, both across the Business market and also the Consumer market. The T-Hub, which is this new home phone, will be available in the market shortly, and the T-Box as well, which is a broadband TV experience. We really want to push that hard, because we really need to add value to that experience to differentiate it as we move forward. And, as I mentioned, the bundles have been a great response to the market requirements, and we think that they will continue to be strong.

Mobile is an important part of our growth strategy, and I will take you through that in more detail in the next chart.

Of course, IP continues to be at the heart of our growth in the Enterprise space, and is now growing into the Business space. IP is a very critical product as the whole market moves to an IP world, and the Next IP platform is a wonderful platform. We are seeing good, strong growth. We had revenue growth of 21 per cent in that category. We are very pleased with that, and we think we can do more in that area as we move forward.

Then, of course, Media and Online assets remain very important for us, and we think there are some good, strong growth opportunities there across our China assets, Sensis and Telstra Media.

So, as we focus on these things, we must also focus on good, tight cost management so that we can deliver on our commitments to our investors.

Let's turn to the mobiles business and give you some

view of where we see that business. There are two key parts to our strategy. We are seeing tremendous growth in the wireless broadband space, but we need to have new offers coming to market all the time.

Let's talk about those two, because they are the real planks of our growth strategy as we move forward.

We have recently announced a new product called Enterprise Mobile Broadband Plus, which is a wonderful product which is specific for the Enterprise market. It provides security and many different functions. So now what we have, which is unlike many other operators - in fact, we are quite unique in the world - are four different products ranging from the high-end enterprise right down to a prepaid wireless broadband experience. So we are starting to differentiate the wireless broadband experience.

Rather than just calling it the wireless internet, we are really building unique products to address different market segments. We think this is going to be a very powerful differential for us as we move forward and our sales teams are able to sell it, so it is a very strong part of our strategy - good, strong growth in this portfolio.

But also we are seeing some wonderful new opportunities in the wireless market. Firstly, there are smartphones, there are now a little bit over a million smartphones in the market. I am pleased to say that the iPhone represents about 25 per cent of those smartphones in the market, and we are really building our momentum in that area, but there are a large number of new products coming to market this year - tablets, which you would have seen, and also machine-to-machine communication. So this whole market opportunity is very exciting.

We also are excited about the new Android operating system, which will bring new product to the market in the very near future.

The Bigpond wireless home network gateway product is a wonderful new product. It has targeted households beyond the DSL footprint, and that has been very well received and we are very pleased with that, and, of course, we have changed the structure of our plans with this "no excess

usage". That has been very well received and, as I mentioned before, we are starting to see some good momentum as we move forward.

So, what does all this mean? As we look at the full year, as I said, our biggest challenge is around the PSTN decline. As we look at our December and January results, we believe that the top-line revenue is going to continue to be under pressure. So, as we look at that, while we are taking a large number of initiatives to really start to turn that around, we don't think that will flow through quickly enough in this calendar year, so now we are expecting low single-digit growth in the top-line revenue reported sales for this year. [Please refer to Page 11 for correction of this comment. Telstra's guidance for sales revenue is low single-digit decline.]

The remainder of our guidance remains unchanged. We have worked through that and we think that that is good guidance for now. We will continue to focus on that top-line growth.

As I said earlier, we will continue to invest in the business. We must continue to do that, as we expect accrued capex to sales revenue to be around 14 per cent. We also remain committed to our shareholders, and we are now confirming our target of \$6 billion of free cash flow, which is very important to all our investors.

So that is the business, and John is going to take you through a little bit more colour in the detail in a moment.

Before I finish up, I would like to address where we are at in relation to the National Broadband Network. As I said in December, we promised to give you an update. A large amount of work continues to be done. We remain very constructively engaged with both the government and NBN Co, and we do remain committed to try to find a mutually acceptable outcome. But I have to stress, these are very complex considerations. Very complex. We need to move slowly and very deliberately.

Throughout these talks, we have been, as I have always said, looking at the best interests of our investors, our employees and our customers. So, while we are making good, constructive progress, that is about it for today in what we can say. We will continue to keep you updated, and as soon as we know anything that is of significance to announce, we will definitely announce it to you.

To conclude, let me try to bring this all together and go back to what I talked about as our core strategy in October. This strategy remains unchanged. There were three main areas that we focused on: firstly, how do we manage these market dynamics which I talked about, in this profitability versus revenue growth and market share - we need to keep these very carefully in balance; also, how we execute and respond quickly to competition, so that we can really be fast to market and respond to any changes; and also the customer experience, which is at the heart of what we do in terms of retaining and delighting our customers.

So this is all about focusing on the core business - our network capabilities and our customers. This focus will lead us to profitable revenue growth and create value for our shareholders.

We remain confident that we are moving in the right direction. The action we are taking, we believe, will make us more competitive in the market and, at the same time as operating our operational channels, we are driving productivity and also tight cost management.

This remains an exciting industry with enormous opportunity. Now we need to go and address our top-line growth and share opportunities.

So, we are taking these actions to drive growth, and we will talk a little bit more about that. John will take you through the numbers now, and I look forward to talking to you in a moment. So, John, over to you.

MR STANHOPE: Thank you, David, and good morning everybody here in Sydney and elsewhere, wherever you might be viewing or listening to this presentation. It is not a good idea to correct your boss, but I did think that he said "low single-digit growth" for revenue; low single-digit decline is our guidance.

Clearly, our top line is facing some challenges at the moment, but this half we also took another important step towards our key fiscal year 2010 free cash flow target.

As David articulated, there is confidence that we have the pathway to return to top-line growth. So I just hope to augment this with more discussion on our retail units'

business performance.

First, let me take you through the key numbers for the half on a reported basis. Sales revenue declined by minus 2.5 per cent to \$12.3 billion, or a decline of \$321 million. As we said in December, this reflects challenging conditions with strong domestic competition. It is driven by aggressive fixed and mobile broadband offers in the market, and, of course, the ongoing impact of ULL and shared spectrum offers.

Secondly, we have been impacted, as David mentioned, in the increases in wireless-only homes, which have negatively impacted our PSTN and our fixed broadband businesses. We also have some tough operating conditions in Hong Kong, and all of this has been compounded by the strong Australian dollar impacting our revenues for our offshore entities.

Lastly, of course, on a comparative basis, the revenue that was there last year for KAZ is no longer there this year, and that has about a \$132 million impact in our Business Service category.

At the same time, reported opex has fallen 4.8 per cent due to very strict, disciplined management of our cost base and the start of the realisation of IT upgrade benefits, which we would expect.

EBITDA fell 0.3 per cent or \$17 million to \$5.3 billion, impacted by the change in the product mix in particular as PSTN has declined, as has been described to you.

EBIT rose by 1.7 per cent to \$3.1 million, a solid achievement given the intensely competitive Australian market and the continued revenue decline in the higher-margin legacy products.

Profit after tax and minorities was down 3.3 per cent. As reported, financing costs increased due to the fair value adjustments, and I will talk a bit about that in a minute. Pleasingly, free cash flow continued its very strong growth, rising 37 per cent to \$2.6 billion.

Finally, as David has said, we have maintained our fully franked interim dividend at 14 cents per share.

I just want to take you through this, really, on an adjusted growth rates basis, and it is important, as it gives you a feel for the real performance of the business. So, to be clear, these adjusted growth rates have only been normalised for the sale of the KAZ business, FX fluctuations, and, below the EBIT line, the fair value adjustment included in our finance costs. The magnitude of those adjustments is set out on the right-hand side of this slide.

After these adjustments are made, sales revenue declined by just 0.7 per cent, so a fairly flat performance, and opex declined by 2.1 per cent in the half, which is still a very good performance. So the adjusted EBITDA was marginally positive year on year, and EBIT grew by 2 per cent.

After removing the fair value adjustment, profit after tax and minorities was up 13 per cent, so you can see the impact that the fair value adjustment has.

A key driver, therefore, of the bottom line is a \$156 million reduction in borrowing costs in the half. I will talk a little bit more about that in a moment.

So our adjusted performance was resilient, despite extremely tough, competitive conditions and, as David said, the larger than expected, particularly in recent times, PSTN decline.

We also had to navigate some continuing consequences of the IT transformation, including some limited outbound capacity in the channels and restrictions on price movements that left us out of the market on some products until late in the period - a little later than expected, but they were conscious decisions we had to make.

We faced very strong headwinds from a changing product mix, as customers changed to emails and SMS, away from the higher-margin legacy fixed access and calling products, and as this occurs, we are managing down costs so bottom-line growth remains.

Now, moving on to our key products. Here you can see the slow-down from the second half of last year. In mobile, service revenue growth is still healthy, driven by mobile

data, and that mobile data growth was 21 per cent.

You all know we introduced new wireless broadband pricing last month, and we have also implemented new technology into our network to increase network speeds, which will translate into enhanced speeds for customers in selected locations when new compatible devices come to market later this year.

There is also a significant growth potential for us from the exciting new smartphones that are emerging in the market, and David mentioned some of the tablet devices.

Fixed retail broadband and IP access revenue are still growing, admittedly at a slower pace than before. David spoke a lot about IP at investor day, and this portfolio continues to grow as we manage the migration of the customers from our legacy products onto the new IP platforms.

The growth in these three categories was not enough to offset the revenue decline in PSTN, which fell 6.9 per cent.

The acceleration in the revenue decline has been driven by decline in customer numbers and calling substitution, as customers continue to switch to more emails, SMS and mobile calls. As an indication, local calls declined by 325 million, or around four calls per line per month. David mentioned five: five was in total, but most of them, so four calls per month, were local.

Let me now talk about the major business units quickly. Our Consumer segment faced a challenging first half, with revenue declining, as you saw, by 0.2 per cent. Within the Consumer segment, PSTN revenues declined by 5 per cent, and a strong ULL growth and the accelerated move to wireless-only homes reduced the Consumer customer base. However, continued strong growth in wireless broadband customers and revenues contributed to a 5.5 per cent increase in mobile services revenue in the Consumer segment.

The wireless broadband growth came despite intense price competition, as customers sought out the strength of our Next G network, which still remains a very strong competitive advantage.

Underlining our focus on improving the customer experience, we did open another 49 T-life retail stores in the half, and the sales data, as David alluded to, for T-life stores remains compelling and supports our investment in those stores nationwide.

Looking forward, we believe we can increase fixed broadband penetration in certain segments by leveraging our market-based management capability, and capture mobile market share through continuing innovation in pricing - and, as you heard, we have just launched some innovative pricing - and the value that we have in our products and services to meet the customers' needs.

Customer response to our recently launched new bundles has been very positive, but PSTN continues to be the headwind, as David described.

So, moving on to our Business segment, the revenue in this segment declined by 0.4 per cent to \$1.9 billion, due to a combination of the economic downturn and the impact of competition on prices or yield.

The decline in PSTN revenues accelerated to 6.1 per cent in this segment as usage and the customer base continued to decline, as per Consumer, but, on the upside, mobile services grew by 9 per cent, with more customers taking datapacks on smartphones.

Fixed retail broadband revenue grew by 8 per cent in this segment on higher average revenue per user, as more customers elected or selected business-grade broadband products. Business-grade broadband grew by 31 per cent, with scope for significantly more broadband penetration in this customer base for us.

We do anticipate a stronger second half for the Telstra business segment, or in that segment, and a quick return to a positive growth trajectory, as we begin to see the benefits of our investment in higher ARPU products, particularly business broadband and smartphones.

Enhancing the customer experience again and the service level in the business segment remains a priority. Our business centres are contributing to this and delivering three times more overall sales than retail

stores, and selling five times more total broadband applications.

So, let me move on to our Enterprise and Government segment. The Enterprise and Government sales revenue, adjusted for the sale of KAZ, declined by 1.6 per cent, with fixed revenue falling 7.6 per cent due, again, to the sharp decline in PSTN - a bit of a theme emerging here.

Excluding the international carriage business, the segment revenue grew 0.3 per cent. So if you extract the offshore activity, it is almost a flat performance in the segment. However, there were strong results in the mobiles and IP and data access portfolios.

Mobile service revenue growth was 5 per cent, with 45 per cent coming from mobile data. 3G customers increased by 43 per cent in the Enterprise and Government segment and now account for more than half of the mobile customer base in this segment.

The Next IP network continues to provide our customers with premium IP solutions, underpinning a very strong 21 per cent growth in IP access revenues, which now are at \$346 million in the half.

As David mentioned, we entered into some important strategic partnerships with customers during the half. We also continue to roll out major IP services and capability for customers such as the Commonwealth Bank.

We are enthusiastic about the sales pipeline in Enterprise and Government, and optimistic about a stronger second half from this segment as we ramp up the delivery of products and services signed up late last fiscal year.

Just a little bit about Sensis. At Sensis, headline sales revenue declined by 7.3 per cent in the half, as you saw, but when we do adjust for the transfer of the Trading Post to another part of Telstra and the closure of Trading Post print activity, the sale of Universal Publishers and the currency movements from the Sensis China properties, sales revenue declined by only 0.1 per cent and EBITDA grew by 4.8 per cent.

Yellow Pages' print revenue has declined with advertisers reducing their ad spend across all media, and

also, of course, the Yellow Pages. This is somewhat of a consequence of the global financial crisis. This was really noticeable in metro areas in particular. However, we continue to see strong growth in online directories and in the China businesses and as a result, online and mobile share of our total revenue grew to over 30 per cent, so directory on mobile and online White Pages, Yellow Pages. Going forward, the stabilisation of the trends in yellow print is a priority for Sensis and we expect the advertising market to pick up as the economy picks up.

Let me talk about CSL New World because CSL has had an impact on our half-year result of some significance, even when you discount the currency impact. The conditions in Hong Kong are very difficult. The GDP actually declined by 2.4 per cent in the September quarter, so they're experiencing worse impacts than we are in Australia.

CSL New World's topline performance has been hit by several factors. These include intense price competition in that market, both locally and for international roaming, and a sharp fall in the demand for device upgrades. That is largely due to the economic conditions. People in Hong Kong used to change their handsets quite frequently and now they don't.

The decline was compounded by the strengthening of the Australian dollar of course. However, the impact of those extremely difficult conditions has been mitigated at the bottom line by some strong cost management in CSL and as a result, the opex declined at a greater rate than the sales revenue declined.

EBIT improved this half due to the absence of a substantial accelerated depreciation cost incurred last year as we rolled out the old network and we put in the Next G Network in Hong Kong. Depending on the speed of economic recovery in Hong Kong, the outlook looks more positive, with CSL's Next G Network giving it a competitive advantage to reignite growth in Hong Kong. However, in this second half the currency still is likely to impact the Australian dollar results.

Let me talk about costs now. A highlight of our performance I believe has been our continued focus on tight cost control. As a result, our opex declined at a significantly greater rate than sales revenue and the table

behind me shows reported opex declined 4.8 per cent, but again, for a more accurate insight into the real trends and to be consistent with what I've just talked about on the topline, let's look at the opex adjusted for KAZ and FX.

On an adjusted opex basis, opex declined at 2.1 per cent in the half, adjusted labour costs fell 4 per cent, with the reduction driven by significantly lower levels of redundancy payments and overtime payments, as well as lower contractor and agency payments. In addition, we achieved reductions in salary costs due to the lower staffing levels.

Adjusted DVCs, or directly variable costs, increased marginally as cost of goods rose with higher handset subsidies, but this was partly offset by lower network payments. Adjusted "other expenses" fell by nearly 5 per cent. This reduction included lower costs of service contracts as we continue to exit transformation activities. We also continued to reduce our general and administrative costs through control of discretionary spending and PA fell as we controlled marketing costs ahead of some new product and plans launched at the end of the period.

However, partly offsetting these savings, we had impairment costs rise by 29 per cent and that has primarily been driven by an increase of \$63 million in bad and doubtful debts to a level now of \$187 million as consumer debt delinquency and business insolvency increased, again due mainly and largely to the economic conditions.

I just want to mention a few key expense lines. Labour productivity has been a constant focus and we continue to achieve significant gains as we operate the business with fewer staff and we leverage our IT capabilities. The total workforce reduced by 477 full-time equivalents this half, excluding the acquisition and divestment activities, as productivity initiatives continue.

In fact, just to give you a little flavour, our productivity improved 2.6 per cent in the half and we measure productivity revenue on the topline divided by labour and labour substitution. That is how we measure our productivity performance. Despite some revenue reduction, it did grow by 2.6 per cent, so that's a good outcome. We have an objective for the year of a productivity improvement -

measured the same way - of around 4 per cent.

Another thing worth mentioning here is the blended average SARC or the subscriber acquisition and re-contracting costs. It increased by 13 per cent this half on a blended basis, meaning across postpaid and prepaid. We are comfortable with this increase as it does reflect the move to higher value smartphones such as iPhone. These customers also tend to take higher value plans and we expect to get higher ARPUs and therefore a return on this higher SARC investment in a reasonable period.

There were also double digit declines in many categories of discretionary costs, including travel, where we utilise our own technology to achieve very large cost savings while increasing our own productivity and consultancy expenses dropped 28 per cent. We keep a very close control over those sorts of expenses.

Let me move on to capital expenditure and depreciation and amortisation. Accrued capex reduced by 23 per cent to \$1.6 billion as the wind down of transformation related spending continues, leading to capex declines across a range of areas. Capex on IT alone declined by \$187 million as the new customer care and billing system neared completion.

Transmission capex fell \$103 million after the completion of our Sydney to Hawaii cable and our Asia-American Gateway cable across Asia, while fixed access capex dropped by \$102 million on reduced demand for PSTN services.

Accrued capex this half also includes around \$80 million for part of the costs of the upgrade of the HFC network in Melbourne to 100 megabits per second. In a business-as-usual environment we still expect capex to stabilise around 14 per cent of sales revenue. Depreciation and amortisation fell 3.1 per cent to \$2.2 billion this half. The reduction was mainly due to the absence of accelerated depreciation at CSL or, in other words, its presence in the last year. The increase in amortisation was due to software additions and amortisation of the Trading Post masthead.

Here is where I want to just reference our financial

parameters and borrowing costs. Over the past 12 months we have actually reduced our net debt by nearly \$1.3 billion as free cash flow increased and borrowing costs and gross debt fell. As a result, we have maintained our strong financial position with our financial parameters again remaining at the stronger end of our target ranges.

Debt servicing or net debt to EBITDA is 1.4 times versus our target of 1.7 to 2.1 times. Our net debt gearing ratio is at 54.5 per cent, our target is 55 to 75 per cent, and EBITDA interest cover is 10.8 times versus our target of more than seven times. You can see on this page that our borrowing cost reduction - so real interest expense reduction - is \$156 million and then you have the fair-value adjustments flowing below that on the page.

Let me turn to free cash flow. It has continued its steady upward trajectory. This half we achieved \$2.6 billion in free cash flow, an increase of \$708 million or 37 per cent and, as you can see from the chart, the free cash flow increase came from a mix of sources. Firstly, cash from operations grew \$285 million as the business continued to generate solid returns. However, this was offset by an extra \$187 million we had to pay in extra superannuation contributions.

Cash capex was reduced by \$441 million as the planned reductions in capex continued from the previous transformation levels. However, we received \$97 million less from investing activities partly due to the absence of a Foxtel distribution in this half just gone.

Finally, our cash tax payments fell \$266 million, which is fairly significant. It was mainly due to tax refunds received from the Tax Office for prior year amended assessments associated with some R&D claims, a refund relating to the fiscal year '09 return and us taking advantage of the investment allowance that the Government introduced.

As these trends continue in the second half, we are confident of achieving our target of \$6 billion of free cash flow even after contributing close to \$500 million into our pension fund. The recent market rally has not significantly altered our expectations for our pension contributions. The board will, as it usually does, consider the use of any excess cash prior to our August

results, but I would just like to remind you that our franking credit balance is limited or low and this will constrain our ability to increase our fully-franked dividends for the time being. Of course, dividends don't have to be fully franked, but I want to make sure that is understood.

In conclusion, this has clearly been a challenging half year for a number of reasons, but when we sit back and look at the half, the challenge of course is on the topline, but on the upside we have retained our tight control of costs and that will continue.

As David mentioned, we now expect a low single digit decline in sales revenue on a reported basis, but no change to our guidance for fiscal year 2010 on all of the other parameters, including free cash flow of \$6 billion.

Thank you for listening and David and I will take questions, ably assisted by some of the senior team here.

MR CHOPRA, DEUTSCHE BANK: Good morning, Sameer Chopra from Deutsche Bank. I have three questions. First of all, when you look at your guidance statement, you're saying that you're looking for low single digit sales revenue decline and EBITDA growth in the low single digits, which would suggest that in the second half of this year you're looking for quite a lot of cost out. I was wondering if you can tell us where this cost out is coming from, so which line items do you think can be pulled back?

The second one is looking at the capital structure itself. You have a net debt to gearing target of 55 to 75 per cent. You are currently sitting under that. Does the NBN in any way change the way you look at some of these targets? I am just trying to understand how the board and management are thinking about the NBN target gearing.

The last question is about capex. Your capex is appraised on how quickly you have managed to pull the capex

back, but David, you said that you're investing for growth. I wanted to understand where in your capex can we see you investing for growth, which product segments are you investing in? Thanks.

MR THODEY: Thank you. Let me get John to answer the one on the EBITDA, because that's obviously very important as we go forward where we're going to take the cost out, and then I will come back. You may want to answer the segment on the capex ratio.

MR STANHOPE: Yes, I will take the net debt gearing ratio.

MR THODEY: And I will come back and talk to you about investment capex and what we've got to do versus the product, changing the flavour of our capital investment.

MR STANHOPE: Sameer, your first question - we expect two things to happen in the second half. One is we do expect improvement on the topline, but the cost take out we expect to really continue where we have been taking cost out. There will be a continuation of the full-year effect of labour reduction. We were taking a lot of people out of this company. We are no longer doing that.

The redundancy line is also on a year-on-year basis favourable, of course, and right across all the discretionary items, I can tell you travel will reduce, I can tell you that all those administrative line items will reduce. It is a continuation and in the discretionary area probably an acceleration of some declines in those areas. That is where we're going to take the costs out.

MR CHOPRA: Any big change in the service contract lines?

MR STANHOPE: Yes, indeed, because when I say "labour" I also mean labour substitution, so yes, service contracts and agreements and the labour line, IT professionals, I mean, they're all people that are in the company. As the transformation slows, as did happen in the first half, they decline.

Your second question about the net debt gearing ratio, yes, we are at the lower end. One of the great uncertainties for this company is are we cooperating or are we competing in an NBN environment and what will our capex needs be going forward, and they will vary significantly as

to which of those outcomes occur. Our free cash flows are pretty strong and I don't see us going to the market for a great increase in borrowings.

MR THODEY: The third one was the changing nature on the capex spend. We have moved away from big network infrastructure. We are going more into building solutions and products, T-Box, T-Hub, we have some new offerings coming into the business market, so the nature of the capital expenditure is changing from these big chunky bits of infrastructure now into really driving additional value added services and initiatives that we need a bit of capex for. That is really the key thing as we go forward.

The only other thing in terms of that cost out, we are still driving from the transformation work, as we really see Siebel rolling out into the front-of-house, while we have put a few more people in there to improve service, we are seeing productivity gains starting to come through there. The Siebel system, one view of the customer, we are starting to see some good things there and that will start to flow through as well. It is very important for us.

MR STANHOPE: I should mention that the field force productivity has been fantastic and continues.

MR THODEY: Yes, it's really good.

MR CAMPBELL, CITIGROUP: I have just a couple of questions. The first one is in terms of the revenue decline, can you give us some feel for what percentage was structural, what percentage was cyclical and what percentage might have been due to the fact that you did take longer putting in some of these price changes or some of that response? Obviously, it can be qualitative.

MR THODEY: I will give you my best guesstimate on that. I would say it's about 50 per cent industry structural change, calling patterns, et cetera. I would say 25-25 on the other two. That's what I would say. John, have you got a view?

MR STANHOPE: That's about right. Calls were down a lot. If you call that structural, that's fairly structural. We tend to be somewhat victims of our own success. You have a good wireless network, people are moving from our fixed network to the wireless activity, so there is a

price and volume contribution to the decline. We also continue to put people on capped PSTN plans as well and just to give you a number here, we've got now 841,000 on PSTN subscription plans and that's 159,000 more than this time last year. A lot of customers were on the \$89 plan. There is a tendency now - which is not surprising - for more to go on the \$49 and that brings your ARPU down, but we keep the customer.

MR CAMPBELL: The second question: I am wondering if you could just help us understand how we should think about the economics of a tariff rebalancing? The reason for asking the question is obviously the revenue guidance in December was for flat revenue growth; now we have a slight decline. So I am just wondering, is it a case where either some of these structural things have accelerated, or is it a case where this tariff rebalancing is actually going to take longer in terms of the revenue and possibly margin impact of it?

MR THODEY: There were two major factors in why we have changed the guidance. We want to tell you exactly what is going on in the business. Firstly, the PSTN decline in December and January - we thought that calling might come back, and we have seen no change in that, so we can't really expect that to come back. And as we have the new plans for the market in, it does have some short-term impact as we are recontracting customers. So we think this is going to come in later in this calendar year. That has been the challenge in terms of the top-line revenue growth, and then we have to manage the business to deliver the bottom-line performance. That has been the equation that we have worked through.

MR MC DONNELL, BBY: Good morning, gentlemen, I have three questions. Firstly, David, in your opening remarks you referred to there being a revenue recovery but after a lag. I am wondering if you can help us identify the length of that lag: are we talking a positive revenue growth in FY11, or is it the second half of FY11? What is your expectation around that recovery?

The second question relates to SouFun and the talk about an IPO there, but it is really a bit broader than that. What I am actually interested in is the extent to

which your free cash flow target of \$6 billion would be assisted by the proceeds from such a divestment, or partial divestment of holding, or, in other words, how sustainable is the \$6 billion free cash flow target for this year into next year and the years beyond?

My third question relates to your brand strategy. You seem to have a fairly stable market share - for example, around 42 per cent in mobiles. When I look at Optus, I notice that they have differentiated brands - such as Virgin, for instance. When I look at other industries, for example, Qantas, I see that companies that are wedded to the notion that they are the leader at the premium end of the market can also launch attack brands for the price-sensitive consumer. I see nothing of that sort coming from Telstra. I am wondering why not. Have you given up on the price-sensitive segment of your market, or do you, in fact, have some strategies around brand and around differentiated product offerings that could lift your market share over the medium term?

MR THODEY: Thanks, Mark. Let me address the first question, and then John, since he is on the board of SouFun, can talk to that, and then I will pick up on the brand strategy after John has responded to that.

On revenue, as we said, we expect a stronger second half, but, Mark, at the moment, we are not giving a long-term forecast on revenue. We want to continue to balance this out as we go forward in terms of good revenue and profit improvement, but we are not forecasting anything.

If you wanted to characterise anything, we think share is very important now, because the stability of share for us is critically important. You don't want to lose your relationship with the customers. So I think that would be probably the more determining factor for us going forward, so we don't lose share.

I will come back and talk to brand, because that is quite a long discussion. We have been in lower-price offerings with different brands before, and I will come back and talk about how we think about the cycle of products. But let's do the SouFun one, then I will talk about brand for you.

MR STANHOPE: Okay. My answer on SouFun, Mark, is pretty quick. The \$6 billion cash flow target did not anticipate or include the sale of SouFun.

Sustainability of free cash flow - I'm really not going to give any free cash flow forecasts here, but only to say that it will depend on where we end up with NBN again and what our capex requirements might be. But, needless to say, we will remain a very strong free cash flow company.

MR THODEY: Very quickly on the brand one, Mark, if you go back to 2001/2002, we had the Communic8 brand in the market. The 2G network had been in the market for quite a long time and we felt that it was a good time to introduce new brands. We had a different distribution strategy, it was only online, and it worked very well for us for a number of years.

When we brought in Next G, a truly differentiated product, we definitely felt that it was a premium product, truly differentiated - which it still is today: 2 million square kilometres, or two times the nearest competitor; 21 megabits, going to 42 very shortly. So the issue was when and how.

So I don't think it's a "no", but we definitely don't think, in the mobiles area, it's the right time to do it, but we continue to look at this.

This is a very important part of how you can address different market segments, and, as we have talked about before, the consumer market segmentation is critically important as we look at how our brand works in those segments, what are the best offers to put there. But we are very conscious that at the moment we are a premium provider and, over time, we will continue to look at it. So it is on the radar, but I don't want to disclose too much more.

MARK: Just to clarify on the first point, did I understand correctly that you are not wanting to make any prediction about revenue growth for next year?

MR THODEY: Yes.

MR SPINCER: We will now go to the phone line for a couple of questions, please.

MR GUERRA, GSJBWERE: Christian Guerra, Goldman Sachs JBWere. Good morning, thank you for your time. I have three questions for you this morning. Firstly, under the guidance for sales for next year, I wonder if you could maybe discuss it in a bit more detail, given that on 28 October at the investor day you were talking about low single-digit growth; you then downgraded it to "flattish" on 18 December; and you are now talking about low single-digit in terms of a decline for this year.

In my history of following the company, you have always been very, very good at forecasting, apart from maybe PSTN, back in 2004/2005. So I am just a little bit surprised that the guidance has changed so materially in only about eight weeks.

Secondly, on the transformation program, again, I am wondering if you could maybe discuss the fact that you have invested over \$10 billion as part of the transformation, and yet we are talking about sales growth flat at best. I wonder if you could discuss, please, what message you have for investors there in terms of that investment.

My third question is on Sensis, with the Yellow Pages print sales down 9 per cent in the first half, given that you typically have a pretty good handle for the full-year numbers given the pre-sales, I am just wondering what we should be expecting for Yellow Pages print for the full year fiscal year 2010.

MR THODEY: Let me handle the first question, Christian, and John can talk to the second.

On guidance, we have traditionally been very good. John has always been pretty much across the business; we have always taken it very seriously. But the biggest issue has been PSTN, this calling decline, and that is what has us concerned. It has accelerated faster than we had expected, and it has been an accelerating trend. So we think it is very important that we tell you what is going on, and that is where it is at the moment and what we want to do.

In terms of future years, we have a number of initiatives going into the market now. We think it is very important to hold share, and we will be focused on that as we go forward.

Do you want to pick up the others, John?

MR STANHOPE: Christian, just a little more colour on the guidance change: PSTN is being a little more volatile and unpredictable than we have previously experienced, and we did notice in the last two months, as David said, unexpected changes.

On your question about the transformation program, yes, we have spent over \$10 billion on it, and we, as I said on Investor Day, continue to monitor the specific benefits from the IT transformation very closely. It is about half and half revenue benefits and cost benefits.

The good news is that we are achieving both. We are about \$9 million behind, or something, on the cost benefits. I have to say that is in the noise and we will catch that up. On the revenue side, we are actually ahead, and you might say, "But, hang on, your sales revenue is flat". The good news is that from the IT transformation we are actually getting the benefits. So, for example, the strike rates that we are getting because of single view of customers through the CRM introduction, we're actually achieving higher strike rates and, therefore, the revenue from it.

The bad news is that we have this PSTN fall-off, and so on. So you could argue - and rightfully so - if we weren't getting these higher strike rates, we might be going worse than we are. So that's the transformation.

MR THODEY: Sensis, Yellow Pages - we have come through the new systems, and I think Bruce and the team are feeling confident about it, but print will be down, unquestionably, because that is just the nature of the market.

But if you compare how Sensis has performed in the media market, it has been very strong. In fact, I think there may be a little bit of an increase in share, in terms of the spend, so it is just a changing dynamic. We are getting a lot of good growth in online. We are getting those books out. As you move IT systems, we have to keep

that production going, and Bruce has one here that he could show you, which is, by the way, a very important feat in that business. So we think that we are holding our own in that business well.

MR GUERRA: Just a follow-up question back on the transformation. John, you have talked in the past fairly extensively about how the transformation has driven lower unit costs across the board for Telstra. You talk about the increasing competition, but I would have thought, given your scale and given the cost savings from transformation, you could afford to go out there and maybe be a little bit more aggressive with some of your competitors.

MR STANHOPE: You raise a good point. What the transformation provides us is the opportunity to reduce the cost base, and that allows us the scope to be more price competitive, but we still, as David said earlier, look at the value that we provide our customers. But value premiums can't get away, and we need to be competitive in the market and, yes, we are driving costs out of the business and economies of scale in order to make room to do that.

MR THODEY: And I would say part of our new offering to the market, Christian, is probably reflecting a little bit of your thinking, where we think we can be more competitive.

MR MARTIN, RBS: Ian Martin from RBS. Good morning. David, I would just like to ask about the transformation and the billions spent on that over the last few years. A lot of it, of course, was intended to improve your cost efficiency, but also it was supposed to provide inputs into the market-based management to allow you to deal with segments and understand what's going on in different segments, to have a dialogue or some contact with customers to see how those demand preferences were changing, and yet here we have had in this half some major changes in trends, in PSTN, in calling rates, wireless broadband and so on, and the systems that you have not only haven't helped you anticipate those, but the reaction has been right at the end of the half year, rather than as these things were occurring.

So I just wonder, going forward, as these things are going to continue and there will be new developments in the

market and so on, whether the systems and processes you have, and have spent all this money on over the last few years, really put you in a position to understand and respond and even anticipate what is going on in market demand, because, I have to say, my confidence has been well undermined by this result about your ability to do that.

The second question: right through the last few years, the one thing that has been consistent is the \$6 billion free cash flow. It has been held out there as the shareholders' reward for sticking with the company through this transformation process, and yet, despite being on track for that this year, nothing additional is coming back to shareholders, not even an extra cent - \$125 million out of that free cash flow coming back in dividend this year.

I know you have some uncertainties around NBN, but surely shareholders themselves should be making the decision about what capital, if any, goes into NBN, and I have to say I am disappointed that we haven't seen an extra cent or two in dividend this half year.

MR THODEY: Okay. Well, look, firstly on the CRM, the new Siebel system, and how we can collect information and get better views of customers, it is settling in well. I think we are starting to get some good views, but it is still early days. I wish they could predict better than we have been, because one of the things on PSTN and calling volumes, that's not an easy thing to do.

But in terms of giving flavour of different customers' spending, historical spending requirements or spending patterns, and then being able to predict what sort of plans they should do, we are starting to get some really good feedback. So that should start to feed in to the retention. I would love to get one that forecast usage. I haven't found it yet, but it would be good.

Coming back to your point, we did not anticipate the rate of decline in PSTN. That is the fact. So it is what it is and we just to have get on and see what we can do going forward.

In terms of the dividend - John, you took everyone through it. We understand your sentiment, Ian. It is fully franked, it is what the board decided in light of the

future outlook for the company with NBN. They felt that it was better to hold at this time. So I think that is really about it. I don't know what else John might say.

MR STANHOPE: Yes. We decided to make sure that it was a fully franked dividend. Had we gone higher, it would not have been fully franked. You can work that out from our franking credit balance.

With respect to the full year, all the things that I mentioned have to be taken into consideration. Of course, we realise, and the board realises, that we are building up free cash flow, and our propensity has always been to return it to shareholders.

I did need to point out, and did point out today, the limitation of our franking credit balance. Not everybody wants 100 per cent franked dividends, so we will have to take that into consideration.

MR GUPTA, NOMURA: Sachin Gupta, Nomura. Thank you very much. I have a couple of questions. John, firstly, on the low tax rate this half, you mentioned that you are taking a bit of investment allowance. I was just wondering if that's something that is likely to continue into the second half.

Also, just on the network costs, it looks like they have come down in units of adjustment (indistinct - phone disturbance/feedback). Could somebody quantify that, or what does that relate to, thank you?

MR STANHOPE: I may have to check on the second question, but, yes, the investment allowance will continue into the second half. Just to give you some additional flavour on the tax impacts, a \$41 million favourable impact on tax came from the investment allowance; R&D claims were \$148; and we claimed a deduction of \$91 million for Trading Post amortisation. So that's more colour on the tax.

I think you were talking about network payments?

MR GUPTA: Yes, that's right.

MR STANHOPE: Okay. So part of our goods and services costs management has been from a reduction in network

payments, and it has come from some good negotiation up in Hong Kong between CSL and the fixed network provider for backhaul, PCCW, and we have got the benefits of that, and that continues. It is a new deal, and it is a new lower charge for backhaul in Hong Kong, so we continue to benefit from those lower rates.

MR SPINCER: Thank you, John. We will come back to Sydney now, with Laurent.

MR HERRUT: Laurent, from JP Morgan. I had a question on NBN. Maybe you can share some thoughts with us in terms of how you see the timing panning out.

The second question today is is it fair to assume that before you put anything forward to a shareholder's vote, you would want to have clarity on things like NBN Co future pricing, where the footprint is going to be, et cetera - things that will impact your business? So, in that sense, how quickly do you think you can get to a point with NBN Co and the government where you do get this clarity and, therefore, you are in a position to assess what the impact on the overall business is going to be?

The second question on the NBN, if there is such thing as a Heads of Agreement announcement, would there be any numbers in this heads of agreement? That's a pretty simple question.

The next question is on the revenue initiatives: do you think the revenue slow-down we are experiencing through the business is also a function of how aggressively you have pulled back on capex and, to some extent, as you are trying to reaccelerate the top-line growth, do you see capital intensity in the business having to be above the \$4bn of capex per annum, or can you sustain it at current level?

Lastly on the dividend, and I have crossed this with the NBN issue, would your advice to the board be to basically not change the distribution until clarity is established on the NBN in a meaningful way?

MR THODEY: Okay. Let me try to address the NBN one. The first thing is that we are very much in a very complex transaction. It has so many aspects to it, as I said. It is all the things you mentioned plus regulatory outcomes,

what it will be like in the future; it is about the nature of the transaction, how it would be. There must be about 15 major areas that we have to consider.

You have to get them all aligned before you can even start to think of getting to a conclusion. On the timing, we are really driven by working with NBN and the Government. We all have a desire to get this thing agreed and get on with life because I think we all need that. It is a distraction at my level, but we have to do the work and be absolutely sure that we're doing the right thing and if it takes another month or six months, I will invest the time because it is so important to the company. I am not going to be driven into a short-term decision and we've got to be very very clear about all the considerations, because you could miss one little thing that would have an enormous impact to the future of the business, so that's where we're at. As soon as we know more, we will let you know.

MR HORRUT: Just on that, if you reconcile that with what NBN is saying in terms of their timetable, the need for industry consultation, is it fair to say that we're looking at months, in fact, several months before we actually get to a point where you can submit something that shareholders can take a view on?

MR THODEY: I definitely think it's months before we can get to shareholders, yes. They've just got to get so many factors aligned here. It can't be said more strongly the amount of detail and the need to be very very considered about every aspect, because you could do a transaction at the top level and forget about an element that could cost the company enormous amounts of money going forward. We are going to be very considered.

In terms of a heads of agreement, I don't know. We hadn't thought about whether to put a number in the Heads of Agreement, but of course if we do any agreement with the Government we have to have a number there, but in terms of the initial announcement, I think we've got to be ready to present it to shareholders so that they can really understand. John and I don't know. We haven't really thought that through, have we?

MR STANHOPE: No. The important thing is shareholders will want to know the shareholder value impact. We are going to have to have that.

MR THODEY: Rest assured that that's absolutely paramount in our minds. In terms of the two questions around revenue, has capex pull back had an impact on revenue? I don't believe so. I think it's about structural change and our execution capability, that's the two, and then what was the second one on revenue? Topline growth.

MR STANHOPE: 14 per cent.

MR HERRUT: The last one was on the dividend.

MR THODEY: The last one was dividend. I will get John to answer that. I thought there were two questions on revenue: capex pull back --

MR HERRUT: In that context, can you sustain capex below \$4 billion or do you see capex going up? I appreciate that you don't want to give guidance on 2010.

MR THODEY: Yes. We think it's in that range. Every other telco in the world is around about that 12 to 14 per cent range, and I think that seems to be about right, but we will let you know as we tidy that up. Do you want to talk to the dividend?

MR STANHOPE: Yes. You are asking will we recommend to the board that NBN clarity is necessary before any change to dividends. We don't have to recommend that to the board. The board already want to know that, so that's going to happen anyway.

MR HERRUT: I think that's completely understandable, personally, yes.

MR STANHOPE: Yes.

MR McLEISH: Frasier McLeish from RBS. Maybe just to follow up a little bit on the NBN, David, they're obviously very complex negotiations, but is it your feeling that there are any major issues where the sides are just poles apart or is it more about nutting out some of the detail that you've talked about?

MR THODEY: I can't give anything more than what I've said today. I would like to but there are many considerations to work through still. It is very complex.

MR McLEISH: Okay. I thought I'd ask anyway. John, just on the cost side of things, it sounds like you're expecting productivity to improve into the second half and you've still got some transformation benefits coming through. Does that mean that in FY11 we're looking at a flat to negative cost line potentially or would they have all worked out of the system by then?

MR STANHOPE: I am not going to give a cost guidance either, but you heard what I said - or hopefully you did - on investor day and it continues out to 2011-12 and we're on track for our IT transformation cost out and revenue benefits achievement.

MR McLEISH: Thanks a lot.

MR CLIBBORN, CREDIT SUISSE: Good morning, David. Good morning, John. I have two questions this morning. Firstly, you commented, David, this morning about market share being very important to you and previously you've talked about chasing profitable growth. I was wondering if you could give some more colour around managing those two objectives and whether you will be able to maintain the current level of margins going forward, given your focus on market share.

MR CLIBBORN, CREDIT SUISSE: Secondly, on customer service, if you could just talk us through what you've done specifically so far in terms of delivering on that objective and then, secondly, what kind of time frame you're looking at on delivering those objectives and what financial benefits will flow and will those benefits actually be delivered to shareholders in terms of increased profit or reinvested into pricing to actually manage share?

MR THODEY: I will let John take the last one. Let me talk about the first two, the importance of share. Yes, as you look at the business, maintaining that relationship with customers is critically important, but it is this margin. I talked about the decline in prices in the market, so how fast you move with that, what premium can you truly justify, how do you differentiate your product, both at an individual product level, but also total relationship.

At the end of the day, for a large company like ours you must hold share because if you let that share get away

on you then it has an enormous impact about ongoing ability to have a relationship with the customer and sell them other products and services.

We continue to look at this mix. As I said, we would have liked to have had these offers into the market a little bit earlier, namely, before Christmas, they were a little bit slow, so you can see that we're trying to remain competitive and we've got to manage that impact or margin.

Remember, I've always said it's about EBITDA growth because that drives your free cash, so everything we do is going to be about driving EBITDA growth, maybe there will be a slight decline in margin, but so long as we can get the EBITDA growth then we should be okay.

That is the mantra that we're working on at the moment that the whole team are focused on and we continue to want to surprise the market and move forward with many different things going forward: that's number one.

Number two, in terms of customer service, let's talk about why I said we have some encouraging early signs. We are starting to see some flattening in terms of the TIO complaints - that's the Ombudsman - and they have been ramping for a number of months and now we're starting to see some flattening, a slight decline, but you wouldn't want to declare victory yet and we've still got to get them back down. We obviously do a lot of surveys ourselves and we are starting to see the early signs of improvement.

There have been a large number of things done and we still have a long way to go. I do not want to leave the impression that we have finished at all, I see opportunities every day, but from aligning the whole culture around customer service, and I want to make sure you know that service and sales go together, it's not one or the other, and we're not going to suddenly make it all service, so as an investor you should note they go together, but we've got the alignment.

You can feel it in the company. They are saying, "Yes, this is important and that's what they relate to." We have targets out there. Every manager has three initiatives to improve the customer's experience, right throughout the business, whether you're in credit management, in network engineering, what can you do to

improve it. People who are not in the frontline, who are supporting, they are thinking about things to do. We have end-to-end process improvement.

I should have mentioned that Robert Nason has joined us - he's sitting in the front here - and he's going to be driving these end-to-end processes. He has been thinking about it. I think it's an enormous cost to take out of the business.

If you look at broadband activation, Deena and Robert are working together, even now, getting the voice of the customer, bringing them in, they've got work groups looking at re-engineering the whole process, so that we don't have two technicians going for a business broadband connection, we have got billing that comes out, there are good expectations. This is an enormous program. It is cultural, people, re-engineering, alignment of targets and holding the whole company accountable.

I think we're aligned. Now we've just got to do the execution as we go forward. The list is very, very long. Do you want to handle the last question?

MR STANHOPE: Yes. The question of what will we do with the money?

MR THODEY: Yes.

MR STANHOPE: Look, David partially answered it. Really, at the end of the day it's about cash management and EBITDA growth is the goal. It is a balancing act. We will use some of the cash generated through better customer service. If you get your customer service right, your costs should come out because part of the evidence of bad customer service is you get hand-offs, you get far more calls, so you get this whole mass of unnecessary costs from bad volumes.

There should be - with improved customer service - obviously revenue improvement, satisfaction with customers, but also cost reduction. As I said earlier, we will have to think about how we use some of that cash to be competitive in the market in terms of price and some of it falling through to be managed for shareholders.

MR CLIBBORN: Have you done any quantification so far -

because you've been talking about this for the last six months - in terms of what the real cost-out benefits are? Are we talking 1 per cent or 5 per cent? What kind of materiality can we expect?

MR STANHOPE: One of the reasons we brought Robert along was to help us identify exactly what we can get. It is easy to say what I just said. We've really got to get down to specific programs and the benefits, both revenue and cost of course.

MR CLIBBORN: Could we expect some more clarity at the full-year result on that?

MR THODEY: What I can say is this is a critically important focus for us. Part of Robert's job and all of us is to continue getting the right structure for this business going forward and we are very determined to do that and we'll give you the colour just as that works through. We've got some initiatives going on now, but you can rest assured we're doing it.

MR BLACKWELL, MORGAN STANLEY: Mark Blackwell, Morgan Stanley. Just a couple of questions for you. Firstly, looking at the various elements of your guidance, it's clear that to achieve the \$6 billion working capital is really going to be a critical element given your tight guidance on EBITDA and on capex. We saw in this half actually that particularly payables came down, so cash outflow and payables. Are we going to see a rapid turn around in working capital in the second half and is that going to be a driver of the \$6 billion?

The second question is was there a discussion at board level about impairment on the fixed-line asset? Given the NBN discussions, are we at the point where we're saying that that asset - whatever it's worth - is now worth less because the Government or someone else is not going to pay as much as what we value it at? Is there a discussion at that level?

MR STANHOPE: They are the two questions.

MR THODEY: Why don't you take the first and I'll add some colour to the second one.

MR STANHOPE: Yes, the \$6 billion target does depend on improvement in working capital and that's part of our plan. It is dependent on a Foxtel distribution and we expect that. How much is up to the Foxtel board. Yes is the answer to your question and achieving our cost out and achieving our EBITDA and achieving our capex target which is, as you know, a guidance of less than \$3.8 billion.

On the impairment, the Board through the Board audit committee is constantly asking, as they should, the question about fixed-line impairment. It is a matter of where this all turns out, of course. There is likely to be accelerated depreciation of the copper network as a result of NBN, but remember this thing is going to take eight years to build and the copper network has a value, so will it be a significant yearly impact on the business? Not really.

MR THODEY: That's what I was going to say.

MR LEVY: Andrew Levy, Macquarie Securities. I have a question on the mobile space and the trade off you're talking about between EBITDA growth and protecting your market share. The history of the Aussie market with their heavily subsidised handset market has shown that people to take share or even protect share have usually seen, at least in the short term, their subscriber acquisition costs go up. You can see that in your pack as well and Optus is doing it right now.

As to your target to protect EBITDA, is it possible you will have to take a hit in the short term, on a 12-month basis, to get back into some of those markets where you've probably let a few subscribers go? That's the first question.

The second one is just a clarification on the HFC upgrade. I know you've said there are some costs in the first half we've just had. Is that still on track and you're still spending money on that for roll out this year, I think was the target?

MR THODEY: You are absolutely right in terms of mobile share. It has been the nature of the Australian market. You have to subsidise those handsets. We missed a bit with the iPhone, quite honestly and I think we've talked about

that before, but if you spend more there you've got to save it somewhere else. If we are, we're going to take the cost out somewhere else so that we deliver on our EBITDA growth targets. That's the nature and yes, we may need to. We've already upped it a bit, as you saw in the results, we did especially on a few products, and we will continue to look at that as we go forward. Yes, but if we do, we're going to find it somewhere else.

The second one was on the HFC. There is nothing on the HFC at the moment. We have done the 100 meg roll out in Victoria and that's all done, we're in market and it's early days. We are finding that the customers that had the greatest propensity to take the service are those who had more than one person, there were actually three or four people in the home all using broadband, because for a single user, just on a PC, it really doesn't change the experience that much. PCs don't go to 100 megabits per second yet. It is a multi-home dwelling user environment where it's going to be most appropriate, but it's still very early days on the numbers.

MR LEVY: What are your views on going into Sydney and other markets given that Optus are going for 100 megabits per second? Is the Melbourne experience compelling enough for you to say, "We've got to be there with that when they get there"?

MR THODEY: Firstly, I'm not 100 per cent sure what Optus is doing with \$25 million. That's what I understand. You will have to ask them that. At the moment, we're just sitting tight and we just want to prove this out and make sure we've got it. Also, you've got to have things that people use it for and we're very happy where we're sitting at the moment and we'll just review it as we go forward.

MR EARY, UBS: Hello, John and David. Just looking at the results from yourself and Optus and if you look at the acceleration, or let's say no real broadband growth in the market from fixed line, we've still got a continuation in wireless, I'm just trying to get a gauge in terms of obviously with ongoing discussions with the Government and NBN Co, whether these dynamics which are obviously changing on a day-to-day basis have changed the tone of your conversations since December, because obviously we've seen those changes.

With regard to the announcement overnight from Google as well in terms of obviously trialling things in the States, does that change the dynamic as well? I am just interested to hear your commentary in terms of obviously whether the tone is changing.

MR THODEY: Our tone hasn't changed. I think we've always been very clear about what we see as the future opportunities and the commercial returns around investing. The Google announcement in the US - it is a trial. It is only the US. We have spoken to Google about their intentions. It is an interesting development. Google has put that cable in across the Pacific and now they're going in locally in the US. I think Google are going to continue to be an interesting player as we go forward. We have a many faceted relationship with Google. Has it changed the tone of the discussions? No. We are very clear about what we think are the future take-up rates and opportunities. John, do you want to comment?

MR STANHOPE: No, I think that's absolutely right.

MR BLAIR, SOUTHERN CROSS EQUITIES: Daniel Blair, Southern Cross Equities. David and John, related to the NBN, we've obviously got the Consumer and Competition Safeguards Bill which might be reintroduced into the Senate from I think 22 February. What are you expecting in terms of that? Are you expecting it to be a modified bill from what we saw in November?

MR THODEY: I do not know the answer to that. John, are you across that one?

MR STANHOPE: I'm sorry, no.

MR THODEY: No.

MR STANHOPE: We voiced our view about the legislation.

MR BLAIR: Perhaps in a slightly different way then, are you hoping to see in terms of that especially the first half of the bill, which obviously has the ability to start triggering functional separation within the time frame?

MR THODEY: Yes. We continue to work with the Government on all these aspects and we will see where it goes to.

MR BLAIR: Okay. Thank you.

MR GUERRA: I have a follow-up question. It just relates to the pricing changes you put through both on fixed broadband and wireless broadband. The key thing that we probably took out of it was that the price changes you put through the fixed line broadband at the end of November were what I would call fairly cosmetic, whereas the changes you put through wireless broadband were probably the most significant we've seen from the company in some time. Could you please just talk through your strategy there? That is question number 1.

Question number 2: have you seen any noticeable reduction in churn or customer growth across both of those products since the changes? Thank you.

MR THODEY: Okay. Talking about strategy, it has not changed. We still want to command a premium, because we think that the proposition of faster speed and better coverage is worth a premium. However, it is about what premium you can sell, and if the market gets away on you, you can't justify a 30, 40, 50 per cent premium. So we must remain able to truly quantify our pricing position.

Now, as well as that, as we move prices - because we have a growing base, 1.3 million wireless broadband customers - we understand the impacts as we put price to the market and we have people who recontract, and so we look at that impact.

But, Christian, you should take out of that announcement that we must remain competitive, and share is important to us, but we have to balance that. We can let a bit of margin go, as long as we are going to get EBITDA growth and, therefore, there is true growth. That is what will drive us. If we are doing it and EBITDA is going to go down, that is not a good strategy. So that is the balance we continue to work with.

We have been pleased with the response so far. It has definitely had an impact, and I am just looking at Glenice Maclellan who is running that business.

On churn, it is just a little bit too early to really declare great victory, but we are seeing some early signs that that is coming back a bit, but we will keep you posted on that.

We must, must continue to work with our customers. We have to have good customer service, good offers. People care about those things.

By the way, I should mention that customer service does relate to pricing strategy, too. If you are too expensive and they have been very loyal, they will say, "Why should I stay?" So we have to really balance that out going forward. The market has moved significantly, and we must remain competitive.

MR SPINCER: We have no more questions, so if David wants to make any closing comments, then we will close out.

MR THODEY: Thank you, Ben. Look, it has been a challenging six months. We did not expect the decline in the usage on PSTN. However, we are going to take action to continue to be competitive and drive this business forward. We must and we will do what is necessary as we go forward. Thank you, Ben.