17 February 2017

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited - Transcript from Analyst and Media Briefings – Financial results for the half-year ended 31 December 2016

I attach a copy of the transcript from the Analyst and Media briefings held on Thursday 16 February 2017, in relation to Telstra's results for the half-year ended 31 December 2016, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

MR P. KOPANIDIS: Good morning everyone and welcome. My name is Peter Kopanidis. I'm Telstra's Head of Investor Relations. On behalf of Telstra, I welcome you all to the webcast of our 2017 Half Year Results presentation. As an important symbol of respect, it is our custom at significant Telstra events to acknowledge Australia's first people. Today, therefore, I would like to acknowledge that we meet on the traditional owners of the land on which we meet, the Wurundjeri people of the Kulin Nation, and pay my respect to elders both past and present. After presentations from our CEO, Andy Penn, and our CFO, Warwick Bray, we will be taking questions from investors and analysts. With that, I will now hand over to our CEO, Andy Penn. Good morning, Andy.

MR A. PENN: Well, thank you very much, Peter, and good morning everybody, and welcome to our results briefing for the half year ended the 31st of December 2016. Our vision is to be a world-class technology company that empowers people to connect. This means we need to keep bringing world-class technology innovation to the market. Technology innovation in our network and technology innovation in the applications and services our customers use on the network, and there is no better example of this than the new Telstra Nighthawk M1. This is a mobile hotspot device. Aside from being cutting-edge technology in its own right, it is a great example of the transformative products and services that we're offering our customers today, products that are consistent with our brand promise to create better ways to empower people to thrive in a connected world.

Created in partnership with Qualcomm, Netgear and Ericsson, this device is currently the fastest mobile device in the world. It is capable of delivering an incredible one gigabit per second download speed. To put that into perspective, it enables our customers to download HD movies in three minutes or one-hour episodes of their favourite TV show in around 16 seconds. It can even charge your smartphone. Our substantial and sustained investment in our mobile networks means that we are one of the only few operators in the world with the speed and breadth of coverage to enable our customers to truly make use of a device like this with its amazing capability. The Nighthawk M1 was launched earlier this week to Telstra customers.

Let me now turn to the business of today.

This morning Warwick and I will provide an overview of our half-year results. I will cover the key highlights and Warwick will then take you through the results in detail. Following that, I will provide you with an update on progress against the three pillars of our strategy. I will also comment on the progress that we have made on our $3 billion capital investment program. Warwick and I will then be happy to take your questions.

Before I start, though, I'd like to give you a sense of the market dynamics that we experienced in the first half. There is no doubt that the competitive intensity in the industry has increased. During the half, we saw data volumes continue to increase and competition in pricing across fixed bundles, mobile, data and IP. There has also been an acceleration in the rollout of the nbn, which we have previously reported will negatively impact our EBITDA by two to three billion dollars over the longer term. It is significant, therefore, that we were able to continue to increase customer numbers in mobiles, in retail fixed plans, and in data and IP, despite the competitive pressures in the market, and made very solid progress on our cost-reduction program to mitigate the impacts of these economic headwinds.

Turning then to the results. On a guidance, total income was [Correction – down][1] 0.7 per cent and was lower than last year, while EBITDA was 1.7 per cent higher. Adjusting for recent regulatory impacts, including MTAS and the FAD decisions, total income and EBITDA were up 2.2 per cent and 2.4 per cent respectively. Reported EBITDA decreased 1.6 per cent to $5.2 billion, and net profit after tax reduced to $1.8 billion, including planned restructuring costs. The Board has declared a fully franked dividend of 15.5 cents per share, which is the equivalent of the 2016 interim dividend.

Importantly, we continue to attract new customers, during the half, adding 200,000 net new retail mobile services. We now provide 17.4 million mobile services, including 7.6 million post-paid handheld retail customer services, an increase of 79,000 in post-paid in the period.

Retail fixed bundled growth during the half was very strong, with 124,000 new bundled customers, which means we now have 2.8 million customers on a bundled broadband plan. Retail fixed broadband customers were up 90,000. We performed well in nbn, adding 292,000 new services, reaching a market share of 51 per cent, and IP MAN services were up 18.9 per cent. Our GES business continued to grow strongly, and we were particularly pleased with the performance in cloud and in Industry Solutions where revenue was up 56.1 per cent, driven by commercial works for nbn.

NAS continued to deliver EBITDA margin improvement up six percentage points through operational leverage, standardised offerings, and a lower-cost global delivery model. GES also received a number of key industry awards, including from Cisco, Microsoft, and from Frost & Sullivan, the service provider of the year for excellence in enterprise collaboration, enterprise mobility managed services, and hosted customer contact services.

In productivity, we are seeing benefits flow through to the bottom line through reductions in fixed costs. Underlying core-fixed costs declined $92 million, or 2.6 per cent in the half. This was ahead of our target to reduce fixed costs by more than two per cent per annum. Warwick will provide you more details on our productivity program in a moment.

In October we completed the $1.25 billion off market share buy-back, which was heavily subscribed, and in December a $250 million on market share buy-back.

In July we refreshed our brand with a focus on being more human and developing an emotional connection with our customers by demonstrating how innovation and technology can help people and businesses thrive. Since launch, we have seen positive trends in relation to brand consideration and perception measures, and we have been recognised as Australia's most valuable brand and among the world's top 100 most valuable brands for the second year in a row.

Data usage on our network continues to grow strongly. In the 12 months to December 2016, traffic over our mobile network increased 39 per cent. Traffic on our fixed network, including nbn, grew 51 per cent, and traffic on the Telstra Air Network increased tenfold.

Disappointingly and despite these improvements, our strategic Net Promoter Score (NPS) was eight points lower than the same period last year, largely due to the impact of the

[1] Verbatim up

network disruptions that we saw in the first half of calendar 2016. We are working hard to regain our customers' confidence here. As we announced in November, our aspiration is to improve both strategic and episode NPS by three to six points per annum, so we have more work to do. Encouragingly, though, Consumer NPS improved in the second half of the [2016] calendar year compared to the first half, and we also saw some positive trends in episode NPS.

We have a clear strategy to differentiate our products with the speed, coverage and reliability of our networks, and through innovative product design and new customer experiences, including access to media content. The up to $3 billion of incremental capital expenditure we announced last year will drive further improvements in our customer experience. The investment will reinforce our market differentiation over the longer term, deliver significant customer benefits, together with associated revenue uplift, improved capital efficiency, and further reduced operating costs.

Our total capital expenditure for the half was 16 per cent of sales revenue, or $2.1 billion. Our full-year guidance for CAPEX to sales remains at 18 per cent as we ramp up the strategic investment program in the second half of the year.

In November, we communicated to the market our intention to conduct a strategic review of capital allocation over a six to 12-month period. The review takes into account the nbn payments and is addressing our balance sheet structure and settings, our debt profile, longer-term CAPEX requirements post the rollout of nbn, and investment decisions, including M&A criteria. It is also considering returns to shareholders, including dividends, buy-backs, and other forms of return.

Since November, we have been consulting with shareholders and we will continue to do so as we investigate how we optimise the value from the recurring nbn payments and any other changes that we need to make to our capital management framework. Overriding and consistent feedback from shareholders to date highlights the importance of retaining a strong balance sheet, particularly through the nbn transition period and against the backdrop of a more competitive operating environment.

We have already communicated our intention to retain balance sheet settings consistent with an A-band credit rating and this position remains unchanged. The capital allocation review is ongoing and we will communicate further with the market in due course.

Before handing over to Warwick, I will just make a couple of comments on mobile roaming. Over many years, Telstra has invested heavily in regional Australia. We will continue to do so if the current regulatory settings remain in place. Our customers across Australia highly value the superior quality and coverage of our network.

In November, I outlined our plans that would see more than $1 billion of investments directed towards regional and rural Australia over the next four to five years. Imposing regulatory roaming would remove the business case for this investment. There is no doubt that it would be unambiguously bad for regional Australia. Any regulation that removes the ability to differentiate on the basis of coverage will inevitably see private investment by all carriers redirected away from the remoter parts of our country. This is not just Telstra's investment, but also substantial proposed investment by the industry and co-investment in regional and remote mobile infrastructure.

One of our competitors has barely invested in regional infrastructure: just 24 base stations in the Black Spots Program compared to our 577. They clearly have no intention of investment and will have no incentive to do so in the future if roaming is regulated. They say we have had an unfair advantage. That is rubbish. The fact is we have invested billions of shareholder money since the privatisation of Telstra to build the largest and the best network in Australia for our customers. They have chosen not to do so despite being one of the world's largest and best capitalised companies.

This is why the ACCC has received an unprecedented amount of feedback from regional Australians and the overwhelming majority said regulated roaming was not worth the risk to investment. We will continue to work constructively with the ACCC and with regional stakeholders to ensure the current regulatory settings remain in place and regional Australia continues to benefit from investment in leading edge mobile telecommunications.

Thank you and now let me hand over to Warwick who will take you through the numbers in more detail.

MR W. BRAY: Thank you, Andy, and good morning everybody. The presentation this morning breaks down as: first, the overall results and performance against prior periods and guidance; second, product performance; third, our expenses and productivity; fourth, an update on our main balance sheet movements and our capital position; and, finally, some comments on guidance for FY17. Firstly, let me take you through the overall performance of the business.

On a reported basis, including the impact of restructuring costs and regulatory decisions, income was down 0.7 of a per cent to $13.7 billion. EBITDA was down 1.6 per cent to $5.2 billion and net profit after tax was down 16.4 per cent to $1.8 billion. Basic EPS was down 14 per cent to 14.8 cents.

On a guidance basis, income was the same as reported and EBITDA was up 1.7 per cent. And excluding the MTAS and FAD regulatory decisions, income was up 2.2 per cent and EBITDA was up 2.4 per cent. The reported numbers for the half include the effects of restructuring costs which reduced EBITDA by $165 million, and regulatory pricing decisions which decreased income by $400 million and reduced EBITDA by $38 million. The guidance basis removed the restructuring costs. I will comment on full-year guidance at the end of this session.

We reported an increase in depreciation and amortisation of 10.7 per cent. This was mostly due to ongoing investment in business software assets with shorter useful lives. D&A will also increase as a result of our strategic CAPEX announced in August 2016 of up to $3 billion over the next three years. Net finance costs decreased 18.4 per cent mostly due to the refinancing of debt at lower rates and $32 million of favourable net non-cash gains associated with our derivative financial hedge instruments.

Income tax was broadly flat. Income tax expense was in line with cash tax paid. Effective tax rate on continuing operations increased to 32.8 per cent. We expect the effective tax rate over time to revert closer to the statutory rate.

We now move to our other main financial measures. This half, our CAPEX was broadly flat at $2.1 billion, including increased investment in our mobile network. Our CAPEX to sales ratio was up 0.8 points to 16 per cent. We expect increased CAPEX in the second half of this year consistent with our full-year guidance of approximately 18 per cent. On a guidance basis, excluding restructuring costs in the half and in year M&A, free cash flow was $1.6 billion. The largest factor for the free cash flow reduction from $1.9 billion to $1.6 billion was that the first half of FY16 included cash flows from Autohome trading.

The Board has declared a fully franked interim dividend of 15 and a half cents per share.

Return on Equity and Return on Invested Capital remain well above our costs of capital. Return of Equity decreased by 4.9 points mostly due to reduced earnings and increased equity on a profit-on-sale of Autohome. Return on Invested Capital decreased by 1.8 points mostly due to the reduced earnings. Our future ratios will continue to be influenced by the changing mix in our major products.

Turning to income performance within our product framework. Overall, we saw a decline on reported income of 0.7 of a per cent to $13.7 billion. Our recurring core income decline was 3.4 per cent or $453 million. Excluding an impact from the implementation of the MTAS and FAD decisions, our core income declined 0.4 of a per cent.

Mobile was down $125 million or 2.4 per cent on the first half of FY16. Fixed was down $181 million or 5.2 per cent, and Data and IP was down $48 million or 3.4 per cent. Recurring NBN DA was up $26 million or 14 per cent. NAS continued its double digit rate of growth up $225 million or 18 per cent. Global connectivity was down $12 million or 1.7 per cent, however on a constant currency basis, income was up 2.6 per cent.

Outside our recurring core income, one-off NBN DA receipts and hardware connection revenue was up $370 million and new business was down $16 million due to the Telstra Software Group where the focus is on consolidating operations.

Turning to product EBITDA performance. Overall, we saw an increase in EBITDA on a guidance basis, up 1.7 per cent to $5.4 billion. Our recurring core was down $194 million. The influence of the nbn for this half was approximately $152 million and we expect the recurring impact of nbn to grow to two to three billion dollars per annum over the course of the nbn network roll out. Outside recurring nbn impacts, the remaining core was down $42 million. We see some encouraging trends in the half and sequentially and we will go through this on the next slide.

One-off NBN DA EBITDA and nbn cost-to-connect was up $279 million in line with the nbn roll out. This included $348 million of increased one-off NBN DA income, including retraining, partly offset by $56 million of increased net nbn cost-to-connect and $13 million of one-off DA costs. New Business EBITDA was up $3 million. Telstra Health has moved from an acquisition phase to an integration phase, with a focus on new solutions with our existing assets. Across the Telstra Software Group, we've rationalised operations for future growth.

Turning to recurring core product EBITDA performance in detail. This table now further expands the EBITDA performance of our core business. Working from the bottom, the difference between the reported EBITDA figure of $5.189 billion and the recurring core of $4.94 billion is the NBN one-off, new growth businesses, and guidance adjustments.

Turning to our recurring core, EBITDA was down $194 million or as identified in the last slide, down $42 million, excluding the recurring impact from nbn. This included some encouraging trends. Mobile was down $63 million. However, sequentially, mobile service revenue has increased, which is one of our key indicators of success. NAS was up $90 million, exceeding the $76 million decline in data and IP. And Global connectivity was up $13 million or 16.4 per cent on a constant currency basis.

Turning to the product performance in detail, starting with mobile. We've seen some encouraging signs of stabilisation of revenue, ARPU and margin in the last half. These signs can be seen sequentially so it was showing three halves on this chart.

For the half, mobile revenue was down 8.7 per cent or 2.4 per cent, excluding MTAS. We achieved mobile services growth of 0.3 per cent, sequentially against the second half of FY16 and we are starting to see our way through post-paid handheld ARPU declines and have continued SIO momentum in the half. During the half we added 200,000 retail mobile services, including 79,000 post-paid handheld customers, to bring our total subscriber base to 17.4 million. Post-paid handheld ARPU excluding MRO, although down 2.6 per cent on the first half of FY16, has been stabilising against the second half of FY16. Encouragingly, we continue to see customer migration, the higher minimum monthly commitment plans and the quality of revenue improving. This minimum monthly commitment growth was offset by lower out of bundle revenue and a higher mix of BYO plans.

Post-paid mobile churn continues to be low by international standards. Churn in this half decreased on the second half of FY16, excluding an impact from the closure of our 2G network in December.

We're encouraged by our prepaid handheld revenues, which increased 1.4 per cent with 39,000 unique users added in the half. Prepaid ARPU has also returned to sequential growth against the second half of FY16, with increased voice and data recharges.

Mobile broadband revenue fell 14.7 per cent due to a decline in ARPU and prepaid unique users. This is largely due to the mix shift from old legacy plans to newer plans at a lower ARPU and increased sharing of data through mobile handsets as mobile data inclusions have grown and are shareable.

Machine to machine revenue grew 13.3 per cent with 130,000 M2M SIOs added in the half. We continue to see growth in M2M with new internet SIM solutions being implemented in verticals such as logistics. Mobile hardware revenue decreased 4.4 per cent, largely due to lower volumes. Our hardware margin improved, due to reduced handset subsidies.

The mobile EBITDA margin increased two points to 41 per cent. Excluding the margin accretive impact from MTAS, mobile margins were broadly flat on PCP. Compared to the first half of FY17, mobile margins in the second half of FY16 benefited from the timing of roaming credits and lower hardware revenue.

Turning to our fixed performance. Our strategy in fixed is to continue to provide customers with simple, flexible and high-value bundle plans, together with unique inclusions like Telstra Air, Telstra TV and more capable home internet devices. This strategy has led to continued strong SIO performance. Fixed data revenue grew 1.8 per cent. Our retail subscribers grew 90,000 in the half. Fixed data revenue was impacted by wholesale and the FAD regulatory decision. Excluding this FAD impact, fixed data revenue grew by 2.4 per cent.

Fixed data growth was also impacted by the competitive conditions. Fixed voice revenue decline was contained to single digits. Retail fixed voice customer line loss was contained with continued focus on retention in our save cells, proactive migration of "home phone only" customers to new bundled plans with broadband and Wi-Fi. The fixed voice ARPU decline of 4.8 per cent was broadly in line with the prior corresponding period. Our bundle products are performing well. We added 124,000 retail bundle customers in the half. 85 per cent of our retail broadband customer base are now on a bundled plan, many of which are on our entertainment offers.

Demand for our nbn services continues. During the half we added 292,000 nbn connections, bringing total nbn connections to 792,000 or a 51 per cent share ex-satellite. We now have 636,000 bundle and 52,000 data-only connections.

The number of registered customers on Telstra Air increased by over 400,000 in the half. We now have over 1.5 million customers activated on Telstra Air since launching in June 2015.

The fixed voice margin fell by four points and the fixed data margin fell by seven points. Fixed margins were negatively affected by one-off costs of connecting customers to the nbn and the ongoing nbn network costs. Excluding nbn-related items and regulatory FAD impacts, fixed margins were broadly consistent with the prior corresponding period. We continued to focus on reducing costs in our fixed portfolio by developing digital platforms in sales and self-service functionality. Fixed other revenue decreased by 3.8 per cent, largely due to the FAD decision for fixed line services implemented on 1 November 2015.

Turning to data and IP. Data and IP revenue declined 3.4 per cent ex-FAD, largely due to increased competitive pressure and a decline in the domestic market. It continued to perform well against the market, with customers embracing our complementary NAS products and next IP network flexibility, scalability and security.

While we're achieving volume and connection growth in IP access, price competition is continuing. IP access declined 1 per cent, reflecting the yield trends. Within IP access, IP MAN revenue was up 1 per cent with SIOs up 18.9 per cent, reflecting customer wins and demand for IP value-added services. ISDN declined 10.6 per cent, due to accelerated migration to IP access, unified communications, fixed data and nbn products. Our EBITDA margin of 59 per cent was impacted by yield pressures in the IP market.

Now, turning to network applications and services or NAS. We continue to be encouraged by our NAS performance. In the first half we again achieved double digit revenue growth and expanded margins. We achieved revenue growth across business and GES customers, including growth from commercial work and cloud services. Revenue growth across managed network services, unified communications and integrated services was impacted by the achievement on delivery milestones of large contracts in the prior corresponding period that were not repeated this half. Excluding these delivery milestones, managed network service annuity revenue growth was achieved in security services and the continued success and growth post-integration of our Bridgepoint and O2 Networks acquisitions.

Unified communications declined 1.5 per cent. However, excluding the delivery milestones on large customer contracts, annuity revenue growth was achieved through increased IP telephony SIOs and across Cisco Unified Communications products. Cloud revenue grew by 41 per cent due to increased consulting professional services and key acquisitions, including Readify and K-Kloud. Industry solutions revenue growth of 56 per cent was principally due to increased nbn commercial works, other commercial works and professional media solutions through Telstra Broadcast Services. The NAS EBITDA margin improved six points through operational leverage, scalable standardised offerings and a lower cost delivery model.

Turning to global connectivity. Global connectivity represents our international GES business. On this slide we've identified our global sales revenue from across our previous fixed data and IP and NAS product revenues, to be consistent with our overall product framework we presented at our August results. Global connectivity revenue increased 2.6 per cent in local currency, with customers responding positively to the combination of a Pacnet network and the Telstra brand.

Growth in Australian dollars was negatively impacted by currency appreciation. Fixed voice decline was marginal, as yield pressure has been mitigated by targeted volume growth. Data and IP revenue growth in local currency was achieved in Internet and ethernet services to a large extent due to over-the-top customers. NAS revenue grew due to the launch of a suite of managed network services and unified communications.

The global connectivity margin improved by 2 points, with EBITDA up 16.4 per cent in local currency due to continued delivery of synergies from the Pacnet acquisition and productivity. We are encouraged with the progress of the Pacnet integration and expect to deliver the recurring annual synergy benefits of AUD $65 million ahead of schedule.

Turning to media, and firstly Foxtel. Foxtel's revenue in the half decreased by 2 per cent, with a decline in total subscribers due to the wind down of T-Box and the announced closure of Presto. A major marketing push to formally launch the new Foxtel Play pricing is planned in coming months.

Foxtel's total closing subscribers were more than 2.8 million with closing broadcast, cable and satellite subscribers flat compared to the prior year period. Whilst there was some increase in underlying churn, the majority of the increased churn was due to the use of no fixed term contract offers in FY16. EBITDA decreased by 14.3 per cent to $372 million, mostly due to lower revenue and increased investment in programming. There was no distribution received from Foxtel in the half and cable access revenue was down 12.1 per cent to $51 million.

Now, moving to our other media assets. Telstra Media achieved strong revenue growth due to Foxtel from Telstra and Telstra TV. In the half we continued our strategy to bundle media with core fixed products. Foxtel from Telstra revenue grew by 11.4 per cent to $390 million, with net subscribers up 88,000 over the last 12 months. Foxtel from Telstra subscribers declined 3,000 in the last six months due to churn on our prior year promotional offer. We had 622,000 Telstra TV devices in market. Telstra TV is now the fastest growing streaming device in Australia, contributing to majority of growth in other media revenue. Other media revenue was up by 19.1 per cent, including IPTV revenue growth, partly offset by a reduction in legacy mobile download services. Our media strategy has moved from direct media revenue towards differentiation and bundling content, such as AFL and NRL across Telstra's core products.

Turning to income from the NBN Definitive Agreements or DA. During the half we recognised NBN DA related income of $1.057 billion, up 66.2 per cent. This includes strong growth from the PSAA and ISA ownership receipts, which are up $304 million and $40 million respectively, in line with the progress of the nbn roll out and migration. PSAA and ownership receipts will be influenced by the timing of the nbn roll out and the timing of related cash flows will vary between periods.

Revenue from the Commonwealth Agreements decreased 23.7 per cent, mostly due to the timing of income recognition form the Telstra Universal Service Obligation Performance Agreement. Recurring ISA revenue from ducts, rack and backhaul was up 14 per cent to $212 million. These receipts reflect nbn co ongoing use of our infrastructure. nbn commercial works income related to the sale of assets was $79 million. We have separated this from ISA ownership receipts to provide additional clarity on the composition of NBN DA income. In addition to NBN DA income, we also received nbn commercial works revenue in NAS of $311 million.

Turning from our product performance, let me take you through our expenses and productivity. On a guidance basis, excluding mostly restructuring costs, our operating expenses decreased 2.2 per cent or $184 million. On a reported basis, operating expenses decreased 0.1 of a per cent, or $12 million, and we're pleased by this result. We're on track to deliver against our cost ambitions announced in November, that is, a more than 2 per cent annual year-on-year reduction in net underlying core fixed costs.

Going through each of our four cost categories in turn. First, our core sales costs decreased $240 million or 6.3 per cent. Excluding the benefit from reduced interconnect costs due to MTAS, core sales costs grew by 3 and a half per cent. Overall, we saw an increase in efficiency of our core sales costs. Second, on an underlying basis, our core fixed costs declined $92 million or 2.6 per cent, exceeding our more than 2 per cent annual year-on-year target. This means that results of our costs productivity programs have more than offset inflation and reinvestment. We remain committed to reducing core fixed costs on an underlying basis by more than $1 billion over the next five years to offset up to one-third to one-half of the $2 – $3 billion negative impact of the nbn.

Outside of our underlying core fixed costs, NAS labour and corporate increased by $76 million. This included increased nbn commercial works and recurring DA costs – increased NAS labour on large contracts offset by lower global connectivity and corporate costs. Third, new business costs declined by $19 million due to cost management and FX impacts. These costs supported Telstra Health and the Telstra Software Group. Fourth, within one-off NBN DA and costs to connect, we reduced the average net cost per nbn connection by around 35 per cent. This nbn unit cost reduction is critical for the future. One-off NBN DA and cost to connect increased by $91 million, in line with the nbn roll out.

Turning to some of the more detailed capital and balance sheet movements. Overall our balance sheet remains strong. Gross debt remained consistent with June 2016 with no new long-term debt issuance in the first half of FY17. Liquidity decreased in the first half of FY17, mostly reflecting the payment of dividend and buybacks. Our closing FY16 liquidity included the proceeds from the sale of Autohome. Our average debt maturity has decreased to 4.3 years from 4.8 years at the full year.

Finance costs on an accounting basis were down 18.4 per cent, mostly due to a reduction in average gross borrowing costs from 5.6 per cent to 5.4 per cent and a net non-cash favourable movement in re-measurements. The reduction in gross borrowing costs reflects the ongoing benefit of lower cost term debt issuances and the favourable impact from lower market rates on the floating component of our portfolio. Gearing increased to 50.4 per cent, including reduced liquidity following the cash received from the sale of Autohome and subsequent capital management program. Our financial parameters remain at the conservative end of our comfort zones. Our comfort zones will remain unchanged during the period of our capital allocation review.

Finally, turning to guidance. Today we are reconfirming our guidance. For FY17 we expect mid to high single-digit income growth and low to mid single-digit EBITDA growth. We expect to spend CAPEX of approximately 18 per cent of sales and free cash flow to be in the range of three and a half to 4 billion dollars.

Our first half income growth was influenced by lower hardware revenue than we expected. Given this, we expect that full-year FY17 income growth will be at the bottom end of our mid to high single digit range. The second half of FY17 we expect that income growth will improve from factors such as MTAS impacts in the first half dropping out the comparison the second half and the nbn roll out is expected to accelerate in accordance with the nbn Corporate Plan. As is usually the case, the basis on which we provided guidance is detailed in the slide footnote.

Thank you, and I will now ask Andy back to provide a strategic update.

MR PENN: Thank you very much, Warwick. Now, last year we announced that we had refined our strategy around three pillars: delivering brilliant customer experiences, driving value and growth from the core, and building new growth businesses close to the core. In support of our strategy, we also have three critical enablers: investing in the networks of the future, digitising our business and building the culture and capability that we will need to be successful. It is against the first two of these where our $3 billion of incremental investment is focused. I now want to comment on the recent progress in each of the three pillars of our strategy, as well as the strategic investment program.

Firstly, delivering brilliant customer experiences. This is undoubtedly our most important strategic imperative. That is why it is disappointing that our strategic NPS declined eight points compared to December 2015. As I mentioned before, the drop has been primarily driven by the impacts of the network outages, particularly on our larger business customers. We are confident that the sentiment of our corporate customers is recovering and should reflect in our NPS results in the coming half. Encouragingly, we have seen positive trends in both strategic NPS and episode NPS for our consumer customers during the last six months underpinned by a number of customer-focused initiatives.

Notwithstanding this, there is no doubt that we still have much to do to deliver a better experience for our customers and there are too many instances that I know of where we let our customers down. When we announced our refined strategy in November, we said that we would be relentless in delivering customer experience improvements and we have a broad range of initiatives aimed at delivering seamless, simple and integrated interactions for customers and eliminating pain points. Progress in the half included providing our customers with a better network experience not only through more coverage and faster speeds, as I will talk about later, but also through new devices.

The Telstra Gateway Frontier is a cutting edge fixed-line modem, but that has a built-in 4G mobile chip set. It is an example which brings together Telstra's mobile and fixed network in one device to connect our customers quickly and keep them connected even if their fixed line is unavailable. We have introduced new systems to give customers greater flexibility and choice for hardware deliveries. We have simplified self-install for our ADSL customers making the connection process much easier, as well as increasing ADSL speeds for our customers. We have also focused on creating more value for our mobile customers with Go Mobile Swap and My Business lease plans which provide customers with regular and cost-effective ways of actually upgrading their smartphones.

There are now 622,000 Telstra TV devices in the market, a six-month increase of 322,000 making it the fastest growing streaming device in Australia. We are seeing very strong activation and usage rates and we plan to launch the next Telstra TV later in the year. Excitingly, it will have a built-in free-to-air tuner and customers will no longer have to toggle between input sources and enjoy all of their viewing through Telstra TV. It will also have the ability to receive 4K content. The next generation of the Telstra TV device will deliver more content at higher quality while using less data. More importantly, this device will be exclusive to Telstra broadband customers and continue to be part of the why Telstra story when our customers make a decision to choose us.

We have further extended our mobile content differentiation by offering live streaming of all AFL, NRL and netball games data free and included with all mobile plans. We have made it easier for customers to understand what is important by simplifying previously lengthy terms and conditions. We have also simplified our international roaming day pass pricing to two zones and we have improved protection for customers from unwelcome surprise of additional charges from premium third party providers by introducing a double opt-in process. Notwithstanding these improvements, we recognise that we have more work to do to consistently deliver a high quality customer experience.

The second pillar of our strategy is to drive value and growth from our core business. Progress in mobiles in the half saw us add [correction - 79,000][2] new retail post-paid services and 39,000 pre-paid unique users. New initiatives included the introduction of the new Pixel smartphone through an exclusive partnership with Google. The Pixel has proven to be a very popular device with our customers exceeding our and their initial expectations. We're also pleased with the popularity of Telstra Air which continues to provide Wi-Fi access through more than 750,000 hotspots nationally, including more than 4,700 public hotspots. Broadband customers can also take their home data allowance overseas with them via 19 million hotspots globally.

The number of activated consumers on Telstra Air has increased by over 400,000 in the half with now 1.5 million of our customers taking advantage of the service. Turning to fixed. We saw an additional 90,000 net new retail broadband customers with 292,000 new nbn connections and 124,000 retail bundle customers. Our new home internet bundle customers now have a significant boost in streaming speeds and stronger Wi-Fi signals. On nbn, our market share, excluding satellite, grew to 51 per cent and we are seeing strong demand from customers as the rollout scales up. 78 per cent of nbn customers are now also connecting via self-install kits.

Our challenger internet brand, Belong, continues to grow with 120,000 customers now, of which more than 50,000 are connected to the nbn. In data and IP, we launched a Data Centre Interconnect product which allows customers to connect to 30 data centres globally with a range of bandwidth and latency on offer and flexible contract options. Our acquisition of Kloud and Readify has reinforced our credentials as the leading provider of enterprise Microsoft products in Australia. It has brought more than 250 specialist enterprise software developers into our business. As Warwick mentioned, we also saw an EBITDA margin improvement of six percentage points in our NAS business during the period.

It reflects the fact that our products and contract mix has continued to evolve and mature, and we have achieved operational efficiencies through increased scale and automating more of our service delivery. Productivity is also critical to driving value from the core of our business and we continue to implement our plan to achieve at least $1 billion in net productivity over the next five years. Key initiatives in the period have included automating, and scheduling and despatch processes for customer appointments, removing manual steps for business and enterprise sales and improving turnaround times for customers by 60 per cent.

We have also removed older plans from Telstra's IT systems which have improved average system response time for customer orders. Underlying core fixed costs reduced by 2.6 per cent or $92 million in the half, ahead of the annual target to reduce by more than two per cent per annum. In terms of network coverage, we now offer 4G coverage to over 98 per cent of the population through 6,400 4G sites. This is bringing faster speeds and a better mobile browsing experience to more customers. Telstra has also built out additional network infrastructure, 4GX, which has doubled peak network speeds for up to 75 per cent of our customers who experience speeds up to 300 megabits per second.

[2] Verbatim 75,000

In addition, 36 new mobile base stations were constructed in the half through the first round of the Mobile Blackspots Program bringing our total of blackspot sites to now around 100. We will be rolling out a further 329 mobile blackspots in the coming period from round 1 of the Program and, on top of this, we successfully won a further 148 mobile base stations under round 2 of the Program which was announced late last year. In the half, we successfully decommissioned our 24-year old 2G network with immediate cost benefit across power and life cycle maintenance. Importantly though, this shutdown frees up valuable spectrum and infrastructure that will be reused for the rollout of new technology, including 5G.

Our third strategic pillar is to build new growth businesses close to the core. This is about realising new opportunities for the future that leverage our core strengths. In Telstra Health, we continue to focus on integrating technology capabilities that we have acquired and using them to deliver new services. These capabilities are being used to deliver the National Cancer Screening Register for the Federal Government where we are creating a single electronic record for bowel and cervical cancer screening for millions of Australians. In addition to this important project, we have secured some other important health customer wins during the period.

A contract with the Western Australian Government for an information system to support healthcare delivery in remote and regional areas. Epworth Health Care will be rolling out our Patient Flow Manager solution at their main hospital in Melbourne and our joint venture, Fred IT, has entered into a partnership with Sigma Pharmaceuticals to deliver a cloud-based pharmacy software solution.

Smart Home is another exciting opportunity for us. Our Smart Home offer is now in the market, including watch and monitor and automation and energy products. There has been strong interest from consumers, with approximately 1,200 visits per day to the Telstra Smart Home content online. As the complexity of home networks increases, our technology experts continue to provide personal support to our customers. We now have around 265,000 platinum customers, representing 32 per cent growth in the last six months. We average over 12,000 interactions with customers every week via the Platinum Help Desk and at our 357 Tech Bars around the country.

Turning to small and medium business opportunities. The Neto e-commerce platform is well-positioned, as 300,000 small business customers are forecasting to establish an online presence by 2020. We believe the opportunity for growth in NAS products in the small and medium business market will be very significant in the future, as we have seen in large enterprise and government customers. Telstra Ventures continues to invest in world-class innovation which is strategically relevant to us. During the first half, Telstra Ventures invested in three US based companies: AttackIQ, a leading cyber defence platform delivering continuous security validation to customers, Headspin, a mobile app testing and performance management platform, and NS1, the next generation DNS for application developers.

Turning to Ooyala, intelligent video is a critically important capability in a world where we are seeing massive growth in the amount of media that is distributed over an IP network.

However, the dynamics of this market have changed and we have a remediation plan for Ooyala which is aimed at repositioning the company in the sector.

In our global business, we have also made progress. We will outperform our plan for the integration of Pacnet and we will achieve the previously announced run rate synergies of $65 million a year by the end of 2017 financial year, one year ahead of schedule. The integration of Telstra and Pacnet has filled some key customer wins. A $243 million with DFAT covering 160 sites globally, IP VPN services to 281 sites across the Asia-Pacific region for a for a food and agricultural multinational, and broadcast services for 47 international women's tennis association tournaments.

We also strengthened our in country presence. Our joint venture in China continues to perform well, and we are investing of business to enhance our unique proposition for this important market. Our joint venture in Indonesia telkomtelstra now has more than 7,000 managed network services sites under contract.

I want to return now to our strategic investment program and our plans to invest up to $3 billion between 2017 and 2019. The investment program has three key objectives. Firstly, to build the networks of the future, including reinforcing our network differentiation. Secondly, digitising our business, particularly the interactions between Telstra and our customers, and, thirdly, delivering seamless, simple and integrated customer experiences.

We've provided details of these investments at our investor day in November and work has commenced on each of these programs. While we are obviously at an early stage, I would like to provide some examples of the quick wins that we are seeing in the program. As I showcased earlier, we launched the world's first Gigabit LTE network and device. This is technology that delivers world-leading speed and gives us great insight into 5G technologies, their speeds and customer experiences. We have improved ADSL speeds for more than half a million customers. In digitisation, we rolled out the first tranche of digital capabilities in a new stack that meant we could retire 21 legacy applications.

We're also building our foundational capabilities through a cross-company approach on Agile DevOps methodologies, and to further improve the customer experience in nbn, we deployed a new solution for our agents which consolidates nine previous agent interfaces into one, which is expected to reduce average customer handling times and improve customer first-time resolution.

Let me summarise, then, before we take your questions. We have made good progress in the half. We achieved strong growth in new customers across our portfolios, and we also achieved progress on our productivity program. Whilst the competitive dynamics in the acceleration of the nbn rollout have had an economic impact, we are nonetheless pleased with the overall resilience of the business.

We continue to execute in a changing environment and we are moving forward with our plans to incrementally invest up to $3 billion in the network of the future and to digitise our core business to transform the experience we provide to our customers. We remain in a very strong capital position and we have been active in our capital management with the execution of off and on market buybacks and our capital allocation review.

Many thanks for being with us this morning, and before I hand over to Peter to moderate the Q&A part, I would just also like to acknowledge and thank all of our employees for their continued hard work and support, and, most importantly, for their commitment to serve our customers. Thank you.

MR KOPANIDIS: Thanks, Andy. We'll open up to questions on the Conferlink line. The first question comes from Fraser McLeish from Credit Suisse.

MR F. McLEISH: Hi. Thanks very much. Just a couple from me. Just, Warwick, on the mobile margins, they've obviously been bouncing around a little bit for various reasons, but that kind of 41 per cent you reported in the half, do you see that as kind of the underlying margin we should think about into the second half and beyond? That's the first one. Just then, secondly, just on the $311 million from nbn commercial works in NAS, can you just remind us of the profile of that going forward, and maybe give us some ideas – I mean, is that similar to normal NAS margins or is that higher or lower? And, finally, just on the $79 million in nbn, the sale of assets: is that a one-off, or should we expect to see more of that going forward? Thanks.

MR BRAY: Yes. So firstly, on the mobile EBITDA, the difference between this half and the prior corresponding period, the first half of '16, in percentage terms is almost exactly explained by MTAS, so nothing going on underneath that. The difference between the previous sequential period is explained by, firstly, there was a one-off roaming benefit in the second half of financial year '16 that we wouldn't expect to be repeated. And, look, the second thing that's going on in the percentage EBITDA margin is, as the proportion of our revenues in mobile that pertain to value-added services, like StayConnected, some of the great hosted nbn that we sell in enterprise, and some of the value-added service on machine-to-machine, as the proportion of services go up, they're profitable, but they're not quite as profitable as the main business, so that has some impact on the percentage EBITDA margin. Relative to any other comments that we've made before about the mobile EBITDA margins, there's no change to those previous comments.

The second question was about the end – about commercial works that are included in NAS. If you look at the six-point improvement in NAS, which – we're really pleased about that, so it's an eight per cent EBITDA margin from negative a few years ago – the nbn commercial works have almost no impact on that improvement in margin.

The improvement margin is coming from some operational leverage, and also where we were doing customised solutions we've been able to industrialise them, and so it's those two things and just lower cost delivery models has led to that expansion in margins. I won't give any more guidance on the timing of the nbn commercial works over and above what we've said about the three big contracts publically. And then just finally on the one-off aspects of the nbn, where they relate to the beginning Definitive Agreement, we would expect them to continue in line with what we've said before.

MR McLEISH: Sorry, it's just that $79 million sale of assets. Is that something we'll see again or is that a one-off thing?

MR BRAY: So most of that pertained to the nbn commercial works, so you should sort of think of the nbn commercial works in a lump based on what we've previously talked, and we haven't broken that down further.

MR McLEISH: Okay. So we're likely to see that number again, as long as the commercial works continue, or a number similar.

MR BRAY: Yes. I'm not going to break down the nbn commercial works into its subcomponents, but you would expect some of it to continue, yes.

MR PENN: Yes, I mean, Fraser the commercial works are ongoing, so I expect you will continue to see the economic benefit of that.

MR McLEISH: Great. Thanks very much.

MR KOPANIDIS: Next question comes from Raymond Tong of Evans and Partners.

MR R. TONG: Morning, Andy, and morning, Warwick. Just a couple of questions. Firstly

MR KOPANIDIS: Maybe not.

MR TONG: negative drivers and whether you're seeing any

MR KOPANIDIS: Raymond, start again. Sorry, Raymond, you cut out, if you don't mind. Do you want to start again, sorry?

MR TONG: Can you hear me now?

MR KOPANIDIS: Yeah.

MR TONG: Cool. Yeah, just on post-paid ARPU, firstly, can you maybe talk about some of the drags that have been – since that have been negative drivers over the last sort of 12 to 18 months, whether you're seeing some of those abating, like, the tactical discounting excess data, and also, I suppose, the MRO, as well? That's the first question. Just the second question, the fixed data ARPU declines have accelerated. Can you maybe talk through the drivers of this and what you've seen going forward.

MR BRAY: Yes. So just on mobile, and I will speak to post-paid handheld ARPU and I will refer to the table on slide 14. What we see there is that there was a decline in mobile ARPU from the first half '16 to the second half of '16 from $69 to $67.82. And you can see it has been more stable in second half of '16 to first half of '17. When we looked beneath that – and we gave some colour on this at the Investor Day in November – that the period that I just referred to refers to four quarters and in the first of those four quarters we saw the ARPU decline continuing. But we have been pleased with the stabilisation in the last three of those quarters.

In digging underneath that, what we have seen is more strength in consumer and some of the challenges that we have seen in consumer we're seeing in business at the moment. Within consumer, the tactical discounting that I referred to a year and six months ago has decreased. So we've managed to get on top of that. We're very pleased with the MMC increase and that has continued. Another factor that's going on is that there is a higher proportion of our base is BYO in this half and higher than we've seen before. If you wanted, sort of, like, a one-word sort of answer on mobile post-paid handheld, it would be a story of stabilisation in the last three quarters. In terms of fixed, the question was about fixed data ARPU.

MR TONG: Yes, that's right.

MR BRAY: Yes. Yes. So what we – in the overall fixed business, like, we're very pleased with our performance in terms of SIO. So a 51 per cent share on the nbn. And we've added another 90,000 retail fixed broadband, SIOs very strong performance in bundles. ARPU has been impacted by the competitive conditions, that's right, and that's part of the reason why the fixed data growth excluding FADs is within the mid-twos of per cents.

MR TONG: Thanks, Warwick.

MR KOPANIDIS: Okay. Next question comes from Eric Choi from UBS. Is the Conferlink operator on the line, please?

MR E. CHOI: Hi, guys. I just had three questions if that's all right. First one was just on mobile margins. So obviously you said ex-MTAS impacts are flat. But presumably that would have included the benefit from a fall in hardware revenues as well. So just wondering what the mobile service might dip in the first half versus PCP. Second question is just on free cash flow. So on a reported basis, free cash flows went back – it was $500 million.

But there wasn't much year-on-year movement in taxing CAPEX and EBITDA only went backwards slightly. So just confirming why there was such a big working capital movement: is that all MRO and NBN receipts related? And then just last on the dividend. Obviously, you're paying over 100 per cent payout ratio in the first half and you said before you looked through short-term fluctuations in the EPS. So just wondering how prepared you are to do, sort of, over 100 per cent payout ratio on a full year basis. Thanks.

MR BRAY: So I will do the first two of those. Starting with the free cash flow, on a reported basis, the reported basis for free cash flow is continuing and discontinued. So that includes Autohome in there and restructuring. So you need to take that into account when you look in the difference between the free cash flow this year and a prior corresponding period. Working capital has gone up and the biggest reason for working capital going up is the nbn. And so we receive the PSAA payments quarterly and they're paid in arrears.

So it's important to adjust for the Autohome and restructuring and then you see that the free cash flow, the efficiency of that hasn't changed all that much. In terms of mobile margins, there are various factors going on and there wasn't much of a difference in the hardware margin on PCP, because if there was – more factors going on than just the revenue. And in terms of the services margin year-on-year, that was after adjusting for MTAS. There wasn't much movement there. And then the sequential effects were the same as what I said before. And I will hand over to Andy to talk about dividend.

MR PENN: Thanks, Warwick. And good morning, Eric. I mean, now we just sort of say I think the main point on the dividend is really obviously the board looks through the cycle in terms of making its dividend decisions, but most importantly, ultimately, in relation to dividend is how we continue to improve the performance of the business obviously to mitigate the offsetting impact of the negative headwind that comes from the nbn as we previously reported as the nbn rolls out. It will have a two to three billion dollar negative impact on EBITDA. And, of course, again, we're obviously looking to grow our mobiles business. We've got to build a vibrant reseller business in nbn. We need to continue to grow and expand the margins in our NAS business, productivity and achieve scale in our new growth businesses and that's ultimately what will determine the dividend going forward.

MR KOPANIDIS: Next question comes from Sameer Chopra from Bank of America Merrill.

MR S. CHOPRA: Good morning. Just a follow up to Eric's question on working capital. Working capital was down $600 million. It is down about $3 billion. There's an adverse working capital headwind of $3 billion over the last five years, and I was wondering if you could talk about what initiatives you have on the way to try and turn this around because $3 billion is quite significant. And the second one is, Andy you spent quite a lot of time on the call talking about Health and a lot of these other new initiatives, could you give us a view around what is kind of the EBITDA that you would look to get out of some of these new businesses, in view of the medium-term?

MR BRAY: Yes. On the working capital, that is something that we do spend quite some time on. So firstly, the biggest increase that we've seen in working capital over the last year has been the NBN PSAA and that will rise as the nbn rises and it will – the construction rises and as the nbn concludes, that will naturally go down. The second biggest area for the increase in working capital is our MRO and so part of the reason for that increase is we've moved from the subsidy model to the MRO model. The subsidy model has no effect on the balance sheet whereas the MRO does.

One thing is we went through our complete base from subsidy to MRO over that time. The second is handset prices went up considerably over that last five-year period. In terms of the future, what we are seeing is two effects that, were they to – actually three effects – were they to continue, would change that trajectory. The first is the move from MRO to a leasing approach. The second is increase in BYO mix. And the third is we didn't see in the last – in the Christmas that has just finished we didn't see the increase in handset prices that we have in many of the previous years.

MR PENN: Thanks, Warwick. And just to your second question, Sameer, really around the new businesses, I think the first point to make is this is an investment in building new growth businesses which are close to the core of our business and leverage some of our core capabilities. In terms of the impact currently on the financials of the company, so I think in the half it was about minus $86 million is the negative EBITDA impact of the consequence of the investment in these businesses, so up to roughly double that for the full year.

We would expect to improve on that position as we move forward and as we get scale we do the integration and we really start to see these businesses track up in terms of performance. Realistically, if one puts them in the context of Telstra, they're not going to be material additions to economic EBITDA pre-2020, but our aspiration with them really is for 2020 and beyond is actually to build some new profit growth for the company through these areas.

And in that regard, we've obviously got work to do in terms of, for example, on Health, on integrating the businesses that we've acquired, building out the tech that we need to underpin them, but we're getting some really interesting new business opportunities through the things that I've mentioned such as the Cancer Registry, such as the remote health care provision in Western Australia, what we're doing in pharmacies. So I can't, sort of, put a forecast on them, but yes, they're, sort of, looking to be material post-2020 and improve the drag on EBITDA between now and then.

MR KOPANIDIS: Next question comes from Eric Pan of J.P. Morgan.

MR E. PAN: Morning guys, thanks for taking my question. Maybe just going back on the mobile ARPU you were saying that post-paid ARPU has stabilised in the past three quarters, would that result come through especially in the second half of the year where we can see stabilisation and potentially some growth? And then similarly, on the mobile broadband ARPU, it declined significantly in this period, can you just give us some colour on what's driving that and if we can see some sort of stabilisation in the near future?

MR BRAY: Yes. So I won't, sort of, give specific guidance on post-paid handheld but what I would say is that we are working our way through areas of post-paid handheld that must end and so, for instance, what has held post-paid handheld back over the last few halves has been excess data that we're working our way through and excess voice and we're a lot of our way through both of those, and in terms of – your second question – in terms of mobile broadband, yes, look, we're seeing, sort of – that's a complex product.

There's pre-paid and post-paid and then, within that, there are dongles, cellular Wi-Fi and connected tablets and so, in some of those areas, we're seeing growth in pre-paid mobile broadband. That's where, like, a lot of the decline is and what we're seeing there is that customers who previously had pre-paid mobile broadband are more likely to be tethering with their handset and so there's a big opportunity for us in there to revive the category and that's what we – that's the challenge for us.

MR PAN: Great. Speaking of tethering, do you guys have plans to monetise the Telstra Air asset? If not, wouldn't the free use of it cut into the potential for increased mobile data uptake?

MR BRAY: Yes. Look, we're really pleased with Telstra Air and it's a really important "Why Telstra" – particularly for our fixed network – and so when you look at the 51 per cent share that we've achieved on the national broadband network and when you look at the 90,000 retail fixed-data customers, a lot of that is down to a great story we can tell our customers, but if you take our fixed broadband services, you can use all those hotspots around Australia and, indeed, around the world, and so that's the business model for Telstra Air. We do look a lot at whether or not the use of Telstra Air cuts into our mobile network and we don't see – after extensive studies, we don't see signs of cannibalisation there.

MR PAN: Right. And lastly, like, the – NAS grew nicely in the half but global connectivity only grew 2.6 per cent in local currency. Can you have help us think about we should think about the potential growth from this segment going forward, especially given its importance in offsetting the nbn headwind?

MR PENN: Yes. No. Sorry, it's Andy. Look, no, I think the growth opportunities in the international connectivity and also the NAS that goes with it is very significant. As you saw, we had a number of significant customer wins with DFAT, with the one I mentioned across the Asia-Pacific region, which is a company I can't mention – a multinational – and then some others actually as well and we're seeing strong take-up of our IP VPN licence opportunity in China as people see the benefit of going with a foreign company in terms of data centre and cloud capability in China.

We've actually just appointed one of our key executives to spearhead the further acceleration of that to be based in Singapore – David Burns – he's heading up to Singapore at the moment, so, I mean, Asia, as always, is obviously a long-term play but we think that, as businesses look to technology to improve productivity, they look at migrating their businesses to cloud. In Asia, it's a very strong offering that we have.

MR PAN: Got it. Thank you.

MR KOPANIDIS: The next question comes from Craig Wong-Pan from DB.

MR C. WONG-PAN: Morning. First question – just on the guidance, you've sort of kept your guidance ranges that – in terms of total income, talked about hitting the lower end of that range, but on the EBITDA and free cash flow guidance, you've retained those ranges. Could you just talk through some of the positive factors that could enable you to achieve either, like, sort of the top end or – in that range, while sort of hitting the lower end of that total income guidance?

Second question on D&A – just given there's a step up in the D&A period, as you are carrying a lot more CAPEX in the second half and beyond, can you give us any kind of detail on where D&A could get to and then, thirdly, on the tax rate, you mentioned that that should revert to the statutory rate over time; can you, kind of, indicate what sort of timeframe that would be?

MR BRAY: Yes. So, firstly, on the guidance, like, the reason why income moved and the EBITDA and free cash flow did not – firstly, the mobile hardware – there were various effects going on in there. The net net with the type of effects we saw. It was about EBITDA neutral and it was actually slightly free cash flow positive. Look, the second thing that's going on – that was easily the majority of the reason for us clarifying guidance. Other areas which were a bit less than expectations came with offsetting directly variable costs and the third thing is we've done – we continue to be pleased by the progress of our productivity which offset some of the income to EBITDA.

The second one – in terms of D&A – yes, so in the half that has just finished, the biggest reason for the step up in D&A was more and more of our CAPEX spend is going on categories that can be defined as software and those software categories have lower working lives and so that causes D&A to go up. We would expect that effect to continue in the future. As well as that, of course, we've got the impact of our step up in CAPEX to 18 per cent CAPEX to sales over the next three years, which will feed through into depreciation.

Look, our effective tax rate has been within a couple of percentage points of our statutory tax rate over the last number of halves. It has been sort of in the high 20s – in the 29 per cents.

A series of issues caused it to go over. As an example of that – look, some of them are timing issues and we would expect that our tax rate will revert to the statutory tax rate but it will go plus and minus a point around that statutory tax rate from half to half.

MR WONG-PAN: Okay. Thank you.

MR KOPANIDIS: Next question from Roger Samuel from CLSA.

MR R. SAMUEL: Hi. Morning, guys. I've got a couple of questions. The first one – just on mobile backhaul and we've seen that nbn co has started trialling mobile backhaul services for Vodafone last week – I'm just wondering if there's any risk to Telstra in the longer term and also in the context of the domestic roaming inquiry as well. I'm just interested in your view on this.

MR PENN: Yes, Roger. Do you say you had two questions?

MR SAMUEL: Yes. Yes. Yes. The other one – yes. The other one is just a housekeeping one. In terms of nbn services, do you recognise the voice component of nbn services in fixed voice or is it all in fixed data and how do you allocate the voice component in between the two – fixed voice and fixed data for nbn?

MR PENN: Sure. No. Well, look, thanks, Roger. It's Andy. Look, on your point about mobile backhaul and interplay with mobile roaming, I think that, by far, the most significant point is really around mobile roaming where you heard me make some comments this morning. We've invested very significantly over a long period of time to have a network with greater coverage, better speeds and a better quality network and so, therefore, we think that it's critical that mobile roaming isn't declared because it will have a very significant negative impact on regional Australia.

I don't think – I mean, from a backhaul perspective, we had basically run fibre backhauls for pretty much all of our base stations a long time ago. That was a massive investment but – and our customers have seen the benefit of it and, of course, it is, at the moment, basically – there is facilities access in place from a regulated point of view where operators can seek backhaul from each other and can actually seek access to put their radio access equipment on each other's sites and that actually happens on hundreds of sites today.

So I don't think the nbn backhaul sort of development thing really changes anything in that dynamic but we obviously are very concerned to make sure that people understand the implications of mobile roaming because it would be a bad decision for the industry – a bad decision for regional Australia – and so hence we're working with the ACCC to try and mitigate the risk if that happens, and then on the story – the fixed voice – the housekeeping point – I think – I mean, Warwick can comment specifically on the methodology but, yes, we do allocate between voice and fixed is the answer.

MR BRAY: Yes. And we do that under traditional ADSL network. When we sell a bundle we allocate between voice and data there and the principles remain the same on the nbn.

MR SAMUEL: All right. Thanks, guys.

MR KOPANIDIS: Thank you. The next question comes from Ian Martin of New Street Research.

MR I. MARTIN: Good morning. I have three questions, if you wouldn't mind. First, with the nbn recurring revenue, up 14 per cent to $212 million. I think your side note says that's a function of nbn rollout. The nbn rollout more than doubled in the last year and we're looking for long-term revenue here of about $1 billion so I wonder what's holding up the growth in that recurring revenue stream. Secondly, just in relation to CAPEX and the big gap in the second half, do you know to what extent that's the new base station or new sites versus fibre backhaul and, thirdly, Andy, just in relation to the roaming issue – mobile roaming issue. The obvious way to pre-empt a declaration would be if some kind of commercial arrangement with Vodafone. I just wonder if there's any prospect of that.

MR PENN: Okay. Thanks very much, Ian. In relation to the recurring nbn payments, I think, as you're aware and as you pointed out, actually, we've said that it – over time, once the nbn is fully rolled out, they will increase to about $1 billion and then increase with inflation thereafter for the term of the contracts, which run for more than 30 years. And essentially those payments are for access and usage of our core infrastructure networks so the big fibre backhaul, the big fibre rings around the country, access to our exchanges, our pits and ducts, and so there's an enormous amount of infrastructure and we obviously need to keep investing and maintaining that infrastructure because nbn is really only acquiring the last – what we call metaphorically the last mile of infrastructure so essentially downstream of the fibre points of interconnect around the country.

Now, because it's the different aspects of that, the big fibre backbone rings we put in place at the beginning and essentially nbn required access to those early on in the program, notwithstanding the fact that hadn't fully rolled out, if that makes sense. And so as the rest of the rollout – which is why hence that there's a rate of increase, if you like, on those payments is less than the rate of the rollout, if I can put it that way. But, ultimately, we do expect it to increase to around about $1 million and it should sort of increase relatively linearly from here on in.

In terms of the CAPEX in the second half of the year, in relation to the program, what I would say is that if you sort of think about the program in the sort of three component parts around networks of the future, digitisation and then ultimately delivering a brilliant customer experience, much of the delivering the brilliant customer experience is about the network and digitisation but there's some other initiatives that we have in place in that bucket, as well. But by far the majority of investment is around the network investment in the early parts of the program so that's where we will see that in the second half year and our expectation is we will meet that guidance. And, in relation to

MR MARTIN: Can I just clarify on that CAPEX question, Andy, are we talking about more depth of network or some expansion of footprint as well?

MR PENN: Well, there's obviously – there is some expansion of footprint. Absolutely. There's increased capacity within the network and then there's some foundational investments in some of the stuff around software defined networking, network function and virtualisation, which is actually about preparing for 5G and other network investments for the future. And then, finally, as regards commercial arrangements, obviously I couldn't sort of comment on anything specific in that regard but we have an active relationship with a number of MVNOs in Australia and support them through our wholesale business with access to our network and I think it's indicative and, in fact, our other two main competitors have similar types of relationships, both with other companies and with themselves. And I think it's indicative of the fact that there is a viable and commercial working third party market, essentially, for MVNOs in Australia.

MR MARTIN: Thanks, Andy.

MR PENN: Thanks, Ian.

MR KOPANIDIS: Next question comes from Andrew Levy of Macquarie.

MR A. LEVY: Thanks. Thanks. Three questions from me, if I may. This is just on the total income guidance downgrade. You called out the lower hardware revenues. Can you just give some context how the other divisions are performing against plan and what else might have driven that downgrade to the total income guidance? The second one is – and it might be partly related but can you – Warwick can you just talk through the impact on the lease plans if it's material for this year and go forward years both from revenue and EBITDA perspectives so we sort of understand the accounting around that. And then the third one was just – and apologies if I missed this earlier. Could I just ask for a little bit more colour on the data and IP decline and competition there and to what extent that's volume and price? Thank you.

MR BRAY: Yes. Just let me start with the lease plan. Look, most important thing here is what it means for our customers and so those customers who don't want to hand the handset down to the rest of their family at the end of the two years – it means they get the economic benefit of that reused handset. For us, the economics of a lease plan versus an MRO plan aren't hugely different, as in the true economics. It will mean less working capital for us in the long run if it becomes a larger proportion of our base. In terms of the income, so the largest proportion of the income change in the first half relative to our expectations was mobile hardware and so in terms of mobile hardware, there were three reasons there.

Look, there weren't as many handset events. People are hanging onto their handsets for longer and the other thing relative to our expectations is that in the previous second halves of the year there have been stronger increases in handset prices than we saw in the second half of the year – sorry, the second calendar half of the year that has just finished. Those effects are sort of different in the impact on our EBITDA and free cash flow. The net result was it was neutral on EBITDA and slightly favourable on free cash flow. Apart from that, any change in income relative to our expectations was pretty broadly across the business.

MR A. LEVY : Thank you. And on the data and IP question?

MR BRAY: Yes. Look, in terms of data and IP, there was a small regulatory effect in there. It wasn't the largest of the regulatory effects but, look, data and IP is a competitive market. We've put in some great new products on top of the flexibility, scalability and security of our next IP network. We've had some important wins there. So for instance, our IP-MAN SIOs are up 18.9 per cent. We are in an environment where each time we renew a contract we have to sell more for more. What we are seeing that is mitigating the decline in data and IP is not only the benefits of our next IP network but also the complementary NAS business. Where we sell NAS with data and IP we get an even better result.

MR A. LEVY : Can I just follow up? Those trends are obviously deteriorating with data and IP. Do we see a stabilisation in that any time soon or is that something

MR BRAY: Yes. Look, data and IP will have some effect from the nbn as well. When I sort of talked about the long-term outlook for the business, one of the most important equations that we look at is whether the increase in the NAS EBITDA offsets the decrease in the data and IP EBITDA. And that equation worked very solidly in our favour for the half that has just finished.

MR PENN: And I think I would add, Andrew, which sort of goes to the more generic comment around the results. As I said at the beginning, there's no doubt that the competitive intensity in the market has increased and that's having an impact in terms of pricing and income and ultimately we're not necessarily driving that and so how that plays out is a function of how the market plays out. What's really important is how we respond, how we continue to add value to our customers and how we continue to win new customers and retain customers.

And I think our customer numbers, as Warwick has pointed out, whether it's on IP MAN up 18.9 per cent, whether it's on mobiles, whether it's on retail fixed broadband, whether it's on nbn, whether it's on Telstra TV, all of those are showing very strong progress in the half. But there are some economic headwinds driven by the competitive dynamics and, of course, also the rollout of nbn, as we've previously communicated, that, once it's fully rolled out, has a negative impact on EBITDA of two to three billion dollars.

The nbn recently quoted that sort of their rollout stats are the moment are about a – they're about a third of the way through, from a – that's from a – sort of an activation – or available for access, rather, perspective. In terms of the number of mobile – sorry, the number of nbn connections which have occurred to date, it's probably more like 20 per cent, but that effectively means we're 20 per cent into that two to three million dollars, which obviously is four to six hundred million dollars of EBITDA drag that we've already basically accommodated in our financial performance. So it's how we respond to that and the competitive pressures which really – the management team is very focused on.

MR LEVY: Okay, thanks.

MR KOPANIDIS: Eric Choi from UBS back for another question.

MR CHOI: Sorry, guys, just had a couple of follow-ups. The first one was just on restrictions that you might have of the nbn rollout. Can you just remind us if there's any remaining restriction preventing Telstra from promoting wireless products as a substitute for nbn and also whether there's any restrictions on Telstra's sort of marketing mobile broadband to nbn customers after you've received that connection payment. And then the second question is just a final one on mobile churn.

You've obviously said on an underlying basis post-paid churn is down in the second half of '16, but I just wanted to clarify, have you reclassified that second half '16 churn number upwards, just because it looks a bit funny versus the 10.9 per cent churn you've reported ..... '16. And then, I guess, related to this question is, I mean, if you look at a net adds analysis, your post-paid subs sort of index, or under index Optus', but your churn also ticked up, which implies that your gross adds accelerated. So just wondering, do you think on a gross adds basis whether you're still outpacing your competitors in post-paid?

MR PENN: I will get Warwick to answer on the churn sort of questions. On the nbn question, basically we can obviously continue to compete in the mobile market, and that's exactly what we will do, and so there's nothing stopping us from doing that. There are some restrictions about us sort of proactively seeking to sort of shift people off of fixed onto mobile, but that's not what – disingenuously, but that's absolutely not what we would intend to do, and we will just continue to compete in the nbn market and in the mobile market, which will complement each other. But I will get Warwick to comment on the churn on post-paid handheld.

MR BRAY: Yes. So just to give some overall colour on it, where churn matters – we're really pleased with what's going on on an underlying basis, and so it's – the heart of post-paid handheld is the upper end of consumer post-paid handheld, and we're seeing that as being very steady. The difference between churn this half and churn in the previous sequential period, the reason why on the surface it's slightly up, it was the closure of the 2G network, and so there were some SIOs there that didn't come across, and that's – if we adjust for that, it was slightly down on the previous sequential period, which remains strong relative to, like, world standards. We didn't restate the second half of last year.

MR CHOI: Thanks very much.

MR KOPANIDIS: Next question comes from Raymond Tong from Evans and Partners.

MR TONG: Thanks, guys. Just got a couple of follow-up questions. Just firstly, can you maybe just detail a bit more of the performance across each of the business segments in Telstra Business, and GES seem to be under a fair bit of pressure? Their revenues were down four and five per cent. That's the first one, and the second one, just – I think you stated your position on mobile roaming. I suppose if it does get declared, can you maybe talk through the potential downside, risk to your mobile business into the medium to long term. Thank you.

MR PENN: Do you want to talk about the GES one and I'll take the roaming one.

MR BRAY: Yeah, look, our – the story of our customer segments is very – is the story of how the products which I've talked about translate across to them. We saw NAS growth in GES, but we saw Data and IP under pressure, and within GES – I've talked about within the mobile business we had stronger times in consumer, but in the GES business mobile is – if we say where mobile is most under pressure, it is in the GES business.

And then it's a similar translation story to TB. That NAS is a smaller proportion in TB and so we've got – we're making great inroads within TB but didn't get as big a benefit from NAS. And TB is seeing competition in Data and IP. And then TB hasn't had the full benefit of the strength we're seeing in mobile in consumer. So they would be – those differences would be the main differences across the divisions, is how the products translate into the divisions.

MR PENN: And on the mobile roaming question, Raymond, I mean, the fundamental point is that one of our points of differentiation is the quality of our network and an important ingredient of that is the coverage of our network. If mobile roaming were to be declared, that point of differentiation would essentially be neutralised. And the way our business model works, as you know, I mean, customers do pay a small premium to be with Telstra because they want a better quality network, they want better coverage and that includes metro as well regional customers.

So customers come to us because they know when they go into regional Australia they're going to get coverage and that is a really healthy dynamic for regional Australia because it means mobile customers are actually helping fund the infrastructure that is critical to regional Australia. And, essentially, if that's eliminated, that dynamic will ultimately obviously be eliminated as well. And the obvious response has to be we have to shift our focus and emphasis to our other points of differentiation and it will compromise our ability to invest the CAPEX as well into that part of the country.

And so we'll have to achieve savings in free cash flow through, essentially, lower CAPEX and we'll have to redirect the CAPEX that we are spending into other areas of differentiation and the disappointing thing for that will be it will be regional Australia that is negatively impacted. Now, as I say, we're sort of optimistic that such a decision wouldn't be made but that would be, essentially, the consequence of the decision and how we would have to start thinking about responding but we're not going there because we're optimistic that that won't happen. But, obviously, we're pending receipt of the draft decision which I think is due at the end of March or some time into April.

MR TONG: Thanks, Andy. Thanks, Warwick.

MR KOPANIDIS: Next question comes from Nick Harris of Morgans.

MR N. HARRIS: Thanks, gents. Just a question on the new business segment. I know you're not going to give us any guidance on the outlook but are you able to give us a bit of guidance on the quantum of capital you've got deployed in that particular segment and we can obviously then formulate our own views on the outlook and the return on capital?

MR PENN: I think – I'm just looking at Warwick, I think we've disclosed, haven't we, both the investments in Ooyala and investments in Health. Are they in the accounts?

MR KOPANIDIS: We've disclosed them.

MR PENN: Yes, I think we've disclosed it. It's a couple of hundred million, I know, in Health and about five hundred million in intelligent video.

MR BRAY: Yes.

MR PENN: The rest which is, sort of, Smart Home, e-commerce solutions for small medium business, they're relatively insignificant in the scheme of things at the moment.

MR BRAY: It is those two main numbers, yes.

MR HARRIS: Gotcha. So you're looking at less than a billion dollars all in.

MR PENN: Yes. Yes.

MR N. HARRIS: Great. Thank you.

MR KOPANIDIS: Next question comes from Brian Hahn of Morningstar.

MR B. HAHN: Good morning, gentlemen. Andy, would you say the impact of nbn and greater competition has caught Telstra on the hop while it's trying to get into fighter weight? And would this six month result force you to perhaps accelerate the productivity push or are you still happy with the current plan?

MR PENN: Well, what I would say is I think the performance has been strong in the period because we have continued to grow customer numbers – attract new customers, retain customers and gain share in a number of segments. So ultimately that's what's critically important. I mean, obviously the economics of the competitive dynamics of the market are going to be what they're going to be and obviously – but what's critical for us is that we compete very effectively in the context of that. And so the second aspect which is the rollout of the nbn, we're very aware of what the rollout is and we're very aware, as nbn have shared it with us, what the timing of that is and we've already shared with the market very clearly what the economic impact of that is which is material.

I mean, our EBITDA in the aggregate is somewhere in the order of ten and a half billion dollars last year as a company and this is two to three billion dollars. So we're talking about a quarter of overall EBITDA and, as I mentioned before, we're sort of roughly 20 per cent into that, so we have already accommodated a fair bit of that drag, but obviously how we respond through the areas as I mentioned, through growing our business, growing mobiles, delivering a vibrant reseller business in nbn, continue to grow and expand our NAS business and productivity are all part of the mix as to how we mitigate the impact of those dynamics. So that's just how the market is played out, but I think, against the background of that, the results in customer numbers and also the financial results hold up well in the context of those market pressures.

MR HAHN: Okay. Thank you, Andy.

MR KOPANIDIS: Next question comes from Craig Wong-Pan from Deutsche Bank.

MR WONG-PAN: Just one question on your strategic NPS score that it's down eight points for PCP. I just wanted to understand how we should think about that. Is that like a leading indicator so we think some of those effects – those negative effects might come through in a future period, or do you think that that sort of reduction in the NPS score is largely already reflected in the results you have delivered today?

MR PENN: Well, the first thing I should say is that delivering a brilliant customer experience and servicing our customers is our single most important priority and objective, and nobody would be more disappointed than I am that we've had a minus eight movement in NPS and whenever we let down any single customer, that's a massive disappointment for me.

Strategic NPS is – and we measure – sorry – strategic NPS and we measure episode NPS, and both of those actually are integrated into the remuneration system and 40 per cent of everybody's variable remuneration in the company is dependent on us achieving the targets that we set ourselves which, as I said in November, are a three to six point improvement.

Episode NPS is essentially very sort of direct in the sense it's looking at billing experiences, move experiences, new order experiences, services experiences, whereas strategic NPS is more of a generic one. So I think the more lead indicator is really episode NPS; strategic NPS is a more sort of generic sentiment at a point of time and it's perhaps not surprising that, at the point of time when we did the surveys, which was between June and December of last year, that customers felt disappointed and frustrated about the impact of the network interruptions, but episode NPS actually is flat half – sorry – yes – half year on half year.

And so I think it's episode NPS where – and we're seeing some positive sort of signs there, and positive movement, and also in strategic NPS in consumers as I mentioned in the second half of the year. So I think I would be the first to admit we have absolutely got more to do to continue to improve the service we provide to our customers, but there's no doubt that the most significant contributor to that impact was the consequence of the network interruptions we had in the first half of last calendar year.

MR WONG-PAN: Okay. That's helpful. Thanks.

MR KOPANIDIS: Last question for the session is from Eric Pan of J.P. Morgan.

MR PAN: Thanks, guys, for taking the follow up. So maybe a little bit on the fixed side. Fixed data ARPU is a little weaker than expected, which is surprising since nbn plan should be priced higher than ADSL plan. What portion of your nbn ads are coming through the Belong brand versus the Telstra channel? Can you give us some colour on the shift that's going on there?

MR BRAY: Yes. So I will get back – on the fixed data ARPU, look, we're pleased with ARPU on both the traditional and on the nbn. Belong was 50,000 plus. So of the nbn SIOs that we added, Belong was 50,000 across nbn and traditional, so it wasn't the bulk of the SIOs. What I would say on fixed data is that there was some regulatory impact; I think that was about a per cent, but, underlying, yes, it was more competitive.

MR PAN: Got it. And then just lastly on the mobile side. When you guys eventually rollout 5G, do you have the option to market it against the nbn or are you restricted from doing that?

MR PENN: We got a question a little bit earlier which was sort of similar and basically the bottom line is no, we can compete – we will compete in the mobiles market and we will compete in the fixed market. We're committed and we're very intimately involved in the setting of the global standards for 5G, so we will be absolutely at the leading edge of rolling out 5G. At a practical level, most of the global industry are not anticipating we will get a global set of agreed standards on 5G until around about 2019, but we're doing a lot of innovation in the meantime around 4GX, broadcasts over LTE, Wi-Fi, Voice over LTE, and so we will continue to compete very hard on mobiles and in the fixed as well, so we have no restrictions in that regard.

MR PAN: Got it. Thank you.

MR KOPANIDIS: So thank you for joining us for our webcast of our 2017 half-year results. That concludes this morning's presentation. There will be a short break and I will then hand over to my colleague, Jason, who will moderate the media Q&A. Thank you for your attendance.

SESSION CONCLUDED [11.01 am]

SESSION RESUMED [11.05 am]

MR LAIRD: Good morning everybody. We're now going to move to the media portion of the half-year results. We have media Q&A. And our first question, Andy, is from Lucy Battersby from Fairfax.

MS L. BATTERSBY: Thank you very much. I wanted to ask a couple of questions. One is if you can explain the decline in mobile revenue. Can you see if it's coming from any particular locations, like, is it in regional areas, and did you lose a particular wholesale contract? Is this the first time you haven't received a dividend from Foxtel and why do you bother telling us your results without the MTAS and FAD impact, given that they're permanent regulatory decisions?

MR PENN: Thanks, Lucy, and good morning. Let me, maybe, sort of tackle the last one first, because it goes to the, sort of, the mobile revenue point that you raised. So the reason that we basically illustrate the results, both on a reported basis but then also backing out the impact of the FAD and MTAS, it's not so much that they're not permanent decisions, they are, but because they were decisions that sort of were made through the period. What you're – what we're doing is sort of eliminating the one-off impact of the transition to those new regulatory situations. So that's all it is. It's not – it's not suggesting they're not permanent, it just basically trying to give you a like-for-like, apples-to-apples comparison. So that's the first point.

And then that sort of plays into your comment about mobile revenue is the biggest – by far the biggest impact on mobile revenue is essentially the MTAS effect and that's because it sort of occurred in one period and not in another period, and that is what accounts for the decline. I mean, as you heard from Warwick earlier in the sort of – in the context of the market, what we're seeing is our customers, on average, are increasing their plan sizes, but we're reducing the cost for them for extra data, so that has swings and rounds impacts on mobile.

But overall, look, we're pretty happy with the mobile business. I think our numbers absolutely reflect what's going on in the market. We added 200,000 new customers and we're very pleased about how that business is performing. And – and to your question on a wholesale contract, no, we've not lost any wholesale contracts, so I'm not sure whether you're alluding to anything in particular there, but, no, that's not the case, our wholesale business is going well in mobiles similarly.

And in regards to your question in relation to Foxtel, no, it's not the first time Foxtel hasn't paid a dividend. In fact, more times than not, if you go way back into history, they've not paid dividends at different points of time, particularly as the company has gone through periods where it's sought to reinvest in the business and support new strategies and, of course, one of the big things that's important for Foxtel today, in the current environment, is investing in their digital offerings as we're seeing more and more media being distributed over an IP network rather than satellite and traditional, sort of, HFC, and so that's, hence, why the company is sort of really focusing on investing in that area, which is why there's no dividend.

MS BATTERSBY: Thank you.

MR PENN: Thanks, Lucy.

MR LAIRD: Thanks, Lucy. Now we now go to Petroc Wilton from Communications Day.

MR P. WILTON: Hi Andy, hi Warwick. A question on the profit line, this time around the USO. Vodafone has suggested quite recently that it seemed like Telstra has been shutting down some of the payphones and services, perhaps to its USO obligations and, as a result, is actually drawing some of its profit from the delta between its USO funding and current cost to meet those obligations. Can you say categorically that the costs you're meeting delivering on USO are not lower than that funding you're receiving?

MR PENN: No, I mean, it's absolute rubbish, Petroc. I mean, the USO is about providing a basic telephony service for people in regional Australia, and anybody who wants to argue about providing that is arguing against providing those basic services, and Telstra actually pays half of the revenue, anyway, that actually goes into the USO, and we're providing those services. And any – the provision of those services is really something that's guided by the government, not by us, so if the government wants to, sort of, put more money into basic telephony services and less into payphones, that's their decision and, obviously, we will adjust our services accordingly.

But it's rubbish, and what's critically important– and can I say, as well, that we have no particular point of view that the services have to be provided by Telstra. We're very happy to go through a tendering process for those services, as the case may be, but last time the government put it out to tender, basically, we were the only people that showed up, and so it's just really important that those customers in regional Australia get a basic telephony service and if that needed to be retendered in the future, we would be absolutely happy for it to be retendered and we're happy to go alongside anybody else who wants to provide the service. But as I say, last time, the company that you mentioned that's bleating about it, didn't turn up.

MR WILTON: Sure. But just categorically, there's no positive bottom line impact from any delta between USO costs and funding?

MR PENN: No, no, we haven't – there isn't.

MR WILTON: All right. Thank you very much.

MR LAIRD: Thanks, Petroc. Now, from Lilly Vitorovich from the AAP.

MS L. VITOROVICH: Morning, gentlemen. It's just a quick question on keeping your dividends flat. Is that because you're undertaking this review and it could come under pressure when you do finally announce the results? I mean, are dividends and higher dividends at risk?

MR PENN: Well, the dividend that the board declared is basically in line with last year's results, so it's the same as last year's interim dividend, as you've pointed out. EBITDA was up 2.4 per cent after the impact of MTAS income was up 2.2 per cent. NPAT was down as a consequence of restructuring costs and also an increase in depreciation and amortisation, because of how we're treating software in the context of that. So they're the factors that the board took into account in making a decision to declare the dividend.

Over the longer term, what's critically important is that we continue to look at growing our business, obviously, because we have to mitigate the impact of the long term effects of the NBN, which, as I've mentioned before, impact our EBITDA by $2 to $3 billion over the longer term, and we'll do that through growing mobiles, building a vibrant reseller business in NBN, continuing to grow NAS, productivity, and achieving scale in our new growth businesses, and they're all of the factors that the board, obviously, will take into account when it makes dividend decisions in the future.

As regards the capital allocation review itself, which we announced last November, that's ongoing. We've been speaking and engaging with shareholders. The overwhelming feedback from our shareholders has been about maintaining balance sheet strength during the period of the transition to NBN and, in that regard, we've already announced that we'll set our balance sheet to basically meet a single A band credit rating type of parameters. But the review will take into account all of those factors, including returns to shareholders, dividends, buy-backs, and other forms of returns to shareholders.

MS VITOROVICH: And just the final question, I don't know if you've seen the share price, but it's come under a lot of pressure this morning and the market seems to be disappointed with the result and the growth numbers, just what's your view, are they being too harsh on you or do you think there's another reason for the share price fall?

MR PENN: Look, I won't comment on the share price, because I've learnt, I think, over a long time as the CEO, that what you've got to focus on is improving the business and in the areas that I've mentioned and then, ultimately, in the long term, the share price will look after itself. I would characterise the result as a strong performance in the market. We added 200,000 new mobile subscribers, 90,000 new fixed broadband subscribers, 292,000 nbn connections, we grew our market share in nbn, 18.9 per cent new IP MAN services, that's really in the business sector.

So in terms of our performance around how we're competing in with the market, attracting new customers, that's a very good performance. Yes, there has been some economic headwinds as a consequence of the increased competitive dynamics and also the acceleration of the rollout to nbn, that's what happens in business, and we've responded by lifting our productivity program, where we've seen an increase in productivity there. So I think that we're responding well in the context of the market dynamics and I'm most pleased with the customer adds and the customer retention.

MS VITOROVICH: Okay, thank you.

MR LAIRD: Thanks, Lilly. Now, Mitchell Bingemann from The Australian.

MR M. BINGEMANN: G'day, guys. I've just got a few questions on Foxtel. We recently saw Newscorp write down the value of Foxtel and I just wanted to get some commentary on why Telstra hasn't. Also, I was keen to understand your long-term view on Foxtel, the challenges it's facing, and just finally will Telstra still be a 50 per cent shareholder in 12 months time or are you looking to lessen your holdings through an IPO, or other means, in that timeframe?

MR PENN: No, thank you. Look, I mean, firstly, look, it wouldn't be appropriate for me to comment from News Corp's perspective, but, from Telstra's perspective, you need to look at when the parties respectively invested into Foxtel. We've been a 50 per cent shareholder since we invested in Foxtel and we are very happy with our investment in Foxtel and the holding value of our investment in Foxtel and there's no suggestion there that that requires any type of adjustment or otherwise. News Corp obviously have a different history of their investment in Foxtel, and so perhaps that's something to do with that, but that's probably a question you should best ask them.

In terms of my long-term view, the first thing I would say is that more people are watching more media on more devices for more hours every day of the week, and so I think fundamentally the demand for media and for content is only going to grow. What is happening is obviously more of that is being watched over the internet and over an IP network, and that's very relevant for us, because obviously it's one of the biggest things that's driving traffic on our network. And so what's really important is both Telstra and also Foxtel is able to respond well to providing a digital solution to customers for content, as well as a traditional sort of satellite or HFC cable based distribution for content, and that's where, as I responded earlier Foxtel are really investing in those digital capabilities which will ensure it's successful in the future, because it has absolutely the best content across Australia, really, whether it's sports or access to other forms of content.

Regarding our shareholding, my position has not changed to that which I've sort of responded when I've previously answered this question, which is what's most important to me is how we make Foxtel successful in the future, how it can respond to those changing market dynamics, and I'm open and flexible to do anything structurally or otherwise to support that. I'm not interested in selling our investment, ultimately, in Foxtel, but if we needed to structurally change it in any way, then I'm open to that. But no, Foxtel is an important part of our business and an important investment for us and News Corp is an important partner for us, as well, and media is a critical part of our overall business, as you've said, from the growth that we're achieving in Telstra TV.

MR BINGEMANN: Thanks, Andy.

MR LAIRD: Thanks, Mitchell. Rebecca Thurlow from the Wall Street Journal.

MS R. THURLOW: Hi Andy. The hardware sales: what was the reason for the disappointing result there, and are we talking about mobile handsets mainly sold as part of contracts or sold outright, and can you give us any numbers on what you were aiming for and where it actually came in?

MR PENN: Sure. Well, so, basically, yes, to your question, it is hardware sales of handsets that are sold within contracts, and one of the dynamics that we're – a couple of things that we're seeing, one is that the pricing increases on the handsets haven't been what they've been in previous periods, and so that's really just the headline price, that the handset providers or handset manufactures determine, not that we necessarily determine. And then the second thing is we're seeing actually customers keeping their handsets for longer, and so therefore not as many what we call recontracts. So if you have a two-year mobile plan contract with a handset as part of that contract, at the end of that two years customers either renew it and perhaps get a new handset.

What we're seeing is actually – and this is actually happening sort of more internationally, as well, is that customers are actually keeping their handsets for longer, and so we're seeing the number of handset activity or recontracts in a year actually not growing in the way in which we would have anticipated it to grow. From an economic standpoint from us, what's most important is we continue to keep those customers regardless of whether they buy a new handset or not, because our profitability is determined by the connection services that we provide. We don't make a profit out of the handsets. In fact, if anything, we help subsidise those handsets for our customers.

MS THURLOW: Okay. And with the review of the capital allocation, you're looking at your M&A policy, are you considering winding back on M&A? Do you still think it's an important part of boosting your underlying earnings? Are you still keen on Asia?

MR PENN: I – there's no sort of inherent change of strategy in relation to M&A. I think it has continued to be what it has been in the past. If we can see interesting opportunities to add new capabilities, we will. One of the things that I did make clear at the Investor Day last year is that you should not expect us to be investing in a mobile play in Asia whilst we are going through the strategic capital investment period and over the next period of time. But absolutely, you should assume that we will continue to look at things such as the acquisition of Pacnet, which has been very successful for us, or Readify, which we acquired recently. So services and capabilities which add value to the core of our business will definitely be areas that we will continue to invest in. Whether we – the opportunities that come up are really just a function of what becomes available and what becomes interesting at the right price points for us.

MS THURLOW: Okay, thanks.

MR LAIRD: Thank you. Thanks, Rebecca. Andy, we'll go back to Lucy Battersby.

MS BATTERSBY: Sorry, I just had a little follow up to the question about declining mobile revenue. One of the big declines was in the other category. Can you explain why that dropped from 500 million to 175 million over a year?

MR PENN: Yeah, that's where the predominant MTAS impacted, Lucy, which is the regulatory impact.

MS BATTERSBY: So the 9– the 10 per cent decline in mobile services: that wasn't to do with MTAS?

MR PENN: Yes, in mobile services, as well, effectively.

MS BATTERSBY: And why was there a drop in mobile broadband?

MR PENN: Well, we're seeing really a category removement , which again is sort of an industry thing. So mobile broadband is essentially – you know the sort of dongles that you put in the side of a laptop?

MS BATTERSBY: Yeah.

MR PENN: And that's typically the big mobile broadband sector, and we're seeing customers sort of choose, if you like, to use their handsets to access mobile broadband rather than that type of device, and that's sort of I guess an industry trend that's occurring.

MS BATTERSBY: So if I used – if I accessed the internet on my Telstra phone, that goes under – which area does that go under? Post-paid handheld - - -

MR PENN: Correct.

MS BATTERSBY: - - - and not mobile broadband? Okay.

MR PENN: That's correct, correct.

MS BATTERSBY: Thank you.

MR PENN: Thanks, Lucy.

MR LAIRD: Thanks, Lucy, and back to Petroc.

MR WILTON: Hi, Andy. Okay. You were talking recently about a plan to provide more transparency on actual nbn performance on your nbn plans from about mid year, I think in two stages. Have you got any read on how you think that'll affect your nbn revenues, or – and/or customer numbers? Do you have any intention to explicitly make clear how much CVC Telstra is buying? Do you think that's something that should be brought in industry wide. That seems like a big opaque factor in things right now – for everyone, not just you guys.

MR PENN: On the – sorry, on the latter– on the latter point, Petroc, I'm not – I haven't thought about that. I'm not sure if it's going to be that instructive for customers, which is who I care about the most, but, I mean, fundamentally our view is that it would be helpful to provide transparency to customers on the speeds that they should expect and that they receive on an nbn service, because not all nbn services are the same, as you would appreciate. It's a function of the capacity one buys from nbn on the one hand, and then - - -

MR WILTON: Yeah.

MR PENN: - - - of course, that coupled with your own infrastructure on the other hand, and - - -

MR WILTON: Sure.

MR PENN: - - - so our view is there should be transparency on that and we're working at the moment to see how we can sort of help in that debate and in that discussion and how we can actually put ourselves in a position to be able to provide transparency ourselves.

MR WILTON: Sure. Obviously Telstra is going to take the lead on this, which I guess is good, and certainly fits in quite nicely with some of the work you have to do. Do you think in the short term that will have an adverse effect on customer uptake? Do you think it might help you guys promote your nbn services, we tell you what you're really getting?

MR PENN: No. Well, I mean, I think that over the longer term, which is obviously what really matters, I think it will be good for Telstra, because our commitment is to provide the best network experiences, and we're invested to do so and that's our strategy and I'm prepared to back ourselves by being transparent in terms of what we provide. I think the critical thing is to make sure that the industry follows along and doesn't play games and try and fudge numbers in terms of what customers are getting. And so it's encouraging that the ACCC has issued some principles about the approach on that. And so what we will – to the point – question about the short term, what we will be doing is obviously working with the ACCC and making sure in how we implement that that we don't put ourselves at a disadvantage to everybody else. But fundamentally the principle is that we want to see transparency on nbn broadband services.

MR WILTON: Great, thank you very much.

MR LAIRD: Thanks, Andy. That concludes the media portion of today's webcast and, in fact, concludes today's event. So thank you very much to everybody and have a good day.

SESSION CONCLUDED [11.25 am]