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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Analyst briefing - Half year financial results

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

Yours sincerely

Carmel Mulhern
Company Secretary

T E L S T R A

FIRST HALF 2008 FINANCIAL RESULTS

Sydney

Thursday, 21 February 2008

MR SPINCER: Good morning everyone. My name is Ben Spincer, Director of Investor Relations. On behalf of Telstra, I'd like to welcome you to this first half results for fiscal 2008. In a moment I will pass over to Sol Trujillo and John Stanhope to run you through the results. After that, we will have time to take some Q and A. We have a microphone here in Sydney and another one at the parallel briefing that we have in Melbourne and we'll be taking questions in turn there. Again, a rather forlorn request, but please could I ask you to restrict yourself to just one question at a time so that we have the opportunity to get through questions from as many people as possible. Without further ado, I will hand over to our Chief Executive, Mr Sol Trujillo.

MR TRUJILLO: Thanks, Ben. I'd like to welcome everybody here to our first results briefing in our new Telstra Experience Centre. The centre is helping our business and enterprise customers realise their potential. We have customers coming in here literally every day, every week. This is a chance for us to collaborate and I think you're getting a chance now to see, through our results, what some of the impacts are.

This is the third half year that we are essentially announcing our results and basically is the third half year that we're delivering on our promises that we made back in November of 2005. The punchline is that we remain on or ahead of plan across the business and I have to include the fact that we have achieved all of this without compromising on the core strategy, the core principles, the core beliefs that we've had and that we've articulated consistently since we announced our strategy. Our customers and our shareholders are the ones that we're centred on in terms of how we think about running this business, our approach does not change and we will continue to drive our business with all of that in mind, whether it be our customers, our suppliers, public policy, conversations, et cetera, it won't change, you can see the impacts of what we're doing.

So today it basically is a continuation of that story and today I have the pleasure of beginning to talk to you about some more of what's been happening with our transformation. So in terms of the punchline in our business, we are reporting today a 6.2 per cent EBIT growth. We have comfortably exceeded what we have seen as the consensus view in the market and given the momentum and strength across the business and despite the turbulent economic conditions, we're now raising our reported FY08 guidance. We now expect to achieve 3 to 4 per cent revenue growth this year, EBITDA growth of 4 to 5 and EBIT growth of 6 to 8 per cent.

We have reported a strong set of financial results. Domestic revenues are up 5.9 per cent in the half, versus 5 per cent in 2007, again as we focus on delivering results in all of our Australian core businesses. We're now starting to drive acceleration on the bottom line as the benefits of transformation start taking hold. For the half we've achieved reported EBIT growth of 6.2 per cent. This includes the $100 million Foxtel distribution. Underlying EBIT, which John will discuss in more detail, was even stronger, with growth of around 8.5 per cent. These results are all the more impressive when compared against not just our domestic competitors, and I think you've seen all of them report and clearly we have outperformed anybody domestically, but the question is so how does our performance rank against the rest of our peers around the world? Again, I think you see now that we have world-leading results. It's a continuation of the strong trends that we've been building across our entire product set that have emerged over the last 12/18 months, and I have to candidly say which many in this room believed were not achievable way back when, and are now beamed up, in terms of we're taking the game up another notch in the marketplace, in spite of what I would call tough price competition.

In that environment, we've not only held our own, but we've been able to accelerate growth by executing on our integrated value-based strategy. I'll say that again. By executing on our integrated value-based strategy. Again, contrary to many of the predictions of analysts, pundits and other observers, the good news is our customers are actually voting with their wallets and they're choosing the best value in the market. So I'd like to touch also on one other item that we have not talked a lot about but is also important to highlight and David Thodey and Deena Shiff would be able to talk about this in a lot of detail, but the point is that we have another interesting phenomenon that's breaking the trends around the world, and that is relative to our IP and data services, our access results. They are up 8.3 per cent and this has been achieved again during a migration phase to IP and we have changed the paradigm by adding value and driving incremental revenues through this migration, compared to the global model that you see around the world, which is just reflecting a reduction in revenues. The strength across the business is perhaps best captured where we compare each of the retail units growth and one of the things that I committed back about six months ago, when we announced our full-year results for the last fiscal year, I said we're going to provide even more disclosures in terms of how our business is running, so that everybody could see not only by product but really how we run the business organised around customers, so we're going to provide today, and we have provided, additional detail around the retail units growth and what you can see from the data is that the units are now growing at rates that many in the industry again did not imagine we could achieve just 24 months ago.

Differentiation has been the key to adding value. We have more coverage, we have faster speeds, we have one-click usability, we have more content, more services, and a superior infrastructure, the networks, the integration of the networks, the systems, et cetera, that's part of that. So this has enabled us to drive new-wave revenues to cover over 20 per cent of our total revenues and help us deliver our key strategic imperatives. Market-based management and value-based pricing have been a central part of our transformation strategy since I arrived and underpins our engagement with our customers. Growth in multi-product holdings delivers dual benefits of higher ARPU and lower churn. In consumer multi-product customers have a higher per-product spend and we see churn halve as a customer moves from a one to two-product bundles and as we continue to evolve that relationship.

We're also reinvigorating the channels with the launch of the Experience Centre that you have seen here, our T[Life], for business, enterprise and all customers that may happen to walk into, for example, the first T[Life] store that we launched here in Sydney. Our customer conversion rates of those customers who actually go into the store and interact are three times those of our standard store. Again, we're changing the game not only in terms of networks and systems and products, but actually how we go to retail, how we go in front of the customer in the marketplace. Integration of our products is also delivering differentiation our competitors simply cannot match. One great example is our recent launch of the 3-Tab portal. With a combination of free and non-free content, it demonstrates how we can leverage an advertising-driven model between our mobile, BigPond and Sensis businesses and is already resulting in a significant increase in usage. Over the first 30 days since its launch, mobile content daily page impressions have increased by more than 60 per cent. Value, value, value.

So what is the conclusion here? Given where regulated prices have moved to, it has been important to shore up that whole retail business. I have explained some of the things that we're doing to achieve this and this chart shows just how successful we have been, with the growth in our retail performance far outstripping the decline in wholesale. These trends will be the envy of all PTTs the world over. As you have seen, retail growth is now outstripping wholesale growth, but with one of the lowest ULL and LSS price combinations in the world, our results are clearly showing an increased take-up of these wholesale products in preference to our wholesale DSL services. But I don't want you to be misled by this shift from wholesale DSL to ULL and LSS. The real story here again is a retail one. We have wholesale prices below cost, some of the lowest retail prices in the world in market from our competitors, but at the end of the day it's the customers who determine who they want to do business with and, as you see, we are taking and winning broadband market share. So again some people are confused because they think price is the only variable in the market. Well, you have to ask the question so how are we doing this? Customers in Australia are more discerning than some competitors would have you believe and price isn't the only variable. We are able to offer the highest speeds, the best services, the best content and with our Next G wireless broadband, unmatched depth, breadth, speed and capacity.

On top of the broadband story, we're also seeing continued customer growth in the retail PSTN business and we actually achieved positive retail PSTN revenue growth in the half. Again, something that none of our peers have achieved. Retail broadband has continued its outstanding performance and is driving success elsewhere in the business. We believe we now have a 48 per cent share of the market and we're just short of 2.6 million broadband customers. Again, the strength of our integrated value-based approach is evident. Australia has some of the world's cheapest broadband offers, fuelled by below-cost

ULL and LSS prices, but we continue to take market share while having the highest ARPUs in the market of all the major players.

If you benchmark this against our global peers, it is clear to see we are leading the world in this space. Market share gains and ARPU growth is a rare double for incumbents, many of which are facing declines in one or both of these measures. Again, how are we doing this? We've been very focused on achieving this strong broadband result because it is one of the cornerstones of our transformation to a MediaComms business. All of you heard me say it two years ago; this would be centre to much of what we do. So two years ago, our PSTN revenue decline was substantially greater than the revenue increase from fixed retail broadband. However, the additional revenue from fixed broadband now dwarfs the revenue lost from the PSTN decline. This is an inflection point that many incumbents around the world are yet to reach. I say that broadband is a cornerstone because it's a contribution to the Telstra strategy on virtually all fronts. BigPond customers continue to migrate to higher-value liberty plans, churn is much lower for a bundled customer with broadband, leading many of our bundled broadband offers. More than 90 per cent of BigPond customers have Telstra PSTN service. BigPond is at the forefront of innovation and content strategy. We continue to develop and leverage our content assets, including BigPond games, office, movies, music and exclusive sport, such as NRL, AFL, V8, et cetera. Today I'm pleased to announce that commencing Saturday, 23 February, BigPond Sports Weekend will redefine the way Australians watch their favourite sports, exclusive to Telstra Next G mobiles and on-line at BigPond TV. BigPond Sports Weekend is a fast-paced continuous nine hour sports news and information show from 9am every Saturday and Sunday, delivering up-to-the minute results, statistics and highlights. BigPond Sports Weekend leverages BigPond Sport's full suite of exclusive and non-exclusive sports rights for the Internet and mobile phones and then combines them with some sophisticated technology to deliver the best mobile and on-line sports coverage in the world.

The BigPond home networking gateway is enjoying also some great success with 20 per cent take-up since the launch by new customers. Today more than three and a half million 3G customers have access to the BigPond portal on their mobile, again all part of our MediaComms strategy.

We have had another great performance in mobiles with mobile services revenue growth of 12.5 per cent in the half. Mobile services revenue growth for post-paid was even stronger, at 16.7 per cent, while Prepaid grew at 3.8 per cent. These results show that we have further gained revenue market share, which we believe is the most important metric for this category. Again, when benchmarked versus our global peers, this performance is world-class, but don't just take my word for it, have a look on the screen at what one of our most bearish brokers said recently about the Next G network success. We continue to push the barriers of mobile technology. Last week in Barcelona, I announced an intention to be the first operator in the world to upgrade to 21 Mbps later this year and to 42 Mbps in 2009, which we have been saying for a period of time now. We have Ericsson lined up, we have Qualcomm lined up, we have all the players lined up to enable our ability to take the game to the next level and remember that, it's always about adding value as we think about growing our business.

Next G's competitive advantage is helping us win the Next G value game. Here are the facts that demonstrate how successful we've been in 3G and why we are the envy of the telco world in the 3G space. At the end of January we had more than 3.5 million 3G SIOs, up from just 1 million at the start of 2007, more than 38 per cent of our subscriber base now. 40 per cent of 3G connections are new Telstra customers and in the second quarter of 08, our 3G revenues exceeded our 2G revenues and in the consumer space now we have about 60 per cent of our base on 3G. Our 3G postpaid ARPU increased by 4.3 per cent year-on-year. When we reported such a high 3G ARPU 12 months ago, there was a common view this was driven by early adopters and wouldn't be sustainable and many people pointed to Japan with what NTT DoCoMo did. We are breaking all trends and all patterns that people have seen around the world. We are well beyond the early adaptor stage. Next G is really delivering a sustainable ARPU increase. There is now only a small amount of revenue being generated on the CDMA network, it is now well less than 3 per cent of our revenues for mobiles. In the month of December, this had just fallen even further and each month we take it down to where now it's getting to be almost minuscule. While mobile data continues to be the major growth driver, we are very pleased with the growth in voice revenues. Total voice, which is inclusive of messagebank and roaming, it grew at 5 per cent.

So in particular I'm pleased that, in addition to spending more on data, a customer that is migrating from 2G to Next G makes significantly more calls and sends more texts. Our cohort analysis indicates that a year after migrating, customers make 9 per cent more calls and send 11 per cent more texts. There is value in 850, where you can complete more calls, there is more value in bigger footprint, where you have greater reach, there is value in the quality of the networks, where your band width, your backhaul, everything, is part of the story. It does translate into growth.

It is true that over the last 18 months we have seen a steady decline in mobile voice yield, as every operator has, but what is important is that we've controlled this yield decline, avoided entering price wars and seen a commensurate increase in usage. This positive elasticity of around 0.8 in postpaid voice both matches the current trends in Europe and is a prime reason why we've been able to grow mobile voice revenues. Data constituted 29.7 per cent of our mobile service revenues in the first half and SMS revenues grew at 21 per cent. Telstra is one of the first companies in the world where non-SMS data revenue is greater than SMS data revenue and it is a growing category. Non-SMS data revenue growth of 83 per cent is driven by our expanding suite of 3G content and services, plus wireless broadband.

Despite some reports in the media about a slowdown, we have maintained our momentum in wireless broadband. We continue to add new SIOs at the rate of over 20,000 a month. At the end of first half 08, we had 464,000 wireless broadband SIOs. We're still outselling our competitors when you combine them all. The good news is that 99 per cent of Australians have access to wireless broadband via the Next G network and despite concerns around customers' price consciousness, we are pleased to report wireless broadband revenue grew by more than 200 per cent to $230 million and we have maintained a high ARPU of around $100. So far, our only global benchmark to compare it to is Tele2 in Sweden, reporting wireless broadband ARPU of less than $30. Of course, we can't compare these numbers to some competitors. We continue to report results, not rhetoric.

We have continued to slow the PSTN revenue decline and it is now down to just negative 2.1 per cent. Basic access ARPU was up 2.1 per cent due to increased penetration of higher value HomeLine plans. Our strategy to slow the decline in PSTN revenues is centred on our market-based management, driven processes in our channels in our business and as we talked more than a year ago, associated with our subscription-based pricing. Our PSTN retail performance stands out when compared again with our global peers. Retail lines continue to grow. We added over 46,000 this half after the 38,000 we added in the second half of 07. Two years ago our retail SIOs were declining by around 4 per cent per year. Telstra's growth of retail lines and a 3 per cent decline in total lines is a continuation of the outstanding performance versus our US and European peers, which have suffered total PSTN line declines of somewhere between 5 and 8 per cent over recent years. Our revenue trends are also well ahead of our European and US peer group.

Moving on to Sensis, Sensis has enjoyed a strong first half top line result as well. At the Investor Day Bruce said that we would turn around the Yellow Print result this year, and we have delivered on this in the first half of positive Yellow Print growth. We have achieved this with Sensis's largest ever sales force training program, new circulation initiatives, and by selling and demonstrating the value of yellow to our customers.

And be in no doubt that Sensis's growth is world class. Our 2.5 per cent total print growth in H1 compares to Yell, who operates in the UK, US and South America, at negative 4.9 per cent, and significantly that 4.9 per cent relates to the UK, and Idearc at negative 3.2 per cent and there are other companies that have recently reported and they are all reporting in the negative zone.

While Yellow and White print achieve growth, the emerging businesses in Sensis are also delivering strong results. These diversified businesses which include Whereis and MediaSmart are providing new streams of revenue opportunities and continue to constitute a larger proportion of Sensis's revenue growth.

While revenue growth was strong, the showing earnings profile is driven by the Sensis transformation. While directory margins are sill at world class levels, Sensis has been making investments in updating its systems and its processes. We can see that the investment is already beginning to pay dividends by the performance of our Yellow business.

Moving to China - Soufun. Soufun posted unaudited revenue growth of 68 per cent and EBITDA growth of 97 per cent based on its performance in US dollars and on a pro forma basis in H1. Beyond that I can't comment, so I won't say anything more about Soufun.

As reported yesterday, Foxtel delivered another very strong financial performance in the half. While revenues were up 17 per cent, strong operating leverage has kicked in to deliver 62 per cent EBITDA growth to $165 million in the half. Foxtel continues to produce impressive KPIs across the board with now more than 1.5 million total subscribers, and same story as all of Telstra, increasing ARPU.

As we announced at our Investor Day, Foxtel will begin high definition broadcasting by the middle of the year. Foxtel will also offer on demand HD movies on a pay-per-view basis. And Telstra Mobile Foxtel continues to be an attractive proposition for our Next G users with subscribers generating on average around $11 of ARPU.

In terms of the transformation program we talked about it a lot obviously on November 1. That was the highlight that was kind of the centrepiece of our conversation then. So I am going to be brief today. Suffice to say that it remains on track.

TR1 - we went into production in October and we started the migration of customer data records to the new customer care and billing platform. We remain on target to complete customer migration in the time frames that we discussed.

TR2 - the second release of the IT transformation remains on track to go into production before the end of the calendar 2008.

In the case of Next G, our Next G billed out continues. The Next G network now covers 99 per cent of our Australian population and we have a plan for an HSPA+ upgrades to 21Mbps this year and 42Mbps in 2009.

As you have heard me say before, you know, we work for our shareholders, we work for our customers, and that is our end focus. The transformation of our networks, the channels, the culture in our company is changing Telstra into a world class company. Again, not my opinion; it's measured by the results on a comparative basis. Outstanding revenue growth in spite of head winds in all products and segments, operating leverage, driving improved bottom line performance, we continue to exceed expectations and have today again been able to raise our guidance.

As we move towards our long term objectives we are confident that our operational execution will result in superior earnings growth profile than our global peer group. As I said at the start, the company is beginning to fire on all cylinders. We will also provide you with another layer of insights today that John will take you through with more detail of the performance of the individual business units. So with that I am going to stop and turn it over to John to take you through some of that detail.

MR STANHOPE: Thank you, Sol, and good morning to everybody here in Sydney, and good morning to people in Melbourne on the hook-up. You see before you there the normal disclaimer that take these sort of events.

Once again we have reported results ahead of the market consensus. Sales revenue was up 5.3 per cent highlighting strong growth across the entire business, both in products and in our segments. We not only grew our top line, but continued to grow our earnings with EBIT up 6.2 per cent. This does include the $100 million Foxtel distribution and $37 million gain from the sale of our eBusiness. Excluding Foxtel and the sale of eBusiness EBIT grew by 1.5 per cent. You might recall our guidance was that it would be a slight decline, so we have exceeded that guidance.

You would have seen yesterday Foxtel confirmed that they will make a further distribution to partners this fiscal year. Our share of that distribution in March will be $30 million. I'd like you to note that we are now planning to receive ongoing distributions from Foxtel in accordance with their gearing policy of three times EBITDA. However, the level of these distributions will be a matter for the Foxtel board.

Profit after tax was up 13 per cent, but you need to understand this was assisted by a number of one-off benefits at the tax line.

Our accrued capex was $2.3 billion for the half, and we remain confident of hitting our full year guidance of $4.6 billion to $4.9 billion, and our interim dividend remains at 14 cents per share, fully franked.

After a strong first half, and in spite of the prevailing economic conditions, our momentum has continued in the second half, and we are therefore increasing our guidance. The impact is up on the screen here - total revenue growth was 2.3 per cent, the guidance now is 3 to 4 per cent, EBITDA growth was 3-4 per cent now 4-5 per cent, and EBIT growth was 5-7 per cent, now 6-8 per cent. So essentially we have lifted the range on all of these P&L measures by one per cent, and our accrued capex guidance remains the same.

What I have tried to do here is to make some adjustments to take a bit of the volatility out of various things that occur when you're doing transformations. Given the one-off adjustments and provisions we have taken over the last few years, this is sort of better representative of the true underlying trends in our business. Our underlying EBIT grew 8.5 per cent. This is calculated - and I need to be clear to make sure you don't think we're playing around with numbers here - by backing out all the pure one-off transactions such as the profit on sale of assets. You will recall the Trading Post writedown last year, and while we are expecting future distributions from Foxtel, we have taken the conservative approach here and we have excluded the $100 million distribution in this analysis.

And we have reprofiled the Yellow Book. You will recall, going back a little while, we had a Melbourne Yellow Book in a different half than we had before, and we have smoothed out the transformation costs, meaning the provisions we have made for it, and the accelerated depreciation and amortisation that has happened.

So over the course, of course, of the transformation period the accumulative effect of this will be obviously the numbers will equal the reported numbers. It is a zero sum gain, but I thought it was worth showing to avoid the wild movements that distort our underlying performance. So you can see good steady rise there in our earnings when you do that smoothing. Of course we are obliged to report our reported numbers and that's why you see those on the slide as well. Hopefully that gives you a better picture of the underlying business performance.

I want to briefly look at where the strong top line growth is coming from. As you can see from this slide, it is coming from growth right across the board. Total mobile revenue grew 14.5 per cent and, as Sol said earlier, this is world class.

Retail broadband growth was strong at 65 per cent driven by the continuing wireless broadband growth at more than 200 per cent or $154 million. However, growth on the fixed side was still impressive at 37 per cent - so the growth in broadband, if you take out wireless.

Sensis also delivered strong growth at 7.8 per cent, and we have further slowed the PSTN decline to 2.1 per cent, and that also, as Sol said, is really world class.

Finally, IP access revenue growth now exceeds the decline in specialised data. That is also a very important pivot point. It is also an important change in our revenue mix.

While the growth across our products is impressive, as you know we run our business on a segmented basis. Therefore, to give the market a better understanding of how we look at our performance, or the performance of our business, we believe it's appropriate to increase the level of reporting, and we did say we would do that last time we met.

So let me begin. Before I get into the real details, I just want to highlight this, because this is an outstanding overall retail result. Retail sales revenue growth was 7.6 per cent, so that's out of our three retail businesses - enterprise and government, business, and consumer. The operating contribution from those three units grew 8.5 per cent.

Now I will go into a little more detail. This strong performance has come across all three of our retail businesses. Remember this is the half that some doomsayers said that our retail performance would be destroyed by a range of competitive products such as Fusion and bargain priced wireless broadband. The reality you can see is very different. We have grown market share in our major units.

Now, I want you to understand this slide. The operating contribution shown in the table is effectively a gross contribution. That's how we run the business internally every day. That is, it's revenue less the business unit directly incurred costs. The definition year on year obviously is consistent so that the change is on a like-for-like basis.

The operating contribution margin reduction in Telstra business is a result of higher expenses across the board there, in particular labour, as the Telstra business unit continues to establish itself as a more fully formed operational unit. Remember, it's not a very old unit in our mix and it's been establishing itself, but you can see a fantastic performance from that unit on the top line.

I am now going to just have a brief look at each unit individually, so let's start with consumer. In terms of the consumer business unit, sales revenue grew 8.5 per cent for the half.

Our momentum continues to be driven by market based management, the enhancement of our sales channels and the breadth and range of our service offerings. Mobiles grew at over 11 per cent in this segment and the proportion of post paid customers on 3G is already 60 per cent in the consumer segment.

Consumer now has over 2 million 3G customers - almost triple the amount at this time last year. Importantly, though, 3G postpaid ARPU has been maintained at over $70 in this segment resulting in blended ARPU growth of 6.2 per cent, so post and prepaid.

Internet growth of 45.6 per cent in this segment has been driven by strong performance in ADSL and wireless broadband.

With regard to PSTN, revenue growth was 1.2 per cent in the consumer segment, and there has been eight consecutive months of positive PSTN revenue growth in the

Consumer segment.

In half 1 the subscriber acquisition and recontracting costs (SARCs) have fallen by 20 per cent. This is despite growing ARPU, market share and outperforming our competitors in revenue growth.

The range of handsets has also grown, all major brands are now in the range, and still SARCs are coming down. This is truly a great result in the consumer segment.

Now, turning to Telstra Business, revenue grew 9.3 per cent driven by growth in fixed, mobile and broadband. This is a major turnaround since Telstra business's inception in the second half of '06. As I said, it's a business unit in its infancy really, and revenues back then were declining by 1.5 per cent. So growth of 9.3 versus not long ago decline of 1.5.

Mobile SIOs were up 15.9 per cent with over half of TB's mobile customers on 3G. This has really driven the dramatic growth in mobile revenue. Mobile data revenue in this segment is up 72 per cent, now representing 23 per cent of total mobile services revenues.

Telstra Business is gaining market share whilst managing the variable cost base. Mobile subscriber acquisition and recontracting costs are actually coming down in this segment as well. Average postpaid SARCs, as we call them, have fallen by 5 per cent from $238 in H207 to $226 in the half just gone - current half.

Broadband revenue growth was also strong. We estimate that Telstra Business's broadband market share is in the low 30s, but importantly it is growing. Telstra Business has fought a tough battle to get the market share gains in a highly fragmented market. And given we have recently extended the ADSL2+ footprint, there is a real opportunity here for that market share to continue to grow.

Now I'll move on to the last of our retail segments - the enterprise and government segment. Through a lot of hard work and focus and the introduction of Next G and Next IP enterprise an government has seen revenue growth of 4.5 per cent. This is a great result following a number of periods of very low growth.

The result has been driven by an exceptionally strong performance in enterprising and government's core carriage business, so voice, mobile and fixed. This is the first time since competition began in Australia where core carriage in this segment has grown, and is one of the clearest proofs that the transformation really is improving business performance, not only our business performance but the performance of these enterprise and government customers.

Mobiles growth was strong in the half with mobile customers up 20 per cent and service revenues up 19 per cent in this segment. Furthermore, non-SMS mobile data revenues grew 74 per cent and now represents almost 30 per cent of mobile service revenues in this segment.

Next IP is also driving customer take-up of data services. IP and data grew by over 6 per cent driven by strong demand for access services, which grew by over 28 per cent against the prior corresponding period, and more than compensated for the revenue reduction in traditional data. Again, Sol mentioned that and that is a very important flection point.

Importantly, enterprise and government has delivered outstanding customer satisfaction, as demonstrated in survey results, which are at an all time high and higher than our nearest competitor.

Let me talk a little bit about Sensis. Sol touched on it. I'll give a little more detail here. I've talked about the three retail units which doesn't include Sensis in that 7.6 per cent growth, but Sensis has had a very strong six months. Overall Yellow grew 3.2 per cent or $17 million and, as Bruce predicted at Investor Day, Yellow Print returned positive growth in the half. Revenues were up 0.2 per cent for Yellow print and you saw overall White and Yellow print up much higher than that. The Yellow print by driven by strong canvasses, or sales, and higher yields while Yellow Online delivered another strong half, growing by 21.5 per cent.

White also continued to deliver strong results with revenue growth of 10.3 per cent. That is both print and online.

The business has strengthened through

diversification - in the "other revenue" category, what we call emerging business growth was strong at 27 per cent. These businesses are now delivering more than 45 per cent of the total revenue growth in Sensis. Voice revenue, 1234 services for example, was up 18 per cent with core volumes to 1234 almost doubling in the half.

In addition, Soufun, their unaudited revenue also grew at 68 per cent in US dollar terms in the six months on a like-for-like basis.

Again, as Bruce indicated at the Investor Day, Sensis is going through its own transformation and this has resulted in a minor decline in the EBIT, and we said that would occur in the first half of this year as this transformation takes place. We reconfirm today the guidance for Sensis to achieve a middle single digit organic growth in this full financial year.

Let me now talk about expenses because we haven't touched too much on expenses yet. In terms of operating expenses, these grew by 6.2 per cent for the half, and total expenses which includes D&A, depreciation and amortisation, were up 5.6 per cent.

This should not surprise anyone because, as I said on Investor Day, our operating expenses are still expected to increase in this fiscal year as we continue our transformation, and especially the IT component of that transformation.

I also said at Investor Day expenses will start to fall from fiscal 2009 and reduce further in fiscal 2010 as we do complete the customer migrations and start to turn off the legacy IT systems and network platforms.

We are continuing to reduce the redundancy and restructuring provision raised back in 2006 and the balance of that provision at December 31 is $171 million. Of the remaining restructuring provision, around $50 million of that $171 million is available for CDMA customer migration until the revised planned closure date of 28 April.

Let me now look at some of the expense categories in some more detail starting with labour. In the first half labour costs were up 4.8 per cent. Redundancy was up in the half because many of the redundancies that we planned across the year we've taken in the first half. Excluding those redundancy costs, the labour costs were down one per cent, and you need to remember - and I say this every time - we also in that number have absorbed a wage rise of somewhere near 3.5 to 4 per cent.

We are tracking at the upper end of our 6,000 to 8,000 head count reduction target, remember, after three years of our strategy, with the total head count reduction since 1 July 2005 now at 7,875. That is a 1,768 decrease in the half. As you can see, the high redundancy costs is associated with some of that reduction.

It is important to remember that this head count reduction number does exclude the impact of the acquisition of Soufun and any divestments that we have had, so we keep a like-for-like comparison from our statements back in November '05.

So what does this mean for head count targets? It means no change. We are still confident, of course, with our 6,000 to 8,000 target this fiscal and our longer term 2010 target of 12,000 reduction. As we continue the transformation the old systems and processes are being replaced with the latest technology which will require, and does require now, quite different skills. So we will need to employ some people with these skills in the coming years to meet the demands and the needs of our customers. There is a skills refresh taking place as the business transforms.

Let me just look at the directly variable costs here, or goods and services purchased I guess we call it. The growth here has been 4.3 per cent. Over the last few years directly variable costs have grown at more than two times sales revenue growth. Through managing directly variable costs predominantly the better management of subscriber acquisition and recontracting costs, the DVC growth in the first half was just 0.8 times that of sales revenue. That ratio with fluctuate a little bit in the short term, but we are confident of meeting our DVC to sales ratio objective of no more than sales, so a one times growth, over the long term.

In terms of the trend in subscriber acquisition and recontracting costs, our mobile customers are growing, and our blended SARCs are coming down. The average blended

SARC of $150 has decreased significantly down from $175 in the first half of '07 fiscal and $193 in the second half of the '07 fiscal. That has been driven by lower subsidies both in terms of volume of subsidies, but also the rate of subsidies.

The weighted average cost per Next G handset has also fallen by 17 per cent over the past 18 months. This has been driven off the back of increased volumes. You might recall that I said handset costs will come down as we get higher volumes. This is occurring. In the Next G devices, the volumes have gone up 77 per cent, year on year, and we've got improved vendor support now of the 850 devices, and I have told you the number keeps growing in terms of the major brands.

Let me look at the other expenses category. There's quite a number of items in this category. You can see there promotion, advertising, something that we call impairment - or we have to call "impairment" - general admin, and so on. These expenses grew 9.5 per cent in the half, but I want to concentrate on some of the larger areas.

The biggest component in this category in absolute terms is service contracts and other agreements. It has grown 4.6 per cent in the half to $1.1 billion, but consistent with what I told you on Investor Day, the key driver of the service contracts growth relates to IT costs linked to the IT transformation as the activity increases to migrate consumer customers across to the new CRM and billing systems. Importantly if the IT transformation related costs are excluded, service contracts growth is relatively flat.

Impairment and diminution costs were up 65 per cent or $66 million half on half. Firstly, inside that component - and it is blown out here on the slide for you to see - bad and doubtful debts increased 48 per cent or by $38 million, driven by a combination of increased mobile and broadband volumes, so associated with the high increase in revenue, and a review of credit terms for Sensis customers where new customers can now pay post bill, and that is driving higher revenue, but there is an associated bad debt with that.

Inventory is the other element here, and inventory writedowns increased $28 million mainly due to stock write-offs in addition to providing for slower moving stock. So as those handsets get returned, and so on, they have a lower realisable value, and the CDMA migration has had impact on stock writedowns.

The final expense category in this group, if you like, I want to cover is G&A or general and administrative expenses which increased 12 per cent or $54 million. Again, some of this has been driven by the IT transformation. The IT cost growth was $31 million inside that $54 million. It was driven by software licences and hardware support and maintenance. You have to understand that for a little while as we go through this transformation we will run duplicate hardware and systems, and they need support and maintenance.

Travel costs are up $5 million and that's been associated with our staff travelling a lot around the country caused by the inclement weather. And to meet our customer fault repair requirements we have moving our staff around more than ever before.

Legal costs have increased $14 million as we've focused on the class action - I think you're read about the results of that - and training expenses rose 5 million, related to the transformation training, but also the Learning Academy that you know about.

Let me move to capex. Accrued capital expenditure is up 17.5 per cent. However, on a sequential basis, it's fallen 40 per cent, as you would expect, given what we spent last year and given our accrued capex guidance for the full year of 4.6 billion to 4.9 billion, this implies a second half largely consistent with the `first half and we believe that's so. Just be aware that we will be incurring additional capex of approximately 40 million, driven by the ADSL2+ rollout, but that's accommodated in our current guidance.

IT was a big driver of the increase in accrued capex. Last fiscal year was primarily, in an IT sense, focused on feasibility and the initial stages of delivery. However, this half, major projects, including customer care and billing transformation for the consumer segment, is driving the capex up.

Transmission is the other area of growth. It rose 57 per cent, with the majority relating to the Sydney to Hawaii cable. That added 75 million. There's also been contributions to the Asia America Gateway cable and additional capacity purchased from Southern Cross contributing to the increase. This has been driven by broadband, been driven by internet use, not surprisingly.

Fixed access, the network core capex, has fallen 6.4 per cent, with the large rollout of the wireline transformation program having taken place in the last fiscal and wireless capex also fell 14 per cent, which is to be expected with the delivery of Next G also occurring in the last fiscal year, but we do continue to add new base stations to extend our competitive advantage and we now have 6400 3G base stations, with 300 added in the past six months.

Let me just talk about cash flow for a minute and our financial parameters. With our largest transformation spend year behind us - that's total cash spend - behind us and the benefits already flowing through with our strong earnings performance, free cash flow has increased 53.6 per cent to $1.3 billion. You might recall that always cash flow is lower in the first half than the second half.

In terms of our financial parameters, we sit comfortably still on all measures and you can see those also on the slide.

Just before I finish for questions, let me give you some more colour on our financing position given the global credit issues that are around right now. I do get asked a lot if Telstra is exposed to the current issues in the debt market. The answer is not substantially, and you can see our debt maturity profile here on this slide. The average maturity of our long-term debt portfolio is around five years and we have moderate maturities to refinance in the next few years. We have approximately $1 billion of long-term debt maturing in the remainder of this year and we will finance this with borrowings in the short and long-term markets according to the conditions that prevail when we go to market. While our cost of debt has risen this fiscal year in line with the market developments, this will be accommodated without any material impact, given our strong credit rating, diverse access to funds and a strong balance sheet. Borrowing costs will increase this year, as they have for everybody, but this will be driven more from the increasing debt rather than the rising rate.

Lastly, our long-term objectives remain unchanged from the November investment day, but I do want to tell you that we will be doing a review of these objectives as we now move into our planning period and any change to these long-term objectives we will advise you at our full year results announcement in August. So thank you and I'll now ask Sol if he'll join me back up on the stage and we'll take some questions.

DAVID LANGFORD (Lehmann Brothers): Just first of all on the the financing structure of the business and the balance sheet. A number of pundits have had various views in terms of needing to increase gearing or share buy-backs. How do you see that the strength in the cash flows and the balance sheet flexibility can provide greater upside in terms of shareholder returns over the next year or so?

MR STANHOPE: First of all, we have got a set of financial parameters that we're still sticking to. You should also remember that we are still borrowing to pay dividends and we are not at a point yet of huge cash flows to return to shareholders. Having said that, we've re-confirmed today our 14 cent ordinary dividend. We've said our free cash flow will be somewhere between 6 to $7 billion in the year 2010 and the board will then have to decide, when it's got that sort of cash flow, what they do with it, return to shareholders or whether it's invested in other things and we're not at that point yet.

MR TRUJILLO: The punchline is we'll make the right decisions at the right time.

JUSTIN CAMERON (Credit Suisse): Just a quick question on the operating performance. You've highlighted again the leverage obviously the business is achieving, particularly obviously given the competitive environment at the moment and your competitors, obviously Optus and AAPT from a fixed line perspective, have rolled over in the December quarter. Looking at the numbers again, it would kind of appear that you'd be again conservative in your top-line outlook on the business; 5.3 per cent top-line growth, 6.2 per cent in the second half of 2007. Is there something that you see coming through in the second half of this year which will see a slow down potentially in that run rate and, secondly, just on the operating side in the costs and maybe more for John, is there any major benefits we can see coming through in this second half which will see the potential for further large cost-out momentum coming through?

MR TRUJILLO: Let me go ahead and start and then I'll let John add to whatever he feels appropriate. In terms of the top line, we're going to be cycling second half on second half, where last year we had a very strong second half revenue delta, and that's with the launch of Next G and partly through the half, the next IP business, so we're cycling strong half on strong half. That's number one.

Number two is that we are always prudent in terms of how we think about our guidance because we're more focused not on what we say on paper but what we do in reality in the market and so we will stay true to those principles as we talk about guidance and as we deliver, we will communicate in the market what our current views are.

In terms of the costs and the underlying benefits and run rate, most of what we're still doing is just tightening up what I would call operating excellence in the business. We still haven't finished all the IT transformation, we still haven't finished the migration and removal of all the network piece parts - we said way back at the beginning that we're going to have to reduce, in effect, the amount of SKUs we have in our business - and that's all coming in the latter part of '09 calendar year and '10, clearly fiscal year. So that's where we're going to be looking, again as we said back in November and as we said in November of 05, when the big opportunities for cost reduction will come.

In the meantime, managing our customer acquisition costs, managing the retention costs, managing the productivity in terms of our operations, which in this half were up 20 per cent in terms of productivity improvements, it's just that day-to-day management stuff that we're working on right now and our team is getting pretty good at it.

JUSTIN CAMERON (Credit Suisse): Maybe to rephrase the first part of my question, how has the momentum been post-December, ie the first two months of the year now? Has that continued along the similar trends that we've seen for the first half?

MR TRUJILLO: We're not disclosing anything beyond what we've reported, but, you see, in our guidance being raised, we are confident in terms of what we've said so far and we'll continue to operate as well as we can. Thank you.

SAMEER CHOPRA (Deutsche Bank): I have three questions. One: previously you've disclosed how your capex breaks down between maintenance capex and transformation capex, and I was wondering if you can provide us with a flavour for that today.

The second one was your net debt was up about a billion dollars but the finance costs were down about $20 million. I was wondering if you could explain what's going on over there.

The third question is with such a strong operating performance, I was wondering how you're tracking on your REM report, if you could provide an update on the kind of incentives that are probably still in place for the second half.

MR TRUJILLO: I'll answer the third one. I don't know. I don't spend my time thinking about it in terms of our day-to-day operations. When the board made their decisions about what it should look like, it's in place, we'll count and do all the calculations at that point in time. Maybe John has some idea, but that isn't the driving element for us. The element is about winning in the marketplace, where you see us on broadband growing 65 per cent, outdoing our competitors three to one on mobiles and post-paid outgrowing them again two or three times and the growth rates, which are best in the world for developed markets. You just stay focused on delivering the operating results and all the rest comes with it at the right time and if we don't deliver the operating results, then the rest doesn't come. So we're not spending our time on your third question. John, the first two.

MR STANHOPE: Maintenance capex remains about one eight to two in full year - I'm giving you the full year context - so it remains around $2 billion.

The answer to your second question is an interesting one. The way we have to mark our derivatives to now fair value accounting means there is a positive outcome in the financing costs, so what you need to look at and what I will tell you now is the real growth in interest cost, so interest paid, is an increase of 88 million half on half. So the interest cost has gone up 88 million and that's a combination of more borrowing and there has been a rate rise.

SACHIN GUPTA (Morgan Stanley): Just a couple of questions. Firstly, if you look at your retail PSTN numbers, you have had a 48,000 increase in the last six months and if you compare that to Optus, what they reported is about a 100,000 decline. So I was just wondering this 48,000, how much is a result of Optus slowing down versus the result of your plans.

The second question is, Sol, I think in the past you've mentioned that retail outlook is - you're still comfortable with a 2 to 3 per cent decline. I'm just wondering if you can update that. Are you still comfortable with the longer term 2 to 3 per cent decline in PSTN?

MR TRUJILLO: Let me address the first part of your question. Let me be clear. Telstra leads the market and Telstra sets the tone in the market. What Optus does is - it's interesting to us, but they don't drive the market. Our retail PSTN improvement began much before Optus, boptus or whoever else started doing whatever they do and we drive our strategies. Our winback rates increased and accelerated about a year and a half, two years ago, and that's continued. How much is tied to their resale customers deciding they don't want to move to their on-net strategy? There is some of that, I won't say that there's not some of that, but it's not the material element of what we're doing in the market. The punchline is we're winning in the market.

Relative to your question about guidance, the guidance that we gave on PSTN for the year was around the same run rate as last year. The good news for us so far is that the value propositions that we have in the market are working well and the price issues that some like to report about are beamed out with in different ways as to how we run our business here because we're not a one-dimensional company. So we're going to keep our guidance where it is at this stage, but hopefully we will continue to outperform, as I said back in August of last year and we stand here today to say we did outperform where we thought the run rates were at that point in time.

LAURENT HORRUT (JP Morgan): I was just looking at the reported numbers in this half. Am I right in thinking that they include the Melbourne Yellow Pages this half and weren't included in the previous corresponding half?

MR STANHOPE: Yes, that's right.

LAURENT HORRUT (JP Morgan): So what would have been the underlying EBITDA growth this half if we had sort of a like for like comparison?

MR STANHOPE: I've tried to smooth that out. Just taking that, I can't tell you that off the top of my head, but that smoothing that we did, we adjusted for that and we also adjusted for redundancies and transformation costs. That 8.5 per cent is what I would call an underlying EBIT rate.

LAURENT HORRUT (JP Morgan): At the EBITDA level, do you have that number, at the EBITDA level?

MR STANHOPE: Equivalent to the 8.5?

LAURENT HORRUT (JP Morgan): Yes, that's right.

MR STANHOPE: No, I don't have that off the top of my head. I can get it. We can work it out pretty easily.

LAURENT HORRUT (JP Morgan): Because it's actually quite a big impact, as you know, especially at the EBITDA level, given the Sensis margin.

So what would have been Sensis revenue growth like for like half and half, because you're saying it's up, but if you normalise for that impact, what would it have been?

MR STANHOPE: Bruce, can you help me there with the Yellow. I think the question is about the Melbourne book. Bruce was just saying - - -

MR TRUJILLO: Let's put it this way: the performance like for like book to book was up. We won't give specific numbers, but it is up and I'm pleased - - -

LAURENT HORRUT (JP Morgan): You'll understand for us it's important to know what underlying like for like organic growth is. Obviously it's a big adjustment from one half to the other.

Anyway, the second question was on the dividend. Usually at the first half you kind of confirm your intention on full year. You've got ahead of you 4 or 5 billion - potentially I should say - a 4 or 5 billion investment on FTTN. Does the 28 cents depend in any way on this particular investment?

MR TRUJILLO: First of all, the FTTN investment, whether it happens or not, I don't know whether it will happen or not and we're not building it into our financial planning at this stage. We're working with the government, trying to go through the processes and all that sort of thing.

In terms of the financing and how we think about the business, obviously we would be looking at some point, if we were involved and chose to be involved and were selected, we would have to finance to some extent whatever additional capex would be involved. Would it affect our dividend? That's a decision for the board, but I don't think that that's a necessary issue for people to be concerned about.

LAURENT HORRUT (JP Morgan): Lastly, in the last year, the business has a great retail momentum. Does it change in any way the way you're going to approach this negotiation with the government? Your terms, as they were a year ago, would they have changed materially from a year ago now?

MR TRUJILLO: The simple answer is no.

LAURENT HORRUT (JP Morgan): Thank you.

MR TRUJILLO: We're very shareholder focused. The competitive returns we have to provide haven't changed at all. As a matter of fact, market conditions are even tougher today than they were a year ago. So the punchline is the principles, the terms, all of that, are still the same, it's just that now the question is, is there a focus on outcomes versus just rhetoric and talk.

ANDREW LEVY (Macquarie Securities): Congratulations on a good result. I just wanted to get some more detail, I suppose, on TR1 and how that's progressing in terms of the number of customers or the percentage of customers migrated to date versus those that will be done by June 30, and also what that June 30 deadline involves, whether it actually involves everybody who's on by June 30 being billed at that time and hence ready, I suppose, to shut down the legacy systems, and the second question is just an accounting question on what the accounting treatment of the Foxtel distributions will be going forward, seeing that they're going to become more regular if there's any change there.

MR TRUJILLO: Number one, relative to details on our conversion and customer accounts and all that, we don't disclose that, so I won't tell you, other than to say that we're on plan and when we meet again in August, we'll talk about whether we hit it or not.

I'm going to also add a sentence to your question because I've been hearing this kind of on the periphery, well, AAPT had their problems and some bank had their problems and gee, what's going to be different about Telstra? The simple answer is that we're on plan, okay. However, if there was a problem, whatever it might be - I'm getting this company so focused on customers that we're not going to do anything that would be silly or create the kind of problems that you see happening elsewhere, so that will always be part of our operating plan, just like everything we've done so far, but let me go back to statement number one. We're on plan.

MR STANHOPE: I'll address the Foxtel distribution, but first let me go back to that prior question about the Melbourne Yellow Pages book. It isn't an issue for the first half. The first half is like for like, so there's no variation or normalisation that needs to take place. When we get to the second half next year, when you look at the half - or the end of this year, I should say, that's when we'll have to talk about adjustments for the Melbourne book. So this year's growth in Sensis is pure and like for like, so I just clear that up.

Foxtel distribution, the accounting for Foxtel distribution, I've told you about the $100 million accounting is because it's come from borrowings. In so far as our accumulated loss is concerned, it went from 83 up to 183. The $30 million that we get in March isn't new borrowings, so that accounting won't take place, but when it comes from a borrowing, the accounting I described previously will continue to take place. So after our share of Foxtel's profit this half just gone, our accumulated loss is now 144 million.

CHRISTIAN GUERRA (GSJBW): I have three questions for you. My first question is on David Thodey's enterprise division. Just wondering if you could tell us how much of your total sales - total Telstra sales enterprise in government is and more specifically have you seen any weakness into sort of January and February at the revenue line, given that the sort of top four banks are in your top 15 to 20 customers Australia-wide?

Secondly, John, just a question for you on the tax rate. That looked a little bit low. Just wondering if you could make a comment there, please, and just update us on how the franking account is going.

Thirdly, just with the improving cash flow, I was wondering if you could make a comment on how you see the priorities going forward between acquisitions, given that 2011 Sensis target versus returning capital to shareholders.

MR TRUJILLO: Let me take part of it and then I'll let John take the rest of it. In terms of the business, we've already had one question about what's happening in January, et cetera, and the answer is we're not disclosing anything other than our full-year results. Our raising of guidance should be enough signal to everybody in terms of how we think about the second half.

In terms of the last question that you asked, and I'll let John give you the number response because I don't have it with me here, if you look at how we think about our business, obviously the board is going to make their decisions based upon the cash that we will have at hand and, as I've said in the past, the board will always have that option of dealing with dividend adjustments, the board will have the option of looking at share buy-backs, and the board will also have options about strategic investments that will be there. We're confident about where we're going to be in terms of improving our free cash in the business and we said that back in November when we had our sessions and I'll say it again today. The run rate that we're onto to 2010 with our free cash flow targets we're still onto, so it will give us flexibility, it will give us the kind of options that every board and every management team would love to have. Beyond that I'm not going to say much, other than to say we will explore all options because from the very beginning, I will always go back to this notion that says we're very shareholder focused. John.

MR STANHOPE: The answer about E&G's revenue as a total, I think you can see it from our result. E&G's revenue is 2.2 billion and sales is 12.2 or so, so you can work the percentage out there of the total growth, if that's the question you're asking. If you're asking how much is contracted revenue in the company or in E&G, E&G's revenues are mostly contracted, so I'm not sure what you're getting at there.

All I'll say about franking credits is there's sufficient to 100 per cent frank the half and our expectation is we'll have sufficient franking credits to fully frank the full-year dividend.

With respect to the tax rate, yes, it is low and I alluded to that in my presentation. It is low because we had some successful objections to our previous year tax return, so we had an amended tax return, which gave us a 40 million outcome. The distribution is not taxable from Foxtel, so that helps, and we also received a CSL exempt from tax dividend and R&D contributed to it of about 8 million as well. So that's the array of things that occurred to give us the low effective tax rate.

DAVID LANGFORD (Lehmann Brothers): Just in view of the strong revenue growth, how much do you think the, for want of a better description, unimpressive results that have been delivered by some of the competitors and their distractions have resulted in that very positive outcome, and I point to Telstra Business, where AAPT and Commander have certainly been distracted.

Secondly, to what extent have those impacts, those competitive impacts, helped you to reduce your activity-based costs in terms of customer acquisition?

MR TRUJILLO: I would say first of all our growth really, again, is not tied to what company A, B, X or Z are doing, it's based on we have a mobiles platform that is dramatically better than any competitor in the market, we have a Next IP platform that is dramatically better than any competitor in the market, we have a whole ISP business and portal and set of content and services that is dramatically better than any competitors in the market and we have our advertising business that's better than anybody's in the market, so it's about what we're doing. Yes, others might have problems here and there, but those problems have occurred in the past and they vary by company. The punchline is customers get to make the choice. They're making the best value choice at this point in time.

DAVID LANGFORD (Lehmann Brothers): And on the costs?

MR STANHOPE: I've already said to you the acquisition costs in Telstra Business are going down.

DAVID LANGFORD (Lehmann Brothers): Are there any particular initiatives that you've undertaken, though, that you can point to that have pushed that forward?

MR STANHOPE: The head of the business unit is here. She should make comment.

MR TRUJILLO: For the benefit of those who could not hear what Deena said - Deena Shiff, our head of Telstra Business, responded. Basically, she said it's better planning in terms of the targeting that we do for our customers, and I would add to it, it goes to the segmentation that we have, it goes to our knowledge of customers that we have, it goes to the product sets that we have, it goes to the integrated features that we have. All of that enables us to keep on driving some of the cost improvements that we have, along with the revenue growth.

TIM SMEALLIE (Citigroup): Firstly, full credit to all the management team. This is a very encouraging operational result. A couple of questions I just wanted to cover. Firstly, previously, John, you've disclosed mobile margins. I was just wondering if we can get an update on that, in case I've missed it.

Secondly, Sol, just looking at Foxtel mobile, you outlined in Barcelona that only 2 per cent of the base is using the Foxtel mobile service. Does that raise concern in terms of consumer appetite to use mobile content or content that's within the walled garden of Telstra, as opposed to the wireless broadband performance, which is skyrocketing, but you've also got three competitors that have got effectively MP3G networks as well? I'm just interested to get your take on that.

Finally, just looking at the FTTN potential, would Telstra consider taking a minority stake in an FTTN network?

MR TRUJILLO: The last question is an easy one to answer. The answer is no. In case you haven't heard that answer at least 20 times out of my mouth, the answer is no.

In terms of your first question and walled gardens and things like that, the answer is we do have our own content but we also provide access to everybody else's content. I don't know if you saw the slide up here and what we're doing with our 3-Tab portal. It's on the mobile, it's on the fixed line, it's on the desktop, it's everywhere, so I think you probably should erase language like that and understand we are both moving content that we own and control and distribute as well as others.

But to your point again, you quoted a number of 2 per cent. Almost 5 per cent of our Next G customers are subscribing to our Foxtel mobile capabilities and what we now have done - you saw it in the November session that we had - we've upgraded the platform, essentially, to have the ability to remotely program and control, along with channel change, along with more channels, so we've enhanced the capability.

I would say on first release it was interesting but not good enough, and I will tell you today we will continue to enhance the capabilities as we go forward because I do believe, given our numbers being dramatically better than anyone else in the world, there is an appetite, and for those who are using it they are spending about $11 of ARPU a month.

Now, the way I do maths, and this is the way I do maths, is that people who generate another $11 of ARPU a month, they are equivalent to five times of those who are generating another $2 plus a month. So it is not so much about getting to 50 per cent penetration of mobile Foxtel, but it might be getting to 10 per cent or 15 per cent of people who are going to spend $10 to $15 more. Then it is going to be about adding search capabilities, then it's going to be about adding other content capabilities, and it may be different segments, again back to market based management, different segments buying different things and generating ARPU within that segment, and that is how we are driving this business. This is not about you paint the whole building red and that's the way we - that's how our competitors do it, right; they come out with a discount a day, a week, and all that type of thing. We are very different in terms of how we are managing. We are managing by segments, we are managing with knowledge, and we are managing to grow value.

TIM SMEALLIE (Citigroup): Are you concerned you have only added 30,000 in the last 12 months to Foxtel mobile?

MR TRUJILLO: No, I am pleased. We are developing a business. We are developing a new way for customers to use the services. So, you know, I think our results are terrific, and when you compare them to anybody else's. They speak for themselves.

TIM SMEALLIE (Citigroup): Are you concerned about pricing then on the wireless broadband front, given where Telstra's pricing is relative to two other major competitors?

MR TRUJILLO: Again, I haven't seen any competitor that has more volume than we do, generates more margin than we do, and has more customers than we do, unless you have seen something that I haven't. The second thing is that, you know, those of us that know how to run businesses, we also look at what the costs are, and those who invest in companies also pay attention to looking at what's the cost of doing whatever somebody is doing.

Some of these companies that like giving away the service - now they have to give it away because they are about four square blocks, and they're at one-third the speed, and one-tenth the quality, but the other thing is that when people do take the buffet meal, all you can eat for 5 bucks, there's not many of those restaurants that last very long because the cost of the goods far exceeds the revenues generated, and you can only do it for so long and then people quit financing what you do. Over time you will see a combination of what I just described play out in the market.

We will always be value competitive and price is not the only variable. In case you haven't heard that, Tim, at least 20 times before: price is not the only variable behind what customers make in their purchase decisions.

MR STANHOPE: To answer, the mobile margin is up 35.1 per cent which is up 3.7 per cent on the previous half, half, compared to Optus's margin of 31.7 per cent.

TIM SMEALLIE (Citigroup): Just recapping, just on the Foxtel distribution, so if you get another distribution based on gearing up Foxtel first half '09, that will come through at the EBITDA line; is that right?

MR STANHOPE: Yes.

MR TRUJILLO: I'm going to take any question in Melbourne, and then we'll come back here.

CHRISTIAN GUERRA (GSJBW):   I have two follow-up questions, please. The first one is, Sol, you recently made comments about making acquisitions in the Asia-Pacific region. I am just wondering if you could you give us a little bit more colour on what your strategy is and sort of potential opportunities you may be looking at in terms of business areas. Secondly, I have a question for Justin Milne, just if he can maybe talk us through the thinking and the revenue model behind the BigPond TV Sport Weekend program.

MR TRUJILLO: Relative to the comments about interested in acquisitions in the Asia-Pac region, it's centred around what we have been doing with Soufun. I think you've now had enough data, the market has had enough data to see the sustainability of a new business model that's very similar to the business model of our Sensis business, and, you know, great top line growth, great bottom line growth and we will look for smart opportunities as we do that.

We are going to continue to look at our portfolio and managing those elements within our portfolio as we did with Soufun where we sold off an asset that was not strategic to help finance the acquisition of an asset. And there's a combination of things. Christian, I won't get into specifics because I'm not going to pre-signal anything that we might or might not do in the market because I don't like overpaying for assets, and I don't like creating bid situations around assets if I can avoid it.

Justin, do you want to talk about the three tab portal and the BigPond Sports Weekend?

JUSTIN MILNE: The BigPond Sports Weekend - Christian, we're pretty excited about this. It launches this Saturday. We were rehearsing – all last Saturday. We see BigPond Sports Weekend as kind of a lightening rod for all of our sports properties. So they have all been collected together onto one title called "BigPond Sports Weekend", and the customer experience will be that virtually any time on the weekend starting 9 o'clock in the morning until 6 o'clock at night Saturday and Sunday the user can flip open their mobile phone and find out what's going on with a continuous stream of live broadcast, crosses for results, updates, sports from all around the world and all around Australia. We think that's pretty compelling, so that it gives you continuous sports update in your pocket.

The business model for that is a subscription model that will cost $3.95 with an introductory offer to start off the season, so it will be $3.95 per month to subscribe to that service. You will be able to have a day pass for $1.95, or you'll be able to just click on it for 50 cents a click, and the click will last for 5 minutes. So there's lots of ways for people to get used to the service.

It will also become part of a subscription for AFL, VFL or NRL. Those subscriptions are $9.95 a month for a full pack of special AFL, for example, stats and special reports and videos on demand, and BigPond Sports Weekend is part of that subscription as well.

Over time we expect the model to move more and more to advertising, and we will in fact start off with advertising in there, because we think, along with our brothers at Sensis, that the mobile advertising model is just huge going forward. So this is one of the early forays, if you like, which is truthfully experimental, but most media is experimental when you get right down to it. So we are very excited about it, we think it will be good, and the customers will vote with their feet. So we'll see next time we meet. Thanks.

MARK McDONNELL (BBY): Three questions.
Firstly, I'm wondering if you could update us on the customer numbers for CDMA? In previous statistical abstracts you have provided that number. It is not there this time.

Secondly, I'm just wondering if you could expand a little on your thinking about your competitive strategy in mobiles, particularly in the context of the reduction in the handset subsidy rate. Does this signal a shift from aggressive subscriber growth orientation to improving the margins from the existing customer base through higher ARPUs, lower subsidies, et cetera, and whether we can expect that reorientation to be ongoing.

Thirdly, really a refinement of the previous question from the last analyst - with respect to corporate opportunities, but specifically in Australia, given that we have Commando with assets on the block, there are rumours that SingTel is looking to divest the Optus satellite fleet, what opportunities do you see for acquisitive based growth specifically in Australia, or is Telstra simply too big to be able to look at any meaningful acquisitions in the domestic market?

MR TRUJILLO: Let me handle them fairly quickly because we are about out of time. In terms of CDMA we're not disclosing any numbers because now it's almost immaterial. I think we reported that at end of the year they are less than 3 per cent of our mobile revenues, so I'm not even watching the full numbers, other than watching the process so that we can close on April 29th.

In terms of SARCs, and as we think about acquisition and retention costs and the reductions that you've seen, I want to remind you about the fact that we have grown. We've added more post-paid customers by a factor of 2 to 3 times than our competitors, so we're adding customers to our base, in particular as we focus on post-paid in the last wave of our launch of Next G. However, to your point, we are reducing the cost associated with those acquisitions. John covered handset cost reductions. It's about the effectiveness of our market based management system, all the segmentation, all the work that we are doing, so we're reducing the amount of cost not so much because we're trying to "just cut costs while we manage or mind our EBITDA margin", it is about being much more effective as we market that is driving the cost down as we go forward.

As to the third part of your question which was about acquisitions inside Australia, naming some of the assets that you did, my view right now is that we have real strength in our channels, we have real strength with our product sets, we have real strength in terms of our footprint and coverage in almost every metric and every category, so we don't have the need to supplement where we are already the best in the market. So that is the mindset that I have, and obviously I won't comment on any specific opportunity other than to say we will explore something that might enhance our capabilities, but right now I won't say anything more. Thank you.

RICHARD EARY (UBS): Just a couple of quick questions. Firstly, on the tax rate, John, you did mention obviously the one-offs in the first half result. Can you just from a modelling purpose give us sort of like a tax rate that we should expect for the full year and whether that should change in subsequent periods?

The second question was in terms of, obviously there's talk about a potential hard landing from a domestic economy point of view, suggest you get some clarification in terms of the magnitude of contractual revenues within the base. Lastly, just from your trip to Barcelona, Sol, obviously there's been a number of equipment vendors now thinking about pushing further into the service layer from a competition point of view - Nokia OV, for example. Can you just give us your comments on how that changes the competition within the service layer from a global perspective and how that changes your relationship with the vendors themselves?

MR STANHOPE: The tax rate will be less than the 30 per cent at the end of the year, because the distribution and all those things that I have said will flow through. Now, I think your question is about going further forward. I don't expect the size of those sort of tax amendments to recur. Distributions will still be treated as non-taxable, so the 30 million that we get in March will be not taxable, so that will help the end of this fiscal year tax rate and if there are future distributions - same application will apply.

R&D always is around that same sort of level, and so we will likely - we will have a less than 30 per cent corporate tax rate the following year, but not to the same extent as this year. Did you want me to talk about a contract base? Richard, it is a difficult question to answer, and I said before about the contract contracted revenues in E&G. Most of the E&G revenues is contracted. It depends on your definition of "contracted". I mean, I could argue that every customer with us has a contract, but they are easier to get out of than other contracts. I mean, our consumer customer has a single simple form contract, right, but it's easy to get out of. Then there are mobile contracts that are harder to get out of. I have had a look at this, and depending on your definition, contracted revenue is somewhere about 40 to 60 per cent of our revenue base.

MR TRUJILLO: The good news about our business is that mobiles now are almost the one thing that we won't give up in terms of our daily lives. The second thing is in terms of our fixed line, they are so embedded in terms of our personal lifestyle as well as business lifestyle that our vulnerability versus others is probably not quite the same. However, if there is a downturn of some sort, we could be affected. I won't say that we wouldn't be, but here in Australia we have different issues than other parts of the world - full employment, that fairly robust economy at this stage, and you know what the federal Reserve Bank and others have been worried about is more on the inflation side than is there a problem much like what you see in the US.

Your question about Barcelona and the players, the handset manufactures that are thinking or trying to get into the services business - it's an interesting question, because on the surface you could say that we will be in conflict. In the case of Nokia, they made an attempt about four years ago with Nokia World, or whatever it was, and there were a lot of us. I was in Europe at the time running Orange, and we had a conversation with them about, you know, encroaching essentially on our business model and what happens, and I think they learned a lesson at that point in time. I think their approach on OV is a little bit different. I think their approach is trying to find a harmony of models, because in some cases companies like Telstra - we have our own content, we have our own Australia-centric kind of views of what we want to do. The question is can we leverage some of what they have that we don't have, bring it on in terms of our customers, and find a model that works for both of us. That may make sense.

You have the Apple conversations, where in the US it was launched in parts of Western Europe, it was launched as a share of revenue. Well, you saw in China, China said "No, not interested", and, you know, there's a lot of conversations going on in the industry. I'm not going to get into specifics about what we're doing and what we're saying and what we're going to do, but suffice it to say that we, Telstra, will stay true to our principles, stay true to the shareholder, the customer, ways that we think, and we will leverage assets as an integrated company delivering integrated services. That won't change regardless of who we do business with.

As you've seen, we do business with all the big players, but we have introduced new players to the market like ZTE, and others, and we will continue to do that as necessary, as appropriate, so that our shareholders and our customers win in the long term.

MR TRUJILLO: We will conclude the session, not having any more questions. I thank you all for coming and have a great day. Thank you.

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