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Telstra Half-Year Results Presentation, 15 February2024 - Transcript

In accordance with the Listing Rules, attached for release to the market by Telstra Group Limited, is the transcript from Telstra Group Limited's Half-Year Results Presentation on 15 February 2024. The transcript is also provided for the information of Telstra Corporation Limited noteholders.

Release of announcement authorised by:

Sue Laver
Company Secretary

Telstra Half Year Results Presentation, 15 February 2024 – Transcript

Presentation from Vicki Brady

Vicki Brady: Good morning and welcome to Telstra's results announcement for the half year ended 31 December 2023. I am joining today from the lands of the Gadigal people. On behalf of Telstra, I acknowledge and pay my respects to the Traditional Custodians of Country throughout Australia, and recognise the continued connection Australia's First Nation peoples have to land, waters and culture. We pay our respects to Elders past and present.

I will make some brief comments on our key highlights. Michael will then take you through the financials, after which I will summarise our progress against our T25 strategy, and areas of focus for the second half of FY24. We'll then take questions from analysts, investors and media.

Our results for the half show continued growth in reported and underlying earnings, with positive momentum across many of our key indicators. This momentum is also reflected in the progress we have made in the second year of delivery against our T25 strategy.

Focusing on the key highlights for the half:

- total income was up 1.2%, and EBITDA increased by 3.8%, driven by momentum from our mobiles business.
- Underlying EBITDA increased by $121 million, or 3.1%, to $4 billion.
- EBITDA growth flowed through to an 11.5% increase in Net Profit After Tax to $1 billion.
- Earnings Per Share increased 12% to 8.4 cents.
- Underlying ROIC increased to 7.8%, and above our cost of capital.
- Our Episode NPS increased by three points over the last 12 months to 44.

Overall, our T25 strategy is on track, including our growth ambitions in Underlying EBITDA, Earnings Per Share and ROIC.

On the back of continued growth, the Board resolved to pay a fully franked interim dividend of 9 cents per share, representing a 5.9% increase compared to last year.

The increase in the interim dividend is consistent with our capital management framework to maximise the fully franked dividend and seek to grow it over time. At the same time, we continue to invest in our network and infrastructure to deliver connectivity, reliability and security to our customers.

While our overall momentum is good, we have some parts of our business performing well, and others where we see challenges. Our mobiles business remains central to growth, and continues to perform strongly, growing EBITDA almost $300 million in the half, driven by more customers, ARPU growth and cost discipline. Our customers are seeing the benefits from our leading mobile network, and the continued execution of our T25 strategy.

Our Consumer & Small Business Fixed business more than doubled EBITDA, largely due to productivity. Our Infrastructure businesses also grew, reflecting continued strong demand for our assets.

We remain disciplined on reducing our costs, particularly considering the external economic environment, which Michael will cover in more detail.

Within our Enterprise Fixed business, Data & Connectivity is performing as expected, but NAS is clearly a long way from where we need it to be. We have seen negative trends in NAS accelerate, and we have a detailed review of our domestic Enterprise business underway.

Michael will cover the first half NAS performance in detail, and I will come back and speak to the immediate and significant actions we are taking to address this, which are both cost and revenue-based. Given the performance in our NAS business, we are tightening our FY24 Underlying EBITDA guidance range to $8.2 to $8.3 billion. FY24 guidance across other measures is reaffirmed.

Overall in the half, we achieved continued growth in underlying earnings and positive momentum across many of our measures. We are focused on delivering the second half of our strategy, and setting the business up strongly for beyond T25. I remain very confident about the important role we will play in a more digitised future, underpinned by investment in our networks, infrastructure and capabilities, and in our ability to continue to deliver sustainable growth into the future.

I will now hand over to Michael to go through the financial performance in detail.

Presentation from Michael Ackland

Michael Ackland: Thanks, Vicki. I am pleased to present Telstra's half year 2024 results. Starting with our Income Statement on slide 7, which shows our continued growth since last year in line with our T25 strategy. Total income for the half was $11.7 billion, up 1.2% on the prior corresponding period or PCP. EBITDA was $4 billion, up 3.8%, supported by strong cost discipline. Underlying EBITDA was also $4 billion, up 3.1%, with strong growth in Mobiles.

Depreciation and amortisation decreased slightly in the half. However, it is expected to increase in FY24.

EBIT was [$]1.8 billion, up 10.8%. Net financing costs increased around 26%, mostly reflecting higher borrowing costs from floating rates. More than 50% of our borrowings are fixed. Tax was broadly flat. And finally, Earnings Per Share was up 12% to 8.4 cents, reflecting higher earnings.

Looking at product performance on Slide 8, we delivered strong earnings growth in Mobile, Fixed C&SB, InfraCo Fixed, and Amplitel, partly offset by the decline in Fixed Enterprise, International and Other. International's reported result was impacted by FX, and changes following our corporate restructure.

On an underlying basis International Wholesale & Enterprise continues to perform well, while Digicel Pacific's performance was impacted by the operating environment in PNG. The decline in Other reflects corporate adjustments, including bond rate changes on employee liabilities, lower energy contribution, and reporting changes due to the corporate restructure. These offset a gain of $47 million, reflecting value uplift from tower access agreements.

Turning to Mobile, which you can see on slide 9. We achieved growth through disciplined execution of our strategy. This follows significant investments we've made over several years in our network, brand, and customer experience, including the insourcing of retail stores and onshoring our call centres. Mobile service revenue continued its recovery up 6% on PCP. This is in line with our ambition, for mid single digit growth to FY25.

This result reflects continued growth in customers and average revenue per user. We also received a small benefit from international roaming recovery, which lifted by $21 million on PCP. International roaming has now normalised. Retail handheld and wholesale SIO growth of 4.6% was supported by market growth driven by travellers and immigration, with net adds across all segments. We added a net 63,000 postpaid handheld services; 99,000 prepaid handheld; and 182,000 wholesale unique users during the half. IoT services also continue to scale.

Our multi-brand strategy continues to optimise value across our portfolio. Customers have a broad range of price points, brands and choice, helping make mobile connectivity affordable. Average revenue per retail handheld and wholesale user was 2.1% higher than PCP, with growth across all categories.

Postpaid handheld ARPU grew 5.4%, driven by Consumer & Small Business price changes, and higher roaming. Prepaid handheld ARPU growth was driven by plan refresh, and wholesale grew on mix. Finally, we saw growth in accessories and wearables, but lower handset sales. However, absolute hardware margin including our loyalty program improved.

In Fixed - C&SB, ongoing execution of our strategy continued to deliver EBITDA growth. ARPU grew 2.6% to $81.67 due to price rises that came into effect in November 2023, as well as positive product mix. We continue to see the benefits of our investment in customer experience, and have delivered margin expansion through greater cost efficiency.

nbn reseller margins grew to 10%. We continue to scale our fixed wireless offering, and have seen take up of the product double over the year. While our EBITDA growth is pleasing, customer growth remains challenged, and we have more work to do to stabilise this in the medium term. We aim to continue EBITDA growth by further improving customer experience, optimising across technologies, focusing on cost efficiency, and limiting on-net legacy losses.

Turning to Fixed - Enterprise on slide 11, which is made up of Data & Connectivity, or DAC, and Network Applications & Services, or NAS. DAC continues to be impacted by competition and technology change. Pleasingly the rate of decline of DAC revenue slowed; it fell 10.2% in the half, driven by ARPU compression, as we reprice and proactively renew customers. We expect the rate of revenue decline to continue to slow as ARPU declines to FY25.

Connectivity is a cornerstone of our enterprise offering, and our focus remains on customer retention, simplifying products and IT platforms, and reducing cost to connect and serve.

Turning to NAS, where, as Vicki mentioned, we have challenges. Looking at NAS revenue in the bottom chart:

- Calling revenue, which is higher margin, declined approximately 18% as it continues to be impacted by a shift from traditional voice to cloud applications. This was as expected, and the headwind continues to get smaller.
- Professional services was impacted by lower business confidence and a slower trading environment, with customers holding off on projects, and lower levels of pull through on other product sales. We also saw a wind down of a number of large infrastructure contracts. Professional services revenue fell 18% sequentially, in contrast to the 33% growth seen in FY23, or 8% excluding acquired businesses. Such a rapid change in trajectory made it difficult to adequately adjust our cost base, which was set up for more growth.
- Finally, in the chart you can see that revenue from cloud resale and equipment grew. These resale businesses are low margin and high variable cost, and margins were lower in the half. These revenue, cost overhang and margin factors all contributed to lower NAS EBITDA. Given our pipeline continues to show the impact of a slower trading environment, we have not assumed the typical second half uptick in NAS in FY24.

As Vicki mentioned, we're taking immediate actions to set the business up for success. The medium-term outlook for NAS is positive, and we remain confident in our capabilities and market opportunities.

Turning to International on slide 12, which includes our Wholesale & Enterprise business, as well as Digicel Pacific, which was acquired last financial year. You will recall that the implementation of the corporate restructure introduced internal revenue and cost to reporting not reflected in the prior period. Our reported results reflect this restructure, as well as foreign exchange impacts and one-offs. So let me talk you through the underlying performance.

Wholesale & Enterprise continued to perform well, with strong demand for our infrastructure, subsea cable capacity and services. We are also continuing to invest for the long-term. On an underlying basis, revenue and EBITDA both grew 3% driven by growth in DAC and NAS. Digicel Pacific's reported income rose 4.2%, while EBITDA rose 1.8%, reflecting higher operating costs.

The results benefited from Australian dollar translation, however, on an underlying basis were impacted by the operating environment in Papua New Guinea. In PNG, mobile SIOs grew, and ARPU remained broadly stable in local currency, while the performance in the hub markets was on track.

Turning to Infrastructure on slide 13. The income from InfraCo Fixed grew 8.2% on PCP, which includes commercial works and disposals. Income from core access grew 9% from both internal and nbn recurring growth. The latter grew 7.1%, supported by CPI indexing. From January 1 this year, a further CPI indexing of 5.4% was applied. This growth was offset by declines in commercial works and legacy asset sales, which we expect to be higher in the second half.

Overall, reported EBITDAaL grew 3.8% on PCP. We continue to invest in improving asset quality and efficiency to drive InfraCo growth. These are long term assets, and we're investing for the long-term, including through our strategic infrastructure projects. Our confidence in returns from the intercity fibre project continues to grow, and we expect contributions from FY26 as capacity comes online.

Amplitel's results demonstrate the strong demand for our towers and the work of our teams in securing signings. Income grew over 16% from new tenancies, escalations, and increased services, including 5G upgrades. This included gains from customer contracts of $11 million. With the benefit of strong demand and momentum, we continue to anticipate Amplitel's EBITDAaL growth at the higher rate of mid-to-high single digit to FY25.

Turning to operating expenses, which you can see on slide 14. Total operating expenses were broadly flat. We continue to focus on improving our productivity and reducing fixed costs core. During the half we achieved $64 million in absolute cost reduction, despite inflation. We expect fixed costs core to reduce further sequentially in the second half, although the comparative period will make further absolute cost reduction difficult. Energy costs were broadly flat with higher prices offset by consumption savings.

We are committed to setting the business up for continued success and delivering on our growth strategy. We expect to achieve the large majority of our T25 $500 million reduction ambition, with most of this in FY25. Given the level of higher ongoing cost pressure, more significant action is going to be required to achieve this than previously expected.

Productivity initiatives include:

- significantly reducing our IT operation spend;
- decommissioning of legacy IT and networks;
- transforming our NAS cost-base, as well as more broadly across Telstra; and
- further process efficiency across customer and corporate back-office functions. This includes the use of AI to provide better customer experience and further cost optimisation.

Turning to free cashflow on slide 15. Our free cashflow was $955 million on a guidance basis. The decline compared to the first half of 2023 reflects a stronger EBITDA, and a reduction in working capital investment offset by capex and other, largely due to payment timings. The first half cashflow is broadly consistent with the usual first half/second half seasonality. Working capital reversal and timing is expected to support free cashflow in the second half.

Outside of guidance, spectrum payments of $1.3 billion are expected this financial year, including around $100 million paid in the first half. M&A payments this half included the acquisition of Versent.

Turning to our capital position on slide 16. Net debt remains stable at 1.9 times net debt to EBITDA, with the increase in net debt reflecting the seasonality of cash flows and the acquisition of Versent. We remain within our comfort ranges for all credit metrics. Our average invested capital increased, reflecting the full period's inclusion of Digicel Pacific.

In the second half, net debt will increase with committed spectrum acquisitions translating into a further increase in invested capital. We are absolutely focused on capital discipline, and active portfolio management. ROIC of 7.8% increased [on] the PCP.

Turning now to guidance for FY24, which can be seen on slide 17. You can see the ranges, along with the conditions upon which we have provided them. Given the performance in NAS, we are tightening our FY24 Underlying EBITDA guidance range to $8.2 to $8.3 billion. FY24 guidance across other measures is reaffirmed. This Underlying EBITDA guidance range represents sequential growth in the second half from the timing of InfraCo asset sales, cost reduction, and further net growth across products. This guidance excludes material one-offs such as spectrum payments. We do not expect any material cash impact in FY24 or FY25 relating to the final price adjustment from the nbn rollout completion, as detailed in our accounts.

So to summarise:

- we continue to grow our business
- we are focused on delivering our strategy, maintaining cost discipline and navigating challenges; and
- we remain committed to achieving our T25 financial ambitions.

Finally, I'd like to thank the Telstra team for their ongoing efforts in delivering value for customers, the community and our shareholders. And I'll now hand back to Vicki.

Further Presentation from Vicki Brady

Vicki Brady: Thank you, Michael. So while there are challenges in parts of our business, we see positive momentum overall, driven by continued growth across mobile, Fixed C&SB and Infrastructure. And we're confident in delivering on our T25 strategy.

We also know that the external environment is putting pressure on consumers and businesses. We will continue to invest to deliver connectivity that is reliable, resilient and secure, and offer plans that are simple, and deliver the services and choices our customers need, whilst also delivering value for our shareholders.

Turning to our T25 strategy. We're now halfway through T25, a huge milestone. I'm very proud of what the team has delivered so far. We continue to see the positive impact of product simplification and digitisation on customer experience.

We have 93% of Consumer & Small Business sales on our new digital stack, and overall, we have digitised 71% of our key service transactions.

Across the business customer complaints continue to be at record lows, and

Episode NPS remains at record highs. Episode NPS improved 3 points over the last 12 months, and 1 point over the last 6 months, with improvements across Consumer & Small Business and Enterprise. TIO complaints from consumer and small business customers reduced by 18% over the last six months, and are now more than two thirds lower than FY21.

Cyber security, identity and scam protections remain extremely important to us and our customers. After a successful pilot, we launched our Scan Indicator in partnership with the Commonwealth Bank, to help protect more Australians from phone scams.

Through our Cleaner Pipes initiative, we are blocking, on average, more than 10 million scam calls, and 11 million scam SMSs from reaching customers each month. We're also blocking almost 280 million scam and unwanted emails reaching our BigPond customers each month. Despite this, our work is never done, and we continue to look for new ways to help protect our customers.

Improving customer experience remains the foundation for our growth ambitions. And while we have further to go, I am proud of this progress.

We have continued to invest in network leadership and resilience. As at the end of December, we had around 87% 5G population coverage, and 48% of our mobile traffic on 5G.

Our mobile network covers 99.6% of the population, and reaches one million square kilometres more than any other operator.

We committed $1.3 billion to mobile spectrum in FY24, which means additional capacity to support more data, faster speeds and a more consistent experience for customers.

We are on track to deliver even better services through 4G and 5G, and we are working towards transitioning our customers off our 3G network by 30 June 2024. More than 98% of our mobile sites already have 4G installed, and we have an absolute commitment to expand our 4G coverage to be equivalent to existing 3G coverage across the country by the end of June. And we were named 'Best in Test' by industry benchmarking leader, Umlaut, for the fifth consecutive year.

On satellite, we continue to work with a range of LEO satellite providers to enhance our fixed mobile and voice services for customers.

We have released our Enterprise internet product powered by Starlink, and we expect to launch our world-first consumer broadband and voice product, powered by Starlink, in March.

Our rollout of satellite-based backhaul for remote mobile sites is progressing well. We achieved a significant milestone with our first call on a mobile site using OneWeb LEO satellite backhaul, and we will be migrating hundreds of sites over the next 18 months. We also signed an agreement with Lynk Global to explore and test direct to handset satellite technology, as a potential way to extend mobile connectivity beyond our current footprint.

We are Australia's biggest investor in digital infrastructure, and we continue to invest in areas of structural growth. On our new intercity fibre network, we now have more than 540 kilometres of fibre in the ground. And in November, we announced five new routes that will begin construction in 2025, as well as an expansion to our network in the Pilbara. This brings us to a total of 10 routes, and nearly 14,000 kilometres of fibre in planning, that will be delivered by the end of FY27. And I'm pleased to say that the fibre is being produced locally, here in Australia, with our partner Prysmian.

Outside of Australia, we operate APAC's largest subsea cable network, and we are responsible for carrying a third of intra-Asia and a quarter of trans-Pacific traffic. Over FY24 we will invest an additional $100 million in subsea cables and satellite landing stations in Asia and the US, to support capacity demand for our customers. This is absolutely foundational infrastructure for Australia and the region, and means we're uniquely placed to lead in the digital economy, and meet the increasing demand for data being driven by technologies including AI.

Against the Growth and Value pillar, we delivered growth in underlying EBITDA, EPS and ROIC. In the half we grew our mobiles, Consumer & Small Business Fixed and Infrastructure businesses.

Let me now turn to the actions we are taking to address the performance of our Domestic Enterprise business. We commenced a review of this part of the business late last year, and implementing the actions from that review will be the focus of Oliver Camplin-Warner, our new Group Executive for Telstra Enterprise. This includes:

- addressing the cost base of our Enterprise business, including resetting costs across each function supporting Enterprise, particularly NAS, to optimise end-to-end delivery for customers;
- a full review of the products and services we provide within Enterprise, and particularly our NAS portfolio, to make sure they both meet the current and future needs of our customers and create shareholder value.

This includes how we fully leverage Versent to unlock the evolving customer demand for [cloud] led transformation solutions.

We remain absolutely committed to deliver for our Enterprise customers. We expect professional and infrastructure services growth to return in time, and are confident that we can navigate through this challenging period and set the business up for success.

On cost, we continue[d] to show discipline in the half, delivering $64 million core fixed cost out. Cumulatively, we've delivered $105 million since FY22. Michael mentioned the significant level of cost out required in FY25. I want to reinforce that while we're being challenged by cost pressure, we still expect to achieve the large majority of our cost out ambition by the end of FY25. We remain absolutely committed to capital discipline, and delivering our T25 Underlying EBITDA, EPS and ROIC growth ambitions.

Against the Place to Work pillar, our employee engagement score was 79. We are focused on attracting, retaining and developing the best talent, as well as strengthening our culture by embedding our new behaviours.

On digital leadership, we continue to invest in our digital capabilities to help improve customer experience, uplift our productivity, and help industries and businesses to digitise. Our ambition is to become an AI-fuelled organisation, helping us unlock better outcomes for our customers, our people, and our organisation.

To underpin this, we are simplifying and modernising our tech and data landscape, and building reusable AI products for the whole organisation to accelerate time to value. Within Telstra, we are now using AI to improve half of our key processes, including to automatically detect and resolve fixed services faults, and to solve customer issues faster.

For example, in the half, we piloted new AI applications, including Ask Telstra, an Open AI-based solution with Microsoft, to help our frontline teams find the information they need for better and more quickly serving our customers. We're also investing in our people, including through our Data & AI Academy, to upskill them in AI and help them understand how they can use it in their roles.

On Doing Business Responsibly, we are on track to achieve all our sustainability commitments, and we've now supported renewable energy projects worth more than $1.2 billion. Once these projects are fully up and running, our share of their renewable energy output will be equivalent to 100% of our own electricity consumption.

We helped around one million customers in vulnerable circumstances stay connected in the half. And we welcome the new Financial Hardship standard as an important step to providing safeguards to consumers needing financial assistance.

Our customers have faced a number of natural disasters over the last few months, including cyclones, storms, floods and fires, and our teams have worked tirelessly to prepare and respond. We mobilised more than 3,000 of our people to respond on the ground across Queensland, Victoria and Western Australia. Currently, we also have teams responding to the impacts of recent severe storms in Victoria.

As part of our preparation for future disasters, we successfully tested functionality that could underpin a temporary disaster roaming solution, which would allow people to connect to any available network in a disaster zone.

Turning to our T25 scorecard, we are on track to deliver the majority of our T25 metrics.

In the half, we achieved our Telstra Plus FY23 ambition for 5.4 million customers and 70% engagement.

We achieved our target of an additional 100,000 square kilometres of mobile coverage ahead of time, with more than 140,000 square kilometres now added since FY21.

We are also on track to meet our renewable energy generation target, as I just mentioned.

In the second half of FY24, we will continue to prioritise activities that deliver a better customer experience, and invest in the capabilities and infrastructure we need to deliver sustainable growth now and beyond T25. There are four areas I see as key to maintaining our financial momentum, and delivering sustainable growth.

First, continuing to improve the customer experience, including by finishing the job on migrating our Consumer & Small Business customers onto our new digital stack.

Second, continuing to grow the business, including continued growth in mobile, addressing challenges in NAS, and achieving the large majority of our cost out ambition.

Third, strengthening our culture by embedding our new behaviours, as well as attracting, retaining and developing the best talent, including through upskilling our people on data and AI technologies.

And finally, setting up the business for long term growth, including investments in digital infrastructure and active portfolio management, to maintain the strength of our balance sheet, and optimise returns and unlock value.

With that, let me close out our half year results presentation. Overall, our strategy is on track, and we are focused on delivering the second half of T25. Thank you, and congratulations to the Telstra team for everything we've achieved in the half. I will now hand over to Nathan Burley, Head of Investor Relations, to take us through Q&A.

Analyst Q&A

Nathan Burley: Thank you, Vicki, and good morning to everyone. We will now take questions from analysts and investors. We'll do that through taking the first question on the line, which comes from Eric Choi from Barrenjoey. Go ahead, Eric.

Eric Choi: Good morning team. Thanks, Nathan. A good result [unintelligible 00:32:35] and other parts of the business. But I suspect the focus will be on NAS and implications for the Group. So I'll probably just do questions on that.

First one, just on NAS professional services, which has flipped from 8% underlying growth to 18% decline. I'm just interested in your view on how much of this is cyclical. At the Investor Day last year, you guys were talking to businesses reducing the number of licences, which is mostly a macro thing, which might reverse, especially if we get interest rate cuts, or how much of that is actually structural, i.e. some of your customers unbundling your services and going with other competitors?

A second question just on the trajectory of NAS. You've guided to none of the usual second half improvement. So I'm just thinking if there's the potential for revenues to be flat, second half versus first half, the second half costs are usually higher as well. So I'm just wondering, is it possible for that NAS EBITDA to turn negative in the second half, especially since you've kind of guided to your cost out being FY25 weighted?

And then just lastly, I guess, implications for the Group. None of this is particularly material for the sum of the parts, but it does matter a little bit, I guess, for EPS and DPS coverage. But I just wanted to confirm, since you've stuck with your T25 targets of mid-single digit Underlying EBITDA growth and high teens EPS, I think you're still mathematically suggesting an $8.5 billion EBITDA, and maybe an 18.5 to 19 cents EPS at the bottom end. Michael, if you could confirm that, that would be fantastic. But thank you very much, team.

Vicki Brady: Thanks, Eric. And good to have you online first off with your three questions. So let me make a few comments, and then I'm sure Michael will want to add to that as well. So just on NAS professional services, as you point out, the decline we saw late in the year, late in the calendar year last year, it really did accelerate down quickly. And it was, in terms of what we saw, it was our sales pipeline. So what we're seeing customers do is absolutely push out opportunities.

We're not seeing indications that that is unbundling and it going to competitors at this stage. Our read of what we're seeing and the feedback we're hearing from our customers, is absolutely a bit of a pullback on professional services. So focused on doing the things that are essential. So you would see our cloud resale business performed well, so customers are still demanding those services. However, where there was transformation activity or discretionary spend involved, we've certainly seen that pull back, particularly over the latter part of the calendar year last year.

And so our assessment is that it is cyclical, certainly, in the professional services business. As you know, in our domestic Enterprise business, there have been structural changes underway in terms of DAC and calling, but this professional services decline we've seen does appear to be cyclical. And so I would read that as being very much linked to macro environment and business confidence, currently.

In terms of the trajectory in NAS, as we called out, we have not assumed the usual uptick in the NAS business in the second half. And that's why we did tighten the guidance range on Underlying EBITDA. I think the good thing is, obviously, it's really important we address this immediately, which we are, with significant action underway. But importantly, NAS obviously sits inside the bigger Telstra business. And so we have mobile performing well, we have Infrastructure performing well, we have obviously Consumer & Small Business - Fixed, you can see the growth there in EBITDA as we really focus on productivity and getting our nbn resale margins at the level we need.

So as to when we see that confidence return, I mean, I do think it is linked to the macro environment. And so we're not assuming that uptick in the second half.

And then, on your final point, I mean, we've got our T25 ambitions out there, which you referred to. And we remain confident in achieving those growth rates on Underlying EBITDA, and Underlying Earnings Per Share. So why don't I hand to Michael and see if he's got any comments he wants to add?

Michael Ackland: Yeah, thanks, Vicki, and thanks, Eric. I mean, I'll make a couple of broad comments across all three of your questions. I think the other point that I would pick up on, on NAS, is that we have seen growth this year in this half actually in our resale revenue. And while that's not particularly helpful for margin, as we pointed out, it does mean that we're continuing to sell into and expand our customer base around reselling, particularly security and cloud resell, that I think is positive for the future, as business confidence returns and professional services off the back of those security and cloud purchases become something that customers will look to as they get more confident.

The other one is we also have traditionally in our professional services businesses had had larger deals, and larger like infrastructure-led deals that we've talked about in the past. I mean, particularly an example would be the TasGRN project. And I think on a cyclical basis we are seeing a lull in those, which is also something that we feel very confident we are well positioned to deliver for customers in that space. So we would expect to see that coming back. When that comes back, I think, is going to be largely around what happens in the macro environment.

In terms of your maths question, Eric, we're committed to those mid-single digit EBITDA and high teens EPS growth outcomes, and we think they're ambitious growth objectives. And we're absolutely committed to those into FY25.

Nathan Burley: Thank you, Eric. We will go to the next question, which is from Entcho Raykovski from Evans & Partners.

Entcho Raykovski: Morning, all. I'll give you my questions in one go as well. So my first one is on the productivity initiatives and cost out targets. I'm assuming that what you're doing now in NAS is additional to the initial plans. I mean, I wonder if you can confirm that. And are you able to give us any sort of a sense of what proportion of the cost out initiatives relate to NAS, as opposed to the other elements that you've outlined?

And maybe, I mean, in answering that question, obviously, you've got some enterprise agreements which are due to expire at the end of September. How contingent is the outcome of what you can do on the cost-out side? How contingent is it on the outcome from those enterprise agreements as well?

And then secondly I've got a question on mobile. I mean, obviously it continues to be a very good performer. I'm interested in how much of the 63,000 benefitting postpaid SIOs was due to the Optus outage? I don't know if you can quantify that, but it would be helpful. And whether you've seen that benefit continue into the second half or whether it's a one off? And now that you've had the opportunity to digest the impact, how do you see the outage as impacting the competitive dynamics in mobile? I think that's an area that people have been thinking about when it comes to the mobile market.

And the final one, I think it's quite a straightforward one. The market has dividends per share growing to 19 cents per share in FY25. I know you're not going to give us guidance, but can you comment on what needs to go right for you to be able to deliver that number, given you're now at the bottom half of the prior EBITDA guidance for 2024? Is it mainly mobile growth that's the key driver or is it other factors? Thank you.

Vicki Brady: Thanks, Encho. I'll make a few comments and then I'll hand across. I know we've got Brad on as well. I'm sure he'll want to jump in, and I'm sure Michael may want to add to some of these as well.

So just in terms of the productivity initiatives as we spoke to, we're absolutely committed to achieving the large majority of that cost-out ambition that we have under T25. We have very immediate action underway, particularly looking at the NAS business, just given what we've seen in the first half of the year. And so that focus is on making sure we've got the NAS business absolutely set up for success.

Reviewing all of the elements of the cost structure there including, not just what sits inside the direct Enterprise and Telstra Purple business, but the function for that to support out NAS business across Telstra. So making sure we've got that set up for success. So that's where our immediate focus is, along with looking more broadly at the initiatives and actions we need to take in terms of the broader cost out. We're not giving any breakdown between how much of that relates to NAS in terms of cost out versus the overall ambition. But as you can see from the result it has given us cause to reflect and look, and make sure we get the NAS business absolutely set up for success both on the costs side and the revenue side. So immediate focus there, which Oliver's absolutely in the thick of doing.

In terms of the EAs as you spoke about, our enterprise agreements are due to expire end of September this year. We will commence obviously good faith discussions with our people and the unions over the coming period and we look forward to those discussions. Last time we took our enterprise agreements to a vote we had high levels of turnout to vote, and we had a very high "yes" vote. We know that our people really, really value many of the terms and conditions we provide including the flexibility, including things around additional personal and carer's leave.

Look, we know that cost of living is on our people's minds as well and so we're looking forward to coming to the table and having that discussion with our people and with the unions. We know we need to get the cost out and it needs to be delivered irrespective of where we land in terms of our EA negotiations and outcomes on wages.

Just in terms of mobile, as you point out it was a good half in terms of postpaid handheld net adds at 63,000. In terms of the impact of the Optus outage I would characterise its impact as similar to the prior event.

So we've seen net SIO impact we would estimate maybe in the tens of thousands. To be honest we had a very good particularly December quarter in terms of postpaid handheld net adds, and I'm sure Brad will offer some good colour to what's been going on there.

In terms of the competitive dynamic, the thing I think it's really triggered for customers is it's brought front of mind for them it's about real resilience and reliability. So we know we're all reliant on connectivity, whether it's in our personal lives or in our businesses. But I think that's definitely brought it front of mind and that's really opened up that conversation with customers. And as you can see, very good overall mobile customer growth right across postpaid, prepaid and our MVNO wholesale business as well in the half.

Finally, what needs to go right in terms of driving that growth in dividend per share. Obviously it is continuing to execute well across the key parts of our business, with a real focus now on making sure we've also got our Enterprise business set up for success. As we talked about, some structural change going on in Enterprise that we've seen for a little while now in DAC and calling. And we've got a cyclical effect at the moment in NAS. And so making sure we've absolutely got that business performing well is also important as we look. And really as management our focus is on driving underlying earnings growth, because we know ultimately that's the thing that's going to count to get the outcomes for our shareholders.

So why don't I go to Michael first, just to see if he wants to add some comments, and then we'll bring Brad in.

Michael Ackland: No. I think, Vicki, you covered everything I would touch on. So maybe we go straight to Brad.

Brad Whitcomb: I might put the subscriber numbers and the Optus impact in a broader context. So as a reminder, back in May we had communicated to our postpaid handheld customers that we were making some price changes, those changes going into effect in July. And as expected we did see a small uptick in churn at that point. We also saw a suppression in acquisitions as customers were looking at, "what does that mean to us?"

And also during that May to July timeframe we did do dual quoting, so very transparent with potential new customers to say, "This is what you'd be paying now, but it would be changing around the July timeframe." Given that that was the second time that we had executed that annual review, I'd say our customer communications were even better. The execution of frontline was very, very strong. In particular, communicating with customers what it meant to them and potentially other plans they could move to or other products, et cetera. And we did then see the acquisition engine spin back up.

We saw the churn normalise. In fact, if you look over the first half of the year I think we came in at less than 1% per month churn, around 11.5[%] annualised. And we took a lot of comfort in that, that the value proposition that we're bringing to our customers is the right one. And that's really built off of an exceptional network and a very reliable network, the cyber security benefits that we provide to our customers, having an onshore contact centre when people need support, and importantly also having retail stores, which we own and control. They're our employees, and that's a great point for service differentiation.

If we look at the Optus outage specifically, you would have seen in the press the day of, obviously there was quite a lot of foot traffic in store as people were trying to get connected on the day. We did see that, as Vicki mentioned, the conversation around the importance of reliability play out both with existing customers and potential new customers. So again, that would have helped with our acquisition during that period of time. But it gets hard to unpick, because shortly after that we had what I think was a really, really impressive "Hello, Christmas" campaign, which was fully integrated both at the top line branding and also directly into the stores.

So if I were to ask the store teams they would say that ongoing strength of performance has much more to do with our value proposition and the way it was communicated in that campaign than, as Vicki said, a minor uptick from the Optus outage.

Nathan Burley: Thank you, Brad. We'll go to our next question, which is from Darren Leung from Macquarie. Go ahead, Darren.

Darren Leung: Thanks, guys. I had three as well and I might just ask them all up front. Just on the conversation of mobile I just wanted to follow on that point. There's a lot of adds in wholesale and prepaid SIOs. Has there been an element of this that has been driven by the Optus outage? And has any of that churned off over the last few months, or do you expect it to be quite sticky? That's the first one.

The second one was just in relation to postpaid churn, and I know there's a lot of moving parts in this half. But it looks particularly low in the context of a price increase when one of your major peers did not. So I guess my question is, is it low enough at a level that you feel confident to start lifting price even if your peers do not?

And then the third one may be for Michael, but it's just on DAC. I recalled the last result we were talking about pricing, practically pricing customers lower to defend market share. Can you remind me how progressed we are on that, please, just in the context of the ARPU that's stayed pretty resilient? Thanks.

Vicki Brady: Thanks, Darren, for those questions. I'm going to bring a number of the team in. There's some really good areas to cover there. So I might just make a comment on the first one. So just on it, in terms of the overall net subscriber growth that you can see in the half; so when you put postpaid, prepaid, wholesale together, a little over 340,000 net additions. Look, I would put quite a bit of that down, particularly in prepaid and wholesale.

We've seen growth in population and there's no doubt our multi brand approach gives customers real choice around what's the right service and proposition for them. And so I think we've seen the benefit of our multi-brand approach really giving customers choice. But just in terms of comment it would be good to get Brendon to come in. He obviously leads InfraCo, but also our wholesale mobile business. And then I'll get Brad to do postpaid churn and Michael can cover off DAC.

Brendon Riley: Yes. Thanks, Vicki. Darren, on wholesale prepaid following the outage we did see a healthy spike. There was some rollback, probably 30% to 40% rolled back. But it was definitely accretive to the prepaid business. And I think in line with comments that Vicki made, it's not massive, but it was definitely accretive and helpful.

Brad Whitcomb: Yes. If I pick up on the churn point. Obviously we'd like churn to be lower, but 11.5% is normalised if you take out exceptionally low churn during the COVID period. So we are comfortable with that level of churn, although always trying to bring it down. I think on the multi-brand strategy too, if you look across our entire portfolio, so whether that's retail, wholesale, whether you look at it from postpaid, prepaid, whether you look at it from name brand or all of our other sub-brands, during the half we were able to increase net subscribers and also increase ARPU during that time.

So I think that shows the power of the multi-brand strategy. In terms of our competitive position, I think the focus on our value proposition, what we're delivering to customers, which I talked about. The network, the onshore customer support, et cetera. It feels like that's really resonating, and that's something that we're going to continue to invest in.

Nathan Burley: Can we go to Michael on DAC?

Michael Ackland: Yes. Thanks, Darren. Just on DAC we have seen that ARPU compression and revenue compression continue to slow. So we declined 16% in FY23. Revenue decline for the first half was around 10%. We're doing a good job at retaining our fibre SIOs and we're seeing growth in nbn EE as well, which is helpful. We would expect by the end of FY25 to have migrated the vast majority of our DAC customers onto in market plans. So we're well through it. We expect to see that rate of decline continue to reduce as we go through FY24 and FY25.

Nathan Burley: Thank you. We'll go to our next question, which is from Lucy Huang from UBS. Lucy?

Lucy Huang: Thanks, Nathan. And thanks, Vicki, Mike and team. I've got three questions as well. Just firstly, on costs. I think you spoke a bit about the EBAs, but what about energy costs? I think right now in terms of your visibility on energy costs has that improved relative to end of last year, or do you think it's still quite difficult, given the volatility in energy pricing?

And then secondly, I just noticed with InfraCo margins a slight dip in this half. But just wondering what further efficiencies can drive in InfraCo Fixed in the near term? And then just my third question, just on subs as well in mobiles. Just putting all the comments together can I just confirm that it sounds like that run rate in net adds has still roughly continued in the first part of third quarter this year? Thanks.

Vicki Brady: Thanks for that and thanks for the three questions. I'll get Michael shortly to cover off on the energy question. I think Brendon would love nothing more than to talk about InfraCo Fixed and the efficiency, and the things he's got happening in that part of the business. Let me just comment on mobile subs.

So as Brad spoke to in quite a bit of detail, we saw a really pleasing period, particularly that December quarter. Obviously mobile subs is cyclical and the Christmas period is usually a good period for us. I think my comment would be we remain pleased with what we're seeing currently. But again, I would just call out it is always cyclical in terms of our mobile business and subscriber acquisition. But as Brad talked about, I think some great execution from the teams really pulling through our brand and our marketing through to our stores and it's been good to see that.

So why don't I go to costs first and go to Michael just to talk a little bit about energy cost?

Michael Ackland: Yes. Thanks, Lucy. Great question on energy costs. So we're really pleased with the performance this half. There is ongoing pressure flowing through in terms of price for energy. We've managed to offset that with reductions in consumption. We have a good pipeline of further consumption reduction initiatives that will flow through our business over the next number of years that should help. But it is still definitely a pressure point. But in terms of further growth we feel we're in a good position on that cost.

The other point on energy is that in our FY23 results in the prior corresponding period we did have some gains on our energy generation assets. So the power purchase agreements represented some gains. We still got a benefit from those this year, but they were just much less, and we'll talk about those in future results. Really great work from the team on ongoing reduction in consumption across our business, particularly in networks and InfraCo.

Nathan Burley: Brendon on InfraCo Fixed.

Brendon Riley: Yes. Thanks very much for the question, Lucy. Yes, we've got an awful lot on the go in relation to the operating efficiency side of things. Firstly, in terms of really most of the work we do in the asset life cycle and maintenance space. We've got a major tender underway, out to market to that to go and have a look at what we can do to drive further efficiencies there. We stood up a network operations centre and that helps us better coordinate not only across all of our assets, but activity with Telstra and other customers. That's a really, really important driver of operating efficiency just in terms of scheduling work and maintenance activities.

We've introduced a lot more automation, particularly into the facilities. As Michael has indicated, a lot is happening on energy. So lighting, HVAC and battery replacement programs, which drive energy efficiencies. We've got our copper recovery program underway where we extracted over 9,000 tons in the first half. And we've got our asset divestment program underway, and we've probably got more happening in the second half there. And obviously that not only drives one-off material gains in terms of EBITDA proceeds, but it also helps a lot with operating efficiency. We just have a lot less sites that we need to look after. So there's an awful lot happening in that space and that'll continue to be a major priority for me and the team. Thanks, Lucy.

Nathan Burley: Our next question is from Kane Hannan from Goldman Sachs. Go ahead, Kane.

Kane Hannan: Morning, guys. Just three as well. Just the free cashflow guidance. You pulled down EBITDA a little bit at the midpoint, but no changes to free cashflow. Is there some positive offsets coming through we should be thinking about?

Secondly, gain on InfraCo Fixed. I think you were calling that improved growth in the second half back at the Investor Day, but the nbn revenue growth is going to slow. So is this all the efficiency that you were just talking to, Brendon, or is it asset sales and some of the lumpiness there really what's driving that improved second half?

And then lastly, the boring line, but just the other earnings. It was a big drag this half despite that one-off gain coming through. So if you just help us understand how we think about that going forward. Is that corporate re-segmentation going to continue to impact that line for the rest of the year and beyond, or is it all one-off noise coming through? Cheers.

Vicki Brady: Yes, thanks Kane for that and for the three questions. Why don't I make a couple of comments and then I'll get some of the team to join? So just on free cashflow guidance. As is often the case our free cashflow can be a little bit second half-weighted, and obviously in free cashflow versus Underlying EBITDA there's more timing and things going on in there. So yes, no change in free cashflow guidance. We remain confident in that guidance. So no change there despite tightening the Underlying EBITDA guidance range.

I might get Michael to jump in. He might want to add on free cashflow, but certainly just touch a little bit on what's happening in InfraCo Fixed in terms of timing there in second half. And then there is a bunch of stuff as you call out in the Other category. And again, there's always plusses and minuses in there. Things like revaluing employee entitlements with bond rate moving and various other things. So why don't I get Michael to make a couple of comments, and then Brendon might want to jump in on InfraCo Fixed as well.

Michael Ackland: Yes. So I think Vicki probably covered it on the Other earnings, some corporate restructuring and things. There was also some movements on the valuation of our employee liabilities with bond rate movements just late in the half, and the gain on the towers. So I don't think there's anything particularly unusual in there, but I'd probably just leave it at that. And just on free cashflow, I think it's both the typical second half working capital unwind, and then payment timings so we're reasonably confident about our position on free cashflow. And them we want to go to Brendon.

Vicki Brady: Yes. Go to Brendon.

Brendon Riley: Yes. Thanks, Kane. Yes. The second half, definitely a stronger half from an asset sale perspective. Copper recovery also, we're expecting another good half there. We're seeing definitely a pickup in some of our commercial works projects and some new orders coming through from satellite providers. And the last would be dark fibre. So dark fibre tends to be a lot of smaller sales until we get the intercity fibre project up and going, but very, very happy with how they are ticking over. So all of those things added together puts us on track to have a good second half.

Kane Hannan: And sorry to be painful, Michael. When I think about my second half Other line, is my best guess still going to be flat and we'll see where the one-offs land, or is there a recurring piece to that other line through the corporate re-segmenting?

Michael Ackland: Yes. We haven't provided guidance on that, the Other line going forward. So I think we'd reaffirm our second half overall [Underlying] EBITDA guidance as we talked about earlier.

Kane Hannan: Yes. Thanks, guys.

Nathan Burley: The next question is from Tom Beadle from Jarden. Tom?

Tom Beadle: Hi, guys. Thanks for the opportunity to ask questions. I might ask three as well. Just firstly, just bridging out the second half. I know you sort of made a few comments about the various segments like NAS and InfraCo Fixed. But I guess I'm trying to think about the incremental drivers here to get to your guidance range.

Obviously that mobile momentum is quite good and postpaid ARPU is growing. So is there anything incremental to think about here on postpaid ARPU or should it be fairly flat, half on half? And then how do we think about that incremental cost out with T25? And are there any one-offs like redundancies that might have held the first half back, but obviously may not happen to the same extent at least in the second half?

Second question; just, Vicki, you've acknowledged the external environment is putting pressure on consumers. I guess the question is how much might this be impacting the relative performance of prepaid and wholesale just given their obvious price points? And have you seen any evidence of customers spinning down from postpaid? And is it fair to say that maybe that Optus outage could have helped prop up postpaid growth in that context?

And then third question just on mobile handsets. I realise it's not a big area of focus, but I guess we've had some feedback from the retailers, like, JB Hi-Fi that Apple has been offering incentives to help shift stock. So I'd assume that you typically probably make no margin on handsets, on sales. But can you confirm if you've received any incentives from Apple or other manufacturers, which might have helped incrementally? Thanks.

Vicki Brady: Thanks, Tom, for that. So a couple of comments and then I'll get some of the team to comment as well. Just in terms of first half versus second half, as we talked about on cost out we would expect to see a significant component of that in FY25. And so just as we look at first half versus second half of this year in terms of ordinary course of business, our normal cycle, there's no additional redundancy amounts over and above what we would ordinarily do in the first half of this year. And so we would expect that cost-out. We've had some reasonable performance first half with the $64 million reduction in fixed cost core and as we talked about, definitely committed to achieving the large majority of our cost-out targets.

On number two, just on prepaid, wholesale, what we're seeing. As I mentioned earlier, I think as we see population growth at high levels and people entering the country, ordinarily we would expect to see people choose and go to prepaid, and maybe some of those MVNO wholesale prepaid offerings as well. So I think that's absolutely helping us in terms of overall prepaid momentum in the market, just with population growth. In terms of what we're seeing with consumers it's important to recognise that for our consumers under our Telstra brand we don't have contracts on their service. So they do have that ability to move and make choice.

And obviously we do have the choice of prepaid, of our various sub-brands like

Belong, and then obviously there's the wholesale offerings in market as well from those providers. I would say we're still seeing from our consumers undoubtedly the importance of being connected is front of mind, and that flexibility and choice is incredibly helpful to have there. And I think we're seeing that play out. As we spoke about, the multi-brand strategy gives us a way to address the different parts of the market. And as customers' needs change, as their circumstances change, they have choice.

And we're also there with support for customers who do find that they're in vulnerable circumstances. And as I spoke to, we helped about a million customers stay connected through the first half through the various support mechanisms we have in place for customers.

And then on hardware, I might let Brad jump in on that shortly. But, Michael, why don't I see if there's anything you wanted to add before we go across to Brad to talk about handsets?

Michael Ackland: Yes. No. I think you covered it. So first half, second half, Tom, incremental cost out first half, versus second half on a sequential basis will support second half earnings. InfraCo uplift both the nbn payments in InfraCo provide sequential benefit as we go into the second half, as well as an uptick in the asset and legacy disposals that Brendon talked about in the second half. And then we do see, while maybe not significant mobile uplift, sequentially we see uplift across a number of the other products sequentially that support that bridge. That was it.

Vicki Brady: Can we go to Brad on handsets?

Michael Ackland: Yes. Go to Brad.

Brad Whitcomb: Yes. Just picking up on the handsets. I'd say a couple of things there. One, just in terms of the sentiment. We've got probably stronger foot traffic in stores and we've seen that continue to grow. If we look at the stress of customers our bad debt percentage has actually stayed quite stable and low during that period of time. For handsets in particular though we do see a general slowdown in the volume of handsets that are being shipped in the market and we've also seen a slight shift away from carrier sales and straight into retailers directly.

So what that's resulted in Telstra is that we've got fewer handset sales, but at a higher value. So we're seeing the premium end of the market moving quite well. Now, the last thing I'd add is within our numbers we've also got accessories and wearables, and that business is performing quite strongly as well.

Nathan Burley: Thank you. We'll go to our next question, which is from Roger Samuel Jefferies. Go ahead, Roger.

Roger Samuel: Hi. Morning, guys. I'll stick with three questions as well. Firstly, on capex. There has been a lot of press around new investment in subsea cable systems. The first part of the question is can you tell us what sort of rate of return do you expect from these investments? And whether you need to upgrade the older cable systems that you've got? And you may require some more strategic capex investments on top of your intercity fibre network?

Secondly, just on NAS. I appreciate that you guys are trying to address the issue at NAS. But do you think that Telstra has a point of difference in professional services, or do you think that you're better off outsourcing the professional services piece to the specialists?

And thirdly, just on Fixed Enterprise DAC. We've heard about some restructuring at Optus Enterprise, which might have some disruption to their business. Are you seeing more requests for proposals from potential Enterprise customers? I mean, you sort of got into a slowdown, a rate of decline in DAC. So those are my questions. Thanks.

Vicki Brady: OK. Thanks, Roger, for that. Why don't I comment, and then I'll get Michael to comment, particularly around capex and anything he'd like to add as well around the other elements.

So firstly, just in capex, and you mentioned undersea cable investments. I mean, a little bit like what we're seeing here in Australia in terms of the buildout of our intercity fibre, as we look at demand and future demand there is a lot of demand for capacity on undersea cable. And as I spoke to, we're a significant player in APAC when it comes to our undersea cable business.

So we assess any of those investments and have hurdle rates in place that those investments have to reach. Michael may want to comment a little bit more on that. And at the moment we're managing that obviously inside our capex envelopes. As we look at next year and beyond, that's one of the things we'll work through. Because if we see good opportunities to invest where there can be good returns as we did with intercity fibre, in that case we could see the benefit. We could see the benefit in moving quickly to build that capacity, to set the country up for the next couple of decades.

So in terms of undersea cable there are some similar structural trends there in terms of that growth in demand. And as you've seen, we do partner and we do look at different arrangements to be able to make sure we can meet the needs of our customers. Just in terms of our older subsea cable systems, we have every year an amount of maintenance and upgrade spend for those systems just like you would do on a fixed infrastructure. In terms of fibre you do do maintenance, you do do upgrades to electronics to make sure you've got capacity growing to be able to meet the needs of our customers. So that's the ordinary course and that sits inside our business-as-usual capex.

On professional services I think we do have a differentiator when it comes to professional services, particularly in those professional services that sit very close to the connectivity we're providing to customers. So some of the areas where we're successful is in the security space, it is in that cloud space. And our acquisition of Versent was all about really setting us up even more strongly, because we are a big provider and reseller of cloud services.

So having Versent who are strong on the ability to do the install and the run components of those cloud transformations, that's a great example where I think they sit together well. And we're certainly seeing in the current geopolitical climate that customers are concerned about sovereign capabilities and they do want to make sure from a security point of view they've absolutely got peace of mind.

So I think there are some elements there. That is part of our review, however, of the NAS business is to make sure we really stress test each of the products and services we're producing in that portfolio and exactly to your point, being very clear on where we have an advantage of where we're bringing things to customers that is highly valuable. So that is part of the work, as I said, on the revenue side as well as the cost side. And on DAC I haven't seen or heard of any real uptick in proposals.

It seems to be data and connectivity services are fundamental to enterprises and we've seen the normal flow of business there. And as Michael spoke to, we continue to work to re-sign and make sure we've got customers on our current proposition in market, adaptive networks, and obviously that's meant some repricing as we've moved customers onto the latest technologies and they make some of those technology choices. So why don't I just pause there, and Michael, just see if there's any pieces you wanted to add that I've missed or some extra colour?

Michael Ackland: Yes. No. Maybe a little bit of extra colour. So I think just on the subsea business, those same trends that are driving the demand for intercity fibre are driving demand in subsea. And as we talked about earlier this year, we have invested in an additional around $100 million in new growth investment as part of our BAU capex, as Vicki pointed out. One of those is a new Singapore/US route, which will come online in Q3 this year for customers ready for service, and a Taiwan/Korea route that'll come online into Q4. And in terms of how we think about those investments, we do look at them in a similar way as we would with intercity fibre.

We've always talked about cash and IRRs, and hurdle rates. And we'll have a risk adjusted view of that, which will be different risks for different routes, and in the same way as we look at intercity fibre. So we think there is a lot of opportunity there, and we are incredibly well positioned in very specific routes, particularly intra-Asia for us, and trans-pacific.

Nathan Burley: OK. We will go to our next question, which is from Brian Han from Morningstar. Brian?

Brian Han: Thanks, Nathan. I'll ask three questions too, because it seems to be the convention here. Firstly, in NAS, is it plausible that calling application revenues go to almost zero in three years' time, and whatever little revenue is left is reclassified as something else later on? And secondly, in the cashflow, the other line in the cashflow, Michael, can you talk a little about the decline from [$]189 [million] to [$]61 [million] in the half, and whether you're expecting any asset sales in the second half to boost that line?

And lastly, on 5G can you please give us some indication as to the percentage of your mobile subs that's now on 5G? And anything you can share in terms of differentials versus 4G in metric such as ARPU, cost per megabyte delivered and energy consumption? Thanks.

Vicki Brady: Thanks, Brian, for that. I'll comment on the first and third ones, and then get

Michael to comment on free cashflow. Just in terms of NAS and calling there is a real transition underway, which has been underway for some time now, and we've seen that accelerate through COVID and post-COVID. So if you think about what sits in that portfolio, some of the legacy stuff that sits there is some of what we would consider now a little bit old world. Voice solutions for in the office, whereas people are obviously transitioning to things like Teams and those types of products.

So there is ongoing revenue there, and that's what we're busy working on is transitioning and supporting our customers into that newer and more modern technology to support their calling and phone needs. In terms of reclassifying over time that would be more a broader question of whether we thought it made sense. Obviously we try not to move around our disclosures too much, because we know that creates more work for people trying to understand what sits in our portfolio and what are the trends period on period.

Just in terms of 5G, I don't think we've disclosed actually a percentage of customers on 5G. But Michael might correct me on that if I've got that wrong. Look, the thing we are seeing as customers move and as you would be aware, when you go and buy a new phone today, a new mobile phone, the large majority are 5G capable. And so as people move to 5G we certainly see in terms of experience you do enjoy the benefits of faster speeds, lower latency. But, I mean, ultimately what does a customer think about? I think they just think about how quickly does it work? Is it responsive? Is the capacity there? Can I use the things I want to use? And that's what's important about the upgrade and moving into 5G for the majority of our customers.

And certainly as we've said, with each new generation of mobile technology it does get more efficient. And so for us to be able to meet the needs with data growing on the network at 30% per annum, without investing in 5G and rolling that out the costs in terms of capex and opex we would have had to spend.

So 5G on its own just as a business case, I know everyone looks to where are the revenue streams that are going to come on top of 5G. But actually the case for 5G was fundamentally about how do we actually serve the demand on our network in the most cost-effective way. And as I said, newer technology, each generation gets more efficient in being able to deliver that. But why don't I go to Michael just to talk a little bit about free cashflow and add any bits there to what I've just commented on.

Michael Ackland: Yes, no, thanks. And so you will note in the other on free cashflow, the PCP was [$]189 [million], and in this period it was $61 million, which is a big change. That was largely due to some term deposit payments and financing payments that occurred in the prior period. So, we're still comfortable with our second half outlook and reaffirming guidance on free cashflow.

Just on 5G, I think we're about 48% of traffic on 5G, which is not giving you an answer on the number of customers, but the traffic is really the driver of investment and costs, so 48%.

Nathan Burley: OK. We'll go to Nick Basile from CLSA. Go ahead, Nick.

Nick Basile: Morning team, hi Vicki. I have two questions, the first one on NAS and the second one on mobile EBITDA. So, on NAS, I'm just trying to understand whether you need to do the restructure, given the size of the business and its extent for Enterprise in general. And I know others have sort of asked around this, but what gives you confidence in improved contribution at that area in the future, and how should we be thinking about the phasing of a recovery in earnings? Or should we sort of expect that to fall to zero before we expect an improvement in that group?

And then the next one on mobile EBITDA. I'm just trying to get a better understanding of the moving parts to the EBITDA growth. I think there were some comments about mobile services revenue growth versus the hardware margin being lower. I'm just interested to what extent that the postpaid revenue growth versus prepaid is also helping deliver better results in that area. Cheers.

Vicki Brady: No, thanks, Nick. And just two questions, so thank you, much appreciated. Let me make some comments on NAS, and then I'll get Michael to comment on mobile EBITDA and get underneath that a little bit more.

So, just in terms of NAS, as I talked about, yes, we've got immediate actions making sure we've absolutely got the portfolio set up for future success. Look, I think we are, as I mentioned earlier, there's definitely a cyclical impact at the moment and you can see that in professional services for us. I am absolutely of the view that that part of our business and our overall domestic Enterprise business as we look medium to longer run, there is a lot of opportunity there as businesses digitise and make the most of technology that relies heavily on connectivity.

So, as I said, I think there are areas there for us where we do have a successful business today. We're feeling some cyclical impacts right now in professional services, and our focus is absolutely in making sure we're taking the actions we need to take to have the cost base and revenue side of that business absolutely set up to be able to deliver at the level needed by our Enterprise customers.

So, in terms of the phasing, as we talked about earlier, I do think the professional services decline we've seen is heavily linked to business confidence and the more macro environment. So, it is a difficult one to predict, and as we said, we haven't assumed an uptick, the normal tick we would see in the second half of this financial year. So that phasing, I think, will be very much dependent on some of the business confidence and the more macro environment.

Why don't I go to Michael just to talk a little bit more about mobile EBITDA.

Michael Ackland: Yes, no, absolutely, and thanks, Nick. On mobile EBITDA, if I just start with mobile service revenue growth. We've split out mobile service revenue growth between postpaid handheld, prepaid mobile broadband, internet of things, and wholesale. Apart from mobile broadband, we're seeing growth across all areas. The biggest absolute growth is in postpaid handheld service revenue growth. And we did see a drop of about 3% in hardware and other income.

But from a mobile hardware margin point of view, mobile hardware margin including Telstra Plus, that margin in absolute dollars increased. And so when we think about mobile EBITDA, it was largely driven by service revenue growth, but a significant part of it was driven by cost reduction both from hardware but also from our underlying cost-to-serve and cost-to-connect.

Nathan Burley: Great. I'd invite any media on the call to register questions. You can do that by pressing star one. We will take our last question from analysts, which is from Ware Kuo from Bank of America. Go ahead, Ware.

Ware Kuo: Thank you. Just one question from me. In relation to InfraCo and intercity fibre, and you've called out increased confidence around the IRRs from the project. Is there any risk of potential fibre overbuild for long haul that we see in residential, and if there is, how do you mitigate against that risk? Thanks.

Vicki Brady: Thanks, Ware, for that, just one question. Why don't I hand over to Brendon to talk a little bit more about InfraCo and the questions you've asked?

Brendon Riley: Yes, thanks very much, Ware, for the question. I was in the US just a few weeks ago at PTC, which is probably the biggest digital infrastructure event in the world. And coming out of that, one can only be very excited about what's happening in the world of digital infrastructure, the investment, data centres, satellites, terrestrial undersea fibre. If you look at it all, then it just instils a huge amount of confidence in the project. And I think we came away from that with a great deal of renewed interest in the wonderful intercity fibre that we're laying.

If we look at the Australian market, I would describe it as that backhaul and the access market. The backhaul market is essentially what inner-city fibre is, it's those big links between capital cities, between data centres, between major nbn POIs. And access fibre is obviously what connects to our homes and our businesses.

There's definitely a lot more activity in access fibre, in terms of numbers of operators and builders. We still see very good demand for our access fibre, not only from Telstra but the rest of the industry. But there's probably more action in that access fibre space than there is in the backhaul space which is we're building intercity fibre. So, thanks.

Nathan Burley: Thanks, Ware. Brendon got very excited to be able to talk about our intercity fibre project which is obviously something we're very excited about. And that was the last question from analysts. We thank the analysts for their interest in the company. We'll now move to a time of questions from the media, which will begin after a short break. Thank you.

Media Q&A

Moderator: Welcome back to the broadcast. We'd like to now welcome our media for the media Q&A. If you would like to register for a question, please follow the prompts in the invite that we have shared. We've got a few callers on the line, so we might move to questions from them, to Vicki and Michael. Our first question today is from Jenny Wiggins from the AFR. Go ahead, Jenny.

Jenny Wiggins: Hi, Michael and Vicki. Yes, just a few questions, I've also got three, following the lead of analysts. So with regard to the NAS business, I was just wondering why are you only calling this out in a significant way now if the business has been declining for some time? You did discuss the sort of drop in professional services revenue. I mean, did that fall off a cliff in the last six months? Was the decline, the weaker economy really the key reason why that has been falling?

And then I also wanted to know, can you tell me how much money you're investing in AI? And finally, are you planning to put up prices of mobile phone plans again mid-year? Thanks.

Vicki Brady: Thanks, Jenny, for those three questions. You're definitely following the lead of the analysts.

So just on the NAS business, so a couple of comments there. Actually at our Investor Day in November last year, we did call out that we were seeing weakness in our professional and managed services business, and so we did adjust our outlook on that business at that time. Frankly then what we saw in the last part of last calendar year was a very significant drop-off, so the decline did accelerate very, very quickly. It was surprising, in fact, to see how quickly our sales pipeline dropped, and some of those opportunities moved out.

So we did call it out in November, but to be fair, the acceleration in the decline post that did surprise us, and that's why we've called out today very clearly in our first half results that that business is not where it needs to be, and we are taking immediate actions both on the revenue and the cost side of that business, although remain confident that this business, medium to longer run, is a good business. But there is definitely some cyclical impact, is our assessment at the moment, particularly related to business confidence and the macro environment.

Just on AI, it is such a great topic, isn't it? It sort of seems to be top of the list of things to be talking about at the moment through results season. Look, we are very much focused on AI. Our ambition is to be an AI-fuelled business. So already to date we've improved 50% of our key processes across the business using AI, so using it very deeply in our business.

Everyone wants to talk about generative AI, obviously the latest and greatest, and we're also rolling that out and using it across our business. A great example of that is helping our frontline teams be able to get answers and serve our customers even better. And we're seeing that with a couple of things we're doing, in Ask Telstra for frontline and a one-sentence summary which is delivering some great results for the teams that have piloted that, and then we're rolling it out further.

We haven't put a specific dollar value on the investment. But frankly, AI has been a big component of how we think about our investment in IT and our network. Even for example, how we do our Cleaner Pipes initiative, keeping customers safe from scams. That's using a whole lot of AI in the background running. But no dollar value on it.

In terms of mobile, I mean, the business has performed well. It's obviously not appropriate for me to talk about future pricing decisions in mobile. We're very pleased with the business, and we're really pleased to see more customers choosing Telstra. And you would see in the period, actually when you look at postpaid, prepaid and our wholesale business, we've added more than 340,000 services in the period. And I think it really reflects years of investment in making sure we have a leading mobile network. Whether it's rolling out 5G, now at almost 87% population coverage. Whether it be the transition away from 3G onto 4G across the country. The investment in resilience, security, we can see that that is absolutely top of mind for customers, and we can see them making the choice to choose Telstra more.

Jenny Wiggins: Great. Thank you.

Moderator: Thank you, Jenny. The next caller we have is David Swan from the SMH and The Age. Go ahead, David.

David Swan: Thanks very much. Thanks guys as always for the time. A couple of quick ones. I wanted to ask first of all about just the wild Victorian weather we've been having – I know you talked about it a little bit, Vicki. But I wanted some more specificity maybe, with some communities still cut off, how long would you expect that'll be, the sort of delays there, and where are things at currently?

I wanted to ask secondly just about the Optus outage, if you're expecting any more likely regulations as a result of the outage and the sort of fallout from that, or will you be recommending any? And are there any lessons for the sector from that outage?

Vicki Brady: Thanks, David, for that. Let me just – I'll cover off on, as you said, I mean, the severe storms in Victoria, some of the images, it's almost unbelievable, isn't it? Just to give an update, and this was as of early this morning just pre us starting our session. Just to give you a sense of where we're at and the impacts we're seeing. Again, the impacts we're seeing are linked to power outages. So obviously we're all very dependent on making sure we've got power up and running, and we're working very closely with emergency services and the power companies in lockstep to obviously get services up as quickly as we can.

As of early this morning, we had about 328 network sites that were off the air. In terms of customer impacts, it was around 5,000 fixed line services and around 23,000 Telstra nbn customers. Specifically in those network sites, it was about 97 mobile base stations off the air. So we are working, as we said, very closely with emergency services and with the power companies. We have teams on the ground where it is safe to do so. We are refuelling generators and deploying further generators into the field. We do have batteries at sites, but as you can imagine, batteries run down pretty quickly, and a site like a mobile base station takes an enormous amount of power to run. And so we are working very closely with the authorities and we're very aware of the impact for our customers when connectivity isn't working.

In terms of timelines, at the moment it's pretty fluid, and so it is difficult to predict at the moment. And we're, as I said, doing everything we can on the ground where it is safe for our teams to get in, and be able to refuel generators and get sites back up and running. We're absolutely doing that. But certainly our thoughts are with everyone impacted by the severe storms and the aftermath of that in Victoria at the moment.

Then on the second question, just around the Optus outage. There are obviously a number of reviews running at the moment, and I think that's incredibly important. Whenever there is an outage of that magnitude, it is so important that we all lean in and understand the lessons out of those. Our approach is, whenever there is an outage around the world, a significant outage impacting another operator, we always work very closely to understand with our vendors and with those companies what's happened, and take any of those lessons into what we can do differently.

And so our focus at the moment is absolutely being involved in those reviews, where required. And I think the thing that's most important for us is really that those key lessons are taken and we can all adopt those into our various strategies and networks.

David Swan: Thanks very much.

Moderator: Thanks, Dave. Our next caller is Stuart Condie from Wall Street Journal. Stuart, please go ahead.

Stuart Condie: Hi, Vicki. Given your comments on the number of users attracted from Optus as a result of the outage and the resultant share gain that you've presumably enjoyed, can you just give us your thoughts on the outlook for revenue from handsets and other hardware? Particularly given that there are tax cuts and possibly lower interest rates in the offing. Thank you.

Vicki Brady: Yes, thanks, Stuart. Look, we're really pleased, if you look at our first half year results you'll see when you look across postpaid, prepaid, and our wholesale mobile business, we've added a little over 340,000 customers in the half. Now, what I would call out is we're seeing population growth in the country and I think that's been a significant driver of the growth in customers in the half.

In terms of the Optus outage, as I spoke to earlier this morning, it is difficult to estimate the impact of that. But our best estimate was that that was in the low tens of thousands of services that we were likely to acquire, have acquired in the half. So really I think that growth that you're seeing in services and in customers choosing Telstra, that is driven – population growth is playing a part, and I think what's top of mind for customers, is just how important it is to be connected. And so that reliability, resilience is top of mind, and we've invested over a lot of years to make sure we have the leading mobile network in the country, including with our 5G rollout where we're now at around 87% population coverage.

On the handset front, what we actually saw in the half was we actually saw a decline in handset revenue. And that was really driven by less volume, although the handsets we did sell were of a higher retail value. So we're certainly seeing that premium end of the market, high-end handsets, people gravitating there.

Look, our main focus obviously having a mobile phone is incredibly important to enjoy our service, so we give customers the option, they can buy outright from us, they can buy and pay for their device over 24 or 36 months with us. Customers also look to source their devices from other players in the market, like JB Hi-Fi or directly from someone like Apple.

Look, we're really pleased overall with the performance of the mobile business. And I think it really reflects customers seeing the benefit of what we're doing in terms of our investment in network technology and into the service we provide through our contact centres onshore, and the ownership of our retail stores.

Stuart Condie: Sorry, can I just follow up. So, do the Stage 3 tax cuts and the prospect of those lower interest rates, does that sort of increase your confidence in the customer appetite for those higher-priced handsets?

Vicki Brady: Look, I mean, all of those things will obviously come into play in the macro environment. And it's certainly front of mind for us that customers are feeling cost of living pressures. And I think we've probably seen a little bit of that in terms of mobile handset sales. But overall we know just how important it is for our customers to be connected.

And so beyond handsets, for example, we supported in the half, around a million customers in vulnerable circumstances stay connected. So we're very aware of having choice and flexibility and having support in place for customers who may be in those vulnerable circumstances.

So I think the macro environment, undoubtedly improvement in that, improvement in confidence, I would expect over time, yes, people will hold off upgrading their mobile phone, I think, when they're in an environment where they're under pressure on cost of living. And no doubt, are more willing to consider that when things ease a little bit.

Stuart Condie: OK. Thank you for that.

Moderator: Thank you, Stuart. Before we go to the next question, just a reminder that if you would like to ask a question you do need to register. So please follow the prompts, press star one to register your question on the call. Our next questions come from Joe Lam from The Australian. Go ahead, Joe.

Joseph Lam: G'day Vicki, thanks for the opportunity to ask questions. I've got three today. So, the first one is about direct-to-handset satellites. There was a mention of a deal with Lynk Global. Can you provide some more information around what that deal consists of, and when customers will be able to utilise those services? And also whether satellite connectivity keeps people connected during a natural disaster or some sort of outage?

The next question is on international roaming and population growth and growth in services. Would Telstra look to ink more deals with international providers to increase international roaming? There were some comments there about international roaming being the norm, and that growth there.

And the last one is about earnings per share. So, earnings per share was 8.4 cents but the dividend was 9 cents per share. How are you paying for that, and is this a trend we can expect to continue? Thank you.

Vicki Brady: Thanks, Joe, for that. A good range of questions to cover off there. So, direct-to-handset satellite technology, obviously there's a lot of innovation happening in the LEO satellite environment at the moment, and it's exciting to see. So, we're working with a range of satellite providers. In fact, we've got a deal with OneWeb, where we recently did our first call over a remote mobile site that's using OneWeb LEO satellite backhaul to the site.

We did recently sign a deal with Lynk Global, and that's really about being able to experiment and test with them direct-to-handset satellite technology. Because we believe, for our customers, what's happening in that space is important, and the ability to further expand our mobile coverage as this technology matures, we see as an area we should be in, we should be at the forefront of with partners bringing those options and choices.

The timelines on those things, it's fair to say the technology is still evolving. And so there's no definitive timelines yet, but I think incredibly important we're in that space, we're working with OneWeb, we're working with Starlink when it comes to our broadband services, and we've got an Enterprise product in market, we expect to have in March a world first with Starlink with broadband and voice service to our consumer customers.

And then yes, we've signed the deal with Lynk Global to be able to experiment and make sure we're at the forefront with them of looking at direct-to-handset technologies via satellite.

Just on international roaming. We did see an increase in international roaming in the half, and look, we would say international roaming from our point of view has probably come back to normal levels now, post-COVID. And so that increase is that starting to normalise post a period of us obviously not being able to travel through the COVID period. We have extensive deals in place with other operators around the world to enable our customers to be able to roam internationally. And I think we're in a good place on that and offering a good range of options for our customers as they travel globally.

Then just on earnings per share. Yes, our earnings per share was at 8.4 cents and as you call out, we paid a dividend of – we will pay a dividend at 9 cents per share. The important thing is, as the Board made its decision on the 9 cent dividend, we have a very strong balance sheet, we have strong free cashflow able to support that dividend. And under our capital management framework, we have a policy that is to maximise our fully franked dividend and seek to grow it over time. And so, really those factors come into account and the strength of the balance sheet and free cashflow puts us in a position to be able to support that 9 cent interim dividend to our shareholders.

Joseph Lam: Thank you very much.

Moderator: Thank you, Joe. Sorry, I just spoke over the top of you then. My apologies. We will now go to Grahame Lynch from CommsDay. Grahame, go ahead, please.

Grahame Lynch: Good morning, everyone. I wanted to ask about AI, and specifically you've mentioned your progress in skilling and adopting AI internally. But it strikes me that you're way ahead of the general economy there. So have you got plans to perhaps productise and monetise some of those internal systems and processes that you've developed, into offerings that you could get revenue from by selling them to Enterprise customers, for example?

And on that note, well, more generally, where's the revenue opportunity for Telstra in AI, aside from I've just asked in that question? Do you expect there to be a big increase in traffic, for example, that will result in increased revenues in the medium term?

Vicki Brady: Yes, fantastic. Thanks, Grahame, and good having you on this morning.

Grahame Lynch: Thank you.

Vicki Brady: Yes. Just on AI, I mean, it is such a fast moving and an exciting place. And our approach is that we think every one of our team members needs to have a good understanding of data and AI. So we will have deeply technical teams, that obviously they need those very specific technical skills. But we're approaching it that every person across our organisation needs to have an understanding and be thinking about how they can leverage it and make their jobs easier, more efficient and more effective in getting outcomes for customers. So, we are rolling out a Data and AI academy which is about really lifting skills and developing skills right across our teams. It is exciting to be in the thick of that. I think our focus on it at the moment is absolutely for our teams.

Where we are focused, and to your point, where are the revenue opportunities, how can we help our customers unlock further benefits from digitising their businesses, including from AI? We have a number of areas there we're excited about. So, inside our NAS business, we do have professional services where we do help our customers around digitisation and AI.

We also entered the joint venture with Quantium, and that's an exciting joint venture where we're bringing the power of Telstra and Quantium together, yes, to help us in how we apply AI and data analytics into our business. But importantly, in how we can work with Enterprise customers to unlock those benefits. And the Scam Indicator product that we developed with the Commonwealth Bank is a good example of that, where the Quantium Telstra joint venture was in the thick of that, helping us bring our information and data together, applying AI and putting us into the position to be able to have the Scam Indicator product in market.

The other point you raise, which is about capacity. At the end of the day, AI, all of these things sitting in the cloud that we want to leverage and get benefits from, they do need to be connected. And we're seeing obviously an explosion in data centre investment and growth there, they absolutely need to be connected, and our intercity fibre investment is a good example, as we see demand already. And where we're at as a country in terms of capacity on those big intercity fibre networks that were built more than 25 years ago now, we know that demand is there, and we see that demand just continuing to grow. So data demand at low latency that can really support those sophisticated applications and unlock those benefits from technologies like AI, we definitely see those as structural tailwinds behind various elements of the business.

Grahame Lynch: Thank you.

Moderator: Thank you, Grahame. Good line of questions there. We will do just one last final callout for registering for questions. If there are any additional questions media would like to ask, please do register, follow the instructions for the ability to ask questions here in this forum. Our next line of questioning comes from Derek Rose from AAP. Over to you, Derek.

Derek Rose: Hi Vicki, I'm just wondering about the cost reductions with NAS. Is that going to include layoffs, and do you have any visibility on what specifics on that?

Vicki Brady: Yes, thanks, Derek. Look, the work's underway right now in terms of what are the things we need to do to really get the cost base of our NAS business in the right shape, to be able to make sure we're delivering really efficiently for our customers end-to-end across the company. Right at the moment, that work is underway, so I'm not at a stage of being able to announce exactly what those impacts look like and what they will mean.

Obviously, as we work through these things, our first priority is making sure any costs that sit in that business that aren't people related, we're absolutely optimising those. And then we will be obviously having to consider, how do we deliver efficiently end-to-end for our customers in our NAS business. And when we make those decisions, obviously the first priority will be communicating any change to our team members internally.

Derek Rose: Sure, sure, thank you.

Moderator: Thank you, Derek. And thank you to all our callers for their questions today. That finalises our half-year results media Q&A. So, I'd like to thank you for your attendance this morning and thank you, Vicki and Michael, for addressing the questions. And we'll formally close the broadcast out. Thank you very much.

[End of transcript]