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The Manager

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**ELECTRONIC LODGEMENT**

Dear Sir or Madam

**Telstra Corporation Limited - Transcript from Analyst Briefing – Financial results for the half-year ended 31 December 2014**

I attach a copy of the transcript from the analyst briefing held on Thursday 12 February 2015, in relation to Telstra's results for the half–year ended 31 December 2014, for release to the market.

Yours faithfully

**Damien Coleman**
Company Secretary

# Telstra Half-Year Results Presentation, 12 February 2015 – Transcript

MR KOPANIDIS: Good morning, everyone, and welcome. My name is Peter Kopanidis. I'm the Head of Investor Relations at Telstra. And on behalf of Telstra, I welcome you all, both here in Sydney and those viewing by webcast to today's investor and analysts briefing for our 2015 half-year results. As an important symbol of respect, it is our custom at significant Telstra events to acknowledge Australia's first peoples. Today, therefore, I would like to acknowledge that we meet on the traditional lands of the Gadigal people of the Eora Nation and pay my respects to elders both past and present. After presentations from our CEO, David Thodey and our CFO and Group Executive International, Andy Penn, we will be taking questions from investors and analysts both here in Sydney and on the phone. With that, I will now hand over to David. Good morning, David.

MR THODEY: Thanks, Peter. And welcome to the Customer Insight Centre, which is the first time we've had our results here. This is a new facility which we hope will provide an opportunity to work with our customers in new ways, to really use technology to drive change, hopefully innovation in the way they run their businesses. So this is a new auditorium and we hope that it will be, you know, used many, many times.

But, as Peter said, good morning and welcome to our half-year results for the six months December 31 2014, a set of results which I'm very pleased to say show that we are on track to deliver against our commitments. As usual, what I'm going to do is just make some brief overview comments on the results, then I'm going to ask Andy to come up and he's going to take you through the results in detail and then I'm going to come back and will take you through our strategic pillars and just how we think we're going against them and the key initiatives.

So let's move on to an overview of the results. Firstly, our focus on meeting our customers' needs - it really helped us deliver what I would consider is a strong set of results. I'm pleased to say that this is the seventh consecutive half of earnings growth, despite over that period there have been a number of market changes. For the half we reported total income, excluding finance income, of $13 billion which is an increase of 1.6 per cent, EBITDA of $5.3 billion, up half a percentage point, NPAT, net profit after tax, of $2.1 billion, an increase of 21.7 per cent and earnings per share of 16.9 cents, an increase of 23.4 per cent.

Now, it's important as you look at these results to normalise them in terms of a guidance perspective because you've got to take out the CSL sale last financial year, and if you do that results this half would have shown a 6.2 per cent growth in income and a 3.5 per cent growth in EBITDA. I'm also pleased to announce today the Telstra board has declared an interim dividend of 15 cents per share. That is a half a cent increase on the half-year '14 and represents a $1.8 billion return to shareholders for the half.

Now, as I began, our customers continue to be our absolute number 1 priority and it is delivering results. The financial half saw continued growth across really the whole of the portfolio in terms of the number of customers. We added 366,000 domestic retail mobile customers, 87,000 retail fixed data customers and 127,000 customers on a fixed bundle. We've also invested $1.7 billion in capex in the half to maintain our technology and product leadership. You know, this significant investment enabled us to meet what we see as a strong demand for our services, both in terms of infrastructure and also as we support our consumer business enterprise and wholesale customers.

Now, some of the highlights of those investments has been the rollout of the 4GX mobile technology, which I will talk a little bit about later on, and the rollout of Australia's first national Wi-Fi network. We've also continued to invest in new growth businesses, such as the significant investments we've made in Asia and also around the proposed acquisition of Pacnet in Asia. We've also continued to grow our health business, highlighted by our investment in Orion Health and our acquisition of Medinexus and Cloud 9. At the same time as we've been working on these growth businesses, we've also had an extensive costs control program underway. Now, while profitability has continued to improve, we're really still at the early stages of building out our new growth businesses and we still have a lot of work to do to achieve our long term margins – target margins, that is. But it is pleasing to see margins remain at a steady level across all our products.

We also reached a milestone in December by completing the re-negotiation of the National Broadband Network Agreements and, of course, meeting our objectives in that re-negotiation was absolutely critical, and they were threefold. Firstly, Telstra shareholders have been kept whole, meaning the value Telstra expects to receive under any re-negotiated arrangements will not be materially different than under the original agreements, a principle which, I'm pleased to say, the Government supported. Secondly, we met our objectives on preserving shareholder protections and negotiating new ones where they were required. Thirdly, we have retained regulatory certainty through the progressive structural separation of Telstra through the rollout of the NBN. We were also very pleased to sign a contract with NBN Co in December to provide planning and design services to support the NBN rollout.

So if you put all these factors together, you can see how that contributed to the results today and they've enabled us to confirm we are on track to deliver against our full year commitments. And as I've said, we have delivered on our commitments and we are laying the foundations for future growth into the next decade. So let me now throw to Andy who's going to take you through the numbers in detail. Thank you.

MR PENN: Thank you very much, David, and good morning, everybody. In the presentation I will give you this morning, I want to first take you through the overall results and comment on how we tracked against guidance. Secondly, I will take you through our business unit and product performance. Thirdly, I will comment on our expenses and our productivity program. Fourthly, I will provide you with an update in relation to our key balance sheet movements, capital position and portfolio management activity, including acquisitions, and then, finally, I will conclude with some comments on guidance for 2015.

So sales revenue for the year was up 0.6 per cent to $12.6 billion. Total income was up 1.6 per cent to $13 billion and EBITDA was up 0.5 per cent to $5.3 billion, as you heard from David. Our 2014 half-year numbers included contributions from CSL, our mobiles business in Hong Kong, which we sold in May 2014. On a guidance basis, total income and EBITDA were up 1 per cent and 0.5 per cent respectively for income and EBITDA. This was slightly ahead of guidance of broadly flat. Excluding CSL, income and EBITDA were up 6.2 per cent and 3.5 per cent respectively. In other words, we have been able to grow the business in the first half of FY15 to more than offset the loss of income and EBITDA from CSL.

Net finance costs fell 28 per cent and this was driven by a combination of reduced debt, higher average cash balances and the early implementation of accounting standard AASB 9, which is leading to lower volatility in our debt valuations. Net profit after tax from continuing operations was up seven per cent to $2.1 billion whilst basic earnings per share were up 23.4 per cent to 16.9 cents per share.

Commenting on some of the financial measures, accrued capex was down 4.7 per cent to $1.7 billion, and our capex to sales ratio for the half-year was 13.7 per cent. Free cash flow was down 84.1 per cent to$ 0.3 billion, although underlying free cash flow was up 14.6 per cent to $2.1 billion. This is after adjusting for acquisitions and the $1.3 billion that we invested in spectrum during the period.

The Board, as David has said, has declared a fully franked dividend for the half-year of 15 cents per share, up 3.4 per cent on the interim dividend for 2014. Return on equity and a return in invested capital both grew, up 3.9 percentage points and 1.2 percentage points respectively. Gearing fell 2.4 percentage points to 49 per cent, reflecting our strong liquidity position and debt repayments during the first half of the year.

We have seen strong growth over all of our business units, which is very pleasing. Total retail income was up 5.8 per cent to $8.6 billion. Consumer was up 6.9 per cent to $6 billion, with strong growth in mobile ARPU and fixed data subscriber growth. Business was up 2.7

per cent to $2.5 billion, driven by strong broadband and NAS sales, the latter benefitting from strong performances in unified communications and cloud. Global enterprise services was up 3.8 per cent, 1.6 per cent domestically and 14.8 per cent internationally. Importantly, the domestic business was driven by a return to growth in enterprise mobility. Wholesale revenue was up 7.7 per cent to $1.2 billion largely driven by an increase in the NBN infrastructure payments. This was, in part, due to the completion of the transit build, but also in line with the NBN rollout. Turning to sales, we saw continued growth in the first half with sales revenue up 0.6 per cent to $12.6 billion on a reported basis. Excluding CSL sales revenue was up 5.9 per cent. We saw small declines in fixed and data and IP with strong growth in mobiles up 9.6 per cent. In NAS up 18.1 per cent, a modest increase in Media up 3.8 per cent, and other revenues driven by continued growth in Autohome. Autohome which as you know is listed on the New York Stock Exchange has not yet released its December quarter numbers and financials and therefore we're unable this morning to provide you with details of those. Nonetheless, I will comment later on the business as it continues to perform strongly.

I will now walk you through our portfolio performance starting with the fixed portfolio. Fixed revenue was down 1.7 per cent with fixed voice down only 6.9 per cent, one of the lowest declines for many years, as we saw continued improvements driven by customer retention. Fixed data grew 7.8 per cent with retail fixed data up 7.9 per cent. Retail fixed broadband subscriptions grew 87,000 in the half, and we saw a 1.3 per cent improvement in ARPU. Margins in fixed voice declined five percentage points whilst they grew three percentage points in fixed data. This includes NBN fixed voice and fixed data sales and reflects the start up nature of this business. We continue to see strong growth in bundles with 127,000 additions in the half driven by the launch of the new entertainer bundle in May and an expanded Foxtel offer. We now have 69 per cent of the fixed data customer base on a bundled plan which is very important strategically.

Our mobiles business, of course, continues to perform very strongly. Overall, revenue grew 9.6 per cent with services revenues up 7.4 per cent driven by strong growth in the postpaid and prepaid handheld ARPUs. Postpaid revenue was up 8.3 per cent with stronger growth in ARPU up 4.4 per cent excluding MRO. This has been driven through effective data monetization including customer migration to higher value plans.

Prepaid handheld revenues grew 18.9 per cent driven by increased data usage and a 6.1 per cent increase in the number of unique users. In machine to machine revenue grew 17 per cent as we continued to expand in this important market.

The EBITDA margin improved a further one percentage point driven by increased ARPU and operational leverage as we continue to expand the business.

Overall mobile customer growth in the half-year was 366,000 subscribers including 81,000 postpaid handheld new customers. We saw a small increase in churn to 12 per cent although still at world leading levels. This increase was driven by aggressive competitor offers in some segments.

In Data and IP we saw a decline of 2.7 per cent. IP Access revenue grew 1.5 per cent driven by higher – sorry, by an increase in customer connections and the migration to higher value fibre servicers. IP MAN revenue was up 6.9 per cent representing 66 per cent of the IP Access revenues. Slower ISDN declines were driven by access line reduction of 6.6 per cent while ARPU remains steady at approximately $47.

Our IP MAN growth reflects customer wins and demand for scalable high bandwidth whilst the EBITDA margin at 64 per cent was modestly impacted by yield pressures in the IP market.

We continue to see strong growth in NAS up 18.1 per cent in the first half to just over a billion dollars. We have chosen to provide you with some more information in relation to our

NAS portfolio as it continues to grow and increase in its importance. We have broken down total revenues by key product categories as well as by customer segments. During the period we saw strong growth in cloud, managed network services and Industry Solutions. This was driven by existing and new contracts and contributions from the recently acquired O2, NSC Group and Bridge Point. Industry solutions growth was driven by wireless network deployments and the acquisition of SNP Monitoring.

From a segment perspective we saw particularly strong growth in the business sector up 41 per cent to $251 million, and Enterprise and Government up 11.2 per cent to $715 million. As we start to build out our capabilities in Asia we are seeing strong growth albeit off a low base with international NAS revenues up 28.1 per cent.

Turning now to Media and firstly Foxtel. In the half-year revenue growth was 1.2 per cent which was driven by underlying customer and subscriptions revenue growth up 2.9 per cent. This was partly offset by lower advertising revenues. EBITDA was broadly flat as Foxtel invested additional content and support costs associated with the new pricing and packages launches in November. Total subscribers were up 4.7 per cent or 118,000 underpinned by strong support from Telstra Entertainer bundles, the new pricing and packaging, and lower churn. Churn improved a further one percentage point to 11.4 per cent.

In Telstra's books the dividend and total access revenues were flat at $50 million and $60 million respectively. It has also been a very important time for Foxtel strategically. The new subscription video on demand service, Presto, was launched in March of last year and the new pricing and packaging model as I mentioned was launched in November. Since the half-year Foxtel has also launched a triple play broadband service and is well advanced in its preparations for its new set top box launch, the IQ3. These initiatives will be important in underpinning growth in the future.

We also continue to see improved performance in our other media assets. Revenues are up 4.4 per cent to $405 million with a strong contribution from premium pay TV up 8.4 per cent to $322 million. This was driven by the increased take up of the Telstra Entertainer bundles.

The shift in focus towards Foxtel Premium in our bundle offers has impacted Paylite revenues which were down by 17.6 per cent reflecting lower T-Box sales in the period. Importantly though underlying this subscription levels grew and subscription revenues grew. Digital content services were up 2.5 per cent which include revenue by increased take up of NRL and AFL apps offset by declining revenue from feature phone services. The number of T-Boxes sold to date is now 800,000 up 16.4 per cent with the growth in Foxtel on T-Box up 22 per cent.

Turning now to International. As I mentioned earlier we are unable to separately disclose Autohome's results for the half-year as these have not yet been released to the market. The table in the chart shows, however, the compound annual growth of more than 65 per cent in revenue in EBITDA over the 12 month periods ending June 2012, 2013 and 2014. In addition sales revenue for the September '14 quarter which has been announced by the company was up 64.6 per cent in local currency and Autohome's guidance for the December quarter which they provided for the market in November is for continued growth in the range of 58 to 65 per cent for that three month period.

In our other International businesses the sale of CSL completed in May 2014. Global connectivity was up 10.7 per cent or 4.7 per cent on a local currency basis driven by the continued increase in wholesale carrier data and growth of retail IP solutions. International NAS was up 27.9 per cent in local currency to $41 million.

On 23 December we announced the acquisition of the Asian telecommunications and services provider, Pacnet. This is subject to certain approvals. The important investment will accelerate our growth in international connectivity and NAS in the region. The Pacnet acquisition will double the scale of our enterprise business in Asia adding 2,400 enterprise customers and 220 carrier customers. In financial year ’13 which is a calendar year for Pacnet they generated revenues and EBITDA of US$472 million and US$111 million respectively. Due diligence has confirmed the FY ’14 performance was in line with our expectations and consistent with the positive trends in the business over the last few years of repositioning to higher margin business.

Pacnet’s existing products and services including connectivity, bandwidth and IT solutions, data centre hosting and co-location services will all be fully integrated into our global connectivity and NAS business. From this we’re targeting run rate synergies of approximately A$65 million per annum, and we’re already well advanced in relation to our integration planning.

In addition, the China joint venture is licensed to operate a domestic VPN service and provide data centre and hosting services in China. This will support our aspirations to grow in that market. We expect to complete the transaction in the June quarter of 2015.

During the six months, we have recognised NBN related income of $385 million. Receipts from the Commonwealth Agreements reduced following the full recognition of the Information Campaign and Migration Deed last year while revenue recognised under TUSMA increased. The strong growth in NBN income for infrastructure payments and PSAA payments was driven by the completion of the transit build and increased progress of the NBN rollout.

Also, as announced prior to Christmas, we have signed a contract with NBN Co to provide planning and design services to support the multi technology build.

Let me now turn to our expenses. Total expenses increased 2.3 per cent to$ 7.69 billion. In the period, our additional investments in DVCs and business growth were $260 million and $210 million respectively. We also invested a further $170 million in new business initiatives and inherited $120 million of costs from the acquisitions that we made. Against these increases, our productivity and simplification program delivered a further $196 million in expense benefits for the period.

Turning now to capital and portfolio management.

The strategic framework that we use for capital management and which we presented to the market more than two years ago now remains that against which we make all capital decisions. We completed the $1 billion buyback during the period which was executed at the share price of $4.60. In addition, we announced today the Board’s decision to reactivate a dividend reinvestment program. This follows our continuing engagement with our shareholders as we seek to respond to their feedback. The DRP means that our shareholders can choose to reinvest their dividends directly into our shares effective from the 2015 final dividend payment.

We expect to purchase shares on market to satisfy the DRP take-up although we do have the discretion to issue new shares in the future. And for regulatory reasons, participation will be limited to shareholders with registered addresses in Australia and New Zealand.

And, finally, we ended the period with a strong position in cumulative excess free cash flow of $3.3 billion. This strong position is after financing acquisitions in excess of a half a billion. Our investments covered acquisitions in NAS, in SNP Security, Bridge Point and AFN Solutions. In our Software division, we acquired Ooyala and Videoplaza as we seek to build a leading global platform in intelligent video and we made a number of important investments in our eHealth program totalling $67 million.

We also continue to make investments via Telstra Ventures in organisations such as BigCommerce and Matrixx, the latter of which provides real time billing technologies for telecommunication companies.

Overall, our balance sheet remains very strong. Our net debt reduced to just over five per cent to $13.1 billion. And all of our financial parameters remained at the very conservative end of our target range to meet a single A credit rating. Our average gross borrowing costs for 5.9 per cent on a net base and our average debt maturity reduced slightly to 4.6 years. I mentioned previously the free cash flow on a reported basis was impacted by the payments for the 4G 700MHz spectrum as well as the funding of acquisitions.

And, of course, we also completed the sale of a 6.4 per cent interest in Autohome for A$333 million which was at an average share price of US$42 bringing our net residual cost in the asset below zero.

Before handing back to David, let me make a couple of comments in relation to guidance for the balance of 2015. We expect to continue to deliver low single digit income and EBITDA growth to offset the loss of income and EBITDA from CSL last year. In FY14, this was just over a billion dollars and just under $300 million respectively. Our guidance, therefore, remains income and EBITDA growth in FY15 to be broadly flat, our Capex to Sales ratio to be approximately 14 per cent and our free cash flow to be in the range of $4.6 to $5.1 billion.

Thank you, and I will now hand back to David.

MR THODEY: Thanks, Andy. I think that's a good summary of the half. What I would like to do now is to walk you through just our progress against what we would call our strategic priorities. But just to restate, you know, it really is pleasing to see the strategy, you know, result in some wonderful results. You know, revenue growth up across all segments. In fact, I can't remember a half where we had that strong a growth across all the segments. You know, strong customer growth; revenue growth in mobiles, NAS, IP access, fixed data and Media. So all the product portfolios really doing well and then the fixed voice decline slow down is one of the slowest we've had for a number of years, so really strong results.

But let me move on. Let's talk about the three big strategic priorities. You know, number 1, improving customer advocacy; number 2, driving value from the core and then building new growth businesses. So I'm going to go through each one of those in a bit of detail.

So without question, improving customer advocacy continues to be our number one priority. We continue working to transform Telstra into being what we would like to think as a great customer focused company. Now, this is a long-term commitment but it happens every day and we have hundreds of thousands of opportunities every day to serve and hopefully deliver a great service to our customers.

Now, a large part of this is really about listening to our customers and they give us a lot of feedback every day. We take a lot of surveys that give us a lot of really insightful data but, at the end of the day, you've got to do something about it. I mean, as you know, we've embedded the Net Promoter System very deeply into the business and that has been a journey over five years and I'm pleased to say that the NPS continued to improve over the half. We have identified three key areas where we can increase on our commitment to our customers and I want to go through those. What it's about at scale. How do you really deliver personalised service so people feel like an individual?

Secondly, how do we provide a better experience when people interact with our networks and then, thirdly, how can you become more responsive? How do we become more responsive in meeting their needs in terms of keeping customers informed, you know, delivering great products and services and also creating real value. I mean, things that are easy to say and really hard to do.

So let me talk about personalised service and, remember, this is personalised service at scale and our interactions with customers each day. You know, over 100,000 people come into our shops, nearly 300,000, 400,000 calls at our call centres. We go into about 50,000 homes every day.

So this is about how do you create every one of those moments to be something that is really personalised? So we've introduced a new program called "You have my name" and this has been, you know, a big audacious goal. Customers are given the name and contact details of the person that they speak to whenever they ring our contact centres or go into the shops and it gives you somewhere to go back to if you've got a problem or if you need more information. So in our contact centres, we're sending about 70,000 personal emails and text messages back to our customers every day. Our stores provide customers with personalised business cards. About 7,000 from the previous day, we get in contact with those people.

And, in the field, when the technician comes to your home, they leave you with a personalised card and we've done about 1.2 million of those. Now, that's a real change for a company like ours.

We've also started to make calls to customers when we know that there may be an issue. So trying to be proactive rather than waiting for the issue to come back at us and reaching out proactively has been really important. And as well as that, we're trying to say thank you. We're trying to say thank you to our customers for being a customer. And, you know, our loyalty program has been around a long time but we're trying to make this personalised as we roll it out and I think so far it has been about 3.6 million 'Thanks' initiatives where people can get access to a unique experience because they're a Telstra customer, be it going to a Katy Perry concert through to going to a, you know, a movie at the cinema. So, great examples of how to just be a bit more personalised.

We are also committed to giving customers the choice of how they interact with us and this has been really important because people like to interact but people are busy and we don't want to make it a hassle to deal with Telstra. We want to make it easy. So we now have about 800,000 online interactions. Our 24/7 mobile app has been incredibly successful. You can do many different things: buy data packs; even buy your 'Thanks' cinema tickets through that. And we've got about two million regular users of the app every month. And we plan to introduce a lot more online services as we go forward, as we try to make it easier for customers to deal with us.

So that's about creating personalised service. In terms of creating a better experience, as you deal with our world class networks, you all know you're dependent on your mobile phone, your fixed broadband interconnection. It's just becoming fundamental to your life and, of course, many businesses across Australia. Look, we don't think about networks just as infrastructure. But we think of them as the way people live and work and that changes the perspective in terms of how we respond. Many people are driven by wanting to have access to the latest mobile technology and we've been astounded the success of our offer, the New Phone Feeling, which allows you to get a new phone every year and we've got about 600,000 people who took up that offer, which was really great, over the last 12 months. And so the handset has been – you know, is a really big part of the offer we have. And, of course, we have continuing demand on making our mobile network and fixed broadband access bigger. And the mobile network is now 2.3 million square kilometres, and that's a big network in anyone's language, so that's really great how we continue to build that out. So that experience of dealing with the network is just really, really important and we need to keep making it easier and, you know, just more alive.

Thirdly, our customers tell us that while technology is really important in their lives, you know, sometimes it's just a bit too hard, and they're asking us to find ways to take away the confusion, take away the challenge of configuring a Wi-Fi hotspot or whatever it may be, so they need us to be more responsive. And so we're really taking some really, I think, proactive initiatives to really change the way we interact. So let me give you some examples.

You know, the real time data alerts – that's a big part of people knowing how their usage on their phone is going – has been really successful in avoiding people being surprised at their data usage at the end of the month.

We have cut domestic excess data rates in our postpaid plans by 70 per cent in the half.

We have introduced a new International Travel Pass that really does help customers that are travelling overseas to have more predictability about their usage.
We have also launched a service which allows customers to top up their home broadband for free, three times a year, when they go over their data limit.

During the half we had more than 130,000 customers who participated in the – what we call the Telstra Platinum Service. This is a value-add, chargeable service where people can get additional help in terms of configuring their home environment or whatever help they need, so that's been very successful.

And then the Stay Connected program which allows you, should you lose your phone or you need – or your break it, but you get an immediate replacement, that has been really successful in terms of giving people assurance and insurance around their phone.

And I'm pleased to say in the business enterprise area, some tremendous initiatives we've been driving out there, the new offerings around cloud and business apps, co-created industry solutions, very uniquely, for specific customer segments and, of course, really strong project delivery and finding ways to really serve business customers and enterprise customers in new and wonderful ways, so great progress there.

So, as you can see, we're not standing still. We've got to continue to change the game, reinvent ourselves as we go forward because it's all about serving customers because if you don't serve customers, they will never be your advocates. You've got to – and you've got to keep renewing yourself as you go forward. So this will remain our number 1 priority as we move forward.

Second area, investing in our core business.

Andy has talked about the strong mobile revenue growth and our higher ARPU and that's really important. Customers are using these services more and they're willing to pay more for it.

The iPhone 6 launch was our best iPhone launch ever, and we've seen growth in the number of connected tablets and, of course, there's data sharing, which has been a really big part of making it easier for customers to deal with us.

There are now 6.7 million 4G devices on our network. That's about 40 per cent of the base, including 4.9 million handsets. Critically, and this is a bit of a – one of those points of inflection, the number of 4G devices is now greater than the number of 3G devices. That's a significant change.

This half also saw higher fixed broadband revenue and ARPU growth as well. We're seeing customers migrate to higher value plans in both mobiles and fixed broadband, as their data usage increases, and that's all about creating value.

We see content as a very, very important driver of growth, and you saw the numbers in terms of the increase in take-up of the bundles, IPTV and pay TV, and that will continue to be a key part of our strategy, moving forward.

Many customers choose Telstra because of our networks, and during the half we continued to invest in these networks, about $1.25 billion also, in terms of the 700MHz spectrum, which Andy mentioned, which we think will position us very strongly as we move forward.

At the end of December there were more than 1.1 million 4GX devices. This is the new generation, and they are going incredibly well. 4GX services now reach about 1,000 towns and suburbs across Australia and, as I said, the performance is great, delivering top speeds up to twice as fast as on a 4G network with a compatible device.

We're also building Australia's largest national public Wi-Fi network, and that's going very well. We've built out 1,000 Wi-Fi hotspots already by the 31st of December and you probably have sent those bright pink Wi-Fi signs, and they are attracting people. It's great to see people re-congregating around our payphones again, which is just wonderful. We also aim to offer access to these Wi-Fi spots both all around the country, but also internationally, and we think, you know, over the next period, about 13 million hotspots around the world that people will be able to access, which is just, I think, very exciting.

As we do all that, it is very important that we have a simplicity agenda for our customers. We need to be easy to do business with. And, you know, as you know, it is a complex business, but what we need to do is to make it easy for customers to deal with us. And we don't always get it right, but we're getting it right more times than not. And we are trying to remove complexity, streamline processes and helping the business become more responsive in a changing global market. As I said, the business is complex but we have to make it simple for our customers because that drives savings, creates, you know, more reliable performance and, of course, it delivers a better quality outcome for our customers. So we must continue to invest in driving growth from our core business and build real differentiation and leadership, in terms of how we deal with our customers. That was the second one.

So let me turn to the third one about laying the foundations for growth because this is a very important initiative. As you know, and as I've spoken about repeatedly, we see tremendous opportunity in this Network and Application Services arena, what we call NAS. Andy has already mentioned, in the half, revenue was up 18.1 per cent to more than $1 billion and this increase was driven both by existing and new contracts, as well as the contribution with the acquisition made with O2 and Bridge Point. And, very pleasingly, we're starting to take these new NAS offering into Asia.

So during the half, Andy showed you the numbers, revenue was up 28.1 per cent. Now, it was off a low base, but we're starting to see a good response from these offerings - because Asia is such an integral part of our growth strategy and we really are focused on leveraging the capabilities we have here in Australia and taking them into Asia. So why would we do that? What differentiation do we have? Well, I think we have got great proven capability in managing these large, complicated, diverse data networks. We have a great portfolio of service solutions that are very easily transferable from here in Australia into Asia, and they need a degree of sophistication. And, of course, we own and operate some of the most advanced and extensive undersea cable networks, but, more importantly, the IP network that sits across that.

Now, that's why the Pacnet acquisition was so important to us because that now puts us in a total leadership position in terms of being the pre-eminent player within Asia, in terms of undersea cable and connectivity. And this will be about serving enterprise service customers and multi-national customers right across the region. This is very important because Pacnet and our existing network, combined with our network apps and services, will create real differentiation as we go forward and I think puts us in a unique position to really drive forward and take advantage of the enormous growth prospects in Asia, and Andy took you through some of the details of that ..... between network data centres, the cables themselves and the licences we get just put us into a whole new position with Pacnet. So this is obviously still subject to certain approvals and – but we plan to complete it by the end of this financial year in the fourth quarter.

As well as doing all that, we've got to continue to pursue selective adjacencies and find new, innovative offers for our customers. We're committed to building, firstly, a truly national, connected eHealth environment, what we call eHealth network, for Australia. During the half we invested over $67 million in eHealth and our ambition is definitely to be the leading provider of integrated eHealth solutions and services in Australia. Since the 1st of July last year, 2014, we've made six acquisitions and joint ventures, to bring the total number to 14. This includes our 100 per cent acquisition of iCareHealth and Telstra Readycare, a joint venture with the world leading based tele-medicine company, Medgate, so a lot of activity in this area. So e-health is very important as we move forward.

We've also continued to build our focus on software with a new Telstra Software Group, and that was the investment of $366 million in the half to acquire Ooyala.[1] Now, remember Ooyala is a leader in video streaming and analytics taking video content to the web, and this is where the whole distribution of video content is going, and we've increased our ownership to 98.9 per cent. Ooyala subsequently acquired a company called Videoplaza out of Sweden in Stockholm, and that will allow us to tap into the fast growing video market and build, ad insertion into the offering we have.

So Asia, e-health and software continue to be absolutely key focus areas as we drive out growth, growth for the future, and it is these initiatives that will lay the foundations for growth, we believe, into the next decade.

So let me just, you know, bring this all together.

Firstly, a strong set of financial results for the half.

We think our strategy is delivering and we're getting continued customer growth. We're getting strong growth in advocacy and we continue to invest in our core business while laying the foundations of our new growth businesses.
I do want to also mention that very important aspect that Andy talked about, about creating shareholder value. EPS and DPS growth have been really important as we focus over the half.

We've also optimised our equity holding in Autohome as Andy mentioned realising, you know, a net proceed of more than $333 million while maintaining a controlling interest in the Autohome asset. As you know last August we also did the $1 billion off-market buy-back which we saw, you know, good strong demand for, and we were very pleased with that initiative, and today we have also announced the re-activation of our Dividend Reinvestment Plan. The DRP will be reactivated for the final dividend to be paid in September 2015. It will provide shareholders with an easy and cost effective way to increase their shareholding, and we know this will be very popular with our retail shareholder base as has often been requested over the years.

So, finally, today's strong results are a credit, are a credit to a wonderful senior management team and all the hard working people in Telstra. You know, without their commitment, their passion, you know, because they are really the driving force behind any results that we have, and I do want to just conclude by saying, you know, it's a real pleasure to work with them all. They are a great senior team, but it's a wonderful company, and it's just a real credit to them, and I think tremendous recognition of their efforts, all the great results that we're seeing at this half.

So that's it. Let me now pause and we will be happy to take your questions and I will go and join Andy, so over to you, Peter.

[1] $366m reflects total investment in Ooyala and Videoplaza combined.

MR KOPANIDIS: Thank you. So, in relation to questions if you could ask, if I could ask you to please limit them to two questions at a time. If you can introduce yourself and the organisation you represent that would be terrific. Thank you.

MR S. CHOPRA: Morning. Sameer Chopra from Bank of America, Merrill Lynch. Great set of results. Congratulations. I have two questions. One as you know, David, you spoke about longer term margins and aspirations around that. I was wondering if you could give us a sense of where the NAS margins are at currently, and of that $196 million productivity benefit that was realised how much of that was directed towards – towards NAS? My second question is that you had good growth in internet subs. Could you give us a sense around how market share is tracking on the NBN? Thank you.

MR THODEY: Yes, yes. So, thanks, Sameer. Yes, look, we've seen actually really strong growth in our NAS margins from the last half. As you know it's – it's cyclical with the big deals that we do. We plan to give you a bit more insight at the October strategy update. I mean, our target margins are still, you know, in the mid 20s because it's a more a gross margin because there's not a lot of capital in the business, and we're getting, you know, starting to get closer, and I'm – I'm pleased with the progress, but we're going to give you more insight there because we've just got to unpick that a bit, but generally very good, so the guys are doing a great job. Remember it's a lot around labour productivity, the type of deals you're doing. The defence contract has sort of flowed through and that's why we're starting to get a good increase. In terms of NBN, you know, share, we're pleased with that. It's, again, as I've said before, ahead of our, you know, fixed broadband traditional market share and – so it's going well, but, yes, it's still early days in terms of the number of, you know, the rollout of the NBN, so, but we're pleased where we're at.

MR CHOPRA: Thank you.

MR THODEY: Did you want to add anything else, Andy?

MR PENN: Actually, just to the point, so it therefore follows, Sameer, that certainly some of the $196 million of productivity benefit definitely went into NAS because ---

MR THODEY: Yes, sorry.

MR PENN: - - - we had several percentage points of improvement as David said in the margin, but we will – we will take you through a bit more a deep dive on the enterprise services and NAS business in October.

MR A. LEVY: Andrew Levy, Macquarie. I just want to ask on the mobile division the service revenue picked up relative to last half whether you could talk through – I think Warwick has sort of said there's some abnormalities that come through period to period, but, you know, how much of that is sort of a structural re-acceleration in your growth? How much of it might be driven by other things, and sort of what the outlook is there? And then the second question was just on – in NBN areas, what the – what the cost outlook is like in terms of customer acquisition costs and how that's playing out?

MR THODEY: Okay. I will just make a few comments and then I will get Andy here to give you some of the details. Look, in terms of the – the underlying growth has really come from ARPU increase, but there was some one-offs from the prior period, but it's not significant in the bigger scheme of things. If you look at the ARPU growth it has been really strong and that has been as we move customers through to 4G, 4GX they are using it more, and the plans seemed to be, you know, just nicely balanced at the moment. I know a lot of us have looked at this over the years. We see these transitions and it has been really pleasing to see the great management of ARPU, and it's right across, I mean, Consumer very strongly, Business as well and Enterprise, so really pleasing results. I will get – Andy may want to add a little bit more colour to that.

In terms of the costs for activation in NBN is still high because we're still so early in the cycle and because we had to do a lot of IT systems development, some of it wasn't ready, the interfaces and the NBN weren't there, so they're not where we want them to be, but we know where we need to be, but it's not unusual when you've got a new big product coming in, but we manage that on a monthly basis, and,– it will get there, but, you've got to do a lot of automation in terms of how you, you know, interface with the NBN Co, how do you get the truck roll right. We've moved out into the self-install kit which is great and that's driving the cost down, but more work to do in that area.

MR THODEY: Andy, do you want to comment on this? ---

MR PENN: No. Well, just to reinforce the point. I mean the services revenue growth is driven by really two things. It's the increase in the number of customers, and, as David said it's the underlying ARPU which is the monetisation of data and customers obviously, you know, are very much enjoying the experience. I think, I mean, on – on the NBN side just to be clear we have included the NBN new business in our margins on the fixed side for both data and voice in this half which we previously hadn't, but as the business is now starting to albeit David – David said it's still very early days, but as the numbers start to increase we thought that was helpful.

MR LEVY: And just to follow up then on – on the mobile answer if – if 4GX is sort of driving some of the ARPU uplift should we assume that the December quarter ARPU sort of picked up relative to September quarter – you're accelerating through the half?

MR PENN: Yes, our trends on ARPU have been improving and this is probably the most significant growth in ARPU or rather the first period of significant growth in ARPU for a very, very long time.

MR THODEY: We will come back on the quarter. I – sorry, I don't know off the top of my head but the trend lines are all pretty strong.

FACILITATOR: Thank you. Your first question is going to come from Nathan Burley of CBA. Go ahead, please.

MR BURLEY: G'day, guys. Just a quick question on the dividend. You've still got three and a half billion dollars of excess cash flow sitting there on the balance sheet. I'm just wondering why you didn't look to increase that by another half a cent per share as you've done over the last year or so.

MR PENN: Thanks, Nathan. It's Andy. Look, I mean, I think we've been pretty consistent. We've got a very clear framework against which we make all capital management decisions. The policy on dividend is, you know, we do seek to increase the dividend over time on a fully franked basis but we need to, therefore, do that in such a way that, you know, looks to us to be able to do sustainably and look forward to growth. So we increase half a cent, which is a 3.4 per cent increase. It takes us to a payout ratio of 89 per cent so we obviously want to be at a payout ratio below 100 and, of course, we need to have an eye to our franking as well where, you know, we've taken pretty – a position of getting the franking for the shareholders as quickly as possible. So, you know, when one takes into account all those considerations, we felt that –or the Board, rather, felt that the half a cent increase was the right level.

MR BURLEY: Okay. Thank you.

FACILITATOR: Thank you. Your next question will come from James Freeman. He's from Deutsche Bank. Go ahead, please.

MR FREEMAN: All right. Thank you. Guys, just on slide 14, you talk about the growth in NAS. You mentioned acquisitions obviously played a part particularly in the Industry Solutions. Just an idea as to how much of that growth was relating to acquisitions versus, sort of, the organic growth? And the second question just on the mobiles, I'm just trying to get an idea as to where you think you are in terms of planned migration. You mentioned obviously people moving up on the data allowances. Just where you think you are, how much further there is to go on that planned migration story?

MR PENN: If – maybe I just answer the first question on acquisitions and, David, you might want to comment on the mobiles point. So some of the growth in NAS was as a consequence of the acquisitions but it was the smaller part of the growth. We saw strong underlying double digit growth in the NAS business, notwithstanding the acquisitions.

MR THODEY: Right. So I think we're just at the beginning of the migration. We've got, you know, sixteen and a half million services out there at the moment. What have we got? Four million 4G and about a million 4GX, I think, were the numbers we used. So we've still got a long way to go in terms of that migration. Look, I remain an optimist. I know there are different views amongst my colleagues and the analyst community. We've got a long way to go in terms of connectivity, in terms of the mobile industry. I mean, as I said before, the use of tablets, the connectivity to machines, you know, the opportunity to replace every PC or at least augment every PC with, you know, some sort of mobile device, cars will be connected. Now, they all have different ARPUs but in terms of the opportunity, I just – I get excited. So, now, I think that you've got to manage the ARPU usage in terms of normal usage and we will do that so we've got lots of opportunities to move people through to that. So still, you know, I think it looks pretty good going forward.

MR FREEMAN: Great. Thanks, guys.

FACILITATOR: Thank you. Your next question comes from Ian Martin, CIMB. Go ahead, please.

MR MARTIN: Good morning and, look, well done. It's a great result, particularly, your ability to monetise that mobile performance. You took some big decisions not just in the half-year but previous years and that's, I think, now paying off. I just wanted to explore a bit further the question Nathan asked, particularly around, I guess, now that we are seeing some monetisation, success in the strategy. Andy talked about increasing the earnings and DPS at a steady rate. You've already got a set of financial parameters though that are below your target levels and particularly with the NBN payments and the growth over the next couple of years as things unfold, if you simply maintain a steady increase, those financial parameters are going to get even stronger and so I just wondered how this plays out efficiently in terms of shareholder returns if you're just talking about steady increase in dividends while that cash flow is growing so strongly.

MR THODEY: Firstly, thanks for the question and it is a question that we spent a lot of time on with the Board so I – and I will get Andy to go back through the framework. Look, we are being pretty disciplined around the framework, to be quite honest. And, you know, we want to have sustainable long term growth and dividends and that's really important rather than looking at one-offs, as you've seen there, and looking at the most prudent way to do good capital management. But, yes, you're right—as the ramp-up in the NBN we do get more cash but I just want to stress that hasn't happened yet. We're just at the early stages and we've had, you know, a slower beginning on NBN than what had been forecast by the government.

So when you come back and look at that, I think that we're obviously prudent in terms of setting any precedents going forward. Now, we've made a decision, you know, I'm sure the cash will flow but the timing is still to be determined. But let me get Andy to make some more comments. But, yes, we're very conscious of how we return value to shareholders.

MR PENN: Yes. Look, what I would add, Ian, is that, you know, it is obviously trying to ensure we get absolutely the right balance and that's the objective that we set ourselves from a capital management point of view. It's the balance between maximising returns for shareholders, retaining financial flexibility for portfolio management, including acquisitions, and also having that balance sheet setting targeted towards a single A credit rating which just gives us the capacity to access the markets we need to access in financing, so maintaining financial strength. On the dividend side, you know, we – our payout ratio, as I mentioned, was just under 90 per cent. Our earnings per share last year was 34 cents. That included some of the gain on the sale of CSL. Our earnings per share at the – this half-year is 16.9 cents. So, you know, I think it's about just pitching the dividend at the right level so that it gives shareholders confidence that we will be able to sustain that dividend and growth in the dividend over time. I think that's what, you know, our sense of what our shareholders value the most is a strong dividend but it's a sustainable dividend with growth potential over the longer term. And it's as David said, it's about getting that balance right.

MR THODEY: And we do agree that the balance sheet is very strong and we do want to make sure we're using it appropriately.

MR PENN: And I think, David, just to add. I mean, on the portfolio management side and/or the capital management side, I mean, you know, we – as we demonstrated in the half-year, I mean, we're very attuned to opportunities to do effective capital management initiatives. So the $1 billion dollar buyback took advantage of a particular set of circumstances regarding franking, as you know, and our strong free cash flow position from the sale of CSL and Sensis. And we executed that, I think, very effectively at a share price of $4.60.

MR MARTIN: Thanks for that.

FACILITATOR: Thank you. Your next question comes from Raymond Tong, Credit Suisse. Go ahead, please.

MR TONG: Yes, Raymond Tong from Goldman Sachs, actually. Just two questions. Just in terms of the mobile ARPU, how do you see these trends moving into the second half? Just wondering whether we should expect actually growth to accelerate a bit further, just given, I think, a bit of ETC provision that you took in the June quarter last year? And, secondly, in fixed voice, you saw improved trends down 6.9 per cent during the half. David, just wondering how you guys think about, I suppose, decline going forward and how sustainable this is just given, I suppose, the increasing NBN footprint?

MR THODEY: Right. Okay, Raymond. I think on ARPU we see it consistent going forward. I don't think we're going to get enormous uplift, but I think, you know, consistent progress there. And I think it's driven by - migration to 4G, 4GX is the critical thing there. In terms of fixed voice, look, we work very hard to keep it as low as possible. The bundles, and we've always had that strategy, is the way that you can manage this, and it was pleasing to see another 120,000-odd, you know, customers take up the bundle. We're going to continue to do that. But there will be dynamics going through, as NBN rolls out and that's the thing we've just got to balance out. Now, at the moment, if you look at the NBN rollout schedule, in the next half it doesn't look, you know, untoward in what we had in the first half, but that will start to change, I think, as they get FTTN going. Now, we're only as aware as you are of what's published, - published in terms of the NBN rollout, and that's the numbers we're working off.

MR TONG: Okay. Thanks very much.

FACILITATOR: Thank you. Your next question comes from Richard Eary at UBS. Go ahead, please.

MR EARY: Good morning. Just a couple of questions from myself, just on the expense line items. I mean, obviously, we've seen some very good numbers come out from the revenue side, but I was probably a little bit surprised in terms of the expense growth and the margin compression across the key product groups, you know, i.e., no real expansion in margins from mobile, despite the revenue growth, and it's probably anticipated by churn, PSTN margins now down to 56 per cent, no expansion in broadband margins, despite, you know, nearly eight per cent growth. So I'm just trying to understand what's going on within that. And, from reading the accounts, there was clearly a lot of growth in the expenses and other expenses. So I don't know whether you can give us sort of any more colour in terms of why the expense growth is happening to that degree and why we're seeing compression in product margins when we are actually getting good at revenue outcomes?

MR THODEY: I always look to you to have a positive view on our accounts. Let me take you through some of it then I will get Andy to. Look, the expense growth—did you look at the DVCs and the COGS? We had a very big recontracting period, and – which we're very pleased in terms of mobile growth, which you would expect, I'm sure, having looked at the accounts, to have seen that. Labour was pretty reasonable, but because we've acquired some companies, and it's early stage – so I think it's all pretty explainable. But I will get Andy to take you through it. I – I thought the margin results were pretty strong, compared to, you know, what I've seen forecast from some analysts.

MR PENN: Yeah, well, just that to that point– I don't think it's true to say, Richard, that we didn't see margin improvement in fixed broadband. We did. We saw three percentage points of improvement. And also, as I mentioned, that included, you know, the resale of NBN-related product, obviously, which comes at a – at a lower margin. So notwithstanding that, we saw a margin improvement there. We also saw the one percentage point improvement margin in mobiles and, as I mentioned, whilst we haven't disclosed our margins on NAS, to an earlier question, we confirm that we saw a several percentage points improvements in our NAS margins. So – I mean, overall, a strong performance there.

On mobiles, of course, you will appreciate because we had, again, a strong performance in the first quarter in terms of subscriber numbers, you know, there's some acquisition costs associated with that, but notwithstanding that margin has still improved by one per cent. As David mentioned, we had DVCs of $260 million increase in the first half of which mainly was mobiles. We then had about another $200 million – $210 million funding growth. Autohome was generating a lot of revenue through some promotion and advertising that it has been doing in China. That was part of the driver there. NAS growth – we've got 18 per cent growth in NAS. And, of course, we took on more than $130 million of expenses as a consequence of the acquisitions that we've done. So against all of that, you know, we got productivity of about $196 million. So I think the main area where the margin reduced, which is not surprising, is on the fixed voice side, where revenues continue to decline, but I think we've, you know, again managed to mitigate the impact of that through the productivity.

MR EARY: And just on, obviously, productivity benefits. I mean, these have now come down, you know, obviously - you know, a couple of years ago it was $1 billion, and then it was $800 million and now we're down to less than $200 million. Is there are room to ramp that productivity benefit up ?

MR THODEY: No, no. No, Richard, that's not right. The – in that expense waterfall, it only shows expense. We're still targeting $1 billion gross for the year and - - -

MR EARY: Right.

MR THODEY: - - - and all we're showing there is expense. I think last half was about $230m versus the $190m-ish, so, yes, a little bit of slowing, but that's just seasonality, in terms of the expense base. No, we remain as committed and as confident of doing productivity improvements as always. So I'm not quite sure – we probably need to take you through the numbers a little bit more, Richard, so you can understand it.

MR EARY: The last question, David, just on the guidance side, I mean, obviously, after a strong first half revenue position, is there any reason why you haven't been more upbeat in terms of full year guidance on the revenues rather than the EBITDA?

MR THODEY: No. No particular reason. I mean, we're just continuing to, you know, hold to the forecast.

MR EARY: Okay. Thanks, guys.

FACILITATOR: Our next question comes from Sachin Gupta in Nomura. Go ahead, please.

MR GUPTA: A few things. Firstly, on the ARPUs again, mobile ARPUs. The increase in this half – I understand you've been migrating customers up. I'm just wondering what changed in the last half, which wasn't the case in the previous half? I apologise if I missed this earlier. And also the churn levels – they have picked up slightly. Are you slightly concerned, given recent changes from Optus, in particular? I mean, their result has just come out and they are looking for mobile trends to pick up as well. And, lastly, Andy, just on this international NAS, I understand the PT Telkom joint venture but how do you intend to tap into the rest of the NAS opportunity in Asia? Is it through joint ventures mainly or, you know, organically as well? Thank you.

MR THODEY: Okay. Sachin, so the first question was increase in ARPU and why didn't we see it in the previous half? And that's really driven by the mix of handsets, we're seeing more 4G, 4GX coming through. Do you want to comment?

MR BRAY: In the last half we had international roaming...[inaudible]

MR THODEY: Ah right. That's the other one...

MR BRAY:...[inaudible]... and that dragged on ARPU in the last half, and we're not seeing – and we – that drag doesn't exist as much. The other benefits we're getting to ARPU at the moment is New Phone Feeling and Stay Connected, which is more of a benefit this half than in the previous half.

MR THODEY: So, Sachin, did you get that? The biggest one – there's the mix change, the international roaming was going down faster in the previous quarter and that's stabilised and then on the upside we've had these new offers in the market. So that's been the mix there. Churn levels, yeah, a little bit up, but, you know, still world class in terms of that. Look, we – we're very carefully managing, you know, our ARPU, our yield and market share. Yes, there – it's more competitive in some segments of the market, but not all segments. The – you know, there's been, you know, some focus in the very low end of postpaid segment, which we continue to look at and make sure that we're covering it off, so I feel comfortable, but, yes, I read the same messages that you read as well and – but I don't think that they have changed much in the last three years, actually, but I do understand that.

In terms of international NAS, look, we will look at what makes best sense in every country. Sometimes it will be a JV, sometimes it will be a partnership, sometimes we will be there in our own right. And, as you know, I wish sometimes that Asia was a homogenous market, but every country is different, every – the dynamics of every market are slightly different. So we – we look at what makes best commercial sense and what is the most realistic in any market. Andy, do you want to add anything to that?

MR PENN: Well, just that – I mean, obviously, it's driven by a combination of the factors that David mentioned, the regulatory environment, the partnerships that are there, our ability to tap in to local customers, so – I mean, the acquisition of Pacnet is going to be a very important strategic platform for us off of which to build, the access to the China licence there is going to be really important, the PT Telkom JV that you've mentioned. So, you know, I just think to reinforce David's point, we will take an appropriate response to each market, depending on, you know, the regulatory environment and the opportunities that exist. But we're pretty excited because I think, you know, certainly the growth opportunity in the region is accelerating and the Pacnet acquisition will, effectively double our footprint in the region through customer – increasing the customer base. So, yes, we are – we are very positive.

MR GUPTA: Thank you.

FACILITATOR: Thank you. Our next question comes from Fraser McLeish, Credit Suisse. Go ahead, please.

MR F. McLEISH: The number of mobile growth obviously in the – in the half. I guess – I guess my sort of concern on the mobile side is really that there has been some quite major structural pricing changes from some of your competitors recently. I'm thinking really about moving to unlimited voice and sort of data sharing. Obviously, you didn't see any impact in the half of that, but is that something that you, you know, think is a market trend and do you need to, perhaps, move towards in the future? Thanks.

MR THODEY: Well, Fraser, I mean, I think we should go back and get the history right. We were the first to put data sharing into market nearly 18 months ago, nearly two years ago. Unlimited voice has sort of been there in various forms over the period, so, but, look, your point around pricing pressure in the market is, yes, there's movement, but, you know, we continue to drive differentiation around our network and the speeds that we get and, you know, the size of the network, and many customers say, look, that's really worth a lot of money to us.. But, look, we never – we never relax, and I would never, ever imply that it's not important we look at what's going on. But are we more concerned this half than other halves? No, because I think, that there is a bigger issue here around the profitability of the industry and all – all players want to see, you know, a healthy business that allows them to re-invest, and so I'm very pleased to see, you know, Optus, investing a lot of money in building up their network, and I'm sure Vodaphone is doing the same, and that allows good competition based on good fundamentals because all of us have shareholders that need returns.

So I think that there will be, you know, some competition in some segments, but we will remain very vigilant, and as I've always said will remain competitive, and that has always been the case, so nothing has changed in the last five years, and I don't expect it's going to change in the next five years.

MR McLEISH: Great. Thank you.

FACILITATOR: Thank you. We do have one last question and it comes from Justin from Citi. Go ahead, please.

MR DIDDIMS: Thanks very much. Just two questions from me. Firstly, yes, the mobile margin obviously in this half stayed at 40 per cent because like you said you were giving away a lot of phones. I was wondering if you could give us an indication of the volume of gross adds in the mobile market because, you know, if you were giving away a lots of expensive iPhones then, you know, it would strike me that in FY16 you should see a material step up in your margins, you know, as you rotate off that upfront cost, and then the second question just on NBN, you know, I think I saw in the accounts you've moved the infrastructure payments in to other and out of fixed line. I just wonder if you could talk us through the rationale for changing the disclosure around that fixed line business and the money you will be making off providing infrastructure. Thanks.

MR THODEY: I will get Andy to give you a bit of colour. We never use the word give away phones, Justin, just to be very clear. We provide – we fund a phone for a two year period which is a very different concept, and, yes, the – there has been a very successful iPhone 6 launch. Now, the actual growth if you looked at recontracting as well, we didn't disclose. But I can tell you it was sizeable. You could work out the number if you wanted to, but it was a very big re-contracting period, and – and what was most satisfying is that, you know, the vast majority of customers decided to stay with Telstra, and in the high 90s, so that was very encouraging, but you can work through it, but, look, we can pick it up separately. Do you want to talk to the NBN reporting?

MR PENN: Yes, I mean, look, it's just – we're just sort of – as I've said we've included the NBN margins in our fixed and voice margins just because that's starting to increase in scale and we've completed the NBN transit build, and so we've then got the – obviously the infrastructure access payments coming through and the PSSA, payments coming through.

MR KOPANIDIS: Sameer.

MR CHOPRA: Yes Sameer Chopra. Just two follow up questions from me. One is on the NBN infrastructure payments. The $219 million that was booked in the last half, are we expecting that half on half from here onwards things will start to stabilise or have we still got a couple of years of growth to go in terms of infrastructure payments? The second one, David, was around, you know, the economy is softening in places particularly in the resources market and I was wondering, you know, if you could talk about how that's impacting your customers? Are you seeing a slowdown in volume growth at all as a result?

MR THODEY: Right. Let me get Andy to answer your first one and I will pick up on the – our economic views.

MR PENN: Two things that drove the growth in the infrastructure services agreement. The first is the completion of the build out of the transit network. So that element is now sort of complete and some of the increase was a function of getting to that point. And then the second is obviously the rollout of NBN. So that's basically where the two parts are and I think, from recollection, it was probably the combination is something like 60/40 in the order I mentioned to you. And then, of course, we will see the NBN linked payments will increase just on the basis of what the rollout momentum is for NBN.

MR THODEY: Yes. Look, my view, while there is some consumer confidence slowing, it's interesting in our industry, the dependence on mobile phones and connectivity. The demand is not going away. The big question is how can you price for the value in that because it's – and there is some pressure there - but, overall, with the need for connectivity, entertainment, the more things that are going online, we remain sort of a little bit outside of the cycle of, you know consumer confidence. It's interesting – I think that mobile phones and broadband access and even a net business, is not seen as discretionary. It's sort of actually, "I need it because I don't know how to live my life or run my business without it."

So at the moment, we remain cautiously optimistic. Now, there's lots of things we need to do to drive value through that but we don't see it as our business being directly related to any economic outlook or in terms of consumer confidence. Now, I'm sure if it got really bad that it would have some impact maybe at the lower level, If unemployment rates went through into very high single digits or double digits, then that would be an issue like we saw in Spain, Italy and in Greece. But while we've got reasonable unemployment, it seems to be okay. Now, we manage this pretty carefully. We do a lot of modelling on it. So at the moment we remain okay in terms of our industry perspective but, yes, I'm aware that there's some winds blowing from different directions and as a country, I think we need to continue to look to grow in new areas as the resources sector comes off, etcetera.

MR KOPANIDIS: If there's no more questions in the room, there's none on the line, I think we're done. Thank you everybody for attending both in person and on the line. Thank you very much.

**BRIEFING CONCLUDED**